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MANAGERS' DECISION-MAKING STRATEGIES DURING CRISES: BOUNDED RATIONALITY AND INTUITION -AN INTERPLAY

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Abstract

The article discusses managers' decision-making strategies that encompass risk, time pressure, and uncertainty into a heuristic logic of obligation to act. It highlights the performative features of metacognitive processes that put intuition into use within the framework of bounded rationality and emotional intelligence. Among the threats that leaders face when confronted with intuitive decision-making are failure, blame, and reputational damage, with ensuing restoration tactics. The implications for impactful managerial practices concern ways to reconcile short-term acceptability with collective rationality outcomes of actionable decisions.

Keywords: crisis, decision-making, management, bounded rationality, leadership, intuition.

1. Preliminary considerations on crisis context, bounded rationality and crisis leadership

Making or reaching decisions is a key managerial responsibility in both public and private organizations. Decision-making processes are highly dependent on the main actor, the decider, and the context. Crisis generates uncertainty and determines significant changes in the context with a major impact on the quality and consequences of the decisions made by organizational leaders.

In this paper, we will discuss the decision-making processes in the time of crisis, the interplay between management and crisis, and between rationality and uncertainty. There are various definitions of management. Following its etymological origin (derived from the Latin *manum agree* = 'to lead by hand'; and French '*manège*'—training area for horses and riders), management is the function of administration of an organization through organizing, planning, leadership, control, motivation, communication, staffing and assessment. According to the area of authority and hierarchical rank, a people-and-project manager puts to work various resources, such as human capital and intangible assets (i.e., trust, expertise, dedication, energy, work ethic) as well as money, time, information, materials, and technology.

Rosenthal (2001, p. 10) defined crisis as 'a serious threat to the basic structures or the fundamental values and norms of a system, which under time pressure and highly uncertain circumstances necessitates making vital decisions'. Okoli and Watt (2018, p. 1124) argue that a crisis represents 'an uncertain situation possessing latent risks and opportunities that must be resolved within a given timeframe'. Another dimension that Smith and Elliott (2006) highlight is the exposure of an embedded vulnerability: crises will normally be 'triggered' by an incident or another set of circumstances (these can be internal or external to the organization), which exposes the inherent vulnerability that has been embedded within the 'system' over time.

Wu et al. (2021) conceptualize crisis as unusual and abnormal events that occur infrequently, for which organizations and leaders have little preparation and experience in managing. Other features that enable crises to function as organizational game-changers and opportunities for turnaround management are their unexpectedness, salience, significant impact, and disruptive potential that requires urgent response. The underlying assumption is that a crisis entails a disruption from old paths that generates both risk and opportunity (Preda and Stan, 2016).

The challenges of crisis management concern threat, urgency, an element of surprise, requirements for swift response, unpredictable unfolding, and high-stake situations which require leaders to act as both humble and transformational enablers of common interest rather than providers of ready-made ultimate and universal solutions. Venette (2003, p. 5) argues that 'crisis is a process of transformation where the old system can no longer be maintained'. The current crisis is a long one—dating back to 2008, it spans the lifetime of Gen Z. Risk management defines the approach to assessing potential threats and finding the best ways to avoid those threats. Crisis management deals with threats before, during,

and after the negative event; it 'is the process by which an organization deals with a disruptive and unexpected event that threatens to harm the organization or its stakeholders' (Venette, 2003, p. 6).

Summing up the theories, we can identify three elements common to any crisis: (a) a threat/external danger, a potential risk; (b) the surprise, the lack of anticipation that generates uncertainty, and (c) the lack of time for decision and reaction.

Decision-making generates cognitive dissonance and sunken cost bias because it sacrifices the benefits of other options for the sake of the chosen alternative, so it incurs a loss regardless of the outcome (Alkhawlani, Bohari and Shamsuddin, 2021). The word 'problem' comes from Greek, where it designates an obstacle, a hindrance or a setback that blocks the way. Problem-solving involves decision-making, as a problem is 'the discrepancy between real and ideal' (DuBrin, 2005, p. 79), which drives the need for change. Identifying and defining the problem is the first stage of rational decision-making. Mapping this issue of concern puts pressure on decision-makers to find a timely and effective resolution for crisis management, to fight against adverse consequences (Coccia, 2020). Uncomplicated problems drive standard or routine decisions, whereas complex and emerging problems require non-routine, innovative decisions that question and confront uncertainty avoidance.

