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Knowing When to Quit: Do Optimism and Overconfidence Cloud Investor Judgment?

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deep consequences” for black employees. For instance, black employees who felt their managers had lower behavioral integrity were more likely to express lower levels of trust in their managers. This had a domino effect in that black employees expressed less satisfaction with the manager’s performance, with their own jobs, and with the company. Consequently, black employees felt less committed to the company and were more likely to want to leave.

An unexpected finding in the study was that black employees did not view black managers as having more behavioral integrity than white managers. In fact, the black employees were more critical of black managers, who they probably felt “should know better.” More research is needed on the relationship between black managers and black employees. To the question of how the integrity breaches of top management might trickle down to middle and lower-level managers, Simons and his colleagues found that both black and non-black employees were sensitive to those breaches. That leaves one to conclude that black employees’ greater sensitivity to integrity breaches is more discernible at lower, more direct levels of supervision.

But why give special attention to black employees in the first place? Simons and his colleagues argue that race is an amplifier of gaps in behavioral integrity because of the distinct and difficult history of black life in North America. And ongoing (and often widely publicized) instances of offensive and derogatory treatment means that blacks continue to be vigilant about managerial and organizational integrity.

Yet there is an irony to black employees’ greater sensitivity to breaches in behavioral integrity. Simons and his colleagues contend that more than any other group, black employees depend on their managers and on formal channels of communication for most of their information about company affairs, opportunities, and activities that might affect their performance and status in the company. In effect, this is the case because black employees—more than their non-black counterparts—are more likely to be excluded from (or simply not included in) the informal networks where real decisions are made and sense is made of

company policies. Consequently, when black employees respond to perceived integrity gaps by becoming disaffected with their managers, they may be cutting off their own access to success.

Simons and his colleagues warn that their findings should not be used to justify or continue discriminatory practices in hiring black employees (e.g., judging them as “too sensitive” or “special challenges” to corporate culture). Instead, they suggest that heightened sensitivities to behavioral integrity may be positive in that they provide managers with early warnings before such breaches become liabilities to the company.

Another consideration for managers is that although black employees may be more likely to be affected by breaches in behavioral integrity, all employees are ultimately affected. It is therefore up to organizations and their managers to properly use the critical diagnostic resource provided by black employees to close the gaps in behavioral integrity, with an eye toward improving quality and consistency, creating optimal working conditions, and enhancing the goodwill and the bottom line of the company.

Source: Simons, T., Friedman, R., Liu, L. A., & McLean Parks, J. (2007). Racial differences in sensitivity to behavioral integrity: Attitudinal consequences, in-group effects, and “trickle down” among Black and non-Black employees. *Journal of Applied Psychology*, 92(3), 650–665.

Knowing When to Quit: Do Optimism and Overconfidence Cloud Inventor Judgment?

Research Brief by Clive Muir, Associate Professor of Business Administration, Winston-Salem State University

The word “inventor” conjures up the image of a bespectacled, solitary figure, usually an older man, toiling in a laboratory surrounded by his strange contraptions. He is left to his own devices, literally, and the occasional display of weird behavior is expected and tolerated. Indeed, many of

us are familiar with the tale of Archimedes, the Greek mathematician who established the notion of the eccentric inventor when he got so excited about solving a problem that he jumped from his bathtub and ran naked into the streets shouting "Eureka! Eureka!"

Eccentricity aside, more inventors today have embarked on an entrepreneurial path, taking advantage of technology and the easy availability of information. More than ever before, great opportunities exist for the creative thinker. And despite the risks of failure, inventors and entrepreneurs invest resources in hopes of earning substantial sums from the success of their new devices and processes. Ultimately, though, before moving forward the inventor or entrepreneur must assess the feasibility of spending the time, effort, and money on a project.

But what happens when the focused and determined mind of the inventor meets the economic and financial reality of the marketplace? The question of whether an inventor would discontinue a project after hearing that it was infeasible was the subject of a recent study by Thomas Åstebro (University of Toronto), Scott A. Jeffrey (University of Waterloo), and Gordon Adomdza (University of Waterloo). They investigated key cognitive biases that would likely affect inventors in their decision to continue or abandon their projects after being advised that failure was likely. Åstebro and his colleagues found that the majority of inventors remained optimistic about the prospects of success in the face of evidence to the contrary.

