

## FOR BEHAVIORAL ECONOMICS ORGANIZATIONS: THE ORGANIZATION AS ACCULTURATION

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### ABSTRACT

*The economics of organizations plays on a double board: institutional and behavioral. The approaches remain little unified, while referring mostly to a notion of limited rationality which does not maybe play really the federative role of the theories of the organization for which we could wait.*

*The working program of a behavioral economics of organizations was expressed by James March and Herbert Simon. The later important contributions in behavioral economics were the ones of Kahneman and those resulting from socio-cognitive approaches. The communication will draw up balance sheet of these works and will indicate tracks to improve the coherence of the initiatives of a behavioral economics of organizations.*

**KEYWORDS:** *Behavioral economics, theory of organizations, acculturation*

**JEL CLASSIFICATION:** D23

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### INTRODUCTION

We propose a reflection on the development of behavioral economics organizations. From the Carnegie School (Cyert, March, Simon), behavioral economics has been involved in economic development organizations. A behavioral theory of organizations proposed by Cyert and March from 1963, there are nearly 50 years now (Cyert & March, 1963). The 1990s saw the development of explanations of anomalies in financial markets by behavioral finance. The work of Thaler and Sunstein, *Nudge*, is a witness of the debate on the implications of behavioral economics for the definition of public policies in the 2000s (Thaler & Sunstein, 2008). The work of Gilles Saint-Paul, for example, is a challenge for the development of behavioral economics from these applications in the field of public health (Saint-Paul, 2011). Neither financial theory nor the public economics, much less the public health, were nevertheless fully structured fields of behavioral economics. Consider financial theory: in fact the plural is required, as explained Rainelli-Le Montagner (2003), there is a plurality of financial theories. Theoretical developments have occurred around different initial nuclei, such as Markowitz's portfolio theory or stochastic models of Fama, without being able to talk about real unification of the general financial theories. Nobody disputes on issues such as dividend policy and pay the relevance of behavioral approaches to complement a diverse theoretical toolbox (Rainelli-Le Montagner, 2003). We must firstly try to characterize the situation somehow behavioral approaches in the field of organization theory, and our hypothesis is that the presentation juxtaposition of complementary approaches is based in theories for financial theories of organizations.

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A second question is raised by a recent contribution of Arrow (2010) who questions the validity of approaches in terms of Positive Theory. These approaches in terms of Positive Theory are those developed from the late 1970s: the positive theories are those that come to explain the discrepancies with a normative theory. These approaches assume a clear distinction between Normative theories and Descriptive theories: Arrow (2010) contests the fact that it is also differentiated, with a potential normative content in descriptive theories. A final issue addressed is pragmatic: what are the issues that we deal with today and behavioral approaches that address current concerns, such as the role of organizations in Growth and Development, the issues raised by the role of fiscal instruments in organizations, for example.

## 1. ALL BEHIND SIMON

*"The recent interest in behavioral economics is a delayed response to the lessons of Carnegie school" (Williamson, 2002)*

It generally presents theories of organization according to different schools, in fact the program of Carnegie (Cyert, March, Simon) is taken by all. We are therefore faced with a common ancestry whose source is unique, unlike what happens in financial theory, when it comes to restore consistency between theoretical developments made independently and diverse.

### 1.1 A constitutive behavioral economics economy organizations

The work of Cyert and March (1963) presented a diagram of the type of business economics. The company was defined as a set of coalition, coalitions and sub-groups with shifting boundaries, with frequent internal conflicts and unifying operations such as budget processes that are carried out by leaving operating margins for this concert of coalitions. The sequential procedure leaves the "slack", "a little soft" in successive inter-group coordination. The metaphor of "slack" is probably adjusters: operations coordination leave some slack, but just for the organization works best as a piston in a room that is not tight, but not longer appear too great game that could seize movements. This good fit is neither market nor hierarchy: the behavioral approach has enabled the company to separate the vulgate of the time, based on the design of organizations as an effective administration from work Weber and Taylor.

The scheme proposed by Cyert and March (1963) is underdetermined, while introducing a large amount of innovative features, such as the idea that organizational routines are used to soften the image somewhat chaotic given the company. The scheme is suitable for a variety of situations organizations: the nature of the sub-groups or coalitions is not specified at the outset. When writing Cyert and March (1963), large companies used transfer pricing. The bargaining between divisions of the company to fix these internal prices provided a convincing illustration of the scheme proposed by the authors of the Carnegie School.

