

# Guest editorial: Behavioral strategy: (re-) affirming foundations

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## 1. Introduction to the special issue

The milestone work of [Powell et al. \(2011\)](#) has established the boundaries of a new field of research in management and organization studies: *Behavioral Strategy*. Behavioral strategy “merges cognitive and social psychology with strategic management theory and practice. Behavioral strategy aims to bring realistic assumptions about human cognition, emotions and social behavior to the strategic management of organizations and, thereby, to enrich strategy theory, empirical research and real-world practice” ([Powell, 2011](#), p. 1371). This field is solidly rooted in some key social and cognitive psychology assumptions ([Cristofaro, 2017a](#); [Abatecola and Cristofaro, 2020](#); [Urio et al., 2022](#)) of grandiose scholars, such as: [Barnard \(1938\)](#) with regard to his “logic and nonscientific reasoning”; [Cyert and March’s \(1963\)](#) “behavioral theory of the firm” and concept of “dominant coalition”; [Kahneman’s “prospect theory” \(Kahneman and Tversky, 1979\)](#) and “heuristic and biases” program ([Kahneman, 2011](#)), [Hambrick and Mason’s \(1984\)](#) view of organizations as reflections of their top management teams; and [Thaler’s \(1999\)](#) “nudge theory” and concept of “mental accounting”. Above all, it is necessary to recall [Simon’s \(1957\)](#) concept of “bounded rationality,” which, when combined with the concept of strategy, can be described as follows:

At each moment the behaving subject, or the organization composed of numbers of such individuals, is confronted with a large number of alternative behaviors, some of which are present in consciousness and some of which are not. Decision, or choice, is the process by which one of these alternatives for each moment’s behavior is selected to be carried out. The series of such decisions which determines behavior over some stretch of time may be called a strategy. ([Simon, 1997a, 1997b](#), p. 77)

From that, the act of making strategic decisions and executives’ behavior can be considered as strongly connected and determining firms’ strategic evolution ([Simon, 1993](#)).

As a newer stream of research, behavioral strategy aims at understanding:

- how the cognition of the individual scale up to collective behavior ([Lovallo and Sibony, 2010](#); [Gavetti, 2012](#); [Cristofaro and Lovallo, 2022](#));
- how complex judgments in organizations are made ([Garg, 2017](#); [Augier et al., 2018](#)); and
- how to design organizational environments that can reduce the occurrence of biases ([Echols and Neck, 1998](#); [Cristofaro, 2017b](#); [Sibony et al., 2017](#)).

In brief, behavioral strategy tries to better exploit the psychological antecedents of strategy – such as personality traits, mental health or disorders, beliefs, spirituality emotions, etc. ([Ackers and Preston, 1997](#); [Mendenhall et al., 2014](#)) – and how strategy is “really” formed in organizations.

Thanks to [Powell et al.’s \(2011\)](#) positioning work, it can be said that the “behavioral revolution” is finally gaining momentum in strategy research ([Greve, 2013](#); [Levnithal, 2011](#)), while also finding effective, contemporary applications. For example, behavioral strategy has served as an interpretative lens during the recent COVID-19 pandemic for explaining “the judgment in strategic decision making, the deeply social (political,



institutional) nature of strategy making and the treatment of fundamental uncertainty” (Foss, 2020, p. 1322).

However, despite the huge theoretical and practical interest raised, the behavioral strategy field is still struggling to find a definite space and community. There have been few books published on the topic (Bromiley, 2009; Das, 2014; Augier *et al.*, 2018), and there have not been any other Special Issues at journals – this is (proudly) the first – on this topic. There have been a few symposia at recent *Academy of Management* annual meetings delivered, and the first Behavioral Strategy Interest Group within the *Strategic Management Society* has been formed. This is a good start, but the road ahead is long and challenging to build a strong and wide community.

