AFFECTIVE EVENTS THEORY: A STRATEGIC PERSPECTIVE

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Abstract

Although there has been increasing interest in the role of affect in work settings, the impact of moods and emotions in strategic decision making remains largely unexplored. In this essay, we address this shortcoming by proposing a conceptual model of strategic decision making that incorporates, at its core, the impact of affective states on cognitive processes that are integral to the decision outcome. The model is based on the principles of Affective Events Theory, which holds that environmental exigencies generate ‘affective events’ that cause emotional reactions in organizational members which, in turn, determine members’ attitudes and behaviors. We extend this model to include the effect of the extra-organizational environment, and propose that emotions ‘infuse’ those cognitive processes that are critical to the strategic decision process. We conclude that strategic decision making in organizations is not always a controlled, deliberate, purely cognitive process, as it is often described. Rather, we contend that the moods and emotions that managers experience in response to positive and negative workplace events have a significant affect on strategic decision making processes and ultimately, organizational-level outcomes. We discuss the implications of our model for theory, research, and practice.

KEY WORDS: Affective Events Theory; affect; emotions; strategic decision making.
AFFECTIVE EVENTS THEORY: A STRATEGIC PERSPECTIVE

Since publication of the groundbreaking article by Pekrun and Frese (1992), the topic of emotion and affect in organizational settings has steadily gained credence, to the point that it is now attracting considerable attention in the mainstream management and IO psychology literature. This is evidenced in recent special issues of journals (e.g., Ashkanasy, 2004; Fisher & Ashkanasy, 2000; Fox, 2002; Humphrey, 2002; Weiss, 2001, 2002) and edited books (e.g., Ashkanasy, Härtel, & Zerbe, 2000, Ashkanasy, Zerbe, & Härtel, 2002, 2005; Fineman, 1993, 2000, Lord, Klimoski, & Kanfer, 2002; Payne & Cooper, 2001; Härtel, Zerbe, & Ashkanasy, 2005). Indeed, Barsade, Brief, & Spataro (2003) have gone so far as to declare that an “affective revolution” is under way in the study of organizational behavior.

To date, however, with the notable exception of Daniels (1999, 2000), there has been little written of the application of affect theories of organizational behavior in the context of strategic management. Thus, although Weick (1979) asked 25 years ago, “Where’s the heat?” (see Ray, 1995), the myth that strategic management is a cold, rational process persists. In particular, no one to date appears to have attempted to apply some of the plethora of recent research findings on affect and cognition to the decision-making processes that underpin strategic management. In this article, we attempt to redress this situation by presenting a critical review of the role played by affect in organizational settings, with a focus on the impact of affect on the cognitive processes of strategic decision making.

Our analysis of the role played by moods and emotions in strategic decision outcomes in organizations is based on Affective Events Theory (AET: Weiss & Cropanzano, 1996) as well as social cognitive research on affective influences on cognition and behavior (Bower, 1981; Forgas, 2002; Schwarz & Clore, 1990). AET holds that organizational events trigger affective responses in organizational members, with consequences for workplace attitudes, cognition, and behavior. Although Weiss and Cropanzano developed their theory with specific reference to micro-level attitudes and behaviors within the organization, we apply this basic model of
affective influence in organizations to strategic management. Specifically, we argue that workplace events elicit affective responses (moods and emotions) that in turn influence both the *content* and *process* of strategic decision-making. Thus, we offer an extension and application of Weiss and Cropanzano’s (1996) Affective Events Theory to strategic management, and in particular, strategic decision-making. In the remainder of the article, we highlight the importance of understanding the impact of affect on strategic decision processes and set out the justification for each component of our conceptual model starting with the antecedents of affect in organizational settings before discussing the nature of affect and the implications of affect for organizational cognition. Following this, we review the cognitive processes involved in strategic decision-making in organizations. Finally, and drawing upon recent advances in affect and cognition research, we explore the impact that individual’s affective responses to organizational events have on organizational cognition and strategic management. We conclude with a brief discussion of the implications of the model for theory, research, and practice.

**The Central Role of Affect in Strategic Decision Making**

In this essay, we deal with role of affect in strategic management, which has been defined by Porter (1987) as “what makes the corporate whole add up to more than the sum of its business unit parts” (p. 251). In effect, strategic management concerns issues pertaining to the fundamental nature of the organization itself and its relationships with the environment. Strategic management therefore involves making decisions about the activities that the organization should engage in, acquiring and divesting resources (including human resources), delineation of the goals the organization and its members should be aiming for, and the identity and culture of the organization itself (Asch & Bowman, 1989). A corollary of this is that strategic management is also characterized by complexity, uncertainty, ambiguity (Rumelt, Schendel, & Teece, 1994). Strategic decision making is manifest in various organizational contexts such as negotiation, problem-solving, and performance-evaluation – all involving assessing organizational adaptation to environmental demands and setting goals.
Researchers working in this tradition have highlighted several individual and organizational factors that impact upon organizational decision-making processes, including the power or status of the decision-maker, locus of control, success or failure expectations, and personality types. It may be observed, however, that the impact of affect on organizational decision processes has been largely neglected (see Daniels, 1999; Hodgkinson, 2001; Langley, Mintzberg, Pitcher, Posada, & Saint-Macary, 1995; Neale & Northcraft, 1991). Within the plethora of literature in this field, the lack of attention to affect in strategic decision-making is of particular interest, since recent developments in social psychology have demonstrated that the impact of affect on cognition is particularly salient in situations that are complex, require substantive information processing, and especially when incomplete information is available (Forgas, 2002). As such, strategic decision processes in organizations are likely to be significantly influenced by the affective states of individual decision-makers.

