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## WHAT IS GOOD ABOUT BEING BIASED? (SUMMARY)

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## SUMMARY

### WHAT IS GOOD ABOUT BEING BIASED?

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#### Principal Topic

Entrepreneurs tend to operate under conditions of high time pressures, complexity and uncertainty – the type of conditions where fast and straight-forward heuristic thinking is particularly useful (Forbes, 2005; Kahneman and Tversky, 1974; Keh et al., 2002, Tversky and Kahneman, 1974; Simon et al., 2000). Heuristics drive human intuition, while biases are the inevitable errors of heuristic thinking (Kahneman, 2003).

The majority of existing research up till now has focused on the different problems arising due to biased decision making (e.g. Camerer and Lovallo, 1999; Keh et al., 2002; Simon et al., 2000; Zacharakis and Shepherd, 2001). A different perspective postulates that both heuristics and biases could be advantageous for entrepreneurs. If different individuals and organizations are cognitively biased in different ways, they are likely to make decisions in fundamentally different ways. Such differences in the field of strategic management have been shown to be the sources of either competitive advantage or disadvantage of the firms (Busenitz and Barney, 1997).

#### Method

This study draws on the data from 289 relatively experienced entrepreneurs (24.6% response rate). The average entrepreneurial experience is 14.5 years, about 90% are serial entrepreneurs and about 70% are involved in two or three ventures at the same time.

We follow the profile-deviation approach (Drazin and Van de Ven, 1985; Venkatraman, 1990) by calculating the ideal profiles of biases levels for the best performing entrepreneurs. We use these ideal profiles to calculate the Euclidean distance metric for each entrepreneur. If coalignment with a certain level of biases has significant performance implications, the distance metric should be negative and significant with the measure of entrepreneurs' wealth.

#### Results and Implications

In this study we focus on seven cognitive biases: base-rate fallacy, hindsight bias, illusion of control, illusory correlations, overconfidence, regression fallacy, and sample size fallacy. Our results shed light on the bright side of being biased, as they relate these biases to entrepreneurs' wealth and experience. The dominant explanation in the cognition literature is that the cognitive biases are evoked by various situational characteristics. Thus, the second implication of this study is uncovering the stable part of cognitive biases.

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