Why is it so challenging to make ==strategic decisions== involving multiple decision makers?

Quick links

We make A LOT of decisions every day

24:00:00

35,000

Decisions per day

00:**01**:00

2,000

Decisions per hour

00:00:**02**

1

Decision every two seconds

36.82

Average ==weekly hours== in OECD countries in 2019

>>

73,640

Decisions an average manager makes ==in a week==

This includes everything from deciding to drink a glass of water to sending an important email and everything in between.

At work we make ==at least two different types== of decisions.

Everyday Decisions

Decisions to ==improve efficiency or productivity== of your daily work.

Such decisions usually involve some form of reorganisation or reallocation of existing resources and can be made without much analysis or deliberation.

Strategic Decisions

Decisions to improve to improve growth, competitiveness and overall ==survival of your business==.

Such decisions often involve exhaustive analysis, discussions with stakeholders and significant commitment of organisational resources.

Strategic Decisions ==Set the Pace== for Everyday Decisions in very Meaningful Ways.

What happened at Wells Fargo?

Wells Fargo is a well-cited case for how poor performance management can lead to disastrous results.

But there's more to the story than greed and poorly managed sales incentives.

One explanation of what happened at Wells Fargo deals with how ==poorly formed strategic decisions cascaded into hundreds and thousands of poor daily decisions== ultimately leading to loss and ruin.

So, what really happened at Wells Fargo?

At Wells Fargo, employees were incentivised and pressured to cross-sell products to existing customers.

Sales incentives are the most commonly used performance management tool. So what was so different here?

In my opinion, one culprit could be their sales strategy. Built around selling eight products per customer eventually lead to a permissive culture of underhanded sales practices.

Perhaps, I'm over simplifying and in reality the management at Wells Fargo was well aware of the risks but they went ahead anyway.

Obviously, Wells Fargo can be considered an outlier for how poor strategic decisions can lead to ruin. It does make you wonder though, how good organisations *really* are at making successful strategic decisions?
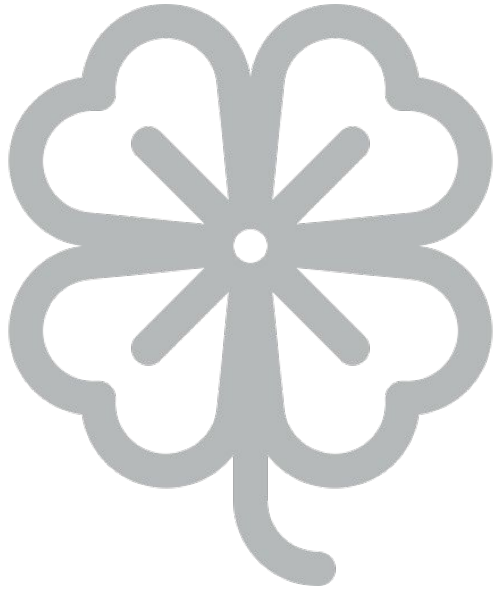
According to a McKinsey survey, 72% of senior executives believe that bad strategic decisions are "about as frequent as good ones or were the prevailing norm in their organization."
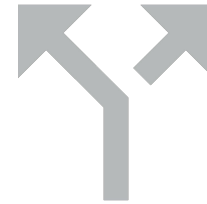
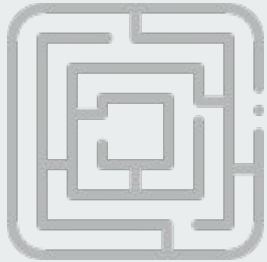# What makes strategic decision-making ==so challenging==?

Growing body of research from Behavioural Economics and Management Science points towards two culprits.

Cognitive Biases

Absence of a formal process for Decision Analysis

==Cognitive Biases== and their affect on decision making

What is a Cognitive Bias?

A Cognitive Bias is a type of ==error in thinking== that affects our decision making and judgement.

