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## Behavioral strategy

### Behavioral perspectives in strategic management research

**Period:** a.y. 2021/22 – I sem.

**Class times:** See agenda

**Instructor:**

Prof. **Cédric Gutierrez**  
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#### Course description

Scholars in strategic management have proposed different definitions of behavioral strategy. According to Powell et al. (2011), “behavioral strategy aims to bring realistic assumptions about human cognition, emotions, and social behavior to the strategic management of organizations.” Behavioral strategy can also be defined as the “application of insights from psychology and behavioral economics to the research and practice of strategic management” (Foss, 2020). Others have proposed that there are several alternative conceptions of behavioral strategy. Some conceptions focus on the “direct transposition of the logic of behavioral economics to the field of strategic management.” In contrast, others “include consideration of of any and all psychological, sociological, and political factors that influence strategic outcomes” (Hambrick & Crossland, 2018).

This doctoral-level seminar is designed to expose Ph.D. students to these different perspectives of behavioral strategy. In the first session, we will discuss the nature of uncertainty, a fundamental component of any strategic decision. In the second session, we will look at the role of managerial beliefs and, in particular, at the causes and consequences of managerial overconfidence. In the third session, we will explore how reference-dependent preferences and social comparison affect strategic decisions. In the fourth session, we will look at time, another essential component of any strategic decision. The fifth session will be focused on two important elements of the behavioral theory of the firm: performance feedback and attention. Finally, the last session will be dedicated to the role of cognition and decision-making processes. In dealing with these topics, we will cover

a large range of strategic decisions such as market entry/exit, mergers and acquisitions, strategic change, and product introduction.

### **Course Material**

The readings are the only required material for the course. There is also a list of suggested readings that are meant to provide background and additional knowledge about the topics we will discuss in class. All the material will be made available on Blackboard.

### **List of topics**

- What is behavioral strategy?
- Nature of risk and uncertainty
- Belief-based biases: Overconfidence and attribution theory
- Reference dependence and social comparison
- Time and temporal perspectives
- The behavioral theory of the firm: performance feedback and attention
- Cognition and heuristics

### **Assessment Methods.**

Course grading will be based on the following assignments and deliverables:

- 50% - Research proposal. You will have to provide a research proposal on a novel idea related to one of the concepts studied in this course. The proposal should contain a specific research question, detail what the propositions are, convince the reader that it is an important question and explain how you plan to address it (e.g., what data could potentially be used?). The research proposal will be due 2 weeks after the last session.
- 30% - Lead discussant presentation. You will be assigned as a lead discussant of several articles. I will grade your presentation based on its delivery in class. You will have to share your slides/summary with me and the other students prior to the corresponding session.
- 20% - Contribution to class discussion. I will assess your contribution to class discussion following each session.

### **Faculty Bio.**

Cédric Gutierrez is an assistant professor of Management and Technology. His research primarily focuses on understanding the behavioral mechanisms of market entry and market dynamics. He explores the effects of temporal preferences and attitudes toward ambiguity on (entrepreneurial) entry. He is also interested in the effects of behavioral traits and external interventions on gender differences in the decision to enter labor markets. In a related stream of work, Cédric explores the effects of behavioral mechanisms (perception of

loss or inequity) on incentive systems. Empirically, he primarily uses methodologies and models from experimental economics and decision sciences. Cédric's research has been published in *Organization Science*, the *Strategic Management Journal*, the *Journal of Risk and Uncertainty* and *Strategic Organization*. His research has been recognized by the 2016 Best Empirical Paper Award of the Entrepreneurship Division at the Academy of Management and the 2018 Best Dissertation Award (2nd place) at INFORMS Technology, Innovation Management and Entrepreneurship. Cédric serves on the editorial board of the *Strategic Management Journal*.

