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From Behavioral Strategy to Emotional Strategy: It Is Time to Use Emotions as a Competitive Advantage

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Abstract

This paper reviews relevant research from various disciplines: business stakeholders, behavioral strategy, and stakeholder motivations to propose a holistic and integrative approach to the discipline of business strategy formulation. The purpose is to propose a holistic view of the formulation of business strategies focused on fulfilling the emotional needs of business stakeholders and provide a framework for future research. There is an opportunity to develop successful business strategies by considering two dimensions: On the one hand, considering the motivations and aiming to fulfill the needs of all company stakeholders not purely economic return. On the other hand, among these motivations, emotional needs have an increased role particularly in the developed world were a significant part of the physiological needs are already covered. The article opens a new avenue for future business strategy research. By delivering socioemotional value to stakeholders, companies can complement the current economic based approach and create additional sustainable competitive differentiation.

Keywords

Strategic Management, Business Strategy, Behavioral Strategy, Emotional Strategy, Business Stakeholders, Cognitive Bias

1. Introduction

There is a clear appeal in the study of the social sciences to consider human beings made decisions based on purely rational processes and criteria: the predictability and the creation of models that explain the process and results of these decisions.

This appeal has been especially tempting in economic and business science. The creation of models that help explain economic growth and wealth creation has been based largely on the assumption of the existence of the economic man (homo economicus) who makes decisions that optimize the economic outcome (Persky, 1995). Theories about the behavior of companies and the markets in which they operate have also been built on these bases.

However, the studies of cognitive psychology showed that human decision-making processes are complex and many factors intervene (Schwarz, 2000). These considerations burst into the field of economics with the works of Kahneman and Tversky in which, starting with the appearance of biases in decision-making in situations of risk, they highlighted elements not considered until then and that modified and complemented the theoretical structure (Kahneman & Tversky, 1979). The application of these developments in cognitive psychology has been extended to research in the field of business including strategic management with the emergence of behavioral strategy (Powell et al., 2011).

Another element that psychology studies manifest as very influential in decision-making is that of human emotions (Alvino & Franco, 2017; Schwarz, 2000). These have been extensively considered in studies on the behavior of different business stakeholders individually. However, although the inclusion of all stakeholders in decision-making in companies has been spreading, the influence of their emotions from the formulation of business strategies perspective has rarely been considered (Freeman, 1998; Spitzeck & Hansen, 2010).

In this study, the main proposals of two research areas are reviewed: the behavioral strategy that introduces the impact of cognitive biases in strategic management and the studies on the impact of emotions on the needs and motivations of business stakeholders and the efforts of companies to satisfy them.

From this reflection, the question arises as to whether it is necessary to consider both approaches to propose models that integrate their conclusions into the formulation of companies' strategies. These models should be useful both for the academic community and for business management practitioners in their quest for creating value for the company and for society in general.

2. Strategy, Corporate Social Responsibility and Business Stakeholders

The field of strategic management and business strategy has evolved over the years putting the focus on related but different aspects. One of the first attempts to define the term strategy was proposed by Chandler (1962) focusing on the determination of actions and resources to achieve the long-term goals of the company. In the definition it is not explicit what the long-term goals should aim to although in his work he deals with the terms performance and financial outcomes as the ones to pursuit.

Competition was soon introduced and the comparison with competitors considered as a key element for success. The main advocate of the focus on the external environment of the company and industries was Michael Porter. In his attempt to define strategy introduces the element of competitive advantage which becomes a basic concept in the field.

"*Companies are aiming to win in the market place. A company can outperform rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both.*" (Porter, 1996: p. 3)

The aim of business strategy at this stage was satisfying customers' needs which in turn would deliver financial performance leading to the satisfaction of investors/owner's needs. Both groups, customers and investors, were assumed to have an economic interest in the products and services delivered by companies. It is the "homo economicus" perfect rational behavior individual approach prevalent as the basic assumption in neoclassic economic theory at the time. It assumes that agents always act in a way that maximize utility as a consumer and profit as a producer. Strategy is a tool to maximize the value for these two groups.

