STRATEGOS AND PATHOS
EXAMINING THE INFLUENCE OF AFFECTIVITY ON PERCEPTIONS OF COMPETITIVE ADVANTAGE

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*T*HE *cognitive perspective on strategy (Mintzberg et al., 1998; Jenkins & Ambrosini, 2002; Sparrow, 1994), in which this paper is nested, argues that top managers very often resort to a simplified representation of the organizational stimuli in the form of mental models due to their limited cognitive capacities (Schwenk, 1988). The cognitive school on strategy broke new ground when Daniels (1998) established that affect influences strategic cognition, and Daniels (1999) showed that negative affect could influence managers' perceptions of aspects of the strategic environment. We examine whether managerial perceptions of competitive advantage in terms of firm resources and capabilities might be biased toward optimistic or pessimistic interpretations depending on the nature of strategic actors' affective state. Data were collected from senior managers attending a management development program at a business school. Our findings indicate that positive affective states yield favorable perceptions of competitive advantage in terms of firm resources and capabilities.*

Key Words: Managerial Cognition, Affective States, Mental Models, Cognitive Strategy.

Introduction

Strategies are forces which provide momentum and direction to an organization to drive itself towards the destination of corporate effectiveness. They take birth, grow, and evolve in the form of abstract conceptualizations in the minds of top managers or strategic actors at the helm of an organization. Strategic actor's 'wheeling' hands and 'pedalling' feet hold the key in deciding the organization's destiny, not to say of what they see, perceive, think, and feel. The two dominant paradigms in strategic management research - positioning school (Porter, 1980, 1985) and the dynamic capabilities school (Teece et al., 1997) emphasize techno-economic factors for a firm's competitive advantage, ignoring the human-psychological variables.

The emerging paradigm 'cognitive school of strategy', acknowledging the important role played by external and internal factors on a firm's acquisition of competitive advantage, incorporates strategic actors' perceptions of external environment and internal capabilities. The primary agenda of this paper, nested in the emerging paradigm, is to further the pioneering effort of Daniels' study (1998) of integrating affect into strategic management research. The study concluded that negative affect could influence managers' perceptions of aspects of the strategic environment. Daniels (1998) was the first paper to link affect with assessments of external environment, and through this empirical study, we attempt to

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be the first to link affect with assessments of internal environment. In other words, we seek to examine the influence of affect on the strategic actors' perceptions of organizational resources and capabilities. This paper has three specific objectives. First, we provide a brief overview of what the cognitive school of strategy is all about. Second, we articulate how strategic actors cognize organizational resources by reviewing the extant literature. Third, we examine the influence of affect on the strategic actors' cognition's of organizational resources and propose a few hypotheses. Finally, we present the research design, data analysis, and discuss the results.

An Overview of Cognitive Approach to Strategy

Organizations are social entities created, managed, and guided by thinking individuals who shape the actions of organizations. Organizational outcomes – a result of strategic action – are largely determined by the dominant coalition consisting of top managers or powerful actors in an organization (Hambrick and Mason, 1984). Strategic action "involves creating and molding the future, through making sense of the past, constructing rather than simply predicting and responding to some predetermined future reality" (Eden and Ackermann, 2000). One obvious conclusion of the strategy formation process is that it does not take place in vacuum and is firmly embedded in an interpersonal, social, and cognitive milieu that strongly influences virtually everything occurring in the process (Gioia and Sims, 1986). Traditional models of strategy formation (Hill and Jones, 1998) seem to offer explanations of the process that shorn of the influence of the milieu. This exclusion is examined in great detail by Stubbart (1989). In the traditional strategy literature, the role played by the strategist is very marginal and limited to selecting one of the generic strategy recipes and implementing it (Porter, 1980). In contrast, the cognitive perspective on strategic management (Hodgkinson and Jenkins, 2002; Sparrow, 1994) has the strategist and his/her perceptions occupying a central position in strategy making. At the heart is the strategist and his/her mental models.

