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OVERCOMING COGNITIVE BIASES IN STRATEGIC BUSINESS MANAGEMENT

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Managers regularly make decisions under conditions of incomplete information and uncertainty, which renders them vulnerable to cognitive biases. These biases lead to systematic errors that negatively affect strategic, financial, and operational decisions. The purpose of this article is to identify the key cognitive biases of managers, analyze their consequences for enterprises, and propose contemporary tools to mitigate their adverse effects. An analysis of academic literature in behavioral economics and strategic management was conducted, synthesizing insights regarding common managerial biases (overoptimism, anchoring, confirmation bias, status quo bias, among others) and strategies for overcoming them. It is established that managerial overconfidence often results in inflated forecasts and underestimated risks; anchoring ties managerial decisions excessively to initial information, thus limiting the objective analysis of alternatives; confirmation bias leads to disregarding critical signals that threaten project implementation; and the status quo bias fosters resistance to innovations. To overcome these biases, the implementation of specialized debiasing methods is recommended, such as premortem analysis, assigning a "devil's advocate", choice architecture adjustments (nudging), establishing behavioral departments, and applying dual interventions. The integrated application of these approaches enhances decision-making effectiveness. Based on the analysis of scientific sources, these methods have been generalized and systematized into an integrated framework of managerial and behavioral tools for strategic management practice. The findings and recommendations provided in this article can assist managers in reducing the impact of cognitive biases, thereby improving enterprise competitiveness within volatile market environments.

Keywords: behavioral economics, strategic management, cognitive biases, decision-making heuristics, nudging, debiasing, managerial decision making.

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Introduction and problem statement

Contemporary management theories have traditionally been grounded in the assumption of managerial rationality. However, practical evidence demonstrates substantial deviations from the rational model. In making decisions, managers often rely not only on factual data but also on intuitive judgments and heuristics – mental shortcuts that help them evaluate situations under conditions of incomplete information [1].

These simplifications are dual in nature: on the one hand, they enable faster decision making in uncertain environments; on the other, they generate cognitive biases that may reduce decision quality. Cognitive biases refer to systematic errors in thinking that arise when individuals assess information and choose among alternatives. For business managers, such biases pose a specific challenge, as their decisions determine the strategic direction, financial sustainability, and operational performance of the

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enterprise. Neglecting behavioral factors in managerial practice can result in strategic failures, including misguided investments, planning errors, and missed market opportunities [2].

The relevance of this study is driven by the need to improve the quality of strategic managerial decision making, which is largely shaped by the cognitive and socio-psychological characteristics of decision makers.

A response to this challenge has been the emergence of the behavioral strategy approach, which integrates managerial practice with insights from behavioral sciences to enhance decision quality under conditions of bounded rationality. This approach acknowledges the actual cognitive, emotional, and social limitations of managers, who frequently rely on intuition and simplified heuristics when operating in uncertain environments. Behavioral strategy emphasizes the development of tailored tools and methods that either neutralize these limitations or leverage them constructively to improve the effectiveness of strategic management [3]. Within this context, debiasing, defined as a set of conceptual and practical approaches aimed at identifying and reducing the impact of cognitive distortions on managerial decision making, becomes critically important. Debiasing practices represent an essential component of behavioral strategy by promoting more reasoned and realistic thinking among managers in settings characterized by informational complexity and bounded rationality.

Literature review and prior research

The issue of cognitive biases in strategic management has been extensively studied by international scholars. As early as the 1970s, D. Kahneman and A. Tversky described a range of common heuristics and cognitive biases and introduced prospect theory to explain decision-making behavior under risk [2]. In the 1980s, other management researchers, including R. Schwenk and B. Staw, demonstrated the influence of these psychological phenomena on strategic decision-making. Their contributions advanced the development of the behavioral strategy concept, which emphasizes the integration of behavioral sciences into managerial practice [2]. In the 2000s, R. Thaler and C. Sunstein made a substantial contribution to this field by introducing the concept of nudging as a form of soft behavioral intervention aimed at optimizing decision-making in corporate contexts [4, 5]. A significant contribution to the systematization of knowledge on managerial biases and the development of approaches to mitigate their effects has also been made by contemporary scholars such as M. Bazerman and

D. Moore. Their work elaborates practical tools to improve decision quality, including premortem analysis, the appointment of a devil's advocate, and others [1].