"*Strategic management is a process of building capabilities that allow a firm to create value for customers, shareholders, and society while operating in competitive markets.*" (Nag et al., 2007: p. 946)

Two lines of research have emerged to cover the weaknesses of the approach:

First, as an extension of the developments of behavioral economics, behavioral strategy line (Powell et al., 2011) introduced the advances in cognitive psychology in decision making in strategic management. Bounded rationality (Simon, 1955) shows that human brain has limitations and cannot cope with the amount of data and the speed of process to make optimal decisions. Satisficing decisions are taken instead, those which are good enough as optimum cannot be determined. As a consequence of the mental processes' biases come to the scene and there is a real possibility that decisions made are far from optimal leading to failures.

Second, the development of corporate social responsibility as the result of Enron financial failure and the ecological concerns on sustainability, provided the basis to include additional stakeholders in the strategy equation. Employees, suppliers, competitors and the community among others were considered in the attention and decisions of executives and directors. Also, legal, ethical and philanthropic goals were added to the pure economic and financial contemplated as objectives to achieve (Carroll, 1991). The change is significant as there have been attempts to relate corporate social responsibility and financial performance with inconclusive results. Actually, the traditional approach has viewed social responsibility and business strategy as two separate goals to achieve each one contributing to either the economic and social objectives of the firm (Husted & Allen, 2001).

In spite of the growing interest in these new avenues of strategic management, few attempts have been done to develop and integrate them in the main stream of research. Behavioral strategy intellectual structure still has few common roots with strategic management and it is considered as a separate discipline rather than part of the main field (Urío et al., 2022). Corporate social strategy is still a discipline which is in a process of setting the basis for a model that can be used to integrate corporate social responsibility into the strategic management processes of companies (Husted & Allen, 2001). We are going to explore a holistic view to contribute to the task.

3. Behavioral Strategy

Behavioral strategy is a term proposed to describe the efforts of strategic management researchers to explain the influence of cognitive biases on the strategic decision-making processes. In the proponent words,

"*Behavioral strategy applies cognitive and social psychology to strategic management theory and practice. It aims to strengthen the empirical integrity and practical usefulness of strategy theory by grounding strategic management in realistic assumptions about human cognition, emotion, and social interaction.*" (Powell et al., 2011; p. 1369).

The research line follows the advances in research on economy which compares individuals' behaviors with the expected rational behaviors predicted by classical economic models. The influence of cognitive psychology developments and the proposal of psychologist's models of decision-making under risk and uncertainty (Kahneman & Tversky, 1979) triggered the interest in the field. The jump into strategic management was inevitable as strategic decisions are a prototype of the ones taken in a risky and uncertain environment.

The focus of behavioral strategy has mainly remained in analyzing the influence of cognitive biases in strategic decisions. The most influencing works on the subject follow this approach (Urío et al., 2022). However, biases are not the only factor in the complex world of behavioralism in the different actors involved in strategic decision-making and most importantly in the stakeholders to whom business strategies are addressed to. There are other developments brought by psychology that have to be considered if we want to have a full view of the needs and interactions between these stakeholders if we want to have a holistic view of the process.

4. Stakeholders Motivations

In spite of the flourishing number of publications on stakeholders needs, surveys reveal there is a high degree of disappointment among them with the current approaches on sustainability, performance and assessment (Silva et al., 2019). Few researches have been done on managing stakeholders' motivations, needs and expectations (Preble, 2005). It is true that their characteristics and relationship with the company is very different. However, there are also commonalities that should be explored in more detail in the future.

For our purposes, there is one area that is of special interest. Stakeholders are made up of individuals who are addressed by different motivation-focused theories. Motivation as a psychology area has been subsumed by newer research areas such as neuroscience and cognition but with different labels and approaches is needed to understand behaviors and relationships. Motivation research has been addressed from different perspectives as it is of use in many different situations.