==No one is free of cognitive biases== because it's an evolutionary mechanism evolved to help be selective in how and where we invest our limited thinking capacity.

Cognitive Biases commonly related to memory (how we remember events?) and attention (what we pay attention to?) ==regularly influence our judgement.==

How cognitive biases work?

The human brain is powerful but has a ==finite capacity== to process information. Cognitive biases help us simplify information processing using =='rules-of-thumb'== or shortcuts aka Heuristics designed to help us jump to a conclusion without spending too much effort.

Are cognitive biases bad?

Cognitive biases ==aren't bad==. In fact they can be surprisingly effective. Developed through our ==past experiences, emotional needs or social pressures== left unchecked they bypass critical thinking and lead to poor decisions and bad judgements.

Why does it matter?

Daniel Kahneman and Amos Tversky through their research in cognitive psychology and behavioural economics identified two modes of thought, a faster more instinctive and emotional, slower more deliberate and logical one.

System 1

The more intuitive way of thinking lead by our emotions, feelings, intentions and impressions. Always ready to jump into action and help us effortlessly do things we're familiar with.
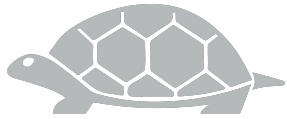
System 2

The more deliberate way of thinking lead by logic and effortful thinking. This is the system that kicks-in when the stakes are high and deliberate reasoning is required.

Most of the time System 1 determines our thoughts and our actions.

(System 1 is also where our biases live.)

COGNITIVE BIAS CODEX

What Should We Remember?

We store memories differently based on how they were experienced

We reduce events and lists to their key elements

We discard specifics to form generalities

We edit and reinforce some memories after the fact

We favor simple-looking options and complete information over complex, ambiguous options

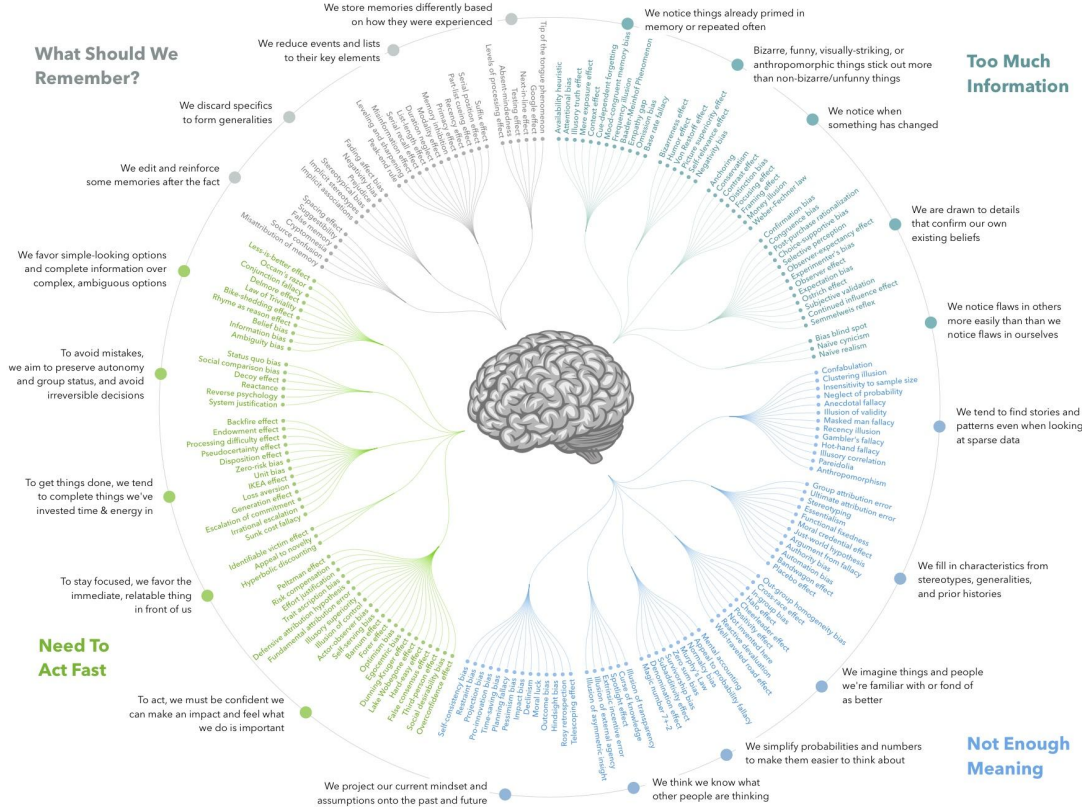To avoid mistakes, we aim to preserve autonomy and group status, and avoid irreversible decisions