In Ukraine this topic remains underexplored. Therefore, the authors consider it relevant to examine the phenomenon through the lens of leading international research and practical experience.

Subsequent studies have confirmed the impact of cognitive biases in strategic management. In their well-known article for Harvard Business Review, D. Lovallo and D. Kahneman described the phenomenon of managerial overoptimism, which gives rise to the planning fallacy. This cognitive bias causes managers to systematically underestimate project timelines and costs while overestimating future revenues [6]. A systematic literature review conducted by Acciarini, Brunetta, and Boccadelli (2021) shows that in transformational environments, managerial decisions are often based on incomplete or misinterpreted information, leading to a gap between planned actions and actual outcomes. The authors emphasize that the complexity of the external environment requires not only managerial flexibility but also the ability to adjust strategies based on a realistic assessment of emerging challenges [6].

Research by Malmendier and Tate (2005, 2008) demonstrated that overconfidence bias significantly influences the selection of investment strategies, frequently resulting in unjustifiably optimistic decisions regarding mergers and acquisitions [2]. At the same time, studies by G. Gigerenzer and colleagues (2015) have shown that simple heuristics are not necessarily harmful and can in fact be adaptive under conditions of uncertainty [1].

Thus, the analysis of academic literature leads to two key conclusions. First, cognitive biases are a widespread phenomenon among business executives and have a significant impact on the quality of managerial decisions. Second, the behavioral strategy approach offers effective tools that can be employed to reduce the negative influence of these biases and enhance the effectiveness of strategic management [3, 6, 7].

Purpose of the article

The purpose of this article is to determine the impact of cognitive biases on managerial decision making and to develop practical recommendations for applying behavioral approaches and debiasing tools to improve decision quality.

To achieve this objective, the article addresses the following tasks:

a) identifying and systematizing the cognitive biases most commonly observed in managerial decisions;

b) analyzing the mechanisms through which these biases affect strategic, financial, and operational aspects of management;

c) synthesizing modern debiasing tools, assessing their potential for internal business processes, and formulating managerial recommendations for their practical implementation.

The methodological foundation of the study is based on an analysis of academic publications in behavioral organizational theory, strategic management, and behavioral economics, along with a synthesis of empirical examples drawn from contemporary corporate practice.

Main discussion

In the course of managerial activity, decision makers, including managers, tend to exhibit a number of common cognitive biases that influence how they evaluate information and select courses of action. This is most frequently observed in the form of excessive confidence and optimism, where managers overestimate their knowledge, experience, and ability to predict future developments. Such bias leads to inflated forecasts and an underestimation of risks. Managers may genuinely believe their project is uniquely promising, while ignoring the probability of failure. As a result, an optimism bias emerges, characterized by systematic overestimation of expected profits and underestimation of costs and implementation timelines. A vivid example of this is the planning fallacy, where managers set unrealistically short deadlines and low budgets based on best-case assumptions [4]. Overconfidence is also associated with the illusion of control, in which managers believe they have full command over the situation and therefore underestimate the role of chance. Research shows that such biased optimism is one of the reasons for the failure of corporate initiatives. For instance, mergers and acquisitions initiated by overly confident CEOs are frequently overvalued [2], and investment projects are often excessively diversified in pursuit of scale rather than focused on core priorities.

Another widespread distortion is the anchoring effect. Individuals tend to assign disproportionate weight to the first piece of information they receive, which acts as an “anchor” and shapes subsequent evaluations [8]. In managerial contexts, this manifests when the first stated figure or idea exerts an outsized influence on the discussion. For example, if the initial sales forecast is one hundred million, it becomes difficult to justify a lower target even in light of new data, as the mind intuitively clings to the anchor. In negotiations, the opening offer defines the bargaining range, even if it is unsubstantiated. As a result, decisions may deviate from optimal outcomes, and the range of alternatives considered becomes restricted. The

anchoring effect is particularly problematic when early assumptions, such as optimistic demand forecasts, are difficult to adjust later to reflect more realistic expectations.

