Why smart leaders screw up; Book offers answers and advice on not letting it happen to you

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Herbert Hoover and John F. Kennedy weren't the dumbest presidents to have warmed a chair in the Oval Office but they made some of the most boneheaded decisions.

In 1930, Hoover faced an economy melting into bank failures, bankruptcies and massive joblessness.

What did Hoover do? He moved to balance the budget by slashing government spending and raising taxes.

"A policy more likely to drive the country into the Great Depression could hardly have been conceived even if that had been the policy maker's intention,' say the authors of the new book Think Again (Harvard Business Press, $27.95 US).

In 1961, Kennedy gave the go-ahead for an invasion of Cuba by a U.S.-trained force of Cuban exiles. The botched Bay of Pigs invasion, which Kennedy approved despite opposition in his own government, poisoned Cuban-American relations and embarrassed the U.S.

Intelligent people armed with the best information and intentions sometimes make lousy decisions, say Think Again co-authors Andrew Campbell, Jo Whitehead and Sydney Finkelstein.

Even good leaders make poor choices.

Think Lehman Brothers boss Richard Fuld and his bad bets in the mortgage markets that helped drag the world's financial system to the edge of failure.

You may be able to cite poor decisions being made even now by capable people in your own organization, or your own family.

The Think Again writers focus on decisions that clearheaded analysis would show were flawed as they were being made, not choices that simply turned out badly.

Nor do they pretend to deal with hopelessly incompetent leaders.

How do bright people screw up? Two things happen: The brain is sucked into making poor judgments and an organization's decision-making process fails to correct the mistake.

Complex decisions are difficult to get right. The three writers take us on a quick tour through the human brain and identify four things that mess up even experienced decision-makers:

1. Misleading history. People get fooled by past experiences that seem to resemble the current situation but are actually a poor match. The great returns from sub-prime lending, for example, misled bankers around the world into taking foolish risks.

2. Misleading past judgments. Earlier judgments or choices may distort our ability to evaluate a decision's outcome. This may trip people up as they consider the severity of a financial crisis or the value of an acquisition target.

3. Inappropriate self-interests. When people have personal interests at stake that are at odds with

their responsibilities for other people.

4. Inappropriate attachments. Conscious or unconscious loyalties to a group or individuals that overrule rational decisions.

At this point, other business analysts might suggest ways for people to correct or revamp their mental process.

The Think Again writers believe the brain's wiring makes this decision impractical.

Instead, they suggest choosing safeguards external to the decision-maker that are customized to protect against flawed choices.

The four safeguards are: - Offer decision-makers new experiences, feedback, data or analysis.

- Create a group debate to expose biases and challenge assumptions.

- Design a robust governance process. An independent, objective governance team, possibly headed by a chairperson, can stand in the way of flawed choices that get past the decision team.

- Monitor the impact of a decision. This would likely happen, in any case, but special monitoring provides a last line of defence. It may also help to correct a bad decision at the early stages.

The authors won't promise their suggestions will eliminate bad decisions. Sometimes people are just unlucky, sometimes risks will overwhelm even well-considered decisions.

But co-author Andrew Campbell guesses that being aware of pitfalls and applying safeguards might cut bad decisions in half.

Organizations are especially vulnerable to poor decisions when they venture into new markets or products, Campbell says in a phone interview from his office at Ashridge Business School in London, England.

"It is common for companies to fall flat on their face when they try to do new things that seem similar to what they have done but are quite different in subtle ways,' says Campbell, who's a director of Ashridge's Strategic Management Centre. 'When the world changes, people often find it difficult to adjust their thinking fast enough.' He adds: 'People are less prone to mental biases if they know that they don't know what they're doing.'