Managerial Myopia: Self-Serving Biases in Organizational Planning

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Recent work indicates that people hold a variety of self-serving biases, believing themselves more capable than they are in fact. Such biases, if extended to the organizational level, would lead to overly optimistic planning for the future. This prediction was tested with two groups of management students and with a sample of corporate presidents. The management students consistently overestimated their abilities; in a marketing exercise, they likewise indicated that a hypothetical firm, of which they were sales managers, would quickly overtake established competition. The executive sample also predicted inordinate success; the latter group, however, moderated projections somewhat if prior planning experience had been unsatisfactory. The importance of managerial myopia to considerations of marketing, resource management, and demarketing is discussed.

During the past decade, a number of researchers have noted that individuals often view themselves more favorably than seems objectively warranted (Miller & Ross, 1975; Regan, Gosselink, Hubsch, & Ulsh, 1975). Thus, for example, Fischoff and Beyth (1975) found that people recall their powers of prediction as being superior to those they demonstrate. Schopler and Layton (1972) noted that their subjects unreasonably viewed their interventive behavior as successful. Similarly, gamblers investigated by Blascovich, Ginsburg, and Howe (1975) overestimated the probability of successful outcomes in actual gambling situations.

In organizations, such pervasive "self-serving biases" would result in overly optimistic future planning. Evidence for this effect was found unexpectedly by Kidd and Morgan (1969) when they noted that production managers consistently predicted better performance for their operations than was later obtained. Although the managers' predictions may, of course, reflect pressure to "look good," they may also be derived from overly optimistic self-impressions.

The present research was intended to discover whether self-serving biases operate at the level of overall business planning and marketing. Biases toward the overprediction of organizational growth are of particular interest because they may affect not only the manager and his or her organization but suppliers and competitors as well. For instance, unrealistic biases toward exponential growth, if held by each competitor in a market, may lead to ruinous attempts at overexpansion and competition for scarce resources.

Despite the obvious need for realism among managers and potential managers, the growth and competitive ethics commonly reported in Western economies (cf. Heilbroner, 1974; Meadows, Meadows, Randers, & Behrens, 1972) suggested to us that self-serving biases may have an important influence on future planning. Managers who believe that they are superior to the average might reasonably expect to perform in a superior manner in the marketplace. Because superior performance is frequently measured in terms of comparative sales volume, we expected to find a generalized tendency to predict and plan for higher sales than those possible for the average firm to attain. More specific hypotheses are considered in the instructions to the studies reported here.

Studies 1 and 2 used a questionnaire to ask two samples of management students to predict their success as marketing managers of a firm newly entering a competitive market.
Study 3 examined the real growth plans of a sample of corporate presidents; varying degrees of caution were induced as a result of the method of questioning. The final discussion notes the existence of data indicating biases in other types of organizational planning.

Studies 1 and 2

The market size for any new product is necessarily open to some question. Assessments of the abilities of key decision makers in the organization, and of the efforts they are likely to undertake, become critical. In Studies 1 and 2, students were asked to assume the role of a sales manager predicting the sales of a new product. We expected the students to manifest self-serving biases directly through the assertion that their capabilities are higher than those of their classmates (Hypothesis 1). We also expected that they would subscribe to a variety of normative managerial values, such as growth and success (Hypothesis 2).

Self-serving biases held by the students might then be directed toward enacting the managerial values. Specifically, their beliefs were expected to lead the students to predict that the sales of their own firm would grow at a faster rate than total market growth, and would thereby quickly exceed the sales volume of established competitors (Hypothesis 3). Finally, we thought that optimism concerning sales projections would be found to correlate positively with both ability bias and the acceptance of managerial values (Hypothesis 4).

Method

Subjects. Undergraduate management students enrolled in an introductory marketing course (Study 1; \( n = 37 \)) and in a senior year management game (Study 2; \( n = 35 \)) served as subjects. Study 2 was an exact replication of the earlier study; results have been combined unless otherwise noted.