Confirmation bias is another highly significant cognitive distortion, characterized by selective information processing. Managers tend to notice and place greater trust in information that confirms their existing beliefs, while underestimating or disregarding contradictory evidence. This leads to what is known as confirmatory search, where individuals actively seek data that supports their hypotheses and dismiss alternative signals. In strategic planning, this means that once a particular direction has been chosen, top managers filter external signals, focusing only on those that align with their expectations. As a result, the scope of analysis narrows, and the ability to anticipate alternative scenarios diminishes. This effect becomes especially dangerous when combined with groupthink, where a team of like-minded individuals tends to overlook criticism and potential risks, thereby impeding the timely development of a contingency plan.

Another widespread bias is the status quo bias, which refers to a preference for stability over change. Many managers unconsciously avoid change even when transformation is objectively necessary. The status quo represents a psychologically comfortable state, whereas any change is perceived as risky. Managers may recognize the advantages of a new strategy or technology but postpone decisions due to fear of losing existing benefits. Prospect theory interprets this through the lens of loss aversion, whereby potential losses resulting from change are perceived as more painful than the possible gains [2]. Consequently, organizations tend to cling to outdated models, delay strategic renewal, or postpone entering new markets, ultimately risking a loss of competitiveness.

Another relevant example is the sunk cost fallacy, in which managers continue to fund a failing project based on previously incurred expenses, even though decisions should be guided by an assessment of future benefits. Escalation of commitment in such cases often leads to even greater losses. Instead of terminating the project, the company attempts to “rescue” it by investing additional resources [8]. The core issue lies in the reluctance to admit mistakes, as it is psychologically difficult to accept the realization of losses. For instance, even when market indicators clearly signal failure, the resources already spent may tempt the manager to continue investing.

The information bias is also worth noting. It refers to the tendency to collect excessive amounts of information, even when additional data does not improve decision quality [4]. Managers may

continuously request new reports, hold numerous meetings, and postpone decisions until “all aspects are clarified”. This approach complicates the identification of key priorities and delays action. It also reflects another cognitive bias, action delay or procrastination, driven by fear of making a mistake or an effort to avoid responsibility. As a result, the organization risks becoming stuck in “analysis for the sake of analysis” instead of responding in a timely manner.

Several other cognitive distortions also exist, such as the bias blind spot and hindsight bias. However, the ones outlined above appear to have the greatest impact on corporate governance. Understanding the nature of these biases is the first step toward their mitigation and the improvement of decision quality.

The influence of cognitive biases is evident not only at the level of abstract psychological mechanisms. They have a direct and measurable effect on key areas of enterprise management, including strategic, financial, and operational decision making.

In the field of strategic management and investment policy, cognitive biases have a significant impact on the formulation of strategic priorities, the selection of development directions, projects, and investment decisions. Managerial overoptimism may lead companies to pursue too many strategic initiatives simultaneously, dispersing resources and weakening focus [6]. Opportunities and risks are evaluated with bias, and positive scenarios tend to dominate over negative ones in decision makers’ minds, resulting in the approval of investments with overestimated benefits. As highlighted in recent research, managers operating in complex environments often rely on heuristics and incomplete information, which undermines the effectiveness of strategic planning. This is particularly relevant when entering new markets or pursuing high-risk investment projects, where actual outcomes often fail to meet expectations. Anchoring bias at the strategic level may manifest in the dominance of the first proposed initiative (the “Plan A”) with alternative strategies receiving only superficial consideration. Confirmation bias leads to the dismissal of warning signals, such as changes in consumer preferences or competitor actions, especially when such signals do not align with the selected strategy [8]. Status quo bias prevents timely revisions of outdated strategies, as managers may postpone fundamental course changes even when the current strategy is no longer effective. Escalation of commitment is particularly dangerous in strategic investment planning, where companies continue to allocate resources to unprofitable projects in the hope of a turnaround, rather than acknowledging failure and reallocating resources. Thus, cognitive biases

may result in strategic missteps ranging from the selection of flawed priorities to the inability to abandon nonviable initiatives.

