Brief

Decision-making: how to avoid your leadership team acting like teenagers

Decision-making – at the heart of effective team performance

The majority of leadership meetings are ineffective or dysfunctional. According to research only 5% have a rigorous and disciplined process for ensuring time is focused on the most important issues, 65% of meetings are focused on 'information sharing', 'group input' or 'group discussion', rather than any conclusions or decision-making and 48% of meetings get sidetracked and run out time before all important issues are discussed

At the heart of this is the challenge of good and effective decision-making. We look at the wide range of new research about what gets in the way of good decisions and what to do about it – and there are some clear common sense themes to improve successful strike-rate.

The most influential work is that of Nobel-prize-winning economist Daniel Kaneman – in particular his best-selling book *Thinking Fast and Slow*. We also looked at the new Harvard Business School book by Gino *Sidetracked*; the new book from best sellers Chip & Dan Heath: *Decisive*; articles from McKinsey, and Booz; academic articles from professors of organisation behaviour, psychology or management at New York, Kellog, Ohio State, Stockholm, Ljubljana and Cambridge Universities; as well as the long-standing classic *Descartes Error* by Damasio; (see full list at the end).

The research shows that a good *approach* to decision-making is six times more important to ensure successful outcomes than good analysis is. Successful approaches appear to balance the two psychological modes of decision-making: fast, instinctive and effortless vs slower, reflective and harder. The good news is that doing this is thankfully easier to manage as a group than on your own.

So what gets in the way of good decisions?

1. ***Too much confidence***: we tend to put too much faith in what we already know, and are biased towards evidence that supports it. Research shows that seniority and power increases the tendency to ignore alternative views. Early progress, or previous similar success, also exaggerates confidence and makes leaders more committed to that route regardless of the challenges ahead. An often quoted example is the disastrous acquisition of Snapple by Quaker in 1994, which came 10 years after the same CEO had made a great success of acquiring Gatorade. Post-mortems (after writing off $1.5bn of the $1.8bn purchase price within a few years) showed that there was no

challenge or debate at the Board level – there was an assumption that the first, similar sounding, success would inevitably lead to the second.

Indeed the evidence also suggests that this over-confidence is more prevalent in the bigger decisions (eg an M&A) where pride and power push some leaders to increase their self-belief.

2. *Too much (emotional) comfort*: we have to watch for groupthink, over familiarity with the issue, being persuaded by colleagues or teams we like who have fallen in love with a proposal. This same attraction to comfort can lead to a decision driven by an aversion to loss that makes inaction seem preferable, even when it will store up major problems in the long-term.

The evidence is that this is more common with 'smaller' decisions which involve moderate change. This of course mitigates against the development of gradual organic change in a business and can lead to status quo followed by 'step change' which is usually much less effective and has a more negative impact on performance.

3. *Too much conflict and discomfort*: when we are angry, or in conflict we are less open, and make poorer decisions. We are more likely to stick to what we are comfortable with – or to oppose a good recommendation when it comes from anyone who is not a close ally. When we are hungry, or tired, our decision-making is hindered by lack of glucose and it can have a similar effect.

This bias towards choosing the familiar, more comfortable or more instinctive option is also more likely when trying to do several things at once – we are drawn towards the easier or more instinctively comfortable decision. This is, of course, another reason why the use of Blackberries and iPad's during leadership meetings is not conducive to performance.

These are all reasons why taking several stages for bigger decisions – or at least designing in time for everyone to sleep on it – is such a good idea. (For an example of a several-stage decision-making process in action see our article *Making Effective Decisions as a Senior Team: The Bank of England's Interest Rate Setting Committee as a Best Practice Example*.)

4. *Too much (or wrong) data*: the more data on the table, the more discussion about detail and the lower the focus on the big picture. Data is a very important starting point – but primarily for telling you where you are, what the problems are and what others are doing. Data does not predict future outcomes very accurately – or at all. This is why the research shows that academics and experts are shown to be no more likely to predict what will happen than the law of averages.

The other danger is weak data that provides more comfort than it should, or is too narrowly framed to be as useful as it looks.

5. ***Too few options***: Decisions involving 2 or 3 good options are 6 times as likely to turn out well as a 'yes/no' single option – and yet only 29% of leadership teams look at more than one option. This is a similar proportion to the decision-making approach of teenagers, widely researched as the least functional age-group of individuals – who tend to live their lives by simple yes/no decisions ('do I go to the party on Saturday or not?' instead of 'What are all the exciting things I can do on Saturday night and which is the best?').

    Even when looking at options, leadership teams (and teenagers) are often seen to do so within too narrow a frame ('Do I go to the party for the whole evening, just turn up for the best two hours at midnight, or not go at all?).

