How to Overcome Herding Behavior in Firms

Aggregating the knowledge of many people is a powerful tool, especially if you know how to aggregate the private information efficiently. Otherwise, if a firm does not use its employees’ private information efficiently, the information will be lost, and the firm will not have it available for its decision processes. Every employee, when contributing information to an organization’s information pool, faces the risk of getting into trouble because some other employee might be offended and could react harshly. Economically speaking, an employee has to bear various kinds of costs if he chooses to say something. These costs can effectively silence the employee. For example:

I raised a concern about some policies and I was told to shut up and that I was becoming a trouble maker. I would have pursued [the issue] further but presently I can’t afford to risk my job. This has made me go into a detached mode, making of me a ‘yes man’ (male respondent, Information System).

---

1 We would like to thank all the participants of the 2nd International Conference on Humanizing the Firm and the Management Profession held at IESE (Barcelona, Spain) for their helpful comments. For specific remarks on Hirschman’s (1970) theory of exit, voice, and loyalty, the idea that herding is also a perception problem, and the hint at empowerment of employees, we are grateful to Peter Moran, Raymond Miles, and Antonio Argandoña.

2 See, for example, Sunstein’s (2006) analysis of the new and revolutionary methods of information aggregation thanks to the worldwide web and the new applications therein like Wikipedia.

3 Quoted from Milliken, Morrison, & Hewlin (2003, p. 1453). See the literature review in the next section for models about “yes men” behavior due to reputation-based herd behavior in organizations (Prendergast, 1993).
This mechanism leads to two problems in organizations: First, the more employees remain silent, the weaker the information content of the decision process. Second, the more employees remain silent and fail to criticize the prevailing opinion in an organization, the more the dominant opinion is perceived to be the correct one. In a dynamic process, this silence in organizations leads to herding behavior because the prevailing opinion becomes more and more established and employees follow in order not be perceived as mavericks or troublemakers (Morrison & Milliken, 2000; 2003). This dynamic also can be seen as a risk-sharing mechanism: Expressing one’s own beliefs and opinions always bears the risk of being offended. Furthermore, if the individual statement leads to a change in the decision process, the employee has to bear the responsibility for the decision. Economically speaking, if an employee deviates from the prevailing opinion—although the deviating input might have value for the whole group or organization—the employee has to bear the cost of not following the herd alone. Therefore, the costs of non-herding behavior are the employee’s costs associated with expressing an opinion or having a voice in an organization.

By lowering the costs of having a voice and therefore fostering the employees’ participation, the organization not only can aggregate more information and improve its decision processes but also can create a ”more human” environment for the employees. In their seminal article, Morrison and Milliken (2000) explain that humanizing the firm by allowing employees to raise their voice better motivates the employees. They emphasize three effects: the employees’ feelings of not been valued, the employees’ perceived lack of control, and the employees’ cognitive dissonance. All of which can be negatively affected if the opinions and the feedback of the employees is discouraged in an organization. This weakens employee motivation and
hinders employees from efficiently contributing to organizational success (Premeaux & Bedeian, 2003). Analogously, happiness research in economics provides evidence that an employee’s perception of higher self control and autonomy fosters an employee’s job satisfaction and motivation at work (Benz & Frey, 2008; Frey, 2008).

This paper tackles the costs of raising one’s voice, which might be the reason for the silence in organizations. In the next section, we preview the existing literature on herd behavior and voice in organizations focusing on the costs of voice for the individual employee. In the third section, we formulate propositions about possible individual determinants of employees lowering or increasing the costs of voice in an organization. In section four, we challenge our propositions by comparing them to the interview statements of chairpersons and high ranked executives working in the financial industry. Also, we identify the extent of the cost of voice in practice. In the last section, we conclude by summarizing our results and incorporating them into the idea of humanizing the firm and the management profession.

**Literature on Herd Behavior and Voice and Silence in Organizations**

The famous French sociologist Le Bon (1895) and the legendary political economist Veblen (1899) were early precursors in the research on herding behavior and the psychology of the crowd. In his book *La Psychologie des Foules*, Le Bon described the socio-political dangers and risks evoked by human herding behavior, whereas Veblen, in his book *The Theory of the Leisure Class*, analyzed the herding behavior of different social classes with regard to their consumption.