In the area of financial management and budgeting decisions⁶ which includes budgeting processes, the selection of funding sources, and risk management⁶ managerial decisions are also subject to the influence of cognitive biases. Excessive confidence on the part of chief financial officers or CEOs may be reflected in overly optimistic financial forecasts and underestimation of the likelihood of crisis scenarios. For example, during revenue budgeting, there may be a systematic error in the form of projecting inflated sales figures that later fail to materialize. Loss aversion can influence financial policy in two opposing ways. On the one hand, a company may retain excessive cash reserves and avoid borrowing due to fear of debt exposure, resulting in excessive caution. On the other hand, when performance falls below expectations, executives may approve highly risky financial moves (such as speculative investments or all-in decisions) in an attempt to recover losses. These contrasting behaviors, conservative responses in profit zones and risk-seeking actions in loss zones, are well documented in prospect theory and frequently observed in corporate finance. Anchoring in financial decision making may cause certain figures to become fixed reference points. For instance, managers may rely on last year’s budget as an anchor and make proportional adjustments, rather than building a new budget from the ground up based on updated conditions. Confirmation bias can lead financial analysts to place more trust in models and data that support their original forecasts while disregarding alternative risk assessments. As a result, financial decisions (such as approving an investment project championed by an influential executive) may be based on biased information. Finally, information overload bias is often present in financial controlling. Instead of responding quickly to deviations from the budget, companies may spend excessive time analyzing reports in pursuit of the “perfect solution” thereby losing valuable time for corrective action.

In operational and organizational activities, which involve day-to-day management of processes and teams, cognitive biases also have a noticeable impact on the quality of managerial decision making. Overconfidence on the part of department heads may be expressed through the setting of unrealistic goals for their teams, leading to chronic underperformance and employee burnout. Confirmation bias may emerge in the evaluation of subordinates’ performance. If a manager has developed a prior perception of an employee as “strong”, they may overlook that person’s shortcomings. Conversely, if someone is seen as a

«weak» performer, even good results may be interpreted with bias. This can affect decisions related to promotions, task distribution, and team formation. Therefore, in routine operational decisions – such as production planning, inventory management, and human resource management – cognitive biases may undermine effectiveness if not identified and addressed in a timely manner.

Overall, the influence of behavioral distortions can be observed at every stage of the managerial cycle, from strategy formulation to its implementation. These biases act as invisible obstacles that cause actual outcomes to deviate from expected results. Recognizing this reality has prompted both researchers and practitioners to seek effective ways of addressing cognitive traps in management.

Recognizing the existence of cognitive biases is only the first step. Equally important is the implementation of practical approaches aimed at mitigating their effects. In corporate governance, behavioral tools are gaining increasing prominence. These instruments help managers make more balanced and rational decisions by subtly modifying the decision-making context, or choice architecture, rather than imposing rigid constraints.

One such approach involves consciously structuring the decision-making process to minimize confirmation bias and groupthink. For instance, top management can introduce a rule requiring all strategic decisions to be discussed in at least two or three alternative scenarios. For one of these scenarios, a designated devil's advocate is assigned – an individual responsible for presenting counterarguments and identifying weaknesses in the proposed course of action. This practice encourages the team to avoid anchoring to a single idea and to remain open to alternatives. As a result, decisions are made with broader contextual awareness, representing a form of collective debiasing [4].

The premortem analysis, a technique introduced by G. Klein [9], has gained popularity among organizations as a method to counteract excessive optimism. A premortem is conducted prior to the final approval of a critical project. The team is asked to imagine that the project has already failed and to identify the potential reasons for that failure. This exercise compels participants to think more critically about risks and vulnerabilities that may have been overlooked due to confirmation thinking or overconfidence. In effect, the premortem functions as a "vaccine" against biases, forcing the team to step back and reflect objectively on their plan, while also preparing contingency responses. Research shows that teams employing premortem analysis are able to identify a greater number of risks and flawed

assumptions compared to those using traditional planning methods.

