COGNITIVE BIASES AND THE ENTREPRENEURIAL START-UP PROCESS (INTERACTIVE PAPER)

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INTERACTIVE PAPER

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Principal Topic

Cognitive biases are frequently associated with entrepreneurs (e.g., Baron, 1998; Busenitz & Barney, 1997; Palich & Bagby, 1995). Yet, current research is not clear on the particular characteristics of cognitive biases and how (and when) these biases impact the opportunity search, discovery, and exploitation process. In this paper, we distinguish different groups of biases by developing a theoretical framework based on well-established behavioral decision-making literature (Kahneman & Tversky, 2000; Yzerbyt, Lories, & Dardenne, 1998). Using this framework, we integrate extant literature related to the entrepreneurial start-up process as it relates to this framework.

From our reading of the literature, a theoretical framework can be built to examine how these cognitive biases and the possible theoretical implications on entrepreneurs can be examined along four dimensions. Specifically, these four dimensions include: (1) Reference to mechanism or effect; (2) Bias on the level of the decision making knowledge vs. meta-cognitive biases; (3) Stability of biases; and (4) Effects of biases on entrepreneurial persistence versus flexibility.

Key Methods/Propositions

After carefully cataloging existing entrepreneurship literature which references cognitive biases, we have developed a theoretical framework that outlines our general propositions. Additionally, we have developed a discussion which describes the degree to which the behavior decision-making literature provides insight into the dimensionality of the biases, and their application to entrepreneurial decision-making.

Results and Implications

We feel that the development of our theoretical framework on cognitive biases and how they affect the entrepreneur as they progress through the new venture start-up process can serve several purposes. Existing literature has not consistently identified how cognitive biases relate to the entrepreneurial start-up process. Additionally, entrepreneurship research can benefit from such a framework, through the clarification of how and when cognitive biases affect entrepreneurial decision-making.

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