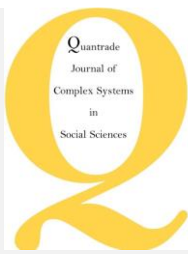

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Behavioral Management And Behavioral Economics: Evaluation of the Executive in Terms of Corporate Leadership Role and Individual Investor Role

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Abstract

Behavioral management and behavioral economics are two fields that have gained increasing attention in the realm of organizational behavior and decision-making. Both fields recognize that human behavior is not always rational or predictable, and that factors such as emotions, biases, and social influence can significantly impact decision-making processes. In this article, we aim to explore the intersection of these two fields by evaluating the executive in terms of their role as a corporate leader and as an individual investor. Specifically, we will examine the tendency for self-deception in these roles, the impact of experience and reference points on decision-making, the importance of risk perception, and the influence of personal values and beliefs on decision-making processes. By analyzing these factors through the lens of behavioral management and economics, we hope to contribute to a greater understanding of the complexities of decision-making in these roles, and to identify strategies for more effective leadership and investment practices. Corporate leaders are responsible for making decisions that are in the best interest of the company, while individual investors are focused on maximizing their own personal financial gains. This can create situations where corporate leaders make decisions that may benefit the company in the long term, but may not necessarily lead to immediate gains for individual investors. In some cases, corporate leaders may prioritize their own interests over those of individual investors, leading to conflicts between the two roles. In this study, a brief review has been conducted regarding both roles. Based on relevant studies in the literature, conclusions and recommendations have been made. Surveys and scales have been used to explore the validity of these recommendations and to open the way for further research.

Keywords: Behavioral Management, Corporate Leadership Role, Individual Investor Role

1. Introduction

Behavioral economics is one of the subfields of behavioral sciences. The concept of behavioral economics is derived from theories related to human behavior in psychology, sociology, and anthropology, and it is a discipline that attempts to understand the behavior of businesses by utilizing these theories.

The goal or scope of behavioral economics is to understand why market participants have biases and how these biases can be minimized in the information market. Behavioral sciences also examine the dimensions of mistakes made by behavioral decision makers, search for their causes, and investigate the systematic analysis of these mistakes.

Behavioral economics is the field that investigates the factors that influence the rational behavior of individuals considering investing in a financial process, what types of information are important in investment preferences, and how accurately and correctly this information is perceived and interpreted. Behavioral processes are not simple processes. Behavioral economics is a field where work is done to have convincing choices for investors. It deals not only with personal factors that affect individuals' investment preferences but also with all internal and external factors that affect individuals' investment preferences.

Behavioral management, on the other hand, is designed to explain managerial situations that current human-based models cannot explain by using information about human behavior. Behavioral strategic management attempts to interpret a company's strategic

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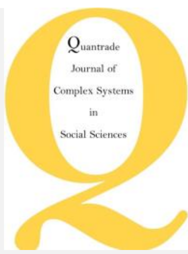

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management behaviors based on human behavior. By assuming that the individuals who are stakeholders of the company do not act entirely rationally in their relationships with the company, behavioral strategic management aims to increase the explanatory power of strategic management by determining the difference between the actual behaviors of individuals who are involved with the company. The behavioral dimension of strategic management, which attempts to explain the actions that all parties (management, employees, debtors, creditors, partners) believe they are taking with psychological, sociological, and other variables, also demonstrates the appearance of common results that can be achieved by the combination of different fields.

People think dynamically but do not always act rationally. In addition to trying to behave with a monotonous sense of duty, they are not creatures that think in a monotonous way. Some companies may experience difficulties when human existence is overlooked with task-based applications that arise in the workplace. It is also evident that there are people in management who have misunderstood their knowledge and expectations about the company. Behavioral management aims to explain these types of psychological fallacies about individuals.

When looking at behavioral theories, it can be observed that they focus on what stakeholders prioritize individually. For example, the most fundamental proposition of human behavior assumed that the majority of people are rational. When looking at the definition of a rational person, they are described as someone who makes logical decisions based on reason, has self-control by applying the rules of reason and does not repeat their mistakes. They are curious to find things that do not fit with their logic. However, it is often forgotten that they always act in their own interest when it comes to businesses. Whoever the employee is, a person must always behave like a human. It should not be forgotten that a person's greatest friend is themselves and their greatest enemy is themselves. However, those who deal with science outside of behavioral theories have often overlooked the damages that individuals have caused to both themselves and the business in the workplace.

