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Acquire five good reflexes to make **more reliable decisions**

Why do we make bad decisions so often? Paradoxically, the very way the human brain is wired makes us intelligent and efficient, but also likely to make gross mistakes. Why else would an executive choose to ignore disquieting statistics and launch into a new market with the conviction that he will succeed where others have failed? Why in the world would a respected company like Boeing decide to outsource the manufacturing of the Dreamliner without verifying beforehand how to make this strategy work, only to bring production back in-house after two years of nightmarish delays?

We are mentally predisposed to make bad decisions

Our brain simplifies things to enable us to process huge volumes of data in record time and make choices rapidly in a complex environment. However, this often valuable faculty can sometimes cause us to make suboptimal or even very bad decisions. We rely on simplified cognitive routines to integrate multiple factors often outside the field of our consciousness. However, the amazing ability of the human brain to make decisions in uncertain situations is the reason we also sometimes make big blunders.

Three risk factors in particular must be taken into account:

We are influenced by those around us

When we make decisions, we are naturally influenced by people around us, most often subconsciously. In addition to collective decisions, where the group exercises latent pressure to conform, our individual decisions are also affected by the opinions and presumed expectations of our entourage. An executive, for example, may make an extreme decision to demonstrate her firmness to those close to her, albeit subconsciously**. So how can we become more consciously aware of the influence of those around us?**

We are influenced by the context

When we make decisions, we naturally refer to what we have learned from our past choices. Indeed, this input is often extremely helpful. However, when we analyze new situations, we tend to forget the particular set of circumstances which helped us succeed or fail in the past, especially when it comes to the role played by sheer luck! Moreover, our choices are subconsciously influenced by many seemingly unrelated factors, such as environmental stimuli, how the choice is presented or our mood at the time, such as stressed or optimistic. **How then can we take into account the impact of our environment on our decisions?**

We have a natural propensity to take shortcuts

We naturally tend to rely upon rules of thumb when we make decisions, e.g., "the business is healthy so long as certain ratios are kept within a given range"; "outsourcing is a good way to cut costs"; "whenever you are in doubt, it's better to pull the plug on new recruits at the end of their trial period"; etc. These shortcuts are necessary and save precious time. However, they can be dangerous if we apply them mechanically, without checking their relevance to the situation at hand. **So, how can we preserve our ability to make decisions without taking dangerous shortcuts?**

Develop five reflexes to make more reliable decisions.

1. **Listen to others**, but maintain perspective
2. Take account of the **context**
3. See the **big picture**
4. **Expand** your decision-making scope
5. Avoid **black-or-white thinking**

1st reflex

Listen to others, but maintain perspective

Three common illusions

We are influenced by others primarily on an emotional level, as, paradoxically, three common illusions prevent us from paying sufficient attention to others' opinions:

- **Illusion of superiority.**
  We often think we will succeed where others have failed, because we overestimate our own abilities.
  e.g.: A 1976 study showed that 85 percent of American college students felt they were above average in their class!
- **Illusion of optimism.**
  We feel the future will be brighter for us than for others.
  e.g.: On average, companies tend to believe the chances their new product will succeed to be higher than the industry average.
- **Ilusion of control.**
  We often believe we can control situations which largely depend on luck.
  e.g.: Most people throw dice harder when they are hoping to roll a high number and softer for a low number.

Making decisions is by nature a social activity. Even when we are certain our choices are founded upon our own experience and convictions, **the opinion of those around us has a great influence.** If we are not cognizant of this influence, the quality of our decisions may suffer.

We are socially influenced by peer pressure and our desire to be part of the group. For example, we tend to conform to the majority opinion when making **collective decisions**, even if it is contradicted by our own knowledge and experience. Being aware of this trap is the best way to avoid it. For instance, those participating in the decision-making process could each be asked to note down what they feel would be the best decision before going around the table. That way, if their views change during the discussion, the influence of others will be more apparent. A classic but effective technique consists in naming a devil's advocate or inviting someone with a radically different point of view to the meeting – a union representative to a management committee meeting, a customer to a sales meeting, etc. Because these individuals play a role which gives them the right to distance themselves from the dominant opinion, they can effectively help to combat "groupthink."

> We are influenced, most often involuntarily, by those around us.

The influence of others is also apparent in our **individual decisions.** Our desire to be well considered and live up to the perceived expectations of those around us can lead us – more or less consciously – to make unfortunate decisions to impress or please others, avoid appearing weak, etc. For example, a manager may decide to placate a subordinate with a promotion he or she does not really deserve. The challenge lies in being aware of the real motives behind our decisions. We are therefore advised to think about our underlying motives carefully – either on our own or with a trusted advisor – before making any important decision.