### 1.2 Parentage for all theories of organization

Theories of organization developed since resumed part of the initial framework by focusing on one of its parts. These theories differ from the original scheme by restricting either the sub-coalitions to consider (the most common simplification is that which retains a separate owner and manager), the adjustment function, the "slack" (continued eg in the theory of X-inefficiency Harvey Liebenstein), the unifying process (evolutionists prefer organizational routines, conventions conventionalist in the story of a general recipe in unifying regulationists).

The situation founder of behavioral economics to economic organizations is partially obscured by features in the reception of the work of the Carnegie School. Crozier introduced behavioral

economics organizations under the term "sociology of organizations," a party focused on the discovery by French sociology there other than a sociology of Max Weber. The organization between academic disciplines multiplies in training plans the lessons of organization theory, blurring original unit.

In its initial formulation, the behavioral theory of the organization leaves room for the existence of a conflictual cooperation. This idea of conflictual cooperation has mostly had a descendants side economists family and gender studies. An important feature of the first pattern is not found directly in the subsequent work of the economics of organizations, which is why this relationship between different theories of organizations is not too apparent.

### **1.3 What is the relationship between organization and bounded rationality?**

Behavioral theory of the organization is introduced by Herbert Simon with the idea that the company is facing multiple constraints, including limitations to the capabilities of employees. A clear vision of the human capacity can not be limited only to the theory of organizations, while widely shared consensus on the link between economic organizations and bounded rationality. These are the same people who are consumers, employees and business leaders, officials or government agency. Bounded rationality is both marketing and public economics: an expansion of behavioral economics outside its original domain of the economics of organizations is thus legitimate and consistent.

But this weakens the theoretical position of the economies of organizations that use a particular version of bounded rationality (eg, the positive theory of agency Jensen and Meckling, or the theory of governance Williamson, 2002): if this human weakness justifies the organization, it may as well be strengthening the market or hierarchy.

The book of Segrestin and Hatchuel (2012) proposes to consider in the innovation system, the main feature of the organization. Already in the positive theory of agency, economic anthropology claimed by Jensen and Meckling is that of creativity. What distinguishes the organization of the bureaucracy or the politico-religious movement is the preservation of the evanescent flame of creativity in the organization. These innovation processes were already a feature of the claimed original scheme of Cyert and March.

Amgaden's (2011) book provides information on the innovation system of politico-religious organizations - only to exist in a very long period marked by a high technological level of stability before the eighteenth century. This is a regime where the novelty is declined so full, a new scheme of life. The objective can be simply inaccessible, as the state high poverty which aspired the first Franciscans, who faces the existence of rival goods (Amgaden, 2011). The organization known contemporary split, divide his progressions and set ambitious targets and yet accessible.

## **2. THE TURNING OF THE BEHAVIORAL APPROACH TO THE POSITIVE THEORY**

A presentation of a theory as a positive theory is based on the distinction of three different approaches: a prescriptive approach, a descriptive approach and a positive theory just explain any discrepancies between the results of those normative theory and empirical studies . This is a situation that has drawbacks and seems most often transient in a situation where the simplest full normative implications descriptive studies are sufficient in themselves.

### **2.1 The shift towards of a positive theory**

Presented both descriptive and normative was implemented at Carnegie school, which corresponds roughly to the 1950s and 1960s. A challenge to approach Simon is made in the 1970s by Demsetz and current neo-institutionalists. But even Demsetz (1995) leaves little room for an approach to behavioral finance: he said that his aversion theory is most theories that invoke irrationality of financial markets - and thus an investigation of anomalies such operations can propose behavioral finance financial market is a lesser evil in his eyes. Thaler items will popularize the list of

anomalies that meets the standard economic theory, and will enable behavioral economics to find its place in the academic world, and this place is not too peripheral.

The neo-institutionalist approaches emphasize the role of the property. Demsetz somehow uses the original scheme of Cyert and March (1963), just offering a patrimonial approach to solve the problems of governance. A coalition of landowners will provide strategic direction for economic activity: it's somehow opportunistic use of the initial framework of Cyert and March.

