



2017

# Back to School **SEMINAR**

## **Virksomhedens værdier og medarbejderens rationalitet**

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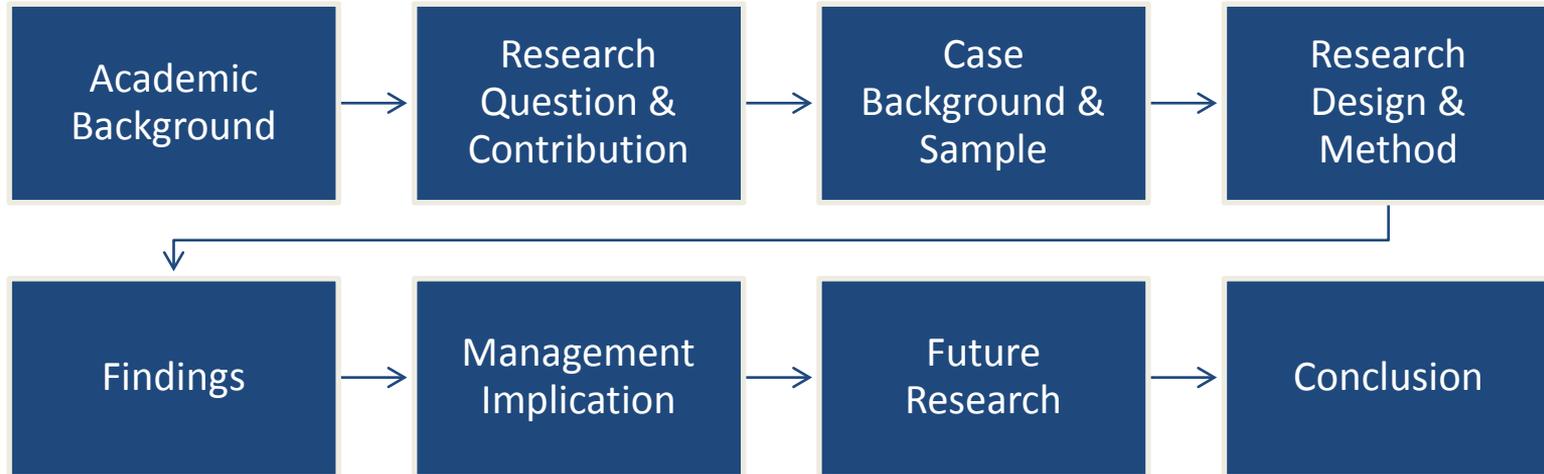
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CELEBRATING 100 YEARS  
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# Agenda

Acknowledgements: Sara Åkerstrøm Nielsen, Oskar Blazinski, Aske Sten Andersen



# Academic Background - Values

*Culture matters more than strategy plans – “Drucker”*

Culture builds on values (Brooms & Gahmbeg, 1983, O’Reiley, Chatman & Caldwell, 1991, Gordon & DiTomaso, 1992) →  
Companies invest in corporate values

Values are a defined management research concept (Geertz, 1973, Enz, 1988; Hofstede 1990; Meglino & Ravlin, 1998).

Ideally values form an appealing and cost effective alternative to reward and punishment (O’Reilly 1989; Kreps, 1990).

Many teach this, and some evidence exist (Rosenthal & Masarech, 2003; Edwards & Cable, 2009; Jonsen et. al., 2015).

But little hard evidence exist for this link at the individual decision level.

# Academic Background - Rationality

*Whereas economic man maximizes - selects the best alternative from among all those available to him, his cousin, administrative man, satisfices - looks for a course of action that is satisfactory or "good enough". - **Simon, 1947***

The economic agent is rational, but only limitedly so (Simon, 1955, 1960; Langlois, 1990; Conlisk, 1996).

Economic agents suffer from biases in decision-making (Kahneman & Tversky, 1979; Camerer, 1999; Thaler, 2000)

It is further an issue that organizational risk attitude is not guaranteed to align to agent risk attitude (Holmstrom 1999), and the moral conduct of agents in aligning to organizational wishes is not a given (Smith, 1759). This becomes an important issue for escalation of commitment.

However, agents that are more rational will have a comparative advantage, ceteris paribus so will organizations who employ more rational agents.

# Research Question

*Our study claims that for corporate values to matter they must at least align, and potentially alter, employee decision-making toward more optimal and rational behavior in support of firm objectives.*

*This should be evident when compared to a control group that did not get the "value-treatment".*

# Paper Contributions

- Hard experiment-based evidence for the significance of corporate values in individual manager decision-making
- This study makes a unique contribution to the effects of investment in shared company values, and to whether agent rationality can be fundamentally changed by committed organizational efforts.
- This study further shows how insights from business history can be combined with experimental economics to shed further light on issues and move us from *informed opinions* to *scientific facts*.

