

Abstract

What are the most common decision-making biases in entrepreneurial marketing behavior? So far no study has been done on Biases in entrepreneurial marketing behavior, this article presents an investigation in this field. In this study decision-making biases are investigated according to their main factors and through storytelling qualitative research method. I am in the process of gathering and deeply analyzing the online interviews with marketers. Our main goal is to find out which biases are the marketers mostly involved with.

Marketers, Entrepreneurs, Decision Making Biases, Story telling

Introduction

Decision-making is one of the most important processes that not only the marketers and entrepreneurs but also all the individuals deal with every single moment in every day. Entrepreneurial decisions are of great value as well as importance in the field of entrepreneurship by playing an exceptional role in all major entrepreneurial activities like entrepreneurial marketing. Given the unique characteristics of entrepreneurial activities, entrepreneurs are prone to decision making biases in their decisions. Because these biases directly affect enterprises, they are of crucial importance in the field of entrepreneurship and Marketing. On the other hand, because these biases emanate from a lot of important factors and differ from one person to another (given their subjective nature), their identification needs an elaborate study. All in all, in this study we are going to find the most common decision making biases among the entrepreneur marketers based on their own characteristics and other various factors.

With the increasing importance of behavioral and psychological studies in Marketing, decision making biases play an important role in the fate of both entrepreneurs and firms. This issue results in identifying the effective biases gaining a great importance, and subsequently inattention to this issue would either undermine the marketers' decisions or at least deprive them of benefiting from the positive effects of those biases (for example making decisions in environmental lack of information and ambiguity).

One of the most prominent models of entrepreneurs decision-making are the Bounded Rationality Model, which indicates that when individuals make decisions, their rationality is limited by the information they have, the cognitive limitations of their minds, and the time available to make the decision. We can also attribute these kind of limitations to entrepreneurs' decisions, which must be made in today's business complexities, increased competition and overloaded information.

Researchers believe that biases are influential in many entrepreneurs' decisions like intention to be an entrepreneur, running a business, entering the new markets and etc. One of the most vulnerable entrepreneurial decisions, which are so vital in the early stages of business life cycle, are those about marketing. In this study the problem dimensions can be viewed as psychological, social, managerial and entrepreneurial perspectives. The literature review reveals that most of the conducted studies about this issue were dominantly focused on the basic elements of biases and their nature, the influences of biases on entrepreneurs'

unprepared entrance to new markets, entrepreneurs' risk-taking, the differences between entrepreneurs' and managers' decision biases and finally the most important entrepreneurs' decision making biases like "Over Confidence". As so far no studies have been conducted on the decision biases in entrepreneurial marketing behavior, we want to fill this gap by investigating and finding the answer to the question that "what are the most common decision making biases in entrepreneurial marketing behavior?"

The main mission of businesses using storytelling as a marketing tool should be to help customers connect the stories they tell to the benefits of their product, however, in this study we are going to use this method from the marketers' perspective. Stories are what people remember. Even when they forget names and faces, they rarely forget the story and how it made them feel. In this study we are about to listen and read the 7 marketers stories, their passion of marketing, their worries and their concerns of being prosperous in their vital entrepreneurial decisions.

Behavioral Marketing Biases

A cognitive bias is the human tendency to draw incorrect conclusions in certain circumstances based on cognitive factors rather than evidence. There are certain shortcuts in our brain that can determine our behavior, without us knowing about it. We can't explain the biases as good or bad thing by themselves, they may followed by some positive or negative consequences. I agree that we should be aware of how cognitive bias can influence our decisions, however I would point out that there are many situations where cognitive shortcuts are very helpful. As long as there is no precise and standard measurement for identifying the biases, this process must be scrutinized.