Following several decades of revolutions, wars, terrorist attacks, mass refugees, and economic crises, the last four years have been a succession of profound crises, starting with the pandemic and continuing with the recent wars in Ukraine and Israel. Nations, organizations, and individuals face conflicts and deal with threats on a regular basis.

Historical breakouts are opportunities for unfreezing old ways of organizational behavior and acting on transition models to reinvent and refreeze new attitudes, skills, systems, and practices (Lewin, 1947). This change takes into account the relative inertia and path dependency characteristic of cultural immersion into taken-for-granted assumptions and scripts (Burnes, 2020). According to management coach Peter Hawking (2005), it is not advisable for leaders to push harder when they encounter resistance to change, but to understand the needs that remain unaddressed and therefore cause path dependency.

2. Heuristic, subjective, biased or nonrational?

Making decisions in peaceful periods involves data analyses and rationality while crises create uncertainty, lack of reliable data, and a 'bounded rationality'. Bounded rationality refers to the constraints of casual and tense situations that require a timely readjustment to an elusive purpose based on incomplete and imperfect information. Herbert Simon (1955) coined the concept, arguing that human rationality is limited by environmental factors and in-built cognitive limitations. Therefore, decision heuristics such as anchoring, framing, and filtering mechanisms operate under uncertainty and generate adequate (even not ideal) solutions by simplifying purely rational algo-rhythms (Kahnemann, 2003). Rötheli (2010, p. 123) discusses how 'bounded rationality creates a reproductive cycle that links current financial crises with previous ones: Bounded rationality in the form of over-optimism and over-confidence led bank management to take on ever larger challenges'.

The decision-makers' agility to consult and maintain the feeling of belonging, affiliation, and consensus-building is essential in this ecosystem. A decision that a group of representatives reached will be more acceptable than that of a single individual. Further scrutiny is welcomed into the dynamics of participatory decision-making when democratic mechanisms are under attack. The adaptive value of ecological rationality and intuitive design based on fast-and-frugal heuristics to streamline better decisions represents an alternative to rigid bureaucratic guidelines (Raab and Gigerenzer, 2015). When Kodak or Nokia disregarded the obligation to take immediate action and stay abreast of digitalization change, their hesitation proved fatal. Kodak survived and thrived for a hundred years (from 1892 to the 1990s, when failure to transition to digital photography signed off its demise).

There is a gap between an organization's natural capacity to adapt and the unsustainable speed of change. Lean satisficing heuristics replace optimizing algorithms (Mousavi and Gigerenzer, 2014). Strategies constantly shift; nowadays, they are built on a weekly, at best monthly basis, whereas a 5-year plan was the rule 30 years ago. There is pressure to peddle harder or smarter, more collaboratively, to enable and release synergy. Hawking (2005) considers that the purpose creates the team; what is more, organizations, such as families and democracies, are a team of teams created for a shared purpose. He views musketeers as a model of teaming that works as long as what they can do together is better than what they can do apart.

Managers of large international corporations admit that about half of their professional decisions are gut decisions, based on their experience after having considered all the data available (Raab and Gigerenzer, 2015). Yet, few would admit that publicly and, instead, ask employees or, as a more expensive option, engage a consulting firm to back up their gut decision. Flyvbjerg (2018) provides examples of heuristics applied in master building project management. A successful project is fast-paced, rhythmic and modular or scalable in terms of replicability instead of one-off. Managers constantly seek standardized, simplified shortcuts that streamline bureaucratic procedures. They apply a business model based on overselling and finding quick fixes instead of permanent resolutions. What is more, 'You need strong bridges upstream and downstream. You need a strong federation of the builder-buyer-user. When programs run into problems and partners become contractual it is especially important to reinforce the bridges from top to bottom, through informal meetings in which problems can be surfaced early and solved' (Flyvbjerg, 2018, p. 11).

Agile management focuses on decision-makers as satisficers rather than optimizers as their bounded rationality leads to the delivery of minimum viable products and 'ship unfinished', showing bona fide at a draft level rather than level up. Flyvbjerg (2018) also offers an illustration of the garbage bin principle of starting from the solution and working out the problem: 'Think from right to left ... and then manage from left to right. In other words, focus your leadership on program outcomes and how the program will get there. Then plan and execute from the left of the Gantt chart to the right. Focus on the endgame' (Flyvbjerg, 2018, p. 22).