To get things done, we tend to complete things we've invested time & energy in

To stay focused, we favor the immediate, relatable thing in front of us

Need To Act Fast

To act, we must be confident we can make an impact and feel what we do is important

We project our current mindset and assumptions onto the past and future

We think we know what other people are thinking

We simplify probabilities and numbers to make them easier to think about

Not Enough Meaning

We imagine things and people we're familiar with or fond of as better

We fill in characteristics from stereotypes, generalities, and prior histories

We tend to find stories and patterns even when looking at sparse data

We notice flaws in others more easily than than we notice flaws in ourselves

We are drawn to details that confirm our own existing beliefs

We notice when something has changed

Too Much Information

Bizarre, funny, visually-striking, or anthropomorphic things stick out more than non-bizarre/unfunny things

We notice things already primed in memory or repeated often

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Different Cognitive Biases have so far been identified.

I will explore ==9 major Cognitive Biases== that researchers have found to have the strongest effect on decision making.

🔍 [View original image](#).

Confirmation Bias

Confirmation Bias can lead us to ==disregard any new information== that contradicts our long-held beliefs.

Confirmation bias leads us to ==seek, prefer, interpret and even recall information== in a way that confirms our pre-existing beliefs.

Confirmation bias is in action when we disregard any unfavourable news about our favourite political candidate that doesn't confirm our existing ideals.

Anchoring

Anchoring bias happens when we put too much value on the ==information we already have== when making new decisions.

Anchoring leads us to question the quality of a product from an unfamiliar brand compared to a product with similar features from a well-known or familiar brand.

Over ==reliance on what we already know== without seeking and evaluating new information often leads to poor decisions.

Loss Aversion

==Psychological pain of losing something== is 2X stronger than the pleasure of gaining something else of equal value.

==Free-trials== are a great example of how loss aversion is frequently used in marketing.

Loss Aversions is a strong motivator that can lead us to purchase software that we started using on a free-trial.

Affect Heuristic

When evaluating something we like, we tend to ==exaggerate the benefits and down play any risks== and do the opposite for things we dislike.

Once you've had a bad experience eating seafood at one restaurant you're more likely to think less of restaurants that offer seafood.

Decisions made under affect heuristics are heavily ==influenced by our emotions== and how we feel about something.

Sunk Cost Fallacy

We are committing this fallacy when we ==justify future investments== based on unrelated previous costs.

Imagine you made plans with a friend to see their favourite band play live. You also paid 50 € for your ticket. Your friend had promised to drive you but on the day of the concert she gets sick.

If you decide to spend 100 € for a taxi trip to take you to the concert simply because you've already spent 50 € on the ticket then you're spending more money just to ==make up for a sunk cost==.

Salience Bias

Believing that something or someone is important simply ==because of their prominence== is salience bias.

Often Call-to-Action buttons are designed to be easily accessible and made to stand out using bright or contrasting colours.

By making something e.g. a CTA Button more salient we can ==improve the likelihood== of people paying attention to it and eventually interacting with it.

Availability Bias

When making decisions about risk or reward we over emphasise information we can ==easily recall==.

An unfortunate event such as a plane crash gets more coverage than most car accidents. This often leads people to closely associate air travel with accidents..