There is a long list of almost a hundred cognitive biases that can be seen at Wikipedia, but only a few of them are considered as Marketing Biases, which influence us in ways that we do not notice. Good advertising and marketing take advantage of these things. According to previous researches there are 8 different biases, which are recognized as the most important biases among the entrepreneurs and are also common in Marketing. These biases are as follows: Over Confidence, Escalation of Commitment, Loss Aversion, Planning Fallacy, Illusion of Control, Status Quo, Optimism and the Belief in the Law of Small Numbers bias. Each of these biases are influenced by various factors, which are defined in the following section. In this study we want to know which of these mentioned biases are more common in entrepreneurial marketing behavior.

Overconfidence

Overconfidence has been identified as one of the most common decision making biases in individuals, generally and in entrepreneurs, specifically. Overconfidence is the miscalibration of accuracy in one's judgment (Oskamp, 1965). In the field of management, Bazerman (1994) defined overconfidence as "the tendency of individuals to overestimate their correctness of their initial estimations in answering average to difficult questions". Overconfidence is by far the most researched decision making bias in the field of entrepreneurship. This bias is the main cause of entrepreneurial unprepared entry and

subsequent failure (Cooper et al, 1988; Koellinger et al, 2007). A combination of organizational as well as individual factors influences the genesis of overconfidence (Forbes, 2005). By reviewing the literature on entrepreneurial overconfidence, one may conclude that its effects have been more interesting for scholars than its causes.

Escalation of commitment

Escalation of commitment may have been one of the main causes of American army being more and more entangled in Vietnam War. From then on, this bias has been given more and more attention from scholars of various fields of studies. Staw (1981) did some great research on this bias. Reluctance to lose face among others (social factors) and not wanting to concede defeat to themselves (psychological factors) are the main contributors to this bias (Staw and Ross, 1987). In line with these findings, Baron(1998) concluded that not wanting to take the process of decision making all over again is another factor leading to escalation of commitment in entrepreneurs. On the other hand, entrepreneurs, especially in small businesses and in the beginning phases of their activities, do not have any major guide to make decisions and need to rely on themselves (Forbes, 2005) and because of their specific characteristics like risk taking propensity and optimism, do not want to change their decisions and strategies easily, thus being more prone to escalation of commitment.

Loss Aversion

In economics and decision theory, loss aversion refers to people's tendency to strongly prefer avoiding losses to acquiring gains. Most studies suggest that losses are twice as powerful, psychologically, as gains. Loss aversion was first demonstrated by Amos Tversky and Daniel Kahneman. This leads to risk aversion when people evaluate an outcome comprising similar gains and losses; since people prefer avoiding losses to making gains. Loss aversion implies that one who loses \$100 will lose more satisfaction than another person will gain satisfaction from a \$100 windfall. In marketing, the use of trial periods and rebates tries to take advantage of the buyer's tendency to value the good more after the buyer incorporates it in the status quo.

Planning Fallacy

Planning fallacy was introduced by Kahneman and Tversky (1979) and deals with the necessary time to complete various tasks. Individuals prone to planning fallacy either overestimate the amount of work they could accomplish in a given time or underestimate the needed time to fulfill a given task (Kahneman and Lovallo, 1993). Entrepreneurs are optimistic and do not consider relevant past experiences and deal with similar situations as unique. They also contribute failures to factors beyond their control and ascribe successes to their own characteristics; these two factors are the main drivers of planning fallacy among entrepreneurs (Baron, 1998).

Illusion of Control

Langer (1975) has named the tendency of individuals to overestimate their ability to have control over outcomes and events as illusion of control. In the field of entrepreneurship, illusion of control causes entrepreneurs to underestimate the embedded risk in the process of new venture creation. Apart from that, no major study has dealt with illusion of control in the field of entrepreneurship, despite its exceptional important outcomes.

Status Quo

Status quo is individuals' preference for the current situation and state of affairs. People susceptible to this bias deem any change of the current affairs as loss. Status quo bias has been identified in various experiential studies (Samuelson and Zeckhauser, 1988). According to Shepherd et al (2003), experience in repeated decision making processes may be a contributor for this bias. Burmeister and Schade (2007) concluded that entrepreneurs are less prone to status quo than bankers. In general, status quo is a major decision making bias in the field of entrepreneurship as well as strategic management.

