

Avoiding Error: An Introduction

This chapter is written for professional decision makers, who generally work in some kind of organization. They are managers and leaders and what they do for a living is decide things. If you're reading this book for your own benefit, you might want to skip to the "habits" section later in this chapter, where there are some suggestions for personal decision making. If you just want to read the stories about smart guys doing stupid things, go ahead and skip to Chapter 2.

There are no easy countermeasures for the errors described in this book. They are complex mistakes with their roots deep in the way our minds are constructed. But we can learn to avoid them.

To begin with, there are three basic characteristics of decision making that need to be understood:

1. **Most decisions are made unconsciously.** That is, we don't think "Here is a decision for me to make, I will now make the decision." Instead, we simply decide without thinking much about the decision process. When the question of who should work on a new project comes up, we unconsciously weigh the options and suggest a candidate. Unless it is unusually important, we don't explicitly sit down to "make a decision."

This point is important, because much of the coaching that managers receive about decision making is focused on techniques. For instance, the instructor or consultant will provide a way to weigh the pros and cons of alternatives against each other to determine which approach is correct. This is perfectly fine, and there are places

for this kind of technique, especially in formal decision-making processes. But frankly, if you tried to use them regularly, you would be fired in a month because they take too much time.

2. **The techniques don't address the major problem facing many organizations: getting decision makers to see the world through the right lens**—that is, to give the appropriate weight to the right things. If the challenge facing the organization is quality, then getting people to see the world through the lens of quality is the true work of leadership. This point is discussed later in this chapter in the section on goals.
3. **There isn't a single right way to make decisions.** In the preface, I presented the four areas where smart people make spectacularly bad decisions, mentioning that most of the time, the kind of thinking that drives these errors isn't harmful, and actually serves us pretty well. Consider the positive side to each type of error.

1. **Wishful thinking.** In this type of thinking, strong desire makes it difficult for us to think well. The dot.com stock run-up is the typical error here. Hordes of smart people bet on unproven new technologies because the upside seemed so large. Wishful thinking is clearly something we need to eliminate, isn't it? Well, just a moment. Wishful thinking is just the dark side of optimism, the general belief that we can make things turn out well. Psychologists who study optimism tell us that the people at the top of almost every field are optimists. This is because each time they fail, they try again, secure in the belief that eventually they'll get it right.

Optimism is a fundamental survival trait for human beings. Without it we never would have made it out of the caves. Only an optimist would look at a buffalo and say "I'm gonna kill that thing and eat it." The fact that the first few individuals who tried probably ended up trampled into the landscape does not diminish the value of optimism as a trait.

Sometimes an organization loses its optimism. This happens when it fails repeatedly, when people are laid off, and when management does not seem to have the answers. If you have worked in this kind of organization, I pity you, because I have.

They are joyless places, without energy or aspirations, where people go through their daily tasks with a numb, rote fatalism that sucks the life out of anyone it touches.

2. **Mythical thinking.** Here we are unable to free ourselves from powerfully held beliefs that explain the world for us or strategies that have been successful in the past. We have all seen people hold fast to ideas after the time for change has come and gone. For instance, U.S. automakers had a terrible time understanding that consumers might not want big, gadget-laden cars and instead would prefer smaller, more efficient and reliable machines.

The other side of the coin here is that we need these “worldviews” to make sense of the universe. People who make cars for a living have to have beliefs about what constitutes a good car, and sometimes they have to hold to these beliefs in the face of adversity.

Banishing these structures altogether leaves an organization with no unifying culture or goals. Companies with weak worldviews or cultures tend to be opportunists, jumping on whatever looks profitable at the time. They are never thought leaders, and their lack of commitment prevents them from developing real core competencies.

3. **Tribal thinking.** Here social concerns keep us from reaching the correct conclusions. A great example of this error is the way companies chase after the latest management fad, simply because others are doing it. From quality circles to TQM (total quality management), the list is long and depressing. The problem isn't that these approaches don't have anything to offer; it's that managers pursue them as magic bullets instead of deeply understanding the business basics behind their (reputed) success and implementing them with care. This sheeplike, crowd-following behavior is not a substitute for leadership.

Yet social groups are part of what makes us human. We are tribal animals, not loners, and organizations that don't value their own tribe don't work well internally and don't build coalitions with others. Almost anything worthy of time and effort today is too complex for a single person; we need our teams and tribes to accomplish our goals.

