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OVERCONFIDENCE: A MATTER OF RISK PERCEPTION AND VENTURE CREATION (SUMMARY)

Anthony Robinson

University of Alabama, USA, arobinson@cba.ua.edu

Louis Marino

University of Alabama, USA

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SUMMARY

OVERCONFIDENCE: A MATTER OF RISK PERCEPTION AND VENTURE CREATION

Anthony Robinson, University of Alabama, USA

Louis Marino, University of Alabama, USA

Principal Topic

Overconfidence is said to be prevalent among entrepreneurs and may have implications for existing and potential entrepreneurs. More specifically, overconfidence may affect new venture creations indirectly by affecting risk perceptions. For instance, there may be misperceptions concerning risks such as threats to new venture success. However, the perceived risks to new venture survival may not be obvious to the overconfident. In essence, the overconfident may not be less risk-averse but may perceive less risk in their entrepreneurial settings given their overconfident lens. Hence, we examine the following hypotheses.

Hypothesis 1: Overconfidence affects risk perceptions.

Hypothesis 2: Risk perceptions affect new venture creation.

We argue that overconfidence affects risks perceptions among potential entrepreneurs. The mechanism through which overconfidence has significant implications for entrepreneurship may involve the accuracy of risk perceptions. For instance, there may be misperceptions concerning risks such as threats to new venture success. However, the perceived risks to new venture survival may not be obvious to the overconfident and potential entrepreneurs. In essence, overconfident entrepreneurs may not be less risk-averse but may perceive less risk in their entrepreneurial settings given their overconfident lens.

Risk perceptions are directly influenced by one's overconfidence and directly affect one's intention to start anew venture. Overconfidence results in overestimation of event occurrences such as the successful creation of new ventures leading to increased new venture creation intentions. The systematic differences in the behaviors of the overconfident include the occurrence of logical errors similar to those that support decisions to start new ventures largely in part due to misperceptions. Although the prevailing research suggests that entrepreneurs are more overconfident than non-entrepreneurs, it may be that the overconfident decide to become entrepreneurs based upon less perceived risks associated with new venture creation.

Method

Data are collected from a sample of university students. The students are in upper level courses and are approaching decisions concerning their careers which include whether to become entrepreneurs. Data is collected through surveys to test hypotheses with regression analysis.

Results and Implications

The preliminary results of this exploratory study suggest that risk perceptions do influence new venture creation. However, early results offer less clear support for the impact of overconfidence on risk perceptions.

CONTACT: Anthony Robinson; arobinson@cba.ua.edu; (T): 404-786-0800; University of Alabama - Box 870225 – Tuscaloosa, AL 35487.