After the shock of the terrifying side of herding behavior during the first and second World Wars, scholars turned again to research on human herding behavior. In the fifties, Leibenstein (1950) took up Veblen’s (1899) idea on mass consumption and developed the theory of the *bandwagon effect* where people tend to go along with
what others do or think although they as individuals would do or think differently. In other words, they “jump on the bandwagon.”

At the same time, Asch (1951) provided the first evidence on the herding behavior of individuals with his seminal group experiments and thus began a new chapter in socio-psychological research in this field. Festinger (1954) and later Bandura (1965, 1976) developed a positive view of herding behavior in their social learning theory; today, many economists use social learning theory in their work on herd behavior (see, e.g., Hirshleifer & Hong Teoh, 2003). In sociology, Granovetter (1973) developed his threshold model, and Burt (1982) advanced research on herding behavior by studying peer groups. Based on this literature, three social-psychological concepts emerge that are important for the study of the herding behavior of employees in organization with respect to the costs of voice.

Janis (1972) formulated his Groupthink theory of conformist behavior during group deliberation processes;⁴ a concept used until recently (Baron 2005). It suggests that participants in group decision processes miss important alternatives because they do not deliberate or discuss the “usual” solutions critically enough because they are pressured to conform in order to avoid conflict among the group members. Janis (1972, pp. 209–216) described some institutional factors, which can be used to change the pressure to conform on individuals in decision groups.

In a similar way, Noelle-Neumann’s (1974, 1984) theory of the Spiral of Silence described a phenomenon in opinion research: In a dynamic process, various players start to adopt the opinion that they assume to be the future majority opinion although they have contrarian views. According to Noelle-Neumann’s explanation, the players do so because they try to avoid conflict and do not want to feel isolated

⁴For a comprehensive discussion of the term, see Sunstein (2006, pp. 9–10).
and perceived as mavericks. This theory has been applied to financial markets (Aspara, Pajunen, Tikkanen, & Tainio, 2008), and it also has been applied to the costs of voice in organizations (Bowen & Blackmon, 2003).

During the eighties, studies of diversity research started to evolve and provided a different perspective on herding behavior in organizations: More diverse teams, with respect to gender, education and social background, were assumed to decide better in crisis situations than more homogeneous teams (Bantel & Jackson, 1989). Early empirical surveys supported this view, suggesting that members of more diverse teams processed similar information in more diverging ways and, hence, were less prone to herd behavior. Newer studies challenged this view and exhibited a more critical view on diversity and its impact on conformity and herd behavior (Ely, 2004).

In the late eighties, the topic of herding behavior was revisited. The analysis of lock-in effects showed that a whole industry could adapt to certain standards although they were not the best ones in technical or in economic terms (Arthur, 1989; David, 1985; Frank & Cook, 1988; Katz & Shapiro, 1985). In the nineties, Scharfstein and Stein (1990) as well as Banerjee (1992) and Bikhchandani, Hirshleifer, and Welch (1992) advanced the topic of herding behavior in economics: While the model of Scharfstein and Stein followed the logic of principal-agent problems and, hence, described a reputation-based herding of employees, Banerjee (1992) and Bikhchandani et al. (1992) explained the herding behavior based on information cascades, where rational agents follow the strategy of the first mover in a game ignoring their own private information. As a result, information-based herding can occur although all of the players have contradictory private information.

Models based on information cascades nicely show the negative implications of herding behavior in organizations. Beyond a certain threshold, the cascade begins
to evolve and the players’ private information is no longer taken into account in the decision process. These models have been amended by introducing information costs, imperfect information about the decision process of the other players, heterogeneous possibilities to decide, and adaptive markets (see, e.g., Bikhchandani, Hirshleifer, & Welch, 1998; Avery & Zemsky, 1998). Kuran and Sunstein (1999) showed how availability cascades could have a similar effect as information cascades. Availability cascades focus on the publicity of an investment opportunity and reveal that the better the publicity the more funds that can be raised for an investment project although there is no objective reason to favor one specific project over another.

