



IT'S YOUR CALL, AND YOU NEED TO MAKE IT FAST. SO HOW DO YOU AVOID THE WRONG DECISION?

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DECISIONS,

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It's a decision you have to make. The consequences are huge and only time will tell if it's the right course: recent examples include miner Rio Tinto's "no" to a takeover bid from BHP Billiton; and port and rail operator Asciano's rejection of a buy-out offer last August before its dramatic share plunge. Origin Energy chief Grant King tells *AFR BOSS* (see cover story page 18) of the tension and moments of doubt leading up to his biggest ever call: deciding to say yes to a bid from a rival only to do a backflip to a "no". That turned out to be the right one.

But it's easy to come unstuck. Many people find it hard to make sensible decisions under pressure, as the recent disasters in the financial sector show all too well. There is a term for such behaviour. It's called "threat rigidity response", which is all about our tendency to internalise and almost shut down to survive in the face of cataclysm, according to Professor Sydney Finkelstein, from Tuck School of Business at Dartmouth in the US. An expert on mistakes and poor behaviour by executives (he is the author of *Why Smart Executives Fail*), Finkelstein has recently turned his attention to the very pertinent issue of bad decision making in his new book *Think Again: Why good leaders make bad decisions and how to keep it from happening to you* (with Jo Whitehead and Andrew Campbell).

"It is very timely," he tells *AFR BOSS* from his office in Connecticut. "There's quite a bit of research on panic in these times. When people are challenged one of the things they do is go internal and protect themselves."

If they are not curling up into a ball, however, many managers remain prone to poor – and avoidable – decision making, says Finkelstein. The reasons we make bad choices are actually all about the brain. It's not so much a case of lacking rationality as understanding emotion and the role it plays in most decision processes, regardless of age, gender or race. The latest neuroscience research is showing us that the brain's different functions for controlling emotions and rationality actually work in parallel, and build up linkages, when making a decision. Emotion is often the motivator for action, although it can be a sub-conscious feeling that acts as a trigger.

Our brains are also adept at recognising patterns; sometimes that leads us up the garden path because a solution from 10 years ago does not necessarily work today. Finkelstein's book outlines an array of examples where business leaders have made fatal mistakes, often because

they relied too much on past experience as an indicator for future developments. Their stubborn connection to history is highly emotional.

“I have found in talking about these ideas in speeches or working with business executives [there are] a lot of nodding heads when you talk about how important emotions are,” Finkelstein says. “When you tell it in a story people get it right away. All we have to do is think about ourselves.”

But is this analysis suggesting we should never make snap or intuitive choices? “Here’s the challenge: our brains have evolved in such a way we are able to make quick decisions about things which are very often right. The people who sat around debating the pros and cons are not with us to pass on their genes. They got eaten by the sabre-toothed tiger. The problem is quick decisions can sometimes lead to real problems. What we deduced is decision makers need to identify if red-flag conditions are present.”

His research suggests a handful of indicators of these high-alert situations. The key signs, says Finkelstein, are:

Misleading experience. When a leader has an experience that worked out in the past but the situation is now quite different. There’s an irony here: who’s going to say experience is not a good thing? But it might not be quite as good as we think. It’s the diversity of experience that leads to the best learning.

Misleading judgement. We all do it, in all walks of life and we stick to it regardless of the facts that come, and discount or ignore other evidence.

Self-interest. One of the key takeaways for senior executives is we are all biased but we think we are objective. All of us operate according to our self-interest and are not even aware of it because it is sub-conscious.

Inappropriate attachments. These are strong feelings for a group or place. This can play out when companies are in trouble and looking to close down a plant or office. If the CEO built the business they might be much more reluctant to make tough choices.

Once these red flags have been identified there are a number of steps to address them, says Finkelstein. “When you are in a decision situation – which is all the time in business – you need to walk in with your eyes wide open and recognise you are biased. Don’t assume you can ignore the underlying assumptions in a situation. Then you are in a position to ask, ‘Are those assumptions reasonable?’ We have to start with open minds.”

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WEIGHING IT UP

• That old technique of listing the pros and cons before making a decision – famously recommended by Benjamin Franklin – may be up for rehabilitation, according to Ben Newell, a senior lecturer in the school of psychology at the University of New South Wales. In particular, he and his colleagues have been investigating whether a snap or intuitive decision, a more considered approach or “sleeping on it” and allowing the subconscious to do the work, are likely to deliver better options.

“It’s an area which captures the imagination – not just the public but academia – and there’s quite a strong debate about how much intelligence we should impart to the unconscious processes,” Newell says. “One of the things that sometimes gets lost in the debate is the distinction between making a gut reaction decision where you have lots of experience versus the novice.”

That’s a factor Malcolm Gladwell explored in his influential book *Blink*, which attracted plenty of adherents to the intuitive approach to decision making. Newell’s Australian research with groups tested in laboratory conditions has yielded some interesting findings that may temper the enthusiasm for a gut reaction. In particular, they show that the “last in, first out” method of resolution is still commonplace.

“The experiments we did, and continue to do, show that advising people to rely on an entity we don’t know much about – our unconscious thought – is misleading and a bit dangerous,” Newell says. “People in the unconscious-thought group were more susceptible to arbitrary information they had seen more recently, than the information given before the period of distraction.”

While the results were not hugely different between the three groups of decision-makers, and there are some situations where each may be appropriate, there was a small distinction.

“What we did, as well as getting people to make a choice from different options, we weighted the attributes they were considering and we could project what would be their choice. Regardless of the mode of thought they tended to make the best decisions. If anything, though, the conscious thought led to better choices.”

Given the findings, Newell – like Finkelstein – also recommends some strategies for making sure the decision process is optimal. Unwittingly, people often seek evidence in favour of their pet hypothesis, he says, and yet fail to seek out evidence that might undermine it. So trying to consider other possible explanations and looking for evidence against a certain course can be a useful strategy. It’s also about an ability to step back from the detail while not being overwhelmed by too much information, he adds. Using tools that help order information simply, such as a relevant database, was surprisingly helpful.

And make that list.

Then there’s the important – although often unpopular – tactic of nurturing a different perspective. “Add a ‘no team’ to a decision to point out all the flaws of the decision and what is being done to mitigate the risks. But there’s danger ... there are many situations where the CEO doesn’t want to go in that direction and it lessens the quality of the debate. You need to say, ‘Don’t you want to know about the flaws ahead of time to address them?’”

Another important element is warning signs of impending problems. “I ask people to tell me about their early warning system. And all I get are a lot of blank looks. The most common answer is, ‘We have our quarterly financials’ but that’s too late – you want to step in and do something before that. We have had some degree of success in the US with this idea, but not so much in Australia.” But Australia does have an advantage: Finkelstein says its corporate model of an independent chair offers some safeguards.

A domineering CEO can be a problem, although these alpha personalities are often most attracted to the top job. “To get to the top ... you have to have had a tremendous life of business accomplishment and need tremendous self-confidence. Where I see problems arise is when that goes unchecked. There’s an unwillingness to look at other points of view and unwillingness to change. Only the board can do something about that.” **B**