Attempts have been made of integrating these theories particularly from the evolutionary perspective which is a good common psychological root (Bernard et al., 2005). All of them summarize their findings in a list of goals very often ordered in hierarchical order by priorities determined by the environment in which the individual finds himself. One of the initial proposals was Maslow's theory of motivation summarized in a pyramid of needs. Although criticized because of the individualistic approach, operationalization factors and too simplistic reduction of the layers (Fallatah & Syed, 2018; Navy, 2020), it is considered a solid basis for motivation of individuals analysis.

According to Maslow, the needs are arranged in a hierarchical order of importance (physiological, safety, social, esteem and self-actualization) (Maslow, 1943), needs which claims to be universal. This last statement has been questioned claiming that the application scope is mainly western cultures (Navy, 2020). Once the needs of a level are satisfied, the individual turns gradually to focus on attaining the goals of the next level.

At this point, I would like to explore the links between needs, motivation and emotions. We have already seen that needs constitute one of the most important elements to explain motivation in individuals. However, despite its importance to educational psychology, prominent theories of motivation have mostly ignored emotion (Turner et al., 2003). In Maslow's pyramid, levels above physiological and safety are considered as driven by emotions (Brown & Marshall, 2001; de Rivera & Grinkis, 1986). Often, they are the most influential in developed countries were a significant percentage of the population has already satisfied the basic needs.

"*In today's developed-world workplace, physiological and safety needs are, for the most part, already met. Salary and benefits can enhance motivation, but organizations shouldn't focus on them disproportionately because emotional experiences can matter equally, if not more.*" (David, 2014: p. 2)

The influence in stakeholder's decisions of motivations and emotions has been addressed by scholars. This influence is analysed in each of the groups creating fruitful research avenues for business success. However, they are rarely integrated in business strategies that contemplate holistically all the stakeholders.

4.1. Customers

The management of customer's emotions as drivers of customer's decisions has been the focus of scholars and practitioners in the last decades. Research has been done to define customer motivating emotions and their impact on customer behavior (Chou & Sawang, 2015; Madjid, 2014; Magids et al., 2015; Urio et al., 2014; Zhao et al., 2018) and conclude that there is a relationship between emotions and customer satisfaction and customer loyalty. The consequence is that there is high economic value attached to the management of customer's emotions (Barlow & Maul, 2000; Rich, 2000).

The research has been divided according to the focus on services or products. In the first case, it has been grouped under the customer experience denomination. Many service companies design their services to arouse positive emotions. The efforts crystallize in customer journey maps which are service designs largely intended to manage customers emotions throughout the service receipt. Several themes around this subject have appeared, showing the relevance that this concept has acquired in the last decade (Tueanrat et al., 2021). In the second case, product development techniques have also been worked on to integrate the utilitarian functional part of the products with the satisfaction of the emotional needs of the users (Norman, 2004). The line of research is called emotional product design and has produced extensive literature in recent decades (Fink & Eibl, 2021; McDonagh-Philp & Lebbon, 2000; Mugge et al., 2008; Straker & Wrigley, 2016).

In summary, to the utilitarian approach to deliver products and services to customers, it has been added the emotional approach to fulfill their emotional needs. The value generated by this approach and the sustainable competitive advantages created call for its inclusion as one of the key elements in the formulation of business strategies.

4.2. Investors

The influence of biases in financial markets and investors usually referred as behavioral finance has been part of the financial literature for some time (Baker & Nofsinger, 2002; Statman, 1995) and being consistently the focus of research (Muradoglu & Harvey, 2012; Poteshman & Serbin, 2003). However, as the case of behavioral strategy approach, behavioral finance considers the influence of these biases from a negative perspective. Influences that have to be identified and mitigated to avoid wrong decisions that can cause economic damage (Chang & Lin, 2015; Nofsinger, 2018). However, accepting the fact that financial decisions are prone to biases, researchers turned their view to the potential positive side: understanding the behavioral mechanics (Caporin et al., 2019; Pompian, 2012), could help to make better financial and investment business decisions (Pompian, 2011). Extensive academic literature has explored this angle suggesting how investors could take advantage of it (Pompian & Longo, 2004; Puaschunder, 2017).