There is also a conceptual delineation to be drawn between nonrational and irrational processes. Irrational is the opposite of rational decision-making in the sense that the

actions it triggers are not adapted to the sought-after goals and go against logic. Nonrational decision-making occurs rapidly, is reactive and based on intuition, or its assessment is subjective, biased, common-sense or judgmental (Hernandez, 2014). Leaders sometimes reach nonrational decisions for the same aim as with rational decisions—that is, to seek acceptance. Legitimacy hence appears as a supportive, participatory authority-exercising alternative to the 'carrot vs. stick'. These two traditional power mechanisms of coercion and inducement are both unsustainable, 'often unavailable, in short supply, or costly to use' (Bernstein, 2011, p. 18) in today's organizations grounded on cost optimization, scarcity of resources, and the philosophy of thrift.

Intuitive decision-making is constantly associated with cooperative improvisation and synergy achieved through diligent practice like in a jazz band (Ingram, 2021). However, team cooperation is not always the most appropriate and effective response to adversity. Inclusion of all members considered equal is most suitable in conjunctive tasks where more heads are better than one, whereas equality and undisputed solidarity are of the essence. However, in disjunctive situations, individual merit and unequal contributions focused on a diversity outlook can prove more fruitful, whereas democratic, collectivistic decision-making can lead to groupthink—a simple, undebated consensus that jeopardizes success. This was found to be true in an archival meta-analysis of five decades of group decision-making in Himalayan expeditions wherein the pattern of blurring the influence of a more knowledgeable leader repeatedly triggered a chain reaction of incidents and even deaths. Therefore, inclusion and collectivism are best put to use for business as usual, and diversity and meritocracy are for outstanding circumstances that require top performers to make an impact (Chatman *et al.*, 2019).

These pseudo- or alter-rational decision processes are vested as tacit knowledge and heuristics. They emphasize the 'trust the process' idea according to which, in US president Dwight Eisenhower's words: 'Plans are worthless, but planning is everything'. Daniel Johnson launched in 1991 the 4D model of time management (cited in Wise, 1991), a.k.a. the Eisenhower decision matrix, in which time managers deliberate between important and urgent tasks that need to be done, important and non-urgent ones to be deferred by decision on their timing, unimportant but urgent tasks to be delegated and unimportant, not urgent activities to be dropped or deleted.

An application of heuristic decision-making targets time budgets. Following the principle of 'take the elephant and cut it into pieces', a coach teaches leaders how to take out the least value creating activities from their time budgets and measure ROI (return-on-investment) for every segment of their work. Micro heuristics apply to life coaching by selective mechanisms for the sake of efficiency and cost optimization—closing some tabs and paths in order to remain centered and grounded on a specific line and clear-cut direction (Hawking, 2005). Trained intuition used with reflexive discernment marks the difference between a repository of biases and one of the patterns, constantly updated and readily retrievable in complex situations that demand instantaneous decision-making affordances (Hurteau *et al.*, 2020). Tacit or implicit knowledge is a metacognitive performance that lacks a discursive explanation of the process thereof and whose mental flow is alogical in

the sense that it transcends conventional reasoning and acts upon a logic of its own, which neither supports nor invalidates the formal logical schemata designated as algorithms.

In a standard, rational decision-making process, progress is linear and the sequence of stages is predetermined, as follows:

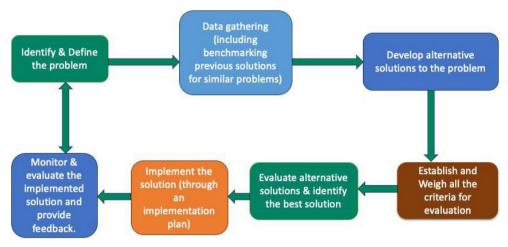


Figure 1: The stages of rational decision-making

Source: Preda (2006)

The fourth stage requires decision-makers to establish and weigh criteria in the respective order of priority and hierarchy to validly evaluate the alternative solutions. The above model involves stability of the context, of the environment, during the decision-making process. Any change in the initial parameters and any missing data will change the hierarchy and the relevance of the alternative solutions.