Senge (1990) has defined mental models as "deeply ingrained assumptions, generalizations, or even pictures or images that influence how we understand the world and how we take action". Strategic actors, faced with a chaotic world, tend to have some type of cognitive structure in which information is assimilated and organized to cope with their limited cognitive capabilities (Schwenk, 1988). Mental models are simplified understandings or representations of the equivocal organizational stimuli encountered by strategic actors. These models help strategic actors classify the stimuli into categories like -important to unimportant, what they like or dislike, and what they should and should not notice. Drawing upon Bourgeois et al. (1999), we articulate the essence of cognitive approach to strategy as follows: Strategic actors possess mental models about industry environments, how to compete, the appropriate scale and scope of the business enterprise, and how to organize. The mental models lead to decisions about business definition, business strategy, diversification, and organization structure. These decisions get converted into actions after other organization actors indulge in interpreting and making sense of them. As a result of these sensemaking and interpretative processes, the firm attains a particular market position, a set of resources, and identifies and nurtures certain capabilities. All these determine the firm's competitive advantage. Firm's performance would determine whether any change is required in the mental models.

Strategizing, then, would ideally entail perceiving accurately the environment in which the organization is embedded, acquiring a certain set of resources and capabilities appropriate to succeed in that environment, and shaping organization actors mindsets to accept and implement those decisions. The act of trying to perceive accurately the environment is wrought with two problems. First is the existence of an objective environment. The view that the environment does not exist independently from an organization and is not 'objective' in nature has been well argued by the 'social constructionist perspective' on organizations (Weick, 1979). Smircich and Stubbart (1989) argue that "environments are enacted through the social construction and interaction processes of organized actors". The social construction processes like interaction, media exposure, and socialization, lead to the formation of shared mental

models. Research has indicated that mental models of industry actors, (rivals, customers, suppliers) have varying levels of convergence owing to the interactive nature of actors' mental models (Lant and Baum, 1995; Reger and Huff, 1993; Porac and Thomas, 1990; Porac, Thomas, and Emme, 1987).

Second problem is the difficulty associated with perceiving the environment accurately. Cognitive research shows that managers perceive their environment selectively, differentially, and imperfectly (Hodgkinson, 1997a, 1997b). Starbuck (1992) finds that "nearly all managers misperceive both their firms and their market environments". Payne and Pugh (1976) concluded that members of a firm strongly disagreed when asked to characterize their firms' structures and cultures. Starbuck and Mezias (1996) have made substantial contributions in addressing the question of accuracy of managers' perceptions (Starbuck and Mezias, 1996; Mezias and Starbuck, 2002). Their latest study found that, though managers with very inaccurate perceptions are more prevalent, some managers comprising as much as 40 per cent may have accurate perceptions. At the end of the paper they argue that their assumptions of people need to perceive problems accurately in order to solve them were wrong as managers in their study came from the world's best known companies. They also note, "Nevertheless, an organization would be unrealistically optimistic to assume that misperceptions can never cause harm".

According to the cognitive perspective strategizing consists of two modes. First, an interpretive process that tries to obtain a near-perfect picture of the environment less the cognitive bias. Second, a social constructivist process in which the firm actively tries to shape and impose its framework on its internal and external constituents. Our research was triggered by the two findings in Narayanan and Kemmerer's study (2001) of cognitive perspective on strategy. First, the perspective has been slow to follow the trend in strategic management, away from a focus on the external environment towards a more resource based view. There is a real need to develop a cognitive treatment of resources and capabilities. Second, that the perspective assumes the strategist is at best 'boundedly rational' and only one study (Daniels, 1998) dares to stretch that line of argument by arguing that the strategist is also 'emotional'. In the next two sections we present review of existing literature on the above two issues.

