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Think again – how good leaders can avoid bad decisions

Andrew Campbell and Jo Whitehead, of Ashridge Strategic Management Centre, provide insights from their newly published book, co-authored with Sydney Finkelstein of Tuck School, Dartmouth, USA: *Think Again – Why Good Leaders make Bad Decisions and How to Keep It From Happening to You.*

Events in global finance in the last year have provided an abundance of examples of how organisations super heroes as they were hailed until recently can simply get it wrong. So did regulators and politicians. However, bad decisions affect not only our banking system, but the broader world of business and politics. Take the decision by Bush and Blair to invade Iraq; the decision to base a new global airline alliance in Zurich that led to the bankruptcy of Swissair; and the delay in deploying the Interagency

Incident Management Group whilst Hurricane Katrina lashed New Orleans, due to a continuing belief that the levees were holding out. Everyday decisions to hire or promote key managers, to invest in new technologies or acquire new businesses, can be fatally flawed from the outset. Starting from our premise that most good leaders intend to make good decisions, we set out, some four years ago, to explore why so many make bad ones.

In our book, we draw on decision neuroscience to explore why our decision making processes can be flawed and identify four main reasons for bad decision-making. We researched 83 examples of bad decisions from private, public and charitable sectors across the world, providing an analysis of which of those four factors was responsible. We go beyond raising awareness to suggesting practical ways in which leaders can safeguard their decision-making processes, to avoid making similar mistakes and ensure the best possible outcomes in the future.

And so he took off from the office and went home, after issuing a situation report that the levees had not been breached. His pattern-recognition process told him that until he had reliable reports of flooding he should take no action. What his brain could not take into account in his decision making process, was the fact that Broderick had not experienced a hurricane in a city built below sea level. Unlike in Florida, where floods caused by storms rapidly retreated back to the sea, the consequences of a breach of the levees in New Orleans would be disastrous. Rather than waiting for ground truth, Broderick needed to be better safe than sorry.

How our brain can let us down

People often ask, with incredulity, how experienced and clever people can make such bad decisions. Bad decisions are often simply the result of the downside of brain processes that have served humankind well and are usually but not always reliable. Decision neuroscience reveals that the brain depends primarily on two hardwired processes for decision-making: pattern recognition and emotional tagging.

Pattern recognition

Pattern recognition is a complex process that integrates information from many parts of the brain. Faced with a new situation, the brain makes assumptions based on prior experiences and judgments that have been stored in memory. Let's look again at Hurricane Katrina. Matthew Broderick, chief of Homeland Security Operations Center, had learnt from his experiences in military operations in Vietnam and in previous hurricanes, that early reports surrounding a major event are often false. It's better to wait for a ground truth from a reliable source before acting. Despite 17 reports of major flooding and levee breaches some 12 hours after Hurricane Katrina struck, Broderick believed reports from the Army Corps of Engineers that there were no breaches, plus a CNN report of residents partying in the belief they had escaped unscathed.

Many leaders will have had experiences similar to Broderick's. How many times, on moving to a new organisation, have we instinctively resorted to imposing solutions and approaches that were successful in our previous organisation and with our previous team, only to discover that they simply don't work this time round?

Emotional tagging

Emotional tagging is the process by which emotional information attaches itself to the thoughts and experiences stored in our memories. This emotional information tells us whether to pay attention to something or not, and it tells us what sort of action we should be contemplating (immediate or postponed, fight or flight). If parts of our brain controlling emotions are damaged, even though we retain the capacity for objective analysis, we become slow and incompetent decision makers. Emotional tagging was at play in the case of Wang Laboratories, the most successful company in the word-processing industry in the 1980s. Founder An Wang believed he had been cheated by IBM over a new technology he invented early in his career. His dislike of IBM led him to create a proprietary operating system even though the IBM PC was clearly becoming the dominant standard in the industry. This flawed decision led to the company's demise in the 1990s.

The instinctive route to decision-making

Faced with a decision, we assess the situation and arrive at a decision to act or not by using pattern recognition and emotional tags. But why can't we spot the distortions of our own thinking? Why don't we counterbalance what we might be aware of as gut reaction, with extra rational thought and data? One of the primary new insights we have gained is how little of our own decision processes we are able consciously to audit. As research by Gary Klein¹ demonstrates, pattern recognition and emotional tagging happen almost instantaneously and our brains leap to conclusions, reluctant to consider alternatives. We then make an emotional investment in our initial, automatic judgment.