When looking at behavioral economics, different models have been developed. These models generally try to reveal that economies are based on the behaviors of investors. These developed models are based on assumptions that are supported experimentally by observations of investors' behaviors in the field of psychology (Ülkü, 2001:101).

When looking at behavioral models, individuals engage in behaviors that suit them. Everyone is normal according to their own standards. Therefore, the acceptance of this normality is made in the following way: When making a decision, a person first thinks of themselves. However, the actions they take by thinking of themselves do not always have the correct effects. An individual with biases will eventually be swayed to the most suitable place for themselves by combining their own characteristics with the influences they receive from environmental stimuli. The option that a person labels as the most suitable decision is the one that satisfies them the most.

It is difficult for individual investors to access relevant information and evaluate the information correctly when making uncertain decisions. Given these difficulties, individuals can use mental shortcuts or general practical rules rather than using optimal statistical models when making decisions. Mental shortcuts can be defined as individuals who do not use reasoning when making choices and rely on their previous experiences.

Taking all these explanations into account, a definition can be made as follows: Behavioral finance can be defined as the science that examines the effects of psychology on investors' and the market's behaviors.

2. Literature

Muthimi et. al. (2018) proposes an integrated theoretical model for linking leadership strategies and firm performance while providing for the role of leadership paradigms, leadership behavioural focus and firm capabilities. The emerging theoretical propositions and implications for future research are discussed.

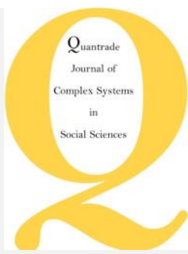
Kenny's review (2016) of recent literature however, sourced in peer-reviewed journal articles published between 2005 and 2016, suggests that public relations is too complex and fluid an activity to be summarised in a single approach and supports a broadening of the bases of public relations theory.

Stubbart (1989) explores the linkages between cognitive science and strategic management research. The article examines the foundations of modern cognitive science. Several areas of recent research that are particularly relevant to strategic thinking are reviewed. The article concludes with a call for a more explicit cognitive emphasis in strategic management.

Chatterjee et. al. (2003) develops an integrated framework of risk management and strategic competitive advantage that incorporates behavioural and economic notions of risk. The resulting model argues for the importance of risk-taking to sustainable competitive advantage and ultimately to firm performance.

In Piórkowska's (2016) article, strategic management is discussed in terms of the concept of behavioral strategy, adaptability structure, microfoundations, organizational theory, and psychology. Additionally, the article is related to a multilevel approach that includes individual, team, and organizational levels to some extent. The aim of the article is to rank mixed approaches towards adaptability in the behavioral strategy field.

In Fahey's (1981) article, an attempt is made to bridge the gap between the rational/analytical and behavioral/political concepts in strategic decision making. The connections and interactions between these approaches to strategic decision making are investigated in the context of strategic energy management, which is a specific decision domain.



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3. Evaluation in Terms of Management Theories

When considering management theories in relation to behavioral modeling, it is useful to briefly discuss the traditional management theory, also known as the classical approach. Scientific management, management process, and bureaucratic approaches can be seen here. When looking at neoclassical approaches, we see the Hawthorne experiments which focus on human relations and group dynamics. Modern approaches, on the other hand, appear as systems and contingency approaches. While some of these focus on belief-oriented work and situational characteristics, others address human-centered processes. Furthermore, it is not wrong to state that values and underlying assumptions that affect managers' decisions and their relationships with other stakeholders in the organization are key elements that shape management styles. Behavioral theories sometimes attempt to explain the causes of a person's behavior and the ways in which their reactions are shown. In the initial studies, greater emphasis was generally placed on the views and thoughts of managers, which led to a top-down approach. However, in the past 50 years, studies have examined behavioral effects both from top to bottom and from bottom to top. In some cases, large corporations have even formalized their own management styles, identifying the most suitable ideas for their business structures based on their own personal behavior and experimentation.

