

6-7-2008

## ORIGINS OF OVERCONFIDENCE, CONTINGENT MANAGEMENT STYLE AND ENTREPRENEURIAL FIRM SURVIVAL AND PERFORMANCE (INTERACTIVE PAPER)

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### Recommended Citation

Lechner, Christian and Gudmundsson, Sveinn (2008) "ORIGINS OF OVERCONFIDENCE, CONTINGENT MANAGEMENT STYLE AND ENTREPRENEURIAL FIRM SURVIVAL AND PERFORMANCE (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*: Vol. 28: Iss. 6, Article 16.

Available at: <http://digitalknowledge.babson.edu/fer/vol28/iss6/16>

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## INTERACTIVE PAPER

### ORIGINS OF OVERCONFIDENCE, CONTINGENT MANAGEMENT STYLE AND ENTREPRENEURIAL FIRM SURVIVAL AND PERFORMANCE

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#### Principal Topics

This research concerns the role of overconfidence (OC), dependent on its psychological origins on three dimensions of entrepreneurial management that are supposed to influence entrepreneurial firm survival and performance. OC, defined as an overestimation of one's own ability to make accurate forecasts, or, alternatively, as an overestimation of one's own ability relative to others (the 'better-than-average' effect), is an important issue in entrepreneurship. On one hand, it could be shown that OC is positively linked to entrepreneurship (firm creation) and that entrepreneurs are generally more over-confident than other individuals such as managers. On the other hand, it had been argued that OC might increase the mortality risk of firms. In this paper, we enrich the OC discussion by taking into account the origins of OC and the effects of sources of OC on an entrepreneur's management style, which in turn influences the survival and performance of entrepreneurial firms.

#### Methods / Key Propositions

In the literature, two implicit and potentially conflicting hypotheses exist concerning OC: First, optimism, understood as a bias to overrate chances of good events and underrating the chances of bad events, positively influences OC. Second, mistrust, understood as not trusting others and the abilities of others, positively influences OC. Therefore we argue that an entrepreneur's management style is contingent on the origins of OC. We look at three dimensions of management style: delegation, opportunity orientation and financial orientation. We develop specific hypotheses concerning distrust and optimism as sources of OC and its effects on an entrepreneur's management style.

To test the hypotheses, we use partial least square (PLS) regression. Our original sample consists of 117 active and failed Icelandic firms.

#### Results/Implications

Both distrust and optimism can be sources of OC but with different effects. Distrust acts negatively on delegation but positively on finance orientation while both optimism and distrust significantly positively influence opportunity orientation. Overall, optimism is driving performance stronger than distrust.

This study extends current research on OC by taking into account different origins of OC and shows how personality can influence management style and firm performance.

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