Another behavioral tool is the use of nudges within internal organizational processes. Nudging refers to a concept that encourages better decision making not through directives, but by shaping the choice architecture to gently guide individuals toward more desirable outcomes. In corporate governance, nudges can take the form of small adjustments to procedures that steer employee behavior in ways that enhance efficiency. For example, while the standard duration of a meeting is typically set at 60 minutes, changing the default to 30 minutes may automatically reduce the average meeting length [4]. Employees will subconsciously perceive 30 minutes as the new "norm" and will aim to stay within that timeframe, thereby increasing overall meeting productivity. Another example is adjusting the default setting for updating strategic KPIs. Instead of conducting annual reviews, switching to quarterly reviews encourages managers to revisit their assumptions more frequently and respond more quickly to changes in the environment. In this way, carefully designed default settings in corporate procedures act as nudges that help reduce the negative impact of procrastination, overoptimism, and status quo bias.

Another effective behavioral intervention is the promotion of transparency and public commitment. One practical method used for this purpose is known as implementation intentions, which involves managers publicly announcing their goals and the concrete steps they intend to take within a specific timeframe [4]. For instance, if a senior executive states during a general meeting that their unit will accomplish X, Y, and Z by the end of the quarter, the resulting social pressure from colleagues and subordinates increases their accountability and encourages greater follow-through. Public commitment functions as a nudge – it does not impose action, but it motivates more realistic planning and more conscientious execution. This approach strengthens personal responsibility and reduces the temptation to exaggerate achievements or delay problem solving. As a result, teams become more accountable to one another, which lowers the tendency toward complacency and leniency regarding minor deadline violations.

In response to the need to reduce cognitive distortions in decision-making processes, leading international companies have begun establishing internal behavioral intervention units. These are dedicated structural entities responsible for integrating behavioral science tools into managerial and organizational practices [5]. The mission of such teams extends beyond the deployment of nudging techniques.

It includes the development of comprehensive behavioral change strategies grounded in scientific methods, empirical testing, and adaptation to organizational contexts. As noted by P. Houdek, the effectiveness of such interventions depends heavily on a systematic approach to problem diagnosis, context-specific adaptation of tools, and long-term implementation, rather than on one-off initiatives or managerial intuition. Consequently, the work of these teams involves not only implementing specific interventions but also fostering a culture of experimentation, enhancing leadership capabilities, and improving organizational processes.

Dual interventions represent an integrated debiasing approach that combines two mutually reinforcing strategies. As noted by B. Fasolo and colleagues [7], the combination of active engagement of decision makers (through training, cognitive bias alerts, or structured analytical procedures) with environmental adjustments such as choice architecture and nudging techniques produces a synergistic effect. This approach merges the awareness and transparency of traditional debiasing with the automation and efficiency of behavioral interventions. As a result, decision quality improves, particularly in complex or cognitively demanding situations, where relying on a single approach is insufficient. Despite the limited number of empirical studies to date, existing evidence supports the promise of dual interventions as a valuable tool for behavioral management.

Overall, debiasing tools, ranging from premortem analysis to nudging techniques, are not intended to replace traditional analytical methods or expert judgment. Rather, they serve to complement these approaches by helping to overcome psychological barriers that hinder well-reasoned managerial decision making. It is critically important to apply such tools in accordance with ethical principles, with the goal not of manipulation but of improving decision quality and enhancing the well-being of all members of the organizational environment. When used ethically, debiasing methods become a valuable resource in managerial practice, allowing actual managerial behavior to more closely align with the standards of rational decision making.

Conclusions

Managerial decision making in business is largely influenced by human factors, including the inherent limitations of human cognition, emotions, and perceptions. Cognitive biases constitute an integral aspect of these processes, emerging as the brain employs heuristics to simplify complex tasks. The research conducted has shown that the most common biases – such as overconfidence, anchoring, confirmation

bias, and loss aversion, among others – significantly impact the quality of strategic, financial, and operational managerial decisions. These biases can lead to systematic errors, including flawed forecasts, unjustified investments, delayed responses to necessary changes, and ineffective organizational communication. Awareness of these risks is the first step toward addressing them.