A further characteristic of strategic management is that it is related to the need to exploit perceived opportunities and avoid apparent threats to the attainment of organizational goals, and the achievement of “competitive advantage” (Porter, 1987, p. 251). If organizational goals and personal performance goals are aligned, as may be the case for top management teams, stakeholders, and CEOs, an opportunity or threat to organizational survival may have consequences for individual well-being, or the attainment of personal goals (Ashkanasy et al., 2004). As such, our first objective in this essay is to argue that organizational events that have the potential to impact upon organizational goals may induce positive or negative affective states in organizational members for whom personal and organizational goals are aligned. We follow this analysis with an examination of the impact of organizational members’ affective states on strategic decision-making processes and organizational outcomes.

A Model of Affect in Strategic Management

Arising from the foregoing discussion, the model of affect in strategic management that we propose in this article is set out diagrammatically in Figure 1. In the proposed model, intra-
organizational and extra-organizational environments generate ‘affective events’, which result in emotional responses on the behalf of the organizational actors – in this instance, the top management team responsible for strategic decision-making. Intra-organizational affective events include stress-related workplace events, the physical setting, work-group characteristics, and leader-member exchanges – ultimately all derived from the goals set in place by top management strategic decisions. Extra-organizational affective events include (1) organizational change events, (2) economic, legal, and political events; and (3) inter-organizational negotiations. The emotions that are invoked are the negative emotions of anger, disgust, and fear/anxiety, and the positive emotions of joy and happiness. Each of these emotions has a discrete effect on cognitive functioning which underpins strategic management and decision-making, which is based on a process of matching organizational goals with events and contingencies in the environment. These decisions are ultimately reflected in the nature of the organizational goals that are set by the strategy maker for the organization as a whole which, in turn, generate intra-organizational affective events.
We propose in particular that affective states influence the content or valence of the cognitive processes that are involved in strategic decision making, as well as the information processing style used to formulate strategic decisions. In the remainder of this article, we discuss each of the elements of Figure 1 in turn, beginning with the antecedents of affect.

**Antecedents of Affect in Organizational Settings**

As we have noted earlier, the analysis we present here is founded on the principles of Affective Events Theory (Weiss & Cropanzano, 1996). The crux of AET is that elements of the organizational environment that are perceived to facilitate or to impair an organizational member’s progress toward workplace goals (i.e., experienced hassles or uplifts, often in response
to events derived from top managers’ strategic decisions) lead to transient positive or negative affective responses (Weiss and Cropanzano, 1996). In the traditional sense of AET, however, events are construed to be *intra-organization*, and include stress-related workplace events (Folkman and Lazarus, 1984), elements of the physical setting (e.g., se Wasserman, Rafaeli, and Kluger, 2000), work-group characteristics (see Barsade, 2000), and leader-member relationships and exchange (Dasborough & Ashkanasy, 2002). In this essay, however, we extend Weiss and Cropanzano’s (1996) analysis of affective events to include *extra-organizational events* that impact on the organization as a whole. These are described in the following paragraphs.

**Organizational change**

Organizational change has been identified as a major source of stress for managers and employees (Mack, Nelson, & Quick, 1998; Mak & Mueller, 2001; Weiss, 2002). In recent years, researchers have studied organizational members’ emotional responses to a variety of organizational change situations such as downsizing (Brockner, 1988; Torkelson & Muhonen, 2003), mergers (Buono & Bowditch, 1989; Schweiger & DeNisi, 1991), job redesign (Mak & Mueller, 2001), and others associated with organizational restructuring (Begley, 1998; Everly, 1999). Collectively, this research demonstrates that organizational change causes chronic occupational stress that has carry-over effects on family functioning (Dowd & Bolus, 1998), psychological health (Everly, 1999), physical health (Torkelson & Muhonen, 2003), job satisfaction, organizational commitment, and loyalty (Schweiger & DiNisi, 1991). There are several social, cognitive and psychological consequences of organizational change that have a negative impact upon employees’ affective wellbeing. Organizational restructuring is associated with decreased job security (Ashford, Lee & Bobko, 1989; Jordan, Ashkanasy, & Härtel, 2002), role conflict (Yousef, 2000), ambiguity and uncertainty (French, 2001), and decreased social support as work teams are redistributed (Swanson & Power, 2001).

While the impact of organizational change on employees’ affective wellbeing is negative in the short-term, organizational restructuring and innovation is necessary for organizations to
adapt to changing environmental demands in order to remain competitive. Furthermore, if the outcome of organizational restructuring is increased efficiency, promotion, increased wages or increased social support, then organizational change may have a positive impact on employee’s affect (Begley, 1998). For example, technological change is associated with increased efficiency, decreased administrative burden and, as a result, has been found to increase job satisfaction and wellbeing (Begley, 1998). Affective responses during the process of organizational change are therefore dependent upon the nature of organizational change, and exposure to or involvement in organizational change.

While organizational change may, in the longer term, result in positive outcomes for the organization and the personal wellbeing of its members, the majority of research suggests that employees associate organizational change with negative emotional responses (French, 2001). As such, we propose that organizational events, which may be economic, legal, political, technological or socio-cultural, pose a real or perceived threat to organizational functioning, and may impact upon the affective states of organizational participants, as these events are associated with organizational adaptation and, consequently, change. As discussed in the following, however, organizational events that are external to the workplace environment, and that affect organizational performance, may have a more direct impact upon the emotions of the top management team, for whom organizational goals are synonymous with workplace performance, which we argue is therefore an important personal goal for these managers. Since strategic management in organizations is primarily the responsibility of top management, it is important to understand the impact of organizational events on the affect of top-management team members, as it is likely to impact upon their strategic management related decisions and behaviors.

**Economic, legal, and political events**

Research by Loewenstein and his colleagues (Lerner, Small, & Loewesntein, 2004; Loewenste, 2000) has demonstrated, especially through studies of the ‘endowment effect’, that emotional reactions to economic decisions play a central role in economic decision making and
behavior. While much of this research has focused on individual behavior, senior managers involved in economic decisions affecting their organization are not going to be immune from the affective consequences of their decisions. In the endowment effect, for instance (Lowenstein & Issacharoff, 1994), “endowed” economic benefits come to be viewed as entitlements, even when the recipient was not expecting to receive anything. Loewenstein and his colleagues have demonstrated that this process is driven not by cognitive appraisal, but by deeply embedded affective reactions that drive subsequent decision-making.