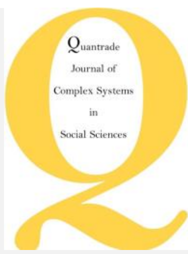
When we look at traditional management approaches, although they form the basis of these theories, criticisms have also been made of these theories. Some of these criticisms include the assumption that people make rational decisions based on their minds rather than emotions, the inherent laziness that comes from genetics and birth, the need for management, the emphasis on meeting material needs, the prevention of workplace freedom by job security, and the belief that obtaining definite knowledge about the future can eliminate errors. Moreover, it is controversial in contemporary times that traditional management principles fail to consider human and environmental factors in management functions. On the other hand, in the scientific management process, Taylor's scientific principles, on-the-job training, cooperation, specialization, incentive wage system, and placement of individuals with the appropriate abilities for standardized jobs are emphasized. Job design, standardization, foremanship, and specialization can be considered among the contributions of scientific management to science. The most fundamental problem here is that the scientific management approach sees people only as a production factor, which results in disregarding the social and psychological needs of employees.Job satisfaction is another important thing and Güven (2022) examine the effect and relationship of job satisfaction of white-collar staff, who has to make decisions and take responsibilities regarding the works the organization have been conducting, its functioning, and its future by taking place in every level of executive groups in the organizational hierarchy, on organizational performance.

Fayol, in the management process approach, aimed to develop management principles with a broader understanding than scientific management. In this approach, activities related to production, sales, accounting and finance, risk and security activities, and even management activities as the most abstract activity were taken into account. In this approach, the keywords can be summarized as obedience, respect, authority-responsibility, unity of command, unity of direction, prioritizing organizational interests, personnel rewarding, hierarchy, centralization, equality, encouraging employees to perform stable and balanced work in their work lives, and entrepreneurship. As can be seen, there is no direct development related to the psycho-social development of employees.

Weber's ideal bureaucracy is related to avoiding emotional behavior of managers, regulating salaries, ensuring job security, and preventing external interventions in the organization. Here, criticisms directed towards Weber's theory include the possibility of arbitrary rules, potential communication deficiencies, and the determination of working principles without delving into the causes of human behavior.

After these stages, Neoclassical management theories emerged. Its most important contribution to organizational and management theory was its ability to explain how humans behave and why they behave that way within the organization structure, and the relationship between structure and behavior. The fundamental idea of the behavioral approach is to understand the "human" element working within the structure of the organization. When the organizational dimension of Behavioral Management is considered, it can be said that it is the theory that comes closest to the human concept of the Neoclassical theory.

- Humans are social beings who live within organizations.
- Maximum benefit is achieved when human characteristics are emphasized in their treatment within the organization.
- If the groups to which humans belong are classified and identified, the behavioral dimension of the organization comes to the forefront.
- Humans are not merely material beings, but predominantly social and psychological beings.
- The existence of human perceptions and attitudes is important both in and outside the workplace.
- Leadership becomes easier when human behavior is understood.
- Analyzing human behavior makes communication within the organization easier.



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Group dynamics refers to the study of the social causes and consequences of mutual interaction among individuals. This point is important for understanding the social aspect of management. A person's relationship with the group he or she belongs to is a major determinant of their work life. Being part of a group also affects a person's commitment to the workplace. In this sense, a competitive element arises from a behavioral perspective, which can be seen as an advantage for the organization if managed properly. When looking at modern approaches, the system and contingency approaches have been developed due to the inadequacy of traditional and behavioral management approaches in solving organizational problems. The system approach considers the whole as the most important factor. Here, we can again see a starting point that is not centered on humans, but indirectly contributes to human benefits. It brings together the superior aspects of traditional and behavioral management approaches while also providing opportunities to strengthen their weak points. Contingency, on the other hand, focuses on the conditions under which the organization operates. As conditions change, the system adapts to those changes. The external environment is the primary point of departure. When evaluated in terms of management theories, it is not possible to find an approach that directly prioritizes human behavior, except for the neoclassical management approach.

4. Behavioral Finance and Behavioral Management for Managers

Individuals do not make decisions only based on what is expected of them. The direction of their expectations, their thoughts, and the influence of the groups they belong to may not be enough. Investors who want to invest in a company also see themselves as part of the company as they become shareholders. At this point, the concept of Behavioral Finance suggests that companies should make financial decisions while considering human investor psychology. It is possible that managers may make decisions that are not rational in terms of their financial decisions since they are also investors (or owners) of the company and are affected by their emotions and moods when it comes to their own wealth or their company's financial activities. When talking about investment, it is generally referred to portfolio investors. Similarly, when discussing Behavioral Finance, studies on individual investors in money and capital markets usually come to mind. However, it is also possible to consider the concept of Behavioral Finance (Behavioral Economics) from the perspective of top-level financial decision-making managers or major shareholders within companies.

