

Vendor Trust Erosion in Small-Business Technology Purchasing: How Past Negative Experiences Create Decision Paralysis

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Abstract

Small and medium-sized business (SMB) owners — and Hispanic-owned SMBs in particular — are widely characterized by technology vendors as irrationally risk-averse, slow to adopt useful tools, and difficult to convert. This paper argues the opposite: that the decision paralysis observed when SMB owners face technology and AI vendors is not a cognitive failure, but a calibrated Bayesian response to a documented record of vendor over-promising and under-delivering. Drawing on a meta-analysis of 607 empirical estimates of loss aversion (Brown, Imai, Vieider, & Camerer, 2024), Federal Trade Commission enforcement records (Federal Trade Commission, 2023), and industry data showing that approximately 60% of formal software-procurement decisions produce post-purchase regret (Capterra, 2023), this review demonstrates that the asymmetric weight of past losses ($\lambda \approx 1.95$) is not a bug in the buyer's reasoning, but a feature that correctly tracks the realized failure rate of the technology-vendor market. The implication is structural rather than rhetorical: persuasion does not repair an integrity-based trust violation against an entire vendor category. Only structural risk reversal does. This paper proposes the *Agentes Para Tu Negocio* framework — a low-commitment, fully-credited, contractually-unambiguous first engagement — as a testable B2B analog of the consumer money-back guarantee (Suwelack, Hogreve, & Hoyer, 2011) and as a structural mechanism for vendor-side trust repair (Kim, Dirks, & Cooper, 2009).

Keywords: vendor trust erosion, decision paralysis, loss aversion, prospect theory, SMB technology adoption, Hispanic-owned small businesses, asymmetric risk reversal, B2B SaaS, software buyer's remorse, Agentes Para Tu Negocio, erosión de confianza en proveedores, parálisis de decisión

1. Introduction

1.1 The Prevailing Narrative

The dominant narrative in vendor-side B2B sales literature treats SMB hesitation toward technology purchases as an obstacle to be overcome. Buyers who delay, ask for guarantees, refuse multi-year contracts, or repeatedly request more information are framed as "stuck," "uneducated," or "stalled in the

funnel." The standard prescription is to apply more pressure: shorter sales cycles, scarcity-based offers, fear-of-missing-out framing, and persistent multi-touch sequences. Industry training materials commonly describe the small-business buyer as the most difficult B2B segment because of its tendency toward what trade press routinely labels "irrational caution."

This framing carries an implicit psychological model: that buyer hesitation reflects a failure of information or motivation, both of which the seller is positioned to correct. A buyer who has not yet converted simply has not yet been shown the right value proposition.

1.2 The Problem

This characterization survives in spite of substantial counter-evidence. In a multi-country survey of 3,400 software-purchase decision-makers, approximately 60% reported regret about at least one software purchase made in the prior twelve to eighteen months (Captterra, 2023). Among the most common drivers of regret were unanticipated total cost of ownership (33%) and complex implementation (32%), with 24% of buyers cancelling and 32% switching vendors. These figures describe formal procurement environments with dedicated buying teams, internal counsel, and budget review. Hispanic SMB owners, who in 86% of cases lead businesses with fewer than ten employees and frequently make technology decisions alone (Stanford Latino Entrepreneurship Initiative, 2024), face the same vendor market with none of those institutional buffers.

Within that market, the documentary record of vendor misconduct is not anecdotal. In January 2023 the United States Federal Trade Commission ordered HomeAdvisor, Inc., operating as Angi Leads, to pay up to \$7.2 million in refunds to small-business contractors after finding that the platform had since at least 2014 sold leads that did not match advertised service categories or geographies, sourced leads from third-party affiliates that consumers had not knowingly submitted, and misrepresented conversion rates of leads to actual jobs (Federal Trade Commission, 2023). The matter — Docket No. 9407 — was not a private dispute; it was a federal regulator concluding that a category-leading vendor had systematically deceived small-business customers for nearly a decade.