Statistics prove that more people are injured in every day road accident in a year than during air travel. But Availability Bias can lead you to false conclusions.

Planning Fallacy

When planning for the future we tend to ==underestimate the time, cost and risk==.

It's commonly believed that projects both large and small often ==miss deadlines and go over budget==. Yet most project plans are overly optimistic.

A well-known example of this is the construction of the Sydney Opera House. Planned to be completed in 1963 for 7 million dollars, it was actually completed in 1973 for a total cost of 102 million dollars.

Probability Neglect

Believing that activities that we're commonly involved in ==are less risky== than uncommon ones.

For most amateur swimmers the prospect of going for a swim in a pool seems a lot safer than going for a swim in the sea.

Both environments come with their own inherent risks and rewards that should be objectively evaluated. Our familiarity with the environment or activity can often lead us to a ==false sense of security==.

Cognitive Biases & Decision Making

As individuals we generally accept the decisions we make, based on our intuition or experience, on ==face value alone==.

Simply knowing that our decisions are biased ==doesn't help us recognise== when we're taking these psychological shortcuts to decision making.
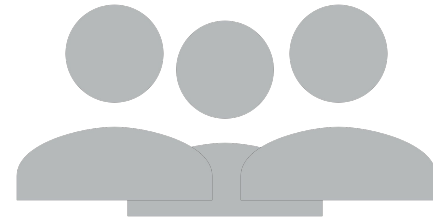
In organisations where decisions are often made by groups of people, the collective impact of Cognitive Biases of the people involved in decision making can lead to a number of ==new challenges==.

I'll explore these challenges next.

Cognitive Biases & Decision Making

Groupthink

Groupthink occurs when rational and independent members of a group strive to get a consensus in order to ==maximise harmony and conformity== as opposed to argue and debate possible alternatives, risks and rewards.

Decisions made under groupthink are often done ==without proper critical thinking and evaluation== of possible alternatives.

The Halo Effect

The Halo Effect is an error in judgement where the positive qualities or benefits of a decision ==form the basis== that the same decision will be successful in a different scenario as well.

A previous successful decision can lead a team to believe that they can be just as successful in a completely different scenario ==without proper analysis.==

How much do poor decisions really cost?

6,9 pts

5,3 pts

Bottom
Performers

Top
Performers

Return on Investment
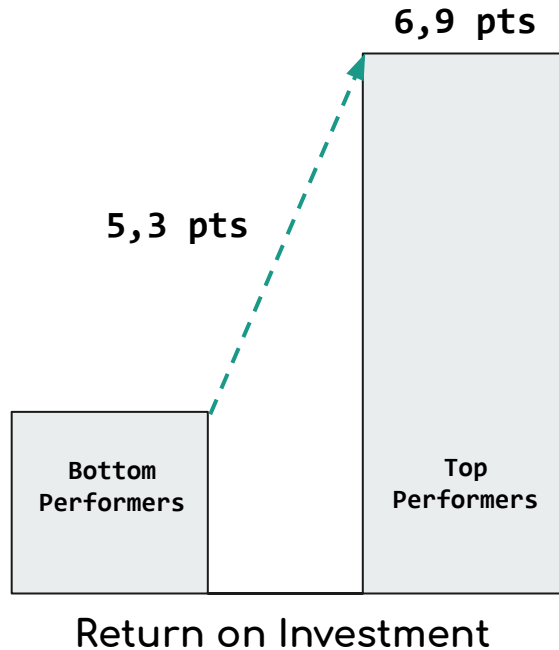
A McKinsey survey of 2,207 executives concluded that organisations utilising a systematic process for data analysis and decision-making saw a Return on Investment (ROI) of 6,9 percentage points on their investments.

The difference in ROI between the top performers and organisations lacking a systematic approach to decision-making was 5,3 percentage points.

"Good analysis in the hands of managers who have good judgement won't naturally yield good decisions."

