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**Volume 23, No.1**  
**March 2011**

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TOO MUCH POSITIVE THINKING HINDERS ENTREPRENEUR SUCCESS

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ABSTRACT

Citizens of Western Civilizations learn through religion, psychology, music, the media, and even business that optimism and confidence are essential to success in all aspects of life. Although positivity can be a good thing, excess levels of optimism may lead entrepreneurs and business executives to overconfidence and unrealistic expectations. Although considerable research on entrepreneurial positivity and excess levels of optimism already exists, this paper continues the discussion by other researchers such as Liang & Dunn (2010) and further identifies and presents ten key areas which could lead to entrepreneur and business executive overconfidence and failure. In addition, the authors argue that entrepreneurs and managers should temper optimism with reality.

INTRODUCTION

"Doctors tell us that one or two glasses of red wine a day can be really healthy.... But no one tells you to drink the whole bottle. It's the same with optimism. A little bit is really beneficial, but too much can lead to some really bad economic choices."

--Brinn (2007)

Entrepreneurs and their new ventures created a substantial impact on economic development in the U.S. (Sternberg & Wennekers, 2005) despite the great odds against them (Dosi & Lovallo, 1997). The fact that entrepreneurs decide to forge ahead in the face of difficult obstacles suggests entrepreneurs possess high levels of dispositional optimism—the tendency to expect positive outcomes even when such expectations might not be rationally justified (Scheier, Carver, & Bridges, 2001)—and indeed, research findings indicate that entrepreneurs score from moderately high to extremely high on optimism (e.g., Abdelsamad & Kindling, 1978; Fraser & Greene, 2006; Lowe & Ziedonis, 2006). For example, Cooper, Woo, and Dunkelberg (1988) found that entrepreneurs express high levels of optimism, regardless of the level of preparation to lead their firms. Further supporting the claim that entrepreneurs tend to view the world through “rose-colored glasses,” Simon, Houghton, and
Aquino (2000) found entrepreneurs commonly overemphasize the extent to which their skills can increase performance in situations where chance plays a large role and skill is not necessarily a deciding factor; further, they tend to use a small number of information inputs as the basis for drawing conclusions.

However, very high optimism levels could be too much of a good thing. As shown in Figure 1, research findings indicate a curvilinear relationship between optimism and performance when measured across a wide range of activities and tasks (Brown & Marshall, 2001). Individuals with low levels of optimism tend to lack motivation because they assume that no matter how hard they try, failure could likely result. In addition, entrepreneurs have a propensity to focus on negative information, which reinforces their view that disaster awaits them. For these reasons, they often attain relatively low levels of performance. Moderate optimists tend to set moderately high, yet realistic, goals and put forth the necessary effort to reach their goals. These individuals recognize a balance of positive and negative cues within their environment, noting both the potential benefits and risks associated with each decision alternative. This more balanced approach tends to make them above-average performers.

Extremely optimistic individuals, in contrast, tend to set unrealistically high goals and often could be overconfident that they will attain their goals and they also overestimate the likelihood of their success (Baron & Shane, 2005; Hey, 1984). Such excessive optimism is cited as a primary cause for the high failure rate of new business ventures (Gartner, 2005; Landier & Thesmar, 2009). Optimistic entrepreneurs could not perceive their business as a significant risk because they considered success inevitable. As a result, these entrepreneurs were not likely to discard their entrepreneurial dreams. Further, Landier and Thesmar (2009) found optimistic entrepreneurs still held great expectations for their business ventures after three years. In addition, optimistic entrepreneurs found it difficult to scale back their business plans even when confronted early with information suggesting that they should revise their plans. A highly optimistic bias could also lead entrepreneurs to incorrectly overestimate demand while-underestimating competitor response, thereby not allowing for sufficient assets to compete in that environment (Simon & Houghton, 2003). Because of overly optimistic projections some entrepreneurs do not raise sufficient startup capital for the business to survive inevitable cash flow shortages (Trevelyan, 2007). Hmieleski and Baron (2009) demonstrated a negative relationship between entrepreneurs’ optimism and the performance (revenue and employment growth) of their new ventures.