The current neo-institutionalists advocate schemes that are either side "shareholders" or side "stakeholders". Specific legal dimension of the organization is not taken into account either the emphasis is on fundamental concepts of civil law, which is the approach focuses on social law. Approaches in the "shareholders", the only remaining dimension of decision theory, since there is no social interaction which modifies the decision of a business run so heritage. Approaches in the "stakeholders", as noted Jensen (1993), collective action does not strengthen the organization (eg, associations) as might be expected, is not used to justify a social policy the action of a government agency.

Currents directly related to the initiators of behavioral economics of the firm turn to decision theory or empirical approaches. Crozier's work in France popularized in France sociology of organizations, like the first review "behavioral" who decides to rename review "socio-economic".

The weakening of the theories of the organization of joint affirmation of neo-institutional and the emergence of the approach of the positive theory of agency, with an article by Jensen and Meckling (1976).

## **2.2 The positive theory of agency**

For Jensen, the failure of the behavioral approach comes from the theory of Maslow's satisfaction which is used by the behavioral theory of the organization of the Carnegie school "the prevalence of Maslow's model in the behavioral science is, we believe, a major reason for the failure of the economic development of a unified field to body of theory" (Jensen, 1993). In the presentation of Cyert and March (1963), the groups collective behavior is a search for satisfaction, not a maximizing behavior. Jensen claims a behavioral model, separate from the model, and also the psychological model. Behavior in the positive theory of agency is "insatiable, appraisers, maximizers" (Jensen, 1993), incorporating features of both the standard economic agent and the agent "behavioral". No fewer than five reference models for behavior are invoked by Jensen, economic calculation for individual and collective normative theories, theory-based positive behavior astute evaluator, and finally approaches sociological and political science to descriptive studies (Jensen, 1993). We are creating a variety of theoretical approaches, it is a characteristic of financial theory, which relates Jensen institutionally.

The positive theory of agency provides a minimal architecture for the three elements of a behavioral theory of organizations: it operates somewhat simplifications, removing bricks theoretical isolated or deemed too complicated, as the theory of Maslow's satisfaction . Remains a central tandem, the Principal and the Agent to summarize the many sub-groups and coalitions of the behavioral theory of the organization. Adjustment function was ambivalent in Cyert and March, the "slack" that can play a role in both positive and negative. Jensen introduces agency costs, simple addition of monitoring costs, costs of limiting the action of the agent and residual loss (Jensen, Meckling, 1976). Process for federating approach to the positive theory of agency focuses on remuneration policy, which then plays a central role between Finance and Governance. The general public associates the TPA foremost a mode of variable compensation and proportional to an aggregate amount such as EVA (Economic Value Added), and advocating the use of stock options to unify the company around its results.

**Table 1. Positive Theory Agency theory and behavioral organization**

|                                  | <b>Carnegie behavioral theory of the organization</b>      | <b>Positive Theory of Agency</b>  |
|----------------------------------|--|---|
| <b>From the structure theory</b> | Descriptive-normative kind                                 | Separates normative, descriptive, positive serves to explain the differences. |
| <b>Parts of the organization</b> | Some and moving intermediate parts: groups, sub-coalitions | Prefers a schema around a contract between a principal and an agent           |
| <b>The adjustment function</b>   | The « slack »  | Agency Costs  |
| <b>Unifying process</b>          | Routines, conventions                                      | Remuneration policy   |

The positive nature of the TPA come from a reference state, good communication and financial transparency. Agents introduce opportunistic behavior from the information they hold, and these small secretive degrade the initial state. TPA reflects the operation of a gradient. Corporate Law can be justified by a desire to reduce agency costs. Different forms of partnership agreement will generate different agency costs. Governance balancing powers may result from a desire to control agency costs.

