FT FINANCIAL TIMES
World business newspaper
UK

12/02/2009
Daily print circulation: 435,000

PAGE 1/1

A toolkit for avoiding the wrong decision

BOOK REVIEW

Think Again

Why Good Leaders Make Bad Decisions and How to Keep it From Happening to You

By Sydney Finkelstein, Jo Whitehead and Andrew Campbell

Harvard Business Press $27.95, £17.99

The Sinclair C5 trike. The Bay of Pigs fiasco. The acquisition of ABN Amro by Royal Bank of Scotland. Sir Fred Goodwin, former chief executive at the troubled RBS, told British MPs on Tuesday that buying its Dutch rival had been a "misstep", while Sir Tom McKillop, former RBS chairman, said it was "a bad mistake".

When you try to find out why some mistakes get made, the answer often comes back: "It seemed like a good idea at the time".

That is the problem. It is not that leaders in business or politics are stupid – not often, anyway. They have teams of intelligent advisers. They usually have access to good data. They are (mainly) rational. They believe they think through the options calmly and objectively, and that they take only calculated risks. And yet bad decisions get made and things go wrong, sometimes disastrously. Why?

That is the question that lies behind this new book, *Think Again*. The authors are exploring territory they know well. Sydney Finkelstein, a professor at the Tuck School of Business, wrote *Why Smart Executives Fail* (2003); Jo Whitehead and Andrew Campbell, both directors at the Ashridge Strategic Management Centre in London, have also worked as consultants to big corporations and have seen managers make bad decisions in spite of the benefit of every possible kind of assistance.

So why write another book? They have new information to offer. The authors have explored the growing body of research into how the brain functions. Drawing on these findings, they have defined four basic pitfalls that fool decision makers. They also suggest four "safeguards" – interventions – and, taken together, this material provides a toolkit to help managers avoid making bad decisions.

The authors made sure at the outset that their analysis would be considering truly wrong decisions, not just cases of bad luck. They established that bad decisions come in two stages: first, an individual or group of individuals makes an error of judgment; and second, a flawed decision-making process fails to correct the mistake.

The four sources of error are: misleading experiences, misleading prejudgments, inappropriate self-interest and inappropriate attachments.

"Our brains use two processes that enable us to cope with the complexities we face: pattern recognition and emotional tagging," they write. "If we are faced with unfamiliar inputs – especially if the unfamiliar inputs appear familiar – we can think we recognise something when we do not. We refer to this as the problem of misleading experiences." When Quaker Oats CEO William Smithburg decided to buy the soft-drink maker Snapple in 1994, he thought he would be repeating the success of the Gatorade acquisition of 1983. It was, in fact, a very different proposition. The deal failed.

In addition, previously formed judgments may be neither sensible nor applicable in a new situation. This can "disrupt our pattern recognition process, causing us to misjudge the information we are receiving," the authors say. "We refer to these as misleading prejudgments." It is a bit like shouting "Hello!" to a stranger we think we have recognised, or misjudging the trajectory of a tennis ball. Our pattern recognition skills are fallible – more so than we realise.

But decision-making is an emotional process too – again, more than we think. We may have inappropriate attachments to colleagues when cuts must be made, or to a strategy we have emotionally invested in. And we may have inappropriate self-interest as far as personal gain or reputation are concerned.

The authors' four safeguards are: first, provide decision makers with new experience or data and reduce the risk of failure at source. Second, introduce group debate and challenge to the prevailing view. Third, have better corporate governance – formal procedures and structures that ensure decisions are tested. And fourth, have better monitoring of ongoing decisions.

All four safeguards are required to avoid the "one plan at a time" mistake: getting locked into a decision without there being a chance to halt it.

Think again, the authors say. They are right. Reading this book will not mean you pursue a mistake-free career. But choosing to read it may be one of your better decisions.

Stefan Stern