The Importance Of Intuition In The Decision Making Strategies Of Entrepreneurs

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ABSTRACT

Whilst there are an extraordinary number of reasons postulated as to why entrepreneurs succeed the proposition put forth by this research is that entrepreneurs could attribute their success to an intuitive decision making style.

The aim of this research is to develop further the ab-initio investigation carried out by Allinson, Chell et al. (2000). In their findings they argue that entrepreneurs are more intuitive in their cognitive style than non-entrepreneurs. In this research the preliminary results were derived using two-steps of a four-step process, an initial interview and an instrument developed to measure cognitive style. It is postulated that what differentiates an entrepreneur from others is their willingness to make rapid decisions when there is either too much or too little information. Furthermore, entrepreneurs interviewed for this research said that “gut feel” is a legitimate approach to making important decisions.

INTRODUCTION

The purpose of this paper is to discuss the preliminary findings of a uniquely different perspective to understanding entrepreneurial behavior. Whilst a significant amount has been written about entrepreneurial behavior, this paper proposes a new method of gaining an understanding of the entrepreneur. The basis of this understanding is how entrepreneurs make decisions. It is proposed that entrepreneurs respond to and assimilate information differently and this may contribute to how they make decisions. The reason this approach was taken in understanding entrepreneurial behavior is because particular cognitive styles are more appropriate than others for the conduct of entrepreneurial activities (Allinson and Hayes 1996)

Whilst there has been a significant focus of attention on entrepreneurial behavior, understanding how entrepreneurs make decisions has been less researched and therefore understood. Most scholars agree that what differentiates an entrepreneur from the rest is their behavior. Nevertheless attempting to differentiate the behavior of an entrepreneur from others has thusfar proved to be a fruitless exercise (Keh, Foo et al. 2002; Mitchell, Busenitz et al. 2002). Even though their has been a failure to uncover some homogenous traits, practitioners, scholars, venture capitalists and financiers consider the entrepreneur to be critical to the success of the firm.
Two factors influence the probability that particular people and not others are able to discover and exploit opportunities: the possession of the information necessary to identify an opportunity and the cognitive style necessary to exploit it (Shane and Venkataraman 2000). This paper focuses on the cognitive style which is defined as ‘consistent individual differences in preferred ways of organizing and processing information and experience’ (Messick, 1976, p. 5). To understand the cognitive process, we must understand the different ways of knowing.

TWO WAYS OF KNOWING

The two ways of knowing are commonly referred to as intuitive or analytical analysis. Intuitive analysis is automatic, non-verbal based on feeling, whereas a rational analysis is based on detail, logic and mental reasoning (Allinson and Hayes 1996; Myers 2002). Adopting a dichotomous approach to decision making is an oversimplification of the decision making strategies that entrepreneurs adopt. However, plotted on a continuum of intuitive to analytical (figure 1) this research proposes that entrepreneurs have an inclination to adopt an intuitive approach to decision making.

Nevertheless, there is sufficient evidence to suggest that individuals do not always process information consistently across all situations (Hayes and Allinson 1994). Allison, Chell & Hayes. (2000) in their findings suggested that there were particular situations where intuitive decision making was more likely to occur. This occurred in situations where the information was limited; there were time constraints, or a great deal of complexity.

Figure 1

![Entrepreneurial decision making range](image)

INTUITION A WORKING DEFINITION

So how can entrepreneurs make effective decisions when they are faced with time constraints, limited information or a complex situation? A likely explanation is that they make decisions intuitively. So what is intuition? Intuition is thought to be the link between the conscious and the subconscious mind. Our minds process vast amounts of information outside conscious awareness (Myers 2002). Whilst the subconscious mind is able to synthesize up to 50 million bits of information per second the conscious mind is only able to process about 50 bits of information over the same period (Nørretranders 1999). The Myers-Briggs Type Indicator (1990) defines intuition as the “meanings, relationships, and possibilities that go beyond the information from the five senses”. “Intuitive Types”- “look at the big picture and try to grasp the overall patterns. They grow expert at seeing new possibilities and they value imagination and inspiration”.