Optimism

The optimism bias (also known as unrealistic or comparative optimism) is a cognitive bias that causes a person to believe that they are less at risk of experiencing a negative event compared to others. There are four factors that cause a person to be optimistically biased: their desired end state, their cognitive mechanisms, the information they have about themselves versus others, and overall mood. The optimistic bias is seen in a number of situations. For example: people believing that they are less at risk of being a crime victim, smokers believing that they are less likely to contract lung cancer or disease than other smokers, first-time bungee jumpers believing that they are less at risk of an injury than other jumpers, or traders who think they are less exposed to losses in the markets. The marketers are also susceptible to this kind of bias in their marketing decisions.

Belief in the Law of Small Numbers

Tversky & Kahneman's (1971) 'Law of Small Numbers' is an aspect of the representativeness heuristic. Their law describes the tendency for people to believe that rules that apply to large samples will apply also to small samples. For example, in the case of flipping a coin you know that after a large number of flips, you should end up with 50% heads and 50% tails. However, these proportions do not necessarily apply to small samples. In a sample of 10 flips, you could just as easily end up with 70% heads and 30% tails.

Findings

Entrepreneurs' decisions are influenced by various personal, environmental and organizational factors. Previous Experience, Self-Efficacy, Internal locus of control, Personal Optimism, Risk-taking Propensity and Positive Emotions Sub Categories were merged as Personal Factors which influence the decision making biases of the entrepreneurs.

o Previous Experience

The following cues were extracted from interviews indicating Previous Experience as one of main factors influencing decision making biases in entrepreneur marketers.

- Successful Experience
- Unsuccessful Experience

For example one of the interviewees said: “I have made a lot of decisions in my career and have gained adequate experience in this regard. Most of my decisions have been more or less correct; therefore I am inclined to rely on experience while making a decision. ”. These kind of experiences make the entrepreneurs tend to be more conservative and lead them to be more susceptible to the Status Quo bias.

o **Self-Efficacy**

These concepts were extracted from interviews indicating Self-Efficacy as another factor influencing entrepreneur marketers’ decision making biases:

- Belief In One's Ability
- Knowledge About One’s Abilities
- Rating himself above the average

For example one of the interviewees mentioned: “I have encountered lots of entanglements in designing and launching a new product and to overcome them I had to rely on my judgment. I can say that I have always had belief in my abilities to make sound decisions". This factor is the main reason for being trapped by the Over Confidence bias.

o **Internal Locus of Control**

Ascribing successes to one’s characteristics and contribute failures to factors beyond one’s control were the cues extracted from interview and indicating internal locus of control as one of factors influencing the decision making biases in entrepreneurs. For example, one entrepreneur said: “... Of course I have had some failures and setbacks in my previous marketing activities. But now in retrospect I reckon that other factors beyond my control like the environmental turbulances had the main roles in my failures. That is why he was about to get involved in the Illusion of Control bias.

o **Personal Optimism**

The following cues were extracted from interviews indicating Personal Optimism as a factor influencing the decision making biases in entrepreneurs:

- Highlighting The Positive signs
- Neglecting the negative signs
- Having hope In Future

An interviewee said: “you must have an optimistic personality, because you will definitely encounter a lot of downfalls and problems. I am an optimist by nature and have remained optimistic in my whole career as an entrepreneur. Once I was thinking whether I am doing right to enter the new Middle East markets or not, I had to be optimistic about my decision to make it practical”. It is Obvious that this kind of characteristic sometimes may go beyond the standards and turn into being over optimist.

o **Risk-Taking Propensity**

Assuming Vague and ambiguous situations as positive and risk propensity were the concepts emerged from interviews and showing that Risk-taking Propensity is the other factor influencing the decision making biases of our entrepreneurs. For example one of our entrepreneurs said: “Our firm identified some lucrative opportunities. These were situations that could have made us a major contributor in the market. In order to make decision to exploit the identified opportunities we had to take some serious risks, given the market turbulence as well as the intensity of competition”.

