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SNS RESEARCH BRIEF SUMMARY

Business Leaders and Strategic Decisions *

This report studies and compares business leaders' strategy choices with those of a control group of other professionals. The report is based on a research article by Holm, Opper, and Nee published in *Experimental Economics* 2019.

The study of CEOs' strategic decisions is important, as CEOs have a prominent role in society. As leaders, their actions have significant implications for an array of other stakeholders, such as employees, suppliers, clients, and not least the economy at large. Business leaders are also likely to play an important role in transmitting values, norms, and beliefs to other economic actors. Therefore, it is important to understand if and in what sense they differ from others in their decision making. Their greater experience in strategic performance suggests that they could differ from others in strategic decision-making situations. Despite the obvious relevance of studying this subject pool, there are very few experimental studies of CEOs. Most likely, this is explained by the fact that CEOs are very busy and therefore hard to recruit for experimental studies.

With the help of around 20 assistants at a market research firm in Shanghai, 200 CEOs from private firms having at least 10 employees in two cities in the Yangzi delta region of China and 200 control group individuals from the same cities were recruited. The selection was based on a random stratified sample of firms. To cap-

ture the multiple dimensions of strategic behavior, all subjects played three different games. The games played were Prisoner's Dilemma, Chicken, and Battle of the Sexes. The games are all intended to emulate real life decisions situations and reflect aspects of cooperativeness, coordination, and anti-coordination. In order to elicit the subjects' beliefs about the behavior of others participants were also asked to report their beliefs about others' choices in their respective groups.

The first main result is that in all games the behavior of the CEOs differed substantially from the behavior of the control group. The CEOs cooperated more in the Prisoner's Dilemma game and played less hawkishly in the Battle of the Sexes and Chicken games. This result is statistically significant in all games both when we make raw comparisons of the proportions of the strategy choices between the groups and when we include control variables in regressions. Because the subjects played against subjects of their own group (i.e., CEOs played against other CEOs, etc.) the expected payoffs of the CEOs were substantially higher, with CEOs earning from 11 to 44 percent more than the control group in these games. Remarkably, however, CEOs did not out-compete the control group members by being more rational (in the narrow textbook sense) or more selfish, but by being more cooperative and less aggressive. Furthermore, CEOs believed in significantly higher coo-



peration levels than the control group in the Prisoner's Dilemma game. Overall, and again contradicting the rational "textbook CEO", beliefs were frequently inconsistent with behavior. Under the assumption of selfish preferences, compared to the control group, CEOs did not best respond more frequently to their beliefs.

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* This is a summary of the Swedish research brief "Företagsledare och strategiska beslut".

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