

REVIEW OF THEORIES OF SOCIAL BEHAVIOR DEVELOPMENT IN ENTERPRISES AND ITS INFLUENCE ON MANAGERIAL DECISION-MAKING

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<https://doi.org/10.5281/zenodo.20302386>

Abstract. *This article reviews major theories of social behavior development in enterprises and explains their influence on managerial decision-making. It examines organizational development, bureaucracy theory, human relations theory, contingency theory, systems theory, organizational culture, and game theory as interconnected approaches to understanding change in modern organizations. The study emphasizes that successful managerial decisions depend not only on formal structures and technologies but also on employee behavior, motivation, trust, cooperation, resistance to change, and leader–follower interaction. Special attention is given to planned change, transaction costs, organizational equilibrium, and the role of behavioral models in improving organizational effectiveness. The article argues that game theory provides a useful methodological basis for modeling managerial strategies and employee responses because it considers both economic and behavioral factors. The findings show that digital transformation of decision-making can integrate predictive, prescriptive, behavioral, and socio-cultural management models at enterprise and sectoral levels under conditions of uncertainty, competition, and change.*

Keywords: *organizational behavior; organizational development; managerial decision-making; game theory; organizational culture; behavioral models; digital transformation.*

Introduction

People and their organizations exist in a state of continuous evolutionary development, where constant change, adaptation, and improvement are essential for survival and growth in a rapidly transforming world. The modern environment of unprecedented uncertainty and chaos surrounding organizations establishes new criteria for their functioning. Intense competition and severe conditions for survival in an increasingly globalized market, stricter social and environmental requirements, unpredictable political situations, the threat of terrorism, the growing gap between the GDPs of the richest and poorest countries, unstable financial markets, tightening legal regulations, and the increasing customer demand for alternatives, superior quality, and convenience on the one hand, together with the technological revolution, worldwide telecommunication services, a record number of mergers, acquisitions, joint ventures, and partnerships, the globalization of business and finance, and international economic and trade regulation on the other hand, represent the realities of the modern organizational environment. These factors are interconnected and rapidly changing, creating an extremely uncertain and chaotic environment for all types of organizations in both the manufacturing and service sectors, as well as in the public and private sectors (Peters, 1987). Organizations seeking growth must continuously transform in order to adapt to such a turbulent environment. “They evolve and change in many ways. Their structures, missions, purposes, and levels of activity are among the most

important elements of this process. Outdated structures, goals, missions, and activities indicate the need for change and possibly a transition to new forms and/or systems” (Korth, 1998).

Literature Review

Change is the only constant defining the life of a modern organization. Management guru Peter Drucker argued that choosing change means the systematic and purposeful abandonment of an organization’s existing theory of business; otherwise, organizations risk becoming trapped by unfolding events. Before deciding which strategic change should be implemented within an organization, it is necessary to understand how such change can be effectively carried out (Drucker, 1994). Research and analyses of business literature over the past thirty years concerning organizational change indicate that nearly 70% of change initiatives ultimately fail (Ewenstein et al., 2015).

Any organization can be viewed as an open-system model consisting of several internal subsystems. Each system and/or subsystem possesses its own inputs and outputs, and these are generally interdependent. Based on this systems approach, interventions are classified and designed according to the organizational problems they are intended to solve and the organizational levels they primarily affect (Cummings & Worley, 1993). One method of classification is the specification of interventions according to four major interrelated organizational issues: human process issues, technology and structural issues, human resource issues, and strategic issues. These dimensions determine the types of challenges that organizations must address in order to function effectively. Since organizations operate as systems composed of interdependent subsystems, these issues are interconnected and must be integrated into the organizational development (OD) process.

The result of any business process is measured economically, and the process of change is no exception. The overall economic efficiency of change depends on the transaction costs of organizational members, which primarily reflect the level of trust within the organization. The level of trust is determined by organizational culture. An effective organizational culture possesses a strong moral foundation. Morality generally enables organizations to solve complex problems related to change that formal procedures alone cannot resolve. Thus, a strong organizational culture helps overcome resistance to change, thereby reducing transaction costs and increasing productivity. Consequently, the success of an organization depends on the quality of its culture.