When buyers respond to that market with caution, the question is not why they hesitate. The question is whether their hesitation is correctly calibrated to the evidence.

1.3 Research Question and Thesis

This paper examines whether the prevailing characterization of SMB technology-purchase hesitation as irrational holds up under empirical scrutiny. Drawing on prospect-theoretic literature, B2B trust research, and the documented record of vendor misconduct, the paper argues three claims. First, the asymmetric weight of past losses on future purchase decisions (loss aversion, $\lambda \approx 1.95$) is not only empirically robust across 607 estimates and 150 studies (Brown et al., 2024), but is *amplified* in lower-numeracy and lower-resource buyer populations (Mrkva, Johnson, Gächter, & Herrmann, 2020) — that is, precisely the SMB segment in question. Second, the realized vendor-failure rate documented in regulatory and industry data is high enough that buyer caution closely tracks an accurate posterior estimate of expected loss. Third, persuasion-based interventions cannot repair an integrity-based trust violation across an entire vendor category (Kim, Dirks, & Cooper, 2009); only structural interventions

— specifically, the asymmetric reversal of risk in favor of the buyer — can. The paper closes by proposing the *Agentes Para Tu Negocio* framework as a testable structural intervention drawn from the consumer money-back-guarantee literature (Suwelack, Hogreve, & Hoyer, 2011; Wood, 2001) and adapted to the B2B SaaS and AI-implementation context.

2. Literature Review

2.0 Methodological Note

This review synthesizes peer-reviewed empirical studies, regulatory case records, and institutional industry reports published between 1979 and 2026, sourced from Google Scholar, SSRN, the SAGE and Wiley journal databases, the Federal Trade Commission case archive, and the Stanford Latino Entrepreneurship Initiative repository. Inclusion criteria prioritized studies measuring buyer trust, loss aversion, decision confidence, or post-purchase regret in SMB or B2B technology contexts. Industry data from Gartner, Capterra, Salesforce, and the U.S. Small Business Administration was included where peer-reviewed evidence on the SMB segment was limited; these sources are explicitly identified in-text.

2.1 Loss Aversion as the Cognitive Substrate of Buyer Hesitation

Prospect theory formalized the observation that decisions under risk are evaluated relative to a reference point, with the value function steeper in the loss domain than in the gain domain (Kahneman & Tversky, 1979). The functional consequence is that a prospective loss exerts greater motivational force than a prospective gain of equal magnitude — a property quantified by the loss-aversion coefficient λ . The original cumulative-prospect-theory formulation estimated $\lambda \approx 2.25$ (Tversky & Kahneman, 1992). For three decades that figure was treated as a near-canonical parameter.

A recent meta-analysis settles the empirical question. Pooling 607 estimates from 150 studies across economics, psychology, and neuroscience, Brown, Imai, Vieider, and Camerer (2024) report a mean λ of 1.955, with a 95% confidence interval of [1.820, 2.102]. The estimate is consistent across study designs, and the dispersion is largely explained by population characteristics rather than methodological artifacts. Loss aversion, that is, is not a fragile finding contingent on student samples or laboratory settings; it is a stable feature of human decision architecture.

A line of critique has argued that loss aversion is context-dependent and not universal (Gal & Rucker, 2018). The relevant rebuttal is not that loss aversion is universal, but that its moderators are well-characterized. Mrkva and colleagues (2020), in a sample of 660 randomly selected automotive customers — a non-student adult population — showed that loss aversion is consistently observed and that lower numeracy, lower financial literacy, and lower domain knowledge *amplify* the asymmetry. The implication for SMB technology buyers is direct: where domain expertise is low (most owner-operators are not technology specialists) and financial buffers are thin, the predicted bias toward inaction is not weaker than the standard estimate but stronger.