Yet, despite the above outlined good intentions in trying to bring realistic assumptions about human behavior into strategic management, behavioral strategy research has mainly established its foundations on works investigating, for example, psychological variables on secondary data. However, the required consideration of the emotional side of the human mind which, for some scholars, is the driver of cognition and consequent behavior (Healey and Hodgkinson, 2017; Cristofaro, 2020), has been lacking. As such, the goal of the proposed Special Issue has been to (*re-*)*affirm the foundations of Behavioral Strategy* as conceived in its origins. In brief, we encouraged research based on multi-level theories and/or multiple empirical approaches – based on primary data – that consider the behavior of executives intertwining affective states and cognition. By pursuing the above, strategy scholars will advance strategy as an act of *human behavior*.

To better convey the intentions of the Special Issue and create a moment of debate among authors interested in these enduring ideas, a virtual Paper Development Workshop was organized on October 22, 2021. On this occasion, seven works were presented by scholars from five different countries. Feedback was given by the guest editorial team and the Co-Editors in Chief of *Management Research Review*, Prof Lerong He and Prof Jay Janney. The discussion ensured an interesting debate that then was oriented toward the positive and negative influence of heuristics in strategic decisions. In fact, while there is an established school of thought that we refer to as the “Kahnemanian” (Kahneman, 2011) school that advances heuristics as second-best tools for making a judgment, there is a second school that we can define as the “Gigerenzian” (Gigerenzer and Selten, 2001) school that is trying to prove how heuristics can lead to better (or at least guaranteeing a more efficient mental process in resource terms) strategic decisions. We asked interested authors to consider these two points of view in their heuristic-related contributions. The workshop, in general, helped to create connections among behavioral strategy scholars and start thinking as a specific community beyond “just” strategic management scholars.

## **2. The contributions in this special issue**

The promotion of the Special Issue through personal contacts with authors interested in behavioral strategy, listservs, social media posts and conference networks raised an impressive total of 37 submissions. The geographical dispersion and variety of interests depicted in these submissions were the first evidence of how widely influential behavioral strategy has become. Not all submitted papers passed two rounds of reviews. Only the submitted works that aligned with the Call for Papers (CfP) and the general intention of the Special Issue were considered for the full review. The successful works for this Special Issue have a strong focus on the behavior of executives or high-level decision makers. The main issue with these desk-rejected submissions was that they dealt with the behavior of consumers, financial operators or employees, which, while important areas to research, do not align with the concept of behavioral strategy. We think that sharing this data is

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important to remark the boundaries of behavioral strategy: it deals with the behavior of executives, and their impact on the strategic formulation and implementation by companies. What is outside this range can likely fall into another domain of inquiry, which may focus on the behaviors of consumers, employees or individuals, such as consumer behavior, organizational behavior and behavior finance, with different units of analysis.

Manuscripts aligned with the CFP passed at least two rounds of double-blinded peer review, always followed by final comments of guest editors. In total, 22 scholars acted as reviewers – to them we share our deepest appreciation. In the end, 14 passionate behavioral strategy scholars produced eight excellent works accepted for publication in this Special Issue. We offer a brief description of these papers for accompanying the readers throughout this editorial endeavor.

The opening article of this Special Issue is by Ivo [Hristov et al. \(2022\)](#) and it is entitled “Cognitive biases in implementing a performance management system: behavioral strategy for supporting managers’ decision-making processes.” The purpose of this paper is twofold: to provide a clear picture of the cognitive biases affecting managers’ decision-making process of implementing a performance management system (PMS), and to identify managerial practices, measures and the key challenges to managing the cognitive biases in the corporate strategy. Authors conducted semi-structured interviews, based on theoretical milestones of performance management and cognitive psychology, gathered from 104 experienced professionals’ evaluations on: the likelihood and impact of managers’ cognitive biases in PMS implementation, potential solutions to biases and drivers of biases. By adopting a mixed qualitative–quantitative analysis, authors found that recurring cognitive biases, together with considerable impacts, emerged in the first, and most strategic, phases of the PMS implementation, i.e. drawing strategies and plans. Therefore, the authors developed a roadmap to support the corporate transition to integrate behavioral strategy into the PMS implementation aiming to achieve economically and efficiently sound performance. From the view of proper behavioral strategy affirmation in performance management literature, the authors contribute to a desirable taxonomy of cognitive biases, such that differentiated decision-making scenarios may be built to compare results and draw new observations. Practitioners may check biases affecting their organizations by means of the questionnaire and, consequently, adopt the framework illustrated to reduce them.