Paradoxically, one of the reasons we are excessively influenced by those around is us that we don't ask for their opinion enough! Studies show that decision-makers tend to overestimate the unique character of their situation, and thus unfortunately deprive themselves of the experience that others could contribute. To make more reliable decisions, we must therefore take conscious account of the influence of those around us in order to **capitalize on collective wisdom while maintaining our free will.**

"Most of us are unduly optimistic a good deal of the time."
Think Twice, Michael J. Mauboussin, Harvard Business Press, 2009.

Combat groupthink

People spontaneously tend to rally round the majority opinion, even when it runs counter to their own perceptions or experience. So, to make good collective decisions, we must actively combat this phenomenon.

SYMPTOMS OF GROUPTHINK	HOW TO FIGHT GROUPTHINK
Self censorship, for fear of contradicting the majority.	• **Name a devil's advocate** to encourage the other members of the group to express opinions that differ from the dominant opinion. e.g.: Choose a different person to play the devil's advocate at each meeting.
Exclusion of people whose views oppose the majority opinion, considered to be "difficult" or "disloyal."	• **Recognize the minority point of view** and take these arguments into consideration, to oblige the group to think of alternative solutions. e.g.: When reporting on the discussion, clearly state the minority opinion and its underlying arguments.
The absence of disagreement, creating an illusion of unanimity and leading to a hasty consensus.	• **Ensure that the leader does not state his or her point of view too soon**. • **Diversify the group** by including people with different temperaments and backgrounds, to encourage the expression of different viewpoints. e.g.: Nissan's development teams deliberately included people whose personality, work style, vision and priorities were diametrically opposed. The vehicles designed by these teams won numerous professional awards.

2nd reflex
Take account of the **context**

Our decisions are strongly influenced by the context in which they are made. Under stress, for example, we tend to oscillate between excessively avoiding risk altogether and taking immoderate risk! If we are in love, we are much more optimistic about the chances that an investment decision will be successful. If a subordinate annoys us, we tend to reject any idea from that particular individual. Etc. We must therefore learn to decipher the influence of this context to manage our natural proclivities before making important decisions.

> We allow ourselves to be too easily influenced by present circumstances.

When we draw inspiration from our past decisions or those taken by others, it is even more important to understand the influence of surrounding circumstances. Otherwise, we may very well reproduce decisions that are no longer relevant to a **very different set of circumstances for which our past experience is no help**. Indeed, we are often subject to what the author of *Think Twice* calls "fundamental attribution error" in which we tend to explain success or failure by the intrinsic quality of a decision, although in fact, the context played a more decisive role. U.S. auto makers learned this at their expense during their initial attempts to emulate the "just-in-time" production system of their Japanese competitors. This proven production method seemed like an excellent choice. However, given the cultural context of U.S. factories, this theoretically sound decision failed miserably.

Check-list

Before making any major decision, ask yourself the following questions:

- **What impact does the sensory environment have on you (sounds, sights, smells, etc.)?**
  e.g.: You will likely cede more rapidly in a negotiation conducted in a room that is too warm and confined.
- **What is your emotional state?**
  e.g.: Are you excited by the potential gain, worried about the image you might convey, tired, etc.?
- **How is this choice presented?**
  e.g.: Your decision may well differ depending on whether the choice is presented in terms of a loss to avoid or a potential gain.
- **How do the circumstances differ from your past decisions?**
  e.g.: Emergence of a new competitor, changing customer expectations or labor climate, etc.

3rd reflex
Take a look at the **big picture**

When we must make a complex decision, we naturally simplify the problem at hand by breaking it down in order to more easily grasp each component. For example, when launching a new product, we study customer needs, competitive positioning, product features, packaging, advertising messages, etc. Similarly, to assess an employee, we calibrate performance relative to an established checklist. This analytical approach is helpful in avoiding the omission of any important aspect of the topic.

> Complete your analysis by looking at the big picture.

Yet, in conducting this analysis, we must keep in mind that **the final decision must be made in light of the big picture**. That is, a good big decision is not just a collection of good small decisions. An interesting metaphor is provided by a scientific experiment designed to draw the portrait of the perfect woman. After including all of the features recognized as most attractive by a representative panel of men, the researchers were disappointed to observe that the resulting montage was considered less appealing than many real faces containing flaws.

