

## Overconfidence Bias

This video introduces the behavioral ethics bias known as overconfidence bias. The overconfidence bias is our tendency to be more confident in our ability to act ethically than is objectively justified by our abilities and moral character. Overconfidence bias may affect our ability to make the most ethical decision. Awareness of the overconfidence bias is especially important for people in leadership positions.

To learn about related behavioral ethics concepts, watch *Ethical Leadership, Part 1: Perilous at the Top* and *Being Your Best Self, Part 2: Moral Decision Making*. For a closer look at how overconfidence bias affected the behavior of former lobbyist Jack Abramoff, watch *In It to Win: Jack & Overconfidence Bias*.

The case study on this page, “Approaching the Presidency: Roosevelt & Taft,” explores the role of overconfidence bias in the role of president. For a related case study about the perils of the overconfidence bias for a leader of a major corporation, read “Dennis Kozlowski: Living Large.”

Behavioral ethics draws upon behavioral psychology, cognitive science, evolutionary biology, and related disciplines to determine how and why people make the ethical and unethical decisions that they do. Much behavioral ethics research addresses the question of why good people do bad things. Many behavioral ethics concepts are explored in detail in *Concepts Unwrapped*, as well as in the video case study *In It to Win: The Jack Abramoff Story*. Anyone who watches all (or even a good part) of these videos will have a solid introduction to behavioral ethics.



## Discussion Questions

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

Brooks, David. 2011. *The Social Animal: The Hidden Sources of Love, Character, and Achievement*. New York: Random House.

Dana, Jason, and George Loewenstein. 2003. “A Social Science Perspective on Gifts to Physicians from Industry.” *Journal of the American Medical Association* 290 (2): 252-255.

Jennings, Marianne M. 2005. "Ethics and Investment Management: True Reform." *Financial Analysts Journal* 61 (3): 45-58.

Libby, Robert, and Kristina Rennekamp. 2012. "Self-Serving Attribution Bias, Overconfidence, and the Issuance of Management Forecasts." *Journal of Accounting Research* 50 (1): 197-231.

Sharot, Tali. 2011. *The Optimism Bias: A Tour o the Irrationally Positive Brain*. New York: Pantheon Books.

Tugend, Alina. 2013. "When You Don't Do What You Meant To, and Don't Know Why." *New York Times*, January 25.

For resources on teaching behavioral ethics, an article written by Ethics Unwrapped authors Minette Drumwright, Robert Prentice, and Cara Biasucci introduces key concepts in behavioral ethics and approaches to effective ethics instruction—including sample classroom assignments. The article, published in the *Decision Sciences Journal of Innovative Education*, may be downloaded here: "[Behavioral Ethics and Teaching Ethical Decision Making](#)."

A detailed article by Robert Prentice with extensive resources for teaching behavioral ethics, published in *Journal of Legal Studies Education*, may be downloaded here: "[Teaching Behavioral Ethics](#)."

An article by Robert Prentice discussing how behavioral ethics can improve the ethicality of human decision-making, published in the *Notre Dame Journal of Law, Ethics & Public Policy*, may be downloaded here: "[Behavioral Ethics: Can It Help Lawyers \(And Others\) Be their Best Selves?](#)"

A dated but still serviceable introductory article about teaching behavioral ethics can be accessed through Google Scholar by searching: Prentice, Robert A. 2004. "Teaching Ethics, Heuristics, and Biases." *Journal of Business Ethics Education* 1 (1): 57-74.

## Transcript of Narration

*Written and Narrated by*

**Robert Prentice, J.D.**  
**Business, Government & Society Department**  
**McCombs School of Business**  
**The University of Texas at Austin**

"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."