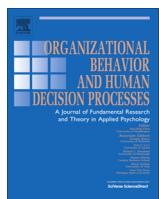




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## When overconfidence is revealed to others: Testing the status-enhancement theory of overconfidence



Jessica A. Kennedy <sup>a,\*</sup>, Cameron Anderson <sup>b</sup>, Don A. Moore <sup>b</sup>

<sup>a</sup> University of Pennsylvania, The Wharton School, 600 Jon M. Huntsman Hall, 3730 Walnut Street, Philadelphia, PA 19104-6340, USA

<sup>b</sup> University of California, Berkeley, Haas School of Business, 545 Student Services Building, #1900, Berkeley, CA 94720-1900, USA

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### ABSTRACT

The *status-enhancement theory* of overconfidence proposes that overconfidence pervades self-judgment because it helps people attain higher social status. Prior work has found that highly confident individuals attained higher status regardless of whether their confidence was justified by actual ability (Anderson, Brion, Moore, & Kennedy, 2012). However, those initial findings were observed in contexts where individuals' actual abilities were unlikely to be discovered by others. What happens to overconfident individuals when others learn how good they truly are at the task? If those individuals are penalized with status demotions, then the status costs might outweigh the status benefits of overconfidence – thereby casting doubt on the benefits of overconfidence. In three studies, we found that group members did not react negatively to individuals revealed as overconfident, and in fact still viewed them positively. Therefore, the status benefits of overconfidence outweighed any possible status costs, lending further support to the status-enhancement theory.

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## Introduction

In a wide variety of domains, individuals believe they are better than others, even when they are not (for reviews, see Alicke & Goranson, 2005 and Dunning, Heath, & Suls, 2004). Yet research has documented numerous costs of this overconfidence. For example, falsely believing one is more capable than others leads entrepreneurs to risk too much in new ventures (Camerer & Lovallo, 1999), CEOs to engage in too many acquisitions of other firms (Malmendier & Tate, 2005), and nations to initiate too many military confrontations (Johnson, 2004).

Why is overconfidence so common if it incurs such high costs? Anderson et al. (2012) recently found that overconfident individuals attain higher social status, or respect and influence, in groups. Their findings lent support to a *status-enhancement theory* of overconfidence, which posits that overconfidence pervades human self-judgment because it helps individuals attain higher social status. That is, overconfidence is rewarded with higher status; the prospect of higher status can encourage displays of confidence.

However, an important limitation of those initial findings is that they were observed primarily in contexts where overconfident individuals had little chance of being discovered by others—namely, in short-lived laboratory interactions in which people

were unlikely to detect each other's actual abilities. This limitation is important because in many real-world contexts, including many organizations, people can ascertain each other's actual levels of ability, and hence, learn when others are overconfident. For example, salespeople often learn of each other's quarterly performance, allowing them to compare each other's level of confidence to actual performance.

What happens to individuals if others recognize their overconfidence? If people punish the overconfident (Paulhus, 1998), overconfidence entails risks. For example, arrogant group members might be demoted in the status hierarchy. Accordingly, the status-related costs incurred after being exposed as overconfident might negate the status benefits those individuals initially enjoyed. Such a finding would undercut a status-enhancement explanation for overconfidence.

The current research thus focused on this key question: how do groups respond to overconfident members when those members' actual task abilities are revealed? We tested whether overconfidence incurs status penalties once it is revealed to others, and if so, whether those penalties outweigh the initial status benefits of being overconfident. We conducted three studies that examined overconfidence both naturally in task groups and through experimental manipulation. We used self-ratings of competence to measure confidence and objective indices of actual performance to measure ability; we then examined their effects on group-, peer-, and observer-derived measures of status.

\* Corresponding author.

E-mail addresses: kennedyj@wharton.upenn.edu (J.A. Kennedy), anderson@haas.berkeley.edu (C. Anderson), dmoore@haas.berkeley.edu (D.A. Moore).

## Overconfidence

Overconfidence is the possession of inaccurate, overly positive perceptions of one's abilities or knowledge (for a review, see Moore & Healy, 2008). Overconfidence is measured by comparing individuals' self-perceptions of ability to objective, operational criteria such as actual task performance and test scores (e.g., Krueger & Mueller, 2002; Kruger & Dunning, 1999; Larrick, Burson, & Soll, 2007). Individuals are overconfident when they believe they are better than objective measures indicate.

Scholars have long documented the many costs of overconfidence. For example, overconfident people fail to recognize their limitations and set unrealistic goals (Ehrlinger & Dunning, 2003), engage in contests they are likely to lose (Camerer & Lovallo, 1999), and select negotiation strategies that promote failure (Neale & Bazerman, 1985). The persistence of overconfidence is therefore puzzling because being able to accurately place one's abilities relative to those of others is clearly useful (e.g., Alicke, 1985; Dunning et al., 2004; Larrick et al., 2007).

