

Decide or Die: Adapting Decision-Making Strategies to Changing Challenges Throughout Creating a New Business

Sonia Codreanu, University College London, United Kingdom

When starting a new venture, entrepreneurs have to make a variety of different decisions: from choosing a co-founder, to deciding which product idea to turn into a prototype, how to market it, to whom, and the list continues. When it comes to making these decisions, most MBA courses and entrepreneurship programmes teach entrepreneurs they should use business planning, financial projections, and market research to support their decisions. At the same time, research has found that successful and experienced entrepreneurs do not make decisions this way¹. Instead, they focus on coming up with new ideas based on who they are, what and whom they know, and seek to control the future through their actions rather than try to predict it^{2,3}. So, what is the right approach to making decisions as an entrepreneur?

In our study, we interviewed 41 entrepreneurs in the United Kingdom whose businesses were between 2 and 5 years old. We asked them about some of the most critical decisions they made as they created and grew their businesses. In total, we collected almost 300 decisions across many different functional areas of the business – including hiring, product ideas, marketing, selling, and internationalization. We also collected data from social media and archival sources to complement the interviews.

We found that entrepreneurs did not use a uniform approach to decision-making – in other words, entrepreneurs adapted the strategies they used depending on the kinds of decisions they encountered. For instance, whereas 75% of entrepreneurs used financial projections and other predictive strategies to make pricing decisions, 63% of entrepreneurs used approaches that leveraged partnerships, flexibility, and using given means when making decisions about how to manage their employees and other stakeholders.

So rather than entrepreneurs having a preferred approach for making decisions, we found that entrepreneurs adapted their decision-making approach depending on the decisions they encountered. Why is that? Research in cognitive science suggests that decision-makers choose strategies and approaches that fit with the particular challenges of a given decision-making task⁴. For instance, if a decision-maker has to make a decision where they don't have much available data

on the success rates of different alternatives, they may simply decide to make a decision based on the option they are most familiar with⁵.

In our study, we found two main challenges to be particularly relevant in entrepreneurs' decision-making. We explain these two challenges in the paragraphs below.

The number of alternatives to choose between

When deciding, entrepreneurs have to choose between a number of different alternatives or options. For instance, when choosing how to fund the growth of their ventures, entrepreneurs may decide between bootstrapping their business, seeking an investor, or attempting to crowdfund. In our study, we found that entrepreneurs first sought to reduce complexity by focusing on a more limited number of options, for instance by choosing crowdfunding if they or their cofounders had previously successfully crowdfunded.

The costs of implementing alternatives

The second challenge that entrepreneurs encounter in their decision-making are the costs related to actually implementing a particular option. For instance, crowdfunding may be somewhat costly in terms of both financial and time resources needed to put together a crowdfunding campaign, such as recording a pitch, setting up the crowdfunding page, monitoring progress, and incentivizing potential investors. In our study, we found that entrepreneurs used planning and careful analyses of the potential returns on investment to decide how much to invest, and which alternative to go for. This prevented them from overinvesting without reaping the benefits.

But what happens when entrepreneurs simultaneously encounter both challenges, namely high number of alternatives and high costs of implementing them? For these decisions, entrepreneurs combined the planning and simplifying strategies described above. Whereas focusing on their past experience and what they already know enabled entrepreneurs to simplify their decision-making, careful business planning and market research helped entrepreneurs keep implementation costs low.

Takeaways for entrepreneurs

So, what should you do next time you have to make a decision in relation to your

new venture?

Well, firstly, start by considering the decision you have to make, how many alternatives you have to choose from, and what are the costs (not only financial, but also in terms of time, people, other resources) of trying to implement these options. This can help you structure your thinking about thinking – something referred to as meta-cognition in research⁶ – and help you choose the right approach for the kind of decision you are encountering.

Secondly, start trying out different strategies and approaches to making decisions. If you usually rely on prediction and planning, how about trying to create new effects using existing means, and exploring partnerships with self-selected stakeholders? Otherwise, if you typically rely on means-based strategies, how about trying predictive strategies such as market analysis and financial projections? By having access to a more diverse toolbox of strategies for making decisions, you can adapt more easily and be prepared for the endless challenges that will inevitably come up as you develop and grow your business.

CONTACT: Sonia Codreanu; codreanu.sonia-cristina.17@ucl.ac.uk ; (T): +447551488895; University College London; Division of Psychology and Language Sciences, University College London, 26 Bedford Way, London WC1H 0AP, United Kingdom.

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