# Case Background – A Fortune 250 Company

- Unique and privileged access to managers
- A global integrated transport & logistics company with multiple brands and which is a global leader in container shipping and ports
- This company is special in having very well-defined, long-running values
  - in opposition to a narrowly defined homo-economics rationality.
  - Values are constantly observable in the behavior of the founding family,
  - The precise intonation and implementation can be traced to unique events and periods in the company history.



# MAERSK

HQ: Copenhagen

Founded: 1904

Status: Listed, but family controlled

Geography: 130 countries

Revenue: 35.464 mUSD (2016)

Net Income: 711 mUSD (2016)

Employees: 88.000

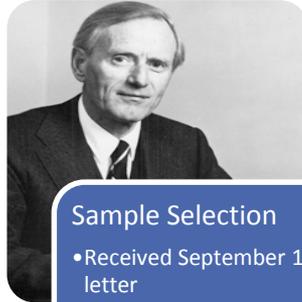


# Sample Selection



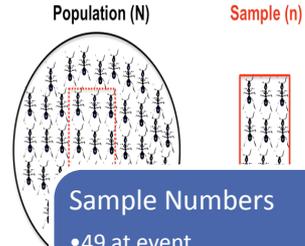
## Build on History

- 100 years ran by founder and son
- Their values codified to corporate values



## Sample Selection

- Received September 1994 letter
- Partaken in value event at CEO's home in 2003
- Managers from that event +3 years
- Be Danish



## Sample Numbers

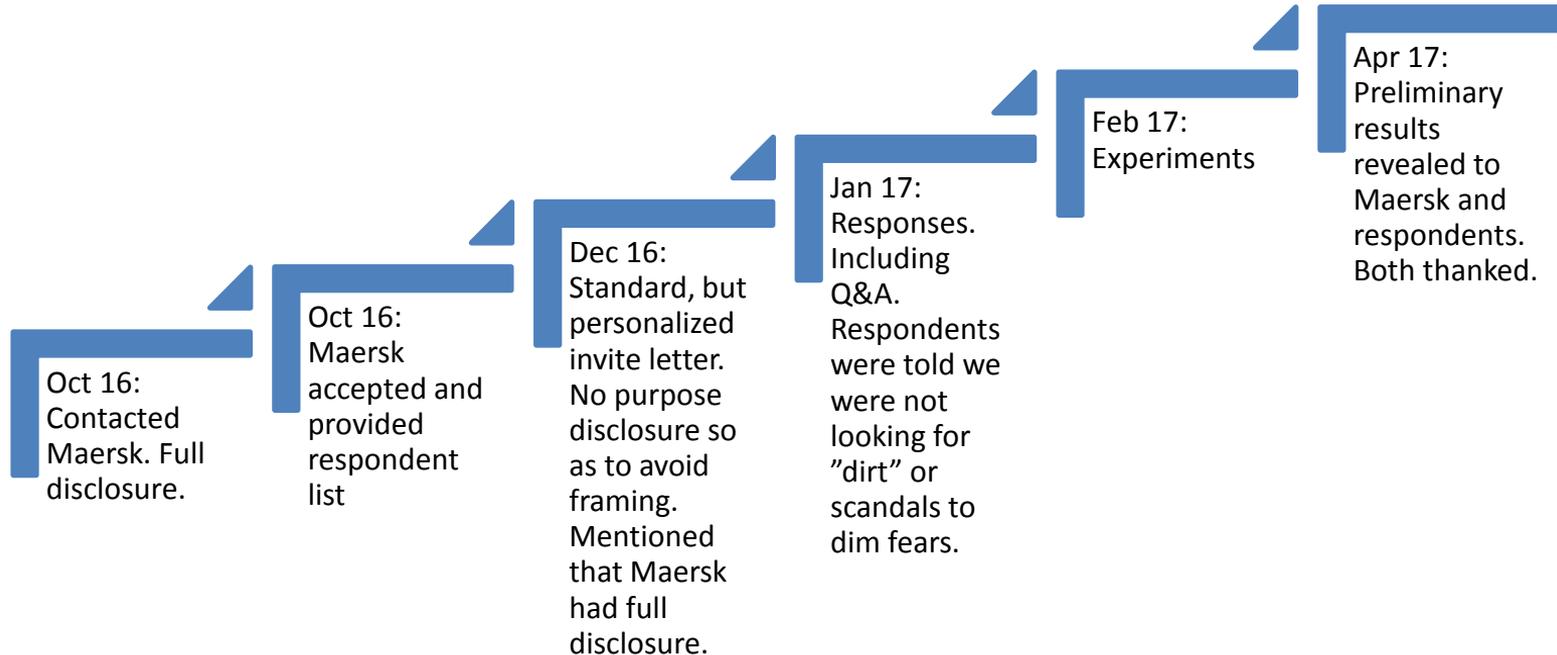
- 49 at event
- Only Danish: 32
- Could contact: 24
- Accepted and partook: 16, 50% of population