Regardless of the level of intervention in the change process and the problem intended to be solved, organizational employees participate in the implementation of planned changes. The success of the organizational development process depends on how well the relationships between the change leader and followers are organized, as well as on the extent to which a productive behavioral climate has been created within the organization. Improper formation of a climate for change may lead to the failure of even the most carefully designed intervention process due to a lack of understanding of the need for change and unwillingness to overcome resistance to change among organizational members, including both employees and managers. Therefore, understanding the transactional economics between the parties involved in the process, anticipating the problems of managing planned change, and creating the most favorable climate for cooperation are the key factors for successful change intervention.

Materials and Methods

This study employs concepts primarily used in the disciplines of organizational development and game theory.

“Organizational Development (OD) is a process through which behavioral science knowledge and practices are used to improve organizational effectiveness, including the enhancement of quality of life, labor productivity, and the quality of products and services. ... the primary focus is placed on the organization’s ability to assess and solve its own problems” (Drucker, 1994). Change should be understood as a planned process of transformation, initially designed with specific objectives in order to benefit organizational members in the long term. It differs from unplanned change, which usually represents a short-term organizational response to external market shocks, during which all organizational members may suffer losses in order to preserve organizational stability. Organizational development methods are used for two main purposes: improving the organizational climate and increasing organizational effectiveness (Larwood, 1984).

According to game theory, a game is an economic and/or behavioral process involving two or more parties with their own objectives and corresponding strategies, who exchange economic and/or emotional values that may be gained or lost depending on the outcomes of the process. A strategy is a set of actions that must be carried out before the completion of one round, after which the results are evaluated. A cooperative game is one in which all players are informed about the payoffs of their partners; otherwise, it is a non-cooperative game. An asymmetric game is a game in which the partners’ payoffs under a given strategy are unequal, or where one player’s gain is not necessarily another player’s loss. Information asymmetry occurs when players possess different levels of knowledge regarding the payoffs of their partners and their preferred strategies.

A leader is defined as a manager or a group of managers implementing change interventions. Followers are employees or groups of employees who are required to modify their behavioral positions in order to accept new norms. The leader generates resources, whereas the followers produce resources. The leader’s consumption is associated with the expenses related to his or her activities. The parameters of the change game are the settings that determine the input data of the change process, such as the size of incentives, the scale of projected growth, the leader’s consumption expenditures, and the perceived cost of effort. The state of the change game is a set of conditions representing relatively measurable values that determine the current situation of the change process, such as follower sensitivity, feelings of guilt, and the level of disobedience, which are derived from the parameters of change.

Organizational equilibrium is a game state in which the organization achieves its maximum payoff. Equilibrium sensitivity refers to changes in the state of equilibrium depending on changes in input data and parameter values.

Results and Discussion

Specialists in organizational development identify three key elements of organizational development: improving organizational effectiveness; humanistic psychology — a theory asserting that an organization consists of a group of interconnected individuals with internal needs for psychological growth; and organizational development grounded in the social sciences (Smither ed., 1996).

Organizational development, or the management of planned development, has become a subject of great interest in modern organizations facing intense competition in both domestic and global markets. As the market evolved through the sequence of “domestic – international – global,” OD practices followed this progression in order to meet organizational needs. These studies were aimed at identifying the conditions under which employees and management could cooperate and,

consequently, become more productive (Cummings, 1993). Researchers discovered that social relations played a fundamental role in the workplace (Roethlisberger et al., 1939).

Other OD experts associate laboratory training with the beginning of the OD era. Laboratory training, known as basic skills training groups or T-groups, was introduced by Kurt Lewin and his colleagues at the Massachusetts Institute of Technology (Smither ed., 1996). These T-group experiments were highly significant for the development of OD because they focused on problems related to communication and relationships among group members.

In order to facilitate intra-organizational communication, survey feedback interventions were introduced. In particular, Rensis Likert studied human processes within organizations, such as employees' perceptions of their supervisors, opportunities for career advancement, and satisfaction with group work, as well as the corresponding reactions of middle managers and information received from top management (Likert, 1932; Drucker, 1994).

Similar to action research aimed at implementing change, several change management projects focused on improving productivity and the Quality of Work Life (QWL). This approach was applied during change implementation experiments to examine the value chain and organizational architecture, as well as their interrelationships (Trist, 1951). QWL practices led to the development of the sociotechnical approach by the same institute. The foundation of this idea is the fact that every organization consists of both social and technological systems, and changes in one system result in unintended changes in the other (Smither ed., 1996). Both action research and sociotechnical systems approaches were developed to understand the relationship between employee behavior and the work environment, and to enable development agents to design the most appropriate work processes for improving productivity and employee satisfaction.