### **2.3 Budget Processes and positive theory of agency**

The statement of the behavioral theory by the Carnegie school is when awareness of the cost generated by the budgetary process in the organization. Questioning the weight of the budgetary process is relayed by the Positive Theory of Agency. Jensen calls into question the whole budget process: "Why pay people to lie?" (Jensen, 2003). Jensen proposes to simplify the relationship between performance and remuneration and career management. Variable remuneration in proportion as a collective result would eliminate distortions of the budget process. Remuneration policies have flat formulations, or use non linear instruments like bonus according to the results. Jensen recommends reverting to strictly linear compensation formulas to prevent accounting manipulation such as shifts date for registration of commercial revenues at the end of fiscal year. In practice, the proposed renewal of the budget process are numerous, but few seem to follow. To explain and describe the empirical situations, Henri Bouquin uses the terms of the behavioral theory of the organization: it is the "slack" which is found in the practices of companies and non-governmental organizations. "Budget" is "a process of negotiation, not an instrument optimization and cost reduction. Can reduce or renegotiate the slack. It is difficult to imagine it disappear" (Bouquin, 2011, 89). The TPA provides a management style - sophisticated balancing of powers, readability incentives - resulting in particular the abandonment of the theory of Maslow's satisfaction. But the main break is a time between tayloro-Weberian ideal of a hierarchical monitoring on one side and the other behavioral formulations are all aware of the costs involved in monitoring and restrictions on agents and inherent limitations in budget processes.

### **2.4 Organization and Social Choice**

The positive theory of agency has been challenged on the part of neo-institutional approaches, for example in debates about the legal status of stock options. Another challenge to the idea of a social contract based on participation founder remunerated by a share of the wealth created can come from the side of the current social choice. The result founder of social choice theory is Arrow's impossibility theorem tells us that no criterion of universal type can not meet basic requirements of performance and lack of choice dictatorial. The debate on the founding social contract has been

fueled by the theory of justice of John Rawls. The work of Sen's idea of justice (Sen, 2010) rejects any idea of founding social contract. The current social choice involved the creation of the field of economics of organizations: Arrow (2010) recalls that his initial theme of research focused on the heterogeneity in the organization, and it was during this research that was led to make this proposal is impossible. It remains small mechanical Coasian based on communication and trust: These procedures are somewhat formalized the essence of the organization and source performance.

### **3. THE ORGANIZATION AS ACCULTURATION**

Even in the formulation of a control agency costs, it is the consciousness that is asserted that any organization based on reconciling the imperatives of "control" and performance. The organization performs acculturation - it can also refer to fundamental results of social choice theory. If it is not possible to find a criterion of justice to be included in the initial contract of the organization, it will develop a common culture for example between industrial and commercial conventions.

During the 2008 crisis, one commentator exclaimed newspaper *Les Echos* in an editorial: "It only remains for companies to become monasteries." We believe that this idea is too radical, there is indeed a change in the relationship between ethics and organization, but the unchanging character and a whole monastic regime does not fit the definition of organization in the modern sense. This fact had already been in discussions in the second half of the nineteenth century the legal status of religious orders and its relationship with the Corporate Law. No possibility of mitigating a rule of life religious type, and work adjustments, while this is inherent in the definition of the organization. French lawmakers concluded the debate by introducing a system of specific religious association through the 1905 law of separation of church and state.

Another dimension of this contrast between the religious order and organization highlighted by Giorgio Agamben is the process of voluntary withdrawal of civil agreements on the part of religious orders (Agamben, 2011). Organizations are in a civil order characterized by contractual obligations, procedures, unifying concepts, technical standards, regulations, codes of ethics ... material its source and nature are very different - instead of a liturgy and a pattern of life of ancient religious orders. This variety of the nature of the regulatory elements that play a role in the organization as a composer, very little conceivable according to the ideals of religious orders displayed old.

Since there is a right of organizations (Corporate Law, Law of Associations and Foundations), a behavioral economics analysis of this corpus is justified (Langevoort, 2012). This approach has the advantage of not having to focus on a certain type of regulatory element for a theory of organizations, such as the contract, agreement or ethical rule.

#### **3.1 A specification for behavioral economics organizations**

In behavioral approaches, there has always been a close relationship between decision theory and the economics of organizations over the last fifty years. Recent approaches such as those Lovallo and Kanheman (2003), Malmendier (2005) focus on the mistakes of manager. If strategic errors depend directly on the known repertoire of blunders and pellets the most common, it makes us manage a man or a woman like any other, but it implicitly raises the role of the organization to the repeated manifestations of bounded rationality. However, there are dangerous activities undertaken by organizations, and therefore a positive dimension of the organization as a filter error is empirically observed. A first point specifications that we offer is of interest to such links between bounded rationality and organization. For example, budgetary processes.