The link between financial biases and investors emotions has been part of behavioral finance research (Duxbury, 2015), sometimes as a branch of the field called emotional finance (Taffler, 2014; Taffler & Tuckett, 2010). New avenues of research of emotions as shareholder's drivers and how companies can manage them are being proposed (McConvill, 2020). The traditional view of market efficiency and investors pure rational behavior is not valid anymore. This has implications for company management. In particular, company strategies formulation which has financing requirements (difficult to find situations in which this is not in the case) has to include these considerations in the analysis.

As we have seen, investors in general and shareholders in particular make decisions based on emotions. Satisfying their emotions should be therefore a key element to take into consideration when developing business strategies. The capital structure and the costs of financing, the shareholders reaction to merger and acquisitions operations, the issue of securities, the communication with shareholders and investors and many other corporate actions with an impact in company value should be viewed from the emotional perspective too. Strategic management decisions have not considered sufficiently this perspective alone or in combination with the management of other stakeholders.

4.3. Employees

Employees are often considered as the most significant non-shareholding corporate stakeholding group even claiming they are part with shareholders of ownership of the company (Lynch-Fannon, 2004). In spite of the growth in automation in industrial companies, and the rise in influence in productivity of capital/technology and management, labor is still one of the major variables of company performance. Considering management as part of employee's stakeholder, employees are the major contributor to the annual increase in productivity.

Organizational management research has produced theories on employee's motivations and satisfaction, job and workplace design and learning organizations among others with the aim of understanding and improving the management and the performance of the company workforce. The approach is very much aware of the individual nature of employee's behavior even when they are part of an organization.

Employees' emotional bond to their organizations, sometimes called in academic literature affective commitment has been considered an important determinant of dedication and loyalty. This creates a sense of belonging and identification that increases their willingness to pursue the organizations goals. The perceived organizational support, the extent employees believe the company values their contributions, cares about their well-being and fulfills their socio-emotional needs (Eisenberger et al., 1986) is directly related to their affective commitment (Rhoades et al., 2001). The way company strategy formulation and implementation consider the perceived organizational support would be valuable for the business success.

4.4. Supply Chain Management: Suppliers & Distributors

The relationship of a company with its suppliers and distributors is a business-to-business (B2B) buyer-seller interaction. The comparison performed by numerous empirical studies conducted at the last decade of the century between Japanese production and supply practices with those of the rest of the world led to a reinforcement of relationships with external companies conceptually moving from a buyer-seller approach to strategic partnerships. To avoid the costs to develop, nurture, and maintain them, others propose at least managing a portfolio of relationships (Bensaou, 1999). In one way or another, all recognize that on top of the economic relation, there is a social or emotional satisfaction need to fulfill which very often is key for the success of the pair (Geyskens & Steenkamp, 2000).

Although the relationship is established and maintained at a business level, personal relations play an important role. Emotions management and trust emerge as the main factors to reach the objectives of both partners in a medium or long-term relationship (Andersen & Kumar, 2006; Geyskens et al., 1998). Attitudinal and emotional variables such as helpfulness, friendliness, uniqueness, and flexibility are identified as primacy attributes that can aid suppliers in attaining economic necessity, relational ties, and emotional connections with buyers (Clauss & Tangpong, 2018). Buyer's opportunism and relationships based on buyer bargaining power which used to be the basic approach has become marginal and triggered by the violation of general standards, relational norms and/or contractual agreements (Gelderman et al., 2020).

Supply chain management has been seen as a key element of strategy implementation. In spite of its relevance in business success, the influence in strategy formulation has not had a prominent role though and has not raised it to the consideration it deserves as creator of sustainable of competitive advantage (Li et al., 2006). However, suppliers and distributors are key company stakeholders. Their motivations and needs have to be fulfilled and as we have seen, they are driven by emotions in a buyer-seller relationship that has to be managed by individuals.