4. Royal thinking. Here issues of power and hierarchy keep us from making good decisions. A recent example of the way power and hierarchy can damage decision making can be seen in the way Saddam Hussein lost control of his own decision-making apparatus before and during the second Gulf War. Basically, anyone who brought Hussein bad news was killed, and thus he rarely heard the truth.

But organizations need some degree of hierarchy; someone has to make decisions. Organizations need leadership; someone has to be able to say “This is the way it is” so that people can go on with their duties, trusting that a person they respect is looking at the bigger picture. Someone needs to set goals and take responsibility in the face of uncertainty. Basically, the buck has to stop somewhere. The Hussein case is an example of power run amok, but that doesn’t mean power is a bad thing.

Any organization needs a certain amount of confidence, a worldview of some strength, people who value being part of it, and a degree of hierarchy to function. But it can have too much of any of these characteristics. Exhibit 1.1 illustrates these traits along a spectrum, with the left side representing too much and the right side NOT ENOUGH. The mistakes described in this book are only at one end of the spectrum. In the exhibit, they occur on the

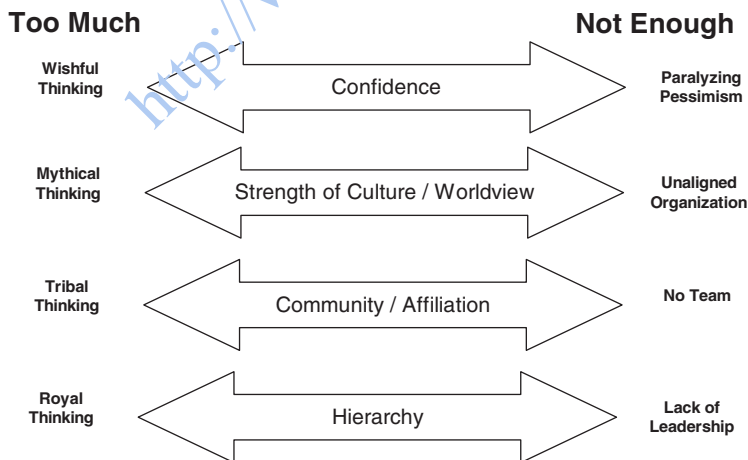


EXHIBIT 1.1 Spectrum of Decision Traits

left-hand side, where the most spectacular errors happen. But an organization can be too far to the right-hand side also. In every case, for example, the question isn't How can I eliminate wishful thinking? Instead, the question is: Where do I want my organization to be on the continuum, and what processes need to be in place to help it succeed?

Think for a moment about an organization that continually turns out new products. Five years from now most of its revenue will be derived from products that are currently in a development pipeline (at best) or not yet conceived (at worst).

This organization needs a very confident decision style. It needs to be optimistic and comfortable taking risks. Thus it will score high in confidence and perhaps be prone to wishful thinking. Typically organizations like this have very limited hierarchies. Researchers and engineers are given a great deal of latitude and are managed by general goals instead of strict rules. You can't tell someone "You need to come up with three groundbreaking ideas this quarter." The company probably has a strong culture around innovation, and has the systems and processes in place to support it. While it may have a teamwork ethos, it will be tempered by healthy respect for individual initiative.

Contrast this with a company that creates its competitive advantage by being a least-cost producer. This company will score low in the confidence dimension, since it manages financial risk extremely closely and will probably have a strong culture and perhaps a strong hierarchy to enforce financial discipline.

Both these decision models are correct for the companies that have them, and each would be disastrous for the other.

Getting an organization to make the right decisions means working on a variety of processes, information systems, and human issues. Getting organizations to do this is not easy; in fact, it may be the most difficult thing most leaders ever have to do. To do this, we need to be disciplined and thoughtful in our thinking and to pay attention to a set of "rights" in decision making.

THE RIGHT GOALS

Among the most common decision pathologies in organizations are unclear goals. I once worked with the executive team of an entertainment company that provided a good illustration of this problem. Among the issues at hand were a series of bad decisions the team had made about customer service and

a general tendency of the managers to bring everything to the top levels of the organization for approval, rather than taking the ball and running with it. Basically the team was not giving customer service the priority the chief executive officer (CEO) wanted it to have and was not being aggressive in making decisions.