#### **3.2 A behavioral theory of budgetary processes**

We can distinguish two types of estimation problems. The first type is the prognosis estimation to is that of a time variable, for example, the estimated time to complete a task. The second type is the diagnosis: we assign a predefined category a situation where we have exploratory means. The

diagnosis requires a prior conceptualisation suitable for all situations encountered, while the prognosis does not claim this requirement.

One of the main results of the behavioral approach is called the "planning fallacy" through prognosis (Lovallo and Kahneman, 2003). Self-assessment of a period is subject to a significant bias, well studied by psychologists. This bias decreases with prognosis of the competence of the person generally people underestimate the time required to perform the tasks they regularly or occasionally. Through dissipates prognosis for tasks considered very difficult. Studies psychologists tell us that the prognosis is through an undervaluation of 67% for students who were asked how long they will put their memory to achieve, and the respect of a period self- evaluated is generally less than 30%. Statistically speaking, the prognosis is a safer way to conduct a lie than is the budget estimate (to mark the title of the 2003 article of Jensen saying that the budget process is the shortest path to lying).

Prognosis through self-assessment is an optimistic bias, the time estimates are much shorter they are in the known data. In supervision, when is a person who assesses the person who realizes, through prognosis is generally pessimistic type, estimated times are much longer than the reality.

Psychologists explain how they bias the prognosis. In fact the relationship with time is a construct, it uses an underlying model. Estimates a time value therefore implies a reflection on comparable situations, statistical distributions ... benchmarking is not commonly used. The work of Kahneman insists that professional practices are based on heuristics, shortcuts that allow you to manage everyday situations. These heuristics give large bias assessments deadlines. Technically, psychologists distinguish between absolute and relative optimism or social. Prognosis is through a social dimension: the craftsman says he will finish the work in three days, while the statistics say it takes five days to do the job, and he will suffer a loss due to this bad programming. But it is a skilled artisan, and it indicates that the task at hand is entirely in his abilities, it emits a signal. This signal disappears only when task is at the limit of its capacity. So, these are routine tasks that are rather badly programmed self-assessment.

We thus obtain an adjustment function that can be represented as a difference between agency costs and gains from good programming. This function will tell us if a budget process is beneficial or not for the company, if we limit the argument to costs and gains associated with the budget process. Under these conventions of writing this is to increase this function, then it should underestimate the amount, in the case of TPA.

The answer proposed by Kahneman to avoid the "planning fallacy" through a preliminary study of the distribution of possibilities for the required task. This benchmarking can convert prognosis diagnosis. In the budget nomenclature, fungibility between two classes can be interpreted as a minimum cost of misclassification. There exists against the costs of non-fungibility resource allocation eg excessive in a first class will induce inefficient consumption.

A number of favorable circumstances: the fact that the tasks are difficult and rewarding for those who do, the full convertibility of the predictions by the possibility of having benchmarkings necessary symmetrical fungibility. This can be induced costs as low as possible.

As the TPA, the behavioral theory allows to consider a management style such as small teams do not involve budgetary processes but measures of performance and project management. A description of such a participative management style is made in the work of Bandura (Bandura, 2007, p. 682-687). Setting goals is done bottom up to ensure maximum engagement teams, the arduous nature of the tasks and problems dealt with using the full capabilities of the team and dramatically reduces bias prognosis.

An example revealing the hollow high costs associated with the "planning fallacy" is a note in 2012 of the Court of Auditors on the implementation of the Organic Law. The Court of Auditors is responsible for the control of management of public accounts of the French Republic. Organic Law established a LOLF asymmetric fungibility, from 7 classes in a classification, certain reclassifications are possible and others not.

## CONCLUSION

The economics of organizations plays a double array: institutional and behavioral. Approaches are not very unified, while referring most often to a notion of bounded rationality that may play no real role in unifying theories of organization that could be expected.

The work program of behavioral economics organizations was stated by James March and Herbert Simon. The important contributions in subsequent behavioral economics were those of Kahneman and those from socio-cognitive approaches. This communication provides an overview of this work and indicates ways to improve consistency of approach of behavioral economics organizations.

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