Questionnaire. Subjects participated in groups of 4 or 5, individually completing the “marketing study” problem and questionnaire set. The instrument contained a marketing problem concerning “Product X.” \(^1\) The problem was followed by questions concerning the subject’s perceived ability and expectation of future success, and by questions probing desire for success and normative beliefs concerning growth (see Tables 1 and 2). Other than for the marketing problem described below, all responses were assessed on 7-point scales.

Marketing problem. The marketing problem presented data concerning a hypothetical industry presently split evenly between five competitors. The subject was asked to take the role of sales manager in a sixth firm poised to enter the market and to estimate both his or her own sales of the product and total industry sales for the 4 succeeding years. The description was stated as follows:

Industry X (producing Product X) was founded several years ago. Your firm has already invested in the technology to produce Product X and no additional investment or time is required. The industry currently has five competitors and each accounts for $1.5 million in annual sales. Total sales for this year are therefore $7.5 million; 5 years ago, sales were only $1.5 million for the industry. The sales pattern is predictable and, as sales manager, you must market your firm’s product for the first time and estimate its potential.

Results and Discussion

Hypotheses 1 and 2 predicted that subjects would see themselves as relatively more competent than their classmates and would agree to certain normative managerial values. The results strongly supported both hypotheses (see Table 1). In general, our subjects valued success and felt that they not only had the ability to succeed but would; they accepted sales growth as a valid indicator of success and felt that their own firm should do better than others.

To some extent, this success orientation on the part of our subjects is justified: They have successfully entered college and survived the competition once there. Nonetheless, the extent of their enthusiasm is plainly unrealistic, especially when they are comparing themselves with their classmates. For example, of the 72 students participating in the study, only 10 felt that they were merely of average intelligence relative to their own

\(^1\) Two additional marketing problems were presented in random order, as were additional questionnaire items. Our intent was to be certain that our results were not an artifact of either the particular data or wording used. The results of these items were substantially the same as those discussed in this article.
Table 1
Self-Evaluations and Normative Managerial Values

<table>
<thead>
<tr>
<th>Question</th>
<th>Response direction</th>
<th>M</th>
<th>t</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will your income be higher or lower than the average for your sex in your field in 10 years?</td>
<td>Higher</td>
<td>2.58</td>
<td>10.59*</td>
</tr>
<tr>
<td>Relative to others in your class, what is your IQ?</td>
<td>Higher</td>
<td>2.26</td>
<td>13.08*</td>
</tr>
<tr>
<td>Relative to others in your class, how clever are you?</td>
<td>More</td>
<td>2.65</td>
<td>9.52*</td>
</tr>
<tr>
<td>If you want to succeed, how likely are you to do it?</td>
<td>Very</td>
<td>1.97</td>
<td>18.44*</td>
</tr>
<tr>
<td>How much do you want to succeed?</td>
<td>Very</td>
<td>1.93</td>
<td>18.41*</td>
</tr>
<tr>
<td>How much are you afraid of success?</td>
<td>Not very</td>
<td>5.40</td>
<td>7.03*</td>
</tr>
<tr>
<td>How hard are you willing to try to succeed?</td>
<td>Very</td>
<td>2.28</td>
<td>12.41*</td>
</tr>
<tr>
<td>How much do you fear failure?</td>
<td>Neutral</td>
<td>4.26</td>
<td>ns</td>
</tr>
<tr>
<td>My firm should be at least as good as average.</td>
<td>Believe</td>
<td>1.88</td>
<td>13.88*</td>
</tr>
<tr>
<td>My firm should be better than average.</td>
<td>Believe</td>
<td>2.17</td>
<td>11.59*</td>
</tr>
<tr>
<td>A product or firm should grow.</td>
<td>Believe</td>
<td>1.99</td>
<td>15.44*</td>
</tr>
<tr>
<td>A successful sales manager should make his products grow.</td>
<td>Believe</td>
<td>2.51</td>
<td>8.35*</td>
</tr>
</tbody>
</table>

Note. Right–left positions of scale anchors were random.
* p < .005 by a two-tailed test of the difference between the mean and the expected value (4.00); N = 72.

classmates and only 2 thought themselves below average.

