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Incubators and Cognitive Biases

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As an incubator, you must teach entrepreneurs techniques for reducing decision biases. You can use these techniques to improve the success ratios of incubated entrepreneurs.

Cognitive researchers have identified two modes of thinking: intuitive and reflective. The first is referred to as System One, while the second is referred to as System Two. System One is a mode of thinking that gives us a stable representation of the world around us, which allows us to perform certain actions without much thought. An example of this would be walking and contemplating something else at the same time. System Two, on the other hand, is a mode of thinking that is reflective and analytical. Professors Thaler and Sunstein popularized this distinction in their book “Nudge”.

Cognitive biases arise due to System One thinking. This essay deals with reducing System One thinking by looking at decision processes through a Systems Two lens. Entrepreneurs need System Two thinking to complement their intuitive thinking, as they are unable to fix errors that they do not recognize. The essay does not deal with errors in strategic and marketing analyses.

When listening to an entrepreneur’s business plan presentation, you must play the delicate role of not being seen as a quality control boss. You do not want to appear to question the entrepreneur’s enthusiasm or integrity. Instead, your role is intended to stimulate discussion and debate.

Below are some questions that you must present to entrepreneurs:

1. Did the entrepreneur consider alternative scenarios? What are the justifications for deciding on the presented scenario?

2. Are the presented analogies, if any, relevant to the business proposition?

3. Are the distinctions between facts and assumptions clearly stated?

4. Is the presented scenario overly optimistic?

5. Has the entrepreneur fallen in love with his or her idea? (This bias is called *reference class forecasting*. See for example, “Delusions of Successes: How Optimism Undermines Executives’ Decisions,” by Dan Lovallo and Daniel Kahneman, *Harvard Business Review* July 2003.)

6. Is the worst-case scenario overly optimistic? ■