



## FEATURES

### How to Think With Your Gut

How the geniuses behind the Osbournes, the Mini, Federal Express, and Starbucks followed their instincts and reached success.

By [Thomas A. Stewart](#), [November 2002 Issue](#)



"One day I was home with strep throat, and I saw a rerun of MTV's *Cribs* that featured the Osbournes' house. They were such a dynamic family. I thought, "They would make great TV." So I set up a dinner with Sharon Osbourne, the kids, and two MTV executives. We just wanted to watch them interact. Sharon was saying things like 'Remember when Dad was in rehab?' and Kelly and Jack were just so colorful and sarcastic. All of it hit in the gut so strongly. We never tested the show. We just knew it would make great TV." -- Rod Aissa, vice president for talent development and casting at MTV and for MTV's *The Osbournes*

Fred Smith brushed aside the C he received on the college economics paper in which he outlined his idea for an overnight delivery service. His gut told him it would work anyway. (Besides, the [Federal Express \(FDX\)](#) CEO later explained, "a C was a very good grade for me.") Howard Schultz had his eureka moment in Milan, Italy, when he realized that the leisurely caffeine-and-conversation *caffè* model would work in the United States too. Market research might have warned him that Americans would never pay \$3 for a cup of coffee. But Schultz didn't need research. He just *knew* he could turn [Starbucks \(SBUX\)](#) into a bigger business, and he began, literally, shaking with excitement.

#### [How has intuitive decision making helped your business?](#)

Businesspeople retell these parables to refresh their faith in sturdy virtues like risk-taking and creativity. But to researchers who study how managers think, the tales carry an obvious moral: The most brilliant decisions tend to come from the gut. While that observation is not new, it is now backed by a growing body of research from economics, neurology, cognitive psychology, and other fields. What the science suggests is that intuition -- or instinct, or hunch, or "learning without awareness," or whatever you want to call it -- is a real form of knowledge. It may be nonrational, ineffable, and not always easy to get in touch with, but it can process more information on a more sophisticated level than most of us ever dreamed. Psychologists now say that far from being the opposite of effective decision-making, intuition is inseparable from it. Without it we couldn't decide anything at all. [Read the full story >>](#)

#### Getting in Touch With Your Gut

**It's simple, really: Just get out of your own way.**

Psychologists have a term to describe people who are in unusually close contact with their gut feelings -- "high intuitives." While you can't teach such skills the way you teach multiplication tables, everyone can hone their instincts to some degree. Here are a few guidelines:

**Practice, practice.** This is the most important thing. "Gut instinct is basically a form of pattern recognition," says Howard Gardner, a Harvard professor and psychologist. The more you practice, the more patterns you intuitively recognize. List decisions you've made that turned out right -- and mistakes, too. Then reconstruct the thinking. Where did intuition come in? Was it right or wrong? Are there patterns? Highly intuitive people often let themselves be talked out of good ideas. "Generally you're better with either people or things," says Manhattan psychologist and executive coach [Dee Soder](#). If you're intuitively gifted about people, write down your first impressions of new colleagues, customers, and so on -- you want to hold on to those gut reactions.

**Learn to listen.** People come up with all sorts of reasons for ignoring what their gut is trying to tell them. Flavia Cymbalista has developed a decision-making approach adapted from a psychological technique known as "focusing." She calls it [MarketFocusing](#), and she uses it to teach businesspeople to find the "felt sense" that tells them they know something they can't articulate. "You have to express your willingness to listen to what the felt sense has to say, without an agenda of your own," she says.

**Tell stories.** Fictionalize a problem as a business school case or as happening to someone else. That can free up your imagination. Dave Snowden, director of [IBM's \(IBM\) Cynefin Centre](#) for Organisational Complexity in Wales, has been working with antiterrorism experts and finds that they think more creatively if he poses problems set in a different time -- the Civil War, for example. Another kind of storytelling is what cognitive psychologist Gary Klein calls a "pre-mortem": Imagine that your project has failed and gather the team to assess what went wrong.