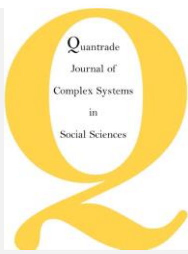
It is believed that there is no difference between behavioral tendencies and managerial tendencies. Corporate executives may sometimes have a tendency to deceive themselves with their decisions. Psychology shows that individuals may have a tendency to deceive themselves in their current decision-making based on their past experiences. In this regard, it can be said that corporate executives may also have a tendency to deceive themselves when making financial decisions. Additionally, as humans, executives may possess various dynamic qualities, one of which is excessive confidence. While executives may feel more concerned about potential risks in their personal investments, is it possible for them to feel the same level of concern when investing in their companies? Excessive optimism occurs when individuals believe that they will achieve their desired outcomes no matter what. Executives who are excessively optimistic may be prone to making careless decisions, or they may not want to act cautiously when they need to. Furthermore, when asked for their opinions about a specific incident, executives may have a higher level of optimism regarding whether they would make the same mistakes as others.

Another mistake that managers make is their tendency to misjudge their errors when implementing a decision that is supported by the behavioral aspects of financing. It is possible that they attribute their failures to bad luck, a larger problem, or others. Many managers are able to achieve more predictable results when events are evaluated later. Real investors who are also capital market players and company owners who need to make investment decisions use their mental processes in the same way as those who manage portfolios. Both managers and other investors tend to exhibit irrational tendencies.

Investors often view good companies as good investment options, associating their positive qualities such as high-quality products, excellent management personnel, and expected high growth with good investments. This is a shortcut for investors to view good company performance as a good investment decision. This misconception leads to ignoring the possibility that companies that are currently performing well may not be able to sustain their success in the future (Gümüş et al., 2013).

Business owners, like portfolio managers, know that the way financial situations are presented can be crucial in their financial decision-making process. From this perspective, it can be concluded that the framing effect in behavioral finance is also relevant for business owners. In the decision-making process, corporate executives tend to rely more on previously learned information and experiences at certain points. This turns into a concept called the availability bias. Therefore, a question to be asked to a manager is "Have you ever thought that your experiences have distorted your perception?" Managers can also get stuck on points that they think have little impact on financial decisions. This is a common mistake not only in business but also in other areas of life. When making investment decisions, managers may focus on a variable that will not yield meaningful results. This is known as the anchoring effect, which refers to how a decision is influenced by any similar event or image. In this context, a question that can be asked is whether the same reference point is used when making any investment decision. The open-ended question can even be turned into which reference points are commonly used.

Managers are aware of the existence of luck in all the decisions they make. This is mostly due to the fact that in the risk-return relationship, they cannot fully control either the gain or loss. Loss is usually attributed to luck, while gain is attributed to experience. This is one of the problems that investors generally face. It often arises when predicting whether an event will turn out to be good or bad. This leads to the conclusion that there is a presence of Kahneman and Tversky's "loss aversion theory," which suggests that



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managers may be more sensitive to loss than gain (Korkmaz and Ceylan, 2006). The debate about whether a manager generally values pain and loss more than happiness and gain is an important point to consider. This issue is in line with the themes expressed in Adam Smith's book "The Theory of Moral Sentiments" published in 1759. It also aligns with his ideas about individual interests and economic behaviors, which evolved into the trilogy of conformity to corporate interests, conformity to personal interests, and economic behavior in his book "The Wealth of Nations" published in 1776. Therefore, the order of importance between corporate interests, personal interests, and economic behavior becomes a significant point to answer. Managers, like portfolio investors, must also be aware that they cannot control unforeseeable events and that they do not have the ability to influence the outcome of events. On the other hand, whether they tend to protect the status quo by avoiding excessive risk, being content with the investments they already have, and holding onto them, as in the "bird in hand" theory, is a different research topic (Gazel, 2014).

Behavioral finance's most important aspect lies in the concept of absolute mental accounting. It is important to question whether a manager who invests in a company thinks the same way in their personal accounts. For instance, it must be discussed whether buying a car for the company is the same mental accounting as buying a car for personal use. Since Thaler (1999), it has been questioned whether there are differences between the basic areas where the company's general accounting is stored in the mind and where individual investment is stored. The conservatism bias, which is the tendency to ignore new information, is similar to the risk aversion or gain-loss theory. Two questions may arise from this: whether conservative thinking creates a difference between a person's decisions that will contribute to the company's capital and their decisions when managing their personal capital as a company executive, and which positions the conservative-leaning person feels the need to verify information from more, inside or outside the company. It is important to distinguish whether an individual is biased towards conservatism or confirmation bias. Although similar in meaning, it can be explained as follows: in conservatism bias, investors react less when they ignore new information, while in confirmation bias, investors tend to react weakly by considering developments based on the information presented to them (Dave and Wolfe, 2003, cited in Ormancı, 2023).