Neutralizing cognitive biases, the critical second step following their identification, requires systematically integrating specialized methods into everyday decision-making practices. The article analyzed a variety of debiasing approaches, covering individual techniques (such as premortem analysis and assigning a devil's advocate) and organizational-level interventions, including adjustments in choice architecture, the application of nudging interventions in internal processes, the creation of specialized behavioral science units, and the implementation of integrated methods such as dual interventions. Utilizing these tools significantly reduces the influence of cognitive distortions without direct administrative pressure, instead employing subtle modifications to decision contexts and incentives. It is important to recognize that debiasing is not a one-time action but a continuous process, sustained by cultivating an organizational culture that promotes critical thinking, openness to alternative solutions, and a willingness to acknowledge and learn from mistakes. Only under these conditions can a sustainable reduction of biases and enhancement of decision quality at all organizational levels be achieved.

The scientific novelty of this study lies in its comprehensive approach, integrating insights from behavioral economics and management literature to classify cognitive biases and provide practical recommendations for mitigating them. The practical significance of these results is that the proposed approaches enable managers and management consultants to account for hidden cognitive factors, thereby improving the justification and rationality of managerial decisions and, ultimately, strengthening the competitive positioning of businesses. Future research directions include empirical testing of various debiasing tools within Ukrainian companies, adapting international best practices to the local business environment, and investigating individual differences (such as managers' thinking styles) in susceptibility to specific biases. We believe that overcoming cognitive distortions in strategic management represents a critical task, enabling organizations to avoid common reasoning errors and to make better-informed decisions in pursuit of strategic objectives.

Thus, cognitive biases in management represent a challenge that can be transformed into an opportunity. By recognizing and understanding typical errors in their own thinking, organizations gain the chance to refine their decision-making processes, making them more rational and effective. The integration of behavioral approaches into strategic management enhances enterprises' adaptability in volatile and uncertain environments, helping them avoid cognitive traps and progress toward their goals more confidently and effectively.

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ПОДОЛАННЯ КОГНІТИВНИХ УПЕРЕДЖЕНЬ У СТРАТЕГІЧНОМУ УПРАВЛІННІ ПІДПРИЄМСТВОМ

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Менеджери підприємств регулярно приймають рішення за неповної інформації та невизначеності, що робить їх вразливими до когнітивних упереджень, які призводять до систематичних помилок і негативно впливають на стратегічні, фінансові й операційні рішення. Мета статті – визначити ключові когнітивні упередження менеджерів, їх наслідки для підприємств та запропонувати сучасні інструменти мінімізації їх негативного впливу. Виконано аналіз наукових праць із поведінкової економіки та стратегічного менеджменту, на основі якого синтезовано висновки щодо типових управлінських упереджень (надмірний оптимізм, ефект якоря, підтверджувальне упередження, статус-кво тощо) та можливостей їх подолання. Встановлено, що надмірна впевненість керівників спричиняє завищені прогнози та недооцінювання ризиків; ефект якоря прив'язує управлінські рішення до первинної інформації, обмежуючи об'єктивність аналізу альтернатив; підтверджувальне упередження зумовлює ігнорування критичних сигналів, що загрожує реалізації проєктів; ефект статус-кво призводить до уникнення нововведень. Для подолання цих упереджень рекомендовано впроваджувати такі методи дебіасингу, як передпроектний аналіз (premortem), призначення «адвоката диявола», коригування архітектури вибору (нуджинг), створення поведінкових відділів та подвійні інтервенції, комплексне застосування яких підвищує результативність рішень. На основі аналізу наукових джерел зазначені підходи були узагальнені й систематизовані в інтегровану систему управлінських і поведінкових інструментів для впровадження у практику стратегічного управління підприємствами. Отримані висновки й рекомендації можуть бути використані керівниками для зниження впливу когнітивних упереджень з метою підвищення конкурентоспроможності підприємств у нестабільному ринковому середовищі.

Ключові слова: поведінкова економіка, стратегічне управління, когнітивні викривлення, евристики прийняття рішень, нуджинг, дебіасинг, прийняття управлінських рішень.

OVERCOMING COGNITIVE BIASES IN STRATEGIC
BUSINESS MANAGEMENT

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