Their study assessed three factors that could bias inventors in their decision making about continuing their projects. First, they measured the level of optimism among the inventors, or the likelihood that the inventors felt the outcome of their efforts would be positive. Studies have shown that inventors and entrepreneurs are more optimistic than the general population, so that prospects of failure are unlikely to deter them. Åstebro and his colleagues also predicted that inventors would be overconfident about their ability to complete the project successfully. Second, they looked at overconfidence, which refers to the belief that the individual has in him- or

herself (this is different from optimism, which is based on feelings about external circumstances). Overconfident individuals generally set the threshold of success higher than other individuals while downplaying their lack of knowledge and the constraints of the situation. And overconfidence is one of the strongest biases in decision making. A third factor studied by Åstebro and his colleagues was sunk cost. Studies show that an "irrational escalation to commitment" causes inventors to invest even more capital into their projects after being advised that returns would be marginal. The reasons given for this irrational commitment is that inventors seek to justify their original decision to pursue the project and, similar to the gambler's dilemma, they believe that with just a little more investment they will win. Åstebro and his colleagues predicted that the inventors told to discontinue their efforts would instead choose to increase their financial investment in the project.

To conduct their investigation, Åstebro and his colleagues surveyed 730 Canadian inventors who used the services of the Inventors' Assistance Program (IAP) at the University of Waterloo. Since 1976, the IAP has advised inventors on the feasibility of their projects, most of which were consumer-oriented goods such as household, sports, and leisure items. Inventors using IAP's services provide biographical data as well as information about their inventions, including patent applications, sketches, prototypes, and the results of any tests conducted. The analysts at IAP then use 37 criteria to rate the inventions on a scale from A (recommend for development) to E (strongly recommend discontinuing further development). Historically, 75% of projects presented to IAP have been advised to stop, while just 2% have received the green light (A or B rating). To measure inventors' relative propensity for optimism and overconfidence, Åstebro and his colleagues also surveyed a pool of 300 Canadians from the general population.

Not surprisingly, inventors were more optimistic and overconfident than the general population. They were also more likely than the general population to seek new opportunities, take risks, and believe that they were capable of

performing the tasks needed to complete a project. The inventors with positive evaluations of their projects were more optimistic and risk-taking, but were similarly motivated, overconfident, and willing to seek new opportunities as those with negative evaluations. However, unexpectedly, inventors with positive evaluations did not express greater optimism about their projects. Instead, optimism mattered more to those inventors who were advised to discontinue. In other words, optimism seems to play a greater role when one is faced with uncertain and unfavorable prospects.

In general, inventors continued to spend money on their projects after receiving advice from the IAP. And that included inventors who had been advised to stop—they were likely to continue spending as much money as they had spent before being so advised. Åstebro and his colleagues suggested that overconfident or more experienced investors were likely to ignore IAP's advice in deference to their own judgment. In fact, all three biases influenced inventors receiving negative feedback more heavily, even driving them to distrust IAP's services.

While the results confirmed much of what they predicted, Åstebro and his colleagues noted some limitations of their study. First, the study relied on inventors' self-reports of historical information. Also, the inventors may have responded in socially desirable ways, and the sample itself may have been skewed toward novice inventors since more experienced and successful inventors may simply bypass advisory services such as IAP. In addition, 6.9% of inventors who had been advised to stop eventually succeeded in bringing their products to market.

Nevertheless, the study provides useful perspective to inventors and investors alike. For starters, it bears mentioning that only about 2% of inventions are profitable. Moreover, those who choose to become self-employed or earn their livelihoods from inventing and entrepreneurial ventures can expect a 35% reduction in lifetime earnings. While such statistics are unlikely to discourage the truly creative or the recreational inventor, they should be sobering for those who aspire to commercial success. Indeed, perhaps the best advice

would be to temper unbridled optimism and confidence in favor of assessments by more objective eyes and methods.

Source: Åstebro, T., Jeffrey, S. A., & Adomdza, G. (2007). Inventor perseverance after being told to quit: The role of cognitive biases. *Journal of Behavioral Decision Making*, 20, 253–272.

Pain or Gain: Is There a Bright Side to Juggling Work and Family Roles?

Research Brief by Stuart D. Sidle, Assistant Professor, Department of Psychology, University of New Haven

Much has been written in recent years about the stress faced by families juggling parenting and workplace responsibilities. And after reading about that stress, it's a wonder that moms and dads can even get out of bed in the morning, much less go to work. How do they do it? Perhaps the answer is that many working parents experience benefits from juggling multiple roles—benefits that help balance out the negative consequences.

Although research has demonstrated the stressful nature of conflicting work and family roles, little attention has been paid to the bright side of managing the demands of home and office. Fortunately, new research suggests that participating in family roles makes it easier to thrive in work roles and that participating in work roles makes it easier to thrive in family roles. This research on work-family facilitation is shedding light on how people managing these dual roles maintain their well-being and stay productive. Indeed, Elianne F. van Steenbergen, Naomi Ellemers, and Ab Mooijaart (Leiden University) recently examined how work and family roles can enhance each other through four types of work-family facilitation.

Previous studies have suggested that the stress encountered by employees experiencing incompatible roles at work and home falls into four categories: strain-based conflict, time-based conflict, behavioral conflict, and psychological con-

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