On the broader scale, events that impact organizations are also derived from the wider political, legal, and economic milieu in which modern organizations exist. Venkataraman & Van de Ven (1998), for instance, found that managers experiencing ‘environmental jolts’ experience a range of effects, including emotional reactions, that led to a radical restructuring of business relationships. Similarly, Kean and Tushmen (1993) reported that executive teams reacted to environmental jolts by engaging in radical change and reorientation. Although neither of these studies dealt with affective reactions specifically, both carry the implication that ‘jolts’ result in spontaneous and often quite radical responses from top management that are clearly driven, at least in the first instance, by initial affective reactions. Meyer (1982), who introduced the term ‘environmental jolt’ in a study of strategic reactions to changes in the healthcare industry, documented reactions to the changing administrative and legal environment that were clearly affective in their manifestation.

**Inter-organizational negotiation**

Inter-organizational negotiation is a process by which parties with different preferences and goals allocate resources through interpersonal activity (Bazerman & Carroll, 1987; Pruitt & Carnevale, 1993; Thompson, 1990). Negotiations give rise to either positive or negative affective states depending on the extent to which the negotiating parties are achieving individual goals (Carver & Scheier, 1990; Higgins, 1987; Ortony, Clore & Collins, 1988). As such, if the process of negotiating a desired outcome is swifter than expected, positive affect may arise in the
negotiator. On the other hand, if the negotiator evaluates the other party’s behavior as impeding progress towards the negotiation of desired outcomes, negative emotions emerge (Kumar, 1997).

In summary, while research in respect of affective reactions to external environmental events is not as extensive or as detailed as the research relating to events in the internal environment, the three aspects of the environment that we have discussed above provide sufficient indicative evidence to justify our assertion that events external to the organization do, indeed, constitute affective events. In particular, there are the events that are arguably likely to have the most impact on the top management teams, who have responsibility for strategic decision-making (e.g., as evidenced in Keck & Tushmen, 1993).

**Consequences of Affective Events for Cognition and Behavior**

A key component of AET is that organizational members’ cognitions and behavior at work are much more likely to be affected by the way they feel on a moment-to-moment basis than by stable belief systems or previously formed attitudes about those workplace events (Fisher, 2000; Weiss, Nicholas & Daus, 1999). Furthermore, an essential property of emotions is that they constitute ‘action tendencies’ to engage in specific forms of behavior directed towards the reversal or maintenance of the felt affective state (Frijda, 1986). As Frijda observes, “Emotions, then, can be defined as modes of relational action readiness, either in the form of tendencies to establish, maintain, or disrupt a relationship with the environment or in the form of relational readiness as such” (p.71). Weiss and Cropanzano refer to behavior that is motivated by emotional state as being “affect-driven”, as opposed to “judgment-driven”. Typical negative affect-driven behaviors include emotional outbursts, sensation-seeking behaviors such as risk-taking and rule-breaking (Ashkanasy, Härtel & Daus, 2002). Research has shown, however, that specific emotional states lead to specific action tendencies and thus different affect-driven behavior (DeSteno, Petty, Wegener, & Rucker, 2000).
In the following section of this article, therefore, we deal with the effects of different emotions, with reference to the specific action tendencies that each emotion has been observed to provoke. We focus on the five basic emotions identified by Ekman (1984).

**Emotion and action tendencies**

The impact of incidental emotions on an individual’s reactions to and evaluations of unrelated events is well documented (for a review, see Loewenstein & Lerner, 2002). Although emotions function to help the individual respond to the emotion-eliciting event, action tendencies associated with specific emotions persist beyond the target situation, and affect behaviors in subsequent situations (Forgas, 1995; Lerner & Keltner, 2000). It is important, therefore, to understand how specific emotions elicited within or outside the organization may affect behavior, cognition, and decision-making processes within the organizational context.

*Anger*

The emotion of anger is triggered by an event or object in the environment that is perceived to be a demeaning offence against oneself or one’s own (Lazarus, 1991). As such, anger provokes the action tendency to preserve or to enhance self-esteem against assault. Although it is often inhibited for personal and social reasons, the innate action tendency in anger is attack on the agent held to be blameworthy for the offence (Averill, 1980, 1982, 1983). Accordingly, this action tendency is facilitated by heightened physiological arousal (increased heart rate, adrenal secretions, sweat gland activity) in aid of action readiness.

In a state of anger, there is an increased likelihood of impulsive behavior (Parrott & Zeichner, 2003) and social or personal risk taking (Harmon-Jones, 2003). Lerner and Keltner (2001) found in an experimental study that angry people express more optimistic risk assessments and display more risk-seeking behavior. This finding is consistent with Lerner and

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1 Ekman also identified ‘surprise’ as a basic form of emotional expression, but notes that this is in a special category, and distinct from the other basic emotions.
Keltner’s (2000) appraisal tendency theory, according to which anger is associated with perceived certainty and control over the outcomes of behaviors and decisions. Alternatively, Bushman, Baumeister, and Phillips (2001) propose that risk-taking behavior is a form of mood repair. It may also be the case that risky decision-making associated with anger is a manifestation of a need to exert control over the environment that has, in an unrelated incident, caused offence or harm (Folligstad, Bradley, Helfff & Laughlin, 2002).