Mental Models of Organizational Resources and Capabilities

The resource based view on strategy (Barney, 1996) and the dynamic capabilities approach (Teece et. al., 1997) argue that competitive advantage of a firm primarily rests with idiosyncratic organizational resources and capabilities, and organizational processes and routines. The cognitive approach holds that it is not the actual resource configurations which offer competitive advantage, but the perceived resources and the perceived capabilities. Anderson and Paine (1975) note that "it rarely has been suggested that perceptions rather than absolute characteristics of these strategic properties (or capabilities) are the important variables". Initial research findings of studies on mental models of organizational capabilities indicate the following: managers perceiving a limited range of available capabilities and a broader range in crises situations (Isenberg, 1987); organizational capabilities form the base of corporate belief system (Donaldson & Lorsch, 1983); strengths and weaknesses perceived differed according to managerial level and firm (Ireland et al., 1987); success factors varied by organizational position (Gronhaug & Falkenberg, 1994); and value of resources may be socially constructed (Rindova & Fombrun, 1999).

Isenberg (1987) looks at how dramatic events impacted manager's cognitions about resources in a pharmaceutical company. He concludes that managers very often are oblivious of their firms' resources and capabilities and they notice them in the event of dramatic events occurring in their firm. Rindova and Fombrun (1999) argue that the development of competitive advantage, the result of a firm's idiosyncratic resource configurations, should be seen as an interactive process. Ireland, Hitt, Bettis, and Porras (1987) found that managers' perceptions of the indicators of a firm's strengths and weaknesses, and of environmental uncertainty, vary by managerial level and differences in these

perceptions were discovered to be more significant within each firm. They argue that meanings attached to 'strength', 'weaknesses', 'opportunities', and 'threats' are partially dependent on the level of management doing the assessment. They conclude that the assessment cannot be divorced from the assessor.

Gronhaug and Falkenberg's (1994) used attribution theory to examine issues like performance attribution among managers, and definition of success factors according to managerial level. They found modest support to hypothesize that at the organizational level and at the individual level attributions of performance are expected to be directed more towards internal, controllable factors in high-performing organizations, than will be the case in low-performing organizations. Another finding was that actors' definitions of success are related to their organizational position. In other words, organization members holding the same position are more similar than are members holding different positions. We conclude our review quoting Stevenson (1976): "an individual's cognitive perceptions of the strengths and weaknesses of his organization were strongly influenced by factors associated with individual and not only by organizational attributes".

Affect and Strategy

The thought that strategic actors are purely driven by cognitive, rational, and precise conceptualizations is being replaced (Briner, 1999) by a framework which considers a strategic actor thinking and acting as "a whole human being, not driven by any single map or scheme, but rather by a far more holistic and complex mind structure that is charged with situational maps and more general assumptions, beliefs, and values about the external world" (Hellgren and Melin, 1994). The former 'school' dreads the act of emotions creeping into the process of strategizing and argues that "cool strategic thinking is not to be sullied by messy feelings. Efficient thought and behaviour tame emotions and good organizations manage feelings, design them out, or remove them" (Fineman, 1996). The latter school argues that emotions cannot be separated out from the strategic thought process. We hereby review organizational behaviour literature on emotions to lend credence to our assertion that the quality of mental models that managers develop is influenced by their emotional states.

The dominant paradigm in organizational behaviour research was the rational-cognitive approach till Simon (1976) came around and argued that, owing to limited information-processing capacities of human brains, it is a vain effort for a manager to be rational and at best he/she can be 'boundedly rational'. It was not till the late 1980s and early 1990s, when academic interest in emotions in the workplace came to be seen as a worthwhile pursuit (Ashforth and Humphrey, 1995; Brief and Weiss, 2002; Ashkanasy, Hartel, and Daus, 2002; Fisher and Ashkanasy, 2000). Organizational behaviour literature on emotions shows that affective states can influence a variety of work-relevant attitudes, behaviors, and cognitive processes (Isen and Baron, 1991; George and Brief, 1996). There exists disagreement among organization behaviour researchers on what constitutes the concept 'emotion'. In this paper, we use the term 'affect' as it subsumes 'mood' and 'emotion'. Forgas and George (2001) hold that affective states impact organizational behaviour as they influence both what people think (the content of cognition) and how people think (the process of cognition). They argue that affect "influences the content of thinking, that is, what kind of information people recall, attend to, select, interpret, and learn as a function of their affective state when dealing with ambiguous social situations". Affect also influences the process of thinking that is how people deal with a given task. They note that "positive moods promote a more internally driven, top-down, flexible, and generative processing style, while negative moods facilitate a more externally oriented, bottom-up, and systematic thinking styles".