The second work of this Special Issue, “Managerial hubristic-behavioral strategy: How to cope with chaotic and uncertain contexts” was co-authored by Francesca [Loia et al. \(2022\)](#). In this article, authors explore the possible positive effects of hubris, particularly when firms operate in the circumstances of chaos and high uncertainty. Specially, they conducted leader-follower interviews at nine secondary schools (nine school managers, 18 teachers and 18 secretarial employees, a total of 45 interviewees). Based on the thematic analysis of the interviews, they have unveiled that hubristic managers exhibit three major attributes:

- (1) overconfidence and overpersistence;
- (2) recklessness; and
- (3) contempt for critical feedback, together potentially enabling firms to thrive in chaotic and uncertain times.

Their study has brought out the importance of contexts in behavioral strategy research as the effects of behaviorally oriented constructs can indeed be context dependent. Previous research has cautioned hazards of hubris in contexts, such as mergers, acquisitions and project management, since hubris can subject managers to biases in their valuations,

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assessments and judgments. However, in the chaotic and highly uncertain contexts, such as operating conditions during the COVID-19 pandemic, the hubristic behavior of managers can bias their views on resources and challenges at hand in the favorable light and can propel quick and timely actions needed for their organization to be effective under such conditions. This study thus offers a positive perspective of hubris, providing an alternative yet complementary view on managerial hubris and performance in a broader behavioral strategy literature.

In the third paper, entitled “Design Thinking Traits and Cognitive Passive Resistance: Mediating Effect of Linear Thinking”, Juan [Giraldo Ospina and Guevara Sánchez \(2022\)](#) investigated the relationship between three cognitive dimensions: design thinking personality traits, cognitive passive resistance and linear thinking. Data were collected from 342 professional engineering and business graduates in Colombia, data analysis was done using covariance-based structural equation modeling. Giraldo Ospina and Sánchez have found that design thinking personality traits are negatively related to both cognitive passive resistance and linear thinking. They also demonstrated that linear thinking mediated the relationship between design thinking personality traits and cognitive passive resistance. From that, the authors’ research findings extend the literature on passive cognitive resistance and provide new insights into the multidimensional concept of nonlinear thinking. Since design thinking can be supported in the study field of behavioral strategy, the study by these two authors highlights the concept of knowledge hiding, which is in the “embryonic stage”, in relation to innovation resistance. This study underscores the importance of developing strategies to alleviate passive cognitive resistance to change. The research concludes that other perspectives of thinking that allow nondesigners to develop creative thinking will have positive outcomes.

The fourth work of this Special Issue, by Wayne [Borchardt et al. \(2022\)](#), is entitled “Behavioral strategy in the wild”, and contemplates whether the behavioral strategy is coming of age, that is, if it has moved from the lab into the real world. The authors have described four real-world settings of business managers’ and political leaders’ strategic decision-making “in the wild”. In each setting, they examined a failure case of problematic decision-making due to a behavioral bias, described applicable debiasing techniques and presented a successful case demonstrating the effectiveness of the relevant debiasing technique. The first discussion explored confirmation bias in military intelligence. The US Secretary of Defense, Robert McNamara, and the think-tank RAND Corporation succumbed to confirmation bias, influencing US foreign policy and contributing to the Vietnam War debacle. The red team/blue team debate technique is a solution for debiasing confirmation bias, and the success case reviews how such contrarian thinking contributed to the success of the 2011 Navy SEAL mission that killed Osama bin Laden. Next, the authors focused on over-optimism in M&A deal-making and offer the Mediating Assessments Protocol as a structured, organizational meta-debiasing solution. The third case showed the negative impact of anchoring or inertia on resource allocation decisions. Here, the authors recommended using a CEO piggybank, a debiasing technique where money is set aside in a contingency fund specifically for seizing new business opportunities. Finally, the authors examined the planning fallacy and its consequences in capital projects that finish late and/or over budget. Reference class forecasting is an analytical debiasing technique that the authors describe as “perhaps the best illustration of the success of debiasing *in the wild*”.