From a slightly different perspective, the negative effects of optimism is supported by Fraser and Green, (2006) who found that optimism among entrepreneurs diminishes with experience implying that the more successful entrepreneurs, those with more experience, had lower levels of optimism than their less successful (and more optimistic) counterparts. Thus, performance
increases with task performers’ optimism, but only up to a point; beyond this point, further increments in optimism actually generate reductions in performance. Taken together, existing evidence suggests that moderate levels of optimism are beneficial for entrepreneurs but high levels could be problematic.

Additionally, in a finance-related investigation Puri and Robinson (2007) found that too much optimism can indeed be a problem and that people who are extremely optimistic tend to have short planning horizons and act in ways that are generally not considered wise. Puri and Robinson (2007) developed a novel method to assess individuals’ levels of optimism, drawing on data from the Federal Reserve Board’s Survey of Consumer Finance (SCF), a triennial assessment of U.S. families’ financial and demographic information. Although the SCF does not ask about optimism directly, survey questions ask respondents how long they expect to live. The survey also collects demographic and health-related information—the same sort of information that actuaries use to estimate life expectancy. The researchers combined these data to determine participants’ statistical life expectancies. Then they compared the statistical and self-reported life expectancies and categorized anyone who expected to live longer than the data predicted as an optimist. The researchers also labeled the top 5 percent as “extreme optimists” (p. 74), those who thought they will live an average of 20 years longer than was statistically likely. Specifically, these authors found that optimists 1) worked longer hours; 2) saved more money; and 3) were more likely to pay their credit card balances on time. On the other hand extreme optimists 1) worked significantly fewer hours; 2) saved less money; 3) were less likely to pay off their credit card balances on a regular basis; and, interestingly, 4) were more likely to smoke. “The differences between optimists and extreme optimists are remarkable, and suggest that over-optimism, like overconfidence, may in fact lead to behaviors that are unwise,” said Puri (quoted in Brinn, 2007).

Modest amounts of optimism may be beneficial, whereas extreme over-optimism may be more associated with negative behavior and results. In moderate doses, then, optimism can be helpful but at excessive levels optimism can lead to unwise and imprudent outcomes. Such a finding is consistent with research by Baumeister (1989) and McAllister, Baker, Mannes, Stewart, and Sutherland (2002) who found that there appears to be an optimal level of optimism and that “departures from this optimal margin, particularly in the positive direction, are dangerous” (Baumeister, 1989, p. 188).

High levels of optimism might cause individuals to become overly confident which could lead to difficulties coping with reality. In an extreme case, these extreme levels of positive thinking could even result in delusional thoughts. Neither in business, nor in personal life are these levels of positivity beneficial to the individual or the business organization. Table 1 at the end of this section provides a summary of research regarding ten key areas impacted by overly
optimistic behavior. The researchers further discuss those key areas in the Literature Review.

Consequently, entrepreneurs should pay particular attention to how their inherent levels of optimism interact with their experience and environment to influence their ability to achieve successful outcomes. With this in mind we offer a number of areas where entrepreneurs should carefully examine their optimism and consider whether there may be excessively high levels that may have a negative impact on their results.

Positive people tell us that the future will be bright. We are told in the United States that looking on the bright side leads to good health, prosperity, and success (Ehrenreich, 2009; Fineman, 2006). Positive thinking, sometimes referred to as hope, optimism, happiness, confidence and positive illusions, in very high amounts may be too much of a good thing. Some consider that moderate levels of positive thinking can help individuals, but at excessively high levels could be a very bad idea (Puri & Robinson, 2007). This paper presents a review of ten key areas where high degrees of positive thinking is problematic.

