

# *Avoiding Failure in Judgment & Decisions*



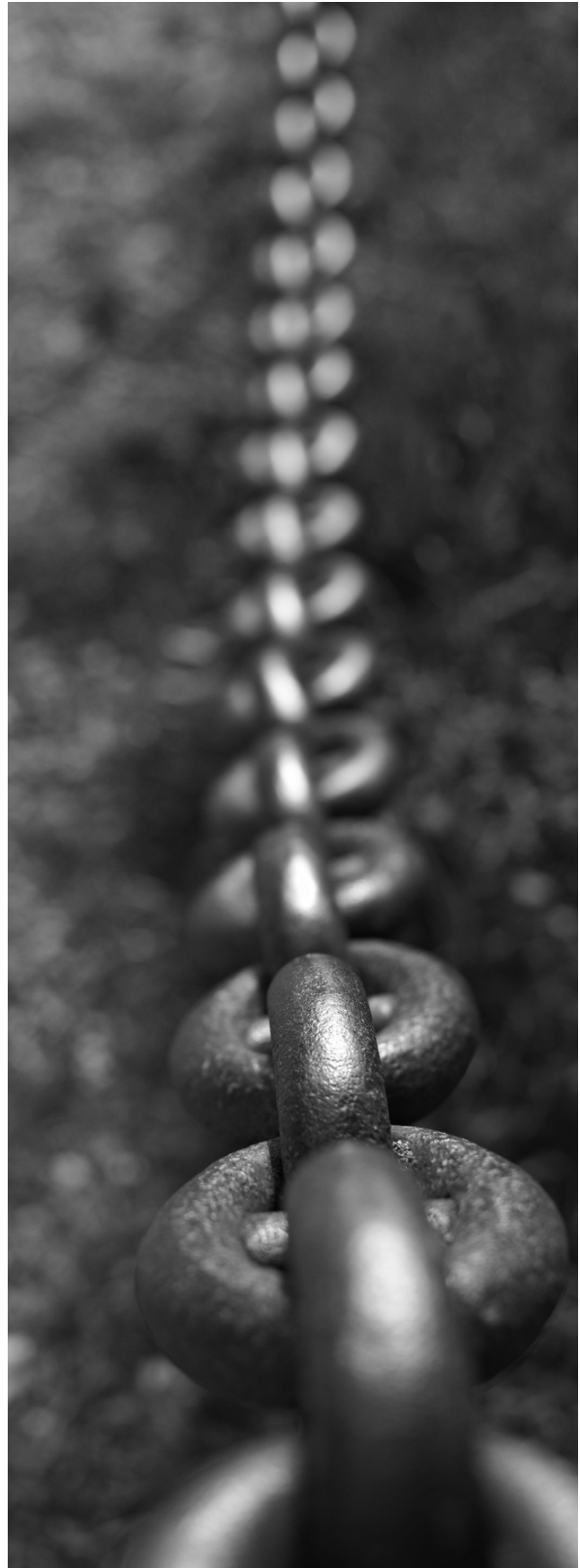
## ***In Our View***

In the science of decision making, we find a well researched and proven “value chain” that helps determine both the nature and the quality of the decisions a person makes. In short, we all base our decisions, especially those we make in business, on a Premise. The Premise (right or wrong), in turn, shapes the Assumptions we then make, which lead to the Conclusions we draw and the Actions we take - or do not take. Technically, it is a little more complicated than that (which we will expand on later in this paper) but for our purposes right now, let’s simply say that Premise and Assumption are the raw materials of all decisions.

It has long bewildered us that leaders do not seem to take either enough care or pay enough attention to the decision making process within their organizations. The same leaders who will spend millions of dollars to improve the efficiency of an outdated IT system, or an inefficient manufacturing system or a faulty sales process have, generally speaking, never really considered spending any money on improving the corporation’s Decision Making Process.

We find that both curious and concerning!

In the next few pages, we will do our best to set out the facts and arguments, and suggest the time is now to consider the obligation we have to lift our game and make sure we do justice to the one element of organizational effectiveness we have been afraid to address for far too long.



## Redefining Failure

There is a popular phrase we have all used, at one time or another, about how we “learn more from our failures than our successes”. If so, then you have to wonder why we have not done a better job of formalising the “learning from mistakes process” in order to improve the learning itself. The fact of the matter is, like so many other urban myths, the words are nice and the thought somehow comfortable and reassuring, but the reality is quite different.

Author and well known “blogger”, Seth Godin, wrote about just this in the September 2010 edition of The Harvard Business Review. It caught our attention. His essential premise is that in order to get better, we need to redefine what it means to fail. We need to broaden the definition of failure so as to better capture the full magnitude of the disappointment we create by the poor decisions we make.



In short, we will need to apply more rigour and scrutiny to our failures if we want to create new opportunities to reinvent our organizations, the products we offer, the value we create and the people we chose to be our leaders. We need to examine failure not just through the lens of failed outcomes, but also in terms of:

- **Failure of Opportunity**
- **Failure of Trust**
- **Failure of Will**
- **Failure of Priorities**
- **Failure of Respect**

## Decision Making - A Master Competency

Think about it for just a minute.