At present, the scope of QWL programs has expanded beyond the individual approach and now includes aspects of job design such as reward systems, work processes, management styles, and the work environment. Accordingly, these practices are widely applied to further enhance organizational effectiveness.

Organizational culture is based on the perceptions that organizational members hold about themselves, customers, competitors, and society, and it reflects their shared beliefs and values. When these perceptions, beliefs, and values are widely shared among organizational members, the culture is considered strong (Smither ed., 1996). The cultural environment of an organization includes accepted patterns of behavior (formality versus informality), roles (managers versus subordinates), and norms (punctuality versus flexibility). Roles are expected patterns of behavior associated with a person or his/her position. For example, managers are expected to act as leaders, while subordinates are expected to act as followers during the change process. Norms are established rules governing people's behavior within the organization. Organizational culture has become a central element in the development of any organization; however, it is also the most complex component and the primary source of resistance to change implementation, which is why it responds very slowly to change. According to the sociotechnical systems approach, changes introduced into the organization's value chain entail and/or require changes in the social system, especially in organizational culture. Strategic changes were designed to respond to this tendency and to integrate efforts aimed both at improving the organization's relationship with its environment through open-system planning and at strengthening the links between technical, political, and cultural systems, as well as transforming organizational culture (Beckhard, 1987). It should be noted that such strategic changes are usually triggered by major organizational shifts,

such as deregulation, technological breakthroughs, or the arrival of a new external leader (Miller, 1980).

There are three major theories that are particularly significant in organizational theory and are classified according to different approaches to organizations and the factors influencing organizational development (OD):

The theory of bureaucracy proposed by Max Weber (Weber, 1947) assumes that organizations function effectively when fair rules and procedures are established to regulate every possible situation. Bureaucracy emphasizes organizational structure and procedures that change slowly and are applied equally to everyone. Therefore, organizational change interventions are reduced to the task of recreating new structures and work procedures while minimizing or eliminating existing ones, often ignoring or reducing the role of individuals in implementing change.

In contrast to the theory of bureaucracy, the human relations theory emerged from the aforementioned humanistic psychology approach (Maslow, 1954; Likert, 1961; McGregor, 1960). According to this theory, improving interpersonal communication leads to greater organizational effectiveness. Thus, organizational change resembles individual psychological improvement: the most effective changes occur at the level of individuals and work groups rather than through top-down directives.

The most recent organizational approach, contingency theory (Lawrence, 1967), unlike the two theories mentioned above, argues that neither structure nor people are the sole determinants of organizational effectiveness. Instead, the macroeconomic environment determines the organization's position, and therefore successful organizations develop their structures and cultures by learning from and adapting to external factors. Proponents of contingency theory argue that there is no universal type of organization suitable for all conditions, and each organization must develop its own model in order to remain sufficiently flexible to adapt to changing environmental conditions.

In practice, organizations use various combinations of all three approaches to build their structures throughout their existence.

The widely recognized change model of Kurt Lewin is one of the earliest fundamental models of planned change (Lewin, 1951). This model views the organization as a behavioral system consisting of two forces involved in the change process: those promoting change and those resisting change in an effort to preserve the status quo. Lewin described the state in which these two forces are equal as "quasi-stationary equilibrium," and consequently current organizational behavior is maintained. The planning model emerged as a result of a more comprehensive attempt to model the process of planned change (Lippitt et al., 1958). According to the action research model, such a cyclical process of planned change consists of two main stages: knowledge generation and change implementation (Kolb, 1970).

David Hussey presented change management as a six-stage interconnected process (Hussey, 2000). According to this approach, change management activities are classified into motivational and leadership tasks, as well as administrative tasks. Motivational and leadership tasks are aimed at inspiring people, reducing resistance, and ensuring broad participation, while administrative tasks are intended to clarify the action plan and evaluate achievements. Notably, the former tasks imply a human relations approach and are quite accurately described through game theory methods.

Understanding organizational culture is crucial for assessing the level of resistance that a change intervention is likely to encounter (Harvey, 1988). According to this model, the level of resistance depends on the extent of change and its impact on organizational culture.