Individuals with high levels of positivity exhibit confidence and approach challenges with enthusiasm and persistence (Carver & Scheier, 2003). Positivity has motivational value and is generally perceived as good and helpful. Positive thinking is exhibited and valued in our aphorisms and music, churches and businesses, politics, media and child development practices as well as throughout our military. Here in the United States, even music often expresses a positive attitude with song titles or lyrics such as “Don’t Worry, Be Happy” (McFerrin, 1988), “Put on a Happy Face (Adams & Strouse, 1960) and to “Ac-cent-tchu-ate the Positive” (Mercer & Arlen, 1945).

Increasingly, church pastors espouse a new positive theology that leads to success, wealth and good health (Ehrenreich, 2009). Social and medical scientists have similarly amassed a wealth of experimental evidence indicating that dispositional optimism—having a positive general outlook in life—matters for physical and psychological wellbeing. For example, optimistic cancer patients face lower mortality risk (Schulz, Bookwala, Knapp, Scheier, & Williamson, 1996). Optimists experience faster recovery after coronary artery bypass surgery than pessimists (Scheier, Matthews, Magovern, Lefebvre, & Abbot, 1989). Optimists adjust more smoothly to major life transitions like going to college (Aspinwall & Taylor, 1992) or failure to achieve a desired pregnancy (Litt, Tennen, Affleck, & Klock, 1992). Furthermore, Scheier and Carver (1993) found optimistic patients reported more positive results including better coping, health habits and even less physical symptoms. In addition, Peterson, Seligman, Yurko, Martin, and Friedman (1998) reported that individuals with an optimistic outlook as children survived negative outlook individuals by approximately two years.

Likewise, colleges and universities have not simply adopted this new positive psychology but help spread the philosophy through course offerings and
academic articles. Luthans and Youssef (2007) have performed research in the area of “positive organizational behavior” and Harvard University offers courses in happiness which typically attracts 900 students. A journal devoted to positive psychology titled the Journal of Happiness Studies (Quality of Life Research, n. d.) examines individual’s well-being and overall levels of happiness, including what detracts from and what contributes to those constructs.

One could argue that good leaders should also be good cheerleaders and help their followers through periods of crisis. Ronald Reagan, when President, stated that Americans have been chosen by God and destined to prosper. President Franklin Roosevelt pointed out that “The only limit to our realization of tomorrow will be our doubts of today. Let us move forward with strong and active faith” (Luntz, 2007, p. 220). Likewise, military leaders need to be able to rally the troops as General Dwight Eisenhower did when he stated “Pessimism never won any battle” (Luntz, 2007, p. 221).

Popular media is replete with songs, articles and books promoting the power of positive thinking. From Dr. to Norman Vincent Peale’s The Power of Positive Thinking who suggested that (“the man [sic] who assumes success tends already to have success” to Spencer Johnson’s Who Moved My Cheese? (1998) which tells persons to (“accept layoffs with a positive attitude”). Each of these examples suggest that we can get pretty much whatever we want and if we do not get them it is because our faith was not strong enough.

Understanding the impact of excessive optimism can be especially important for business executives and entrepreneurs in particular. In the following section, the researchers identify ten key areas where too much optimism could negatively affect business. These areas include goal setting, planning, leadership, risk, technology, decision making, ethics and workplace behaviors.

![Figure 1. The relationship between optimism and performance](image)

Figure 1. The relationship between optimism and performance
LITERATURE REVIEW

Increasing attention is being focused on positivity in the workplace and its documented effects in enhancing human well-being and performance at work (Walumbwa, Peterson, Avolio, & Hartnell, 2010). Seligman (1991), for example, found optimistic salespeople working for a life insurance company performed better and had lower attrition rates than less optimistic salespeople. More recently, Luthans and his associates (Avolio & Luthans, 2006; Luthans, Avolio, Avey, & Norman, 2007; Luthans, Youssef, & Avolio, 2007) demonstrated the central role of psychological capital, defined as “one’s positive appraisal of circumstances and probability for success based on motivated effort and perseverance” (Luthans et al., 2007, p. 550) and consisting of the positive psychological resources of efficacy, hope, optimism, and resilience, in lowering absenteeism, increasing job satisfaction and organizational commitment, and decreasing cynicism, citizenship related behaviors, and withdrawal intentions. Central to these results were high levels of employee optimism and confidence. Today, perhaps more than ever in this era of layoffs and uncertainty, CEO’s and managers, it would appear, need to be purveyors of positivity. As leaders of their organizations, CEO’s and managers today often follow the transformational or charismatic leadership models (Yukl, 2002). In both these models, leaders do not simply manage but are called upon to inspire the workforce and sales meetings now look more like a religious revival or a political rally.

