

Businesspeople Who Are Too Sure Of Their Abilities Are Less Savvy Entrepreneurs: New Study

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Apprentice-style entrepreneurs who have an inflated sense of their own abilities may jump into new business ventures with insufficient regard for the competition and the size of the market, new research has found.

Psychologists say that people who are so ‘full of themselves’ and cocksure of their own abilities are the ones most likely to venture into markets that may be too small to accommodate another profitable business.

Research led by the University of Leicester, funded by the Economic and Social Research Council, has shown that overconfidence among businesspeople is a reason why many ventures fail in the first few years.

And the ones most culpable were people with absolute confidence in their own abilities.

The study was conducted by Dr Briony Pulford and Professor Andrew Colman of the University of Leicester, in collaboration with Dr Fergus Bolger, formerly of the University of Durham. The results are published in the journal *Experimental Psychology* (Volume 55, No. 2, 2008).

They set up a ‘game’ that simulated market conditions. Participants stood to gain capital, or make a loss, based on decisions they made in different market scenarios. The players had to choose whether or not to open

restaurants given different market scenarios, using a combination of skill and luck in order to perform.

Dr Pulford, of the School of Psychology at the University of Leicester, who led the study, claimed that people should beware of overconfidence: “Our results showed that, when success depended on skill, overconfidence tended to cause excess entry into a market place, as has been predicted by previous psychological theories.

“Market entry decisions tend to be over-optimistic, with the inevitable result that new business start-ups tend to exceed market capacity, and many new businesses fail within a few years.”

“However, the results also showed that excess entry into a given market place was driven by absolute confidence, rather than confidence arising merely from comparing oneself with others. Another finding was that excess entry was much more frequent when market capacity was small, suggesting that entrepreneurs do not take sufficient account of market capacity.

“Our findings have practical implications for people starting new businesses. They should beware of overconfidence, and they should be especially wary when entering small markets or markets that seem to present easy business opportunities, because over-entry seems most likely in these circumstances.”

Source: University of Leicester

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