

CEO Overconfidence and Innovation

Alberto Galasso, Timothy S. Simcoe

Published Online: 24 Jun 2011 | <https://doi.org/10.1287/mnsc.1110.1374>

Abstract

Are the attitudes and beliefs of chief executive officers (CEOs) linked to their firms' innovative performance? This paper uses a measure of overconfidence, based on CEO stock-option exercise, to study the relationship between a CEO's "revealed beliefs" about future performance and standard measures of corporate innovation. We begin by developing a career concern model where CEOs innovate to provide evidence of their ability. The model predicts that overconfident CEOs, who underestimate the probability of failure, are more likely to pursue innovation, and that this effect is larger in more competitive industries. We test these predictions on a panel of large publicly traded firms for the years from 1980 to 1994. We find a robust positive association between overconfidence and citation-weighted patent counts in both cross-sectional and fixed-effect models. This effect is larger in more competitive industries. Our results suggest that overconfident CEOs are more likely to take their firms in a new technological direction.

This paper was accepted by Kamalini Ramdas, entrepreneurship and innovation.

< Previous

Back to Top

Next >



Volume 57, Issue 8

August 2011

Pages iv-1509

Article Information

Metrics

Downloaded 454 times in the past 12 months

Cited 731 times

Information

Received: May 25, 2010

Accepted: April 08, 2011

Published Online: June 24, 2011

Copyright © 2011, INFORMS

Cite as

Alberto Galasso, Timothy S. Simcoe, (2011) CEO Overconfidence and Innovation. Management Science 57(8):1469-1484.

<https://doi.org/10.1287/mnsc.1110.1374>

Keywords

innovation

R&D

CEO overconfidence

managerial biases

PDF download



Sign Up for INFORMS Publications Updates and News

SIGN UP

Partners

Atypon

crossref

PORTICO



Institute for Operations Research and the Management Sciences

5521 Research Park Drive, Suite 200
Catonsville, MD 21228 USA

phone 1 443-757-3500

phone 2 800-4INFORMS (800-446-3676)

fax 443-757-3515

email informs@informs.org

Get the Latest Updates

[Discover INFORMS](#)

[Explore OR & Analytics](#)

[Get Involved](#)

[Impact](#)

[Join Us](#)

[Recognizing Excellence](#)

[Professional Development](#)

[Resource Center](#)

[Meetings & Conferences](#)

[Publications](#)

[About INFORMS](#)

[Communities](#)

[PubsOnLine](#)

[2024 INFORMS/ALIO/ASOCIO International Conference](#)

[Certified Analytics Professional](#)

[Career Center](#)

[INFORMS Connect](#)

Copyright 2026 INFORMS. All Rights Reserved

[INFORMS Code of Conduct](#) | [Terms of Use](#) | [Privacy](#) | [Contact INFORMS](#) | [Sitemap](#)

Follow INFORMS on:  [x](#)  [Facebook](#)  [in](#) [Linked In](#)  [Bluesky](#)