Adjacent biases compound the effect. Status-quo bias (Samuelson & Zeckhauser, 1988) predicts disproportionate stickiness with current arrangements, even objectively inferior ones, because deviation

from the status quo carries an asymmetric reference-point cost. The endowment effect and mental accounting (Thaler, 1980) predict that money already paid into a failed prior vendor is treated as a sunk loss whose memory distorts subsequent decisions in the same category. Together these mechanisms predict precisely the pattern that vendor-side literature labels "stalled" or "irrational": buyers who have lost before will overweight the prospect of losing again.

2.2 Trust Erosion in Buyer–Seller Relationships

The B2B trust literature converges on a set of findings relevant to the present argument. Morgan and Hunt's (1994) commitment-trust theory established trust as the central mediating variable in successful relational exchange. Doney and Cannon (1997), examining buyer trust in industrial supplier firms, found that *prior performance* dominated current sales effort in predicting future supplier choice — that is, what the vendor has done predicts purchase decisions more reliably than what the vendor says.

A second set of findings concerns the asymmetry of trust depletion versus trust creation. Sirdeshmukh, Singh, and Sabol (2002) documented that frontline behaviors deplete trust faster than they build it — a negativity-asymmetry effect consistent with the broader prospect-theoretic prediction. One bad vendor experience erodes more trust than five good ones build.

The most consequential finding for the present paper concerns trust *repair*. Kim, Dirks, and Cooper (2009), reviewing two decades of empirical work, distinguished between competence-based trust violations (the partner could not deliver) and integrity-based trust violations (the partner did not intend to deliver). Competence-based violations respond to apology, explanation, and accommodation. Integrity-based violations are durably resistant to repair through any rhetorical means: once a buyer concludes that the seller's intent was deceptive, neither apology nor improved performance reliably restores the prior trust level. The only consistently effective repair pathway is *structural* — the imposition of mechanisms that make recurrence of the violation impossible by design.

This distinction is decisive when the trust violation has occurred not against a single vendor but against an entire category. When the FTC concludes that a category leader systematically deceived small-business customers (Federal Trade Commission, 2023), the integrity-based violation is no longer attributable to one bad actor; the buyer reasonably treats the violation as a property of the category. Subsequent vendors inherit the trust deficit even when they had no part in producing it.

2.3 Decision Paralysis Under Choice Complexity

Choice-overload research provides the third pillar. Iyengar and Lepper's (2000) experimental work — most famously the jam study, in which a 6-option display produced a 30% purchase rate while a 24-option display produced 3% — established that excessive choice can suppress purchase entirely. The mechanism is partly cognitive (option comparison costs) and partly anticipatory regret (the larger the choice set, the higher the perceived probability of a regret-producing error).

In the contemporary SMB technology market, the choice set is not 24 options; it is hundreds. Industry research from Gartner has documented that 77% of B2B buyers describe their last purchase as "very complex or difficult," and that buyer decision confidence — not feature comparison — is the strongest predictor of high-quality, low-regret purchase decisions (Adamson, 2019, as reported in Gartner press

releases). When buyers report feeling unable to confidently distinguish among alternatives, the predicted equilibrium is not "buy the best option" but "buy nothing."

2.4 Research Gap

The literature reviewed above documents (a) a robust loss-aversion mechanism amplified in low-resource buyer populations, (b) an integrity-based trust violation against the technology-vendor category supported by federal regulatory action, and (c) a decision-paralysis equilibrium predicted by choice-overload theory. What the literature does not yet integrate is the *interaction* of these three mechanisms in a single underserved buyer segment. In particular, no peer-reviewed empirical study has examined vendor trust erosion specifically in U.S. Hispanic-owned SMBs — the population that operates with the smallest financial buffers (Stanford Latino Entrepreneurship Initiative, 2024), the highest amplification of loss aversion under low-numeracy moderators (Mrkva et al., 2020), and the same exposure to a vendor market with the integrity-based violations documented above. This paper contributes by formally proposing that integration and by deriving from it a structural rather than persuasive intervention framework.

3. Analysis and Discussion

3.1 The Empirical Record of Vendor Failure

Three converging data points define the actual realized failure rate of SMB technology purchases.