Research also has found that people in positive moods evaluate things more positively, and people in negative moods evaluate things more negatively (Forgas and George, 2001; Mayer, Gaschke, Braverman, and Evans, 1992). Isen and Baron (1991) found that positive mood leads to positive outcomes. Positive mood leads to higher level of job satisfaction (Connolly and Viswesvaran, 2000), and positive evaluations (Kraiger, Billings, and Isen, 1989). On the other hand, people in a negative mood tend to be distressed,

upset and have a negative view of self, tend to focus differentially on the negative aspects of themselves, other people, and the world in general, and focus more on their failures and shortcomings (Watson and Clark, 1984). Studies also show that people in negative mood significantly overestimate the size of failure-related stimuli (Zahn, cited in Watson and Clark, 1984) and interpret ambiguous stimuli more negatively (Haney, cited in Watson and Clark, 1984).

Before hypothesizing, we review studies which have directly focused on affect and the cognitive and social aspects of strategic decision processes. Daniels (1999) laments the fact that there is very little work on the role of affect in strategic management processes. He argues that, as influence of both individual cognitive processes and social processes on strategic decisions is well established by cognition literature (Walsh, 1995): affect would influence many elements of such decisions. His exploratory study Daniels (1998) empirically established that negative affectivity relates to perceptions of the strategic environment. Managers with high negative affectivity are biased towards perceiving negative aspects such as poor performance, greater environmental complexity, industry decline, and increased competition. Positive emotions facilitate self-serving biases like over-estimation of one's ability and this was empirically established by Larwood and Whittaker (1977), who found that managers overestimated their abilities which resulted in overly optimistic planning.

Mittal and Ross Jr. (1998) conclude that affective states will have an influence on issue interpretation within the context of strategic decision making. They found that strategic actors in a positive affect state will view an ambiguous issue as more of an opportunity than strategic actors in a negative affective state. They also found that strategic actors in a negative affective state took higher risks than those in a positive affective state. Daniels (2003) argues that management researchers have long ignored the mutual dependence of cognition and emotion, and the role of manager's self in shaping this mutual dependence, thus concluding that affect might be a source of inaccurate perceptions. He notes that anxious individuals frequently note threatening aspects of a given situation. He concludes that managers experiencing negative affect will perceive organizational environment more negatively than their happier counterparts. We argue that managerial judgment of organizational resources and capabilities might be biased toward more optimistic or pessimistic interpretations depending on the nature of strategic actors' affective state. Thus:

Hypothesis 1: Strategic actors' affective states will have an influence on the perceptions of organizational resources and capabilities.

Hypothesis 1a: Strategic actors in a positive affective state will have positive perceptions of their firm's organizational resources and capabilities.

Hypothesis 1b: Strategic actors in a negative affective state will have negative perceptions of their firm's organizational resources and capabilities.

Method

Procedure and Sample
Data were collected through a combination of interview and questionnaire method. A Repertory Grid (Rep Grid) interview was administered to each of the participant lasting about 25 minutes on an average to elicit perceptions of organizational resources and capabilities. The repertory grid technique was developed by George Kelly (as cited in Bannister and Mair, 1968) to operationalize his Personal Construct Theory and a detailed account of the theory and technique is found in their book. Thirty one senior managers were drawn from attendees at a Management Development Program in a business school in India. Most of the sample was male (93.6%), the mean age was 39.6 years (SD = 4.6), and the mean experience was 15.7 years (SD = 5.1).

Measures

Affective States: Positive and negative affective states were measured by the 20-item Positive and Negative Affect Schedule (PANAS) developed by Watson, Clark, and Tellegen (1988). Individuals responded to each item on a 5-point Likert scale (1 = very slightly to 5 = extremely). A sample PANAS schedule of a respondent from a leading chocolate company is shown in Figure 1.