The “value” created by any leader, team or organization is really the sum total of all of the decisions made by the leader, the team or the organization over time. The improvements we make, the breakthroughs we have, the innovations we spawn and the outcomes we achieve are all, ultimately, based on the quantity and quality of the decisions made, both large and small.

While there has been much literature on the importance of execution (which we do not deny or dismiss) the fact of the matter is, there can be no more important attribute for defining individual or collective success than the ability to make great decisions.



In others words, while executing the decision is important, the things that govern the decision and the decision making process itself are equally important. If so, then:

- **What are the processes that lead to the best decisions?**
- **Who, in our particular organization, best exemplifies good decision making?**
- **How good is the thinking and decision making process we use?**
- **What can we learn and how can we improve it in order to improve results?**

## ***Flaws in Decision Making***

It turns out that, amongst the many factors that go into decision making, there are two mysterious but incredibly powerful functions within the brain that are specifically designed to help us deal with the issue of complexity, which in turn helps us cope with ambiguity and uncertainty. Both of which are on the rise in today's economic reality.

These two mental processes help us make decisions when we don't know what to decide and they can either work for good or evil, as long as we know the difference.

They are:

### **Pattern Recognition**

Our ability to “fill in the blanks” because we have seen a certain pattern in the past and we recognize it. The problem is, this ability is enhanced through experience and the broader the experience repertoire a person has the better the skill is developed and coded in the brain. The more shallow the repertoire, the more likely we will be negatively influenced by misleading judgments.

### **Emotional Tagging**

Our ability to arrive at a decision or make a choice, despite all the empirical or analytical data we might assemble, still requires a human emotion in order to activate it. The problem is, our emotional tag repertoire can either help or hinder our decision making depending upon what are called our Inappropriate Attachments and Inappropriate Self-interests



## The Importance of Context



In our own study of decision making, which has taken us from the works of Daniel Kahneman and Herbert Simon to the more recent musings of people like Tim Brown and Roger Martin, we have come across what we believe is the next great leadership insight. It centers on the value and importance of a new leadership attribute called “Contextual Intelligence” or CQ for short.

It occurs to us that if “experience repertoire” is critical to improving the quality of the decisions a person makes, then it is essentially based on having a rich, robust and diverse past rather than a shallow one.

However, since the past may not be a good predictor of the future, there needs to be a companion competency that is forward oriented and can help us deal with the complexity of the unknown, and that is Contextual Intelligence.

Together, they create the powerful mix that creates decision making excellence.

Contextual Intelligence is the ability to:

- **Accurately assess the changing environment**
- **Read and interpret the important shifts**
- **Make sense out of things**
- **Distil and simplify**

## **The Bias Trap**

There is nothing more crippling to the decision making process than bias. Even with the richest, most varied experience repertoire, and the best honed contextual intelligence, there is still a huge risk of being sideswiped or derailed by bias.

In our work with organizations we see bias all the time. It is always fascinating to see how those who live within an organization, and are products of a certain culture and way of thinking simply do not see what can be so clear to the objective outsider.

As it turns out, there has been a wealth of study into the identification of the many types of bias that infect organizational decision making and lead to errors in judgment. The long list of biases fall into four broad categories.

### **Misleading Experiences**

Conclusions we draw from the past that are incorrect

### **Misleading Prejudgments**

Mental Mindsets that are flawed or irrelevant

### **Inappropriate Self Interests**

Conclusions we draw that are too narrowly defined

### **Inappropriate Attachments**

Beliefs which anchor our thinking in faulty ways



## Inappropriate Responses

Let's just take a moment and summarize what we have been trying to explain so far and see whether or not the logic is sound, the argument valid and the conclusion reasonable.

**Premise:** Better decisions are the objective of any good leader.

**Assumption:** Value is created by the sum total of the decisions we make

**Conclusion:** Decision making is a process and it can be improved continually



If this is a reasonable and rational conclusion, then we should be interested in making it happen and the way to do that would seem to lie in improving the experience repertoire and contextual intelligence of our leaders.

So, if bias is the risk “up front” in the decision making process that can shape or distort our judgment, then we also need to understand it has to be the “back end” risk of inappropriate responses that equally jeopardize our success.

This list can also be bucketed into four broad categories:

- Denial
- Ignorance
- Overcompensation
- Blame

## Thinking by Design

A rich and wonderful body of learning has come forward in the past 10 years or so, led by the design profession and matched by our own rising respect for how things look and feel. Our aesthetic tastes have been developed to a point where we all now increasingly appreciate and value the importance of design, whether it is in the cars we drive, the appliances we use, the experiences we crave or the products that we allow to seduce us.

In this regard, we are huge fans of Tim Brown and his work at IDEO, the industrial design firm from Palo Alto California that has captured so much acclaim for its work and its philosophy on how you make better decisions in order to innovate.