Can the manager distinguish between what they want to do and what their emotions guide them to do? Which aspect of their worldview influences them more? Is reality what is correct or what others do? If reality is what others do, is it the distant majority or the closer and most trusted circle? Even if the manager is in internal conflict, in which investment do they think they made fewer mistakes? Which investment is more exhausting in terms of gathering sufficient information? In which investment can the manager resort to self-denial or denial of the information they have acquired? Different questions can be addressed in the information gathering stage for supportive information about an investment. Suppose a manager has to make an A investment decision for the company and a B investment decision for their personal investments at the same time. Which investment is more likely to cause dissatisfaction? In both cases, if failure results in equal loss, which investment causes more damage? When one needs to be chosen, which investment group will they prefer? If the manager's thoughts are described with support and resistance points, which investment is more likely to have longer support and resistance points? Does a cat still think the liver is dirty when it can't reach it? In such a situation, which investment is more likely to be subject to this type of thinking?

5. Discussion

Behavioral management and behavioral economics are interdisciplinary fields that have significant implications for understanding and evaluating the role of executives in terms of corporate leadership and individual investor roles. To assess an executive's performance in these domains, several key factors should be considered:

Self-awareness and self-regulation: Executives should have a strong understanding of their own cognitive biases and emotions, as well as the ability to control them. This self-awareness can lead to more rational decision-making and better risk management, both as corporate leaders and individual investors.

Self-awareness refers to the ability to recognize one's emotions, cognitive biases, and their impact on decision-making. Executives should engage in regular self-reflection and solicit feedback from others to better understand their strengths and weaknesses.

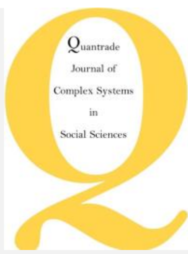
Self-regulation involves managing one's emotions and biases to minimize their negative impact on decision-making. Techniques like mindfulness, emotional intelligence training, and cognitive debiasing can help executives improve their self-regulation skills.

Understanding the behavior of others: Executives must be able to identify and manage the biases and emotions of their team members, peers, and stakeholders. This can help them create a more cohesive and effective organization, as well as make more informed investment decisions by understanding the behavior of other market participants.

Executives should be knowledgeable about common cognitive biases and emotional drivers affecting the behavior of employees, customers, and investors. This understanding can help them design more effective strategies, policies, and incentives.

Emotional intelligence is crucial for understanding and empathizing with others' emotions and needs. This can foster a more collaborative and supportive work environment, leading to increased employee engagement and productivity.

Decision-making processes: Executives should be adept at incorporating behavioral insights into their decision-making processes. This may involve using techniques like mental accounting, framing, and the use of heuristics to make more rational and effective choices in both leadership and investment contexts.



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Mental accounting refers to the cognitive process of organizing financial information into separate mental "accounts." Executives can use this concept to help them allocate resources more effectively and make better-informed financial decisions.

Framing involves presenting information or choices in a particular way to influence decision-making. Executives should be aware of the framing effect and use it ethically to present options and information in a manner that leads to more rational choices.

Heuristics are mental shortcuts that people use to make decisions more quickly. While they can be useful, they can also lead to biased decision-making. Executives should be aware of common heuristics and their potential pitfalls to improve the quality of their decisions.

Communication and influence: Executives must be skilled at communicating behavioral insights and influencing others to make better decisions. This can lead to improved organizational performance and investment outcomes by aligning the interests of all stakeholders.

Executives should be skilled in using persuasive communication techniques, such as storytelling, metaphors, and vivid examples, to convey the importance of behavioral insights and motivate others to adopt better decision-making practices.

Influence strategies, such as social proof, authority, and scarcity, can be used ethically by executives to encourage desired behaviors among employees, customers, and investors.

Ethical considerations: Executives should be aware of the potential ethical implications of using behavioral insights to influence the behavior of others. They must strike a balance between maximizing corporate and investment performance and ensuring that they respect the autonomy and dignity of all stakeholders.

Executives must ensure that their use of behavioral insights respects individuals' autonomy and dignity. This includes being transparent about their intentions, seeking informed consent when appropriate, and avoiding manipulative or coercive tactics.

Organizations should have clear ethical guidelines and frameworks in place to guide the use of behavioral insights in decision-making and communication.