We are particularly bad at revisiting our initial assessment of a situation our initial frame. This was reinforced by our fieldwork: in 80% of the cases listed in our book the decision maker made their choice without careful weighing of the options. By nature our brains do not lay out options and evaluate alternatives. We rely on unconscious processes to bring a plan of action to our consciousness and then assess that plan to see if it makes sense, before considering others. If we imagine that our first plan will work, we do not normally consider alternatives. So our brains work in a one-plan-at-a-time process (see Figure 1). The resulting plan we arrive at will be tagged with an emotion determined by the level of confidence we have, in our imagination, of what will happen and the positive emotions we have towards expected outcomes.

The one-plan-at-a-time process

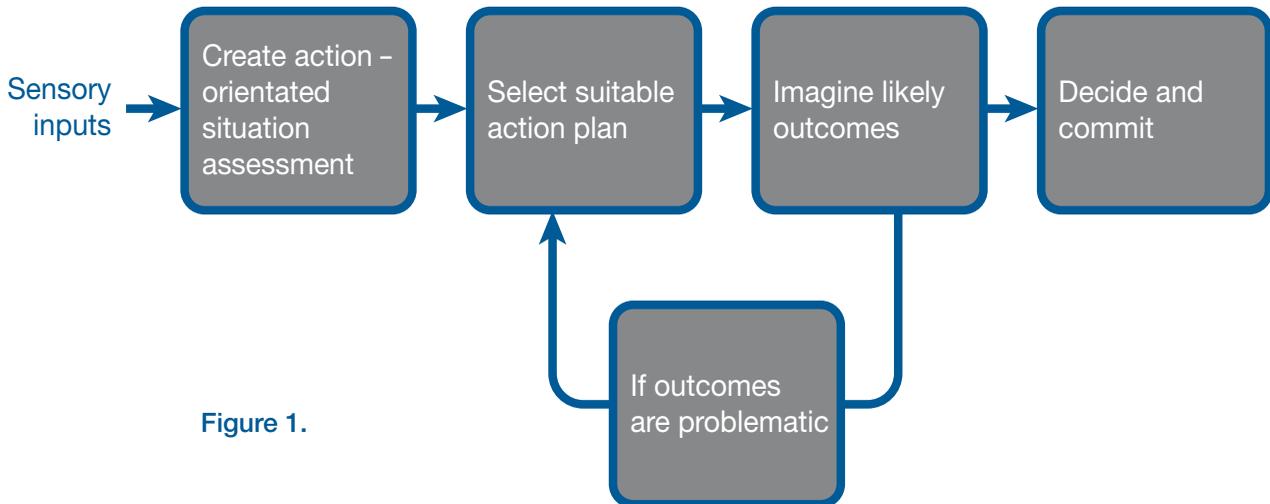


Figure 1.



Red flag conditions

If we recognise that our brains can lead us to arrive at flawed decisions, what can leaders do to increase their chances of avoiding pitfalls? First, recognise the conditions under which decisions are more likely to be flawed. We have identified four red flag conditions that are likely to lead to distortions in the decision makers judgment.

The first is *misleading experiences* and occurs when we are faced with an unfamiliar situation especially if it appears familiar. Under these conditions we can think we recognise something when we do not.

William D. Smithburg became CEO of Quaker in 1981 where he executed the successful acquisition of Gatorade the sports drink company in 1983. In 1994, the expanding company sought to repeat the success by acquiring another successful but underexploited drinks company Snapple. Smithburg failed to recognize that whereas Gatorade was promoted and distributed in a traditional fashion and a rising star in its market, Snapple was a quirky, entrepreneurial organisation producing an image drink that was already losing market share. The acquisition was disastrous, leading

to the downfall of both Smithburg and Quaker itself.

Another red flag condition is when our thinking has been primed before we begin to evaluate the situation, by previous judgments or decisions we have made that connect with the current situation. We refer to these as *misleading prejudgments*.

Steve Russell, the CEO of Boots between 2000 and 2004, had a potentially misleading and strong prejudgment that Boots needed to grow and that health-care services were an attractive opportunity. In his own words: "I had been formulating this ambition for Boots since I was merchandising director in the late 1980s. So, when I became CEO, I was determined to make it happen." With hindsight, he commented: "We did not have the know-how to make these services work. We should not have tried to do so much of it ourselves." Other managers suggested that many of the services Boots tried to enter were inherently low-margin businesses. A turbulent trading period ensued and Russell resigned in 2004.

