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DECISION BIASES IN ENTREPRENEURIAL TEAMS (SUMMARY)

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SUMMARY

DECISION BIASES IN ENTREPRENEURIAL TEAMS

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Principal Topic

Research on entrepreneurial decision making has already demonstrated that decisions can be affected by entrepreneurs’ cognitive biases (e.g., Baron, 2004). But although many ventures are started by entrepreneurial teams (Chowdhury, 2005), biases at the team level have been neglected in entrepreneurship research. Due to heterogeneous backgrounds (e.g., Ucbasaran, et al., 2003) entrepreneurial team members are likely to have information unknown to other members. For high quality decisions it is crucial that members make unshared information accessible for the whole team. However, team discussions are often biased in a way that teams speak more about common information than about information uniquely possessed by single members (e.g., Stasser & Titus, 1985).

This study investigates how biases at the level of entrepreneurial teams impact decision processes, in particular during opportunity evaluation decisions. We take into account the specific nature of the entrepreneurial context, the substantial uncertainty that surrounds entrepreneurial decision making (McMullen & Shepherd, 2006). As high levels of environmental uncertainty entail heuristics and biased decision-making (Busenitz & Barney, 1997), we postulate that high levels of uncertainty facilitate the development of these team-level biases during the decision process and will consequently result in lower decision quality.

Method

We use a hidden profile experiment to investigate biases during teams’ evaluation of several business opportunities. Information is distributed in a way that a best opportunity is only obvious when all information is considered, but individual information sets indicate suboptimal solutions. With their different information sets team members have to identify the best opportunity by group discussion. Before discussion we experimentally manipulate members’ perceptions of uncertainty surrounding the evaluation task.

Results and Implications

Our study shows that entrepreneurial teams can be affected by biases resulting in suboptimal decision making. Furthermore, we incorporate an environmental condition that is typical of the entrepreneurial context – uncertainty – and illustrate its effect on decision processes in entrepreneurial teams. Our finding that high levels of uncertainty exacerbate biases in team-decision making (and as a consequence diminish decision quality) suggests that teams acting under high uncertainty conditions (e.g., in dynamic and/or new markets) should be aware of these threats to effective decision making.

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