I feel this way on the average

1- very slightly or not at all	2-a little	3-moderately	4-quite a bit	5-extremely
4	Interested	1	Distressed	
5	Excited	2	Upset	
4	Strong	1	Guilty	
4	Enthusiastic	1	Scared	
4	Proud	1	Hostile	
4	Alert	1	Irritable	
4	Inspired	1	Ashamed	
5	Determined	2	Nervous	
5	Attentive	1	Jittery	
5	Active	1	Afraid	
10 Positive Affect Item Scores (PA) – 44		**10 Negative Affect Item Scores (NA) – 12**		

Figure 1: Sample PANAS Schedule.

Source: Own Research.

Perceptions of Organizational Resources and Capabilities: This construct was measured through perceived competitive advantage (PCA). High PCA score represented favorable perceptions of organizational resources and capabilities. Low PCA scores represented unfavorable perceptions of organizational resources and capabilities. PCA scores were elicited through the Repertory Grid interview. Respondents were asked to consider the organizational unit that was most relevant to them. Firstly, the managers were asked to produce a list of their competitors. These in Rep Grid terms are called 'elements'. Secondly, the names of the competitors elicited were written on small cards and three cards were randomly presented at a time. This random generation of cards was done with the help of random number tables. Thirdly, the respondents were asked to identify two firms that were similar on an important attribute that differentiated them from the third in terms of competitive advantage. The exact words assigned to two firms being similar (similarity pole) and the third being dissimilar (contrast pole) were recorded. These in Rep Grid terms are called 'bi-polar constructs'. A matrix was drawn up, and the list of firms the respondent identified (including his/her) were entered in columns and bi-polar constructs of competitive advantage in rows (each row had two bi-polar constructs). Respondents were then asked to rate on a scale of 1-5 where his/her firm stands in between these 'bi-polar constructs'. The ratings in each column were then added up to get a total score of competitive advantage possessed by respective firms. High scores reflect positive perceptions of competitive advantage and vice versa. A sample matrix of a respondent (labeled as Firm C in the matrix) from a leading chocolate company is shown in Figure 2.

Negative Competitive Advantage Attributes	Firm A	Firm B	Firm C	Positive Competitive Advantage Attributes
Inferior Product Taste	2	2	4	Superior Product Taste
Weak Display Distribution	3	2	4	Strong Display Distribution
Limited Reach	2	2	3	Wide Reach
Weak Brand Image	2	2	4	Strong Brand Image
Slow NPD Cycles	4	2	3	Fast NPD Cycles
Low Customer Responsiveness	2	1	4	High Customer Responsiveness
Not so Fresh Products	4	2	3	Very Fresh Products
Limited Foreign Exposure to Salespeople	4	2	3	High Foreign Exposure to Salespeople
Low Ad Spend	4	1	3	High Ad Spend
Less Creative	2	1	4	Highly Creative
Bad Product Quality	3	3	4	Good Product Quality
Bad Top Management Team	3	3	4	Excellent Top Management Team
Unicultural HR	3	3	4	Cross cultural HR
Perceived Competitive Advantage (PCA) Total	38	26	47	

Figure 2: Sample Repertory Grid Matrix.

Source: Own Research.

Analysis and Results

Table 1 shows the means, standard deviations (S.D.), and correlations among the measures. A simple linear regression analysis was used to analyze the data. The regression results are shown in Table 2.

Table 1: Mean, S.D. and Correlation Matrix

	Variables (n = 31)	Mean	S.D.	1	2	3
1	Positive Affective State	41.13	4.76	1	-0.196	
2	Negative Affective State	16.29	4.97	-0.196	1	
3	Perceived Competitive Advantage	51.55	7.84	0.532**	-0.010	1

**p<.01*

Table 2: Results of Linear Regression Analysis

Perceived Competitive Advantage Model 1	
Intercept	11.67
Negative Affective State	0.15
Positive Affective State	0.91**
Adjusted R^2	0.24
F	5.78**

**p<.01*

Hypothesis 1 proposed that strategic actors' affective states will have an influence on perceptions of organizational resources and capabilities (perceived competitive advantage). As seen in Table 2, we find that managers in a positive affective state have greater perceived competitive advantage ($\beta = 0.91^{**}$), thereby supporting Hypothesis 1a. Hypothesis 1b states that strategic actors in a negative affective state will have negative perceptions of their firm's organizational resources and capabilities. However, as seen in Table 2, this hypothesis was not supported.