5. A Holistic Approach: Emotional Strategy

The consideration of a company as a basic unit of analysis making decisions with limited rationality dates back to the proposal of the concept of bounded rationality (Simon, 1955) and the behavioral theory of the firm (Cyert & March, 1963). They acknowledge that firms aim at satisficing rather than optimizing because the environmental conditions particularly uncertainty and limitations in capacity influenced business decisions. In this model goals are not set to maximize relevant magnitudes such as profits, sales and market share. Instead, goals are compromises negotiated by the groups (Ahuja, 2019: p. 955). These compromises address different goals through coalitions that represent temporary compromises between the different goals in a quasi-resolution of conflict approach (Gavetti et al., 2012).

The behavioral theory of the firm has had a significant influence in the development of organizational and strategic management theories (Gavetti et al., 2012; Urío et al., 2022). However, when the theory was proposed, it referred to the behaviors of individuals as part of an organization that contributes directly or indirectly to their personal, mainly economic, goals. The broader concept of stakeholders including external stakeholders was not in the scope. Also, although they stated that their behavior was not purely rational, the aim was to achieve economic goals. These two elements should be reviewed in the light of new advances in business research.

Corporate governance research has been based on three dominant academic theories: the agency model (Berle & Means, 1932; Jensen & Meckling, 1976) addresses the division and balance between the owners (shareholders) and agents (management) in the governance process. A similar view is taken by the shareholder's view of the corporation (Shleifer & Vishny, 1997). Finally, the stakeholder's theory opens the scope to include a wider group of stakeholders including customers, employees, suppliers and others (Weiss, 2021). The stakeholder view adds complexity since it creates even more masters to serve and conflicting agendas to satisfy (Isaac Mostovicz et al., 2011). Very often CSR has been seen more as a constraint than a benefit that could be integrated in business strategy. Porter & Kramer (2006) made a good attempt to integrate CSR with business strategy by looking to the intersections and focusing on areas where businesses and the community will benefit from coordinated actions. As a result of this and other works supporting and contending the approach, the stakeholder corporate governance theory has taken a prominent space in business strategy. Although the economic end objective of the business is not disputed, the link between satisfying the needs and motivations of stakeholders and the economic return for the business is established.

But, which is the nature of the needs and motivations of stakeholders that business strategy has to fulfill to reach competitive advantages and superior economic return? As we have seen when talking about the evolution of strategy, the traditional approach of business strategy has aimed to satisfy the economic needs of customers and shareholders (Nag et al., 2007). It is necessary to extend the approach to all stakeholders as after all they are all the recipients of the value created by the company. This is being addressed by latest strategy research starting with seminal work of Freeman (1984). However, as seen before, neither in the traditional approach nor in the extended to all shareholders, the emotional needs had been addressed in depth. We have gone through each of the primary stakeholders' needs and expectations. And reviewing the literature, we have concluded that a significant stake of these needs is emotional needs. Research, so far, has produced evidence of them. Also, the influence of emotional needs increases as individuals satisfy the physiological needs located at lower positions in the hierarchical order. However, they have been treated individually by stakeholder.

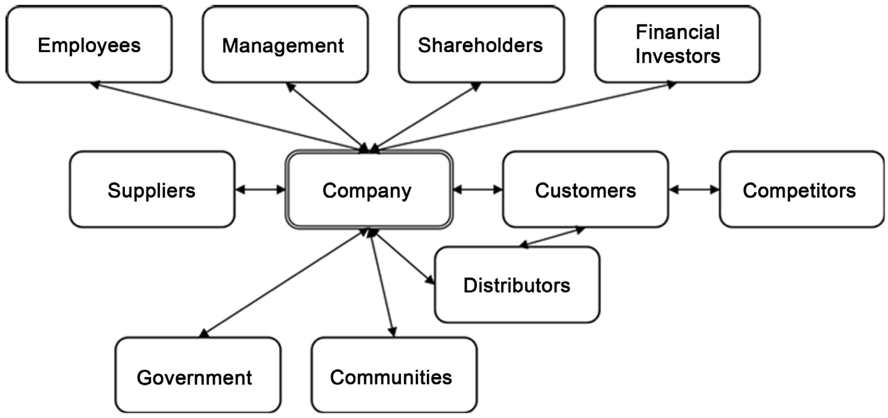

Figure 1. Business stakeholders. Adapted from Freeman (1984).

