Strategic Decision Making with Corporate Emotional Intelligence

E. Wallace, R. Rijamampianina

Abstract

Executives are judged and rewarded according to their ability to achieve results, and that means making decisions under pressure in the face of uncertainty, complexity and data overload.

In the increasingly fast moving environment of business, the relationship between cause and effect is confused by the chaotic nature of information. We have too much information and yet we never know enough. Excellent executives know when to depend on data and when to depend on the collective wisdom of the leaders at all levels in the company.

The CEO's personality determines the mental framework he brings to the situation. This framework shapes his problem-solving approach and influences his discernment. If competitive intelligence is defined as the sum of executive and corporate intelligence then selecting and applying contextual mental models, making these visible, and creating an emotionally intelligent organisational environment are expressed in strategic decision-making.

Organisational culture is an expression of the maturity of the employees in that organisation. In determining new strategic directions executives should establish the demand on the collective emotional intelligence of their employees unless they wish to find the cost of change exceeds the forecast budget.

Emotional maturity enables people to use their mental patterns effectively to accommodate the chaotic demands imposed by strategic decision making in modern business.

Introduction

Under fluctuating economic conditions, corporate agility provides the competitive edge in any industry. Charles Darwin highlighted the advantage of adaptability above strength in the evolution of the species. Adaptability in a company can be seen as flexibility and foresight. Executives of successful companies therefore have to invest in a resilient workforce while resisting strategic myopia.

The organisation is defined as a system created through consensus (Scholl, 1981). If we accept the link between individual success and individual emotional intelligence; then it follows that there is a causal link between sustainable corporate success and corporate emotional intelligence.

Development of the organisation

Historically, the organisation as a socio-economic structure developed from small trader to large corporation (Bobbitt, 2002). In the past, strength and size implied success and so business strategy was defined by economies of scale, vertical integration, hierarchical structures and autocratic management. However, the fast moving technology driven environment of today requires flexible organisations and creative leadership (Handy, 1991); just as guerrilla warfare changed the shape of military engagement, the nimble organisation is outmanoeuvring large corporate structures in the fight for survival in the market place. Competitive advantage is not the result of the yearly strategic planning and budget exercise; it is determined daily. Competitive resilience provides the only way to respond to the demands of the market place; and this traces back full circle, to corporate emotional intelligence.

The nature of competition has changed from a set piece war between big companies to fractal create-modify-destruct cycles of networks between complementary companies. In many industry sectors these phenomena are conspicuous due to the short product life cycle of technology products (Handy, 1991). However, these networks will also influence competition in more traditional industries such as automotive manufacturing, as their product life cycles shorten under pressure from the demands of shareholders and the pursuit of profit. Corporate emotional intelligence is not 'soft stuff' anymore; it is appearing on the financial bottom line.

Emotional intelligence defined

Psychologists have developed various concepts of intelligence, including linguistic, logical-mathematical, spatial, musical, bodily-kinaesthetic, interpersonal, and intrapersonal social intelligence (Ruisel, 1992; Gardner, 1993).

Social intelligence comprises both inter- and intrapersonal intelligences (Gardner, 1993a and Thorndike, 1920). *Inter*personal intelligence is the ability to understand other people: what motivates them, how they work, how to work cooperatively with them. *Intra*personal intelligence is the capacity to form an accurate, authentic model of the self and to be able to use that model to operate effectively in life. Since emotional intelligence also consists of these two elements (Salovey & Mayer, 1990), it is possible to suggest that social and emotional intelligences are the same. Emotional intelligence encompasses self-awareness, self-management, social awareness or empathy and social skills (Goleman, 2000).

The business relevance of emotional intelligence

Emotional intelligence accounts for more than 85% of exceptional achievement (Goleman, 1995). While technical skills are necessary for productivity, these are insufficient to explain the difference between high and mediocre performers. High performance individuals show emotional intelligence as task complexity increases.

Authors agree that individuals with high emotional intelligence are motivated, self-disciplined, aspire to excellence, and continually seek re-skilling, learning and adding value (Goleman, 1995, 1998, 2000; Ashforth & Humphrey, 1995; Gilad, 1996 and Mayer & Salovey, 1997). Their mental agility sustains long-term business development and builds organisational culture of high morale, which prevents the loss of talent.

Self-aware individuals display many of the characteristics of successful leadership. They have a deep understanding of their own emotions, strengths, weaknesses, needs and drives. They are neither overly critical nor unrealistically optimistic; instead they are honest with themselves and with others. Self-awareness extends to an understanding of values, goals and other drivers of behaviour and performance (McLagan, 2002). They are thus able to reduce cognitive dissonance by operating in agreement with their values, and influence others through demonstration of these values. In their drive for self-improvement, they create a culture of constructive feedback that fosters personal growth.

