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DOI: https://doi.org/10.30525/978-9934-26-569-3-15

WHY RATIONAL DECISIONS FAIL: BEHAVIORAL SABOTAGE OF ECONOMIC SECURITY IN ENTERPRISES UNDER PROLONGED CRISIS

In prolonged crises, enterprises are expected to act rationally to protect their financial security. Traditional economic theory assumes that decision-makers base their actions on complete information and logical consistency, adjusting strategies to both external shocks and internal sensitivities. However, reality tells a different story: crises amplify uncertainty, stress, and cognitive overload – fertile ground for behavioral distortions that quietly undermine economic stability.

This paper explores the paradox of "rational failure" in enterprise decision-making: how well-intentioned managers, using familiar tools and standard procedures, unconsciously sabotage their organizations' economic resilience. By examining major behavioral traps such as sunk cost fallacy, overconfidence, and illusion of control, we argue that long-term crises not only challenge economic indicators but also systematically degrade decision quality.

The aim of this study is to analyze how behavioral mechanisms undermine rationality in risk management and strategic planning within enterprises operating under high uncertainty. Using Ukraine as a context of extreme pressure and instability, we propose a behavioral framework to understand and improve economic security management in crisis-prone environments.

Classical risk theory and economic security models are based on assumptions of rational choice, optimization, and predictable responses to incentives. Yet decades of behavioral economics research challenge these assumptions, showing that decision-makers often act against their own long-term interests due to cognitive and emotional biases [1, 6].

Several behavioral patterns are especially dangerous during crises:

– **Sunk Cost Fallacy:** an irrational commitment to a failing course of action due to prior investments [2].

– **Overconfidence Bias:** overestimating one's ability to adapt, forecast, or control external events [3].

– **Illusion of Control:** belief that outcomes can be managed through routine or symbolic actions, even when structural conditions have shifted [4].

– **Stress-Induced Myopia:** narrowing of strategic vision under chronic pressure, resulting in reactive rather than proactive decision-making.

These mechanisms interact and reinforce one another. In unstable environments where rapid adaptation is essential, they contribute to organizational inertia, misallocation of resources, and delays in strategic transitions.

Despite a rich body of literature in behavioral economics, its practical application in enterprise-level security management-especially in crisis economies -remains limited. Most existing frameworks focus on external threats, financial indicators, and compliance systems while ignoring the internal behavioral dynamics that erode economic resilience from within [5, 7].

This study employs a conceptual-analytical approach, combining behavioral economic insights with thematic observations of enterprise behavior under crisis. Due to the sensitive nature of economic security data-especially in war-affected regions – the research relies on secondary data sources, industry reports, and anonymized interviews with enterprise – level decision-makers conducted in Ukraine from 2022 to 2024.

The Ukrainian business context provides a unique environment to examine behavioral distortions under prolonged instability. Enterprises faced not only external shocks (logistics disruptions, energy deficits, currency volatility) but also internal uncertainty: workforce displacement, moral fatigue, and strategic paralysis. These conditions intensify psychological stress and raise the likelihood of systematic cognitive errors in decision-making.

This research identifies behavioral sabotage not as isolated mistakes but as patterns – repeating, predictable breakdowns in rational processes triggered by emotional and psychological load. Each observed case reflects a distinct behavioral mechanism and illustrates its impact on economic security outcomes.

Case 1: Sunk Cost Fallacy: Clinging to Collapsing Projects. Several medium-sized industrial enterprises continued to fund incomplete infrastructure or equipment modernization programs long after they had become economically unviable. Initial investments (often made before the full-scale invasion) created a psychological anchor that obstructed reassessment, even when cash flows had critically deteriorated.

Result: Financial reserves were depleted, making enterprises vulnerable to supply disruptions and unable to pivot toward more adaptive strategies such as modular production, outsourcing, or asset liquidation.

Case 2: Illusion of Control: Ritualized Planning During Chaos. In many cases, enterprise boards continued to implement annual strategic planning cycles despite a complete collapse of the assumptions on which those plans were based. These plans were often developed to "maintain discipline" but offered neither predictive value nor real adaptability.

Result: Resources were diverted to plan execution instead of problem-solving. Employees, witnessing the disconnect, became disengaged or resigned under pressure, exacerbating organizational instability.

Case 3: Overconfidence: Misjudging Adaptive Capacity. Certain enterprises, especially in IT and service sectors located in rear regions, showed overconfidence in their ability to retain client bases and revenue streams despite radical environmental changes. Early in the war, leaders publicly dismissed the likelihood of serious disruptions, betting on quick stabilization and business continuity.

Result: Rather than diversifying markets or restructuring operations, many firms delayed painful but necessary changes. Consequently, they faced sudden liquidity crises, erosion of trust among investors and staff, and missed strategic windows for recovery.

These cases demonstrate that behavioral sabotage is not random. Rather, it is structurally embedded in how enterprises respond to prolonged instability. Faced with uncertainty, decision-makers often revert to habitual patterns, emotional anchors, and symbolic behaviors that sustain the illusion of control. Ironically, the more intense the stress, the more organizations double down on failing strategies-amplifying their vulnerability instead of adapting.

Traditional risk management systems focus on external threats such as market volatility, competition, or regulatory changes. Yet under crisis conditions, the most dangerous risks are internal: cognitive inertia, leadership denial, and institutional rigidity. These invisible forces create blind spots that neutralize even the most advanced analytical tools.

A behavioral approach to economic security must go beyond metrics and protocols. It should account for how decisions are actually made, under what emotional conditions, and which psychological factors are likely to dominate under pressure.

Conclusion and Implications. In prolonged crises, the most severe threats to enterprise economic security often arise not from external shocks, but from within the decision-making architecture itself. As the Ukrainian context shows, behavioral traps – such as sunk cost fallacy, illusion of control, and overconfidence – can sabotage even well-designed strategies, especially when leaders operate under psychological strain.

To safeguard economic resilience, enterprises must acknowledge that rationality is not guaranteed under stress. Integrating behavioral awareness into management culture, risk protocols, and strategic planning can help prevent silent failures caused by human bias. Organizations must look beyond formal compliance and data analysis to address the emotional and cognitive dimensions of decision-making. In high-uncertainty environments, incorporating behavioral economics into security frameworks is no longer optional – it is a condition for survival.

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