(Mitchell, Busenitz et al. 2002). For this reason an alternative approach of how entrepreneurs make decisions was chosen so as to determine whether this avenue of investigation can provide some clarity in differentiating entrepreneurs from non-entrepreneurs.
Bargh in (Myers 2002) p.29 adds that intuitive behavior reflects the personal history that has been stored in the subconscious. As entrepreneurs are constantly focused on opportunities this may explain why they can bring seemingly disparate bits of information together to initiate a new venture. Entrepreneurs therefore may be accessing information stored at the unconscious level because they are focused on sensing opportunities.

So as to provide an understanding of intuitive behavior some simple indicators of intuitive decision-making have been adopted. Firstly, the speed of decision making; entrepreneurs may make decisions quickly, most probably because of the time value of money, or because the competitive nature of the market place necessitates expeditious decisions. Some argue that intuitive behavior results from the need for a rapid decision, which may not allow for an analysis of the situation. Under these circumstances the decision maker may not be able to give an account of the process by which the decision was reached (Simon 1987).

Another element that has been considered essential is that the decision “felt right”. This goes to the explanation of intuition being a feeling or emotion (Hayes and Allinson 1994; Keh, Foo et al. 2002). Another term often referred to in this context is “gut feel”.

Entrepreneurs make decisions where there’s either too much or too little information (Allinson, Chell et al. 2000). In a complex environment where there are a large number of competitors it may be impossible to gain an appreciation of all the important factors necessary to fully ascertain the opportunities. Intuitive decisions may be the only approach if the entrepreneur lacks hard facts or because of the complexity of the situation. In a complex situation the only other alternative may be to do a thorough analysis which may result in paralysis.

Others argue that entrepreneurial leadership is the ability to sense an opportunity and then develop a clear vision with a laser focus (Senge 1996). Some argue that entrepreneurs are intuitive in their decision making because they are future focused and are therefore, more likely to be visionaries (Collins and Lazier 1992; Scharmer 2000; Stamp 2000). The ability to be able to extrapolate the current situation into the future is therefore an important entrepreneurial attribute.

Such an attribute will be associated with both physical, and neurophysiological brain reactions. A further element in understanding intuition and intentionality is the importance of emotion in memory-storage and response mechanisms. ‘Science’ attempts to explain the development of consciousness and, in particular emotion, in terms of a linear process of evolution and survival instincts—based on an allopathic approach to body responses to energy, chemicals and experience. Indeed, such a paradigm makes no allowance for a role of human intention interacting with and influencing these physical processes and properties.

Yet the literature is full of examples where human intention and intuition appears to result in the unexplained outcome. Gerber (2001) describes the current practice of medicine as based on the Newtonian model of reality where doctors conceptualize the body as a type of ‘grand machine’ which is controlled by the brain and peripheral nervous system: the ultimate biological computer. Gerber rather emphasizes a viewpoint of healing and intentionality that encompasses an evolving picture of matter as an expression of energy. He calls this field of healing, vibrational medicine based upon the Einsteinian paradigm. This paradigm sees human beings as networks of complex
energy fields that interface with physical/cellular systems. The recognition that all matter is energy, forms the foundation for understanding how humans can be considered dynamic energy systems. Einstein’s famous equation, $E = mc^2$, proves that energy and matter are dual expressions of the same, universal substance; or matter and energy are interconvertible and interconnected (Gerber, 2001).

The pioneering work of Professor William Tiller to mathematically model this multi-dimensional reality has been called by Gerber (2001) “The Tiller-Einstein Model of Positive-Negative Space-time”—the next physics paradigm, and capable of incorporating the effect of human intention and intuition on physical matter through the behaviour of etheric matter and emotional matter. At the emotional level, certain thoughts, either conscious or unconscious, may exist as distinct energy fields or thought forms, with unique shapes, colours, and characteristics. Some thoughts, especially those that are charged with emotional intensity, can have a separate identity apart from their creator. Some of those thoughts may actually be charged with subtle energetic substance and exist (unconsciously) as thought-forms in the energetic fields of their creators (Tiller, 1997). (These thought-forms can frequently be seen by clairvoyant individuals who are very sensitive to higher energetic phenomena). The fact that human consciousness can influence the energy fields of subtle energetic anatomy has important implications for medicine, psychology and entrepreneurship.