There seem to be no connection across them. Some could have an appearance in the business strategy formulation but rarely take a prominent role on it and definitely not in an integrated body across all stakeholders needs.

A framework for the analysis of business firms' stakeholders' emotional needs that integrates them in business strategy formulation is required. The framework should first consider the key stakeholders for the particular business as shown in **Figure 1**. Then there should be an analysis of their emotional needs. The framework should resemble with similar purposes but from a completely different perspective Porter's five forces analysis. The next step from the analysis to the business strategy formulation is key for extracting the maximum value from the framework. The objective is producing a business strategy which aims to satisfy the different needs of the groups. As in the traditional process, there should be ingredients that like market positioning, technology, innovation and others that contribute to the delivery of a potentially successful strategy. Once the strategy has been formulated, the concept and its premises must be extended to the rest of the strategic management process including setting the appropriate goals, adequate implementation with ad hoc company structure and control and feedback process. The result is a holistic approach to business strategy based on emotions of stakeholders as their most important motivator factors in their decisions.

An important fact of the approach is that integrates all the ingredients to be considered for a successful strategy as after all, economic return is also in the analysis as part of the needs of all stakeholders. The emotional approach provides the modulation of the weight in importance that each of the actors assigns to the items in the list of their needs. Brand management is the best representation of the integration of the emotions of stake holders that companies aim to address (Rosenbaum-Elliott et al., 2018).

6. Conclusion

The introduction of behavioralism in the field of strategic management which is the basis for behavioral strategy development, aims to address and avoid the pitfalls in strategic decision making (Lovallo & Sibony, 2018). According to this approach, cognitive biases introduce a negative influence in strategic decisions which depart from the rational path to reach sub-optimal business strategies and even in some cases damaging potential economic results.

There are key areas which have not been addressed by behavioral strategy. The "emotional strategy" approach proposed, looks at the field from a different angle in two dimensions. On the one hand business strategies should consider the motivations and aim to fulfill the needs of all company stakeholders not purely economic return. On the other hand, among these motivations, emotional needs have an increased role particularly in the developed world were a significant part of the physiological needs are already covered. After all, stakeholders' groups are made of individuals who are prone to behavioralist decisions. Instead of putting the focus on the strategic manager decisions and studying their emotions and biases as something negative to avoid, we turn to the recipients of the strategies to better fit their needs by uncovering their emotional side.

This perspective is based on advances already done in the research on the impact of emotions in the management of stakeholders. However, by proposing an integrated and holistic formulation and implementation of business strategy, provides new avenues to create sustainable competitive advantages. New products and services, market positioning, taking advantage of globalization and many other strategies sooner or later can be imitated by competitors. Taking a space and the image to satisfy unique emotional needs of stakeholders can be mimicked too but once the space is filled is much more difficult to get into it. Following Simon Sinek's view leading strategies should start with the why of stakeholders, their core motivations (Sinek, 2009).

Therefore, there is a need to move from the current behavioral strategy approach in the consideration of cognitive emotional biases in strategy. First, broadening the human groups involved in strategy formulation to all business stakeholders. Second, acknowledging that these groups have needs and motivations which lead them to make decisions influenced by emotional biases. Third, targeting the fulfillment of these needs in an integrative strategy formulation framework. This is the approach summarized in the "emotional strategy" concept proposed. Moving from the current behavioral strategy approach to the emotional strategy approach will require further research in determining common and specific emotional needs of stakeholders and integrating them in the process of business strategy development and implementation. By doing it, there is a significant opportunity to increase the value created for business stakeholders. This value could be a source of new and sustainable competitive advantage.

It is a complex endeavor. On top of business considerations, understanding and managing human emotions it is a challenge in the psychology field. As we have seen, there has been progress in understanding the impact of emotions on the decisions of business stakeholders. Integrating them into a single business strategy formulation is an even greater challenge. There is a need to develop frameworks that facilitates the task (Falchetti et al., 2022). The proposal can be compelling for researchers and practitioners alike.

Conflicts of Interest

The authors declare no conflicts of interest.

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