The third red flag condition is *inappropriate self-interest* which can be a very powerful and we found often unconscious influence even among professionals who pride themselves on being objective and highly ethical. Our findings suggest that even people who are aware of the dangers of self-interest and want to control it, are actually incapable of doing so.

Prescriptions that doctors write have been shown to be influenced by the favours they have received from drug companies, even when doctors felt they were being objective. There are numerous examples of self-interest at play in business (eg Enron and Tyco) and politics. In the analysis of our current financial crisis, credit agencies may have underestimated the risk of the derivative products they rated, partly because they were paid by the issuer of these products. Our findings indicate that this would not necessarily be premeditated, but was a result of unconscious inappropriate self interest at play.

The fourth red flag condition is *inappropriate attachments*, such as the attachment we might feel to colleagues or a business when considering cost reductions.

A striking example of inappropriate attachments is that of Sir Derek Rayner, who acquired Brooks Brothers, the iconic US retail chain famous for its button-down shirts, when he was CEO of Marks and Spencer in the 1980s. In the four years of his leadership, M&S had modernised, transformed itself from a family-run company, doubled earnings per share, and grown revenues from £2.9 to £4.6 billion. And yet he paid \$750 million for Brooks Brothers even though his team said it was worth only \$450 million. When he announced the deal, M&S's share price fell sharply. Why did he do it?

As Judi Bevan describes in her book *The Rise and Fall of Marks & Spencer*², Rayner was enamoured with Brooks Brothers clothing, which was in large part aimed at men of Rayner's age and taste. Although his advisers had presented six possible acquisition targets, Rayner ignored all the others and went straight for the preppy, upmarket Brooks Brothers chain.

Apart from iconic examples, we can all cite examples from our own professional lives in which red flag conditions have existed. Even with raised awareness of these, how can we ensure that we are less likely to make flawed decisions in the future? Is it enough to rely on the wisdom of experienced chairmen, the humility of CEOs to question their own decisions, or standard organisational checks and balances? We urge all those involved in important decisions to consider whether Red Flags exist. If they don't, decisions perhaps need fewer checks and balances. But if they do, the decisions with the highest stakes should be subjected to more robust safeguards.

Safeguards

We have identified many process 'safeguards' – additions to any standard decision process that can counterbalance the effects of distorted thinking. Most safeguards are well known – the challenge is to pick the right ones for the particular red flag condition. For example, a presentation from an expert consultant might be a suitable safeguard for a decision maker who has misleading experiences about a new market entry. However, if that decision maker is a CEO with strong prejudgments, they might need a stronger challenge – perhaps from the Chairman or Board.

Safeguards can be grouped into four categories:

- **Experience, data, and analysis.** In business, there are many ways data can be collected and experience broadened. A discussion with a key customer can provide valuable feedback on a proposed new product. Market research might evaluate the risks of entering a new market. Consultants could be brought in, partly for their expertise and readily available manpower, but also because they are relatively objective. BP sometimes employs two firms of lawyers to get contrasting views for very important decisions such as major acquisitions.

- **Debate and challenge.** Creating a debate which challenges biases need not involve an elaborate process. It could mean simply chatting through an issue with a friend or colleague. However, in large organisations a typical approach is to form a decision group. The choices of who is in the group, the leader of the group and the process for the group to follow are all important issues. While many such groups operate with simple guidelines, there are a host of more elaborate approaches – such as splitting the authoriser, evaluator, and proposer roles, allocating hats to different people (as suggested by the lateral thinker, Edward de Bono), role-playing; or the devil's advocate method (in which a subgroup attacks the proposed option).

- **Governance.** Someone with power and strong prejudgments, such as Russell, may be resistant to new analysis or a group process. In this case it may be necessary to strengthen the governance process – perhaps by setting up a special subcommittee of the board to review the proposal in detail.

- **Monitoring.** Finally, particularly when there is a risk that all these safeguards are still insufficient, it may be sensible to beef up the monitoring process – for example, by setting clear milestones, monitoring performance and adjusting the strategy accordingly.

Conclusion

While it might be discouraging to discover that our brains predispose us to some errors of judgment in our decision-making, leaders can take heart. If you are prepared to be more reflective about the decision-making processes, you can identify where there are red flag conditions. Once aware of these, you can introduce extra safeguards which counterbalance the risks of a flawed decision. Whilst you can't ever eliminate the risk of errors in your decision-making, you can reduce the odds!

Further ideas are discussed in our book *Think Again* and also on our website, www.thinkagain-book.com

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