Rationally, we may all believe we will not fall into such traps. But at the core of Daniel Kaneman's evidence is that our decision-making is driven by deep and emotionally driven intuition (our survival, in Darwinian terms, has depended on it). We should all assume we do this – and the research suggests that it is normal for leadership teams to fall into these traps which are simply being driven by the way we are wired. And even if, as CEO, you ensure that your leadership team manage all this very well – does the same apply to all the leadership teams across the organisation?

The research suggests some clear and practical ways to ensure decisions are not driven by "politics, persuasion and powerpoint" (as Intuit CEO Scott Cook put it). As a leadership team you are meant to be focused on less routine and repetitive decisions – and these are the ones which need clear, new thinking and not simply 'the same old decision', or 'the same old decision-making process'.

These seem to be the key points to ensure an effective approach to decisions:

The first step is to sort out the decisions that are less routine, and involve tougher, newer, or less understood issues. For these design a deliberate process that includes these aspects.

1. ***More challenge (of yourself and your team):*** Raise your self-awareness. In advance of a decision-making meeting, go and seek the views of those you do not normally ask so that you get some fresh perspectives. These might be frontline customer-facing staff - or customers themselves, or competitor peer group. Keep your assumptions in check, prepare to be open-minded.

    Think about how you can check your emotions. Give yourself diary space before big meetings to ensure you start calm and focused. Think consciously about not being overly swayed by the people you are closest to. Is the decision around a pet subject of

yours, or being sponsored by a close colleague? Have you thought through how you would manage saying 'no'?

Seek out the opinions in advance of those who you sometimes disagree with – including team members who may oppose your views – not to persuade them in advance, but to actively listen.

2. ***More challenge (of the decision):*** Ensure robust debate and constructive challenge – encourage devils advocacy, ask colleagues to make the case for the unpopular of less obvious. (For an example of a top team with a culture of strong constructive challenge see our article *Conflict is Good* – a case study of Reckitt Benckiser where CEO Bart Becht believes his executive team meetings succeed because they are like an Italian family dinner.)

3. ***More choice***: Ensure several good options – not just a yes/no. Even if it is a classic investment case (or M&A decision), look at what else can be done with the resources, or the positive consequences of not taking the decision. The Quaker/Snapple post-mortem mentioned earlier showed that Quaker had a range of potential alternative acquisitions, as well as internal innovation and market development investment cases that were in active consideration by teams in the company at the time that were simply never considered alongside the proposal to buy Snapple.

4. ***More perspective***: Stand back from the detail. Make sure the framing is wide enough. For example ensure the question for decision is "What will increase market share most?", rather than just "Which of these two new products has the best features?" If you find yourself looking at the same range of data or options year after year (eg in innovation investment cases), ask for a fresh perspective on the markets you operate in, or emerging trends among your customers, or other devices that encourage you to pull back and look through fresh eyes at the wider picture.

5. ***More preparation (for failure)***: We cannot make sure a decision will be successful. We cannot predict what will happen with certainty. Can we do more to pilot or experiment until we find what actually works? Can we prepare and plan for what can go wrong, and be responsive if events change (even be prepared to stop a project)? It is well researched that something that differentiates entrepreneurs from corporate leaders is their tendency to avoid big assumptions, research and planning, in favour of testing, learning from real life and responding fast.

Finally, as an individual and leader, it is always important to find ways to have time and space to reflect, to check you have listened to your own instincts and judgement, are sticking to your purpose and standards without being swayed or rushed along simply by the flow of events, the

lack of any time or the natural desire to create a little harmony around you to help you manage a very tough and demanding job.

Sources

Sources used for this article include: Coates: *The Hour between Dog and Wolf* (Neuroscience faculty, Cambridge); Collins: *Great By Choice*; Damasio: *Descartes Error* (Neuroscience Faculty, University of Southern California); Favaro, D'Onofrio *The Thought Leader interview: Loran Nordgren* (Kellog School of Management - about unconscious thought theory); Gino: *Sidetracked* (Harvard); Hansson: *Decision Theory: A brief Introduction* (Royal Institute of Technology, Stockholm); Heath & Heath *Decisive*; Heath, Sibony: *Making Great Decisions* (McKinsey); Heffernan: *Dare to disagree* (TED talk by author of *Willful blindness*); Daniel Kaneman: *Thinking Fast and Slow*; (Booz); Kahneman, Lovallo , Sibony: *Before You Make That Big Decision ....* (Harvard Business Review); Lovallo and Sibony: *Distortions and Deceptions in Strategic Decisions* (McKinsey Quarterly); Maerkic: *Rationality and Emotions in Decision-Making* (University of Ljubljana); Nutt: *Why Decisions Fail: Avoiding the Blunders and Traps That Lead to Debacles* (Management Sciences faculty Ohio State University); See, Morrison, Rothman, Soll: *The Detrimental Effects of Power on Confidence, Advice Taking and Accuracy* (New York, Duke and LeHigh Universities, Organisational Behavior and Human Decision Processes journal); Thaler, Sustein: *Nudge*.