Although optimism frequently results in positive effects, allowing people to stay engaged with goals and maintain health (Taylor & Brown, 1988), optimism can also lead to negative outcomes. Specifically, when confronted with unexpected negative events optimists seem to be less prepared to deal with the event and therefore could experience more intense negative emotions (Colvin & Block, 1994).

Liang & Dunn (2008) refer to optimism demonstrated by entrepreneurs to be very similar to that described as dispositional optimism in the field of psychology. Dispositional optimism can be described as a bias that causes one to have expectations of positive outcomes across a variety of different situations. Using the Life Orientation Test (Revised) the authors collected questionnaire responses from 142 entrepreneurs. Results of their study found entrepreneurs to be optimistic, yet realistic. In addition, the researchers found no relationship between optimism and positive venture outcomes.

In a later study Liang & Dunn (2010) not only continued examining optimism among entrepreneurs, they went on to investigate realism. Among other things, the researchers found risk acceptance correlated with setting achievable goals, considering negative and positive outcomes, and finding information. The authors discuss the importance of “realistic optimism” and its...
impact on the entrepreneurs' spouse. Results from their study suggest entrepreneurs who are happy when starting their business venture also believe that their spouse will be happier and continue to support them should they choose to start another business venture. Conversely, a pessimistic entrepreneur believes that their spouse would not be happier during new venture creation and would not be supportive in starting another business venture.

Goal setting

Persons with high levels of optimism tend to set unrealistic goals and could be overconfident in believing that they will attain their goals. These individuals tend to focus on positive information, which confirms their belief that they will succeed. This disposition interferes with attaining effective performance. Therefore, these individuals tend to achieve only average performance in many situations (Judge & Ilies, 2004). “Wishful thinking” such as this could often distract individuals from making realistic tangible plans with regard to goal attainment (Oettingen, 1996). This data suggests that performance often increases with optimism, although only to a certain level. In addition, Brown & Marshall (2001) found that additional levels of optimism actually decrease performance. Positive spin on a situation often allows the individual to function more effectively while illusions typically involve a certain amount of self-deception that often provides individuals a feeling of mastery and well-being.

Decision making

Effective decision making could often be hampered by the overconfidence bias. In a study conducted by Lichtenstein & Fischhoff, subjects were provided factual questions and were then asked to indicate what percent of questions respondents believed they responded to correctly (Lichtenstein & Fischhoff, 1977). Respondents indicated they believed they were correct 65-70 percent although in actuality, the respondents were only correct about 50 percent of the time. Another study found that when researchers asked respondents to indicate when they believed they were 100 percent sure, the actual percent correct ranged from 75 to 85 percent (Fischhoff, Slovic, & Lichtenstein, 1977).

Other researchers refer to the overconfidence bias as the “above average effect.” The above average effect refers to the tendency of an average person to believe that she or he is not average, but above average despite that this belief defies statistical logic (e.g., Alicke, Klotz, Breitenbecher, Yurak, & Vredenburg, 1995). Another study conducted by Larwood and Whittaker (1977) found both corporate executives and management students particularly prone to the above-average effect. This overconfidence bias common among executives could often lead to an escalation of commitment to a failing course of action, when in reality the executive should be searching for an alternative course of action. In a study.
by Audia, Locke, and Smith (2000), researchers found previously successful managers more likely to stay with an original course of action despite changes in the business operating environment.