To avoid losing sight of the big picture through over-analysis, it is essential to **examine the interrelationships between the constituent elements of a decision**. For example, a price increase may cause sales to fall. However, if a price increase is coordinated with a packaging upgrade, sales may increase instead. An effective way to understand these interactions is to conduct simulations, where the impact of the decision is projected within various scenarios in order to better grasp the situation as a whole.

Common traps

Several cognitive traps can cause bad decisions in complex systems.

- **Extrapolating individual behavior to understand collective behavior**
  e.g.: Understanding how individual traders behave is not sufficient to predict stock market trends.
- **Considering a factor in isolation**
  e.g.: A "star" executive should not be hired to turn the company around without considering the impact of the latter's previous context on his or her performance.
- **Modifying one component without considering the consequences on the entire system**
  e.g.: Launching a new product could trigger a violent competitive reaction and completely change the rules in the industry.

Helpful tips

A systemic approach can be used to avoid being overly influenced by the first option that comes to mind.

- **Reformulate the question several times**, expanding it each time. If necessary, ask neutral third parties how they would articulate the problem.
- **List your assumptions**. See if challenging them could expand your options.
- **Enumerate all available alternatives.** Force yourself to continue looking for other opportunities, even if the first solutions you consider seem satisfactory.
- **List your constraints.** See if lifting these constraints would help you consider other options.

"Failure to entertain options or possibilities can lead to dire consequences."
Think Twice, Michael J. Mauboussin, Harvard Business Press, 2009.

Examples

Deciding between two options is not always necessary. Here are several examples:

- Rather than choosing between shares and bonds, think of financial products bearing intermediate risk.
- Rather than deciding whether or not to purchase expensive equipment outright, consider a leasing agreement with a purchase option.
- Rather than choosing to give up on a secondary feature or put in a lot of overtime to meet a delivery deadline, try to negotiate for more time or phased delivery.
- Rather than choosing between raising pay and upsetting your employees, offer fringe benefits instead.

4th reflex
Expand your decision-making scope

Many bad decisions are caused by an overly simplistic vision of the problem to be resolved. We are thus advised to **make a habit of systematically pondering the real issue at hand**.

We naturally tend to tackle problems from the angle of the first solution that comes to mind. *"Should I give a raise to this good employee to keep him or her from quitting?"* Now, although this solution is certainly a possibility, **expanding the question** is a good way to imagine much more satisfactory alternatives. For example, *"What could I do to re-motivate this employee?"* or even *"What would happen if this employee does quit? Could I turn it into an opportunity?"*

> A narrow vision of the problem causes many decision-making blunders.

Because our thinking is based on a set of assumptions, we naturally tend to restrict ourselves to options compatible with those assumptions. In the aforementioned example, I am assuming that salary is a decisive factor in the employee's decision to stay or go. What if this particular individual wants to leave for reasons that are completely beyond my control? I am also assuming that competent employees must be retained. What if the person were a good employee, but a bad team player? Etc. **Identifying and validating your assumptions** is thus a critical prerequisite to making a good decision.

5th reflex
Avoid **black-or-white thinking**

Finally, we often restrict ourselves by tackling decisions with a binary mindset, i.e., yes-or-no decisions to launch a new product, initiate a change program, etc. By seeing things in black and white, we may paralyze ourselves. Indeed, doing nothing often seems less risky – as we are familiar with the status quo – and cheaper – as we don't have to undertake the effort to change. However, this perception is biased. Doing nothing can be risky, and redirecting your efforts is not always more costly. The **status quo must be put into perspective**, and regarded as one option among others, and not as the choice by default. This mindset is helpful in conducting a more objective analysis of the risks and cost of inaction.

> Decisions are not necessarily binary.

Different possibilities can be considered by refusing to make a cut-and-dry decision between two fixed options. For example, a pilot test could be launched before the decision is made to roll out a full program. The benefits of one option can also be used to improve another. Rather than immediately making costly investments, for instance, could a certain amount of flexibility be maintained by developing an alliance with partners? It is often possible to improve decisions dramatically by imagining intermediary solutions rather than forcing a decision between two opposing options.

A few opportunities to explore

You can often optimize your decisions by seeking alternatives to the initial set of options:

Seek the middle ground	Recruit a part-time or flex-time employee, rather than choosing between hiring no one at all and taking the risk of hiring someone full time.
Take an option	Register a patent and a brand name and prepare your strategy to be ready to launch an offering if the market takes off.
Hedge your bet	Invest in developing an alternative that is likely to succeed in the event that assumptions on which a new offering is based turn out to be wrong.
Decide in stages	Invest to conduct additional research to have more information when the time comes to make more serious investment decisions.