Sadness

Sadness is triggered by a real or perceived absence or loss, or threat of loss (Ekman, 1984). Sadness, as opposed to anger, is not characterized by heightened action readiness and physiological arousal. While anger and other emotions such as fear/anxiety and disgust are associated with psychological engagement and activity, sadness involves resignation and disengagement. Sadness is accompanied by the appraisal tendency for helplessness in the face of irrevocable loss. Correspondingly, sadness evokes the implicit goal of changing personal circumstances (Lerner et al., 2004; Loewenstein & Lerner, 2002). As such, sadness is also associated with increased willingness to spend money compulsively (Faber & Christenson, 1996). Lerner and her associates (2004) found that experimentally induced sadness was associated with decreased selling prices and increased buying prices. While these results were explained in terms of a change in situation, the dispositional variable, openness to change, may also be associated with mood repair (Erber & Erber, 2001). Furthermore, while negative affect is generally associated with increased vigilance in behavioral decision making and increased social motivation (Forgas, 2002), the feeling of helplessness and lack of control that is characteristic of sadness has been found to decrease risk aversion, as the consequences of decisions are more likely to be attributed to situational rather than personal factors (DeSteno et al., 2000).

Disgust

Disgust involves a strong, innate impulse to avoid or to be rid of something offensive. According to Keltner and Haidt (2001), the social function of disgust is to facilitate avoidance or
removal of noxious or aversive stimuli that poses a threat to wellbeing. Accordingly, disgust is associated with an acute psycho-physiological response and intensified action readiness, corresponding to the strong desire to remove or to avoid stimuli that pose a threat to psychological, social, or physical integrity (Lazarus, 1991).

As we noted above, the appraisal patterns and subsequent action tendencies triggered by an emotion-eliciting event or object may have carry-over effects in other, unrelated situations. As such, disgust elicited by an object or event unrelated to a workplace event may nevertheless affect the way in which one appraises and responds to a workplace situation. Lerner et al. (2004) recently demonstrated the way in which disgust induced by a movie could influence subsequent financial decisions. Since disgust induces the action tendency to expel, Lerner and her colleagues hypothesized and found that experimentally induced disgust reduced the selling prices set by participants who owned the experimental object. This finding is consistent with findings that disgust is associated with an increased sensitivity for threat and resistance to change (Johnson & Tversky, 1983; Rozin, Haidt & MacCauley, 1993). As such, in an organizational setting, disgust may affect strategic management and decision-making processes since the risks associated with innovation or organizational change become exaggerated.

**Fear/Anxiety**

While fear and anxiety are not synonymous emotions, they nonetheless share a common action tendency: avoidance or escape (Bodenhausen, Kramer & Susser, 1994; Lerner & Keltner, 2001; Smith & Ellsworth, 1985). Hence, the psycho-physiological correlates of these emotions are arousal and action readiness, intensified in the case of fear. In effect, fear relates to a knowable object, while anxiety results from ambiguity, where threat is posed by a lack of certainty regarding future states and possible outcomes for individual wellbeing. As such, while they share an action tendency for escape, accompanied by physiological arousal, the specific behavioral manifestation of fear is certain avoidance (Lerner & Keltner, 2001). In a state of anxiety, on the other hand, there is no concrete harm to avoid or to flee, and thus it is an action
tendency without a certain goal or anything specific from which to escape. As such, the behavioral correlates of anxiety are more diffuse, and the effects of anxiety on behavior more pervasive and enduring (Lazarus, 1991).

Fear and anxiety arise from and evoke appraisals of uncertainty and lack of situational control. In contrast to anger, fear and anxiety are associated with pessimistic assessments of environmental conditions. People in a state of fear and anxiety therefore tend to exhibit the reverse action tendency; rather than demonstrating optimistic judgments of risk, they exhibit a tendency to be risk-averse and to demonstrate pessimistic situation appraisals (Lerner & Keltner, 2000). This action tendency is best explained by the ‘affect-as-information model’ proposed by Schwarz and Clore (1990). According to this model of behavior, emotions act as a source of information about the environment. In this case, anxiety or fear signals environmental threat. Thus, strategic managers feeling anxiety or fear are likely to engage in more vigilant behavioral monitoring and to assess of risk more negatively (Lerner, Gonzalez, Small, & Fischhoff, 2003).

Joy/happiness

Happiness and joy are positive emotions that arise out of the attainment of a goal (Ekman, 1984). Joy is a more intense form of happiness, and is associated with the unexpected attainment of a personal goal. According to Lazarus (1991), it is the degree to which the goal-congruent event is incongruent with expectations that determines the intensity of positive emotion experienced. Happiness associated with contentment of expected outcomes is, therefore a milder and less arousing variant; whereas joy, which extends to ecstasy, can be a powerful and even intoxicating emotion. In this respect, intense pleasure or joy is intoxicating insofar as it impairs cognitive functioning and behavioral inhibition (Diamond & Aspinwall, 2003; Silvia, 2003). As is the case with intense negative emotions such as anger, the joyful person is in a heightened state of physiological arousal which motivates action and facilitates impulsive behaviors and decision-making (Isen, 2000).
A large body of work in both laboratory and organizational settings indicates that happiness and joy promote helpful and sociable behavior towards others, reduce interpersonal conflict and lead to a tendency towards cooperative behavior (Carnevale & Isen, 1986; Isen & Baron, 1991; Isen, 1987). At the same time, happiness and joy are also associated with optimistic assessments of environmental risk (Lerner & Keltner, 2001). As is the case with anger, Lerner and Keltner (2001) found that happiness induces appraisals of certainty and perceived control over the environment, and also that people in a happy state are more likely to make risky decisions.

In summary of the five basic emotions discussed above, it is clear that each has an identifiable and discrete effect on organizational members. Anger, sadness, and joy/happiness appear to promote increased risk taking, although through different mechanisms. Disgust, fear, and anxiety, on the other hand, appear to lead to more risk-adverse approaches. In this respect, affective events – derived either internal to the organization or externally – have different effects depending on which particular emotion is evoked.

Finally, we note that, while anger and joy are the emotions most likely to be associated with impulsive emotional behavior and decisions, any of the emotions we have described can result in impulsiveness (see Ashkanasy, 2003; Goleman, 1995). In this instance, emotional activation may result in impulsive decision-making that short-circuits the cognitive processes altogether – shown in Figure 1 as the dashed curved line we mentioned earlier. In addressing strategic management and decision-making, however, there is presumption that decisions will be made after at least a modicum of thought (although recent disclosures in the press leave even this presumption in doubt in many instances).