Discussion

In our study we set out to examine whether strategic actors' affective states have any role to play in shaping perceptions of competitive advantage. In essence we argued that positive affective states will yield favorable perceptions of competitive advantage, and negative affective states will yield unfavorable perceptions of competitive advantage. Our results support only the former relationship and we failed to find any significant link in case of the latter relationship. However, the finding that positive affective states influence perceptions of competitive advantage makes a significant empirical contribution to the emerging cognitive approach to strategy.

Further, we feel that the study of affective influences on strategic contexts is a worthwhile pursuit and has important implications for strategic management and practice, and this is illustrated by the following example. Hamel and Prahalad (1989) argue that 'strategic intent' was responsible for the dramatic post-war ascent of Japanese companies towards global leadership. In a short span of two decades the Japanese firms snatched leadership positions from already well established global majors. This happened despite the fact that the Japanese companies were only one tenth in size compared to their global counterparts whom they unseated, when they set out to capture global markets. The authors define strategic intent as "an obsession with winning at all levels of the organization". They argue that strategic intent should be seen as much more than just unfettered ambition. They give examples of how Japanese companies expressed their strategic intent: Komatsu – "Encircle Caterpillar", Canon – "Beat Xerox" and Honda – "Overtake Ford". We feel that the concept of strategic intent and its representative example statements are fully embedded in an affect rich organizational milieu, but the authors give very little attention to that and harp on the techno-economic characteristics of strategic intent. We firmly believe that positive affective states of strategic actors in Japanese companies might have helped their companies achieve global leadership positions.

Though Daniels (1998) paper guides our effort we have departed from it in two ways: One, we used the Repertory Grid to map the strategic actors' perceptions of competitive advantage whereas Daniels (1998) used a questionnaire method containing simple attitude statements about perceptions of competitive environment. We feel that Repertory Grid interview technique gives a much richer picture of strategic actors' perceptions, especially so when mental models have to be elicited, than simple attitude statements. Two, our study had a much smaller sample size compared to both the sample sizes in Daniels, 1998 (59 and 272 respondents). We feel that a bigger sample size might have given a different result and we expect that the hypothesis 1b might be supported in a larger sample (Hays, as cited in Daniels, 1998). Subsequent studies might explore affectivity states of industry outsiders or industry consultants/analysts and their perceptions of strategic contexts, and compare them with those of industry insiders i.e. managers within the firm. In this study we focus on the 'perceptions' of competitive advantage and have not looked at how perceptions can be different from the objective assessments of competitive advantage, if at all they exist. We do not think so and as already argued in our review, the act of trying to perceive accurately the environment is wrought with two problems. First, the non-existence of an objective environment and second, whether one can perceive the environment accurately even if it exists.

Conclusion

Strategies are essential for a firm to realize its growth design. In the recent past, research by the strategic management academia on the question of how a firm gains and sustains competitive advantage has experienced a paradigm shift from structural explanations (Porter, 1980) to dynamic capabilities approach (Teece et al., 1997). The latter view, though acknowledging the significant role played by resources in shaping a firm's competitive advantage, largely ignores a non-trivial issue of the influence of underlying cognitive processes of top managers in identifying resource configurations (Narayanan & Kemmerer, 2001). Though affective influences on strategic decision making is an established stream of work, affective influences on strategic actors perceptions of strategic contexts in which this paper is nested is hard to come by. There is only one empirical paper (Daniels, 1998) and there exists a huge dearth of conceptual literature specifically addressing links between managers' cognition and their emotions. Following Daniels (1998) our paper examined whether managers' affective states affect their perceptions of strategic internal environment, especially those of resources and capabilities. The results show a link between strategic actors' positive affective states and their perceptions of competitive advantage.

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