ABILITY VS. OPPORTUNITY OUTCOMES: WHAT TYPE OF ENTREPRENEURIAL CONFIDENCE FOSTERS VENTURE CREATION? (SUMMARY)

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Principal Topics

There is little doubt that entrepreneurs tend to be highly confident in their abilities, their future outcomes and their knowledge. Still, the debate about the consequences of entrepreneurial (over) confidence on new venture performance is far from resolved. A first question relates to the “optimal” intensity of entrepreneurial confidence or the specific threshold above which confidence becomes “too much of a good thing”. A second and less debated question concerns the nature of entrepreneurial confidence and how different types of entrepreneurial beliefs, e.g., ability vs. outcome expectancies, may affect venture performance. The main objective of this study is to examine whether different varieties of confidence have distinct or similar effects on venture emergence.

Methods

We propose and test a conceptual model that relates two types of entrepreneurial confidence to the probability of venture emergence. Prior research suggests a distinction between nascent entrepreneur’s estimate of his entrepreneurial abilities (confidence in ability) and his estimate of the chance of success of his opportunity (confidence in opportunity outcomes). By combining insights from social cognitive theory, hubris theory and disappointment theory, we develop a conceptual model suggesting that these two types of confidence have opposite effects on the likelihood of start-up. We test this model on a sample of 292 nascent entrepreneurs retrieved from the Panel Study of Entrepreneurial Dynamics I (PSED I). Confidence in ability was measured by a classical self-efficacy proxy. For confidence in opportunity outcomes, we used questions measuring the entrepreneur’s certainty whether his business would successfully cross through various start-up milestones. We used logistic regressions, survival analysis and some recent moderated-mediation methods.

Results and Implications

Consistent with predictions, the results reveal a positive effect of confidence in ability and a negative effect of confidence in opportunity outcomes on the probability of venture emergence. We also show that initial motivation – measured by the entrepreneur’s intended effort – partly mediates the positive relationship between confidence in ability and start-up success. Finally, our results indicate a negative interaction effect of confidence in ability and confidence in opportunity outcomes on the entrepreneur’s initial motivation.

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