# Business decision making: understanding the dynamic role of emotions

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**Abstract**
In recent years, there has been a need for a deeper understanding of the cumulating knowledge in different science disciplines about emotions in decision making. While many traditional economic theories operate with the preconception of utility maximization, this contradicts with the recent findings in behavioral economics and neurosciences. In the meanwhile, the IMP research tradition, although managerially oriented, have just started to acknowledge the importance of individuals for interactive business environments. Besides being described as actors acting on behalf of their companies, their roles and capabilities have often been omitted. Instead, IMP researchers have focused on studying strategizing in business networks and interactive processes between organizations embedded in those networks. This conceptual article aims to contribute to the conceptual development of the field while providing an answer on how we can make the IMP research more managerially relevant. By cross-fertilization of ideas from different disciplines, our goal is to advance the IMP literature by investigating the role of emotions in business decision making. As the outcome, we present step-to-step instructions on practical means how individuals can cope with emotions in dynamic decision making processes.

**Keywords:** business decision making, emotions, dynamics, IMP, behavioral economics, neuroscience.

## Introduction

The IMP research tradition was developed during the past 40 years (see Håkansson & Gadde 2018 for the review). As an outcome, it has provided a great number of publications that focus on understanding the complexity of inter-firm interactions in business networks. The IMP perspective on strategic behavior was developed from early years on (e.g. Mattsson 1987, Axelsson & Easton 1992, Håkansson & Snehota 1989). Strategizing of a single firm was perceived to be an outcome of interactions with various business partners (Håkansson & Snehota 1989), with a process being described as "interactive, evolutionary and responsive" (Håkansson & Ford 2002, p. 137). Furthermore, the goal of strategizing is to manage and maintain interdependencies in a business network (Ford & Mouzas 2007). However, there is a lack of research that analyses how managers, as strategists, and other individuals, develop strategies and make decisions in their business networks. In other words, it is important to keep in mind that decisions are ultimately made by individual decision makers, who act on behalf of their companies and interact with others (Koporcic & Halinen 2018).

While the traditional IMP research has often neglected the relevance of individuals in strategy formation, there are many disciplines that have focused on studying individuals and their decision-making processes. Mainstream theories on business decision making have historically been grounded in classical economic theories, where decisions are made by rational economic man, i.e. homo economicus, who has access to unlimited information and is capable of making fully rational decisions while maximizing his utility (von Neumann & Morgenstern 1953). Later on, Prospect theory (Kahneman & Tversky 1979, 2013) made a huge contribution to the understanding of decision making, which is not always as rationalistic, as has previously been seen. Prospect theory includes cognitive biases such as loss aversion but still does not capture the dynamic nature of decision making, which is effected by changing affective states.

Thus, the aim of this article is to contribute to the conceptual development of the field while providing an answer on how we can make the IMP research more managerially relevant. By cross-fertilization of ideas from different academic disciplines, we are advancing the literature by investigating the role of emotions in business decision making. The overall aim is to "open the network" (cf. Baraldi et al. 2007), by offering new perspectives for the IMP research. The key audience of this paper is IMP researchers and other scholars, but also practitioners who are interested in behavioral and psychological aspects that have an influence on business decision making.

The paper is structured as follows. After the introduction, we first review the current state of the art of the IMP research by focusing on studies related to strategizing in business networks. Next, we present the review of scientific literature on decision making, focusing on the historical development of the economics field, after which review on emotions from behavioral economics follow. In the following section, we challenge traditional conceptualization of decision making by exploring its dynamic interconnected nature with emotions. As a result, we propose step-to-step instructions on practical means how to cope with emotions in business decision making. Following sections present conclusions and discussions, where we use the findings to discuss implications for theory, as well as for business practitioners, by evaluating the risks that the changing emotional landscape of the decision maker imposes on the business environment.

## Theoretical background

### *IMP literature on strategizing*

In the IMP research, strategizing was developed among the first concepts (see Mattsson 1987, Axelsson & Easton 1992, Håkansson & Snehota 1989). And although it has not been the main issue in the first IMP models, strategizing soon became one of the fundamental concerns of the network research (Håkansson & Ford 2002, Gadde et al. 2003), with special issues dedicated to the topic (e.g. IMP conference theme 2001, SI in the IMM Journal 2003). It is described as an outcome of interactions with various business partners (Håkansson & Snehota 1989), with a process being “interactive, evolutionary and responsive” (Håkansson & Ford 2002, p. 137). As such, it differs from traditional strategic management literature that focuses on a competition between firms on the market (e.g. Grant 1998).