Reputation-based models play a crucial role when analyzing voice in organizations. The strategic actions of employees, who want to push their careers or gain a reputation, can evoke harmful herding behavior in organizations (Scharfstein & Stein, 1990; Prendergast, 1993; Zwiebel, 1995). In a complex work environment, the principal often is not able to measure individual employee performance (e.g., for a stock market trader if the financial market itself deteriorates). Therefore, the principal wants to benchmark an employee’s performance using the output figures of other employees performing similar tasks. The problem of herding behavior occurs in this context if the other employees’ performances are measured in the same way: In that case, all of them have the same reason to follow the same decisions in order to mask their possible incompetence relative to their principal(s). As a consequence, they go with the herd, which, at the same time, is the principal’s benchmark to measure their performances. The employees act fully rational and use the herd as a risk-sharing

---

5 Here we do not think of a harmful action, which might be subject to legal or moral issues and would make the case for whistle blowing. Although whistle blowing is a closely related topic, we do not consider it here. We follow the argument of Premeraux and Bedeian (2003, p. 1538) and define speaking up and voice as evolving “from a desire to improve an organization by suggesting different approaches” rather than evolving from a “perceived violations of personal principles,” as in the case of whistle blowing (Miceli, Near, & Dworkin, 2008).
mechanism. For example, research by Graham (1999) and Hong, Kubik, and Solomon (2000) empirically supports the existence of reputation-based herding of financial analysts and reveals the different incentives at work depending on the stage of the analyst’s career and other individual determinants. Similarly, Chevalier and Elliston (1999) showed that the same holds for portfolio managers.

In the literature, there are many other empirical studies focusing on herding behavior in financial markets (see, e.g., Christie & Huang, 1995; Grinblatt, Titman, & Wermers, 1995; Lakonishok, Shleifer, & Vishny, 1992; Nofsinger & Sias, 1999; Wermers, 1995). However, empirical tests cannot fully reveal the existence of truly harmful herding as it is very difficult to distinguish harmful, or spurious, herding from intentional herding that evolves due to new information in the market and which shows the fully rational adaptation process of many market participants to the new information (see Bikhchandani & Sharma, 2001; Hirshleifer & Hong Teoh, 2003).

Actual experimental studies were partially able to show the herding behavior of market participants. However, the experimental testing of the different models showed that herding behavior could be explained with both informational-based (Drehmann, Oechssler, & Roider, 2005) and reputation-based models (Hey & Morone 2004), whereas the more realistic experiments favored the latter models (Cipriani & Guarino, 2005).6 Alevy, Haigh, and List (2007) provided evidence from a field experiment that under specific circumstances professionals were not so prone to information cascades as inexperienced persons (e.g., students).7

Closely related to the topic are several socio-psychological surveys approaching the subject of hidden profiles. Starting with Strasser and Titus (1985), this strand of the literature tries to unveil the decision processes in groups—how

---


7 However, Drehman et al. (2005) offer contradictory evidence to these findings.
information is shared and aggregated. At the beginning of the experiment, each member of the group receives only a piece of the whole information that the group needs to solve the problem. During the experiment, the researchers analyze how the various members of the group contribute their private information in order to guide the group through the decision process and to find the proper solution. As every group as a whole has the information necessary to find the proper solution, it is interesting to see that many of them fail to aggregate the information properly. Some members do not want to come into conflict with others and therefore do not contribute their contradicting but important information to the group decision process. The results of these experiments support the notion of the costs of voice and explain the resulting problems for decision processes in organizations (see, e.g., Schulz-Hardt, Brodbeck, Mojzisch, Kerschreiter, & Frey, 2006).

As a next step, we combine the socio-psychological and the economic literature and add the literature on management studies and organizational science. Starting from the two concepts of herding behavior in economics—*information-based* herding and *reputation-based* herding—it becomes apparent that the former plays only a minor role in the socio-psychological literature and in the management studies. Although one could think of the problem of an information cascade in everyday business, the cascade and the resulting herding behavior of the supervisors create no problem as long as the solution taken by the first supervisor is the proper one. However, whenever the chosen and adopted solution leads to wrong outcomes, then harmful herding behavior deteriorates an organization’s performance. The questions then become: Did someone realize that the solution was not the proper one? Why did that person not intervene? The first question goes beyond the topic of this paper, but
the second one points to the reputational concerns of individuals, which leads us to reputation-based herding.

