Affect and strategic

KEVIN DANIELS *explores how negative emotions could alter the way managers make major decisions about their organisations.*

THE aim of this article is to show how the psychology of affect — specifically anxiety and depression — can help us understand strategic decision making in organisations. This is an important phenomenon, as strategic management involves developing the long-term direction and objectives of the entire organisation (Johnson & Scholes, 1993; Hickson *et al*., 1986).

Strategic decisions concern the fundamental nature of the organisation itself, for example: decisions about the activities the organisation should engage in; acquiring and divesting resources, including human resources and business units; and the nature and pace of organisational change (Asch & Bowman, 1989).

There is a growing interest in affect in organisation and management theory generally, yet it remains under-researched in the arena of strategic management processes (Walsh, 1995). This arena has been dominated by economic theory (cf. Porter, 1980).

However, a growing literature on the role of cognition in strategic management (Walsh, 1995) recognises the influence of both individual cognitive processes and social processes on strategic decisions (Daniels *et al*., 1994). Since affect influences both cognitive (Mathews, 1993) and social processes (Parkinson, 1995), it could influence many elements of such decisions.

Strategic decisions

Looking first at cognitive processes, it is clear that strategic decision making is neither rational nor linear. Nevertheless, research does indicate that each strategic decision passes through three stages at least once (Mintzberg *et al*., 1976). These are: recognising that a decision needs to be taken; searching for information to determine key factors and possible options; and making a choice. These stages can be repeated many times before a final decision is made (Pettigrew, 1990).

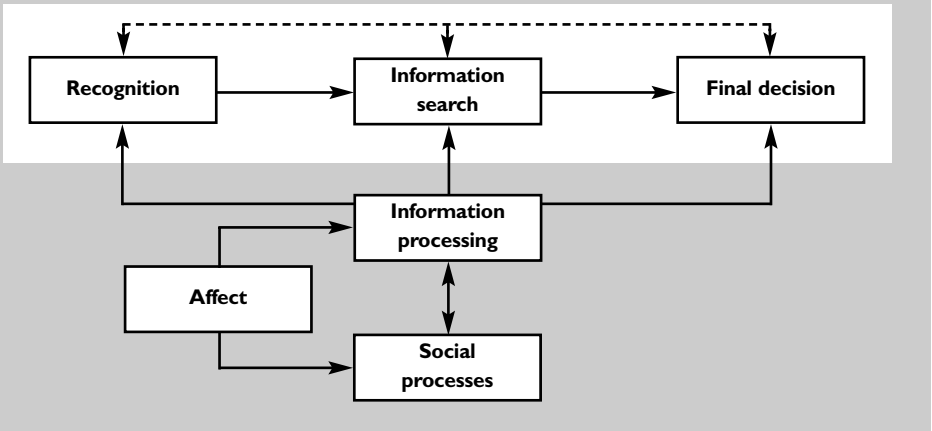
The cognitive tasks of managers in these three stages involve attending to the organisational and economic environment. Managers need to locate key issues that may influence the organisation or the likely success of different options. As well as attention, strategic analysis often requires managers to develop mental models from experience that help them to infer patterns in data that are rarely complete and often ambiguous (Daniels & Henry, 1997).

Each stage also involves social activity. Research from public and private sector organisations indicates that many stakeholders influence the outcome of strategic decisions. As well as top management teams, these can include middle managers, employees, trades unions, customers, suppliers and local communities (Hickson *et al*., 1986). Debate, negotiation and informal discussion are all involved in recognising strategic issues, deciding the importance of information and taking the final decision (Eden, 1992).

Both cognitive and social aspects, then, may influence all stages of the strategic decision process. Figure 1 sets these out. The top of the figure shows the three stages of strategic decisions, identified by Minztberg *et al*. (1976): recognition, information search and choice. The feedback loops here illustrate the iterative nature of strategic decision making (Pettigrew, 1990).

Figure 1 indicates that individual information processing directly influences each stage of strategic decision making, and that there are social influences on such processing (Daniels *et al*., 1994). Social processes influence strategic decision making via individual cognitive processes, as it is individuals who ultimately consent to or comply with strategic decisions (cf. Weick & Roberts, 1993). The figure shows affect directly influencing both cognitive and social processes.

FIGURE 1 Affect and strategic decisions



Cognition and affect

The foregoing discussion implies that affect could impact on managers' information processing by two main routes: influencing either attention, or the recall processes involved in constructing mental models.

decision making

Laboratory evidence supports the existence of both these paths (Mathews, 1993).