The goal of strategizing is, therefore, to create and maintain interdependencies between business partners (Ford & Mouzas 2007). However, strategizing has been analyzed only on an organizational (dyad and network) level, while neglecting the individual managers who are developing and implementing those strategies in business network settings. As Baraldi et al. (2007, p. 888) argue: “First of all, it is people who perform strategizing activity in network contexts. This implies a focus on individual managers (and indeed non-managers) rather than organizations as actors in industrial networks.” Thus, the IMP research could benefit by adopting some of the ideas from the strategy-as-practice view, which investigates how individuals “really act and interact” in an everyday firm’s activities (Whittington 1996, p. 731), both inside of their firms and outside, in business relationships (Håkansson & Snehota 1989). For instance, when researchers collect data on strategizing, they interview the management of the firm, i.e. individuals. These individuals are representing their firms and making decisions on their behalf (Koporcic & Halinen 2018), thus being in the center of actual strategizing processes (Baraldi et al. 2007). In order to examine strategizing from an individual perspective, it is indeed crucial to understand individual decision making process.

### *Business decision making*

Business decision making can be described as a reflection of an interaction that occurs between a firm and its business environment (Ginsberg 1988). It is done by individuals that act on behalf of their companies. Decisions can be formal or informal, as well as intended or emergent (Elbanna 2006). They are furthermore difficult to assess, are associated with various risks, uncertainty, and lack of universal solutions, and are difficult to change or reverse once they have been made (Elbanna 2006).

Traditional research on business decision making has been greatly dominated by economic theories, focusing on rational choices and maximization of a firm’s utility (von Neuman & Morgenstern 1953). The process of decision making has even been characterized as a mathematical science of today (Figuera et al. 2005), which should be based on various criteria and sub-criteria used to rank multiple alternatives that a decision maker is facing with (Saaty 2008). However, this full rationality does not take into account subjective preferences or choices of a decision maker. Thus, the Prospect theory has been introduced (Kahneman & Tversky 1979, 2013), including some principal characteristics of decision making under risk and uncertainty. In addition, Simon (1991) introduced the concept of “bounded rationality”, signifying the innate, but limited rationality, which individuals apply in decision making processes. The bounded rationality is furthermore connected to the notion of the “administrative man”, who seeks to diminish the effect of individual cognitive limitations on decisions made on behalf of an organization (see Cristofaro 2017).

Finally, studies have shown that psychological attributes of decision makers and their discrete emotions have an influence on decision making outcomes (Raghunathan & Pham, 1999). Thus, as Tähtinen and Blois (2011, p. 907) argue: "human decision making and actions are embedded in emotions and therefore cannot be meaningfully separated". In this article we consider every decision making process that occurs in business settings and is affected by emotions. That includes buying and selling activities, recruitment, as well as strategic decision making, among others. Next, we elaborate on discrete emotions in more detail.

### *Emotions in decision making process*

Even though the interest in the role of emotions in decision making truly started in the 1960s, the amount of articles published in this area has rapidly increased in the 21st century (Lerner et al. 2015). Also, many different science disciplines participate in this topic since it has implications for a vast array of human activity, from business to politics and medicine, just to mention a few.

In this article, we are distinguishing two major categories of emotions that are affecting the decision maker. First, there are the integral emotions that arise in the actual context of decision making and are shaped by the expectations of potential outcome (Angie et al. 2011). These emotions strongly affect human decision making. The second category of emotions are the incidental emotions, the source of which is not related to the current decision making situation. In other words, objectively observed, these emotions have nothing to do with the decision at hand (Keltner and Lerner 2010). Integral emotions can serve us by giving valuable information to act purposefully but they can also lead to bias (Lerner et al. 2015). Even still, the effect of incidental emotions is often more problematic since these emotions can be strong enough to have an impact, we are not aware of, on the task not connected to an emotion trigger (Lerner & Tiedens 2006). In addition, studies in neuroscience show that incidental affective states, such as stress and mood, can have significant implications for decisions through neurophysiological pathways. For example, stress impairs the function of the part of the brain called the prefrontal cortex (PFC) (Phelps et al. 2014), which leads to a shift from goal-directed action to more habitual choices. Next, we present findings regarding the discrete emotions of anger, fear, sadness, and guilt as examples.