In theory, the mechanism of informational cascades is fascinating; however, in everyday business, the question is not whether such herd behavior exists but how to overcome it. The literature on management studies and organizational science focusing on voice and silence in organizations takes up all of the above described socio-psychological approaches in one way or another. In their seminal paper on silence in organizations, Morrison and Milliken (2000) touched on Janis’ (1972) idea of Groupthink and the research on diversity in management teams (Bantel & Jackson, 1989). In a special edition of the Journal of Management Studies on the topic of the dynamics of voice and silence in organizations, some authors refer to Noelle-Neumann’s (1974) Spiral of Silence too (see, e.g., Bowen & Blackmon, 2003). They use Noelle-Neumann’s theory to describe the dynamics of silence in organization or, in other words, the evolution of herding behavior within an organization.

Throughout the literature on silence and voice in organizations, Hirschman’s (1970) concept on exit, voice, and loyalty serves as a general framework. Particularly interesting for our purposes, the associated empirical literature reveals valuable insights on the individual determinants of employees’ probability to use their voice in an organization (see, e.g., Tangirala & Ramanujam, 2008; Withey & Cooper, 1989). However, Hirschman’s concept has been adjusted and modified in order to adapt to today’s view of voice and silence in organization.8 In 2001, Banerjee and Somanathan wrote their paper “A Simple Model of Voice” and completed the circle starting with Banerjee’s (1992) “Simple Model of Herd Behavior.” Paraphrasing Hirschman’s

---

8 See, for example, how Premeaux and Bedeian (2003) differentiate between Hirschman’s (1970) notion of voice and their own expression of speaking up, which takes into account only that an employee uses voice to make an improvement and not to express dissatisfaction with an organizational issue.
concept of voice in organizations, Banerjee and Somanathan provided a model that relies on reputation-based herding without stating it explicitly. Members of a group can contribute more or less private information to the decision-process and thereby influence more or less the decision taken by the leaders. The decision about the amount of information contributed is based on the cost for their communication to the members of the group and their leader. This framework is in line with the studies on employee silence of Ryan and Oestreich (1991) or Milliken et al. (2003), which show in qualitative studies that employees often fear to speak up, in particular upwards (to their supervisors), because they figure that they will face negative consequences and will be perceived as troublemakers.

In the next section, we draw on the literature reviewed to develop our propositions on individual determinants of employees with regard to the costs of voice in organizations.

**Costs of Voice: Determinants and Propositions**

The costs of voice can be affected by various determinants. We pool the determinants of the costs of voice into two categories: individual and organizational determinants.Individual determinants influence the costs of voice due to the employee’s personality, experience, and knowledge and also due to the personalities, experience, and knowledge of the employee’s coworkers or supervisors. Organizational determinants influence the costs of voice for a specific individual due to the institutional factors of the organization, such as human resource management or the wage policy.

In this paper, we want to focus on individual determinants. As shown in earlier papers, human resource management, in particular, the careful selection of people can

---

9 See the more extensive discussion of the topic focusing on organizational determinants in Cueni & Frey (forthcoming).
help to reduce the costs of voice in organizations (see Cueni & Frey, forthcoming). We want to differentiate between the three sources of individual determinants for the cost of voice.

Depending on self-perception, role behavior, and identity, the costs of voice can affect the individual employee in different ways (see, e.g., Morrison & Milliken, 2000; Premeaux & Bedeian, 2003; Withey & Cooper, 1989). People who like to expose themselves or see their role as the devil’s advocate perceive the costs of voice to be lower than assumed, for example. Subsequently, the employee’s perceived cost of voice might be influenced by individual determinants like, for example, age, tenure with the company, experience in the job, or level of education. We consider these determinants to be the first source of the costs of voice and want to focus on them in our qualitative study.

