Improving the BOTTOM LINE

The Brain Science of Bad Decisions

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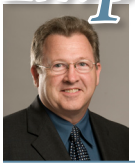

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The Brain Science of Bad Decisions

Decision making is a critical function in our personal and professional lives. None of us would be in positions of authority without demonstrated abilities to discern issues and make good choices. Our reputations and livelihoods depend on it.

Each day, however, intelligent people make mistakes, with devastating consequences. Why do good leaders make bad decisions? How can we reduce our margin of error?

Our daily decisions are generally small and harmless. Others are incredibly important, affecting people's lives and well-being. The daunting reality is that smart people make enormously important decisions with the best information and intentions, and they sometimes go terribly wrong.

Even great leaders make bad decisions:

- President Kennedy is famous for the Bay of Pigs blunder.
- President Hoover failed to inflate the economy after the Wall Street Crash of 1929.
- Jurgen Schrempp, CEO of Daimler-Benz, led the merger of Chrysler and Daimler-Benz and was forced 10 years later to give Chrysler away in a private equity deal.
- Lee Kun-Hee, CEO of Samsung, pushed his company into a disastrous investment in automobiles.
- An Wang insisted on a proprietary operating system for his company's personal computer, even after it was clear that the IBM PC would become the industry standard; his company is now history.

Authors Sydney Finkelstein, Jo Whitehead and Andrew Campbell have studied how smart leaders make catastrophic decisions. In Think Again: Why Good Leaders Make Bad Decisions and How to Keep It From Happening to You (Harvard Business School Press, 2008), these experts show how the brain's thinking processes can distort judgment. Think Again identifies four errors of thinking and four safeguards to help us avoid bad decisions.

Some outcomes, of course, are the result of bad luck because we must take calculated risks. But there's a big difference between flawed decisions based on erroneous thinking and calculated risks that turn out badly.

Neuroscientists and experts in decision making now understand more about how the brain works and how we are prone to several types of faulty thinking when faced with a set of circumstances that require a decision.

Flaws of Decision Making

In studies of more than 83 flawed business and political decisions, the authors identify two major factors at play:

- **1.** An individual or a group has made an error of judgment.
- **2.** A decision process fails to correct the error.

Normally, when an influential person makes an error of judgment, the decision process will bring the error to light. Other people with different views will challenge the flawed thinking. The facts will be exposed and erroneous views corrected.

There are four conditions under which flawed thinking is most likely to happen. Each is a red flag that requires decision makers to step back and think again.

Complex decisions always involve personal interpretations and judgment. That's what makes them difficult to get right. You need debate and consensus — but even with both, two important questions arise:

- **1.** How do you know when you or those debating your premise are coming from a biased position?
- **2.** How do you know when your consensus is nothing more than groupthink?

Old-School Decision Processes

Traditional decision-making processes are supposed to follow several logical steps:

- **1.** Lay out the problem.
- **2.** Define the objectives.
- **3.** Generate options.
- **4.** Evaluate each option against the objectives and other relevant criteria.
- **5.** Choose the option with the best outcome.
- **6.** Monitor progress and change course, if necessary.

Many people work under the illusion that if these steps are followed, little can go wrong. But these steps do not take into account what goes on in people's brains when they weigh options and make judgments.

The Brain Science of Decision Making

The brain uses two processes that enable us to cope with complexities:

- Pattern recognition
- Emotional tagging

Both help us make excellent decisions most of the time. They have survived evolutionary selection precisely because they give us distinct advantages over lesser animals in the food chain.

But in certain conditions, these processes can mislead us, resulting in poor judgments and bad decisions.

Pattern-Recognition Flaws

Most of the time, pattern recognition works remarkably well. But when something looks familiar—yet truly is not—we can be fooled into thinking we understand it.

This problem is called a "misleading experience," and it's a major contributor to faulty reasoning. Our brains house memories of past experiences that connect with inputs we are receiving. But when the past experiences are not a good match with the current situation, we form wrong conclusions.

Another problem arises when our thinking has been primed before we receive the inputs. For example, we may have made previous judgments or decisions that connect to the current situation, but they may, in fact, be inappropriate. This causes us to misjudge the information we are receiving — faulty thinking known as a "misleading prejudgment."

Pattern recognition is fallible, but we heavily rely on it because it saves us time in a complex world. We are hardwired to gather information quickly, match it to previous experiences and knowledge, and make decisions.