### The status-enhancement theory of overconfidence

To help explain the puzzling pervasiveness of overconfidence, Anderson et al. (2012) proposed that higher confidence helps individuals attain higher social status. Status is respect, prominence, and influence accorded to individuals by their social groups (Anderson, John, Keltner, & Kring, 2001; Bales, Strodtbeck, Mills, & Roseborough, 1951; Berger, Cohen, & Zelditch, 1972). Higher social status comes with a host of benefits including control over group decisions and access to scarce resources (Berger et al., 1972; Blau, 1964). Accordingly, the desire for high status is a fundamental and powerful motive (Maslow, 1943; Tay & Diener, 2011).

According to Anderson et al. (2012), when individuals are more confident in their abilities, others also perceive them as more competent (also see Bass, 2008; De Cremer & van Knippenberg, 2004; Snizek & Van Swol, 2001; Zarnoth & Snizek, 1997). Confidence is compelling to observers because, in the absence of information to the contrary, observers assume it reflects superior ability (Tenney & Spellman, 2010; Tenney, Spellman, & MacCoun, 2008).

In turn, once individuals are perceived to possess greater competence, they are likely to be afforded higher status. A primary and consistent predictor of status in groups is perceived competence (e.g., Berger et al., 1972; Driskell & Mullen, 1990; Lord, de Vader, & Alliger, 1986). In general, groups confer higher status on individuals who exhibit abilities that help the group succeed (Berger et al., 1972; Eibl-Eibesfeldt, 1989; Emerson, 1962; Goldhamer & Shils, 1939). Because competent individuals can provide important contributions to the group's success, they tend to be given higher status.

It is important to note that being perceived to possess these valued characteristics is the key to attaining higher status; it is not necessary to actually possess these characteristics (Berger et al., 1972). For example, much research has documented that groups often mistakenly perceive individuals with certain demographic characteristics to be more competent and, as a result, groups accord those individuals higher status, even when they are actually no more competent than others (Berger et al., 1972). Perceptions of valued characteristics, not actual possession of these characteristics, drive status conferral.

A critical tenet of the *status-enhancement theory* is that higher confidence will lead to higher status, regardless of the individual's actual ability. Observers often cannot distinguish between justifiably confident and unjustifiably confident (i.e., overconfident) individuals because both exhibit similar behaviors while their actual levels of task ability are hidden within them (Anderson & Kilduff,

2009; Anderson et al., 2012; Campbell, Goodie, & Foster, 2004; McNulty & Swann, 1994; Swann, 2005). Justified confidence and overconfidence thus often appear indistinguishable to observers in the absence of objective data regarding task performance. Accordingly, even unjustified confidence can help individuals attain higher status.

In support of these arguments, Anderson et al. (2012) found that confident individuals were perceived as more competent by others and attained higher status. Moreover, this effect emerged even when individuals' confidence was not justified by actual ability – that is, even when those individuals were in fact no more competent than others.

### What happens when overconfidence is revealed to others?

An important limitation of the aforementioned Anderson et al. (2012) findings is that they were set in contexts in which overconfident individuals had little chance of being discovered as overconfident. In groups that worked together for short periods of time and in which individuals' actual abilities were never revealed, unwarranted confidence (i.e., overconfidence) is likely to yield only status benefits for the individual because others have little reason to question the person's high level of confidence. When overconfidence is unlikely to be discovered, the risk of social punishment is small.

In reality, however, groups sometimes learn about members' actual characteristics and abilities as they work together. For example, group members more accurately discern each other's competence, personalities, and attitudes as they work together over time (Harrison, Price, Gavin, & Florey, 2002; Kenny, 1991; Littlepage, Robison, & Reddington, 1997; Paulhus & Bruce, 1992; Peltokorpi, 2008). In these contexts, it is possible that overconfident individuals will be discovered as being overconfident. Accordingly, those individuals might be penalized for their perceived hubris (Paulhus, 1998; Tenney & Spellman, 2010; Tenney et al., 2008).

But are individuals punished when others learn of their overconfidence? In the following sections we describe the arguments for and against the idea that groups penalize overconfident individuals once they detect the individuals' actual levels of task performance.

### The case for punitiveness

Functionalist theories of status suggest that groups would penalize confident individuals with lower status if they were to discover that the individuals' confidence is unwarranted. Groups accord lower social status to individuals who hinder the group's success (e.g., Blau, 1964; Ridgeway & Diekema, 1989). Groups might thus penalize overconfident individuals because overconfidence jeopardizes task performance (Barber & Odean, 2000; Klein & Kunda, 1994; Metcalfe, 1998; Paese & Kinnaly, 1993; Vancouver, Thompson, Tischner, & Putka, 2002).

Moreover, groups might view individuals with unwarranted confidence as more selfish and less committed to the group's success, and thereby accord them lower status (Willer, 2009). In laboratory experiments, groups ostracized individuals who claimed more status than the group believed them to deserve and paid them less for their work (Anderson, Ames, & Gosling, 2008; Anderson, Srivastava, Beer, Spataro, & Chatman, 2006). Taken together, these findings suggest groups might penalize overconfident members with lower status. In other words, groups might accord overconfident individuals a lower level of status than that accorded to others with the same level of competence but more accurate self-perceptions of ability.

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