

Our Mission

To help individuals, teams and organizations reach their potential through strategic planning, innovative coaching, development of team effectiveness and management consulting.

Cook & Company Areas of Concentration

Strategy

Coaching

Assessments

Team Building

Consulting

Corporate Reputation

Social Media Marketing

Training

Workshops & Retreats

Mergers & Acquisitions

Ethical Performance

Making Better Decisions—Part One

By Gary M. Cook

All of us want to make better decisions, both in our professional and in our personal lives.

But most of us have difficulty doing this. Why?

To find the answer we need to tease apart the decision-making process, beginning with those hidden biases that all of us have to one degree or another.

In this and at least one subsequent newsletter we will discuss why decision-making processes are important (we're not as free of bias as we think we are!), how to improve those processes, and what results we should expect.

This newsletter focuses on the built-in biases that bedevil all of us when making decisions, and why decision *process* is as important, if not more so, than the *quality of analysis*.

A good representation of the importance of the decision-making process is found in the following simple diagram.

Good Decisions and Good Process

		Outcome	
		Good	Bad
Process Used to Make the Decision	Good	Deserved Success	Bad Break
	Bad	Dumb Luck	Poetic Justice

Source: Russo and Schoemaker, *Winning Decisions*, 5. Reproduced with permission.

As you can see, there's really only one outcome where you can have confidence that a well-made decision will lead to other well-made decisions. In fact some interesting analysis done both at McKinsey & Co. and elsewhere suggests that the quality of the decision-making *process* is consistently more important than the quality of *analysis* used to make decisions. For example, in one study of over 1,000 decisions, the quality of decision-making process appeared to be almost

50% more important than the quality of the analysis done.

Let's turn to the question of biases. To understand how biases affect us, please take a moment to answer the following questions:

1. In what decile of performance do you believe your driving skills fall?
2. How realistic do you believe people typically are in terms of evaluating their own performance in general? What subset of the human species do you think is the most accurate in evaluating their own performance?
3. Columbus discovered America in 1492. In what year do you think the Ottoman Empire was founded?
4. To what extent do you believe that having more information leads to better decisions?
5. To what extent do you believe that "experts" make better decisions as they grow more familiar with their subjects?

In most cases, the correct answers are counterintuitive to the thinking most of us do.

Here are the answers:

1. Regarding driving skills, typically 60% of any given group believes that they are in the top 10% of driving skills. What's even more startling is that typically 20% believe they are in the top 2% of driving skills, even though there is no reason to believe one random group you are in is any better at driving than any other random group.
2. Studies done at academic institutions indicate that a similar proportion of people believe that they are the highest perform-

Cook & Company Commentary

ers in any given area, be it in teaching competence, competence as a student, relative performance versus one's peers in industry, or relative ability to provide consumer satisfaction. In all of these we consistently overestimate the superiority of our own performance.

Interestingly, the only subset of the human species that appears to have an accurate view of their performance is, believe it or not, those that are clinically depressed!

So when we make decisions, all of us start with some significant disadvantages in terms of overestimating our competence.

3. If you said that the Ottoman Empire was established in either the 1300s or the 1400s, you would be one of the majority of people who estimate the answer to this question wrongly. Why do so many people make estimates in this bracket? Because once we have a number in our mind (in this case, 1492), we tend to "anchor" the answer to a subsequent question in the answer to the first question (so the correct answer, more or less 1299, is less often given than random chance would suggest). The same tends to be true, for example, when we negotiate an automobile purchase if we are given a price to start with. (If you've wondered how merchants in bazaars can stay in business when they discount their price by 50% to 75%, this is exactly why: they start with a ridiculously high price, you buy once you have convinced them to cut the price by 50 to 75% believing you have a bargain, and they have still have made a significant amount of money!)
4. Does better information lead to better decisions? In studies done of both the stock market and betting on horse racing, the indication is that the more information people have, actually the less accurate the job they tend to do in terms of predicting outcomes. Why? See below.
5. Do experts get better over time in terms of more accurately forecasting outcomes? Unfortunately, the answer appears to be a resounding no. Three years ago I reported a study done at Yale University which indicated that, in an analysis of over 82,361 predictions made by a wide variety of political pundits, the longer they were in the business of making predictions the less accurate they were. Why? Because we are subject to something called confirmation bias (those in the Middle East refer to this as having "tired ears"), that is, we tend over time to listen more only to information which tends to confirm our views.

In fact, when we look at decision-making more broadly, behavioral scientists have already identified over 200 biases to which we are subject, including everything from the confirmation bias discussed in our Spring 2004 newsletter to "Captainitis" discussed in our Summer 2004 newsletter.

How can we better deal with biases?

While some believe that one can "de-bias" decision-making, our view is that we should admit that we have them, but find ways to offset and/or neutralize them. One of the most important reasons is that biases sometimes are very valuable.

Take pattern recognition: We use this all the time to speed up our decisions. Pattern recognition appears to have developed in humans (and other animals) as a way to rapidly make "mostly right" decisions in the face of danger. Now we call it "tacit knowledge" or "judgment," the ability to make decisions quickly and mostly accurately. We don't want to lose this ability. But in some cases (for example where slight anomalies may actually be "weak signals" of potentially important differences), we want to take cognizance of those signals in our decision-making if we have time to do so.

Here are three possible ways to create such bias-balancing approaches in a team setting:

1. Try to become more aware of your own particularly strong biases. For me, for example, I know that my impatience may tend to make me less willing to look at how some issues may in fact be different than other issues I have successfully resolved in the past. For a good list of issues, go to our website at www.cookcompany.com/behavioralanalysis for a good self-assessment list.
2. In organizational settings where important decisions are being made, try to set up situations where the opposite side of the "obvious" solution is effectively argued, and value those who take the other side.
3. Where a "game changer" situation exists, strive to place "small bets," instead of trying to find the perfect solution immediately. Where you have to make the whole decision, try Warren Buffet's advice, and engage an outside consultant/expert who is paid a success fee only if the decision you are convinced is right is NOT made.

For more information, again consult the information on our website at the above URL.

Next quarter: Focusing on the decision process itself.

**Are you on Twitter?
Follow @GaryCook for our LeaderTweets™**

If you would like to receive these commentaries by e-mail, or if you have a colleague you think might be interested in receiving them, just e-mail your request to: contact@cookcompany.com