The application of open systems theory (Likert, 1932), systems theory (Thayer, 1974), living systems theory (Vancouver, 1996), chaos theory (Thietart, 1995), complexity theory, and game theory in strategic change applications has had a significant influence on the development of OD practice. Open systems theory views the process of planned change as an intervention aimed at establishing an optimal equilibrium between the interconnected organizational system and its external environment. In this context, the ideas of sociotechnical systems (Cummings, 1977), self-organizing organizations (Cummings & Mohrman, 1987), and transorganizational development (Cummings, 1984) provide noteworthy examples of the application of this theory.

Systems theory, complementing open systems planning, considers the organization and its environment as an integrated unique system with interconnected subsystems, where the subsystems themselves consist of lower-level subsystems. The ideal implementation of this theory leads to a computational deadlock (Greene, 1999).

It is evident that any advanced organizational structure and sophisticated technologies are meaningless unless the people within the organization, from managers to employees, fit into and/or accept the designed technostructural system. On the other hand, the technostructural system must be designed to respond positively to people's aspirations for personal growth. Any technostructural shift in organizational functioning should therefore be accompanied by the development of human resources and interpersonal relationships. Thus, the development of human relations should be regarded as a key process in any planned change initiative.

Since motivation and, consequently, employee participation are vital to the success of interventions, change leaders must understand people's perceptions of motivation. Theory X and Theory Y characterize simplified methods of motivation. Managers applying Theory X assumed that they were somehow superior to others, self-motivated, while employees were lazy, unmotivated, avoided difficulties, and disliked responsibility. Consequently, the main task of such a manager was to control employee behavior through a carrot-and-stick policy, namely rewards and punishments. Such managers likely failed to understand that others are motivated in much the same way as they themselves are (Larwood, 1984).

Transactional analysis, an interpersonal-level change intervention, aims to transform organizational culture by increasing people's awareness of their interpersonal interactions (Berne, 1961). The transactional analysis approach is mainly based on game analysis designed to study the underlying motives in interpersonal interactions (Smither ed., 1996). In this context, a game is understood as a hidden interaction carried out to reinforce a negative position toward others, being manipulative in nature and involving emotional gain. However, this approach is limited exclusively to the psychological aspects of personality.

"Game theory has achieved success in recent years because it fits perfectly into the new methodology of economics" (Rasmusen, 2002). Game theorists expanded this transactional analysis into transaction cost analysis. From the perspective of game theory, a game is a process in which several parties possess their own goals and action strategies, and its outcomes depend on how the parties interact, while gains or losses are distributed among them. The parameters and outcomes of a game may have both quantitative and qualitative values; therefore, both the economic and emotional aspects of the process can be effectively modeled and the results evaluated. In reality, individuals and groups are guided not only by emotional motives but

predominantly by economic benefits, since the economic component dominates human behavior. Game theory is a flexible tool for modeling transactional processes not only between individuals or groups but also at any level and within any diversity of socio-economic processes where different parties pursue their own objectives, regardless of whether they compete or cooperate. Researchers have widely applied game methods to study economic behavior and organizations. While studying leader–follower relationships, Mark Casson analyzed business transactions as a trading process, examined the cultural influence on the behavior of trading participants, and attempted to synthesize a model of business culture at the national level for the modern market economy (Casson, 1991). As a result, he concluded that the moral principles and culture of individuals genuinely influence economic performance and, through mathematical analysis, demonstrated that an altruistic and cooperative business culture enables higher productivity. A hypothetical study in the field of non-selfish economics also proved that people benefit more from building a cooperative and altruistic culture than from remaining in a selfish, economically rational environment (Collard, 1981). Empirical studies further indicate that the presence of altruistic preferences may also be significant for the optimal provision of public goods (Russell ed., 2003). Such studies are impossible within other theories based solely on technostuctural ideas.