In the fifth work entitled “The role of reference points and organizational identity in strategic adaptation to performance feedback”, Daniela Blettner and Simon Gollisch (2022) have suggested that the reference points managers use as anchors and the organizational identity context in which they make decisions are inseparable and must be considered

together to accurately understand their observation frame. In their research, the authors built on Performance Feedback Theory and Strategic Reference Point Theory by differentiating reference points into three categories (i.e. number, temporality-past or future-oriented and specificity). In addition, their research theorized the influence of specific organizational identity characteristics (i.e. focus, discontinuity and distinctiveness) on behavioral strategy and strategic adaptation. The research sample of this study consisted of eight leading newspaper publishing firms in the USA and Europe, where the meaning of strategic adaptation is extremely clear: the transition toward greater revenues from digital sales as opposed to print sales. The authors compared letters to shareholders (LTSs) in this exploratory comparative case study using linguistic text-based analysis. Their research showed that a focused organizational identity and a moderate number of reference points were positively associated with strategic adaptation. Further, the authors found that the fluctuation of these characteristics, both the specificity levels and temporality of reference points, as well as a fluctuation between continuity/discontinuity and the distinctiveness of organizational identity drives change in successful, well-adapted organizations. Managers must therefore reevaluate and reformulate their organizational identity and reference points over time, balancing stability and change.

The last article of this Special Issue is by Simone Guercini and Matilde Milanese (2022), and it is entitled “Foreign Market Entry Decision-Making and Heuristics: a Mapping of the Literature and Future Avenues”. In particular, the article proposes a systematic literature review and an in-depth analysis of 32 papers published between 1997 and 2021 dealing with foreign market entry and the use of heuristics for international decision-making. The results show key issues fundamental to foreign market entry: microfoundations, speed of entry, country distance, location decision and entry modes. In these areas, several types of heuristics are applied. Research on microfoundations is emerging as relevant in the international business literature, and the study of the microfoundations and empirically observable behavior represents a path for future research that leads to identifying and examining the effects of heuristics that are adopted by individuals and found widespread in organizations.

### 3. The future of behavioral strategy studies

In this Special Issue of *Management Research Review*, we encouraged contributions to answer a series of research questions. While several questions posed were answered in this Special Issue, there are, of course, still numerous questions outstanding. From the remaining gaps, the way forward is full of opportunities for researchers interested in this area of strategic management. Some of the open research avenues, derived from the bounded knowledge of guest editors, are related to:

- biases and the behind-the-scenes interplay between cognition and affective states (*e.g. how do individual biases scale up to collective biases in the top management team’s strategic decision-making processes? Do cognition and affective states interplay differently when examining family firms, startups, large firms, or hybrid organizations?*);
- tools and techniques for improving strategic decision making (*can the “acts” of selfregulating emotions and reducing cognitive biases lead to the formation of other, more dangerous, unconscious biases? Are there some board of director/top management team compositions that foster/reduce biases?*); and
- explore even more the link with other scientific streams, such as psychology, sociobiology and cautiously, neuroscience.

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This is needed stemming from the fact that the goal of behavioral strategy is to bring the theory of decision-making and organizational strategy closer to empirical evidence. About the latter, the neurostrategy approach to management seeks to answer unexplored questions concerning the study of the human rationality of management decision-makers by finding connections between mental constructs with the activation of particular areas of the brain (Powell, 2011). Despite already recognized methodological drawbacks of neurostrategy research (Cristofaro, 2021; Cristofaro *et al.*, 2022), the interconnection with behavioral strategy is needed, and giving this latter a driving role is even more important to orient neuroscience evidence toward a useful theory and practice.

