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MAJOR FAMILY EVENTS, OVERCONFIDENCE, AND NEW VENTURE SUCCESS: A COGNITIVE RESOURCES PERSPECTIVE (SUMMARY)

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SUMMARY

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Principal Topics

The context of entrepreneurs' families is inextricably intertwined, and plays an important role in new venture creation (Aldrich and Cliff, 2003; Carter, 2010; Steier, 2007). In particular, major family events, both prospective and retrospective are perceived as beneficial or harmful, and accordingly have the potential to create situations of inner disequilibrium which afford or deplete entrepreneurs' *cognitive resources*. Cognitive resources refer to the capacity of entrepreneurs to mentally process and frame situations in an opportunistic manner (Alvarez and Busenitz, 2001). Because mental processing resources are highly valued (and inherently limited), overconfident entrepreneurs attempt to save time and effort in making judgments by using heuristics (Bernado and Welch, 2001; Busenitz and Barney, 1997; Cooper et al., 1988), increasing the likelihood that their ventures will fail (Hayward et al., 2006). In this perspective, this article investigates how major family transitions—birth, death, marriage, divorce, illness, and financial status affect the success of new ventures.

Method

Drawing from the Household, Income and Labor Dynamics in Australia (HILDA) survey, we track a sample of 154 entrepreneurs-firms from inception in 2005 until time of failure or study censor in 2010, which reflects the critical development stage of a venture. We use failure rates (survival) as a baseline measure of new venture '*success*', defined as a firm regardless of other performance remains being developed by the founder (Gordon and Davidsson, 2013). Our event history model includes family events that were found to have the greatest impacts on an individual (see Holmes and Rahe, 1967). Overconfidence is measured against the 95% confidence interval around entrepreneurs' expectations that the new venture will succeed. We also control for environmental complexity and dynamism, entrepreneurial experience, firm size, and founder demographics.

Results and Implications

We find that entrepreneurs who experience death in the family are less likely to succeed in their new ventures. Death and illness events also magnify the negative impact of entrepreneurial overconfidence, which further reduces the likelihood of success. However, among overconfident entrepreneurs, the birth of a new child, receipt of a windfall, and to a lesser degree, getting married, mitigates overconfidence to the extent that their ventures are more likely to succeed. Consistent with social cognition literature, these findings provide support to the idea that catastrophic as well as positive family events can have a significant effect on entrepreneurs' capacity to coordinate venture-related tasks. To that end, we enhance understanding of how the entrepreneurial family is related to new venture creation.

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