Do Entrepreneurs Differ From Others in Strategic Decision-Making?

- An Economic Experiment

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Abstract:

In this paper we investigate if leaders of private firms differ in strategic decision making compared to other people. Being responsible for a firm’s strategy and market activities, an entrepreneur is more heavily exposed to strategic decisions and therefore more experienced in this respect than comparable people who are non-entrepreneurs. A priori, at least two mechanisms may cause entrepreneurs to act strategically differently from other people. They may because of competitive forces more often choose strategies which are best-responses to each other, that is, Nash equilibria. Such a mechanism can be more supported by an evolutionary process when the Nash equilibria also are supported by evolutionary stable strategies. Secondly, there are also strategic situations (e.g., prisoner’s dilemmas) where individually rational choices according to the Nash paradigm lead to a detrimental outcome for the involved parties, and where instead prosocial or efficiency oriented choices probably would benefit the firm and the entrepreneur. A priori, it is not clear which of these conflicting mechanisms has the strongest impact on entrepreneurial decision making.

To investigate this question empirically we conducted an experiment with 200 CEOs and 200 in a control group members from two cities in China. The control group matched the CEOs in terms of gender, education, and income. We used three different games to capture aspects of cooperativeness (Prisoner’s dilemma), coordination (Battle-of-the-Sexes) and anti-coordination (Chicken). We also made incentivized elicitations of beliefs where the subjects where to guess the behavior of other subjects in their respective group. Our main result is that compared to the control group the entrepreneurs in all games chose strategies that
are closer to the social optimal strategy profile. This result is highly significant in some of the games and marginally significant in others. The entrepreneurs’ beliefs are also closer to the socially optimal strategy profile. In addition, the entrepreneurs’ beliefs were also on average more accurate than those of the control group.