## READINGS

### Session 1a – What is behavioral strategy?

#### Background readings (we will discuss them as an introduction to the course)

- Powell, T. C., Lovallo, D., & Fox, C. R. (2011). Behavioral strategy. *Strategic Management Journal*, 32(13), 1369-1386.
- Gavetti, G. (2012). Toward a behavioral theory of strategy. *Organization Science*, 23(1), 267-285.
- Gavetti, G., Greve, H. R., Levinthal, D. A., & Ocasio, W. (2012). The behavioral theory of the firm: Assessment and prospects. *Academy of Management Annals*, 6(1), 1-40.
- Hambrick, D. C., & Crossland, C. (2018). A strategy for behavioral strategy: Appraisal of small, midsize, and large tent conceptions of this embryonic community. In *Behavioral strategy in perspective*. Emerald Publishing Limited.

### Session 1b – On the nature of risk and uncertainty

#### Readings

- Bromiley, P. (2010). Looking at prospect theory. *Strategic Management Journal*, 31(12), 1357-1370.
- Klingebiel, R. (2018). Risk-type preference shifts in response to performance feedback. *Strategic Organization*, 16(2), 141-166.
- Packard, M. D., Clark, B. B., & Klein, P. G. (2017). Uncertainty types and transitions in the entrepreneurial process. *Organization Science*, 28(5), 840-856.
- Reuer, J. J., & Leiblein, M. J. (2000). Downside risk implications of multinationality and international joint ventures. *Academy of Management Journal*, 43(2), 203-214.
- Wu, B., & Knott, A. M. (2006). Entrepreneurial risk and market entry. *Management Science*, 52(9), 1315-1330.
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### Session 2 – Belief-based biases: Overconfidence and attribution theory

#### Background readings

- Camerer, C., & Lovallo, D. (1999). Overconfidence and excess entry: An experimental approach. *American Economic Review*, 89(1), 306-318.
- Moore, D. A., & Healy, P. J. (2008). The trouble with overconfidence. *Psychological Review*, 115(2), 502.
- Tversky, A., & Kahneman, D. (1974). Judgment under Uncertainty: Heuristics and Biases: Biases in judgments reveal some heuristics of thinking under uncertainty. *Science*, 185(4157), 1124-113

- Staw, B. M., McKechnie, P. I., & Puffer, S. M. (1983). The justification of organizational performance. *Administrative Science Quarterly*, 582-600.

### Readings - overconfidence

- Chen, G., Crossland, C., & Luo, S. (2015). Making the same mistake all over again: CEO overconfidence and corporate resistance to corrective feedback. *Strategic Management Journal*, 36(10), 1513-1535.
- Elfenbein, D. W., Knott, A. M., & Croson, R. (2017). Equity stakes and exit: An experimental approach to decomposing exit delay: Equity Stakes and Exit. *Strategic Management Journal*, 38(2), 278-299.
- Gutierrez, C., Astebro, T., & Obloj, T. (2020). The impact of overconfidence and ambiguity attitude on market entry. *Organization Science*.
- Herz, H., Schunk, D., & Zehnder, C. (2014). How do judgmental overconfidence and overoptimism shape innovative activity?. *Games and Economic Behavior*, 83, 1-23.

### Readings - Attribution theory

- Crilly, D., Ni, N., & Jiang, Y. (2016). Do-no-harm versus do-good social responsibility: Attributional thinking and the liability of foreignness. *Strategic Management Journal*, 37(7), 1316-1329.
- Hayward, M. L., Rindova, V. P., & Pollock, T. G. (2004). Believing one's own press: The causes and consequences of CEO celebrity. *Strategic Management Journal*, 25(7), 637-653.

## Session 3 – Reference dependence & social comparison

### Background readings

- Holmes, R. M., Bromiley, P., Devers, C. E., Holcomb, T. R., & McGuire, J. B. (2011). Management Theory Applications of Prospect Theory: Accomplishments, Challenges, and Opportunities. *Journal of Management*, 37(4), 1069-1107.
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica: Journal of the Econometric Society*, 263-291.
- Wiseman, R. M., & Gomez-Mejia, L. R. (1998). A Behavioral Agency Model of Managerial Risk Taking. *Academy of Management Review*, 23(1), 133-153.
- Hossain, T., & List, J. A. (2012). The behavioralist visits the factory: Increasing productivity using simple framing manipulations. *Management Science*, 58(12), 2151-2167.