3. Risk and intuition

Risk is a significant concept that involves uncertainty and bounded rationality. Uncertainty is produced by limited or non-factual information (Zamfir, 1990; Raab and Gigerenzer, 2015; Kahnemann, 2003). In times of crisis, the classical rational decision model is no longer actionable. The decision logic 'if (X)—then (Y)' does not operate anymore because the initial conditions, (X), are fluctuating and their consequences, the outcomes, (Y), are no longer predictable. In a normative system endowed with Weberian legal and rational authority, rules cannot bend as seamlessly as reality does. Accelerated adjustments and alignments in response to crisis centralize power as in the government being empowered to pass on ordinances, requisition properties or resort to direct acquisitions. Rational models are replaced by incremental, step-by-step or garbage can models.

No economist really anticipated the crisis of 1929–1933, 1973 or 2008. Seemingly optimal, rational decisions later proved weak or downright catastrophic. Transformational

leaders seem utopian visionaries, and their solutions preposterous, until the event that they foresaw occurs. Before the flood, Noah's idea of designing and building an ark on a mountain was believed to be absurd, however in a changed context, in the flood, his decision became ideal and the other resolutions were downgraded to the level of absurdity (Preda, 2006).

When rationality is limited, something else must replace it in the decision-making process. And that almost irrational 'something' is intuition, a mix of small 'signals', experience and emotions, defined as 'a judgment that appears quickly in consciousness, whose underlying reasons we are not fully aware of, and is strong enough to act upon' (Mousavi and Gigerenzer, 2014, p. 1672), Intuition etymologically comes from 'in-tuir', meaning 'to scrutinize and regard from within', and is a combination of feeling and thinking. Hurteau et al. (2020, pp. 226-227) provide memorable instances of intuition: 'when Michelangelo looked at a block of marble, he knew, based on his intuition and experience, what figure was imprisoned within. (...) Albert Einstein once said that <the intuitive mind is a sacred gift and the rational mind is a faithful servant. We have created a society that honors the servant and has forgotten the gift>'. Dane, Rockmann and Pratt (2012) examined how the effectiveness of intuitive decision-making is correlated with domain expertise and epistemic authority, so intuition is an educated guess or a model of aligning disparate cognitive streams that are data-driven. Traditional rationality is undermined by the crisis conditions that favor fast-paced choice while bypassing thorough deliberation (Sayegh, Anthony and Perrewé, 2004).

Emotions play an important role across intuitive decision processes. The charismatic leader's empathic response acts as an uncertainty absorber and legitimacy enhancer meant to elicit uncritical compliance with both process and decision outcome.

4. Actionable decision-making and collective rationality

Hence, decisions under crisis that were unacceptable under normal circumstances can be reassessed as acceptable with some limitations. Classical, rational criteria of the cost-benefit logic (i.e., profit margin, market share, cashflow or other performance metrics) fade in the face of imperative needs for survival vs. disappearance (for an individual, company, community). Extreme solutions, forbidden under everyday norms, can be socially or even legally approved in times of individual (self-defense in a violent attack) or collective crisis (wars, pandemic). This decision framework disrupts the Cartesian superiority of reason. Once neglected, emotions and subconscious insights that carry truth but no logic resurge as paramount to performative decision-making, following the societal emphasis on empowerment for personal growth and wellbeing. As people-orientation precluded task- and result-orientation, business gurus claim EQ beats IQ in predicting a leader's success in all walks of life. Or, paraphrasing Peter Drucker's famous quote about culture and strategy, 'EQ eats IQ for breakfast' (Drucker, 1954/2006 in Myers, 2018). The informal, outspoken, and playful leader replaces the rational, uptight, cold, and calculated manager.

A practical guide issued by the Australian Government (2018) recommends: 'In crisis management, stakeholders tend to demand action very quickly and by doing so create an 'obligation to act' by the organization'. This guide strenuously advises—even urges—leaders to be hands-on and quick to act while learning to increase their awareness of cognitive bias such as anchoring (over-reliance on the first convenient piece of information), confirmation bias or self-fulfilling prophecy and overconfidence bias (the narcissistic belief that the leader is responsible for finding the best solution and putting pressure on oneself alone instead of acting as facilitator for the team). Contingency planning in public governance for crisis management is criticized as overly precautionary since it aims first and foremost to avoid worst-case scenarios, with the trackability and traceability of decisions for transparency purposes delaying the much-needed resolution. 'Softball' cooperation is much more time-consuming than directive, 'hardball' decision-making.

