THE PARADOX OF OVERCONFIDENT ENTREPRENEURS (SUMMARY)

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**Recommended Citation**  
Robinson, Anthony and de Koning, Alice (2007) "THE PARADOX OF OVERCONFIDENT ENTREPRENEURS (SUMMARY),"  
*Frontiers of Entrepreneurship Research: Vol. 27: Iss. 6, Article 20.*  
Available at: http://digitalknowledge.babson.edu/fer/vol27/iss6/20

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SUMMARY

THE PARADOX OF OVERCONFIDENT ENTREPRENEURS

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Principal Topic

Overconfidence has been described as a cognitive simplification process to address complex decision-making, which might adversely affect the quality of decisions and judgments. These simplification processes often lead to unknown knowledge gaps among the overconfident.

Overconfidence may affect resource commitments and, thus, may impinge on critical resource acquisitions attempts among founders of new ventures. Founders that express extreme certainty about the likely success of their new ventures may be able to secure the commitment of resources that other more realistic founders may not. Hence, overconfidence positively affects resource acquisitions (H1).

We argue that cognitive contagion entails the transfer of ideas and of cognitive biases where evaluation and interpretation are elements and may bring to bear a viable explanation about the transmission of overconfidence from founders to resource owners. Overconfidence may be transferred to resource owners through a cognitive contagion effect. Essentially, founders either consciously or subconsciously leverage the absence of complete information to persuade resource owners to commit to a course of action.

The effects of overconfidence are reasonably expected to have negative repercussions on strategic planning efforts. First, overconfident founders may not perceive a need to plan, particularly, given the time limitations of strategic planners and the lack of perceived benefits. Second, overconfident founders may seek and use less information in their strategic planning. Hence, overconfidence negatively affects strategic planning (H2).

Resource acquisitions and strategic planning among founders of new ventures are anticipated to be positively related to the performance of new ventures. First, new ventures depend upon resources to survive and to grow. Second, strategic planning directly and indirectly positively impacts the performance of small firms and new ventures. Hence, resource acquisitions positively affect new venture performance (H3) and strategic planning positively affects new venture performance (H4).

Method

Hypotheses are tested using a convenience sample of new ventures that are seven years old or younger in various cities. Dyadic data is collected through surveys completed by resource owners and entrepreneurs to test hypothesized relationships.

Results and Implications

Preliminary results suggest that strong correlations in many of the directions predicted exist among the variables of interest for this pilot test. However, subsequent data points and further analysis may better inform results and subsequent implications.

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