

Title:

Organizational Change and Reference Dependent Preferences

Abstract:

Reference-dependent preferences can explain several puzzling observations on organizational change. Loss aversion clarifies why change is often slow or stagnant for long periods followed by a sudden boost in productivity during a crisis. Moreover, it accounts for the fact that different firms in the same industry can have significant productivity differences. The model also demonstrates the importance of expectation management even if all parties have rational expectations. Social preferences explain why it may be optimal to split up a firm in two different entities.