A practical example of the effectiveness of human consciousness is reflected in the comment of one the research participants whose response to the question, “why did you pursue this opportunity? “I believed it would work.” It was as though her desire and faith in its success caused it to be so.

Allinson and Chell (2000) in their work argued that entrepreneur’s decision-making strategies varied according to the point in the entrepreneurial process. They argued that an intuitive approach to decision making was much more likely to occur at critical points (such as in the early stages) in the entrepreneurial process, therefore it was important to select a group of entrepreneurs who had experienced turning points on a number of occasions so as to limit the possibility of providence. It was on this basis that serial entrepreneurs were chosen for this research.

**METHODOLOGY**

**Respondent Selection**

This paper is based on the data collected from 10 serial entrepreneurs. Serial entrepreneurs were chosen for this research because Simon (1987 p. 59) argues that intuitive decision makers such as entrepreneurs can spot patterns. They may not know how they know but somehow “it seems right”. So the ultimate purpose of this work is to find out whether there are some heuristics in the decision-making strategies of entrepreneurs.

In this research serial entrepreneurs are classified as those entrepreneurs that had two or more successful businesses - in one instance a respondent owned seventeen firms. For the purpose of this research if an entrepreneur had two geographically dispersed branches in the same business then that would be considered another business and the entrepreneur would meet the definition of
a serial entrepreneur. This approach was chosen as each branch of a firm usually has a different external environment. What makes one business successful in one location doesn’t guarantee its success in another location and it is therefore reasonable to assume that the entrepreneur has a number of businesses.

In order for entrepreneurs to participate their firms had to fit within the criteria laid down by the Australian Bureau of Statistics (A.B.S. 1998) as to what constitutes a Small to Medium Enterprise, (SME). For the purpose of maintaining some consistency in the selection of respondents for this research only owners of firms with less than 199 employees were chosen.

Entrepreneurs also needed to provide evidence that their latest venture was successful in their industry. Success was measured on the basis of increasing employment levels and sales revenue over the previous 2 years.

Some of the entrepreneurs that participated in this research are no longer active in their business dealings. This was not seen as an obstacle to their selection so long as respondents met the criteria required for selection.

DATA COLLECTION

Data collection in this research involves a 4-stage process. At the writing of this paper only the first two stages of the data collection had been achieved and this paper therefore is based on those findings.

Data was collected using a face-to-face interview, which served as a pilot study, and an instrument known as the Cognitive Style Index. The Cognitive Style Index is a self-report questionnaire, which consists of 38 questions whose aim is to provide an understanding of a respondent’s cognitive style. The paper is constructed so that a person who is analytical is most likely to achieve a high score with a maximum of 78. A low score would indicate that the respondent would be more intuitive - the lower the score the more intuitive the respondent.

Allinson and Hayes, (2000) proposed that one could discern whether a person was more inclined to rational or intuitive behavior based on their cognitive style and this was done through the examination of the following themes:

**Problem analysis** – the index measures the extent to which a respondent must analyze a problem before they’ll make a decision. This aims to test the speed of the decision made. Getting on with the business was important for most of the entrepreneurs rather than wallowing in detail. This reflects entrepreneurs willingness to make decisions and just get on with it. It was evident in the interviews as well that the respondents didn’t believe in studying each problem in detail. As one of the respondents commented “I haven’t got time to worry about the detail”, entrepreneurs by their very nature are doers and don’t want to waste time getting involved in the detail. Another said, “that’s why I employ accountants and lawyers.” This was also confirmed by a high score on the question of “too much analysis results in paralysis”.