Our main focus, then, is on the effects of affect on the cognitive-rational processes of strategic decision-making. In this respect, Weiss and Cropanzano (1996) note that an individual’s affective states give rise to ‘mental readiness’ or cognitive processing tendencies that influence judgment-driven behaviors. Judgment-driven behaviors involve the conscious evaluation of environmental information. The key distinction between affect-driven and judgment-driven
behavior is that judgment-driven behavior takes place in complex and ambiguous situations that require the use of active, constructive information processing strategies. Judgment-driven behaviors are commonly, although not necessarily, strategic. That is, they purport to maintain or to facilitate adaptation to environmental demands. As such, individuals are motivated by the consequences of their judgment to use controlled cognition in the formulation and implementation of that decision. In addition, judgment-driven behaviors are those that require actors to perceive, to integrate, and to assess complex environmental information, and involve inferential processes that often require actors to go beyond the information given (Kelly, 1958).

In the organizational environment, examples of judgment-driven, or strategic behaviors, include risk assessment, performance evaluation, economic transactions such as substantial acquisitions and mergers, and other intra-organizational negotiations with consequences for organizational performance.

While the carry-over effects of discrete emotions on affect-driven behavior are well documented, as reviewed above, the impact of discrete emotions on strategic or judgment-driven behavior (complex cognitive processing) is relatively less known. The majority of research into the impact of affective states on strategic behavior has focused on the impact of positive and negative mood states on information processing strategies used in behavioral decision-making processes that precede strategic behavior. Positive and negative moods are associated with different cognitive styles, which influence the strategic decision making processes and subsequent behavior.

**Mood and its Effect on Cognitive Processing**

Research initially suggested that people experiencing positive affect tend to employ less effortful and more superficial processing strategies, reach decisions more quickly, use less information, avoid demanding, systematic thinking, and are more confident about their decisions. In contrast, negative affect seemed to trigger a more effortful, analytic and vigilant processing style (Isen, 1987; Schwarz, 1990).
More recent studies, moreover, have demonstrated that positive affect also produces distinct processing advantages. People in a positive mood are more likely to adopt more creative, open, constructive and flexible cognitive processing styles (Bless, 2000; Fiedler, 2000; Isen, 1987, 2003). Based on such evidence, Fiedler and Bless (2000) argued that the processing consequences of affect are best understood in terms of a fundamental dichotomy between ‘accommodation’ and ‘assimilation’. Accommodation involves focusing on the demands of the external world (Fiedler & Bless, 2000). In information processing terms, this requires exhaustive processing and careful attention to and conservation of external stimulus material (Forgas, 2002). Assimilation is a complementary process wherein the individual relies on well-established internal knowledge-schemas and behavioral scripts to respond to a situation (Fiedler & Bless, 2000). In contrast to accommodation processing strategies, assimilation involves the active cognitive elaboration and transformation of information using internal knowledge structures (Bless, 2000; Fiedler, 2000, 2001).

Most cognitive tasks, including strategic decision-making, involve both accommodation and assimilation in different proportions. Frijda (1986) and Higgins (2001) suggest that the extent to which environmental information and strategic responses are deliberated corresponds to the adaptive significance of the decision. That is, if the prospect of an actor’s decision having aversive consequences does not pose a significant risk to organizational functioning, then assimilative processing strategies are more likely to be employed than accommodative. Thus, positive affective information tends to promote a more assimilative, schema-based, top-down processing style, whereas negative affect induces a more accommodative, bottom-up, and externally focused processing strategy (Bless, 2000; Fiedler, 2000).

Despite strong cumulative empirical support for the foregoing mood effects, experimental research shows that these models are context-dependent. Sometimes positive and negative affective states will not influence peoples’ thoughts, or may have incongruent mood effects (Parrott & Sabini, 1990; Sedikides, 1994). For example, Forgas (1990, 1991) and others (Berkowitz, Jaffee, & Troccoli, 2000; Fiedler, 1991) reported that the affective impact on
information processing strategies was easily eliminated when a response could be based on reproducing prior reactions or when motivational goals came to dominate responding.

Research by Forgas (1995) demonstrates that the impact of positive and negative affect on cognitive processing is also task-dependent. According to the Affect Infusion Model (AIM: Forgas, 1995), supported by substantial empirical research, the influence of transient affective states on thoughts and subsequent behaviors depends on the way information is processed, and the cognitive strategy by which information is processed depends upon the complexity and familiarity of the task at hand. Clearly, this point is critical in our discussion of the role of affect in strategic management.

The Affect Infusion Model: Mood effects depend on task complexity

The central argument of the AIM is that affect infusion should only occur in circumstances that promote an open, constructive processing style, and that affective cognitive processing strategies are determined by factors relating to the task, situation, person, and affective state. Forgas (1995) identified four alternative processing strategies (described below) that differ in terms of two basic dimensions: the degree of effort exerted in seeking an adaptive response to the situation, and the degree of openness and constructiveness of the information search strategy (Forgas, 1995).

The combination of these two affect cognition dimensions of quality (effort) and quantity (constructiveness) produces four distinct processing styles: (1) direct access (low effort, closed – not constructive), (2) motivated processing (high effort, closed), (3) heuristic processing (low effort, open – constructive), and (4) substantive processing (high effort, open). According the AIM, affect infusion is most likely to occur when an open processing strategy is used, such as substantive or heuristic processing. In contrast, affect should not influence the outcomes of closed, merely reconstructive or goal-directed decisions involving motivated or direct-access processing (see also Forgas, 1991, 2001).
Importantly, the AIM makes the ostensibly counterintuitive prediction that affect infusion should be greater the more substantive and constructive the information search (Forgas, 1995). This phenomenon is explained by affective priming theory (Forgas & Bower, 1987). According to the affect-priming model, originally conceptualized by Bower (1981), affect is an integral component of our cognitive schemas about the social world. That is, memories for social stimuli are associated with a particular affect value (positive or negative). As such, when in a positive or negative affective state, and especially when experiencing a particular emotion, access to memories, ideas, thoughts, and biases that are associated with this affective state are cognitively primed such that access to these knowledge stores is facilitated. Affect priming in complex or demanding situations, in which substantive processing would be used, has been confirmed in numerous laboratory and field studies. (Fiedler & Stroehm, 1986; Forgas, 1992, 1993; Forgas & Bower, 1987).

