

Overconfidence Bias

Questions for classroom discussions

- 1) Are you a better than average driver?
- 2) Are you more ethical than your fellow students or coworkers?
- 3) Are you satisfied with your moral character?
- 4) Have you known people who were unjustifiably satisfied with their moral character?
- 5) Do you think that strong character is necessary for ethical action? Is it sufficient? Explain.
- 6) What can you do to safeguard against being too confident in your own morality?

Additional Resources

DAVID BROOKS, *THE SOCIAL ANIMAL: THE HIDDEN SOURCES OF LOVE, CHARACTER, AND ACHIEVEMENT* (2011).

Robert Libby & Kristina M. Rennekamp, *Self-Serving Attribution Bias, Overconfidence, and the Issuance of Management Forecasts*, 50 JOURNAL OF ACCOUNTING RESEARCH 197 (2012).

Alina Tugand, *When You Don't Do What You Meant To, And Don't Know Why*, NEW YORK TIMES, Jan. 26, 2013, at 5.

Marianne M. Jennings, *Ethics and Investment Management: True Reform*, FINANCIAL ANALYSTS JOURNAL, May/June 2005, at 45.

George Loewenstein & Jason Dana, *A Social Science Perspective on Gifts to Physicians from Industry*, 290 JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION 252 (2003)

TALI SHAROT, THE OPTIMISM BIAS: A TOUR OF THE IRRATIONALLY POSITIVE BRAIN (2011).

Additional Note

This video introduces students to concepts explored in more detail in several other “Concepts Unwrapped” videos on the Ethics Unwrapped website, as well as to the “In It to Win: The Jack Abramoff Story” documentary, and its accompanying short videos. Anyone who watches all or even a good part of these videos will have a pretty solid introduction to the concept of behavioral ethics.

Behavioral ethics is a new field drawing on behavioral psychology, cognitive science and related fields to determine why people make the ethical decisions, both good and bad, that they do. Much behavioral ethics research addresses the question of why good people do bad things.

Behavioral ethics may be the “next big thing” in ethics education. N.Y.U. recently asked Prof. Jonathan Haidt, whose research is a major part of the new learning in behavioral ethics, to create a behavioral ethics course there. And John Walsh, who helped create the Office of Compliance Inspections and Examinations at the SEC, recently wrote in *Corporate Counsel* that the “ultimate promise of behavioral ethics...is that it provides pragmatic tools that have been demonstrated to work.”

A detailed article on teaching behavioral ethics with extensive teaching resources will be published in Journal of Legal Studies Education (Forthcoming August 2014, Volume 3, Issue 2). To download a PDF of this article by Robert A. Prentice, "[Teaching Behavioral Ethics](http://ethicsunwrapped.utexas.edu/wp-content/uploads/2013/10/Teaching-Behavioral-Ethics-by-Robert-A.-Prentice.pdf),” go to <http://ethicsunwrapped.utexas.edu/wp-content/uploads/2013/10/Teaching-Behavioral-Ethics-by-Robert-A.-Prentice.pdf>

A somewhat dated, but still serviceable introductory article on teaching behavioral ethics is: Robert A. Prentice, *Teaching Ethics, Heuristics, and Biases*, 1 [Journal of Business Ethics Education](#) 57-74 (2004), which is accessible through Google Scholar.

Transcript of Narration

Written by Robert Prentice

Good character can be undermined by overconfidence. David Brooks wrote in his book *The Social Animal* that human minds are “overconfidence machines,” and the psychological literature bears that out. A substantial majority of people believe erroneously that they are better than average drivers, more likely to be able to afford to own a house than their peers, and more accurate eyewitnesses than most other people.

Entrepreneurs like Bernie Ebbers of WorldCom and Richard Scrushy of Health South, who built small, obscure companies into economic powerhouses, may gain a sense of invulnerability through a series of successes. Their minds underplay any role that luck had in their success. Indeed, a 2012 Empirical study indicated that overconfident executives with unrealistic beliefs about their future performance are more likely to commit financial reporting fraud than other executives. Essentially, they are more likely to get themselves into predicaments where committing fraud seems the only way to deliver on their promises.

People’s irrational overconfidence also applies to the ethical correctness of their acts and judgments. In one survey, more people thought that they would go to heaven than that Mother Teresa would! Other individuals surveyed reported that they were twice as likely to follow the Ten Commandments as other people. In fact, 92% of Americans report that they are satisfied with their own character.

This same overconfidence manifests itself in the work place where impossibly high percentages of people believe they are more ethical than their competitors and coworkers. In one study, 61% of doctors believed that the “freebies” given out by pharmaceutical companies affected the judgment of other physicians, but only 16% believed that their own judgment was similarly affected.

Most of us simply assume that we are good people and therefore we will make sound ethical decisions. This overconfidence in one's own moral compass can lead us to make decisions without any serious ethical reflection. When hints of the Enron scandal first began to appear in the press, Enron employees' overweening confidence in the competence and strategies of their company, often named the "most innovative" in America, caused them to express surprise and indignation that anyone would question the ethicality of many of the firm's actions. Any outsider who questioned Enron's tactics or numbers was told that they "just didn't get it." That's ethical overconfidence in action, and it's part of the reason that Enron no longer exists.