For their part, members of the executive team claimed that whenever they made decisions on their own they were countermanded from above by the CEO and his inner circle. They didn't see how they could drive customer service, or anything else, until they were allowed to actually make decisions for themselves.

When I discussed this with the CEO, the problem became clear. The company had been near bankruptcy when he took the job, and he had centralized a lot of authority around spending to get control of costs. By this time, however, the situation had changed; the company was in decent shape financially and was ready to grow. Unfortunately, that message from the CEO had not been truly understood by his rather young management team, some of whom had not been part of a true leadership group in any environment other than one where the goal was struggling to survive. The managers were not making "bad" decisions; they just didn't understand what a "good" decision was.

Executives generally have two problems with communication. First, it's easy not to communicate enough. When you live with a problem every day, sometimes you assume that others are just as focused on it as you are. In reality, everyone has their own day-to-day issues to worry about, and if a goal, especially a new one, is not communicated clearly and regularly, people will forget about it.

Second, every organization has systems and procedures that tell employees what is important. These are things like where money is spent, who gets rewarded, who gets promoted, and what makes it to everyone's annual goals. Even if leaders communicate well, if they do not make sure the goal is clearly stated, the organization will decide that they don't really mean what they're saying and will continue to make bad decisions.

THE RIGHT INFORMATION (TO THE RIGHT PEOPLE AT THE RIGHT TIME)

It amazes me how much time managers (myself included) spend looking for information. We have a multitude of reports and binders full of data, yet we

can never seem to find just the right view of the information at hand, so we manage by “intuition” or “feel.” In the United States, managers generally would rather act than analyze, and we’re terrified of paralysis by analysis. But at the same time we know the answer is out there and would rather find it than make it up if at all possible.

It is a lot harder for smart people to do something stupid if the right answer is there staring them in the face (although it’s still very possible).

This is an area where technology can help. Techniques for automatically finding and presenting information from various sources have advanced to the point where today there is no reason why decision makers should not have access to all information that’s available and pertinent to their needs. Unfortunately, many companies have not yet taken advantage of these technological advances, and doing so correctly is tougher than it looks.

Installing a system to provide key data to decision makers is not an information technology project. It looks like one from the outside, but it isn’t. To do this correctly, you have to analyze the needs of every decision maker, the needs that are both well known and those that might emerge in the future. This means taking into account the organization’s business strategy and looking beyond the decision to its implementation. In addition, you have to take into account the difference between raw data and useful information.

THE RIGHT PEOPLE

Often a bad decision comes about because the wrong people made it. They might be perfectly capable in some other area. In other words, they are not inept, just inapt. Or they might be the wrong group, incapable of working together effectively or bringing all the necessary skills and background to the table to get a good decision. In general, the right group for any decision will be one with three characteristics:

1. **It isn’t too homogeneous.** Diversity is good in decision making, with some qualifiers. We aren’t talking about ethnic diversity here, although sometimes there’s a case for that; we’re talking about diversity of experience. You need people with a broad range of experience to solve a difficult problem. If you don’t have diversity, you don’t have a group making a decision, you have the same person making it over and over.

2. **It isn't too timid.** Some of the worst decisions are made when one person or a small group dominates a decision-making group. People have to be able to speak up without fear of repercussions in order to be able to bring their experience to bear on the problem.
3. **It has the right skills.** Far too many decisions today are made by people removed from the effort, or who think they understand the issue but don't. Every decision-making group should include at least one person who lives with the question every day and knows all its ins and outs. This point may seem elementary, but it's often missed.

THE RIGHT PROCESS

It may sound strange to talk about setting up processes for decision making; after all, we make decisions all the time without formal processes. Of course, we also we built things long before people figured out that systematizing the process with assembly lines and interchangeable parts made sense.

If you are going to have to make a particular type of decision over and over again, the best thing you can do is to formalize it.

Surprisingly, if you have an expert lay out a process for making a particular type of decision and then compare the expert's performance against that of a novice who is following the expert's process, often the novice outperforms the expert. What this means is that if a physician tells me and shows me exactly what to look for to diagnose a particular disease, and I follow those rules exactly, I might very well outperform the physician. In short, people are pretty good at creating decision rules but are pretty poor at following them.