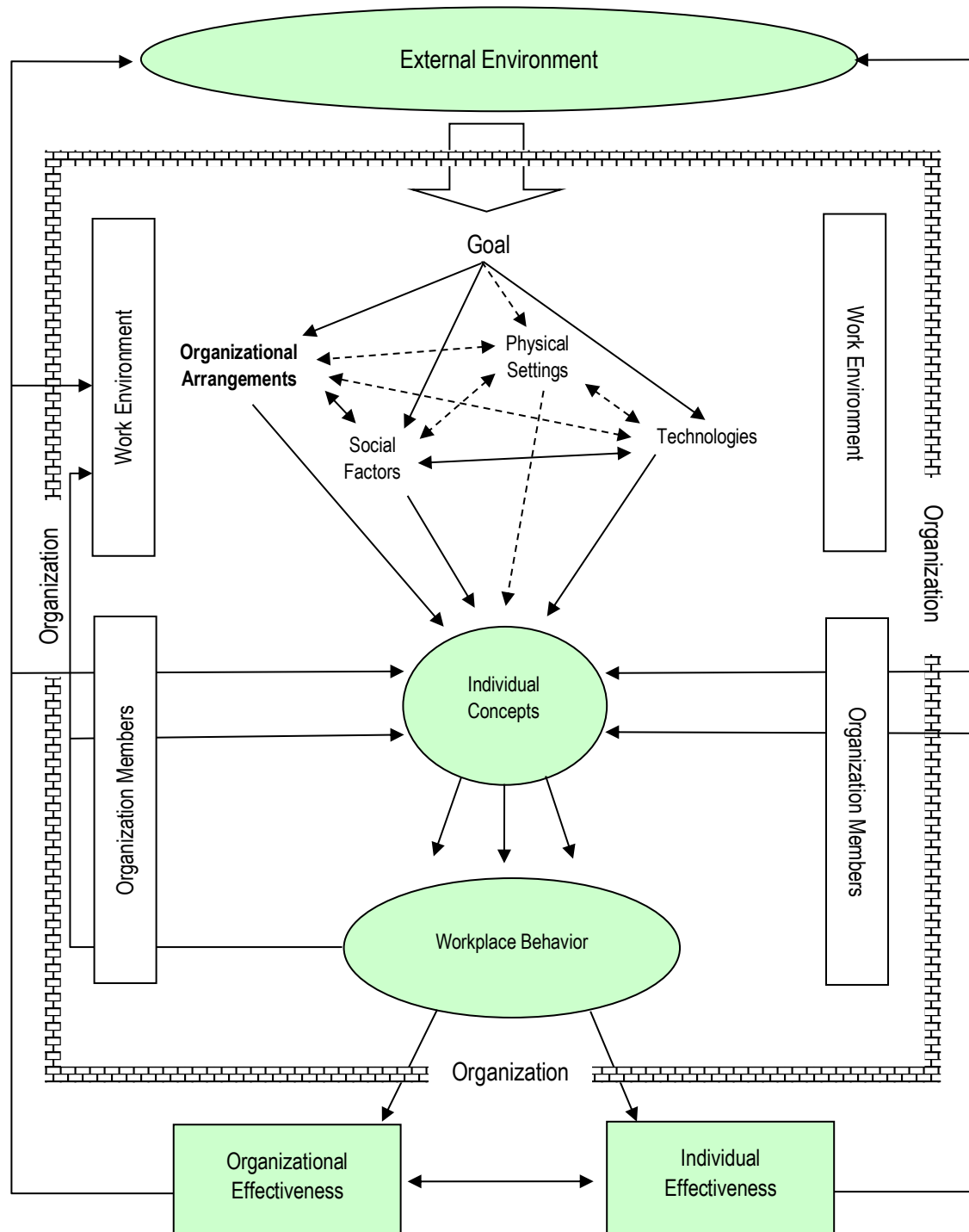
Research on transactional processes at the interpersonal level has shown that competitive employee reward preferences, namely incentives, are more important for employee satisfaction, including job satisfaction and social satisfaction (Charness & Grosskopf, 2001).

Many factors influence organizational effectiveness, but the most important among them is the behavior of the individual employee (Smither et al., 1996). Studies of organizational architecture have revealed the existence of two primary organizational outcomes: organizational effectiveness and individual development (Porras & Robertson, 1992). These outcomes are the product of workplace behavior formed through individual thinking, which is influenced by organizational members, norms, technologies, as well as personality-specific and external factors. Organizational vision is developed in order to shape a coordinated internal environment. The change-based organizational structure model (Figure 1) illustrates the interdependence of the internal and external environments of the organization as an integrated system.

