

Analysis and Intuition in Strategic Decision Making: The Case of California

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INTRODUCTION

“The primary wisdom is intuition.”

Ralph Waldo Emerson, American philosopher

Many management scholars believe that the process used to make strategic decisions affects the quality of those decisions. However, several authors have observed a lack of research on the strategic decision-making process. Empirical tests of factors that have been hypothesized to affect the way strategic decisions are made are notably absent (Fredrickson, 1985). This article reports the results of a study that attempts to assess the effects of decision-making circumstances, focusing mainly on the approaches applied and the managerial skills and capabilities the decision makers built on during concrete strategic decision-making procedures. The study was conducted in California between September 2005 and June 2006 and it was sponsored by a Fulbright research scholarship grant.

Strategic decisions are those that affect the direction of the firm. These major decisions concern areas such as new products and markets, product or service development, acquisitions and mergers, subsidiaries and affiliates, joint ventures, strategic alliances, finding a site for a new investment, reorganisation, and other important matters. Strategic decision making is usually conducted by the firm's top management, led by the CEO (chief executive officer) or president of the company. That is why in this research 20 top-level managers were targeted: 12 were CEOs, presidents, vice presidents, or chief financial officers (I will call them executives) while 8 were founders and majority owners of their own enterprises (they will be called entrepreneurs). Sixteen respondents were male, four were female. The average respondent has been working for 28.7 years in general, for 13.8 years for the actual company, and for 8.4 years in the current position. Sixty percent of the respondents have a graduate business degree, 60% have an undergraduate degree, seven of them have an MBA or a PhD, and two out of these seven have both

an MBA and a PhD. One respondent is working on his PhD right now.

The interviews took 2½ hours on the average, varying from 2 hours up to 5 hours. During the interviews, a preliminary structured list of questions was followed. With each respondent we investigated the circumstances of four different strategic-decision cases from his or her practice. The participants could choose the cases on their own. Using this technique, a database of 80 strategic decisions could be built.

BACKGROUND

Kathleen M. Eisenhardt (1998), professor of strategy and organisation at Stanford University, found that top managers at more effective firms were able to make quick and high-quality decisions that were highly supported throughout the firm. Her studies identified four areas in which effective decision makers outperformed counterparts at less effective firms:

- Building collective intuition
- Stimulating conflict
- Maintaining a pace or schedule for decision making
- Defusing political behaviour

In my research, I focused on the role of intuition in strategic decision making. As Ashley F. Fields (2000) stated, intuition is one of the more mysterious concepts associated with the study of human capital. Classical theoreticians, from Carl Jung (1934) to Chester Barnard (1938) and Abraham Maslow (1954) have commented on the existence and value of intuition in organisational settings. Carl Jung said, “Intuition does not denote something contrary to reason, but something outside of the province of reason.” It is real but it is not in our heads, and our heads cannot control it. Harold Leavitt (1975) viewed intuition as a valuable weapon to be used against the heavily analytical practices, which gave rise

to his derisive term “analysis paralysis.” Fascination with the subject of intuition remains alive and well in recent years too.

Intuition is usually defined as knowing or sensing something without the use of rational processes. Alternatively, it has been described as a perception of reality not known to consciousness, in which the intuition knows, but does not know how it knows. Westcott (1968) redefined intuition as a rational process, stating that it is a process in which an individual reaches a conclusion on the basis of less explicit information than is ordinarily required to reach that decision. Weston Agor (1997) argued that intuition is a built-in capacity that some of us have and some do not. In my research, I basically relied on the definition given by Martha Sinclair and Neal Ashkanasy (2000). According to these authors, intuition is a nonsequential information processing mode, which comprises both cognitive and affective elements and results in direct knowing without any use of conscious reasoning. Practically, it is an unconscious process of making decisions on the basis of experience and accumulated judgment.

Isenberg (1984), who studied managers in Fortune 500 firms, found that they combine both rational and intuitive methods in decision making. Parikh (1994) studied more than 1,300 managers and found that intuition is cross-national. Catford's (1987) study of 57 business professionals demonstrated that intuition was used commonly as a business tool. These and many other researchers have demonstrated that intuition is used regularly in the conduct of business (Fields, 2000).

Interestingly, more than half of today's intuition books are authored by females. Psychologists debate whether the intuition gap is truly intrinsic to gender. Whatever the reason, Western tradition has historically viewed rational thinking as masculine and intuition as feminine. Women's way of thinking gives greater latitude to subjective knowledge. Some personality tests show that nearly 6 in 10 men score as “thinkers” (claiming to make decisions objectively, using logic) while 3 in 4 women score as “feelers” (claiming to make decisions subjectively, based on what they feel is right; Meyers, 2002).

In recent years instinct appears ascendant. Decision makers have good reasons to prefer instinct. In a study, executives said they use their intuition as much as their analytical skills, but credited 80% of their success to instinct (Buchanan & O'Connell, 2006). Mintzberg and Westley (2001) explain that strategic thinking calls for

creativity and synthesis, and this is better served by intuition than analysis. Buchanan and O'Connell cited some famous statements related to intuition:

“Pragmatists act on evidence. Heroes act on guts.”

“Intuition is one of the X-factors separating the men from the boys.”

One feature common to all the authors cited above is an inability to articulate a coherent, consistent, and verifiable theory of what underlies the intuitive phenomenon. These researchers unanimously declare that something really exists, but they cannot agree on just what exists or why it works as it does (Fields, 2000). Recent advances in cognitive science and artificial intelligence suggest that there is nothing mystical or magical about intuitive processes, and that they are not paranormal or irrational. Rather, intuitive processes evolve from long experience and learning and consist of the mass of facts, patterns, concepts, abstractions, and generally what we call formal knowledge or beliefs, which are impressed in our minds (Isenberg, 1984; Simon, 1987). Intuition is not the opposite of rationality, nor is it a random process of guessing, as we very often think. It is a sophisticated form of reasoning based on chunking that an expert hones over years of job-specific experience. Consequently, intuition does not come easily; it requires years of experience in problem solving and is founded upon a solid and complete grasp of the details of the business. However, in some cases, it compresses experience and learning into seconds, as it was shown in some cases during my interviews.

RATIONAL/INTUITIVE ORIENTATION

The lack of field studies in strategic decision-making processes called for a research study to examine concrete real-life cases and to analyze the following:

- How top-level managers really make strategic decisions.
- How entrepreneurs and executives differ, if at all, in their approach to strategic decision-making processes when they combine rational thinking with their intuition
- Similarities and differences, if any, in management skills between entrepreneurs and executives

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