**Risk taking** – the literature on entrepreneurial behavior suggests that entrepreneurs have a propensity to take risk and therefore the index measures the risk-taking propensity of the
entrepreneur. It is assumed that entrepreneurs are more inclined to make rapid decisions, which are seen as a risky approach to problem solving. Making “off the top of the head” decisions and decisions based on “gut feel” are also considered to be a risky approach to decision making.

**Work style** - Entrepreneurs prefer chaotic action to orderly inaction therefore the index also measures their preference for working in a logical or a chaotic fashion. The index also rates the types of individuals they prefer to work with, spontaneous individuals who dive in at the deep end or quiet thoughtful people. This serves as a surrogate measure of work style.

**Rule follower** – Those who prefer to dive in at the deep end are less inclined to be rule followers. This is not to suggest that they have less than adequate morals or ethics, it suggests that they are not inhibited by systems and processes and are willing to think outside the square.

**Spontaneity** – It has been demonstrated that entrepreneurs are spontaneous individuals who when confronted with an opportunity are more inclined to do something with it. It is argued that they prefer new experiences and taking on new challenges, they thrive in chaos and dynamic environments. They prefer to seize the moment rather than flounder around in analysis and detail.
FINDINGS

Cognitive Style Index: Figure 1

This section begins with a discussion on how the entrepreneurs answered the CSI questionnaires. Figure 1 is a graph of the responses to the CSI questionnaire. As can be seen the results range from 16 to 38 with an average score of 24. This indicates that these entrepreneurs are more likely to use intuition in their decision-making processes.

Interviews

Although this research is at an early stage some interesting conclusions maybe drawn from the data collected from the pilot study.

The initial interviews were semi-structured. The aim of the interview was to ascertain whether the respondents met all the required criteria to take part in this research. Secondly, the role of the interviews was to gain an understanding and appreciation of how they got to where they were today. And finally to discover how much analysis took place before they actively pursued their ventures.
During this phase the respondent’s level of education, history and family background was uncovered. A history of family businesses would lend credibility to the proposition that they were exposed to entrepreneurial behavior and may have subconsciously learnt from their families’ experiences. Interestingly none of the respondent’s families had been business owners.

The first most interesting finding is the amount of faith each entrepreneur had in their ability to succeed. Responses to why they chose to pursue a new venture were “It just felt right”, and “I knew that it would work”, or “It never occurred to me that I might fail” This certainly supports the importance of self-efficacy in entrepreneurial success (Shepherd and Krueger 2002). Neither education nor training seemed to have contributed to this level of confidence or faith.

The second important distinction was their reason for doing what they were doing. It can best be summed up as “making a difference”. Almost all of the entrepreneurs pursued opportunities with the intention of making a difference to a group or a community. For instance, when asked which business are you particularly proud of one interviewee said, “ACME inc. because I made a very significant difference to a lot of people”. Another’s reply to the same question was “after having spent some time in Vietnam I got caught up with helping people, I realized that there was nothing more important than helping people”. Another said, “my goal was to have all the systems and processes in place so I could spend three days a week giving back to my community and since I’ve achieved that I’ve been able to help so many people”.

Of the 10 participants, only two were professionals, neither of whom had chosen to pursue their chosen vocation. Their success was in fields totally unrelated to their training both respondents thought that their training was only helpful in the skills they acquired as learners. “My degree gave me the ability to analyze situations but it didn’t help when it came to marketing or dealing with my partners”.

The remainder of entrepreneurs had achieved various levels of education but none had any tertiary qualifications although the majority had some on the job training. All of the respondents except for two had businesses in distinctly different areas from their first venture. Some had gone into an industry by chance whilst others had pursued some other form of employment. It was interesting to note that the least academically qualified entrepreneur was the most successful with 17 companies.

The industries vary widely from manufacturing to services; only two entrepreneurs were in the same industry – a service industry.