The model presented below considers organizational behavior as the most important factor in achieving organizational outcomes. However, the role of the leader as a factor influencing the development of organizational behavior is not taken into account in this case. Supporting the ideas presented above, change agents should view organizations as systems composed of interdependent subsystems. Thus, changes in one part are likely to affect other areas as well. Since an organization is an open system, people’s behavior, developing within a particular framework, is constrained by established organizational rules and norms while simultaneously interacting with other internal parts of the organization and the external environment, including national culture and economic conditions.

In conclusion, it should be noted that organizational employees become the central focus of organizational development efforts because they are involved in changes that cannot be implemented without their participation and because they represent the primary source of resistance to change. Ultimately, they are the ones who benefit most from successful interventions and suffer losses from failures resulting from organizational development initiatives. The following sections present several methods for modeling human relations and developing appropriate managerial behavior that facilitates the implementation of organizational development interventions.

Figure 1. Change-Based Organizational Structure



A series of experiments conducted in small communities revealed convincing evidence that prosocial norms of fairness and reciprocity are strengthened through greater market integration. The intuitive logic behind this finding is compelling. Greater market integration weakens the strong mechanisms of social enforcement characteristic of small communities, thereby increasing the likelihood of opportunistic behavior. Recognizing this and seeking to benefit from a greater division of labor, exchange participants encourage qualities such as fairness and reciprocity in their interactions with strangers while simultaneously punishing instances of unfair behavior. Accordingly, greater market integration reinforces prosocial norms toward strangers (Boyd et al., 2005; Henrich et al., 2006; Henrich et al., 2010). However, when examining market integration,

researchers focused exclusively on the role of informal institutions, such as mechanisms of social enforcement, in structuring and regulating exchange in rudimentary societies (Smither et al., 1996).

Various scholars provide evidence of the role of social norms of fairness, reciprocity, and honesty as forces balancing motives of self-interest. For example, evidence of honest behavior has been studied through observations that people appear to tip equally in local restaurants (presumably to encourage better future service) and in taxis (where the probability of repeat interaction is minimal) (Peng, 2003). Under experimental conditions, offers in the ultimatum game typically range between 40–50% of the total stake, and responders generally reject offers below 20% (Camerer, 2003). Likewise, participants in dictator game experiments usually make positive offers even when recipients have no opportunity to reject the proposed allocation (Forsythe et al., 1994). Similarly, some researchers regard tax reporting (Wenzel, 2004), returning full wallets to police stations (West, 2005), disclosing billing discrepancies favorable to oneself to suppliers (Frank et al., 1993), and returning fully addressed and stamped “lost letters” containing money to their rightful owners (Zsolnay, 2003) as manifestations of honesty. Based on the above, an important question arises: will prosocial behavior be stronger or weaker in more market-oriented economies?

There are intuitive arguments supporting both positions. On the one hand, a number of scholars argue that norms of fairness, reciprocity, and honesty are likely to be stronger in more market-oriented economies with more developed formal institutions for three main reasons. Part of the purpose of researching game-based behavioral models at both the national and enterprise levels is to expand this field of study in both dimensions in order to determine whether prosocial behavior is stronger or weaker in more market-oriented economies and within individual enterprises themselves. First, the research expands the focus to include extensive markets where exchange transactions are more ephemeral and anonymous (Platteau, 2000), thereby examining predispositions toward fairness and honesty in situations where the benefits of trade increase while mechanisms of monitoring and social enforcement become correspondingly weaker (Kandori, 1992). Second, by explicitly including formal institutions that simultaneously develop to support exchange in extensive markets, it becomes possible to investigate whether prosocial behavior is crowded out by more developed market-compatible formal institutions (Bowles et al., 1997; Frey & Oberholzer-Gee, 1997; Reeson & Tisdell, 2008).

Conclusion

This study develops a separate theoretical approach to the modeling and consistent digital transformation of management and decision-making in organizational development, taking into account the behavioral parameters of leadership strategies and employee behavior on the basis of game theory methodology.

The conducted analysis of theories and the proposed approaches to the digital transformation of decision-making demonstrate that various aspects of enterprise and industry management — ranging from predictive and prescriptive models of business processes to behavioral and socio-cultural management processes — can be successfully modeled and integrated into digital decision-making systems not only at the enterprise level but also across entire sectors of the economy.

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