#### *Anger*

As one of the most common and influential emotions, anger often arises when a person recognizes a threat or realization of a negative outcome, and it motivates the person towards action (Angie et al 2011). It may, for example, make a person react when feeling injustice (Solomon 1976). It is also a strong emotion that is considered functional when it takes a socially suitable form. Anger is among the most studied emotions as well (Angie et al. 2011) and it often originates from previous circumstances to affect following decision making situations (Lerner & Tiedens 2006), making it an important incidental emotion.

#### *Fear*

Events or situations that impose immediate danger or harm cause the emotion of fear, which motivates the person to escape or avoid the observed cause, often functioning in a protective role. The emotion of fear has frequently been studied in contrast with anger since they have many opposing tendencies (Angie et al 2011). Fear causes a person to see negative events as unpredictable and therefore causes people to make high-risk estimates (Lerner et al. 2015) and choose low-risk alternatives (Lerner & Keltner 2001); tendencies that are opposite to those of anger.

#### *Sadness*

The emotion of sadness arises in the case of an experienced loss and it motivates to retreat from efforts towards the object that has been lost (Roseman & Smith 2001). Sadness increases the tendency to detail-oriented cognitive processing, which may be due to an effort to avoid thinking about the situation where sadness arose. A sad person is more likely to give emphasis on situational factors and choose more protective policies (Angie et al 2011). In addition, an interesting finding by Lerner et al. (2004) was that the incidental emotion of sadness, which occurred in the previous situation, reversed the endowment effect in a later unrelated economic situation. Endowment effect refers to people giving more value to things simply because they are in their possession, causing selling prices to exceed buying prices. In the study, sadness caused selling prices to sink and buying prices to rise. This is perhaps due to an increased effort to change current circumstances.

*Guilt*

Guilt appears to be a highly significant emotion affecting decision making, according to a meta-analysis conducted by Angie et al. (2011). The emotion of guilt makes the person feel responsible and increase efforts to avoid future guilt (ibid.). This can be seen as a prosocial function since the person is motivated to reconcile with others (Frank 2004). Also, as guilty people see themselves as responsible, it is opposite to anger, which causes a person to see the fault in others (Neumann 2000). Guilt has also been found to be connected with risk aversion, which means that decision makers tend to avoid risk-taking (Mancini & Gangemi 2004). Guilt also seems to reduce the person’s tendency to search for alternatives in cognitive tasks (Gangemi & Mancini 2007).

It is important to highlight that the above-mentioned list of emotions is not exhaustive. Instead, it should be used as a descriptive work, seeking to provide details about these four common and relevant emotions in business life. We delimit our attention to negative emotions, based on their critical effect on decision making, and the fact that they have been significantly studied in the academic literature.

**Towards an understanding of dynamic interconnected nature of decision making and emotions**

The fundamental message of this article is the need for certain kind of “emotion-awareness”, which means that decision makers must recognize and accept that emotions, which arise in previous and current situations and affect business decision making in many ways. Also, to be able to control this we must observe our emotional states. This comes very close to modern psychological therapies, such as cognitive-behavioral therapy that approaches the problems of emotion regulation that cause psychiatric conditions (e.g. depression). To be able to control the effects of one’s emotions on one’s behavior, we must first be able to recognize our emotions in the very situations they appear in.

In certain situations, in which emotions can have a negative effect on the decision making process and where risks are high, researchers are suggesting various strategies (see Lerner et al. 2015). In order to simplify these strategies, and bring them closer to business decision makers, we propose step-to-step instructions on how to deal with emotions in situations in which they are potentially harmful to the business enterprise.

*Be conscious of emotions*

We know that many factors in our life that are irrelevant considering a decision can affect emotional state under which we are making these decisions. There is research indicating that our awareness of these factors decreases their effect (Han et al. 2007) and gives us more neutral possibilities to evaluate risks and make decisions. This also comes close to our message about the importance of emotional awareness. By only knowing what is causing the specific emotion, already reduces its effect.

*Avoid emotion suppression*

There is a common misconception that emotions can be handled by simply suppressing and “controlling” them. However, according to research, emotions become even more intense this way (Wenzlaff & Wegner 2000). At the same time, this “controlling” actually impairs memory functions (Richards & Gross 1999).