### Readings - Prospect theory and reference dependence

- Baker, M., Pan, X., & Wurgler, J. (2012). The effect of reference point prices on mergers and acquisitions. *Journal of Financial Economics*, 106(1), 49-71.

- Benischke, M. H., Martin, G. P., & Glaser, L. (2019). CEO equity risk bearing and strategic risk taking: The moderating effect of CEO personality. *Strategic Management Journal*, 40(1), 153-177.
- Chrisman, J. J., & Patel, P. C. (2012). Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. *Academy of Management Journal*, 55(4), 976-997.
- Lim, E. N. (2015). The role of reference point in CEO restricted stock and its impact on R&D intensity in high-technology firms. *Strategic Management Journal*, 36(6), 872-889.
- Pierce, L., Rees-Jones, A., & Blank, C. (2020). *The Negative Consequences of Loss-Framed Performance Incentives* (No. w26619). National Bureau of Economic Research.

### Readings - Social comparison

- Kacperczyk, A., & Balachandran, C. (2018). Vertical and horizontal wage dispersion and mobility outcomes: Evidence from the Swedish microdata. *Organization Science*, 29(1), 17-38
- Larkin, I., Pierce, L., & Gino, F. (2012). The psychological costs of pay-for-performance: Implications for the strategic compensation of employees. *Strategic Management Journal*, 33(10), 1194-1214.
- Obloj, T., & Zenger, T. (2017). Organization design, proximity, and productivity responses to upward social comparison. *Organization Science*, 28(1), 1-18.

### Session 4: Temporal perspectives

#### Background readings

- Frederick, S., Loewenstein, G., & O'donoghue, T. (2002). Time Discounting and Time Preference: A Critical Review. *Journal of Economic Literature*, 40(2), 351-401.
- Lévesque, M., & Stephan, U. (2020). It's time we talk about time in entrepreneurship. *Entrepreneurship Theory and Practice*, 44(2), 163-184.
- Reilly, G., Souder, D., & Ranucci, R. (2016). Time horizon of investments in the resource allocation process: Review and framework for next steps. *Journal of Management*, 42(5), 1169-1194.

#### Readings

- Desjardine, M., & Bansal, P. (2019). One step forward, two steps back: How negative external evaluations can shorten organizational time horizons. *Organization Science*, 30(4), 761-780.
- Ederer, F., & Manso, G. (2013). Is pay for performance detrimental to innovation?. *Management Science*, 59(7), 1496-1513.
- Flammer, C., & Bansal, P. (2017). Does a long-term orientation create value? Evidence from a regression discontinuity. *Strategic Management Journal*, 38(9), 1827-1847.
- Nadkarni, S., & Chen, J. (2014). Bridging yesterday, today, and tomorrow: CEO temporal focus,

environmental dynamism, and rate of new product introduction. *Academy of Management Journal*, 57(6), 1810-1833.

- Salmon, E. D., Gelfand, M. J., Ting, H., Kraus, S., Gal, Y. A., & Fulmer, C. A. (2016). When time is not money: Why Americans may lose out at the negotiation table. *Academy of Management Discoveries*, 2(4), 349-367.
- Souder, D., Reilly, G., Bromiley, P., & Mitchell, S. (2016). A behavioral understanding of investment horizon and firm performance. *Organization Science*, 27(5), 1202-1218.

## **Session 5 – The behavioral theory of the firm**

### **Background readings**

- Bromiley, P., Rau, D., & Zhang, Y. (2017). Is R&D risky?. *Strategic Management Journal*, 38(4), 876-891.
- Kacperczyk, A., Beckman, C. M., & Moliterno, T. P. (2015). Disentangling risk and change: Internal and external social comparison in the mutual fund industry. *Administrative Science Quarterly*, 60(2), 228-262.
- Kim, J. Y., Finkelstein, S., & Halebian, J. (2015). All aspirations are not created equal: The differential effects of historical and social aspirations on acquisition behavior. *Academy of Management Journal*, 58(5), 1361-1388.
- March, J. G., & Shapira, Z. (1992). Variable risk preferences and the focus of attention. *Psychological Review*, 99(1), 172.
- Ocasio, W. (1997). Towards an attention-based view of the firm. *Strategic Management Journal*, 18(S1), 187-206.
- Quigley, T. J., Hambrick, D. C., Misangyi, V. F., & Rizzi, G. A. (2019). CEO selection as risk-taking: A new vantage on the debate about the consequences of insiders versus outsiders. *Strategic Management Journal*.
- Shinkle, G. A. (2012). Organizational Aspirations, Reference Points, and Goals Building on the Past and Aiming for the Future. *Journal of Management*, 38(1), 415-455.