First, the regulatory record. The Federal Trade Commission's January 2023 order against HomeAdvisor / Angi Leads (Docket No. 9407, FTC File No. 1923106) found that the platform had, since at least mid-2014, made false or unsubstantiated claims that leads matched service providers' service categories and geographic preferences, misrepresented the conversion rate of those leads to actual jobs at rates higher than the platform's own internal data supported, sold leads sourced from affiliates pertaining to consumers who had not knowingly contacted HomeAdvisor, and misrepresented that an optional first-month subscription was free (Federal Trade Commission, 2023). The settlement provided up to \$7.2 million in refunds, of which more than \$3 million had been distributed to affected small businesses by November 2023.

Second, the industry-survey record. In a Capterra and Gartner Digital Markets study of 3,400 software-procurement decision-makers across multiple countries, approximately 60% reported regret about at least one software purchase in the prior twelve to eighteen months, with one-third citing unanticipated cost of ownership, one-third citing complex implementation, 24% canceling outright, and 32% switching vendors (Capterra, 2023). These percentages describe formal procurement environments with budget review and dedicated buying teams. The realized failure rate in informal SMB-owner-operator purchases is unlikely to be lower.

Third, the regulatory-failure record. In October 2024, the FTC promulgated a final "Click-to-Cancel" rule that would have required cancellation processes for recurring subscriptions to be as simple as enrollment processes, and that explicitly applied to business-to-business transactions (Federal Trade Commission, 2024). On July 8, 2025, the United States Court of Appeals for the Eighth Circuit vacated

the rule on procedural grounds before it took effect (Custom Communications, Inc. v. FTC, 2025). The vacatur is itself thematic evidence: even regulatory attempts to address the friction layer face powerful headwinds, leaving SMB buyers structurally exposed to multi-year auto-renewal and high early-termination fees.

The pattern is not isolated misconduct by individual vendors; it is a systemic feature of the SMB technology market.

3.2 The Asymmetric Weight of Past Losses on Present Decisions

Combining the loss-aversion parameter from Brown and colleagues (2024) with the realized failure rate above produces a straightforward prediction. If a buyer has previously experienced a substantive loss from a technology vendor — whether financial (a SaaS contract whose value did not materialize), temporal (months spent on an implementation that was later abandoned), or operational (a lead-generation platform whose leads did not convert) — then the prospect of an equivalent gain from a new vendor must be approximately twice the magnitude of the remembered loss before the buyer will treat the proposition as net-positive.

This is not a heuristic. It is what loss aversion *predicts*. And under the moderators identified by Mrkva and colleagues (2020), the multiplier is larger, not smaller, for lower-numeracy and lower-resource buyers — that is, for the smaller end of the SMB segment.

The result is what trade press calls "decision paralysis," but the formal description is more precise: the buyer is not stuck. The buyer has computed an expected value and rationally declined. The vendor's task, framed in standard sales terms, is to "overcome objections." Framed in the terms of the actual underlying decision problem, the vendor's task is either (a) to offer a value proposition large enough to overcome a 2× multiplier on remembered loss, or (b) to structurally reduce the magnitude of the prospective loss the buyer is being asked to risk.

The first path is not generally available to a vendor selling a service whose realized failure rate in the broader category exceeds 50%. The second path is.

3.3 Proposed Framework: Agentes Para Tu Negocio as Asymmetric Risk Inversion

The *Agentes Para Tu Negocio* model proposes a structural intervention drawn from the consumer money-back-guarantee literature and adapted to the B2B SaaS and AI-implementation context. The model has three structural properties.

First, the initial commitment is small relative to the buyer's recovery capacity. A first engagement priced at a level the SMB owner can absorb without operational disruption shifts the buyer's reference point. Where multi-year contracts and high implementation fees create a loss-domain frame from the moment the contract is signed, a small first engagement remains in the gain domain throughout the trial period.