Another source for the costs of voice lies in the relationship between the employee and the employee’s coworkers or peers. In order to function, teams or committees experience a pressure to be uniform, and the members create their own social identity. The more homogeneous a team is with respect to important individual aspects (professional background, education, gender, etc.) the more likely groupthink occurs (Bantel & Jackson, 1989; Janis, 1972; Withey & Cooper, 1989). These diverse phenomena of social interactions in teams influence the individually perceived costs of voice; the more conformity is needed to be accepted as a member of the team, the higher are the costs if the individual employee deviates from the prevailing opinion. Employees are usually in competition with peers, which can reduce the costs of voice as it provides an incentive for the employees to speak up and distinguish themselves. In contrast, competition also can raise the costs if the employee and peers are rated by
a superior manager using a benchmark, as discussed above (see Scharfstein & Stein, 1990).

The last source of voice costs stems from the character of the principal-agent relationship. In addition to the above-mentioned sources, the relationship between the employee and superior as well as the employee’s and the supervisor’s personality, experiences, and view on leadership have a massive influence on the costs of voice (see, e.g., Milliken et al., 2003; Ryan & Oestreich, 1991). If the superior has to evaluate the employee’s performance and if this evaluation determines bonus payments, future project assignments, or promotions, the employee’s voice costs strongly increase. Due to career and reputational concerns, the employee’s incentive to contradict the supervisor on a project is likely to vanish. If the superior is accorded much respect in the committee due to an impressive track record and extensive experience, the employee’s costs to speak up increase even further.

These sources spawn a wide variety of the employee’s costs for speaking up starting with small hostilities to mobbing and sidelining or even towards a career-ending transfer of the employee or dismissal. We analyze the possibilities to reduce the costs of non-herding by selecting people with specific individual determinants. In particular, we focus on the first source of the costs of voice in organizations, namely of the individual determinants of the employee themselves. In order to develop quantitatively testable propositions, we focus on easily measurable determinants.

As an employee’s age is simple to assess, we formulate our first proposition on the relationship between an employee’s age and the individual costs of voice. Theoretically suggested in Scharfstein and Stein (1990) and empirically examined for the herding behavior of financial analysts in Hong et al. (2000), younger employees have higher costs not to herd. According to this empirical finding, we generalize in
our first proposition about the relationship between an employee’s age and the costs of voice.

Proposition 1: The older the employee, the lower the costs of voice, holding all other factors constant.

The next proposition is related to Proposition 1 as it takes the employee’s experience into account. Clement and Tse (2005) as well as Hong et al. (2000) showed empirically that the more experienced sell-side analysts did not exhibit herd behavior to the same extent as inexperienced analysts. This is mainly due to career concerns: If less experienced analysts have a lower forecast accuracy, they are punished more severely than the more experienced analysts with a higher reputation due to their track record. In particular, the less experienced analysts have a higher probability of being dismissed.

Proposition 2: The more experienced an employee, the lower the costs of voice, holding all other factors constant.

As education contributes, at least to some extent, to an employee’s reputation in the organization, better educated employees should remain less silent. The employee might use a higher reputation in the organization in order to reduce the costs of voice. Although we do not understand the education-based reputation as the same quality as the one stemming from experience, we think that an employee can draw on education likewise. Furthermore, we expect better educated people to be more eloquent thus lowering the cost of voice.\(^\text{10}\)

\(^{10}\)We are not aware of any literature explicitly stated the relation between employee’s education and voice in organizations.
Proposition 3: The better educated an employee, the lower the costs of voice, holding all other factors constant.

The longer people have worked together, the more they know about their coworkers’ opinions and attitudes. This should lower the cost of voice, but, in contrast, the better that people know each other, the more they might be threatened by the idea of dissent (Janis, 1972). In line with Morrison and Milliken (2000), we argue that longer tenure in an organization does not lower the cost of voice. Over time, the employees share more and more entrenched views and are not willing to reconsider and adjust their opinions.

Proposition 4: The longer the tenure of an employee with an organization, the higher the costs of voice, holding all other factors constant.

The propositions presented in this section are now confronted with statements made by practitioners.

