An experimental study on the impact of social mood on business strategies

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Abstract

This paper aims to examine the impact of social mood on business strategies by analysing decision making in different organizational contexts. We built a role-game experiment where subjects were asked to take the role of managers and make investment decisions for their fictitious company. We tested the impact of social mood effects by exposing subjects to different socio-economic scenarios. A first group of subjects received a social mood report including negative information, while a second group received a report including a positive social mood. For social mood, we meant information on the social context that had no direct, business related content. The only difference between the two reports was certain positive and negative nuances, i.e., the same information mirrored differently with a + (positive) or - (negative) sign. The report on the social mood included information about population growth/decline; profile of immigrants attracted by the area; family income index; situation on the construction market; loans for the business; women employment; employment/unemployment among the young population; percentage of students graduated in universities in engineering and science; trust in personal relationships and in public institutions; number of the strikes in public and private sectors; results of the government's election. We assumed that the subjective response of subjects to the socio-economic environment was mediated by company-specific organizational culture. This allowed us to test our hypotheses in a well-controlled setting, although the experiment was non-standard and explorative.

Results showed that social mood had an influence on decision-making and especially that its negative or positive meaning had a different impact on individual perceptions of risk. We found that certain organisational features, such as the degree of innovativeness of the company can help decision makers to filter such a mood effect and so have an active role in influencing managerial propensity towards risky investments. Therefore, on the one hand, the experimental study confirms the importance of non-business related information in moulding investment decisions of business managers; on the other hand, it suggests the constructive role of individual role perceptions, which might be influenced by certain company-specific, organisational cultures.

Our findings indicate that although risky investment options seem to be less likely when the business context is dominated by pessimism, certain company-specific features can drastically change the subjects' risk propensity. Indeed, we found that high-tech companies could filter social mood

effects and be more resilient against mood change and so invest in more high risky strategies, e.g., launching new markets or investing in human resources. We also found that pessimism could even push innovators to make high-risk decisions. On the other hand, we found that traditional companies could reflect more social mood effects when pessimism is dominant. In this case, ambidextrous and retrenchment strategies seem to protect more these companies against uncertainty. Furthermore, we applied cognitive mapping techniques to understand the link between strategies and certain factors that could have influenced subject behaviour. As to our knowledge, this is the first study that used cognitive maps to look at business decision-making under social mood effects. Indeed, some of already existing maps on organisational behaviour either are simple strip maps, e.g., summarizing organisation routines, or are more complex maps to understand more difficult tasks (Fiol & Huff, 1992). However, no previous study has used cognitive maps to look at the impact of non business-related information on subject perceptions.

Our findings showed that subject behaviour can change even as a mere result of social mood information that has no direct business content. This is more likely when pessimism dominates social mood. If we consider that our subjects made decisions in a fictitious experimental environment, we could even hypothesise that, in "real" life with "real" decision makers, such a trend could be even more pronounced.

To sum up, while business decision making is viewed as the realm of calculative, instrumental rationality, our experimental study shows that social mood could be an indirect force that may endogenously determine business decisions. This means that looking at these factors is important to understand emergent behaviour in organisations and markets (Prechter & Parker, 2007). This would confirm the importance of looking at the constructive role that individual perceptions play in organisational contexts, not only at instrumental and calculative decision makers' rationality.

References

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