Now, organizational decision-making is characterized, in top management roles at least, by high risk, complexity, and incomplete information. Organizational decision-making therefore requires constructive, substantive processing (Daly & Wiemann, 1994). According to the AIM, therefore, strategic decision-making in organizations, which is judgment driven, should demonstrate ‘mood-congruent’ effects. In other words, the decision making processes of strategic managers are likely to be affected by their current mood state. Note that this also implies, contrary to the way that strategic management is often thought about, that strategic management decision-making involves more, rather than less affect than decisions made at lower levels in organizations, where the decisions are likely to be less complex and less risky.

To this point in our discussion, based on AET, we have discussed the antecedents of affect from the perspective of intra- and extra-organizational affective events and the consequences of affect and emotion on behavior and cognition, with a focus on top-management. As we have already discussed, however, cognitive processes in strategic management are complex and often involve more than one stage of thought. In the next section of this essay, therefore, we examine in more detail the cognitive processes underpinning strategic
management. In the following section, we make more explicit the role of effect in these processes.

**Cognitive Processes in Strategic Management**

In developing a framework for understanding cognitive processes involved in strategic management, it is necessary first to define what is meant by cognition in the organizational context, and then to distinguish between behavioral and organizational contexts. Drawing from cognitive science (Johnson-Laird, 1983), we define cognition as a process of information processing. Individuals perceive, interpret, and respond to their environmental information by assimilating and accommodating external events or objects into internal symbolic representations or mental models (Ocasio, 2001). Mental models in this context comprise working, integrated symbolic representations of goals, data, inferences, and plans that enable the actor to interpret and to attend to environmental stimuli, construct inferences, and ultimately to make decisions (see Holyoak & Gordon, 1984; Ocasio, 2001).

In order to understand organizational cognition or, more specifically, cognitive processes within organizations, we must also identify our conceptualization of organization, for there are competing perspectives in this respect. Based on Weick (1977), we see organizations to be defined as social systems in which the behaviors and cognitions of members are regulated and influenced by its rules, resources, expectations, and relations. Organizational cognition, therefore, refers to the thoughts and decisions of individuals within the organizational context, such that the schemas, resources, expectations, and decision rules that they use to frame their interpretation of the organizational environment are shared by all organizational members. This is because all members of an organization share common social, cultural, economic, and physical conditions and experiences, which ultimately shape the experiences and heuristics of the organizational environment, and regulate or structure the way in which events are interpreted within the organizational environment (Weick, 1977).
In the following, we describe the processes involved in strategic organizational decision making, which are derived from models of organizational cognition. We integrate these various processes into three phases of strategic decision-making: perception, formulation, and implementation. While it is clear that strategic decision-making is neither rational nor linear, research converges upon these three phases of information processing (Langley et al., 1995). Finally, it needs to be understood that strategic decision making is an iterative process (represented in Figure 1 by the feedback loops), so these phases may be repeated several times as decision alternatives are implemented and adjusted as the success or failure of each alternative is gauged (Daniels, 1999; Hodgkinson, 2001).

Perception

Perception involves two stages. First, recognition of environmental and organizational events signals a need for organizational adaptation. The second phase involves interpretation of the perceived signal, event, or stimulus. We deal with each stage in the following paragraphs.

Recognition

According to Weick (1979), strategic decision-making is triggered by the recognition of an environmental event, or an opportunity or threat to the attainment of organizational goals. The recognition of opportunity or threat requires managers to attend to fluctuations in the external organizational environment (economic, socio-cultural, political, legal, or technological) and to locate key issues that may influence organizational performance.

The perception of environmental events of significance to the adaptive success of the organization is an active and constructive process (Weick, 1979). As humans, we have a limited attention, storage and information processing capacity, which means that we cannot attend to all available environmental information at once (March & Simon, 1958). Consequently, managers rely on mental models, or schematized knowledge of organizational processes and organization-environment interactions, to facilitate the recognition of potentially beneficial or threatening organizational events (Maule & Hodgkinson, 2002). The perception of issues for strategic
consideration is thus biased by a manager’s existing strategic decision-making heuristics and rules of responding that are based on experience of environmental patterns and exposure to organizational norms of decision-making behavior (Ocasio, 2001).

Organizations also possess a repertoire of issue categories for making sense of the organizational environment: problems, opportunities, and threats. Organizational participants possess a cultural repertoire of possible problems, opportunities, and threats that have been encountered in the past, both by the organization and in its environment (Hutchins, 1995; Schein, 1985). As cultural products, the issues that are recognized by the organization are reflected in the technology, archives, documents, education, vocabulary, experience, and narratives that are constitute individuals, and collectively, organizational memory (Walsh & Ungson, 1991).

_Interpretation_

Bias in judgment and decision-making processes is not exclusive to the recognition of environmental events or perception of risk. Once attention is focused upon the event, the significance or meaning of that event must be interpreted, and the risk associated with the event assessed (Daniels, 1999). That is, it must be considered whether the stimuli is of adaptive significance, in the sense that failure to respond to the event will result in a failure to meet organizational goals. Furthermore, the extent of the opportunity or threat to the organization posed by the perceived event must be assessed. This process of evaluating the strategic significance of the environmental events determines the extent to which organizational resources will be allocated and expended in the formulation of a strategic response (Hodgkinson, 2001).