**Breed gut thinkers.** Dismantle the obstacles that prevent people from using their guts. High turnover rates, for example, are inimical to developing the deep expertise that hones intuition. Since gut feelings are inherently hard to express, don't let people jump on a dissenter who hesitantly says, "I'm not sure ... " Instead, say "Tell us more." Some leaders go around the table twice at meetings to give people a chance to put hunches into words. To sharpen your intuitive thinking, you have to get out of your own way; to foster it among those around you, you have to get out of their way too.

The practical implications of all this are profound. People who make decisions for a living are coming to realize that in complex or chaotic situations -- a battlefield, a trading floor, or today's brutally competitive business environment -- intuition usually beats rational analysis. And as science looks closer, it is coming to see that intuition is not a gift but a skill. And, like any skill, it's something you can learn.

To make sense of this, you first have to get over the fact that it contradicts everything you've been taught about making decisions. [B-school](#) encourages students to frame problems, formulate alternatives, collect data, and then evaluate the options. Almost every organization that trains decision-makers has followed the same approach. Paul Van Riper, a retired [Marine Corps](#) lieutenant general, was taught that way, and he drilled this method into his students when he ran the Marines' leadership and combat development program in the '90s.

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But Van Riper noticed that in the swirl and confusion of war simulations -- let alone actual combat -- rational decisions always seemed to come up short. "We used the classical checklist system," he says. "But it never seemed to work. Then we'd criticize ourselves for not using the system well enough. But it still never seemed to work, because it's the wrong system." Frustrated, Van Riper sought out cognitive psychologist [Gary Klein](#). At the time, Klein was studying firefighters, who operate under conditions quite like war. To his consternation, Klein learned that firefighters don't weigh alternatives: They simply grab the first idea that seems good enough, then the next, and the next after that. To them it doesn't even feel like "deciding."

Inspired by Klein, Van Riper brought a group of Marines to the New York Mercantile Exchange in 1995, because the jostling, confusing pits reminded him of war rooms during combat. First the Marines tried their hand at trading on simulators, and to no one's surprise, the professionals on the floor wiped them out. A month or so later, the traders went to the Corps's base in Quantico, Va., where they played war games against the Marines on a mock battlefield. The traders trounced them again -- and this time everyone was surprised.

When the Marines analyzed the humbling results, they concluded that the traders were simply better gut thinkers. Thoroughly practiced at quickly evaluating [risks](#), they were far more willing to act decisively on the kind of imperfect and contradictory information that is all you ever get in war. The lesson wasn't lost on the Marines, who concluded that the old rational analysis model was useless in some situations. Today the Corps's official doctrine reads, "The intuitive approach is more appropriate for the vast majority of ... decisions made in the fluid, rapidly changing conditions of war when time and uncertainty are critical factors, and creativity is a desirable trait." Conditions, in other words, not unlike those in which many business decisions are made today.

The notion that people always act rationally and in their own interest is a pillar of economic theory. So

it's interesting that a group of economists, led by the University of Chicago's Richard Thaler, should contribute some of the most damning evidence of people's proclivity for irrational decisions. Building on work by Princeton psychologists Daniel Kahneman and Amos Tversky, these so-called [behavioral economists](#) have shown not only that many of our economic decisions are irrational, but also that our waywardness is predictable. We get more satisfaction from avoiding a \$100 loss than from making a \$100 gain, for example, and we compulsively find patterns where none exist. (*This stock has gone up for three days; therefore it will continue to go up.*) Go ahead, point it out to us. It doesn't matter; we'll make the same mistakes over and over again.

Thaler and others speculate that these logical lacunae are the product of a brain wired for survival on the savanna, not for hyperrational calculation. Machines do deductive and inductive calculations well. People excel at "abduction," which is less like reason than inspired guesswork. (Deduction: *All taxis are yellow; this is a taxi; therefore it is yellow.* Induction: *These are all taxis; these are all yellow; therefore, all taxis are probably yellow.* Abduction: *All taxis are yellow; this vehicle is yellow; therefore this is probably a taxi.*) Abduction leaps to conclusions by connecting a known pattern (taxis are yellow) to a specific situation (this yellow vehicle must be a taxi). Compared with computers, people are lousy number crunchers but superb pattern makers -- even without being aware of it. Indeed, much of what we call instinct, psychologists say, is simply pattern recognition taking place at a subconscious level.