Self-regulation is the ability to choose to respond to an event rather than reacting; reasonable people create an environment of trust and fairness, effectively managing politics and infighting by example (Goleman, 1995, 1998). Such organisations attract and retain talent, leading to competitive advantage. In addition, self-regulators cope well in ambiguous business environments. As they operate from a place of authenticity and integrity they are able to model solid corporate citizenship and governance in changing conditions (Bryan, 2002). Self-regulators are able to think strategically and to delay gratification in short-term results for the more sustainable alternative of investment in long-term growth.

Social awareness and empathy are fundamental to an appreciation of teams, group dynamics, diversity and diversity management. Rapid globalisation, increasing competitive requirements for specialised talents, and greater use of flexible, temporary project teams raise the relevance of this component of emotional intelligence. A deep respect for cultural, social and ethnic differences, coupled with the ability to harness different ways of thinking for corporate advantage is an essential quality of leadership (McDermott, 2002). Social awareness enhances coaching and mentoring relationships, yielding results in improved performance, increased job satisfaction and reduced employee turnover.

Social skill is friendliness with intent: it moves people in a particular direction, be it to gain agreement on a new policy or system or to build enthusiasm for a new product launch. By building broad networks and knowing intuitively how to persuade, socially skilled people show the essential characteristics of managerial competence. They understand the importance of collaboration and are adept at managing teams in the pursuance of commercial success.

It would be erroneous to assert that rational intelligence and technical ability are not important ingredients in strong leadership. However, the hard-won success is not sustainable in the absence emotional intelligence. It is fortunate that individuals can develop their emotional intelligence (Goleman, 2000).

Corporate emotional intelligence and sustainable competitive advantage

Strategic business leaders are emotionally intelligent (Steiner, 1983 and Nel, 2003). Corporate emotional intelligence therefore starts in the boardroom, but it cannot be used to create value for the organisation until it is visible in the decisions made daily in the workplace.

Strategic decisions trigger a cascade of operational decisions at all organisational levels. Executive strategy determines the energy and dynamics of managerial decision-making throughout the organisation (Harrison & Pelletier, 1995; Nutt, 2002). A firm's strategic choices will reflect their current decision model and existing evaluation criteria (Lamont, Hoffman & Forte, 1993); however, these actions and decisions can become habitual and outlive the original context, reflecting "organisational inertia" or "lock-in" (Foster & Kaplan, 2001).

Since corporate emotional intelligence is an aggregate of the emotional intelligence of individuals, organisational leaders would facilitate innovation by expressly encouraging employees' creativity and risk taking, rather than restructuring. Structure delimits function; it does not create options.

Excellent decision making ability is vital to organisational success as every strategy starts with a decision (Lamont *et al*., 1993).

> *"Sustainable Competitive Advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy" (Hoffman, 2000, p. 23).*

Individuals exhibiting superior executive decision-making skills are rare. Their talent is an essential component of competitive advantage, as it produces unique value and cannot be imitated or substituted. Using the same logic, organisational flexibility and adaptability in the face of change are components of competitive advantage. Innovation depends on the ability of the enterprise to learn faster than the competition is able (Rijamampianina & Maxwell, 2002).

Long-term superior performance requires continuous, effective decision making at several levels and by continuously developing and adapting advantage through innovation (Beinhocker, 1997). Adaptability and creativity are innate characteristics of the people in an organisation; it is not an ad hoc tactical manoeuvre to gain advantage (Eisenhardt, 1999).

Strategic decision making

Five recurring decision themes appear consistently in the achievement of economic benefit and business success. These are:

- "building a world-class brand name";
- "changing the rules";
- "reacting quickly to change";
- "leading in high technology"; and
- "downsizing and acquiring effectively" (Rappaport, 1998, p. 215).

Launching new products, expanding into new areas of business and investments in new technology are examples of strategic decisions (Gannon, 1993 and Harrison & Pelletier, 1998).

Successful business leaders make decisions efficiently and facilitate successful decision implementation by building consensus (Drucker, 1967; Scholl, 1981; and Roberto, 2000).

Strategic decision-making involves making choices that a) affect the long-term success of the company, b) allocate significant resources (e.g. materials and effort), and c) make 'trade offs' in ambiguous situations with insufficient information (Rappaport, 1998; and Nutt, 2001).