Practitioners’ View on the Costs of Voice

To check if our theoretically derived propositions on the costs of voice are in line with practice, we conducted semi-structured interviews with practitioners in the financial industry. From June to August 2010, during the first wave of our study, we interviewed six practitioners in the greater area of Zurich, Switzerland’s banking capital. To attain a reasonably broad insight into the various types of financial institutions, we interviewed two people from big Swiss banks, two from a mid-sized regional bank, one from a large Swiss insurer, and one manager from a small hedge fund. In addition, our sample varied with respect to the positions of the people and the

---

11 The description of the interview data in this section is based on an earlier version of Cueni and Frey (forthcoming).
sector in which they were working. Two analysts worked in the investment banking sector, two managers in the private banking sector, one person was involved in the top management of a universal bank, and the remaining person managed a company in the hedge fund industry. The sample was comprised of one woman and five men and included companies ranging in size from 30 to over 60,000 employees. The median number of employees was 7,500 and the mean around 24,000.

An outline was used in all the semi-structured interviews, but the order in which the questions were posed varied depending on the course of the conversation. The shortest interview lasted about an hour, the longest about one and a half hours. The interviews were analyzed by applying structured content analysis.

In general, all participants confirmed that a problem exists with voice provision in the decision-making processes of the various organizations. They agreed that there were individual costs involved leading to silence and herding behavior. Explaining the various costs of an employee’s voice, all managers stated that they experienced a wide range of costs during their careers starting with delicate psychological pressure to conform and culminating in dismissal. Several respondents offered such remarks as the “troublemakers got sidelined” or “everybody knew the mavericks and sooner or later they were no longer part of important work groups” or “from then on your days are numbered.”¹² These answers reveal additional types of costs, such as a corrosion of career opportunities due to criticism and insinuated troublemaking.

All of the six people interviewed mentioned various institutional factors to reduce the costs of voice when asked broadly how to lower them. Two managers reported that they were aware of implemented human resource strategies to select

---

¹² The citations are translated as literally as possible by the authors.
people with individual determinants supporting voice. As a result of the specific personnel selection, critical thinking and deliberating in the organization should be promoted. One of the interviewees even introduced such a policy in his firm. He strongly promotes the idea of a careful selection of employees according to their predisposition towards speaking up in organizations and even called it vital for the functioning and the continued existence of the organization; this statement is in line with the ideas advanced by Morrison and Milliken (2000).

Regarding our propositions of the individual determinants of employees with lower costs of voice, the respondents presented a more heterogeneous picture. The majority did not support the first proposition—Proposition 1: The older the employee, the lower the costs of voice, holding all other factors constant. Four out of six managers denied the positive influence of age on employee voice. One manager, a former Chairman of a large global insurer, even answered: “Age is not supporting voice. It can lead in the opposite direction, you get tired and you don’t want to write a motion or another criticism and remain silent."

Proposition 2: The more experienced an employee, the lower the costs of voice, holding all other factors constant was affirmed by five of the six respondents. A comparison of the two propositions supports the high correlation of age and experience. Hong et al. (2000) found empirically that older financial analysts were more willing to resist the prevailing opinions. They faced a lower probability of being dismissed after having lower accuracy; hence, they bore lower costs of voice. The respondents did not support this view. The discrepancy is solved if one takes into account the selection process during an employee’s career. The notion of “being experienced” points strongly towards the employee’s reputation in the organization.
The individual determinant *age* can be understood similarly because, if an employee at the end of that employee’s working life is still in the same position and in charge of the organization, the job was done well otherwise the employee would have been dismissed. The interviews revealed that it was the experience in connection with the high reputation that produced lower costs of voice provision for older employees, not their *age* itself. This statement is in line with the literature on reputation-based herding (Scharfstein & Stein, 1990) and on voice and silence in organizations (Morrison & Milliken, 2000).

**Proposition 3: The better educated an employee, the lower the costs of voice, holding all other factors constant** was not supported by the respondents. Only two out of six managers agreed on the proposition, whereas three remained undetermined and one manager even denied the relationship between an employee’s education and the costs of voice. As we cannot draw on the literature related to costs of voice of an individual education, we need to reconsider this argument.