What's needed is a process that identifies biases and limits their impact.

Building a Systematic Process for Decision-Making and Decision Quality Analysis

Is it really necessary to have yet another process?

Reviewing recommendations made by others and deciding to accept or reject them are the ==most common type== of decisions executives make.

While it can often be challenging to recognise one's own biases, executives can improve the decision-making process by applying rational thinking and reasoning (your System 2) to ==identify errors in judgement== in others.

This is where a ==systematic process== for decision-making and analysis comes in handy.

Benefits of having a systematic process for decision-making & analysis:

1. ==Identify biases== most likely to affect decision-making.

2. ==Establish practices== and tools for countering the effect of biases.

3. ==Nurture a culture== where a disciplined process, not individual genius, is rewarded.

How to recognise if your organisation needs a process for decision making and analysis

Authors of the book, Think Again - How Good Leaders make Bad Decisions and How to Keep it from Happening to You, recommend looking out for the following ==red flags under which decision-making is most likely flawed==.

Misleading Experiences

Executives and other decision makers in your organisation do not recognise their ==lack of experience or knowledge== or take steps to minimise the gap especially when dealing with unfamiliar situations.

Misleading Prejudgements

Executives and other decision makers in your organisation ==over emphasise past experiences and knowledge== even when approaching unfamiliar situations.
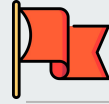
Inappropriate Self-interest

Self-interest can be a big motivator. However, in the absence of a process to recognise, address and properly manage ==rewards and expectations==, it can lead to poor judgement.

Inappropriate Attachments

Beyond self-interest, objective analysis can be clouded when people feel the need to protect their ==own interest or that of others'== they feel closely attached to.

Tools that Organisations and Executives can Use to Improve Decision Quality
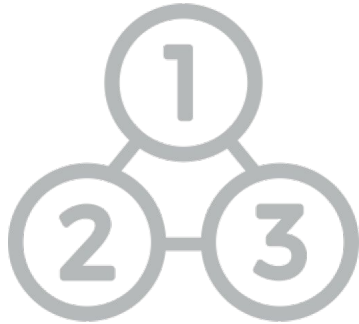
Decision Quality (DQ) Framework
A framework for improving the quality of decision-making at an ==organisational== level.

Decision Quality Control Checklist
A tool for ==executives== that can aid in discovering errors in judgment in people making the recommendations.

A Framework for Improving Decision Quality

Decision Quality (DQ) is a framework of processes and tools that aid in making high-quality decisions that capture the most value or get you to the best outcome amidst uncertainty.

Framing the problem

Considering Alternatives

Gathering Meaningful Data

Clarifying Values & Tradeoffs

Encouraging Reasoning & Debate

Commitment to Action

Decision Quality Framework (DQ)

01 — Correctly Framing the Problem
Ensuring that the right people will work on the right problems the right way requires alignment on the purpose, perspective and scope of the problem being solved.

02 — Evaluating Best Alternatives
Before deciding on any one solution discover and debate every best alternative solution available for solving the problem.

03 — Gathering Meaningful Data
Quality of a decision is only as good as your understanding of it. Make sure that you're aware of the gaps in your knowledge by addressing the uncertainties, biases and dependencies.

04 — Clarify Values & Trade-offs
Recognise the requirements of everyone affected by the decision. Evaluate possible trade-offs and avoid compromising on the ultimate objective.

05 — Encourage Reasoning & Debate
Fastidiousness not consensus is the hallmark of a good decision. Encourage reasoning and debate and where possible use decision analysis to arrive at the best choice.

Improve Decision-Quality by Improving the Decision-Making Process

The fundamental purpose of DQ framework is to improve effectiveness and efficiency of the problem-solving process.

Decision Quality Framework doesn't guarantee better decisions, instead it's a process that allows you to focus on measuring and improving the quality of a decision when it's made.

Over time you can improve the quality of the decisions your organisation makes by comparing the quality of your decision-making process against the outcomes.