As is indicated in Table 2, our third hypothesis, which predicted that the students would project high growth rates for their organizations, was also supported. On the average, our subjects predicted that they would overtake competition in annual sales within 3 years. Only 18 of the 72 subjects predicted that their own firm’s sales would be below the industry average (less than \( \frac{1}{3} \) of the market) in the 4th year.

Hypothesis 4 suggested that the myopic sales projections are related to the biases and managerial values described above. In fact, we found that the predicted correlations were nonsignificant; thus Hypothesis 4 was not supported. Although an actual relationship between the sales projections and the questionnaire items may have been obscured by ceiling effects with the questionnaire responses, it is also possible that self-concept and planning biases are independent of one another.

Study 3

To the extent that the results of Studies 1 and 2 reflect similar beliefs of actual executives, they suggest a systematic error that

Table 2
Predictions for Product X

<table>
<thead>
<tr>
<th>Category</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own firm ($ million sales)</td>
<td>1.274</td>
<td>1.782</td>
<td>2.366</td>
<td>3.022</td>
</tr>
<tr>
<td>Total market ($ million sales)</td>
<td>8.817</td>
<td>11.029</td>
<td>13.263</td>
<td>15.804</td>
</tr>
<tr>
<td>Own share of market (%)</td>
<td>14.5</td>
<td>16.2</td>
<td>17.8</td>
<td>19.1*</td>
</tr>
<tr>
<td>Competitor share of market (%)</td>
<td>17.1</td>
<td>16.8</td>
<td>16.4</td>
<td>16.2</td>
</tr>
</tbody>
</table>

* p < .001 by a two-tailed binomial test indicating that the number of subjects (54 out of 72) predicting sales greater than those of the average firm was significantly greater than expected by chance.
presses organizations toward myopic over-
expansion. It seemed likely to us that man-
gagers are subject to the same attributional
processes and cultural values as students of
management. Nonetheless, an executive's sur-
vival in business places a premium on real-
istic planning. Consequently, we expected that
when accuracy is required, managers would
be found to correct for excessive optimism.

Study 3 surveyed corporation presidents in
the fall of 1975. As in the earlier studies,
we thought that the presidents would predict
an expanding overall market and a faster
than average growth for their own firms rela-
tive to that market (Hypothesis 5). How-
ever, when cautioned to be realistic, we
expected the businessmen to lower their pro-
jections both for the market and for their
own firms relative to it (Hypothesis 6). Fi-
ally, we anticipated that businessmen would
be more cautious in predicting rising sales for
their firms if they had experienced failure
in their earlier predictions (Hypothesis 7).

Method

Subjects. The presidents of 48 New York state
manufacturing firms were randomly chosen from a
chamber of commerce directory. Subjects were inter-
viewed by telephone at their offices. All subjects
were male; interviewers were females.

Procedure. Interviewers introduced themselves as
management students making a business attitude
survey. After the subjects agreed to participate, all
were asked to predict their own sales in the follow-
ing year relative to those of competition. A 7-point
scale, anchored by "much better" and "much worse"
(than competitors), was used.

Sixteen subjects were then assigned to each of the
three following caution induction conditions: (a) Light caution subjects merely estimated and ex-
plained expected inventory changes in the coming
year. (b) Moderate caution subjects rated how
closely their businesses had recently performed to
expectations and their faith in their own predictions.
(c) Heavy caution subjects were told that over-
optimism leads to business cycles and recession (the
economy was then recovering from recession); they
were asked to estimate the rate of growth of com-
petition. Thereafter, all respondents evaluated the
growth or decline rate of the average firm in their
industry and reevaluated their own firm's relative
growth rate.

