

IRRATIONAL CHOICES AND BUSINESS STRATEGY: THE IMPACT OF COGNITIVE BIASES ON MARKET COMPETITIVENESS

Dayne Davis, PhD

IIC University of Technology

Australia

Dayne.s.davis@gmail.com

ABSTRACT

This essay explores the pervasive influence of cognitive biases on strategic decision-making and market competitiveness within businesses. Cognitive biases are systematic deviations from rational judgment, significantly impacting how information is perceived and decisions are made. Such biases can distort strategic planning and operational effectiveness, leading to suboptimal outcomes and reduced market competitiveness. The analysis focuses on several common cognitive biases, including the self-serving bias, which skews individual accountability; the anchoring bias, which affects financial forecasts and strategic decisions based on initial information; and the sunk cost fallacy, where past investments unduly influence current decisions to the detriment of alternative, potentially more profitable, avenues. The exploration extends to how these biases can mislead market analysis and strategic initiatives, particularly during expansions and when entering new markets. Through a comprehensive literature review and qualitative analysis, this essay examines the manifestations of cognitive biases in business settings and their implications for market competitiveness. It argues that recognizing and mitigating these biases is essential for firms aiming to improve decision-making processes and maintain a competitive edge in dynamic markets. Strategies for mitigating cognitive biases are discussed, including fostering a culture of critical thinking, promoting diverse perspectives within teams, and implementing structured decision-making processes with checks and balances. The essay underscores the necessity of continuous learning and adaptability in strategic planning to align more closely with market realities and enhance overall business resilience.

Keywords: Cognitive biases, strategic decision-making, market competitiveness, anchoring bias, sunk cost fallacy, self-serving bias, business strategy.