### **Readings - Performance feedback**

- Chen, W. R. (2008). Determinants of firms' backward-and forward-looking R&D search behavior. *Organization Science*, 19(4), 609-622.
- Greve, H. R. (2008). A behavioral theory of firm growth: Sequential attention to size and performance goals. *Academy of Management Journal*, 51(3), 476-494.
- Kuusela, P., Keil, T., & Maula, M. (2017). Driven by aspirations, but in what direction? Performance shortfalls, slack resources, and resource-consuming vs. resource-freeing organizational change: Driven by Aspirations, but in What Direction. *Strategic Management Journal*, 38(5), 1101-1120.
- Ref, O., & Shapira, Z. (2017). Entering new markets: The effect of performance feedback near aspiration and well below and above it. *Strategic Management Journal*, 38(7), 1416-1434.

- Schumacher, C., Keck, S., & Tang, W. (2020). Biased interpretation of performance feedback: The role of CEO overconfidence. *Strategic Management Journal*, smj.3138.

### Readings - Attention-based view

- Cho, T. S., & Hambrick, D. C. (2006). Attention as the mediator between top management team characteristics and strategic change: The case of airline deregulation. *Organization science*, 17(4), 453-469.
- Joseph, J., & Ocasio, W. (2012). Architecture, attention, and adaptation in the multibusiness firm: General electric from 1951 to 2001. *Strategic Management Journal*, 33(6), 633-660.
- Ocasio, W., Laamanen, T., & Vaara, E. (2018). Communication and attention dynamics: An attention-based view of strategic change. *Strategic Management Journal*, 39(1), 155-167.

## Session 6: Cognition and decision

### Background readings

- Kaplan, S. (2011). Research in cognition and strategy: Reflections on two decades of progress and a look to the future. *Journal of Management Studies*, 48(3), 665-695.
- Gigerenzer, G., & Gaissmaier, W. (2011). Heuristic decision making. *Annual review of psychology*, 62, 451-482.
- Menon, A. (2018). Bringing cognition into strategic interactions: Strategic mental models and open questions. *Strategic Management Journal*, 39(1), 168-192.
- Walsh, J. P. (1995). Managerial and organizational cognition: Notes from a trip down memory lane. *Organization science*, 6(3), 280-321.

### Readings - Cognition

- Csaszar, F. A., & Levinthal, D. A. (2016). Mental representation and the discovery of new strategies. *Strategic Management Journal*, 37(10), 2031-2049.
- Gary, M. S., & Wood, R. E. (2011). Mental models, decision rules, and performance heterogeneity. *Strategic management journal*, 32(6), 569-594.
- Huang, L., & Pearce, J. L. (2015). Managing the unknowable: The effectiveness of early-stage investor gut feel in entrepreneurial investment decisions. *Administrative Science Quarterly*, 60(4), 634-670.
- Levine, S. S., Bernard, M., & Nagel, R. (2017). Strategic intelligence: The cognitive capability to anticipate competitor behavior. *Strategic Management Journal*, 38(12), 2390-2423.

### Readings – Decision: Heuristics vs. “Rational” decision

- Ehrig, T., & Schmidt, J. (2021). Making biased but better predictions: The trade-offs strategists



face when they learn and use heuristics. *Strategic Organization*, 19(2), 263-284.

- Laureiro-Martínez, D., & Brusoni, S. (2018). Cognitive flexibility and adaptive decision-making: Evidence from a laboratory study of expert decision makers. *Strategic Management Journal*, 39(4), 1031-1058.
- Luan, S., Reb, J., & Gigerenzer, G. (2019). Ecological rationality: Fast-and-frugal heuristics for managerial decision making under uncertainty. *Academy of Management Journal*