Their premise is elegant in its simplicity. They believe, as leaders and designers of new organizational structures and new solutions for new markets and customer needs, we need new choices. They also believe we have been limiting ourselves to too small a tapestry, and that we have, primarily done so as a coping mechanism in response to rising uncertainty.



## Design Thinking

The essential premise of our argument is that better decisions come from better thinking and that we have not appropriately adjusted our thinking to the changing context. If we want better choices and we want to create new and different possibilities, then we have to address the fact the more traditional linear thinking approach is just not very well suited to the complex, ad hoc world in which we now live.

In fact, it is inappropriate and will only lead to flawed or sub-optimal decisions. The answer is simple, but certainly not convenient or comfortable. We need to change the way we think and then change the way we decide.

If the outcome is new answers to new questions, in order to create new solutions to new problems, then we need to understand what actually leads to the generation of new ideas and that is something called Design Thinking. At the core of the Design Thinking premise is the belief that new ideas, Ideation, needs to be fuelled by something, and that something is Inspiration. Simply put, we need to place a torch under that part of the human spirit which sparks Imagination.

We need to improve our decisions, and their originality, through better:

**Insight** - not just better information

**Observation** - not just better analysis

**Empathy** - not just more rationality



## **Steps to Take - Actions to Consider**

In this paper, we have tried to be as clear as we can be about the pressing need to improve our individual and collective decision making competence. We believe it will become the differentiating factor in the separation of great from good. In our view, the science of decision making is about to take center stage and the early adopters will have first mover advantage in the New Economy in the same way they did in the Agricultural Era and the Industrial Era.

We sit on the cusp of a new and exciting time where the stakes have never been higher, the changes have never been more significant and the risks and opportunities have never been greater.

To those who see it and feel it, it offers energy and excitement. To those who don't, it offers a one-way ticket down a very limited path to a dead end.

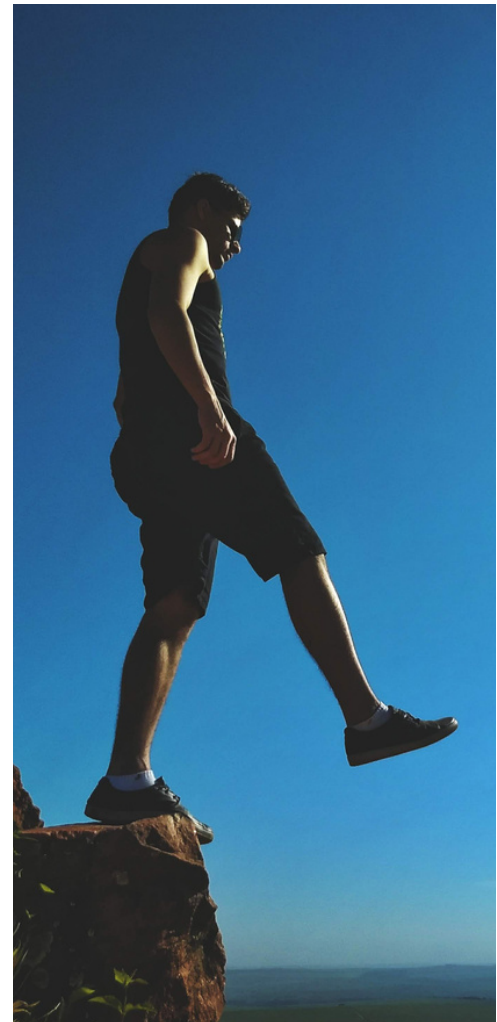
Here are some thoughts on how that fate can be avoided.

### **Decide to Improve**

Like so many things in life, the first step is to make a commitment to yourself. In this case, the commitment has to be to acknowledge the likely existence of breakdowns in the organizational decision making process and make a decision to do something about it, in full knowledge it will not be any easy fix.

### **Identify the Gaps**

It is highly likely the breakdowns will be occurring at more than one point along the value chain. It could be in any one of the most common trigger points. You need to have the courage and tenacity to assess those gaps through a rigorous, but not burdensome, process of fact based analysis.



### **Evaluate Cost & Consequence**

In our experience, once you have identified the gaps and breakdowns in the process, you will then be able to project the benefits of going forward and put a hard number on the costs involved. It is equally important to identify the non-financial benefits which will be related to improved knowledge sharing and cross functional collaboration.

### **Reprogram the Organizational DNA**

Since all decisions are fuelled by human emotion, you cannot avoid the necessary work that will have to go into changing the mindsets, attitudes and beliefs of those in the organization – at all levels. Changing the construct without changing the DNA will not produce the maximum benefit.

### **Stretch the Frontal Lobe**

On the basis the objective is to generate new answers, there will be a need to establish a new set of references for how the organization thinks. If the desire is to move to true Design Thinking, then you will have to role model and stimulate originality of thought and promote lateral, rather than linear, thinking.

### **Formalize the Review Process**

The decisions you make going forward must be better than the ones you have made in the past. The only way to ensure they are having the desired impact is to introduce a Decision Review Process that looks not only at the outcome of the decisions made, but examines the full value chain discovering ways to learn from experience and continuously improve.