_Formulation_

After perceiving the issue, the next phase of cognition involves formulation of a decision approach. Like perception, this phase also involves two sequential stages: (1) _information search_ and (2) _information evaluation_. We discuss each of these stages next.
**Information search**

Information search is the process whereby information – required to respond accurately to the event – is obtained, and a range of alternative decision responses are generated. In order to generate accurate and effective responses to the opportunity or threat, the costs and benefits, and associated risk of each decision alternative must be considered. Information search involves the retrieval of new and stored information regarding the organizational event. Information is retrieved from levels of the organizational memory, including individual memory or knowledge bases, group memory, and institutional memory (Walsh & Ungson, 1991).

A critical aspect of information search is that, like issue recognition and interpretation, it is limited by attentional capabilities and resources (Ocasio, 2001; Pashler, 1998; Simon, 1976). Information search in organizations is therefore affected by selectivity or direction, and intensity or effort involved in the search (Fiske & Taylor, 1991; Kahneman, 1973). Information searches are exhaustive, limited by resource constraints and informational source constraints. Thus the information that is retrieved is biased by method and extent of the search.

**Information evaluation**

Information evaluation is next phase of strategic formulation. It is the process by which a strategic response is formulated in light of the available information. Information is evaluated, and integrated into the formulation of a strategy. In effect, the decision-maker needs to decide upon a preferred strategy amongst the feasible and available alternatives identified in the information search phase. In this respect, Scott and Bruce (1995), define four styles of evaluation: (1) rational, (2) intuitive, (3) dependent, or (4) avoidant. Using a rational evaluation style, the decision-maker evaluates alternatives using defined criteria to determine the optimal solution (Simon, 1987). In the intuitive approach, evaluation of alternatives is based upon hunches of heuristics, although these can be affected by inherent biases (Tversky & Kahneman, 1983). The dependent style involves consultation with others, while the avoidant style implies procrastination. Choice of evaluation style is affected situational contingencies, including
affective states. Beach and Mitchell (1978), for example, propose that choice of an analytical approach depends on the availability of analytical tools. Finally, dispositional traits can also play an important role in determination of the evaluation approach (Gallen, 1997).

**Implementation**

The implementation of a strategic organizational response to environmental demands requires the coordination of several individuals, groups, and leaders (Porter, 1987). In the same way that the implementation of a behavioral response requires attentional resources to coordinate action, an organizational response requires the careful attention of management to monitor the progress of implementation to maintain progress toward the intended goal. Implementation of strategic decisions is an iterative process that, in itself, involves strategic decision processes, similar to those we have outlined above (Daniels, 1999). Managers must perceive the impact of decision implementation on the organizational environment, recognizing and interpreting issues as they arise, and in response to issues of implementation, managers must formulate alternative responses, based on information search and evaluation.

Having established to this point the primary phases of cognition involved in strategic decision-making, the question arises as to the impact of on this process. We address this in the following section.

**The Impact of Affect on Strategic Decision-Making**

As we have already pointed out, strategic management and decision making involves substantive and constructive information processing of novel and ill-structured information in order to deal with events and contingencies in the organization’s environmental milieu. Therefore substantive information processing strategies are likely to be used (although we do allow for the possibility of impulsive affect-driven decisions, as discussed earlier). Hence, in accordance with the AIM, it affect is likely to impact on the strategic decision making processes of perception, formulation, and implementation in a fashion congruent with the particular affective and emotional frame of the decision-making context.
The Influence of Affect on Perceptions

As discussed above, a strategic manager’s perceptions (recognition and interpretation) of organizational issues depend upon attentional resources and mental models. While temporary affective states do not alter existing mental models, they can bias allocation of attention to the interpretation of potential environmental risks. Negative affect, for example, can make the actor more likely to recognize negative environmental events (Brief, Burke, George, Robinson, & Webster, 1988). Furthermore, negative affect is associated with mood-congruent, negative interpretations of environmental cues. For example, Forgas (1998) found that positive mood produces more positive and optimistic attitudes about the success of the negotiation process, while negative affect leads to a pessimistic interpretation of progress towards the achievement of personal goals of the negotiation, and a negative attitude towards negotiating partners.

Consequently, managers in a positive affective state may be more optimistic about the consequences of organizational events and perceive less environmental threat (Bower, 1981, 1991; Isen, Shalker, Clark & Karp, 1978; Schwarz & Clore, 1983). Similarly, such managers are less likely to interpret environmental events as potential threat and more likely to interpret events as opportunities (Forgas, 1995, 1998).

The Influence of Affect on Formulation

Positive and negative affect have systematic effects on the interpretation of decision-relevant cues such that decision-makers selectively attend to, encode, and retrieve emotion-relevant information (Bower, 1981, 1991; Neidenthal & Setterlund, 1994). Forgas (1989, 1995) suggests that positive and negative affect also determines the nature of subsequent processing, and the effort (quality) and attentional resources (quantity, or depth of processing) allocated to the information processing task (see also Forgas & Moylan, 1991). For example, studies by Basso, Schefft, Ris, and Dember, (1996) and Conway and Giannopoulos (1993) found that people in negative mood states had a narrowed attentional focus, and are more goal-directed, than people in a positive affective state. In their research, people in a negative affective state
were motivated to spend more time and attentional resources on information search and consideration of alternatives than people in a positive affective state, considered fewer alternatives, and evaluated decision alternatives more rapidly.

Several theorists have posited that negative emotions trigger more systematic processing than positive emotions (Schwarz, 1990; Schwarz & Bless, 1991; Shapiro & Spence, 1997; Simon, 1987). As discussed earlier, the affect-as-information model of affective influences on information processing explains this phenomenon in terms of the signal value of feelings. That is, negative emotions signal that threat is near, and that attentional resources need to be allocated to the situation, whereas positive emotions signal that ‘all is well’. In line with this theoretical perspective, several studies have found that negative moods are associated with vigilant, substantive, and thorough information processing (Lyubomirsky & Nolen-Hoeksema, 1995), whereas happiness is associated with heuristic processing (Forgas, 1998). For example, Bodenhausen et al., (1994) found that happiness increased reliance on the use of stereotypes, which indicated categorical and less substantive processing, or assimilative, rather than accommodative processing.