Finkelstein (2003a) conducted a six-year study across 51 companies and found that executives of failed companies would often cling to a distorted reality. Finkelstein's *Why Smart Executives Fail* (2003a) noted that executives typically underestimate business obstacles and Finkelstein (2003b) observed “...blind adherence to ‘positive thinking’ became a dominant corporate value that was often at the foundation of organizational failure” (pp. 2-3). Overconfidence leads to poor decision making, resulting in lower profit margins, employee firings, and even business bankruptcy (Russo & Schoemaker, 1989). In a study by Malmendier and Tate the researchers found Fortune 500 CEO’s overconfidence often produced bad decisions (Malmendier & Tate, 2005a).

Finally, Sims (1992) indicated that groupthink, a phenomenon in which the norm for consensus overrides the realistic appraisal of alternative courses of action (Janis 1972), is a common decision making error that regularly occurs throughout business and provided corporate examples such as Beech-Nut, E. F. Hutton, and Salomon Brothers. A key symptom of groupthink involves groups developing a sense of invulnerability—an illusion that breeds excessive optimism and risk taking. Such excessive optimism could also be considered as contributing factors in the fall of WorldCom and Enron corporations as well as the space shuttle Challenger and Columbia disasters and even to decisions leading up to the war in Iraq.

*Leader hubris and narcissism*

Throughout history there are many examples of leader overconfidence resulting in failure, notably figures such as Napoleon Bonaparte and Adolph Hitler (Kroll, Toombs, & Wright, 2000). If we are willing to follow someone, whether into battle or into the boardroom, we first want to assure ourselves that the person is confident of success, but not too overconfident or delusional. According to Petty (2009) “Self-confidence is rocket fuel for leaders. Used carefully and ignited under the proper conditions, it propels you and those around you to remarkable heights. Too little confidence and leaders are perceived as weak, ... Too much self-confidence becomes that most destructive of all leadership attributes, hubris.” Kroll et al. (2000) further define hubris as a need for admiration, self-absorption and grandiosity. Stated another way, these attributes can be considered narcissistic.

Hubris and narcissism are forms of overconfidence and a manifestation of extreme optimism and often leads to poor choices in corporate acquisitions. Roll (1986) indicates that some takeover attempts result from an incorrect assumption that management can significantly improve the takeover target firm’s performance. The executive ignores others’ feedback and despite the typical
overpaid price premium for the takeover target firm believes that they will prevail over all barriers and improve firm performance (Hayward & Hambrick, 1997). Excessive optimism could cause executives to doggedly continue behaviors successful in the past while dismissing new or contrary information. Two studies (Dess & Picken, 1999; Ranft & O’Neill, 2001) find that past success often breeds failure as highly successful leaders begin to lose their competitive edge and become arrogant and overconfident.

**Ethical considerations**

Leaders exhibiting narcissistic behaviors often set a comparable tone throughout the corporation as many consider these types of behaviors “contagious” (Valente, 1995). This could lead to what Levinson (1994) described as organizational narcissism. According to Ganesh (2003) an organization with a narcissistic identity attempts to legitimize and justify itself at whatever cost, with little regard to ethical concerns, civic responsibility, or market accountability. Gregory (1999) suggests that organizational narcissism could institutionalize exploitation, dominance, entitlement, and control to reinforce its identity. Organizations such as this might not be able to exhibit ethical behavior due to lacking moral identity. In this case, ethical behavior could be ignored to support the narcissist’s beliefs (Duchon & Drake, 2009). A study conducted by Schrand and Zechman (2009) found financial reporting fraud more prevalent among overconfident managers. To identify overconfident managers the researchers examined the corporate annual report to identify the prevalence of the CEO’s photograph along with the salary disparity when compared to the second-highest paid company executives.

