

## THE RELATION RATIONALITY – IRRATIONALITY IN BUSINESS AS A DETERMINANT FOR DEVIATION

*According to behavioral economics, the interactions in an economic unit reflect not only the rationality, but also the irrationality in the behaviour of the individuals and the groups of individuals, which influences the display of human capital in the given organizational structure. Questions about the way of communicating the specific characteristics of rationality and irrationality as socio-psychological characteristics concerning the interactions in the organization are risen: their influence on the economic behavior of the individuals, the management of the processes and the goals achieving. In order to build up a complete of the business behavior and to overcome any negatives, leading to ineffectiveness, it is necessary to identify and analyse the determinants for the deviation in the corporate environment. A new vision of the condition of Bulgarian companies is needed, in order to identify the problematic areas in their management and a critical evaluation of their business practices is needed, in order to note down ways of formulating and improving the micro-policies.*

*JEL: A12; A13; M14; Z1*

The expansion of social sciences allows for deeper evaluation of our current problems. In the economics literature, despite the still predominant concept of the rational person (Homo Oeconomicus), ideas, viewed as heretical or heterodoxal, are positively and definitively being established. They broaden up the business analysis on several levels. For example, just as in macroeconomics, in the science of corporate management credits are given to the interdisciplinary method in the identification and analysis of issues, in the search for strategic solutions, and the development of good practices, optimizing the business processes.

The results of the research in the area of social, economic, and business anthropology are undeniable, while in the last decades a new peak has become the behavior economics. Behavioral economics states that people's real behavior should not be identified with the concept of absolutization of rationality as an immanent characteristic of the "economic person," who possesses a strictly ordered list of preferences and ideal information, and is as well gifted with boundless abilities for calculation of optimal benefits. In many different situations, the behavior of real economic agents is at best rationally limited, if not limited obviously irrationally at the worst possible scenario.

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<sup>1</sup> Adelina Milanova, PhD, Economic Research Institute at Bulgarian Academy of Sciences.

The comprehension and argumentative explanation of this fact would contribute to the adequate management of the human capital at a corporate level. Simultaneously, the answer to a key question could be found or at least opportunities for its proper interpretation could be identified, namely the deviation and its consequences. All deviations and specifications, overleaping the boundaries of their own ethnicity, turn into determinants considering the display of bad practices, related to making improper strategic decisions and the consequent ineffective results. Some researchers, mainly in the area of sociology, highlight social anomie as a key reason (Chengelova, 2017). We believe that the anomie itself is caused by the insufficient comprehension and attention paid to the socio-cultural context, in which the relation rationality-irrationality is observed. When this context is neglected in the business area, the consequences for the economic unit, its “life” and development are all doubted. The disregard of the context is a key precondition for the expansion of irrational actions, which cause the individuals’ choices to be with undefined preferences. These choices are also known as process of “construction of preferences,” as called by economists (Payne, Bettman, 1992; Slovic, 1995), which process reflects on the deviations from the theory of rational choice-making by “modeling” the preferences.

The rational and irrational characteristics, incorporated in corporate culture, influence very specifically the formation, organization, and management of the human capital and are *sine qua non* for effective management and business results. Usually, culture is a dichotome system of rational and irrational components, which when combined with good business traditions and philosophies of the economic structures can be managed and contribute for a larger effectiveness, while simultaneously they can lead not only to deviations but also to undesired and hardly overcomeable displays of the human capital in a corporate environment.

The culture of the individual business unit includes a set of characteristics that determine its unique nature and the ability of individual members of the company to identify themselves through it. In summary, the values that determine the behavior of the company build its culture and direct its activity, which is a factual behavioral formalization and is largely dependent on the validation of specific practices (Riviere, 1995; Milanova, 2008). This conclusion once again confirms the fundamental nature of the question whether corporate culture is ultimately rational in nature and rationalizes the behavior of corporate structures or, on the contrary, it has encoded irrational components in its nature and must be managed and directed in a specific way in the process of the corporate governance.