As such, positive and negative affective states can impact upon depth of information search, and depth of processing and evaluation of that information. Managers in a positive affective state, therefore, would be expected to engage minimal resources in information search in order to discover or to understand the nature of organizational issues and possible responses, whereas managers in a negative affective state are more likely to engage in a more extensive and thorough search for knowledge regarding the problem, generate more decision alternatives, and evaluate these alternatives more carefully.

The evaluation of decision alternatives is also influenced by mood. In the evaluation of choice decisions, Johnson and Tversky (1983) and others (Mittal & Ross, 1998; Nygren, 1998) have found systematic evidence to suggest that people in a positive affective state are more likely to choose a risky alternative with high possible gain, whereas people in a negative affective state
are more risk aversive (Lerner & Keltner, 2001). Note, however, as we discussed earlier, this can often depend on the particular emotion represented within the affect circumplex.

**The Influence of Affect on Implementation**

Several researchers have shown that people in a negative affective state tend to demonstrate more vigilant behavioral monitoring and self-regulation than people in a positive affective state (e.g., see Diamond & Aspinwall, 2003). This relationship is, however, moderated by intensity of affect. Anger and joy, for example, are opposite in valence (negative and positive). They are, however, similar in intensity and, as found by Lerner and Keltner (2001), both are associated with illusion of control and certainty. Consequently, both anger and joy are associated with impaired behavior and self-regulation, and limited behavioral self-monitoring.

Finally, in an organizational setting, affect may influence the attentional resources managers allocate to monitoring organizational processes. In a state of positive affect, managers may be less vigilant in their monitoring of decision-implementation, whereas managers in a negative affective state are more likely to expect, to recognize, and to interpret implementation procedures if they are seen to be awry.

In summary, through processes of affective priming and affect-as-information, moods and emotions directly impinge upon all aspects of cognitive functioning underlying strategic decision-making. This includes the perception, facilitation, and implementation stages of decision-making cognition. In the next and final substantive section of our review, we discuss the effect of two variables of personal disposition – trait affect and emotional intelligence.

**Conclusions and Implications**

In this essay, we have presented a model of affect in strategic management and, more specifically, in the strategic decision-making process. The model is based on the principles of AET (Weiss & Cropanzano, 1996), where environmental events trigger affective responses that, in turn, affect cognitive and behavioral outcomes. We have extended the idea of AET to the realm of strategic management by incorporating extra-organizational events, along with intra-
organizational events in the theory. In our model, moods and emotions influence the cognitive decision processes that underlie strategic management through by affecting the valence of environmental evaluations, as well as information processing style. Strategic management is fundamentally a process of cognitive and ostensibly rational decision-making. The argument that we present is that the persistent view that strategic management relies entirely on cold, rational, cognitive analysis is deficient in view of the pervasive effect that emotions and affect on cognition. As Ashkanasy (2003) has pointed out, human cognitive functioning is ultimately at the mercy of unconscious processes of emotion based in the neurobiology of the human limbic system.

The model that we present, however, is not meant to be a comprehensive explanation of the role of affect in strategic management. Indeed, many of the components of the theory, while based in extensive research in psychology, organizational behavior, and behavioral economics, have not yet been tested in the specific context of strategic management. Indeed, it is not hard to think of a raft of personal and environmental factors that could be included in the model (e.g., see Gallen, 1997, for discussion of the effects of personal ‘cognitive style’ in strategic management). Instead, our aim has been to incorporate those factors that can be derived from the literature that bear direct relevance to the affect-cognition process, with a focus on organizational settings. As such, we believe that the model we present in this essay has implications for theory, research, and practice.

Theories of strategic management have traditionally focused on behavioral and cognitive aspects of decision-making (Hodgkinson, 2001). Although some theorists, especially in organization cognition (e.g., Weick, 1979), have bemoaned the lack of an affective component to functionalist models of strategic management, only critical management scholars (e.g., Mumby & Putnam, 1992; van Maanen & Kunda, 1989) have addressed the issue of emotion in strategy formulation, but then only from a broad perspective that does not help to explain the fundamental processes of human cognition that actually drive decision-making in the context of strategic management. In this respect, we believe that the model we present in the present article
represents an initial attempt to identify the “heat” in managerial cognition and strategic management that Weick (1979) spoke of, albeit within the limitations we outline above.

Although based on a wide body of research in emotion and affect in the social psychology literature, the ideas that we put forward in this article are largely untested in the context of strategic management. Perhaps the best known research team (and cited frequently in this essay) is that led by George Loewenstein at Carnegie-Mellon University, although this research tends to be more in the domain of experimental behavioral economics, rather than addressing the larger picture of strategic management. In this respect, researchers are going to need to venture more into field settings, making use of qualitative data collection, think-aloud protocols, and diary studies.

Many of the basic tenets of the theories we have presented in this article are still subject to empirical confirmation, but they are also based principally on evidence obtained in rigorous research. For example, the AIM has been tested by Forgas and his associates in a variety of settings (Forgas, 1998; Forgas, 1999; Forgas & Moylan, 1981), and shown to be a robust and illuminating model of reality. Similarly, research based on AET has consistently supported the core idea of the theory, that emotion mediates the effect of environmentally derived affective events on organization members’ attitudes and behaviors (e.g., see Weiss et al., 1999; Weiss & Beal, 2005). In this case, we believe that the accumulating weight of evidence is already breaking down the myth that strategic management is somehow immune from the “irrationality” of affect and emotion. In this instance, although we disagree with the models of emotional intelligence postulated by Goleman (1995, 1998), at least he and his colleagues are acquainting managers with the need to understand that their decisions and attitudes are ‘infused’ with emotion, and that understanding the role of emotion and how to manage it is a critical ingredient for a deeper and more productive understanding strategic management.
References


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