One of the best known investors, Warren Buffett, warns of over optimism in earnings forecasts (2001, p. 5). Buffett charges that excessive predictions could corrode CEO behavior and swell unwarranted optimism:

“... I have observed many instances in which CEOs engaged in uneconomic operating maneuvers so that they could meet earnings targets they had announced. Worse still, after exhausting all that operating acrobatics would do, they sometimes played a wide variety of accounting games to ‘make the numbers.’ These accounting shenanigans have a way of snowballing; once a company moves earnings from one period to another, operating shortfalls that occur thereafter require it to engage in further accounting maneuvers that must be even more ‘heroic.’ These can turn fudging into fraud” (Buffet, 2001, p. 6).

Support of Buffett’s warning can be found in Montgomery’s Auditing, the auditing manual used by several Big Four Accounting Firms. Montgomery’s Auditing refers specifically to “unduly aggressive earnings targets” as a consideration that could contribute to increased fraud risk (O’Reilly, McDonnel,
Winograd, Gerson, & Jaenicke. 1998. p. 36). One example can be found where the Securities and Exchange Commission found that Dell Computer inflated profit reports to meet Wall Street objectives during the period 2001 through 2006 and now is paying $100 million in settlement for civil charges (Gordon, 2010).

Technological arrogance

Research by Godkin and Allcorn (2009) suggests leader narcissism could lead to what they refer to as Arrogant Organizational Disorder (AOD). Organizational environments that do not allow for intellectual inquiry, healthy debate, and discussion of opinions could prevent an organization from adapting. AOD may be rooted in “The Arrogance of Optimism” referred to by Landau and Chisholm (1995) who suggests that without critical examination, an organization could become self-deceptive based upon the belief that everything is under control (p. 67).

An example of this can be found in an examination of the prevailing attitude during much of the Vietnam war:

During the Vietnam War, American soldiers and civilian officials were spurred on by a myopic ‘can-doism’—the conviction that they could achieve anything, anywhere. Their belief in their own omnipotence was stimulated too, by pressures from their superiors in Saigon and Washington. To adopt a negative attitude was defeatism, and there were no promotions for defeatism. In contrast, positive reports were rewarded, even if they bore little resemblance to the truth (New York Times, 1983, p. 1D).

In some instances, AOD evolves into technological arrogance. Individuals in leadership positions with technical arrogance believe that they are experts and because they are experts they know what they are doing is correct. An example of this over confidence can be found in the sinking of the Titanic. Complacency and ignored problems capped with the statement that “God couldn’t sink her” suggest that in this case over confidence led to a major maritime disaster (Borenstein, 2010). Similar warnings from engineers of a potential space shuttle disaster were ignored. Despite numerous warnings prior to the Challenger Space Shuttle launch regarding the potential problem with the O-rings, technological arrogance at NASA caused leadership to go ahead with the launch (Borenstein, 2010, p. 4D).

Planning fallacy

Over-optimism can cause people to underestimate the time it will take to complete a project. An example of this can be found with the Sydney Opera House project which was to be constructed in six years but instead took sixteen years to complete (Hall, 1980). Firms frequently find that overly optimistic
estimates of completing projects often turn out to be extremely expensive and frustrating resulting from cost overruns, missed deadlines, and overall frustration and aggravation (Connolly & Dean, 1997).

During the planning stage, individuals often base estimations on a “best-case scenario”, sometimes not even considering a “worst-case scenario” (Newby-Clark, Ross, Buehler, Koehler, & Griffin, 2000). Because the planning fallacy does not usually consider time delays, cost overruns and other unanticipated events, overly optimistic expectations become inevitable. Despite knowing that performing similar tasks required more time and budget, the tendency to underestimate these factors is so prevalent that Kahneman and Tversky (1979) refer to this phenomenon as the “planning fallacy”.

Display rules

Some businesses require employees to display certain behavior at work. Cheerleaders, flight attendants and wait staff, for example, may be required to smile and show enthusiastic behavior while working. In addition, these employees cannot demonstrate hostility or anger, even when dealing with difficult customers (Diefendorff & Richard, 2003).

