Leadership PERSPECTIVES

How Emotions Influence Business Decisions

▶ Introduction

The business world has always been challenging, with the need to maintain market share, create new products, handle pricing pressure, anticipate market shifts, understand changes in the competition and cope with the challenge of increasing globalization. Navigating effectively within increasingly complex organizational structures and dealing with more and more external constituents adds further complexity. Within this environment, executives need to clearly discern the appropriate business issues to address and to think penetratingly about them. Just finding the time to focus and think can be difficult. Many other factors, including emotional responses, can detract from one's thinking often just at the time when incisive thinking is most required.

Many people assume that business decisions are made rationally in an objective environment. The reality is that emotions are not only present in decision making but they are influential in major and often unseen ways. Too often, thinking and emotion are considered as separate when in fact they significantly interact.

The impact of emotion on thinking can be obvious. It is common knowledge that one should not make major decisions, business or otherwise, after a strong emotional event, such as the death of a spouse or a job termination. However, the influence of emotions on thinking quality can sometimes be more subtle and therefore overlooked. Discouragement, anger at a colleague, group enthusiasm, and so forth, can influence the choice of issue, types of information collected, how the information is processed and how the final decision is made.

More common is the phenomenon of emotion influencing thinking. However, thought also influences emotion. How one thinks about something affects how one feels. For example, if an individual erroneously believes someone is taking advantage of him, that person will feel angry and suspicious and as a result act to discredit or discount the other person (even if the assumption is incorrect). In another situation, an executive was so taken with her alma mater that she thought any graduate of her college had to be an excellent candidate. She allowed this thinking to drive such positive feelings that she routinely overlooked deficiencies and made poor hiring decisions.

Emotions can have both positive and negative effects on thinking quality. High levels of anxiety, for example, can lead a group to collect shoddy information or to not think things through carefully enough, resulting in poor decision quality. On the other hand, a group that is in an emotionally upbeat and relaxed frame of mind can approach business decisions in a manner that allows for more comprehensive information gathering, consideration of a full range of alternative solutions, and ultimately a better decision.

Astute executives consider both the obvious as well as some of the more subtle effects of emotions. They can then better manage cognitive processes in themselves and others.

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Emotional Influences On A Variety Of Business Decisions

The reality is that emotions are not only present in decision making but they are influential in major and often unseen ways.

In order to appreciate the many ways emotions influence business decisions it may be helpful to examine some common situations facing executives. Following is a series of typical types of decisions executives are faced with everyday and how emotions can have a positive or negative effect.

Product, Pricing and Sales Decisions

A product launch is one area where executives gather large quantities of data that they must sift through. This is also a time when strong emotions may be generated.

For example, a company spent a number of years designing a new product. The issues had been thoroughly studied and enthusiasm for the product launch was high. Everyone was confident about its success. Yet it quickly became apparent that the product was a failure. The CEO organized a debriefing team to ascertain what went wrong. The CEO especially wanted to determine how to fix the current situation as well as prevent similar problems in the future. It turned out that the CEO and the leader of the product team didn't pay enough attention to how feelings associated with interpersonal dynamics influenced the outcome. The marketing and manufacturing executives had a long history of disdain for each other. Marketing had brought in information that manufacturing had dismissed; manufacturing had raised production concerns that marketing ignored. This prevented the executives and their groups from focusing on key elements during product design and launch.

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Had each group not reacted emotionally with disparagement but given appropriate weight to the other group's perspective the product would have had a greater likelihood of success. Ultimately, everyone learned how critical it is to not allow feelings to interfere with the full consideration of multiple points of view.

It is also easy for executives to gravitate towards what makes them feel good. For example, a sales executive was facing significant pricing pressure from competitors. He decided to not sell on the basis of value because this was more difficult and raised fear of failure during the sale. He beat the competitor's price and as a result generated increased sales. He avoided his fears and even felt clever for having won the battle. Such positive feelings prevented him from looking deeper and seeing the eroding margins that his approach had created.

In another organization sales were flat. When the sales executive examined the situation she discovered that the sales reps were engaging in calls which were pleasant but had small likelihood of a sale. Her task was to get the sales reps to engage in less comfortable sales calls but ones with higher probability of success. She instituted an activity tracking system which revealed the high number of low probability of success sales calls. The sales force recognized how their feelings were keeping them stuck in comfortable but unproductive behaviors. The reps implemented new behaviors, even while feeling uncomfortable. As these new behaviors began to generate sales, the sales reps learned that sometimes discomfort can pay off.

Decisions Involving External Constituents

The reading of emotions in others is a vital part of creating and maintaining relationships with external constituents. When one is interacting with government regulators, analysts, industry associations, suppliers, and competitors, reading emotions in others can offer the executive a significant advantage in negotiating business issues.

When an executive is negotiating terms and conditions with suppliers, for example, this advantage can be realized by noting when and around what issues the supplier demonstrates greater interest, satisfaction, anxiety, hesitation or anger. Sometimes what is said about the importance of a term or condition is at odds with the emotion being manifested. Such discrepancies are a clue that further exploration may reveal information which is advantageous to the executive.

