IT'S RARELY EITHER/OR

THE GREY WORLD
OF DECISION-MAKING

IT'S RARELY EITHER/OR – THE GREY WORLD OF DECISION-MAKING

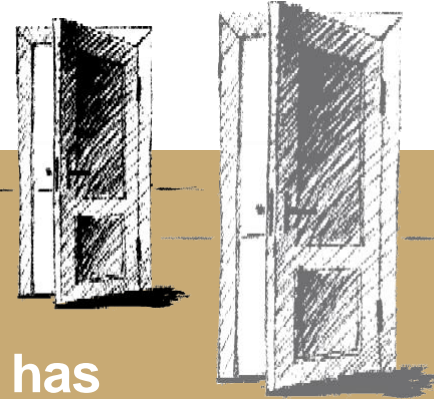# 01 INTUITION VS DATA: THE NEW WORLD OF DECISION-MAKING

For leaders, the soft trickle of information has become a daily torrent in this digital age. Increasing complexity in the internal and outside environment, an accelerated rate of change and continuous disruption means that leaders are expected to make great decisions with imperfect information on a daily basis.

The complexity is such that a perfect model or logic with which to approach problems and decisions does not exist. Rather, leaders will have to balance the new digital landscape – with all its inherent advantages and pitfalls – with their 'traditional' skills of intuition, emotion and judgement whenever making decisions.

For senior leaders, the challenge is then how to make better decisions on a more consistent basis? In this month's Insights we'll 1) look at what factors complicate and cloud decision-making, 2) how leaders can frame, evaluate and execute decisions, and 3) how you can structure your organisation to make the best decisions possible.
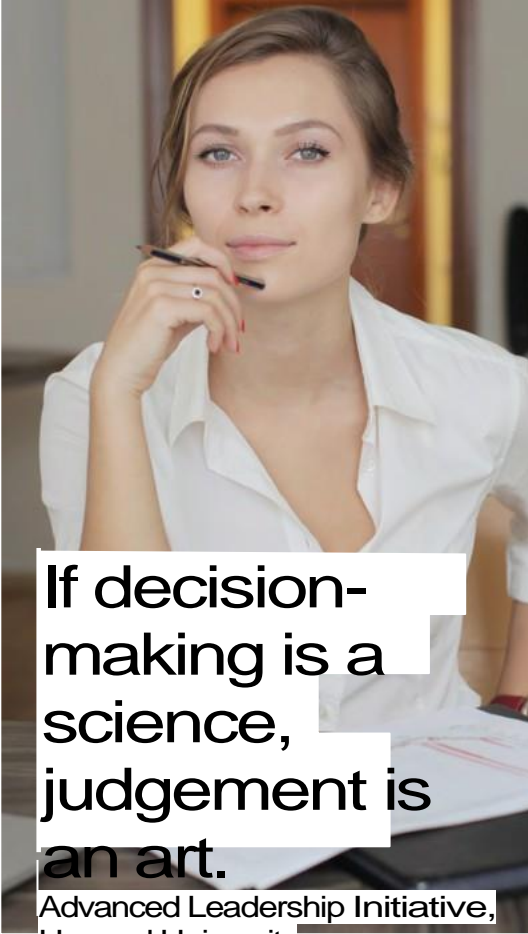
When it comes to the "art" or "science" of decision-making it can often seem that there are so many variables that they are impossible to define.

In a rapidly moving world, speed rather than accuracy can become the primary reason a decision will turn out positive. Being first to market, for example, can help a company get well ahead of any potential competitors, despite the product not being as good as later iterations.

However, leaders can heighten their level of self-awareness and situational awareness to enhance their own decision-making skills, even in the most difficult of situations. First, they need to recognise the factors that can cloud their judgement and have a strategy to mitigate against them.

If decision-making is a science, judgement is an art.

Advanced Leadership Initiative, Harvard University

2.1 Noise

All human decisions are based on judgements, and judgements are inconsistent.