The strategic decision-making process takes place in the context of external (industry), organisational (internal) and personal (individual) circumstances of the decision maker (Drucker, 1967; and Bernhardt, 2003a). It is often difficult to assess superior decision making in real time (Mueller, Mone & Vincent, 2000; and Roberto, 2001) as some of the best decisions may be unsuccessful and some of the worst decisions may be successful (Spradlin, 2003).

According to Nutt (2001) 50% of all decisions in business fail (Nutt, 2001) and that includes decisions which are not implemented. Business leaders are often judged by the outcome of their decisions; however, there is seldom a simple causal relationship between the quality of the decision and the desired outcome.

Decision-making and risk

Bernstein (1998, p. 69) stated, "Making a decision is the essential first step in any effort to manage risk". The economic model of rational decision-making assumes that decision-makers exhibit rational behaviour and follow a logical decision-making process with perfect judgement (Simon, 1979) including. The economist's model of decision making rationality is flawed as the decision maker may compromise by reducing his expectations in response to constraints in rationality or in the environment, thereby making "a *satisficing* decision" (Simon *et al*., 1987, p. 17).

Nutt (2001) observed that decision-making failures are typically marked firstly, by the exclusion of key stakeholders from the decision-making process; secondly, by taking short cuts under time pressure and finally, by defining the problem incorrectly. These *satisficing* behaviours are attributed to poor social awareness and skills, an inability to deal with a diverse group of individuals, conflicts of interest, poor self-management, expediency as well as insufficient self-awareness. All of these are aspects of inadequate emotional intelligence which leads us to the understanding that high emotional intelligence is a technique to manage bounded rationality successfully.

A decision maker's mental and decision models determine the manner in which problems are identified, diagnosed and resolved; thereby linking cause and effect (Steiner, 1983, Schwenk, 1995). Persistent or static mental models are reinforced when decision makers search for familiar patterns in the data, and then perpetuate the same solutions without reference of the changing environment. Business leaders who employ static mental models contribute to corporate inertia (Clark, 2003).

Many analytical models reflect the 1950's concept of the industrial organisation, such as Porter's Five Forces (Porter, 1979), Sustainable Competitive Advantage, Cost Curves and Supply Chain Management (Beinhocker, 1997). In organisations with strong cultures, leaders reinforce their mental models with employees, competitors and customers and reward agreement (McGonagle & Vella, 2000). Industrial solutions are not suitable for solving knowledge problems and knowledge solutions are equally inappropriate to the network age.

Mental models are inherently part of the decision maker (Heuer, 1999). By using emotional intelligence, a decision maker can recognise and manage mental frameworks (Blanco *et al*., 2003).

Decision makers need to be aware that the skills that made them successful in climbing the business ladder will not lead to success in all situations (Glassford, 2002b). What can go wrong?

The importance of emotional intelligence in making strategic decisions

Lack of emotional intelligence is linked to repeatable patterns in the strategic decision-making failures (Schwenk, 1995 and Harrison & Pelletier, 1998). He refers to another group of studies and writings, focuses mainly on strategic decision failures and tries to explain the reasons for the failures (Harrison & Pelletier, 1998). Some obvious errors are outlined by Forman & Selly (2001, p. 23) as follows:

"Plunging in": Business leaders assume that there is only one process in decision making. They gather information and reach conclusions without considering alternatives to the problem definition or whether the process is appropriate to the decision. They decide on a solution and then commission an investigation to provide rational and factual proof to support the chosen solution (Hammond *et al*., 1998). When this is criticised the comment is "don't overcomplicate the problem"

"Framing": It is the way a person defines the problem, it is mental model. This mental frame determines the approach, the subset of alternatives and selection of alternatives. A frame blinds the executive to major disruptions, unusual events, positive options, important objectives or disinvestments (Harrison & Pelletier, 1998; Matheson & Matheson, 1999; Courtney, 2001; and Knight & Pretty, 2003). Mental models are evident in corporate control systems in order to ensure conformance and standardisation. In time they create a self-reinforcing rule set that inhibits ambiguity and risk thereby aborting innovation (Foster & Kaplan, 2001). Highly creative people are characterised by a high tolerance for ambiguity, conflict and risk.

"Overconfidence in own judgement": The decision maker assumes that his experience and judgement are relevant and sufficient and therefore neglects to collect key information (Harrison & Pelletier, 1998). Decision makers either assume that there is only one way to define the problem, or else they are unduly influenced by the frames of others. This pitfall places *a priori* limitations on available options (Harrison & Pelletier, 1998; and Roxburgh, 2003).

"Short sighted shortcuts": By placing great reliance on speed and decisive action the decision maker then uses conveniently available information, arbitrary consensus and common sense for crucial decisions (Harrison & Pelletier, 1998).