With the availability of appropriate specialists, each company or corporation could develop partial and concrete conceptual models for mastering and even managing irrational manifestations in the relationship between national and corporate culture, taking into account the manifested characteristic features and the conceptualization of the reciprocal links between social capital and cultural dimensions .

It was found (Milanova, 2008; Milanova, Naydenova, 2017) that the deficit of modern corporate culture results from the lack of maturity in the case of business – maturity, which in itself leads to deviations.

This fundamental feature – business maturity that is relevant to business culture – is seen as a rational factor for corporate governance, but at the same time, irrational behavioral

dimensions are also emerging when it is endorsed. In some cases, they can play both a positive and a negative role, precisely because maturity of business refers specifically to the interrelated National Cultural Dimensions and Organizational Cultural Dimensions (NCD and OCD) as its parameters.

Values and norms are not the result of discretionary or informal bargaining, but are passed on from generation to generation through a process of socialization. Under such established values and norms, habits and traditions are more important than reason, and this provision is also valid for the manifestation of human capital at the corporate level.

The thesis that the subjects of economic behavior are not strictly rational creatures appears among various representatives of orthodox or heterodox economic studies, but finds a definitive expression in behavioral economists. As pointed out at the outset of the project, economic subjects, in addition to rational ones, can be irrational in their behavior: they are subject to emotions, intuitions, beliefs, sometimes short-sighted, as well as moral and social norms, which provoke loyalty, sympathy, solidarity, i.e. they are not only aimed at increasing their own economic benefits.

In the process of shaping the behavior of individuals, social identity plays a significant role. Where there is significant social capital, strong social relations, and high levels of mutual trust, the sense of social identity is increasing, and the impact of foreign behavior on individual behavior is growing. Thus social norms and individual behaviors are mutually conditioned in the process of continuous development and change. And this is of particular importance in determining the main values that form the basis of a corporate culture. The introduction of behavioral heterodoxy is potentially applicable in corporate governance. For example, when a behavior qualifies as undesirable, it could be sanctioned by anticipating the effect, depending on how the subject assesses the sanction.

Here, so far, although positive dynamics has been established and confirmed, both the "strong" and the "weak" corporate cultures are determined by the national specifics, and it is still quite difficult for the national "mind programming" to yield in front of the company's "software" (especially in the case of Bulgarian).

Research has been carried out among various "corporate strata" within selected corporate structures in Bulgaria. The study was carried out by a team led by Assoc. Prof. Adelina Milanova and Assoc. Prof. Pavlinka Naydenova from the Economic Research Institute at the Bulgarian Academy of Sciences. It is interesting to assess the vision of experts about the big problem of management related to the consolidation of the "rational" corporate culture, which increasingly takes into account the specifics of the Organizational Cultural Dimensions (OCD) and overcomes, to some extent, the characteristic determinations of the National Cultural Dimensions (NCD).

The conducted in-depth interviews prove the presence of both similar and divergent positions, but at the same time in some of the interviewees predominant were their personal perceptions, which they are convinced about and which can not be identified as directly related to their workspace.

With regard to corporate social capital problems, the conversations with managers demonstrate a desire for trust optimization, both horizontally and vertically. The responses

and comments of the employee segment of the various companies are intriguing, as they, after necessary clarification, determine the category as a result of unpredictable irrationality rather than as a manifestation of rational determination. Such an almost unanimous interpretation proves that the microclimate is still built up predominantly by irrational characteristics related to the socio-cultural dimensions, which in turn means that the application of good practices would encounter barriers or, at the very least, deviate in the wrong direction. This fact warrants the search for concrete measures in different directions, in order to overcome the inconsistencies and deviations in the context of the behavioral behavior of organizational behavior.

Experts are firmly convinced that management's "weakness" is to achieve consistency between personal goals and interests and those of the organization. Improving managerial competencies is possible through vocational training and exchange of positive experience, but to in order to reach this point it is necessary first and foremost that management teams understand that irrationality in the manifestation of corporate human capital cannot be overcome but can be realized and perceived as the subject of important and urgent management decisions.