## Who are They

- A few still work for Maersk
- Some retired
- Others in new organizations, including c-level and boards of some of Europe's biggest companies

# How did we access the sample?



# Hypothesizes

## Control Group

- Not trusting towards others
- Risk averse
- Greater degree of escalation of commitment

Treatment:  
Corporate  
Values, esp.  
The 28  
Sentences  
(Sep 94  
letter)

## Maersk Manager

- More trusting towards collaborators
- Less risk averse
- Lower degree of escalation of commitment

# Screenshot: <http://www.maersk.com/en/the-maersk-group/about-us/maersk-group-core-values>

## The Values are constant in a complex world



*"No loss should hit us which can be avoided with Constant Care, this must be a watchword throughout the entire organization."*

**A.P. Møller**  
(1876–1965)



*"The basic principle is that people can trust us. Authorities can trust us, employees can trust us and business connections can trust us. Your word should be your bond."*

**Mærsk Mc-Kinney Møller**  
(1913–2012)

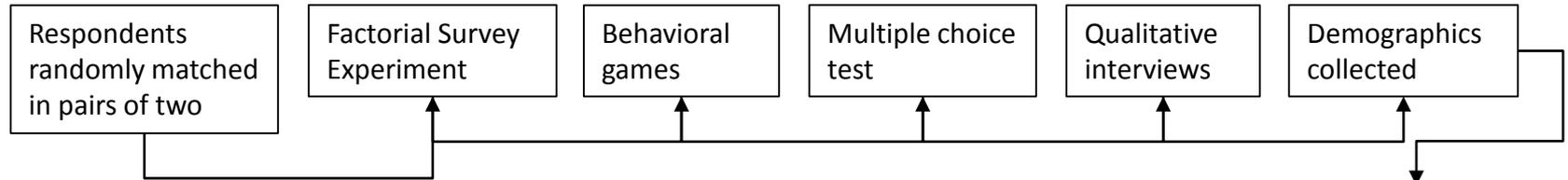


*"Our employees remain a Value in their own right – we must always be striving to create the right environment for the right people."*

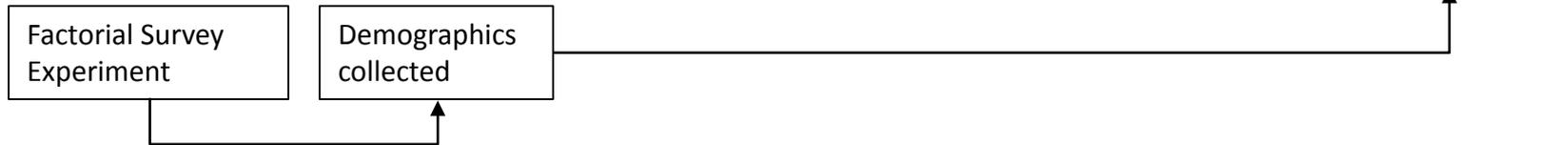
**Ane Mærsk Mc-Kinney Uggle**  
(1948–)

# Research Design

## Treatment Group



## Control Group



The current study mainly uses results from Vignettes, Multiple choice test and Demographics. Behavioral games and Qualitative interviews are utilized supportively.

# Method Specifics: Factorial Experiments

Factorial survey experiments use short descriptions of situations or persons (vignettes) that are usually shown to respondents within surveys in order to elicit their judgments about these scenarios.

Serves as a simulated experiment to elicit employee responses to generalized but representative decision scenarios.

Scenarios are varied on a predetermined set of factors expected to impact the decision or prioritization.

By simultaneously presenting an exhaustive set of combinations of preselected factors, factorial experiments allow for tests of factor main effects and combined effects with high statistical power at relatively small costs.

# Method Specifics: Games

Players took turns to start. First starter decide by coin toss

Games consisted of

- a variety of repeated trust and cooperation games
- a compilation of risk games
- a repeated version of the dollar game

# Method Specifics: Multiple Choice

To test actual and factual knowledge of the value set respondents was given an individual closed book and unprepared multiple choice exam of 10 questions based on the actual wording in and other objective facts about the value set.

# Method Specifics: Interviews

In the end, the purpose was revealed and a semi-structured interview concerning Maersk, corporate values, and leadership followed.

# Preliminary Findings (Ordinal Logistics Regression) — Maersk Sample

- **Project termination decision** (N = 256)

Profiling (-)	(Theoretical expectation: +*)
Sunk Cost (+)	(Theoretical expectation: +*)
Indications (+***)	(Theoretical expectation: +*) (The obverse holds)
Team (+***)	(Theoretical expectation: +*) (The obverse holds)
Incentivized success (-)	(Theoretical expectation: +*)
Opportunism (-)	(Theoretical expectation: +*)

**Controls:** Years since departure (-\*/-\*); Recall of value set (-/+\*); Number of inside and outside positions (-/\*); Seniority (+/+\*); robust to various interactions.