Much of this research has examined the effect of anxiety and depression on attention and recall (see e.g. Williams *et al*., 1996, for a review). These studies have generally used the following experimental procedures: mood induction (e.g. asking people to think of a sad experience); measuring naturally occurring moods; and comparing clinical with non-clinical samples.

Generally, the research indicates that anxiety acts directly on the way attention is allocated, leading highly anxious individuals to attend more to the threatening aspects of a given situation. So, anxiety can increase the chances of perceiving negative information. Depression has been found to lead to recall of more negative information.

Organisational research, too, has looked at the relationships between affect and information processing. The majority of these studies have examined how the perceived stressfulness of the immediate organisational environment is related to negative affectivity. 'Negative affectivity' is a pervasive tendency to feel anxious and depressed regardless of the situation (Watson & Clark, 1984).

Researchers have found suggestive evidence that negative affectivity makes people more likely to see their working environments as stressful (e.g. Brief *et al*., 1988). In a prospective study, Spector and O'Connell (1994) discovered that those who were depressed and anxious as undergraduates were more likely to report greater role ambiguity, role conflict, job constraints and interpersonal conflict at work after graduation.

Other organisational studies have examined relationships between situational ('state') rather than dispositional ('trait') negative affect and appraisals of the work environment. These studies, too, have found that those experiencing negative emotions are more likely later to report that negative aspects of their work have increased.

Wolpin *et al*. (1991) found that lower job satisfaction leads to subsequent reports of more stressful work experiences. Daniels and Guppy (1997) found that people with negative emotional symptoms were, subsequently, more likely to report that the stress of heavy workloads had slightly increased and to have shifted to a more external locus of control (feeling that their fate is controlled by external circumstances rather than by themselves).

But there are indications that when psychological symptoms are reduced, evaluations of the work environment become more positive (Firth-Cozens & Hardy, 1992).

Together, these laboratory and field studies indicate that affect (both state and trait) can have a significant effect on cognition in organisational contexts. Specifically, they show that anxiety and depression bias information processing towards negative aspects of the self and of the environment.

However, none of these studies investigated the strategic environment specifically. In an exploratory cross-sectional study, I have sought to generalise these findings by examining how negative affectivity relates to perceptions of the strategic environment (Daniels, 1998). I reasoned that managers would consider information about organisational performance, industry growth or decline, industry complexity and industry competitiveness as important in arriving at strategic decisions.

By using trait measures of affect, I was able to reduce confounding due to any influence of the strategic environment on affect. In a small heterogeneous sample of managers (n=59), I found significant correlations between negative affectivity and perceptions of poor organisational

performance and greater industry complexity.

These results were replicated in a larger heterogeneous sample of managers (n=272), after controlling for other variables. Also, in the larger sample, negative affectivity was significantly related to perceived industry decline and perceived industry competitiveness. Generally, these results indicate that affect does influence how managers process information about the strategic environment.

Managers with high negative affectivity, then, are biased towards perceiving negative aspects such as poor performance, greater environmental complexity, industry decline and increased competition. Therefore, such managers may consider strategies reflecting pessimistic interpretations of the strategic environment to be more appropriate. For example, pessimistic interpretations of economic trends could lead to preferences for strategies of rationalisation.

Conversely, managers with low negative affectivity are biased towards perceiving the positive aspects of their strategic environment. They may consider strategies that reflect optimistic interpretations of organisational and industry activity to be more appropriate — for example, strategies of growth or product development.

Social processes and affect

Given that affect influences social as well as cognitive processes (Parkinson, 1995), and that there can be consistency of affect within groups (George, 1990), then others' affect may influence an individual manager's information processing, hence the strategic options she or he may choose. In particular, the process of emotion contagion may be relevant. In emotion contagion, one person's affective state may induce that state in another by unconscious signals (Hatfield *et al.*, 1992).

Laboratory studies indicate that displays of negative affect induce negative affect in others (e.g. Gurtman *et al*., 1990). Such studies are taken as evidence of 'primitive emotional contagion', in which one person's affective state influences another's, regardless of the situation.

Recently, Gump and Kulik (1997) have found preliminary evidence that people are more susceptible to emotional contagion under such conditions of threat. From an evolutionary perspective, Gump and Kulik argued that under such conditions, it is adaptive to be sensitive to others' affect, since this gives us valuable social information about the degree of threat. If others are anxious, then it is likely that the threat is real and we should be anxious too.

Gump and Kulik's interpretation of emotional contagion is particularly relevant to strategic management: because of ambiguities in strategic analyses, managers can rarely be sure whether a piece of information indicates a threat or an opportunity (cf. Jackson & Dutton, 1988). Therefore, extrapolating from Gump and Kulik's work, we might expect that emotional contagion is particularly strong during interactions and debates surrounding strategic decisions.