Long-term perspective: Both corporate leaders and individual investors should prioritize long-term value creation over short-term gains. This approach can help executives make more sustainable decisions and minimize the impact of short-term market fluctuations on their investment portfolios.

Executives should focus on creating long-term value by investing in research and development, employee development, and sustainable business practices.

As individual investors, executives should adopt a long-term investment strategy, focusing on fundamentals and avoiding impulsive decisions based on short-term market fluctuations or emotions.

Adaptability and learning: Executives should be open to learning from new insights in the fields of behavioral management and behavioral economics, and be prepared to adapt their leadership and investment approaches accordingly.

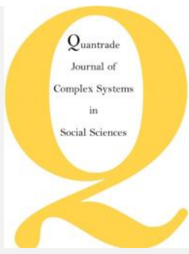
Executives should stay informed about new developments in behavioral management and behavioral economics, attending conferences, reading publications, and participating in industry networks.

They should foster a learning culture within their organizations, encouraging employees to share knowledge and insights, and investing in continuous learning and development programs.

In summary, an executive's performance in the realms of behavioral management and behavioral economics can be assessed by considering their self-awareness, understanding of others, decision-making processes, communication abilities, ethical considerations, long-term perspective, and adaptability. By cultivating these skills, executives can enhance their effectiveness as corporate leaders and individual investors, ultimately leading to improved organizational performance and investment outcomes.

6. RESULTS

1.It is believed that there is no difference between behavioral tendencies and managerial tendencies.
2.Which role exhibits a greater tendency towards self-deception, the Manager or the Investor?
3.While a manager may be more concerned about potential risks in individual investments (as an investor), is it possible for them to have the same level of concern when making investment decisions for the company they manage?
4.Is it likely that a manager who does not consider themselves overly optimistic would still believe that investment decisions will always turn out in their favor?
5.In which role is there a greater tendency to misinterpret mistakes when implementing a supported decision?
6.In which investment is it more common to encounter situations where a problem is large in scale, arises from external factors, and the responsibility for failure is shifted to others?
7.Is it reasonable to ignore the possibility that companies that are currently achieving high profits may not be able to sustain the same level of success in the future?
8.Does experience distort perception?
9.Can it be measured whether the same reference point is used when making any investment decision?
10.Can it be determined which reference points are frequently used at this point?



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11.Is the assertion that chance is usually attributed to loss and experience is usually attributed to gain accurate?
12.When it comes to whether a manager places greater importance on their losses/pains or gains/happiness in life, it is clear that losses/pains are given more weight. Which loss will have a higher impact on the "pain-loss barometer": managerial investments or individual investments?
13.How should behaviors that benefit managerial financial interests, behaviors that benefit individual financial interests, and economic behaviors be prioritized?
14.Is the option of believing that one has the ability to change events that they cannot control and to influence the outcome of events valid for someone who holds both roles (manager and investor)?
15.In which role is there a greater tendency to avoid taking excessive risks and to maintain the status quo by being happy with the investments they currently hold?
16.Is buying a car for the company the same as buying a car for oneself?
17.Can it be determined whether conservative thinking creates a difference between decisions made when contributing to the company's capital and when managing one's own capital as a company executive?
18.Can it be determined in which of the two positions a person who has a conservative tendency feels the need to verify information more?
19.Can it be determined whether the tendency is towards conservatism or towards confirmation bias?
20.Is the manager able to distinguish between what they want to do and what their emotions are leading them to do?
21.Which role does the manager believe has a greater influence on their worldview?
22.Is reality what is true, or is it what others do?
23.If reality is what others do, is the distant majority seen as "others" or is a closer and more trusted group considered to be "others"?
24.If a manager is in an internal conflict, which investment does he or she believe they make fewer mistakes in?
25.Which investment is more exhausting when trying to determine whether acquired information is sufficient?
26.In which investment form can a manager go so far as to discredit or deny information within their own mind?
27.During the stage of collecting supportive information about an investment, it is possible to encounter different questions. If a manager thinks that they must make investment decision A for the company and decision B for their personal investments at the same time, in which investment will they experience more regret and dissatisfaction at the end of the day?
28.In both cases where failure results in equal loss, which investment experiences greater devastation?
29.When one must be preferred, which investment group will be chosen?
30.In which case is the distance between the support and resistance points

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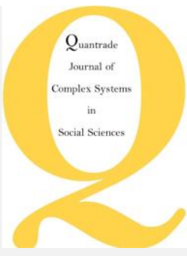

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