o **Positive Emotions**

The following concepts were merged as Positive Emotions which identified one of main factors influencing the decision making biases of entrepreneurs:

- Passion
- Joviality
- Happiness
- Enthusiasm
- Affection

For example one of our entrepreneurs mentioned:” I am inclined to make important decisions when I am happy or when I have received some good news. This makes me more bold and adamant to pursue my goals. When I feel sad or worried, it’s the other way around, meaning that I avoid to make any crucial decisions “.

Environmental factor

Environmental Pressure and Lack of Resources were merged as Environmental Factors influencing the decision making biases in entrepreneurs.

o **Environmental Pressure**

The following cues were extracted from interviews indicating Environmental Pressure as one of factors influencing the decision making biases of our entrepreneurs.

- Ambiguity
- Uncertainty

Complexity

Novelty

For example one of the interviewees said:” Our firm deals with a lot of uncertainty, ambiguity and sudden change. In this situations I usually make decisions personally based on my experience and judgment and after making the decisions do not bother me with extra information and data. Because I deem them a source of hesitance. This attitude helps me consider my business environment under my control”. This kind of environmental factor can be considered as a stimulus for being as an Illusion of Control biased.

o **Lack Of Resources**

These concepts were extracted from interviews indicating Lack of Resources as another factor influencing entrepreneurs’ decision making biases:

Lack of Capital

Lack of Data

For example one of the interviewees said:” Especially in the beginning phases of my enterprise, my company had neither adequate experience nor sufficient staff to deal with all data and information, thus, I had to make most decisions based on my judgment, intuition and experience.

Organizational Factor

Limitations in information processing and Lack of decision-making procedures were merged as Organizational factor influencing the decision making biases in entrepreneurs.

o **Limitations In Information Processing**

Time Pressure and Information Overload were the cues extracted from interview indicating Limitation in information process as one of factors influencing the decision making biases in entrepreneurs. For example, one entrepreneur said: “I remember in the process of new product development we had to deal with myriad pieces of information, the bulk of information was so massive that we felt ourselves helpless. Under that situation we made some fatal mistakes in estimating the needed time to finish some projects. The consequence was harmful for our business growth”. This factor is the main reason of being trapped in the Planning Fallacy bias.

o **Lack of Decision-Making Procedures**

The following concepts were merged as Lack of decision-making procedure which was identified as one of main factors influencing the decision making biases in entrepreneurs:

Not having any guide to make decisions

Not having access to the records of problem

Not having access to previous operations

For example, one interviewee said: “We didn’t follow any specific decision making styles. Is it really possible anyway? I have not thought of that. I make all decisions personally. Because in this field of business every decision is different from others”. It may finally cause the bias of Over Confidence in entrepreneur marketers' decisions.

Conclusion

In the current research, at first, we studied the literature on entrepreneurial marketing decisions and decision making biases. Some biases occur more than others and some are more common and more important, like overconfidence bias. Each bias happens because of so many factors, some of which we did not know in the past and some we do. For example the overconfidence bias is caused (or reinforced) by age, information overload, optimism, and a lot of other factors, or the status quo bias is caused or reinforced by experience (Shepherd et al.,2003), firm's age and structure, manager's education and expertise (Geletkanycz, 2001). These factors in general could be summarized into three separate categories: individual factors, organizational factors, and environmental factors. We tried to find out the main entrepreneurial marketing decision making biases according to their more frequency in the interviews and through a storytelling study. According to our findings, overconfidence, illusion of control, escalation of commitment and planning fallacy were the most common biases among the entrepreneur marketers and experience could enhance the entrepreneur’s overconfidence. Experienced entrepreneurs tend not to search for extra information, not to take into account the available information and not to regret their decisions.