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An experimental study into the influence of works council advice on managerial decision-making



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Summary This paper experimentally studies the effect of works council advice on managerial decision-making, aiming to gain more insights into the fundamental mechanisms that may underlie the impact of works council advice. We conducted laboratory experiments in which subjects played a two-player Prisoner's Dilemma price-setting game as either a manager or works council representative. Half of the managers received an advice to opt for a low or a high price; the other half received no advice. Managers receiving advice to choose a low price (play Nash) have a higher tendency to choose a low price. Subjects with an other-regarding orientation tend to choose a high price. Furthermore, we found an interaction effect of advice for other-regarding managers.

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Introduction

Managerial decision-making is an important topic in the organizational literature. Manager's decisions are critical for the overall performance of an organization (e.g., [Arendt, Priem, & Ndofor, 2005](#); [Hambrick & Mason, 1984](#)). Therefore, the way managers make their decisions is a topic of interest to many in the field of organization sciences (e.g., [Jönsson, 1990](#); [Langley, Mintzberg, Pitcher, Posada, & Saint-Macary, 1995](#)).

Since the 1950s, there has been increasing influence of psychology in economics, giving birth to the sub-discipline of Behavioral Economics. The rise of Behavioral Economics came with increasing criticism on (neo-classical) economics' standard assumption of economic rationality in decision-making. People do not maximize their goals, but rather engage in satisficing behavior ([Simon, 1959](#)). This is because people are not fully rational, and do not have perfect information to make the most rational decisions ([Simon, 1979](#)).

The literature on managerial decision-making indeed assumes that people are boundedly rational, although they can strive to make rational decisions. One way of doing this is by considering different viewpoints, and analyzing information carefully ([Dean & Sharfman, 1996](#); [Eisenhardt & Zbaracki, 1992](#)). This information may come from people with similar interests, but analyzing information from people with conflicting interests may also lead to better decisions (e.g., [Amazon, 1996](#)).

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This paper focuses on information from a party with potentially conflicting interests, studying the influence of employee voice on managerial decision-making (e.g., [Wilkinson & Fay, 2011](#)). We do so in the specific setting of the works council, which is an institutionalized way to organize employee voice implemented across the European Union, well-known examples being Germany and the Netherlands.

It is important for European management practice to gain more insights into the role of formalized representation bodies in managerial decision-making, because they make up an important part of European management practice, often possessing far-reaching legal rights (e.g., [Van den Berg, Grift, & van Witteloostuijn, 2011a](#)), as codified in the European Directives on employee representation rights ([Eurofound, 2007](#)). Research has not yet succeeded in agreeing upon the influence of employee participation on organizational decision-making and performance. This study aims to contribute to filling this research gap by studying works councils' role in managerial decision-making. Our study is thus at the interface of the Industrial Relations and Management literatures.

Several Industrial Relations scholars have urged to focus future work on works councils on the social processes that are associated with works council functioning ([Frege, 2002](#); [Kotthoff, 1994](#)). This plea implies that further work on the underlying antecedents of the effect of employee participation in managerial decision-making is warranted. In the current study, we combine insights from managerial decision-making theories and the Industrial Relations literature. We adopt an experimental design to test our hypotheses in the tradition of Behavioral Economics, which is new to the works council literature. In this way, we seek to unravel some of the fundamental mechanisms of social interaction that may underlie, at least in part, the impact of institutionalized employee participation on managerial decision-making.

Specifically, in the current study, we are interested in (i) whether or not managers take into account the advice they receive from their works council whilst taking a strategic decision, and (ii) what fundamental mechanisms may explain the direction of the effects, if any. In all, our study offers three contributions. First, we add to the Industrial Relations literature by studying some fundamental antecedents of the effect of work council advice on managerial decision-making. Second, we offer a contribution to the Management literature on managerial decision-making by analyzing the effect of formal employee advice on management's decision. Third, we add an experimental study to the small stock of Behavioral Economics' studies on the impact of advice.

Of course, an experimental design implies a stylized representation of reality. We believe that this methodology is complementary to model building and field work by offering the opportunity to study fundamental processes associated with employee participation and managerial decision-making in a controlled setting in which variables of interest can be manipulated. As this study uses a stylized experimental design, we are aware that we cannot do more than offer preliminary insights into a few of the potential fundamentals. That is, we know very well that a number of factors, such as the role of labor unions and the internal group functioning of works councils, cannot be taken into account because we make use of a specific experimental setting.

Before introducing our experimental protocol and the empirical findings in detail, we first set the scene by describing theory on the role of advice in managerial decision-making. After that, we briefly introduce works councils in the Netherlands, focusing on the role of works council advice, followed by our setting and hypotheses. Subsequently, we introduce the methods used, and present the results regarding our hypotheses. We end with a discussion of our results.

Theory

The role of advice in managerial decision-making

Actors encounter problems making decisions, because they are unable to process information in a rational way. This is due to several factors, which have been identified by different streams of literature. We know from the cognitive psychology literature that actors act boundedly rational, because they are not able to perceive and process all information that actors have potentially at hand ([Janis & Mann, 1979: 41](#)). Rationality of actors is limited because it is constrained by the skills, values and knowledge of individuals ([Simon, 1957](#)). First, there is the limited ability to process all alternatives at hand for example, because of limited speed of mental processes. Second, individual values may influence decision-makers, and the extent to which these values are aligned with organizational values affects decision-making. Third, the amount of information required, as well as processing capacity of the individual, affects the ways in which decisions are made.

These processes are also described in the CEO–adviser model proposed by [Arendt et al. \(2005\)](#). This model argues that decision-making is problematic because of ambiguity and complexity of information processing. Also, the potential of information overload makes it more difficult to process all the available information completely and perfectly.

A second factor that helps explain why rational decision-making is constrained stems from social psychology, pointing to the social context in which people have to make their decisions. According to [Janis and Mann \(1979: 137\)](#) for instance, actors have four types of outcomes they take into account, which are utilitarian gains and losses, and self-approval or self-disapproval, both for yourself and for significant others.

A context of unequal power relations might lead people to act by quasi-satisficing, meaning that they believe in the moral norm that one should give aid to “helpless” people. In that case, self-disapproval and social disapproval may take over the utilitarian considerations, implying that people would consider “utilitarian gains and losses for significant others” much more ([Janis & Mann, 1979: 137](#)), leading to biased decision-making in the sense that actors are more likely to take into account the interests of other parties – in our setting, others in the organization. As [Janis and Mann \(1979: 9\)](#) state: “gaining utilitarian and social rewards is not enough; the person has to be able to live with himself.”

The latter shift in the individual's utility function can be attributed to the social context, but may be triggered even more strongly by the personality characteristics of the decision-maker. For example, prosociality has been shown to have a positive relationship with cooperative behavior, in

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