Similarly, understanding the pressures being felt by government regulators can diminish some of the animosity inherent in the relationship. Just as business executives are under pressure to accomplish certain objectives so are government regulators. While some of the objectives of the regulator and the executive may be at odds they still need to find areas open to negotiation. By discerning the emotions of the government regulator the executive can more quickly know what areas are open to negotiations.

In some situations a constituent elicits an emotional reaction in the executive. Analysts, for example, may be hammering away on a certain issue and in the process evoke anger and other strong emotions in the executive team. Sometimes this is even done intentionally to see if the executive will reveal other information because they are anxious. It is in these types of situations that the executive has to rise above his or her own anger and carefully handle the analyst.

► *Staffing Decisions*

The choice of an executive team is one of the most important decisions an executive can make. Success or failure is heavily dependent on these choices. Emotions in both the decision maker and in the staff candidates can play a major role in these decisions. For example, during the interview, an executive quickly began to like the candidate and then interpreted everything from an overly positive perspective. Such positive feelings led the executive to be less questioning and more willing to overlook hints of a shortcoming. This resulted in the executive neglecting critical job requirements that the candidate didn't meet in order to hire "such a great person".

During an interview, the candidate may be skilled at reading the executive's needs and feeling and tell the executive what he or she wants to hear. This feels good, but the candidate is manipulating the interview and the executive. Executives should stop and check themselves anytime they quickly feel so positively about a candidate.

Another situation involves needing to hire someone who possesses attributes necessary for the position but these very characteristics are distasteful to the decision maker. The president of a company was in an industry coming under increasing government scrutiny and regulation. This president chafed under the thought of increased regulation. He reluctantly recognized the need to have someone on staff to handle government affairs. He had distaste for the attributes necessary to be successful in Washington but overcame these strong emotions and hired someone with the necessary skills.

The decision to terminate an executive is always difficult. Questions arise about how much of the shortcomings were the result of inadequate resources or a lack of support by the decision maker versus lack of skill or lack of impact by the executive. These questions require careful judgment and wisdom. Compounding this already difficult decision are the emotions being experienced by the decision maker. Self doubt about having failed to provide appropriate support is common. The decision maker may also worry about the impact of the termination on the executive and his or her family. Anger at the executive for having "failed" is also common. The decision to terminate can be as much designed to satisfy the emotional needs of the decision maker as it is to improve organizational functioning.

The feelings of the rest of the organization are another emotional component of a termination decision. The struggling executive's performance typically elicits disappointment and anger in the rest of the organization. Sometimes this anger reaches a fever pitch and the decision maker can be caught up in an emotional frenzy. Thus, an appropriate and wise termination can occur only when the work failure of the executive is objectively analyzed. The decision maker also has to ensure that the many emotions he and the entire organization feel are not inappropriately influencing the termination decision.

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► *Decisions Involving Transactions*

The planning stage of a merger or acquisition is the time for due diligence, an assessment that is perceived as being a straightforward data driven exercise. Yet this stage can elicit powerful emotions. On the positive side, there tends to be high enthusiasm regarding the possibilities and excitement about the potential outcomes. Creativity may be unleashed as executives consider new perspectives. Such high emotion needs to be checked so that thinking can stay realistic and balanced. As time goes by, the protracted discussions and negotiations may wear down this enthusiasm. Hard feelings may develop concerning the other party and minor things may be over interpreted. Again, the executive needs to check to keep an emotional balance and not get dragged down by these common negative feelings or become overly enthused on the front end.

Often there is an emotional let down once the agreement is done. For example, an executive discovered he needed to work to maintain the original enthusiasm. He realized that decisions were being made too quickly and the easiest path was being taken because everyone was emotionally spent. The executive helped people concentrate on the last minute, but critical, details. He pointed out what was being achieved and recognized the successes along the way.

Once the merger or acquisition moves to implementation different emotions come into play. This is true for executives on both sides of the transaction. The stresses that come with handling the challenges of bringing the two different companies together as well as the need to demonstrate quick performance create anxiety in the executives on the acquiring side. This anxiety can encourage these executives to be rushed and insensitive during the post acquisition period. Out of fears associated with the unknown and fear of losing one's job, executives on the acquired side may make decisions that are overly cautious and thus fail to capitalize on the opportunities attendant with the transaction.

Likewise, the decision to sell a division or business unit is a complex and multifaceted one. Often overlooked is the role that emotions may play. For example, a company was considering the sale of a business unit which was increasingly at odds with the strategic direction of the company. The CEO was the individual who successfully started and grew the business unit in the first place. Undoubtedly, lots of emotion went into making that business unit a success. How might all the emotion the CEO put into the growth of the business play out in the divestiture decision? Would the CEO experience the sale as a repudiation of him or a denigration of his business acumen? Fortunately, the CEO reflected on his strong emotions around this decision. He was able to put his emotions aside and view the divestiture decision in a rational way. Ultimately he drove the decision to divest that particular business unit.