Companies certainly should expect employees to display friendly behavior toward customers and others. However, there could be an emotional impact on employees who “bottle-up” emotions. Brown, Tomarken, Orth, Loosen, Kalin, & Davidson (1996) reported lower stress resistance among employees who repressed negative emotions. Further, Derakshan and Eysenck (1999) found individuals that presented positive emotions while denying negative emotions demonstrated more profound physiological response than individuals who presented more realistic negative emotional response. Employees who repress emotions could later suffer emotional breakdown and thus adversely impact their company through lower productivity, lost time or even hostility toward fellow workers, customers and management.

Risk denial

Leaders need to be positive to motivate workers; however overconfidence could be detrimental to the organization. If problems are minimized or when leaders discourage problem discussion, employees could reconsider their commitment to the organization. Mader and Leibner (2007) believe leader overconfidence is lethal to organizations, which can lead to eroding employee commitment.

In a study of high-tech firms Simon and Houghton (2003) found a relationship between overconfidence and the high risk of new product development. Managers responsible for developing new pioneering products expressed high confidence of product success despite the fact that new products tend to be less successful. Managers who express this high level of certainty
believing they will achieve success could likely underestimate potential pitfalls of launching new products.

Optimism might be an effective tool for inspiring and motivating employees; however, excessive optimism could skew risk assessment accuracy and even alter perception of the truth. One could easily argue that this kind of self-deception might be a dangerous leadership trait. Although it could be argued that risk taking could be considered a condition for success, Gellerman (1986) stated “Contrary to popular mythology, managers are not paid to take risks; they are paid to know which risks are worth taking” (p. 89).

Impression management
Leary and Kowalski (1990) describe impression management as individuals trying to influence impressions other people form about them. Nowadays many companies work hard to present an optimistic “image” (Dutton & Dukerich, 1991) or “reputation” (Fombrun & Shanley, 1990) to employees and the general public. Stakeholders often encourage companies to develop and present optimistic projections regarding financial performance while deemphasizing financial risks associated with stock ownership in that company (Fombrun & Shanley, 1990). A favorable reputation can generate excess returns for a firm by inhibiting the mobility of rivals (Caves & Porter, 1977; Wilson, 1985), signaling product quality (Milgrom & Roberts, 1986), attracting better applicants (Stigler, 1962), enhancing the firm’s access to capital markets (Beatty & Ritter, 1986), and attracting investors (Milgrom & Roberts, 1986).

Impression management does not imply that the impressions people convey are necessarily false but misrepresentations do occur. Indeed, lying can be thought of as an “extreme form of impression management that involves the deliberate fostering of a false impression” (DePaulo, Kashy, Kirkendol, & Wyer, 1996, p. 980). Ambiguous situations, such as in strategic business dealings in ill-structured environments lacking discrete input variables or measurement calibration (Roll, 1986), offer particularly attractive opportunities for deception. Such situations provide relatively little information for challenging a fraudulent claim and thus reduce the risks associated with misrepresentation and overconfidence (Goffman, 1959). This combined with the tendency for executives to preserve a positive self-image leads to misrepresentations and rationalizations (Grover, 2005). If honesty can be defined as “the refusal to fake reality ... to pretend that facts are other than they are, whether to himself or others” (Smith 2003, p. 518), then we can feel some assurance in calling such overconfident and overoptimistic executives and organizations dishonest.
Entrepreneurial activities

While optimism could be considered necessary to starting a new business venture, some consider optimism to be harmful as overconfidence and unrealistic optimism could cause an entrepreneur to overestimate the likelihood of his or her success (Baron & Shane, 2005; Hey, 1984). Optimistic bias could also lead entrepreneurs to incorrectly overestimate demand while underestimating competitor response, thereby not allowing for sufficient assets to compete in that environment (Simon & Houghton, 2003). Because of overly optimistic projections some entrepreneurs do not raise sufficient startup capital for the business to survive inevitable cash flow shortages (Trevelyan, 2007).