Only use this checklist yourself if you haven't been involved in making the recommendation. Otherwise ask someone else who can be completely objective.

Decision Quality Control Checklist

Decision Quality Checklist is a tool for decision-makers. Based on 12-questions it's designed to ==unearth the cognitive biases== of the teams making recommendations.

Since we're unable to recognise our own biases, the developers of this tool, Daniel Kahneman, Dan Lovallo and Olivier Sibony ==caution== that executives using this checklist should be completely independent of the team making the recommendations.

12 Questions

Is there any reason to suspect errors driven by the ==self-interest== of the recommending team?

It's recommended never to ask this question directly. Since preference for certain outcomes are present in every recommendation, executives should look out for ==minimising the risk== of such errors. (See Confirmation Bias & Loss Aversion.)

Did anyone in the team making the recommendation ==disagree== with the team's proposal?

Recall Groupthink. Often teams making the recommendation present a unanimous front. Executive should ==unearth if there were any opposing views== within the group and whether those views were objectively analysed.

Have the team making the recommendation ==fallen in love== with it?

Recall Affect Heuristic; often people making the recommendations can be ==driven by a strong passion== for the project or the outcome. Executives should ask to see objective and relevant data when making a decision.

Is there a chance that the recommending team over-emphasised a ==past success== in making their proposal?

Recall Saliency Bias. Executives who suspect that the team has been ==overly influenced== by a past success in making their recommendation should ask the team to explore alternative options.

12 Questions

Has the team objectively evaluated all <mark>credible alternatives</mark>?

A good [decision-making process](#) isn't complete unless the best alternatives have been evaluated. Executives should ask the recommending team to submit 2 - 3 <mark>alternative proposals</mark> complete with equally objective and fact-bast analysis.

Do you know <mark>the source</mark> of data used to create projections?

Recall [Anchoring Bias](#); projections delivered by a team can be anchored to an inaccurate or an estimated value. Executives should help the team <mark>reevaluate their estimates</mark> by asking them to create new projections after reanchoring to a different value.

Are you aware of all known-known and known-unknown <mark>gaps in information</mark> required to make this decision?

We often fall victim to believing WYSIATI - what you see is all there is. Executives should seek details on both the <mark>availability and gaps in data</mark> that's required to make a good decision.

Can you detect the <mark>Halo Effect</mark>?

[The Halo Effect](#) happens when the successes and failures of a project are attributed to personalities of the people leading them. Executives should <mark>ask for other comparisons</mark> if the current benchmarks seem to overvalue a specific person, product or a brand.

12 Questions

Do the recommendations overvalue certain ==past decisions==?

Recall Sunk-Cost Fallacy. Loss aversion is a powerful motivator. Executives should be vary if the recommendations point towards ==saving or revitalising an existing project== that has failed to meet its performance targets. Also remember to separate past investments when they don't affect the future costs or revenues.

Is the primary hypothesis ==overly optimistic or simplistic==?

Recall Planning Fallacy. Organisations often fall victim to seeing the world from their own and largely limited perspective, often overlooking the ==impact of external forces== e.g. competitors and new technologies. Executives should ask the team to deliver benchmark with other similar projects outside their organisation.

Is the ==worst case scenario== bad enough?

Project teams are often asked to deliver best to worst scenarios. In case the worst case scenario isn't really all that bad, executives can ==improve risk assessment & mitigation== by asking the team to deliver a 'Premorte'. It's an exercise in which the team has to pretend that the worst scenario has happened and then describe how and why.
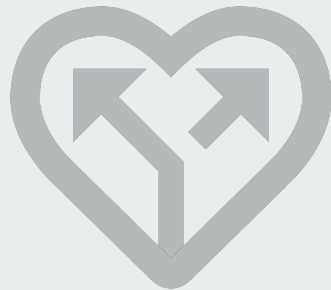
Is the proposed plan ==ambitious== enough?