Nobel award-winner Elinor Ostrom proved that common goods imply collective decision-making because individual decisions lead to the exhaustion of these resources. A risky turn of events requires the transition from individual to collective interests and collective rationality. As Peter Drucker (1954/2006) states: 'Leaders get the culture that they collectively create'. External threats increase internal cohesion as well as the groups' propensity to react emotionally to them, like crowds would do (Preda, 2006)

5. Blame avoidance dissonance

One of the challenges for managers during a crisis is to make decisions in uncertainty and under time pressure; quick reaction is essential, and hesitation can be fatal. But this type of decision involves risks of failure and potential blame. Risk-averse leaders respond to crises by blame avoidance motivation, defined as the attempt to evade accountability that translates into penalty for mistakes and potential undesired consequences. This goes against public service motivation, defined as 'an individual's predisposition to respond to motives grounded primarily or uniquely in public institutions and organizations, including attraction to policy making, commitment to the public interest, compassion, and self-sacrifice' (Zhu et al., 2023). The collision between the two—serving public good and warding off potential reputation damage—creates the blame avoidance dilemma. This dissonance increases in power asymmetry situations such as the authoritarian regime in People's Republic of China (PRC) wherein local government leaders are held responsible for crisis and sanctioned for ineffective coping. To dodge accountability pressures or avoid their escalation, public bureaucrats might prefer inaction over action according to the 'better safe than sorry', 'play-it-by-the-rules' conservative principle or abide by the letter rather than the spirit of the law (Qin, 2022). Thus, they miss out on opportunities and jeopardize long-term aims for the sake of saving face.

Using the metaphors of foxes and lions, Hinterleitner and Sager (2017) discuss anticipatory agency strategies in which 'fox-type' officeholders intend to minimize the risk of blame-attracting events following their decisions. In contrast, reactive presentational

strategies involve image repairing in the aftermath of a crisis and belong to 'lion-type' street-level bureaucrats.

6. Crisis management and decision-making in public administration

Crisis management is a headline priority on the public governance agenda. Public managers' decision-making abilities are impactful for the whole community when the fight for performance is on and when navigating critical times.

What type of decision-making mechanisms do governments employ before and after a crisis? In a recent analysis of public management's responses to shock or adversity, which showcases the covid pandemic, Ţiclău, Hinţea and Andrianu (2020) found these adaptive resources to include decisional frameworks influenced by the resilient outline at play in their organizational systems. Resilient leadership is important in both preparing and recovering from turbulence, which is widespread in today's risk society. This ecosystem features complex unpredictability and interdependence, carrying turbulence both inside the organizations and in their external environment. Decision-making tactics enable collective rationality to help communities develop their ability to 'bounce back, adapt to a new reality and develop instruments or mechanisms to deal with future changes (Ţiclău, Hinţea and Andrianu, 2020, p. 171).

In a complementary approach, Tokakis, Polychronioua and Boustras (2019) discuss radical and moderate decision-making models in the crisis cycle that include three stages: pre-crisis, crisis unfolding, and post-crisis interval. Their survey, conducted with top and middle managers from ministries and public safety services in Greece, revealed tensions of legitimacy and shifting authority across shifting circumstances. Whereas radical crisis managers might wish to exploit the crisis turbulence to the profit of their symbolic capital, more moderate reform leaders appear driven by 'the imperative to minimize damage, alleviate pain and restore order' in their agency for collective good (Tokakis, Polychronioua and Boustras, 2019, p. 41).

This line of thought favors the investment in governmental capacity building, grounded in the attempt to repurpose the centralized internal training strategy for improved crisis responsiveness on behalf of the team leader and its members. Stronger collaborative decision-making is essential for bridging the gap between leadership and collective rationality. These formal channels, participative workstreams, and normative procedures facilitate crisis prevention and crisis preparation in the case of safety incidents. Situated knowledge on the dynamics of the crisis management team members' ability to reach decisions under the pressure of unexpected and intractable crisis suggests this ability acts as a predictor of both crisis acknowledgement and containment (Tokakis, Polychronioua and Boustras, 2019). Since in some countries, such as the former communist ones, public managers have a cultural deficit of monitoring and evaluation which 'seems to be the Achilles heel' (Hințea, Profiroiu and Țiclău, 2015, p. 42) of the public administration processes even before crises, then we can expect their decisions' rational component during crises to become weaker.