The most successful of the entrepreneurs said “I wouldn’t be here today if I had’ve analyzed everything I’ve gotten into”. He went on to say that although he makes the “big” decisions he does employ a team of accountants and lawyers to do the detail work for him. He recently purchased a manufacturing business from a receiver that had lost a significant share of the market, and had some considerable union opposition, the combination of which caused the firm to go into receivership.

He said “my accountant did a financial analysis of this business and said it was a basket case”, but I had only two days to make up my mind, I looked at the industry, the market and the impact it was going to have on the community and decided to spend the $12 million I needed to acquire
the business. He supported his decision to buy the business on the basis of the contribution it was going to make to the regional community because of the unemployment the closure of the plant had on the region. This was a common theme for the entrepreneurs. Another decided to move to a country town where not only could he get support for his business but also make a significant contribution to the town.

Another entrepreneur had decided that there must be an opportunity to helping companies and attributed his success to the belief that, “if you put me in almost any situation I can find a way of doing things substantially better. I know that, because it keeps on happening”. He spent some time knocking on doors to offer his services, he said, “I did not know exactly where that was going to end, I just knew that if you did that sort of thing opportunities would surface… and that is exactly what happened.” He came across a firm that was inspecting integrated circuits. They were being visually checked and were failing to do so effectively so he came up with some new technology. That is how he turned the company from a consulting company to a company that was manufacturing systems. In the process of manufacturing this new technology he had to bring together a level of technical capability. He said “that was the most challenging aspect, because it wasn’t only about technical capability but also I had to have organizations that could fit in with my needs and philosophy and it was just “gut feel” that helped me to select the right companies”. He subsequently built a “virtual organization”. His only role was to assemble the various components and then ship them to his customers.

In another case the entrepreneur was dismissed from her last position and that inspired her to start a business to compete against her former employer. She said, “I had received a number of phone calls from past clients telling me that they were sorry to hear I’d left and that I should consider going into business on my own”. She continued, “it just seemed the right thing to do, so I did”. She was aware that there were 6 other competitors in her industry in her region but had not considered that the market may have been saturated. “I hadn’t given it any thought”. Six years later she expanded the business geographically.

One of the other entrepreneurs was also dismissed from his job and found it necessary to find new employment. He approached the former sales manager of the firm who left the same company and they decided to go into business together. Whilst they achieved a modicum of success they hit a crossroad when all the work in their industry was going offshore because of the cost of labor. They had two paths to take and without hesitating decided to choose a particular path. In hindsight they chose the best route resulting in a 300% increase in sales revenues in last 3 years.

Another said “I fly by the seat of my pants, but I’m fairly optimistic and quite impulsive”. But he also said “I surround myself with detail focused individuals because it’s ok for me to be impulsive because its my wallet, at the end of the day I make the decisions.”

DISCUSSION

The findings to date indicate that entrepreneurs do make decisions from gut feel. But as Allinson and Chell (2001) determined entrepreneurs have a knack for sensing opportunities. They don’t get lost in the detail and prefer to be strategically focused. Intuitive decisions are resorted too when the situation is complex, there is limited information and as one respondent indicated “it
often has to do with people or time constraints, so you’ve got to go with your gut”. Intuitive decisions are made quickly and are feeling focused. Interestingly all of the entrepreneurs will argue vehemently that they are not risk takers even though they make decisions with insufficient information which suggests that they consider their “gut feel” to be a very important and valid approach in making a decision.

Without exception they all believe that analyzing information is a time wasting exercise, as one respondent said, “what is more important is that you make a decision, of course you’ve got to be able to deal with the consequences of your action so you should always have a contingency plan”. As the investor in an existing venture pointed out, even if the business should fail I know I have enough assets to recoup my money and even make a small profit. This supports the general consensus that entrepreneurs are not risk takers but they support the view that they only make progress when they take calculated risks

FUTURE RESEARCH
Initially the process was to seek a longitudinal study unfortunately that has not received a favorable response because it required weekly contact between the researcher and the participants. Serial entrepreneurs by their very nature are very busy people pursuing their next opportunity. So the aim is to develop a research strategy to better understand what constitutes intuitive decision making and then adopt a data collection model that will provide the evidence needed to support or dispute the proposition that entrepreneurs are more intuitive.