A common affective state spread by emotional contagion may lead to information processing being biased collectively towards or away from negative information. This could occur during management meetings and other more informal exchanges about strategic issues, in a manner similar to that described for individual cognition (cf. Daniels, 1998). A common affective state may lead to overlap amongst individual managers in the information attended to, the information recalled and the interpretation of ambiguous information.

For example, a common state of negative affect may lead a management team collectively: to attend closely to a new, but small, entrant into the industry; to recall that in the past their own company was slow to respond to competitive moves of other new entrants; or to interpret the market positioning of the entrant as a direct competitive threat to their market position. Therefore, emotional contagion in itself may lead directly to collective agreement on the most appropriate strategic option (cf. Langfield-Smith, 1992).

Even if cognitive overlap does not occur, a common affective state may enable managers to understand more easily the reasoning of other managers, as they are working within the same affective–cognitive context. In turn, greater understanding of others' views within a management team may

lead to agreement on the most suitable strategic option (Daniels *et al*., 1994).

So, if negative affect has spread through a management team by emotion contagion, the final decision may be taken from a collective focus on negative issues. The converse may be true for teams with low negative affect.

Implications for research

This article shows how the psychology of affect can be applied to the important area of strategic management. Nevertheless, there is little empirical work focusing directly on affect and the cognitive and social aspects of strategic decision processes. Various questions need to be addressed, and various methodological approaches may be suitable to answer them.

This article has discussed evidence indicating that negative affect influences perceptions of the strategic environment, both individually and collectively. As anxiety influences attention processes, while depression influences recall processes, the disjunction between these specific negative affects may suggest that they are involved in different aspects of the strategic management process.

For instance, anxiety may have a greater influence on perception during scanning of the strategic environment and strategic analysis. Depression may have a greater impact during the recall processes used in the debate surrounding the final decision.

It is also possible that other affects can influence the cognitive processes of managers engaged in strategic tasks. Oatley and Johnson-Laird (1987) have discussed the possible cognitive influences of a number of affects besides anxiety and depression. For instance, they consider anger to be a typical response to plans that are frustrated. They suggest that anger then influences people to try harder with current plans or to respond to the source of frustration.

Speculatively, then, anger may influence managers' decisions to continue with current strategies with more resources, or to reposition strategies against perceived sources of frustration (such as competitors).

Positive affect may have a significant impact too. Empirical studies suggest that emotions such as enthusiasm may be associated with optimistic evaluations of the environment (Munz *et al*., 1996), greater creativity (Estrada *et al*., 1994), and more purposive behaviours during decision making (Nygren *et al*., 1996). So, positive affect may lead managers to initiate radical and speedy strategic change, whether appropriate or not.

There are a number of methodological possibilities for taking forward the study of affect in strategic management. Experimental studies may be able to eliminate many other potential causes, but their limited external validity may proscribe their application in this context. Instead, field studies may provide a more suitable approach.

Cross-sectional surveys may be useful for examining correlations between affect and the ways managers view the strategic environment. Because of the possibility of reciprocal causation, however, such studies are best suited to measuring trait rather than state affect (cf. Daniels, 1998).

Longitudinal surveys, in contrast, could use both state and trait measures, and may better demonstrate causal relationships between affect and perceptions of the strategic environment.

Strategic decisions are infrequent events that take many months, or even years, to complete (Hickson *et al*., 1986). Therefore, real time qualitative observation methods may provide the best approach to examining how affect may influence the whole strategic decision-making process. Such studies would primarily be ethnographic, and could examine the discussion and debate surrounding strategic decisions, supplemented by measures of affect and cognition. Indeed, many studies of strategic management processes are characterised by such an in-depth approach (Pettigrew, 1985).

While generalisability would be compromised, such methods may enable conceptual developments that integrate affect into the cognitive and social elements of strategic decision making, beyond those derived from existing psychological knowledge.

Conclusion

Occupational psychologists traditionally have operationalised affect as stress and job satisfaction (Briner, 1997). But affect influences — and is influenced by — many elements of the ongoing processes of organisational life, outside of those researched in relation to stress and satisfaction.

Theoretical and empirical developments in the area of affect and strategic management may help to paint a more realistic picture of decision processes that have long-term consequences within and beyond organisations. To achieve these developments, occupational psychologists need to examine the cognitive and the social aspects of affect, and to use methods that are capable of capturing the processes of strategic choice.

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