Results and Discussion

As predicted by Hypothesis 5, our execu-
tive subjects overpredicted their firm's per-
formance relative to competition: For the
first question, expected value = 4.00, $M =
3.04$; for the difference, $t(47) = 5.294$, $p < .001$. In numbers, 27 of the 48 executives
predicted that their firm would do better than
the average, whereas only 4 estimated that they
would do worse ($p < .001$ by a binomial
test). Despite the intervening caution ma-
nipulation, we also found that the executives
predicted an increase in the total size of their
respective industries, $M = 5.73\%$, $t(47) =
2.896$, $p < .005$. Although this latter result
was hypothesized, it might also be legiti-
mately predicted as a result of prospective
economic recovery; the recovery does not ex-
plain the relative optimism the executives
expressed for their own firms, however.

Assertions concerning overall market growth
were also subjected to a one-way analysis of
variance. As predicted by Hypothesis 6, a slower market growth rate figure was given
following the heavier caution manipulations,
$F(2, 45) = 6.414$, $p < .01$; $Ms = -3.19\%$
9.94\%, and 11.44\% in the heavy, moderate
and light caution conditions, respectively. A
similar analysis of results from the final
question concerning growth rates relative to
competitive concerns did not reach signifi-
cance, however. Hypothesis 6, therefore, re-
cieved mixed support. Apparently, the execu-
tives were willing to readjust their views of
the total market as a result of our caution
manipulation, but they continued to feel con-
fident that their own market share would
grow within it.

The most poignant caution induction
should be the acknowledged failure of prior
predictions; competitive survival requires ad-
justment to reality. In fact, executives who
admitted that their businesses had previously
failed to perform as anticipated were less
likely than others to predict that their orga-
nizations would outpace the average (mea-
sured only in the moderate caution condition),
$r(14) = .494$, $p < .05$ (one-tailed test). Like-
wise, those who felt that they were unable to
accurately predict sales trends were also more
cautious in their predictions for their orga-
nization, $r(14) = .602$, $p < .025$, one-tailed.
Although the significance levels of these two
effects are modest, they both support Hy-
hypothesis 7, suggesting that unfortunate experience can deflate myopic judgments. The correlational relationship between predictive failure and lowered expectations must, of course, be treated with some degree of caution because it may arise from a variety of factors extrinsic to those under consideration here. Nonetheless, it suggests the tentative conclusion that managers entertain a myopic impression of their firm’s likelihood of success relative to competition, and that the impression is difficult to dislodge except in conditions forcing the admission of failure.

General Discussion

Firms grow at different rates. Nonetheless, the studies reported here have found a general belief among managers and students of management that their own firms would possess unusually high growth rates. Other studies have, of course, found decision biases concerning additional types of planning (cf. Kidd & Morgan, 1969; Langer, 1975). Taken together, these studies indicate that self-serving biases are a wide-ranging phenomenon that can affect managerial decision making through the process of overly optimistic planning. We should emphasize, however, that more work is needed to determine the extent to which managers translate their myopic expectations of success into hard business decisions.

Finally, our data imply that the problems of “demarketing,” the scaling of marketing efforts to take advantage of sudden resource scarcities or declining market size, may be more difficult to handle than is commonly thought. Demarketing is most often treated as a matter of logistics and economics in which the manager properly plans to maximize profits despite shrinking sales (Kotler, 1974). The psychological aspect may be equally important, however: To successfully plan for shrinking markets, the manager must be brought to at least anticipate the possibility of declining sales. Study 3 indicated that aspirations are somewhat sensitive to experience but may not be sensitive to less salient caution inductions. On this basis, it seems doubtful that most managers are willing to make demarketing plans realistically until they are forced to do so by declining sales.

Preliminary work in a related study series has also indicated that management students tend to competitively withdraw from a shared and shrinking resource pool rather than to risk unilateral investments that might be depleted by competitors (p < .001). This may be a behavioral manifestation of self-serving bias in resource management. Additional information on this study may be obtained from the first author.

References


Received September 3, 1976