"The exchange of experience, i.e., participation in different forums is more than necessary, both in terms of contacts for further collaboration and sharing different perspectives and values. Rational managerial behavior, in my opinion, is to guarantee material incentives and provide opportunities for personal enrichment" (Employee – lecturer, science and education).

Experts' views on the purpose of non-material incentives are related to the importance and innovativeness of the work or personal involvement and expression, but their impact on individual behavior and the manifestation of corporate human capital is rather unconscious (irrational) if the effect of material incentives is not achieved.

"I have not thought about human capital and whether I am rational or not, but the incentives are important, both for life and for personal satisfaction. But... if I have a personal contribution that does not count, does it mean that I am irrational or that the manager acts irrationally?" (Employee – pharmaceutical industry).

Interesting results are reached in the study of the issues related to the relation between the socio-anthropological aspect and the formation of the middle class in the Bulgarian society. It is well known that the values of the middle class have a greater influence on the build-up and consolidation of institutions in a given country (Hofstede, 2001). The process of formation of the middle class and the nature of the institutions in Bulgarian social reality is more specific. The hypothesis regarding the rationality/irrationality of corporate culture as a prerequisite is confirmed in favor of the second option (chronologically and as a result of different accumulations), but given the global process mentioned above, Bulgaria is definitely showing prominent deviations. The explanation could be as much in the sphere of the specificity of the national cultural genotype as it is related to the undeniable historical specificity in the formation and affirmation of the cultural matrix itself.

This issue raised a number of questions and specific interpretations, mainly from the segment of managers, as well as some representatives of the science and education areas.

The explanation is that obviously these individuals are perceived, with a great deal of justification, as representatives of the middle class of the Bulgarian society, and at its upper levels. The big question remains whether and to what extent the degree of education is an essential and respected prerequisite for the formation of the middle class in our country and what is the exact algorithm – business success – education or vice versa.

"I did not have a special education, but I had a hard job - I created my own company, my accountant was a well-educated person, now I have two accountants working for me. Then I graduated ..... at TU and now I have education. The company is fine, there is a prospect. Then, do my values, as you said, affect the institutions; now I wonder what my culture is. Is this all rational or I have not understood? " (Manager 3 – Construction).

Obviously deviant manifestations are diverse and sometimes ambiguously interpreted. In principle, deviation is defined as a manifestation of irrationality, but in certain situations, especially typical in the case of uncertainty about socio-anthropological dimensions and their combination at different levels, deviance may be observed in some rational actions. In this sense, deviance itself should be defined more as a reason for anomalies, not vice versa. We tend to perceive deviance as a supreme abstract category that has different pragmatic manifestations that can be identified on the basis of social empirics.

It is a fact that in the conditions of a crisis/transition, etc., the culture of compromise and reconciliation is disintegrating and this further stresses the society, its institutions and its separate structures. However, this stress results from the irrational combination of parameters in the cultural matrix due to the poor understanding and operation of the main national and cultural dimensions. This is, in fact, the popular value disorientation, reproducing the unlawful combinations, in the sense of the above, which produces deviance. And from its production and dissemination, it follows the anomalies that are typical not only for the whole society in the context of the paradigm of holism but also for separate structures and units such as companies, corporations, business units.

As a result of research, additional observations and theoretical insights, our conviction is that corporate deviance is definitely influenced by the relationship rationality - irrationality, but not always unambiguous or one-way. In this sense, the options for overcoming or even preventing it should be sought deep in the overlapping of cultural and sub-cultural disparities, as well as based on the preliminary definition of the optimally adequate combinations of the various constructs of cultural and socio-anthropological nature.

This finding also appeals to the wider entry of business anthropologists at the corporate level to identify and predict different behavioral deviations that have a different impact on management and its efficiency.

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