For instance, in one study a group of software developers were asked on two separate days to estimate the time it would take to complete a given task. The answers given over the two days differed by an average of 71%.

'Noise' – that is, the (often seemingly irrelevant) factors that go into making a decision, from the mood of the decision maker to the weather outside, can affect decision-making. Senior leaders, in particular, can be oblivious to noise, as they tend to have a high confidence in the accuracy of their own judgements, and also because they put too high a stock in their colleagues' intelligence. This leads to decisions going unquestioned and unchallenged.

> We have too much emphasis on bias and not enough emphasis on random noise.
>
> Daniel Kahneman, Nobel prize-winning psychologist

2.2 Over-reliance on Big Data

While it can give greater context for a decision, the exponential increase in data available to leaders can also present a significant problem. For big data to be a benefit for leaders, they are reliant on the data being correct, being understood and being applicable

The difficulty in having real confidence in data analysis when it comes into conflict with a human's intuition, is demonstrated in a study by the Economist Intelligence Unit. Executives asked what they would do if available data contradicted their gut instinct, 57% said they would re-analyse the data, another 30% would collect more data while only 10% would take the course of action suggested by the data.

Furthermore, the proliferation of data means leaders are expected to make better decisions simply because they have more information. There is also the "big data, little brain" phenomenon, which points to the danger of managers excessively relying on data to guide their decisions while abdicating their knowledge, experience and intuition.
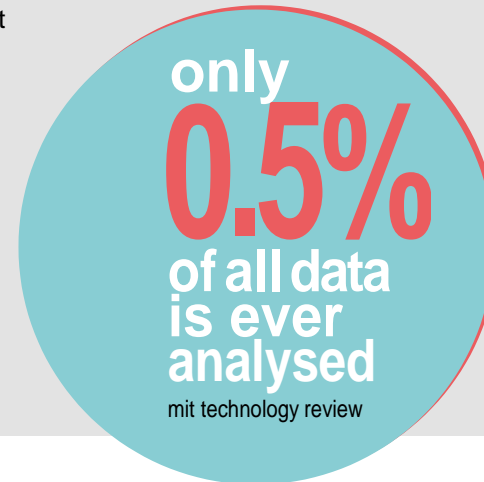
only 0.5% of all data is ever analysed

mit technology review

2.3 Cognitive Bias

Experience and past success breed bias. When it comes to a leader's ability to evaluate the parameters behind a decision, they may find themselves over-reliant on experiences from the past rather than looking to the future and the problem as it presents itself.

Confirmation bias will also compound this, encouraging the decision maker to only see facts that already conform with the view they already hold. At the outset of any strategic decision, we must recognise that there will be blind spots in our knowledge and predictive ability – and the danger of over-confidence in those two abilities.

62%

of executive 'trust their gut' and rely on soft factors when making decisions.'
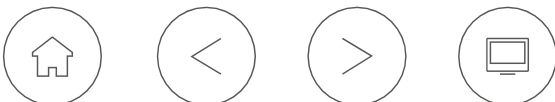
2.4 Insufficient Motivation

As a leader, motivation to make decisions should be a given.

However, when a leader looks at their organisation as a whole, motivation is a key factor to consider. People have a tendency to be passive when it comes to decision-making (even when it is to their benefit to make an active decision) so it is often incumbent on the leader to prompt, or force, those decisions.

A simple but insightful example of this happened in Google cafeterias around the world. Wanting to get their employees to adopt more healthy eating habits, Google placed a sign near the plates stating that people who use bigger plates tend to eat more.

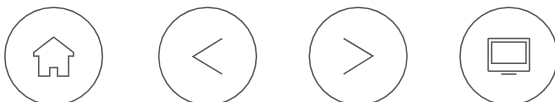**With this simple prompt, the proportion of people using smaller plates increased by**

50%

2.5 Lack of Original Thinking

Once we do one thing a certain way, we tend to do it again and again, especially when it's a success (or, more accurately, not a failure). When leaders make decisions, they tend to do the same – choose one method no matter what the situation is and keep doing it.

