

STRATEGIC MANAGEMENT, BLIND SPOTS AND INDIVIDUAL RISK PERCEPTION

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ABSTRACT

The strategic management process used by a firm can benefit from a better understanding of risk perception and how those perceptions influence strategic decision-making. The risk management process is presented as a decision aide that a business can utilize to make more informed decisions. Blind spots can lead to faulty judgment that prevents businesses from making better choices. Rather than making optimal choices, managers make choices that satisfy our perceived needs without necessarily exhaustively searching for optimal solutions. Perception is limited by our information processing capability, experience and individual blind spots. These limitations are explained by behavioral decision theory and the how the attendant heuristics can lead to unanticipated and irrational decisions. An awareness of behavioral decision theory can allow a business to avoid the blind spots and make more informed choices.

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