

## **Paper Proposal**

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### **Title: Heuristic Strategies in Business Decision-Making**

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**Abstract:** The main idea evolves around the empirical findings that assessment and dealing with the business risk involves heuristic judgment. If so, one central question concerns the methods of risk assessment, which remain relevant to the way in which risk managers actually evaluate their business environment. Formal risk assessment is based on the probability theory, whereas business risk might involve situation that are non-reducible to probability distributions. The elements of knowledge creation that heuristic strategies introduce into the process of information can shed light on highly uncertain nature of business decision-making.

**Motivation:** Empirical evidence on the role of gut feel in business decision-making is abundant. Managers use heuristics to make financial, hiring, investment and sales decisions. Consumers use heuristics to specify their consideration sets. CEO's gut feel plays a major role in capital budgeting decisions in corporations all over the world. Focusing on the Knightian distinction between risk and uncertainty, we explore the links between intuition and decision-making under uncertainty. We especially look for ways in which information is processed in repeatable versus near-unique situations.

The following outlines the structure and content of the paper.

1. Corporate executives ranks gut feel among important factors in making major corporate decisions such as capital allocation. We provide literature review on this.
2. Evaluation of the empirical evidence in favor of heuristic strategies in business decision-making: (i) how important is the evidence? (ii) why should we care about this evidence? (iii) is there a tendency to under report the importance of gut feel? Why?
3. We provide a case by case review of examples of heuristic strategies in a wide variety business areas including marketing, finance, trade, hiring, consumer behavior, crisis management, etc.
4. Business decision-making evolves around the central goal of profit creation. Frank Knight wrote a famous book on the nature of business profit and its creation in relation to different types of risk in the business environment. We provide an overview of his approach and relate it to the observed use of heuristic strategies in business profit making.
5. Knightian uncertainty has been formalized and utilized by economists for several decades. We provide an overview of such formalizations, as well as the way in which these ideas relate to ambiguity in experimental economics.
6. We conclude with proposing a structure that has the potential of heuristic modeling of the profit generating business uncertainty.