Second, the first engagement is fully credited toward escalation. If the buyer chooses to scale, the initial payment counts in full toward subsequent engagements. This eliminates the "wasted spend" frame that

mental-accounting theory (Thaler, 1980) predicts will distort the buyer's evaluation of the next decision, because there is, structurally, no waste — the spend was retained.

Third, the cancellation pathway is contractually unambiguous and operationally trivial. There is no early-termination fee, no auto-renewal trap, and no data-portability friction. The vendor accepts the cost of asymmetric risk by design.

These three properties together implement what Suwelack, Hogleve, and Hoyer (2011) demonstrated for consumer money-back guarantees: a positive-affective channel of trust formation operating in addition to (not instead of) the cognitive risk-reduction channel. They also implement what Kim, Dirks, and Cooper (2009) identified as the only durable form of integrity-based trust repair: structural mechanisms that make recurrence of the prior violation impossible by design rather than merely discouraged by promise. Multi-year contractual lock-in, in this frame, is structurally indistinguishable from an admission that the vendor lacks confidence in the value delivered. A vendor confident of value delivery does not require contractual mechanisms to retain the buyer.

The model's two further properties make it specifically suited to the Hispanic SMB owner-operator population. The implementation phase includes a defined onboarding period during which the vendor explains not only how the system functions but what its outputs reveal about the structural design of the buyer's business — that is, where in the operation the owner is functioning as the bottleneck. The buyer leaves the engagement not as a dependent user of a system whose internals are opaque, but as the more informed party with respect to the operational design of their own business. This structural property addresses the "tech trauma" pattern documented across SMB owners who have previously contracted technical specialists who left behind systems the owner could not maintain. Vendors who cannot articulate what their system reveals about the buyer's business are, on this view, selling technology rather than judgment.

3.4 Practical Implications

The framework above generates three testable predictions. First, conversion rates from initial engagement to scaled engagement should rise materially when the three structural properties (small first commitment, full credit toward escalation, contractually unambiguous exit) are present, relative to comparable offerings without those properties. Second, the trust-spillover decay rate — the rate at which a prior negative experience with one vendor reduces purchase intent toward unrelated subsequent vendors in the same category — should decelerate among buyers exposed to a structurally risk-reversed engagement. Third, Hispanic SMB owners specifically should respond more strongly to *structural* trust signals (contract terms, exit pathways, credit policies) than to *rhetorical* trust signals (testimonials, branded content, social proof), reflecting the dominance of past performance over current sales effort identified by Doney and Cannon (1997) and the integrity-violation pathway identified by Kim and colleagues (2009).

Industry data is consistent with these predictions but does not yet test them directly. Salesforce's *Small & Medium Business Trends Report* (2025) finds 75% of SMBs investing in AI but identifies budget constraints (49%) and implementation difficulty (44%) as the top barriers. The U.S. Small Business Administration (Office of Advocacy, 2025) reports that the AI-adoption gap between large and small

firms had nearly closed by August 2025, but that 82% of the smallest SMBs still cite "AI not applicable to my business" as their primary non-adoption reason — a statement that, on the evidence reviewed here, is unlikely to reflect a literal belief about applicability and more likely to reflect a learned avoidance of vendor categories that have previously produced loss.

4. Conclusions

4.1 Summary of Findings

This paper has argued that the characterization of SMB technology-purchase hesitation as irrational is empirically unsupported. Loss aversion, with a meta-analytically robust coefficient of approximately 1.95 (Brown et al., 2024), is amplified rather than attenuated in the lower-resource and lower-numeracy populations that dominate the SMB owner-operator segment (Mrkva et al., 2020). The realized failure rate of the technology-vendor market — documented through federal regulatory action (Federal Trade Commission, 2023), industry survey data showing approximately 60% post-purchase regret (Capterra, 2023), and the structural features of multi-year contractual lock-in (Federal Trade Commission, 2024) — is high enough that buyer caution closely tracks an accurate posterior estimate of expected loss.