Conversely, another situation involved a CEO who was quite angry at the business unit executives for failing to successfully run that business. His anger got the best of him. He allowed his emotions to override his judgment and this resulted in a premature and unwise sale of the business unit. Had this CEO managed his emotions better this unwise decision might have been avoided.

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► *Other Decision Challenges*

Most executives know how to use caution when making important decisions if they are feeling anxious or angry. But emotion can have a more subtle effect. Sometimes an executive faces a decision that elicits old, familiar feelings. This emotional memory may be from a situation that wasn't successful and keeps resurfacing or it may be that the current situation brings memories of similar experiences that turned out negatively.

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Executives may also find that people come to them with constant complaints. This complaining may come from their staff, but it also may come from peers and others in the organization. It is discouraging when one works hard to get things done and all one hears are complaints. Executives can feel run-down and unappreciated. This can easily lead to discouragement and emotionally based decisions.

Sometimes an executive makes decisions that are adventuresome or even radical. This may be appropriate given the current business circumstances. However, an emotional self-check should be done to see if these more radical decisions are helpful for the situation or if the executive is trying to meet a personal emotional need to be different, contrarian or rebellious. Such motive checks can prevent executives from indulging themselves emotionally and making a bad decision.

Often an executive will do things for others that are unappreciated. It may be that somebody deserved to be terminated yet the executive went to bat for the individual and engineered a demotion rather than a termination. When presented with the demotion the individual showed little if any appreciation for what the executive had done. In such situations the lack of appreciation can lead to anger and aggression towards the individual who failed to appreciate what was done for them. These feelings then can distort judgments about the individual's performance in his or her new role.

Struggles that occur at home tend to stay on an executive's mind while at work. Situations that cause worry about a significant other, children, family and friends can have a powerful influence on thinking quality at work. When worried about such situations it is more likely executives will not listen well, with their minds drifting to the problems at home rather than paying attention to work issues. When such off-the-job difficulties occur it can be difficult for the executive to see the work issues as important. Careless decisions may result.

Being highly competitive is a positive attribute when this trait is focused on beating business competitors. Sometimes needs for competition have more to do with comparisons of an executive's status or success with peers, siblings or friends. In such situations the executive may make decisions that are short-term

beneficial to the corporation but driven by a need to be more successful than others. Such competitive needs drive anxiety and short-term thinking. When this happens, decisions can have more to do with emotional indulgence than with what is best for the long-term benefit of the corporation.

Physical problems can have significant effects on work behavior. How one feels about their physical problem can have more of an effect than the physical problem itself. Some executives rise to the challenge and avoid feeling sorry for themselves. Others develop a need to overcompensate. One CEO who suffered a heart attack came back to work and significantly altered his leadership style. He was so fearful that others would see him as weak that he became tyrannical in how he approached work. This approach caused him to miss critical input from others and to become excessively solitary in his decision making processes. Ultimately this had a significant negative effect on the quality of his decision making. Greater awareness of his emotional reaction would have made it easier for him to function with the same kind of reasonable and collaborative approach he had used prior to his heart attack.

Rather than being at the whim of their emotions or captive to the feelings of others, executives can recognize the influence of emotions and consciously take steps to ensure that the impact is positive.

▶ Conclusions

Many things conspire to prevent the quality of thought required in today's complex business environment. Too often executives ignore or deny that emotions influence decision making. Rather than being at the whim of their emotions or captive to the feelings of others, executives can recognize the influence of emotions and consciously take steps to ensure that impact is positive. By so doing executives can ensure that the business decisions being made are of the highest cognitive quality.

What specific steps might an executive take in order to more effectively manage the impact of emotion on decisions? First executives need to become aware of

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such influences and not ignore it or hope that it will go away. The executive then needs to put effort into reading emotion in others. This requires that the executive pay attention to what is going on with the other individual and take note of manifestations of emotion. In addition, executives need to read the emotions in group settings. It is good practice to periodically stop and discern the feeling tone in the room and how might this be affecting the decision process.

Another technique that can be helpful in reading emotions is for executives to reflect on their own feelings. It is good practice for an executive to periodically consider how he or she is feeling during a meeting. If the executive is feeling bored or anxious or rushed then the group is more than likely feeling the same. Reflection on one's own emotions can be an informative clue in understanding the emotions of others.

By intentionally setting aside one's emotional reaction to a particular situation, one can better focus on the issue at hand. This segmentation can help separate work from home, and it can also keep the emotions of one work problem from bleeding into another. So, for example, after leaving a contentious meeting, the executive can use the walk back to her office to transition from the emotional turmoil of the meeting and refocus on the next item requiring her thinking. Learning to take such a conscious and deliberate mental break can be beneficial in a number of situations. This segmentation can be taught to subordinates, as well.

Lastly, having a consulting psychologist available can be valuable in understanding the emotions that occur in organizational life. Through such consultation the executive can sharpen skills at reading and managing emotions both in themselves and others.

The recognition and management of the interplay between emotions and decision quality is a tool which every executive needs to have and one which can lift ordinary executive performance to outstanding.

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