Some tantalizing evidence in this regard comes from experiments by Antonio Damasio, head of neurology at the University of Iowa Carver College of Medicine. In one [experiment](#), Damasio gave subjects four decks of cards. They were asked to flip the cards, picking from any deck. Two decks were rigged to produce an overall loss (in play money), and two to produce a gain. At intervals, the participants were asked what they thought was going on in the game. And they were hooked up to sensors to measure skin conductance responses, or SCRs (which are also measured by lie-detector machines).

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By the time they'd turned about 10 cards, subjects began showing SCRs when they reached for a losing deck -- that is, they showed a physical reaction. But not until they had turned, on average, 50 cards could they verbalize their "hunch" that two decks were riskier. It took 30 more cards before they could explain why their hunch was right. Three players were never able to put their hunches into words -- yet they, too, showed elevated SCRs and they, too, picked the right decks. Even if they couldn't explain it, their bodies knew what was going on.

Damasio was already aware of the astounding fact that people who suffer damage to parts of their brains where emotions are processed have difficulty making decisions. When such patients participated in Damasio's card experiment, they never expressed hunches. Remarkably, even if they figured out the game intellectually, they continued to pick from losing decks. In other words, they knew their behavior was a mistake but they couldn't make the decision to change it. Emotions, Damasio theorizes, get decision-making started, presenting the conscious, logical mind with a short list of possibilities. Without at least a little intuition, then, the decision process never leaves the gate.

None of us have the advantage of a handy SCR detector to know when we're getting a hunch. But gut knowledge has other ways of making its presence felt, and it's often physical. Howard Schultz shook when he had his *caffè* epiphany. George Soros, the international financier who made billions in currency speculation, feels opportunity in his back, according to his son Robert. "The reason he changes his position on the market or whatever is because his back starts killing him," Robert said in a book about his father. "It has nothing to do with reason. He literally goes into a spasm, and it's his early warning sign."

What exactly is Soros's back reacting to? That question bedeviled [Flavia Cymbalista](#), an economist who specializes in uncertainty in financial markets. Soros invests only when he has a hypothesis -- a story that explains a trend in the market. But as Soros himself has theorized, markets don't yield to analysis, because they are continuously changing -- and this is one reason Soros has learned to trust his back. "There are things you can know, but only experientially and bodily," Cymbalista says.

What does this mean for making decisions in real life? Research suggests that neither nose-in-the-spreadsheet rationality nor pure gut inspiration is right all the time. The best approach lies somewhere between the extremes, the exact point depending on the situation. [Naresh Khatri and H. Alvin Ng](#), of Nanyang Technological University in Singapore and Massey University in Wellington, New Zealand,

surveyed nearly 300 executives in the computer, banking, and utilities industries -- meant to represent three different degrees of business stability -- and then compared what executives said about their own decision-making styles. Intuition was clearly the favored strategy for computer-industry execs. Planful approaches were the norm in the relatively staid, rules-driven utilities industry.

In a similar vein, Dave Snowden, director of IBM's new [Cynefin Centre for Organisational Complexity](#) in Wales, suggests basing your approach on the nature of the problem confronting you. Snowden breaks problems down into four types:

**The problem is covered by rules.** This is the domain of legal structures, standard operating procedures, practices that are proven to work. Never draw to an inside straight. Never lend to a client whose monthly payments exceed 35 percent of gross income. Never end the meeting without asking for the sale. Here, decision-making lies squarely in the realm of reason: Find the proper rule and apply it.