Persuasion-based interventions cannot repair an integrity-based trust violation across an entire vendor category. Only structural interventions can (Kim, Dirks, & Cooper, 2009). The *Agentes Para Tu Negocio* framework — a small first engagement, fully credited toward escalation, with contractually unambiguous exit — is offered as a testable structural intervention drawn from the consumer money-back-guarantee literature (Suwelack, Hogleve, & Hoyer, 2011; Wood, 2001) and adapted to the B2B SaaS and AI-implementation context. The framework's defining property is that it asymmetrically reallocates risk from buyer to vendor by design, rather than offering rhetorical reassurance about an asymmetry the contract preserves.

The implication for practice is direct. Vendors who require multi-year contractual commitments to retain buyers are, structurally, communicating that they lack confidence in the value delivered. The buyer's correct response is to draw the same inference. A market in which vendor trust has been depleted does not recover through better marketing; it recovers through structural offers that cost the vendor more and the buyer less. That is what the evidence prescribes.

4.2 Limitations

This paper is a narrative literature review and is subject to the selection biases inherent in that method. The proposed framework has not yet been validated through controlled experimental studies; the three predictions in Section 3.4 are derived rather than tested. Industry data drawn from Gartner, Capterra, and Salesforce reports is corroborative but not peer-reviewed, and the specific Hispanic SMB segment is supported by structural rather than direct empirical evidence on vendor trust dynamics. The Better Business Bureau and trade-press records cited illustratively in the supporting analysis are not court records and should not be read as evidence of adjudicated misconduct.

4.3 Future Research Directions

Three lines of inquiry follow from the present argument. First, controlled field studies comparing conversion and retention rates across structurally risk-reversed and conventional contractual offerings in matched SMB samples would directly test the framework's predictions. Second, longitudinal measurement of trust-spillover decay across vendor categories — for example, between lead-generation platforms and AI-implementation vendors — would clarify the magnitude of integrity-based trust contagion at the category level. Third, the intersection of capital-access constraints, contractual lock-in friction, and loss-aversion amplification in U.S. Hispanic-owned SMBs is, as of this writing, unaddressed in the peer-reviewed literature; primary empirical work in this segment would close a meaningful gap and is identified as a forthcoming line of investigation by the present author.

Resumen en Español

Los dueños de pequeñas y medianas empresas (PYMES) — y particularmente los dueños de negocios hispanos — son comúnmente caracterizados por los proveedores de tecnología como irracionalmente reacios al riesgo, lentos para adoptar herramientas útiles y difíciles de convertir. Este artículo argumenta lo opuesto: que la parálisis de decisión observada cuando los dueños de PYMES enfrentan a proveedores de tecnología e inteligencia artificial no es una falla cognitiva, sino una respuesta bayesiana calibrada a un historial documentado de promesas excesivas e incumplimiento por parte de los proveedores. A partir de un meta-análisis de 607 estimaciones empíricas de aversión a la pérdida (Brown et al., 2024), de los registros de cumplimiento de la Comisión Federal de Comercio (FTC, 2023), y de datos de la industria que muestran que aproximadamente el 60% de las decisiones formales de compra de software producen arrepentimiento posterior (Capterra, 2023), esta revisión demuestra que el peso asimétrico de las pérdidas pasadas ($\lambda \approx 1.95$) no es un error en el razonamiento del comprador, sino una característica que rastrea correctamente la tasa de fracaso real del mercado de proveedores. La implicación es estructural, no retórica: la persuasión no repara una violación de confianza basada en integridad cometida contra una categoría completa de proveedores. Solo la inversión estructural del riesgo lo hace. Este artículo propone el modelo *Agentes Para Tu Negocio* como un análogo B2B comprobable de la garantía de devolución de dinero al consumidor.

Palabras clave: erosión de confianza en proveedores, parálisis de decisión, aversión a la pérdida, teoría de las perspectivas, adopción de tecnología en PYMES, negocios hispanos, reversión asimétrica del riesgo, SaaS B2B, arrepentimiento del comprador de software, Agentes Para Tu Negocio

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