Emotional Tagging

Emotions are essential in decision making. While most of us pride ourselves on our ability to be analytical and rational, our brains simply do not work this way. We depend on emotional input to focus our thinking and make choices.

Emotions primarily work on our bodies in unconscious ways, and we cannot eliminate their effect, as hard as we may try. Most of the time, emotions are helpful, but they can sometimes lead to disaster. We need some way of anticipating when our emotions may cause a problem.

If we are forewarned and can identify potentially misleading emotional tags, we can strengthen the decision-making process while combating the influence of emotions that worry us. Our decisions will ultimately be more sound.

Here are four sources of emotional tags that can interfere with sound decision making:

- **1. Intense emotional experiences**: We may have powerful memories of successes, failures, fears or pleasures that we've experienced in the past. These emotions usually help us, but strong memories can also mislead us.

Remember that our brains use pattern recognition, matching previous memories with current situations. Our brains fill in missing information and gaps, but there's plenty of room for misleading experiences to influence current thinking.

- **2. Previously made judgments and decisions**: We can tag previous judgments and decisions with strong emotions. When these judgments are sound, our emotions help us focus. But if the judgments are misleading, our emotions can cause us to cling to them.
- **3. Personal interests**: We often have personal interests at stake in the decisions we make. If these decisions affect only ourselves, our emotional tags will help us reach the right answer. But when our personal interests conflict with our responsibilities to others, our judgment can be unbalanced.
- **4. Attachments**: As social animals, we are designed to become attached to other people. We can also become attached to a group or tribe, places and even possessions. If the decision we're about to make is likely to affect one of our attachments, the emotions generated can impair our thinking.

We tag our memories with emotions. These tags, when triggered by a pattern-recognition match, tell us whether to pay attention to something or ignore it.

Emotional tags enable us to decide and act with speed, but they can cause red-flag problems that disrupt our thinking and convince us our erroneous point of view is sound:

1. Misleading experiences
2. Misleading prejudgments
3. Inappropriate attachments
4. Inappropriate self-interest

We require clarity to identify these issues and rethink our position.

Safeguards

The brain's way of working makes it particularly difficult to correct our own mental processes. Like a goldfish in a bowl, how can we know we're wet?

When no red flags exist, the decision-making process can be fast and simple. When we spot red flags, we can design appropriate, effective safeguards that are less likely to demotivate everyone involved in the decision process. We enjoy targeted processing, instead of suffering increased bureaucracy and time-consuming conflicts.

Safeguards reduce the risk that red-flag conditions will lead to a bad decision. While it may not be possible to eliminate all risks, we can greatly improve the odds of making sound decisions with fewer mistakes. Four types of safeguards counterbalance and defend against errors:

- **1. Experience, Data and Analysis**: In business, there are many ways data can be collected and experience broadened. Discussion with key customers can provide valuable feedback. Consultants can be hired to offer objectivity and outside perspectives.
- **2. Group Debate and Challenge**: The process of debate can help expose assumptions and beliefs. It's vital to choose the right participants, as the group must identify appropriate challenges that meet organizational goals.
- **3. Governance**: It may be necessary to set up a separate governance team if one doesn't exist apart from the decision-making team. The new team should be designed as a vital backstop to stand in the way of any flawed judgments that make it past the decision team.
- **4. Monitoring:** The monitoring process tracks the progress of the decision. Awareness of monitoring encourages decisions makers to think carefully before making their recommendations. If decision makers know the outcome will be recorded and publicized, they will be motivated to think—and rethink—their positions.

Monitoring offers a quick solution to a bad decision. Early progress reports let you know if course corrections are needed. Monitoring can catch any problems the first three safeguards miss.

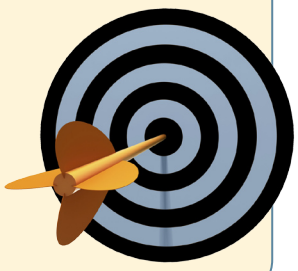
Is your business giving you the results you've always dreamed about?

Identify Biases and Implement Safeguards

Most large organizations already have structured decision processes with built-in safeguards, which were likely implemented to correct past mistakes. Decision processes, however, must be tailored to flag conditions that may distort perceptions. By identifying biases, we can select specific safeguards that target our cognitive and emotional vulnerabilities.

There aren't any foolproof guarantees against bad decisions. Life's complexities ensure we're never going to get everything right. Keep these summary points in mind:

- It's possible to improve your decision-making abilities and continually grow.
- There are specific, identifiable steps you can take to prevent bad outcomes and reduce your risk of making bad decisions.



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