"Mental gymnastics": The decision maker assumes that decision-making is an issue of rational intelligence. He attempts to maintain a mental image of all the relevant information at the same time and avoids a systematic procedure. This is related to an emotional investment that may prove counter productive when faced with conflicting evidence (Harrison & Pelletier, 1998; and Roxburgh, 2003).

"Blind to feedback": By confusing failure with feedback, business leaders fail to learn from evidence of past outcomes. They choose to remember the good results and forget the failures. The decision maker fails to create a systematic history of wins and losses to make lessons visible (Harrison & Pelletier, 1998 and Forman & Selly, 2001).

Further review of the literature confirms the principles outlined above (Russo & Shoemaker, 1989; and Nutt *et al*., 2000). In addition, Roxburgh (2003, p. 29) identified a "status quo bias, anchoring, sunk cost effect, herding instinct, misestimating future hedonistic states and false consensus" as pitfalls. Hammond, Keeney & Raiffa (1998) trace the hidden traps in decision making to the process of decision making where the alternatives were unclear, the information was insufficient, the criteria and the evaluation process were inadequate and finally, when the decision maker's mental framework was at fault.

Developing corporate emotional intelligence

Despite the value of having self-aware people in the workplace, Goleman (1995) refers to research indicating that senior executives seldom give emotional intelligence the credit it deserves when seeking successors. Only tough executives are perceived to be qualified to lead others.

Current technologies and management theory propose a new way of working with teams and reducing hierarchy (Clark, 2003). Management has to incorporate various stakeholders in diversified teams to deal with complex problems. In many cases, the customer should become part of the decision making process (Clark, 2003). Managing the diversified interactions in the team is part of the business leader's skill set and is emotionally intelligent in nature. Business leaders make decisions in an organisational context, and when this is a learning organisation, the existing structure supports new decisions (Foster & Kaplan, 2001).

Leadership is more than the application of a recipe answer to a problem based on previous experience (Scholl, 1999). To enhance emotional intelligence, organisations must help people break old behavioural habits and establish new ones. If 80% of the difference between successful and unsuccessful executives was attributable to emotional intelligence factors in addition to cognitive abilities, then the return on investment in the development of emotional intelligence will be visible in financial returns.

Decision making in groups

Effective groups employ two processes to manage ill-structured strategic decisions: task structuring and managing socio-emotional tensions. Successful groups gradually structure the ambiguous decision task while building agreements regarding how and why they would make a decision (Roberto, 2000). These reinforcing processes enable business leaders to attain efficiency and consensus simultaneously and by taking care of the inter-personal conflict more time is made available for actual problem resolution (Roberto, 2000).

Leadership with heart

High self-esteem and high emotional intelligence is demonstrated by the effective response that is informative and assertive. That requires the correct thought, appropriate relationship and wisdom. Rational intelligence determines thinking and emotional intelligence determines the relationship between the self and others; spiritual intelligence enables wisdom during times of rapid change. If rational intelligence and emotional intelligence are sufficient under conditions of relative stability, spiritual intelligence is the essential component in times of paradigm shift and chaos.

Individuals with high spiritual intelligence see the holistic patterns and they have the capacity to question, think creatively, change the rules, and work effectively in changing situations by playing with the boundaries, break through obstacles and being innovative. They are instrumental in improving the world (Cairns, 1998).

Outstanding performers have high rational intelligence, high emotional intelligence and high spiritual intelligence. They choose a workplace that encourages risk taking where they can be alive, dynamic, sociable and innovative. This may explain why traditional hierarchical organisations find it difficult to attract exceptional talent.

Conclusion

Management must understand how their world-view determines the decisions that they take. They must develop an awareness of behavioural drivers and influences and identify strategic indicators in the environment. The CEO must understand what adaptation means to the firm as a complex adaptive system in an industry.

Decision makers define the problem according to their mental model. These determine how well they deal with complexity uncertainty and how they achieve consensus.

The CEO must highlight the sources of unconscious adjustment to ensure that people will discuss the issues instead of blaming each other for perceived obstinacy. The definition of the strategic problem imposes limitation on the possible solutions, which may be counterproductive early in the process.

Executives need to learn from their own mistakes instead of learning expensively and laboriously from environmental feedback. Mental models are obscured to many decision makers and while they are defended behind walls of attitudes and beliefs they become hidden agendas.

In order to ensure corporate agility the successful CEO will be aware of mental models, review past mistakes, incorporate diverse thinking, manage conflict and limit the perpetuating effect of incorrect pattern recognition. The CEO must be seen to promote corporate emotional intelligence with the equivalent enthusiasm that is traditionally directed at financial profit.

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