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**The situation is complicated.** Here it is possible to work rationally toward a decision, but doing so requires refined judgment and expertise. Building an automobile, for example, is a complicated problem. You can diagram it; you can assemble and disassemble it; if you remove a piece, you know the consequences. This is the province of engineers, surgeons, intelligence analysts, lawyers, and other experts. Artificial intelligence copes well here: Deep Blue plays chess as if it were a complicated problem, looking at every possible sequence of moves.

**The situation is complex.** This sort of problem can't be resolved by rational analysis. Too much is unknowable. Complex systems -- battlefields, markets, ecosystems, corporate cultures -- are impervious to a reductionist, take-it-apart-and-see-how-it-works approach because your very actions change the situation in unpredictable ways. "Complexity is coherent only in retrospect," Snowden says. With hindsight, for example, the malevolent lines leading to 9/11 are clear, but it would have taken pure luck to see them beforehand.

The strategy is to look for patterns at every level, Snowden says. Or rather, the idea is to allow patterns to surface and trust your gut to recognize them. That's how masters play Go, a game that artificial intelligence can't seem to understand. They don't so much analyze a game as contemplate it. When a pattern or behavior emerges, they then reinforce it (if they like it) or disrupt it (if not).

In the realm of complexity, decisions come from the informed gut. [Karl Wiig](#), a consultant who runs the Knowledge Research Institute, and Sue Stafford, who heads the philosophy department at Simmons College, saw this in action while designing systems for insurance companies. "Insurance underwriting software is good only for simple cases," Stafford says. Plug in the data -- married white male, age 30, driving this and living here -- and get a quote. Hard cases -- the diabetic actuary who skydives and teaches Sunday school -- need human underwriters, and the best all do the same thing: Dump the file and spread out the contents. "They need to see it all at once," Stafford says. They don't calculate a decision; they arrive at one.

**The situation is chaotic.** Here, too, instinct is better than analysis. The only thing you can do is act. "You impose order," Snowden says. "That's where charismatic leaders come in." After Enron imploded, a team of crisis executives from Kroll Zolfo Cooper parachuted in to save what's savable and dismantle the rest in an orderly way. One of them, Michael France, has the job of putting together a business plan for OpCo, a possibly viable energy business.

When he landed, the entire operation was in chaos. "People were afraid," France recalls. "They were either misdirected or undirected. Decision-making was paralyzed. You don't have much time. You've got to be quick and decisive -- make little steps you know will succeed, so you can begin to tell a story that makes sense." This quick-twitch sort of decision-making is akin to the firefighter whose gut makes him turn left or the trader who instinctively sells when the news about the stock seems too good to be true.

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Behind many of the errors in decision-making lies a yearning for the "right" answer: If only we get enough data, if only we examine all the alternatives, we'll know what to do. "People tend to spend all their time looking for rules," Snowden says. "They're kidding themselves." Situations in which rules

supply all the answers are becoming an endangered species, in business and everywhere else. Command-and-control management went out with tail fins. Risks are both greater and less predictable. As companies outsource, globalize, and form alliances, they become more interdependent -- simultaneously competitor and customer, drastically increasing the complexity of their relationships. More and more, all you can do is admit that you simply don't know and go with your gut.

This may well feel uncomfortable. No one likes uncertainty, and it's going to be hard to explain to your boss a hunch you can't really articulate, even to yourself. To make things easier, you can teach yourself to tune in more attentively to intuition and to raise your gut IQ. (See "[Getting in Touch With Your Gut](#).") On the other hand, making decisions this way may come more easily than you think. Chances are that the classic linear model you thought you were following -- data comes in, you analyze, draw inferences, make a decision -- was partly an illusion anyway. "The data doesn't just 'come in,'" Klein points out. "You have to figure out where you're going to look -- and that is an intuitive process." In other words, you already are more of an intuitive decision-maker than you may have thought. So relax and listen. Your gut has something to say to you, and it might be important. ♦

*Thomas A. Stewart is the editorial director of Business 2.0.com.*



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### A Gallery of Gut Thinkers

#### Phyllis Grann

**Former Penguin Putnam president and CEO, who launched the careers of Tom Clancy, Robin Cook, Patricia Cornwell, and Amy Tan**

"I just chased the talent I liked to read. Even before I went into publishing, I read mostly mainstream fiction. So I became my own best customer. And I never did any formal analysis. I didn't have any rules. When the people at Putnam started worrying about money with the John McEnroe book [You

*Cannot Be Serious*], I just bit the bullet. I knew it was going to work, because he's a bad boy, he has a following, and he's still going strong. And, of course, it was a No. 1 best-seller."