# Preliminary Findings (Ordinal Logistics Regression) — Control Sample

- **Project termination decision (N = 104)**

Profiling (+*)	(Theoretical expectation: +*)
Sunk Cost (+)	(Theoretical expectation: +*)
Indications (+**)	(Theoretical expectation: +*) (The obverse holds)
Team (+**)	(Theoretical expectation: +*) (The obverse holds)
Incentivized success (+*)	(Theoretical expectation: +*)
Opportunism (-)	(Theoretical expectation: +*)

# Preliminary findings in practical terms

Prior research has linked a range of factors to **escalation of commitment** and **risk taking as loss aversion**, as well as their tendency to undermine trust and reliable signals.

In contrast, the Maersk sample demonstrates no responsiveness to sunk costs or high stakes, nor do they respond (implicitly or explicitly) to incentives and opportunities to not disclose issues.

Given this unresponsiveness, more reliable signals (i.e. indications and feedback from project team) become strong drivers of manager decision behavior.

(Time from departure demonstrates a somewhat significant correlation with higher escalation of commitment.)

While reliable signals remain significant drivers in the control group (less strongly than in the Maersk group), personal incentives and project profile also impact decision making.

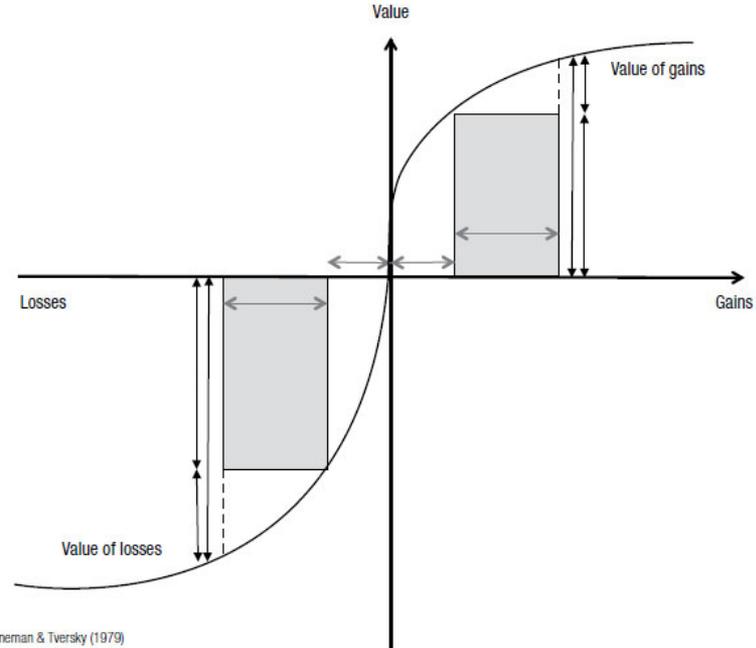
# Preliminary findings in illustrative terms

Maersk managers do not conform to Prospect Theory predictions of decision behavior under.

They do not exhibit increasing risk seeking behavior in the face of disutility or information asymmetry.

In other words, they exhibit flatter convex and concave response functions in gains and loss frames.

Figure 1 - Value function



# Management Implications

- Corporate value sets do seem to matter. They can make employees more rational.
- Value sets can transform individual decision makers attitude towards risk, trust and escalation of commitment, which in turn alters organizational outcomes and performance
- Value Sets can be an alternative or supplement to stick and carrot management.
  - However we do not comment on the cost.
- Treatments like this (likely) only works on agents morally predisposed to align **conduct** (as opposed to behavior) with employer wishes rather than pure personal rent seeking strategies.
  - Companies should aim to hire morally sound employees
  - Morally conducting subjects will also serve a role models

# Future Research Ideas

## Expand current methodology

- Include more departments in Maersk in vignette and multiple choice setup only
- Expand full setup in a company with history like Maersk, but in different industry

## Different level of analysis

- Use methodology in other settings, like departments, divisions, etc.

## Investigate the institutional effect of value sets via experiments

- Compare companies with value set to those without, but without investigating the precise content

# Conclusion

*Our study shows that corporate values matter in that they can alter employee decision-making and hence decision makers concept of optimality and rational behavior.*

# Help us do more...

## Light version:

Please give email and become part of our controlgroup

We will share results with you

## Amazing version:

Please provide mail and phone and we will talk further.

We will cocreate future results together

Contact

Stefan – 5150 3663 – [sks.ino@cbs.dk](mailto:sks.ino@cbs.dk)



**Thank You  
& Questions**