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Overconfidence *at work*: Does overconfidence survive the checks and balances of organizational life?

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ABSTRACT

This review considers the role of overconfidence in organizational life, focusing on ways in which individual-level overconfidence manifests in organizations. The research reviewed offers a pessimistic assessment of the efficacy of either debiasing tools or organizational correctives, and identifies some important ways in which organizational dynamics are likely to exacerbate overconfidence among individuals. The organizational consequences of overconfidence can be substantial, especially when it comes from those at the top of the organization. However, there are also reasons to suspect that the research literature exaggerates the prevalence of overconfidence.

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1. Guiding questions

A great deal of research shows that overconfidence pervades judgments in individual decision making in laboratory experiments. But how does overconfidence affect organizational life? Might organizations have tools to mitigate overconfidence? Or might they actually exacerbate it? In this chapter we review the empirical research on overconfidence and conclude that overconfidence is likely prevalent in organizations. There are some ways that organizations can mitigate or temper it, but people are vulnerable to overconfidence under many conditions, and it can have costly consequences for their organizations.

First we review research on three distinct forms of overconfidence in individual decision making, wherein findings of overconfidence have been robust and consistent; however, we also review boundary conditions, demonstrating that pervasive overconfidence is not a foregone conclusion. We then examine field research on overconfidence and its implications for organizations, discussing potential inhibitors and facilitators of overconfidence. We discuss approaches organizations can take to minimize the dysfunctional consequences of overconfidence and argue that overconfidence in organizations may be, but need not be, as prevalent and problematic as in circumstances of individual decision making. We conclude with a discussion of unanswered questions that could be addressed with additional field research on overconfidence.

2. Overconfidence in individual decision making

Overconfidence is a belief about oneself or ones' knowledge that is too extreme or too precise given a comparable, objective benchmark of reality. Overconfidence is often described as rampant in individual decision making: "Perhaps the most robust finding in the psychology of judgment is that people are overconfident" (De Bondt & Thaler, 1995, p. 389). People tend to have unrealistically favorable impressions of themselves compared to others (Alicke, Klotz, Breitenbecher, Yurak, & Vredenburg, 1995) and overestimate their abilities and their knowledge (Dunning, 2005). However, research has also identified predictable instances of both underconfidence and good calibration (Burson, Larrick, & Klayman, 2006; Krueger & Mueller, 2002; Moore et al., in press; Moore & Healy, 2008). By emphasizing the prevalence of overconfidence in this review, we do not mean to imply that there is a single, monolithic overconfident attitude that pervades and obscures all judgment. Rather, different types of overconfidence are susceptible to different forces and can be situation-specific. Defining and referring to overconfidence in precise terms is helpful for understanding the nuances and complexities of when overconfidence will and will not be present. Thus, following Moore and Healy (2008), we define three types of overconfidence – overestimation, overprecision, and overplacement – and discuss the separate instances and implications of each.

2.1. Overestimation

A common approach is to define overconfidence as the overestimation of one's ability, performance, chance of success, or level of control (Moore & Healy, 2008). There are prominent, robust examples of the human tendency to overestimate. For example, students overestimate how well they will perform on exams (Shepperd, Ouellette, & Fernandez, 1996). MBA students overestimate both the number of job offers they will receive and their starting salaries (Hoch, 1985). The unemployed overestimate how easy it will be to get a job (Spinnewijn, 2015). Even vacationers overestimate how much fun they will have on their vacations (Mitchell, Thompson, Peterson, & Cronk, 1997).

Yet, people do not indiscriminately overestimate all things. When tasks are easy or when the people making the estimates are especially skilled at the task, people tend to underestimate their performance (Burson et al., 2006; Clark & Friesen, 2009; Griffin & Tversky, 1992; Kirchler & Maciejovsky, 2002; Klayman et al., 1999; Kruger & Dunning, 1999; Lichtenstein & Fischhoff, 1977). The powerful moderating effect of task difficulty on overestimation in laboratory studies has been well-documented by cognitive psychologists and is often referred to as the *hard-easy* effect (Benoît & Dubra, 2011; Clark & Friesen, 2009; Kvidera & Koutstaal, 2008; Olsson, Juslin, & Winman, 2008; Van den Steen, 2011). But are most tasks hard or are most tasks easy? The prominence of overestimation is debatable because it is difficult to know whether tasks used in laboratory experiments are representative of the universe of all tasks, or whether a researcher happened to select tasks that produce overestimation (Juslin, Winman, & Olsson, 2000). Moreover, defensive pessimism, sandbagging, and self-handicapping will all lead people to underestimate performance in some circumstances (Arkin

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