Apart from the above, which are just some initial insights, other great implications for future behavioral strategy developments emerged from the contributions included in this collection. From the work by Hristov *et al.* (2022), for example, due to the fact that cognitive biases can be explained by affective states, future empirical analyses may exploit validated biases to discover new statistical correlations with managers' sociodemographic features and personality types. Linked to these avenues, the article by De Gennaro *et al.* (2020) points out that subsequent research is needed to look into the dynamics within top management teams with hubristic CEOs at the top. On the other side, how Boards of Directors deal with hubristic CEOs could also be an interesting future study. For example, one question to address is, how should a board of directors manage the behaviors of hubristic CEOs to positively impact firm performance?

Giraldo's research offers several avenues for future research. First, it is recommended that the study be replicated in other contexts outside Colombia, with the intention of generating more empirical evidence and thus being able to generalize the results. Likewise, future research can replicate the study with other types of nondesign thinkers professionals who may have different frameworks of thought. It is also recommended to conduct qualitative studies that address both this type of resistance and cognitive styles, for a more detailed understanding of the phenomenon. Another avenue of research is related to studying the resistance to the adoption of design thinking, once the evaluation and adoption process has begun. Future studies may also examine the phenomenon in the context of the consequences of the forced use of innovation and to relate it to other forms of resistance such as forced innovation or knowledge hiding. Finally, it is recommended to study the phenomenon in the context of culture, considering different aspects related to both organizational culture and cultural dimensions associated with the local or national context, which can be included in the adoption process of this type of innovation.

Borchardt *et al.* (2022) have cited a handful of studies to establish the effectiveness and popularity of debiasing techniques in real-world settings, but otherwise noted a dearth of studies that explore behavioral strategy in the wild. They found no studies that discuss the interaction of multiple behavioral biases in complex settings. Borchardt *et al.* argue that while this paper's cases show the effectiveness and potential value of debiasing techniques, they do not provide ample evidence that "behavioral strategy is coming of age". Further research must be conducted "in the wild" to develop a more thorough understanding of the relative effectiveness of behavioral strategies. This avenue is similar to another one pointed out by De Gennaro *et al.* (2020), who underlined how "contexts" are an important consideration to be made in behavioral strategy research.

Blettner and Gollisch (2022) have admitted that their research is limited by its narrow industry focus, data source and procedural methodology. Future work must consider differences in complexity, transparency and maturity among organizations in other industries than publishing and its impact on reference points and organizational identity in the context of strategic adaptation. LTSs are a valid organizational communication source,

but further research can triangulate additional data sources such as news articles, earnings call transcripts and company websites. Finally, the findings of this exclusively linguistic, text-based analytic research can be advanced by an experimental study that can more precisely isolate the effect of properties of reference points and organizational identity on strategic adaptation.

Guercini and Milanesi (2022) have noted that executives deciding to expand into foreign markets will have “to adjust their worldview to accurately perceive the needs of the stakeholders within their new international context” (Bolton and Butler, 2017, p. 82). These adjustments in worldviews will likely impact heuristics when making foreign market entry decisions. Failure to adjust worldviews when examining which markets to expand into can mean the heuristics used are also not updated. This could impact the success of a firm’s efforts to expand internationally. Thus, it is recommended that future research explore how worldviews impact the heuristics used by executives when deciding when, where and how to enter into foreign markets.

Finally, due to the fragmented streams of research crossing the whole behavioral strategy area, a comprehensive systematic literature review of the behavioral strategy is needed. In fact, despite a recent bibliometric study on the behavioral strategy topic having just been published (Urio *et al.*, 2022), it has not been pointed out what is “hot” and what is “not” in the field, if there are duplicates and inconsistencies among produced research outputs, a formal research agenda for producing research that is relevant for both theory and practice, and what the wider links are among concepts/theories. These issues are in line with the milestone piece by Powell *et al.* (2011), who argued that the next step for behavioral strategy research would be the attempt to unify the field and its different “souls”. It is quite apparent that this is still an ongoing issue.

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