Whilst it is interesting to know that entrepreneurs are intuitive it is far more interesting to understand to what degree they are intuitive. The obvious challenge for this research is how to gauge the level of an entrepreneur’s intuition. Using a cause and effect method of measurement does not provide a measure of intuitiveness. Aside from using a case study methodology another method needs to be considered so that we can incorporate and test some of the other issues that have arisen, issues such as faith and a desire to make a difference.

So as to better understand some of the issues it will be necessary to understand what transpires at the subconscious level. The challenge is the lack of knowledge about subconscious processing as the result is recognized only after the fact. An example of this can be seen in everyday life. One rises in the morning, has breakfast, drives to work and yet it is unlikely one will recall instigating the muscle movements that managed to achieve all the tasks in the interim that got one to work.

It appears the body is in automatic mode. For instance, whilst typing this paper one is not consciously moving each finger because if that was so the typing speed would be six words a minute instead of sixty words per minute. And yet when a mistake is made one immediately recognizes it even though the eyes are not looking at the keyboard or screen. Some might argue that this is learned knowledge that is stored at the subconscious level (Myers 2002) Another example, which is even more difficult to explain; the telephone rings whilst thinking of a friend. Lo and behold it is the same friend. How can this be? This is obviously not a learned response. The question that needs to be answered is which level entrepreneurs are operating at-learned knowledge or subtle energies.
Resorting to common methods of empirical analysis cannot contribute to the understanding and explanation of the above occurrence. The workings of the higher consciousness cannot be understood by resorting to the use of the lower consciousness (Tiller, Dibble et al. 2001).

In his work on human intentionality Tiller (2001) argues that human consciousness contributes to the creation and direction of the universe. This work may provide an opportunity to understand how entrepreneurial faith provides us with an understanding of how entrepreneurs sense an opportunity. Therefore learned knowledge may only make a small contribution to our understanding of opportunity sensing.

In aiming to understand what happens at the subconscious level then a unique approach to data collection needs to be considered. To access the subconscious it is planned to use a method known as Applied Kinesiology (AK). Practitioners of Applied Kinesiology argue that the subconscious mind is always aware of everything going on and around the person. They posit that a universal intelligence of a spiritual nature is running through the nervous system and that muscles reflect the flow of energy and that by measuring muscle resistance one can determine the state of the body. Using this system of evaluation enables access to the subconscious mind.

Applied Kinesiology was developed by an American chiropractor, George Goodheart in the early 1960’s. It combines western Chiropractic techniques with the eastern philosophy of energy flows and meridians as practiced by acupuncturists. The accuracy of this system of evaluation is based on the neurological and physiological arrangement of the human system. It is a method of using a body’s biofeedback through muscle testing that provides access to the information stored in the subconscious.

The subconscious mind stores all our life memories, stresses and emotional changes and also determines our muscle response. This ability to access the subconscious mind provides an AK practitioner with an opportunity to determine a person’s allergies, emotional states, nutritional requirements, but to name a few. In his ground breaking work on the hidden determinants of human behavior, (Hawkins 2002), a highly respected Psychiatrist, argues that muscle testing as practiced by Kinesiologists, can be used not only as a clinical tool to diagnose illnesses and allergies but it can also evaluate an individuals level of consciousness. Hawkins also argues that the link between the lower and higher levels of consciousness can be bridged using AK’s manual muscle testing method.

Although there has been some skepticism surrounding the validity of AK as a means of testing the information stored at the higher levels of consciousness. Matoyka and Yanuck (1999) have done some extensive research and have developed a process, which can provide access to information stored in the higher levels of consciousness. Nevertheless, this research is taking a triangulated approach and AK is but one of four methods of measurement that will establish the validity of intuition as a critical aspect of entrepreneurial decision-making.
REFERENCES