**Proposition 4: The longer the tenure of an employee with an organization, the higher the costs of voice, holding all other factors constant** received only ambivalent support by the managers. Three managers stated that the effect of a higher tenure leads in another direction: The longer the tenure, the lower the costs of voice for the employee. They argued that the costs of speaking up is lower for an employee who has been with the organization for a long time as the employee must have “survived” many years and thus enjoys a particular status and a high reputation within the organization. One manager with a big Swiss bank stated: “There were issues, a year ago, I deferred to give comments on, because I knew exactly that I am the newcomer and all the other co-workers know much more than I do. Now, after one year, I have a much higher impact on the decision processes and dare to speak up.”
This example reveals a u-shaped relationship between tenure and the costs of voice in an organization. In the beginning, the growing tenure lowers the employees’ costs of speaking up. After some time, the positive impact of tenure on the costs of voice reaches its maximum and starts shrinking again to the point where the costs of voice are as high as in the first year on the job. Therefore, we assume that there exists a golden mean for the positive impact of tenure on the costs of voice.

**Discussion and Conclusion**

Employee’s herd behavior has to be overcome for organizations to be efficient. Whenever employees exhibit herding behavior in an organization, they hide their private information and do not contribute their insights to the decision processes. This loss of information deteriorates the organization’s decision processes as the decisions taken rest upon a lower information basis (Argyris & Schön, 1978; Glauser, 1984). The question is: Why do the employees not contribute their private information and hide in the herd. We argue that there exist costs for an employee if that employee does not follow the herd. Further, we argue that these costs can be influenced by certain institutional factors in organizations and vary over different types of employees. In this paper, we examine the various individual determinants that lower the employees’ costs of speaking up and illustrate further implications.

The literature in economics as well as the literature on management studies and organizational science both contribute intensively to the topic. The former strand of the literature approaches the issue from the point of view of herd behavior, whereas the latter uses the terminology of voice and silence in organizations, dating back to Hirschman’s (1970) seminal work on exit, voice, and loyalty in organizations. We identify the costs not to herd, or, in the terminology of organizational science, the costs of voice to be the overarching concept in both strands. Either way, the
employee’s costs of speaking up are key in overcoming herd behavior in organizations.

The costs of voice lead to pressure on the individual employee to remain silent. Morris and Milliken (2000) list three implications of the costs of voice and the resulting pressure on employees. First, employees have feelings of not being valued. Second, employees perceive a shortage of self control. Third, employees experience cognitive dissonance. These impacts of the costs of voice deteriorate the organization’s performance in an indirect way, thus reducing an employee’s motivation at work (Parker, 1993). Further, happiness research in economics provides evidence that an employee’s perception of higher self control and autonomy fosters an employee’s job satisfaction (Benz & Frey, 2008; Frey, 2008).

Using in-depth interviews with high-ranked executives and analysts in the financial sector, we explored the various facets of the costs of voice. The managers stated that they experienced a wide range of costs during their careers starting with delicate psychological pressure to conform and culminating in a call to quite the job or even in dismissal. The analysis of the interviews revealed that individual determinants like experience or tenure lowered the costs of voice in organizations. Experience has a negative linear relationship with the costs of voice, whereas tenure shows a u-shaped relation. At the beginning of a new job, employees face high costs of voice. Decreasing over time, the costs reach a minimum and then start to increase again. According to the managers, the minimum is usually reached after one to two years with the specific organization. Assuming decreasing marginal returns to experience, the effect of tenure will become dominant over time. As a result, older employees start facing higher costs of voice towards the end of their careers.
These insights should be used in practice. In order to employ more information for the decision processes and to bring forth happier and more motivated employees, managers ought to reduce the costs of voice of their employees. Lowering the costs would humanize the firm by simultaneously enhancing its efficiency in the decision processes. Other studies have analyzed how managers can further voice in organizations by changing their beliefs, practices, and fear of negative feedback (Milliken et al. 2003; Morrison & Milliken, 2000). Our study provides insights on the specific types of employees that managers should focus on. Employees with less experience and shorter tenure are more prone to remain silent due to the higher costs of voice. The same holds for employees with considerably longer tenure. Managers should favorably support these types of employees to overcome their fear of speaking up and remain motivated at work. Future research should explore the relationships between the various institutional factors, the different individual determinants, and the diverse practices of managers in order to establish a new theory of the firm.
References