*Take your time*

One important aspect of the role of emotions is that they are time-dependent. They appear in a certain situation, but their effect is dependent on the temporal dimension. We can use this fact when controlling the risks that emotions have on decision making. A key tool to minimize this effect is a time delay (Lerner et al. 2015). Emotions have a tendency to weaken with time and can, therefore, have a less effect if a decision is not made an instant. Although, in many situations, it is not possible to postpone decision making, our awareness of this method gives us the possibility to use it whenever it is possible.

*Try to get a new perspective*
A good strategy to diminish the effect of emotional states is reframing (Gross 2002). Reframing means that decision makers change their perspective. In other words, they should try to give the new meaning to a stimulus that leads them to a certain emotional response. Reframing reduces negative feelings as well as the physiological and neural responses. However, changing perspective often does not come naturally, so decision makers need to make an effort to do so. They can motivate themselves by understanding that this gives them a more neutral starting position to make important business decisions.

*Do not rely only on financial incentives*
It is often thought in the business world that the best way to diminish the effect of emotions is to use financial incentives as motivation. However, it seems that this is often not sufficient and that incidental emotions affect the decision making process even when personal financial rewards are involved (DeSteno et al 2014).

*Work with a group – but be careful about group thinking*
Making decisions in a group setting may lessen the effect of emotions on the decision, according to a meta-analysis conducted by Angie et al. (2011). However, at the same time, a group dynamics may lead to avoidance of conflict and conformity, which can cause suboptimal behavior (Lerner et al. 2015). Also, when thinking of large companies, decision making is usually made in groups. Although researchers have for example been studying how general negativity and positivity of groups can influence their decisions (e.g. Totterdell 2000), future research is necessary for better understanding this field of decision making.

**Discussion and conclusions**
Both the integral emotions that arise in the decision making process, and the incidental emotions, which originate from a previous situation, have a major effect on our capacity to do optimal business decisions. Out of these two, we argue that incidental emotions are more difficult to handle since they often carry over from the previous situation without awareness (Lerner 2015). It is most likely that people differ greatly in the capacity to recognize and screen out the effect of incidental emotion. In the experimental study by Yip et al. (2013) the researchers studied incidental anxiety, which reduced risk-taking in decision making processes. Those subjects with higher levels of emotion-understanding ability were able to better minimize the effect of incidental anxiety on decision making. Our step-to-step instructions are one way to enhance these abilities to cope with emotions.
As Koporcic et al. (2017, p. 436) argue: "…emotions are a natural part of the business world and they do not need to be avoided or restricted, but understood and managed accordingly." Also, a deeper understanding of the unavoidable and crucial role that emotions play in decision making, will give us the advantage to learn how to create an optimal decision making process. This includes taking into consideration the personality differences between individuals, their cognitive limitations and differences in the capability to understand emotions and their effect, as well as individuals' current mental situation. For example, depressed mood is characterized by feelings of guilt and sadness which have a significant effect on decision making, as stated previously. In addition, it is crucial how the organization makes it possible for decision makers to minimize the uncontrolled effect of emotions.
Our instruction to use time delay may be seen to be in conflict with the finding that fast decisions in high-velocity environments tend to lead to superior firm performance (Eisenhardt 1989). However, there are many possibilities for this: Does the ability to make quick and intuitive business decisions correlate with good emotion-understanding and do those become decision makers who possess both these qualities? Is the need to consult others actually, in this case, a correlate of dysfunctional emotions such as guilt or sadness which reduce self-trust and lead to bad decisions? In any case, we do know that when making fast decisions, the need to manage the effect of emotions increases. The question about time delay is an important topic for future research since in small and medium-sized enterprises (SMEs), there is often only one individual making a decision, which often leads towards a fast decision making process. The research in this field should take into account individual emotion-understanding abilities and should be conducted in real-life organizations.

Our step-to-step instructions are meant to be interpreted as general guidelines to take into consideration. For example, there are many other factors affecting decision making outcomes such as expertise, experience, and age to name a few. For each decision-maker, it is still useful to ponder how one handles our instructions individually. As Lerner et al. (2015, p. 817) highlight: “The field of emotion and decision making is growing at an accelerating rate but is far from mature”. Future research in business decision-making needs to take this cumulative knowledge into account and integrate findings in other science disciplines into their own theories. Rational and more intuitive-emotional decision making should not be compared or studied separately since this division is not scientifically justified (Phelps et al. 2014). The more useful approach would be to study the individual and organizational factors that contribute to different decision outcomes, while simultaneously acknowledging the central and dynamic effects of emotions, which could be integrated into to study designs.

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