In general, designing an effective decision-making process means making sure that the right people are involved and that certain steps are followed, and that constraints are set on what the decision can be (such as how much can be spent, who has to approve the decision, etc.).

THE RIGHT HABITS

Making good decisions about complex issues, sometimes without enough information available, is not an art, nor is it a science. It is a discipline. Shortcuts are what often get people in trouble: making assumptions, failing to look at the other side, not doing the analysis that is available. After studying dozens of cases of very smart people making bad decisions, a few good

practices became apparent. All the smart individuals featured in this book could have benefited from six rules:

1. **Look for disconfirming evidence.** Probably the single most important thing decision makers can do is look for evidence that tells them they're wrong. Of course, you can't do this until you have an idea of what your decision will be, but once you have a feel for that, you should look hard for things that can go wrong. Not only will this help you avoid bad decisions, but the thought process will help you in planning for contingencies.

Some organizations look for disconfirming evidence through a risk analysis of important decisions, but this generally is kind of an afterthought, and most organizations don't do much with the analysis once it's completed. That's why it's important to include individuals on your team who are good at finding problems. They may slow down the process and keep you from getting to the decision you want quickly, but they will also help you get to a better one in the end.

2. **Do your homework.** Amazing as it may sound, many people don't do the simple data collection and analysis that could make a decision easy for them. They choose to rely on "feel" or the opinions of experts. Doing this may be good, but sometimes it's just relying on someone else's "feel." The discipline of building a business case has come into disrepute in business; this is because most managers can arrange for the outcome to be whatever they want it to be. But the fact that making a business case can be done badly doesn't change the fact that a good one is a key tool in making any effort successful.
3. **Stepping outside of the problem.** In the mid-1980s, Intel, which had pioneered the business of building computer memory chips, was slowly coming to the realization that these chips had become a commodity and that it could not compete with Japanese manufacturers on price. As profits dropped from \$198 million in 1984 to less than \$2 million in 1985, Andrew Grove, then president of Intel, recounts a conversation he had with CEO Gordon Moore regarding the problem:

"I looked out the window at the Ferris wheel of the Great America amusement park revolving in the distance then I turned back to Gordon, and I asked 'If we got kicked out and the board brought in a

new CEO, what do you think he would do?’ Gordon answered without hesitation, ‘He would get us out of memories.’ I stared at him, numb, then said, ‘Why shouldn’t you and I walk out the door, come back, and do it ourselves?’¹

It can be very difficult to step outside a problem; maybe you were the one who made the decisions that got you in trouble in the first place, and admitting they were wrong reflects on your earlier judgment. But as the complexity of the decisions we make continues to increase with technology, there will be less and less room for allowing the past to intrude on the present. The ability to step away is a key decision skill for managers of complex undertakings.

4. **Review your decisions and see what worked and did not.** Very few people do this type of review as a matter of course. Most companies have processes for after-action reviews or lessons learned, but they are used only in exceptional circumstances, such as after a major project or after an epic failure.

It is a lot of work to stop at the end of every week and ask yourself what you did right and wrong, and why, but some people manage to find the time, and the effort repays them, often profitably.

5. **Create a strong group of thinking partners.** It has been said that no man is an island, and nowhere is that more true than in making complex decisions. Of course, somebody has to make the final call, but up to that point almost everyone can benefit from good counsel. Most of the difficult problems that confront us today are too complex for a single individual to truly understand all the nuances. We need others to help us think and to provide alternative points of view.

You probably know some people who are good thinking partners: They grasp the problem quickly, they listen, they question, and they challenge. You probably also know others who are not as good. These people may already have a solution in mind, or they may be uninterested in finding the truth, focusing rather on what the consequences of the decision will be for them.

Most successful executives have key people they call on when making a big decision, and most of them spent a lot of time and effort building this group.

6. **Know your limits and beware of success.** Many high-profile errors come down to issues of confidence. Successful people are used to being right, and sometimes this can lead them to assume that they have grasped and understood a problem more quickly than they in fact have. Closely related to this is the fact that a lot of the cases in this book are rooted in previous success. When you are successful doing things a certain way, it can be hard to see how the world has changed and your old skills are passing into irrelevance. Yet this happens all the time, especially in business, as we'll see in the case of the Swiss watch industry (see Chapter 3).

■ NOTES

1. A. Grove, *Only the Paranoid Survive* (New York: Harper Collins Business, 1996).

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