The flip side of not being cautious enough is becoming too cautious. Recall Loss Aversion. Executives can help the team feel more confident and reassured by taking personal ==ownership of the project== or by sharing the responsibility of the risk.

Building a ==Culture== for Smarter Decision Making

Going beyond the executives and senior management, elevating the ==quality of everyday decisions== requires a cultural change.

Culture eats strategy for breakfast.

Peter Drucker

Principles for Making Smarter Everyday Decisions

We control our actions, but the ==consequences== that flow from those actions are controlled by principles.

Stephen R. Covey

Stephen R. Covey decribed principles as rules that are ==universal and unchanging==. Whereas values, in his view, both personal or organisational are subjective and change overtime.

In decision-making think of Principles as the rules providing guidelines for ==how decisions are made== versus your values will determine what types of decisions are necessary.

What you value and which principles you follow build your organisation's culture. Overtime your values and priorities will change but your principles will ensure the ==quality and consistency== in decision-making.

Principle #1

Create and adhere to a set of ==clear and explicit== 'Philosophical Beliefs' that guide decision-making across your organisation.

The first Principle comes from the COO of Stripe.

Communication and alignment on core values and principles is simpler when decisions are made by a small or select group of people.

As more people become responsible for decision-making, organisations needs to document the rules and frameworks that are used to guide decision making.

Making these tenants well documented and easily accessible to both existing and new people in your organisation ensures that all decisions, even when made under different circumstances, follow the same basic principles.

Find the complete list of Stripes 'Philosophical Beliefs' here.

Principle #2

Ensuring ==psychological safety== of the people affected by the decision is what ultimately separates a good decision from a bad one.

A decision alone, even when made following a good process, doesn't automatically ensure a commitment from the people who are going to make it happen.

Ensuring psychological safety i.e. ==addressing people's' fears and anxieties== by listening to their thoughts and opinions is an important and mostly overlooked step in the decision making process.

Principle #3

Proactively build ==transparency and accountability== **in your decision-making process.**

You're not truly responsible unless you have the authority to make necessary decisions related to your job. And you can't be truly effective at wielding authority unless you're ==held accountable for your decisions==.

This is a golden rule for effective decision-making involving multiple people, teams or business units.

[RACI-Model](#) is a simple tool that can be used to integrate this principle into your decision-making process.

Transparency and accountability take ambiguity out of the decision-making process.

Here's an [example](#) of the RACI-Model applied to Starwars.

Principle #4

Reaching ==consensus isn't a hallmark== of a good decision.

It's a folly to consider compromise and consensus as an important milestones in a decision-making process.

More important than reaching a compromise is ensuring that everyone is heard, the process is transparent and fair, and the right person is given the responsibility to make the final decision.

Principle #5

Most decisions have an <mark>expiration date</mark>. Set yours and stick to it.

Some decisions have dire consequences for getting wrong. Such decisions take time but most other decisions are reversible. Spending the same amount of time and resources on every decision can quickly turn into a massive overhead.

At the start of every decision-making process clarify how much time and effort will be invested in making the decision.

Doing this right at the beginning forces you to evaluate the inherent value of the decision to your organisation.

Then deciding who needs to be involved in the process and what their roles and responsibilities would be becomes a lot simpler.

Putting it together

Managers need to make tactical or **every day decisions** as well as long-term or **strategic decisions**. **How a decision is made** is just as important as what decisions are made.

Decisions made through a systematic process involving data analysis result into **higher ROI**.

Two biggest challenges that make decision-making challenging are 1) **Lack of Process** and 2) **Cognitive Biases**.

You can learn to recognise the **most common biases** that affect judgement but you will still need a systematic process to mitigate their effect on decision-making.

Beyond the **tools available** for improving personal and organisational decision-making, a cultural shift is necessary to improve the quality of every day decisions.

Incorporating **tried and tested principles** are essential for building a lasting culture of good decision-making.

Sources & Further Reading

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