

Businesses fail if the owner has too much self-belief

Submitted by: BlueSky Public Relations Ltd

Tuesday, 4 February 2020

Being too optimistic about one's ability and future prospects could be one reason businesses are failing, according to research by the University of Cologne.

The study, conducted by Professor Fabian Sting and a team of interdisciplinary co-authors, found that businesses could be failing as managers might see their own innovation abilities and future more optimistically than they actually are, affecting how they view their ideas.

Failing to grasp the true value of an idea can lead a business to be run on poor selection decisions, miss out on great opportunities or to make costly investments, which could threaten their survival.

"There is an optimistic illusion rooted in the human need to maintain, defend and promote a positive self-view, which explains why so many entrepreneurs and CEOs take overly big and risky strategic shifts that could potentially harm their business," says Professor Sting.

A person's self-belief can be affected by the environment that they are in, such as an organisation, as it can manipulate identities through cues contained in job role definitions.

For this reason, employees that are higher up in the organisation may become overconfident in an instinctive attempt to conform to their role expectations.

"As employees move up the career ladder, they usually acquire a stronger belief in their own abilities to accomplish tasks, particularly when this belief is reinforced in their daily work. For example, having a separate office, wearing more formal clothing and taking part in leadership meetings," says Professor Sting.

However, having optimism is not all bad as the authors say that entrepreneurs and CEOs need to be sufficiently optimistic about their abilities to set up a business, otherwise they would not take such action.

The study was conducted on a large corporate process innovation dataset, validated on 9,000 people in an online experiment, and published in the Academy of Management Journal.

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