From a different perspective, Hannah, Baekkeskov and Tubakovic (2022) contribute to the direction of assessing crisis manageability by comparing adverse events to more gradual forms of change. They envision crisis as shattering paradigms and claim that stakeholders appeal to collective reasoning to attain a common goal through a temporary alignment of wills. This is in line with Hawking's (2005) claim that the purpose created the organization, which stays united as long as what its members can do together is better than what they can do apart. From a political leadership standpoint, Paskalev (2020) considers the rationality gap to represent the contradiction between public opinion and collective reasoning that stems from a collective decision-maker. Popular will gets constantly frustrated throughout the political process, however democratic it might be.

The crisis aggravates this disruptive clash between what society wants and what it needs, between hedonistic outlooks and austere, duty-based vocabularies of motives. This rationality gap leads to public managers losing popularity and confidence.

So public managers, like their private sector counterparts, avoid reaching unpopular decisions even more diligently in times of crisis when citizens have to deal with widespread frustration. Technocracy is in theory a de-politized answer to the rationality gap, however, like in the case of collective reasoning, it still puts into question the in-built, systemic vulnerability to power relations and manipulation. Also, technocracy runs the risk of disapproval from non-expert members of the organization, who witness their beliefs being discarded and consider expertise as demeaning to the common good and hence illegitimate (Paskalev, 2020).

Furthermore, Heidemann (2018) examines the idea that public sector decision-makers should not shy away from their leadership accountability. Their mission is not only to track but also to shape the organizational members' position as stance-taking individuals. Grassroots mobilization through collective action transcends societal crises by means of socio-linguistic practices that provide multidimensional understandings of the role of collective rationality across public governance and public resourcing management. Democratic consultation and inclusiveness are necessary but not sufficient for leaders' decision-making in times of social instability.

The assessment of decisions and decisions-makers, public or private, should also consider the context of the process, its timing, available information, and configuration, legislation, values, informal norms, and beliefs, of all variables at that moment. Judged in the light of today's criteria (i.e. human rights, minorities' rights, civil rights, etc.), many premodern societies and their leaders should be condemned and deleted from history for promoting discrimination accepting slavery, violence, unethical behavior, etc. On this background of overlapping historical contexts, we have seen debates and controversies that surround the tearing down of statues representing former leaders (not just dictators and war criminals) on debatable grounds. On this background, we have seen on the front stage many populist leaders submitting their beliefs to the will of the crowds in order to avoid blame and get public acceptance.

7. Conclusions

Effective crisis leaders convince people to focus on collective goals, build an environment of trust, reform the organization's culture, make wise and rapid decisions, and take courageous action. Transformational leaders have the ability to transfer their enthusiasm and authority and transmit inspirational motivation to their subordinates, which leads to better interaction during crises.

Dealing with uncertainty requires knowledge, but not necessarily an exhaustive use of information. In many business situations, effective heuristic decision-making deliberately ignores information and, hence, uses fewer, simpler and more straightforward resources. What brought us here most likely will not take us any further, so the managers' visionary role in designing and implementing new decision pathways is vital.

Leaders' crisis management should steer away from two sources of misinformation: (1) insufficient collection and processing of insight, and (2) deficit in communicating insight. Authority under crisis relies on the correctness of decisions as assessed in the short run and maintained after the crisis, to validate the quality of decisions mid- and long-term.

Still, because human memory functions differently in the short vs. mid and long term, the less risky decisions appear to be the populist ones, which seem good for the moment but bad on a longer time frame. This short-term populist decision has face validity, followers accept it for the time being and later on forget and hence forgive those who made the decision. Conversely, a decision that is unpopular for now but correct in the long term sets the occasion for the public to condemn the decision-maker, and later on sinks into oblivion, so that people no longer care and leaders are not rewarded for being right or visionary. In this sense, Leonard Saffir (1999, p. 51) urges that: 'In crisis management, be quick with the facts, slow with the blame'.

Emotional intelligence comprises self-knowledge (including the capacity to detect weak signals), agility (intuition and the instinct to combine), as well as self-control, empathy, and persuasion. The best option would be to rely on specialists who combine all these ingredients with experience and objective knowledge rather than trust charismatic non-experts who solely use the emotional toolkit. In other words, the best option in crisis management is the interplay between expert-based bounded rationality and leaders' intuition.

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