NEED FOR COGNITION: AN INVESTIGATION OF THE USE OF BIASES IN ENTREPRENEURIAL DECISION MAKING (INTERACTIVE PAPER)

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INTERACTIVE PAPER

NEED FOR COGNITION: AN INVESTIGATION OF THE USE OF BIASES IN ENTREPRENEURIAL DECISION MAKING

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Principal Topic

Recently, research has focused attention on the cognitive processes of entrepreneurs. We examine the relationship between an individual’s “need for cognition”—the need to understand and make sense of the experiential world—and the use of biases and heuristics in entrepreneurial decision-making. A significant number of studies examining cognitive mechanisms show that entrepreneurs may indeed think differently than others. The use of cognitive biases and heuristics may benefit entrepreneurs in making decisions to act more quickly and efficiently. Social psychology literature suggests that individuals who are high in the need for cognition may be less susceptible to a variety of decision-making biases. Hence, we seek to answer the following questions: (1) Is the need for cognition inversely related to the use of biases in entrepreneurial decision making? (2) Due to the high level of ambiguity in entrepreneurial situations, are individuals with a high need for cognition more or less likely to act entrepreneurially?

Method

A sample of 177 business school students was asked to participate in a survey administered using surveymonkey.com. Using scales widely cited in the literature, we measured the need for cognition, overconfidence bias, representativeness bias, framing bias, and entrepreneurial intentions. Regression and chi square analyses were used to analyze the hypothesized relationships.

Results and Implications

Individuals that have a high need for cognition were not affected by the framing bias. Contrary to our expectations, individuals who are high in the need for cognition are more likely to manifest overconfidence in their decision-making. In addition, those who have high need for cognition are more likely to have entrepreneurial intentions. This suggests that entrepreneurs may have a higher need for cognition. High NC individuals also seem to have a greater openness to experience (Tuten, 2001), which suggests that they may be more willing to start a new venture. Our obvious next step is to expand the sample beyond students and include both entrepreneurs and non-entrepreneurs.

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