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## **Excess entry: the roles of judgmental fallibility and overconfidence**

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## ABSTRACT:

It is well established that many entrepreneurial ventures fail a short time after their creation. This is referred to as the phenomenon of excess entry for which economic explanations posit "hit and run" entrants and risk-seeking behavior. Psychological explanations center on bias in human judgment, namely that entrepreneurs are overconfident in their abilities. However, it is difficult to verify this hypothesis in empirical studies and the extant experimental evidence is open to different interpretations. This paper argues that excess entry can be explained by judgmental fallibility in that entrepreneurs' estimates of their true ability are imperfect. However, they are not necessarily biased (e.g., overconfident). The phenomenon is further highlighted by the fact that although one can observe entrepreneurs who enter markets and fail, nothing can be observed when entrepreneurs decide not to enter markets (i.e., possible missed opportunities). We illustrate these points by exploiting a simple mathematical model. This shows that overconfidence may well have nothing to do with excess entry. At the same time, it emphasizes that entrepreneurs - and society in general - would be much better off if entrepreneurs learned to predict their abilities better as this would reduce both excess entries and missed opportunities.