As important as optimism could be in starting a new business venture, Gartner (2005) cites excessive optimism as a primary cause for the high failure rate of new business ventures. According to Shane (2008), approximately 45% of new firms will fail within the first five years of inception.

Landier and Thesmar (2009) examined entrepreneur optimism and concluded that entrepreneurs with excessive confidence levels to be more likely associated with business failures. Optimistic entrepreneurs could not perceive their business as a significant risk because they considered success inevitable. As a result, these entrepreneurs were not likely to discard their entrepreneurial dreams. Further, Landier and Thesmar (2009) found optimistic entrepreneurs still held great expectations for their business ventures after three years. In addition, optimistic entrepreneurs found it difficult to scale back their business plans even when confronted early with information suggesting that they should revise their plans.

Incongruence with certain jobs/positions

In commenting on the role of the CEO, Seligman (1991) observed “...at the head of the corporation must be a CEO, sage enough and flexible enough to balance the optimistic vision of the planners against the jeremiads of the CPAs” (p. 112). This could suggest that positivity might be associated with persons in certain positions and that optimism might not be the right approach in applicant selection. In a situation where risk of negative consequences could occur, a more cautious, risk-avoiding method could be more appropriate. Pessimism might keep persons from taking optimistic but uncertain actions in circumstances where negative risks could be unacceptable.

Some jobs that call for persistence and initiative also require optimism (Seligman, 1991). Jobs requiring optimism include fundraising, sales and public relations. Highly competitive jobs also tend to have high-burnout or jobs requiring high creativity levels might be better suited to optimistic persons. On the other hand, jobs in financial control and accounting as well as quality control, technical writing or design and safety engineering require a somewhat pessimistic outlook. These latter positions typically call for individuals who
possess a strong degree of reality and tend to be more cautious and unlikely to charge ahead. Optimistic assumptions in accounting, for example, could cause disaster in a business (Munger, 2002).

Table 1 below highlights the ten key management areas impacted by leader overconfidence and provides a summarization of key research findings regarding over-optimism and management performance.

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<td>Must possess optimistic outlook despite job with frequent frustration</td>
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</table>

Table 1. Difficulties resulting from excessive overconfidence and optimism

SUMMARY AND CONCLUSION

Unlike the Charles Dickens's character Wilkins Micawber, the eternal optimist, entrepreneurs need to temper optimism with a sound footing in reality (Dickens, 1850). In this paper the authors acknowledge the importance of optimism in entrepreneurs but raise doubt regarding wholesale endorsement of optimism. Instead, the authors suggest a more realistic approach rather than the unbridled optimism often put forward by some business executives, books, consultants, and self-help manuals as the key to attaining business success.

Although numerous studies identified optimism as an entrepreneurial characteristic, studies also demonstrate that excessive optimism could lead to business failure. Our prescription then, is that optimism be at an appropriate level
to motivate and inspire while avoiding the potential deadly effect caused by overconfidence.

Several important implications could be drawn from this study. Should personality testing be required in selection of executives? Could a manager be de-selected from potential promotion due to high optimism levels? Would entrepreneurial risk-taking diminish if optimism were not encouraged?

Additional research could examine several key points. First, research and discussion of the role optimism plays in starting new ventures needs to continue in order to develop better understanding of entrepreneurial optimism. Second, continued research could help identify additional pitfalls entrepreneurs might encounter when overconfident. Finally, additional research that identifies key business activities such as the authors identify in this study, might also lead to avoiding the overconfidence pitfall.

In conclusion, existing evidence strongly suggests that across many different tasks, performance increases with task performers’ optimism, but only up to a point; beyond this point, further increments in optimism actually generate reductions in performance. Executives and entrepreneurs need to be aware of this potential problem, not only with regard to themselves but also among other executives and managers within their business organization.

REFERENCES


Lichtenstein, S., & Fischhoff, B. (1977). Do those who know more also know more about how much they know? Organizational Behavior and Human Performance, 3, 159-183.


**Keywords:** optimistic entrepreneurs, management overconfidence