**Chuck Porter**

**Chairman of advertising agency Crispin Porter & Bogusky, creator of the BMW Mini campaign**

"When it comes to creating advertising, we don't research it. We don't believe in testing ads with focus groups. We know that kind of research doesn't ever work. So when we finish an ad, the system we use is, Do you feel it? Do you feel when you look at this ad that it's going to resonate with people? Will it reach out and grab them? Basically we use instinct, because we know the audience so well."

**Tom Prichard**

**Vice president for marketing at LeapFrog, an educational toy company in Emeryville, Calif.**

"We use gut instinct a little bit like scientific principle, where we've got a hypothesis -- a spark that comes from gut instinct -- and we'll try to validate it with teachers, children, and parents. If there's a big difference between our research and our instinct, it sends up a red flag. Many times we find the instinct was correct, but that in the research, the vision didn't come through well enough. Other companies might walk away. When we've got a great feeling about a product, we don't walk away."

**Timothy Gallwey**

**Best-selling author of *The Inner Game of Tennis* and *The Inner Game of Work***

"Uncertainty is the most difficult thing about decision-making. In the face of uncertainty, some people react with paralysis, or they do exhaustive research to avoid making a decision. The best decision-making happens when the mental environment is focused. In a physical environment, you focus on something physical. In tennis, that might be the spinning seams of the ball. In a mental environment, you focus on the facts at hand. That fine-tuned focus doesn't leave room for fears and doubts to enter. Doubts knock at the door of our consciousness, but you don't have to have them in for tea and crumpets."

**Brett Steenbarger**

**Associate professor of psychiatry at SUNY Upstate Medical University and author of the forthcoming book *The Psychology of Trading***

"Traders are like batters facing a 95-mph fastball. If they take time to weigh their decisions, it's too late. Traders work on pattern recognition, but the very short-term trader has to internalize these patterns implicitly. What traders can do to accelerate their learning is increase the intensity of their practice sessions, as an athlete would. Maybe practice trading in more than one market or simulate a whole day's worth of trading in 15 minutes. Under conditions of high focus and concentration, after looking at pattern after pattern, decision-making becomes second nature." -- Interviews by Nancy Einhart

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Think of how many people go to the doctor (including me!) with their suspicions, only to be proven right in the face of the evidence. The reason for this is surprisingly simple, and when you think about it, it makes perfect sense. You know how your body works and how it feels when you are healthy. When something is out of kilter, you will know, because your body will feel differently to the way it normally does. Don't ignore this feeling!

5. Go with your gut when it comes to love. Note that this is not in reference to the falling in love at first sight, which is the favourite plot of all kinds of movies. That may happen, but it is not something that does so regularly. But to researchers who study how managers think, the tales carry an obvious moral: The most brilliant decisions tend to come from the gut. While that observation is not new, it is now backed by a growing body of research from economics, neurology, cognitive psychology, and other fields. What the science suggests is that intuition -- or instinct, or hunch, or "learning without awareness," or whatever you want to call it -- is a real form of knowledge. The truth is, even when we believe we're thinking with our brain, our brain is thinking with its gut. Here's how Lehrer describes what happens when there is a choice to be made: The emotional side of the brain jumps into action first, making a decision in a split second before the rational side chimes in with the why. As he puts it, "only at this point" after the emotions have already made the moral decision "that those rational circuits in the prefrontal cortex are activated." To look at it another way, picture your brain as a house. Upstairs, there's a grad student constantly on dead