When it comes to decision-making, there are a plethora of tools available, from budgeting tools to data analysis to pure gut instinct, and they won't be effective for every challenge presented. Senior leaders have to give their teams the right tools for the right challenge, and also have the ability to interpret, and act upon, the findings.
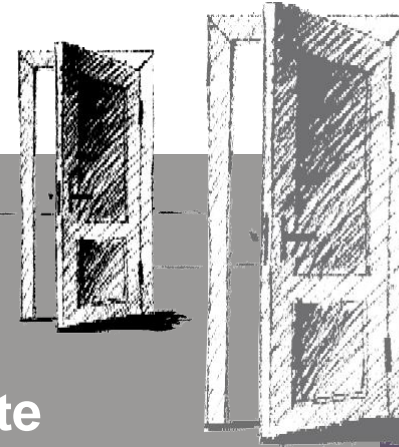
Despite the complexity, despite the incomplete information, despite the human factors, leaders must execute effective decision-making on a continual basis. Too many wrong choices and either the leader will fail, or the business will fail.

Once leaders have recognised the context in which decisions are made and the factors – both internal and external – that are impacting their choices, they can then learn the skills to make sense of their world and discern what decision-making inputs have value.

For senior leaders, fine-tuning their decision-making capabilities allows them to accurately frame and contextualise a problem to make a precise, timely decision, and to know when and how to act with imperfect information.

3.1 Dial Down the Noise

Noise – the distractions that make decisions harder – is a key element to reduce for any leader.

Daniel Kahneman et al. suggested performing a 'noise audit' in your organisation.

A noise audit is a focusing on the key decisions that go on in a company, the noise surrounding them, and the variance in outcomes. For example, examining how bank managers decide on mortgage applications and the differences between them. Other simple methods for dialling down noise include checklists. A year after surgical teams at eight hospitals adopted a 19-item checklist that itemized basic pre-operation procedures, the average patient death rate fell more than 40% and the rate of complications fell by 33%.

WHEN SURGICAL TEAMS AT 8 HOSPITALS ADOPTED A 19-ITEM CHECKLIST THAT ITEMISED BASIC PRE-OPERATION PROCEDURES, THE AVERAGE PATIENT DEATH

40%

It is often said that a wrong decision taken at the right time is better than a right decision taken at the wrong time.

Pearl Zhu, Decision Master: The Art and Science of Decision Making

3.2 Be Less Certain

Leaders tend to overestimate their ability to make the correct decision. Former CEO of Avis Rent-a-Car, Robert Townsend, argued that even a good manager gets 33% of decisions right, 33% wrong, and in 33% of cases, whatever decision was taken, things would have worked out the same anyway.

In a professional world of constant, swirling change, a leader must recognise that they will not have all the facts at hand and cannot predict what will happen next, but still have to act decisively in the face of this adversity. In other words, act without certainty of outcome.

Embracing the 'being less certain' philosophy also allows a freedom to adjust plans as they go forward because ego has been removed from the decision – this may even allow moving a decision from the 'wrong' to the 'right' column as it is carried out.

We need to accept that we won't always make the right decisions, that we'll screw up royally sometimes - understanding that failure is not the opposite of success, it's part of success. Ariana Huffington
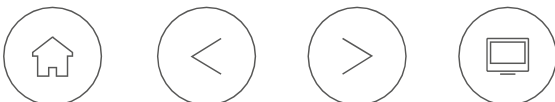
3.3 Data Driven Decision-making

Data can be 'complicated' to take-in for leaders who are not data savvy, but if collected, analysed and used correctly, big data is a powerful tool.

Data-driven decision-making aims to take advantage of the large quantities of data that organisations are now collecting to make informed, rational decisions that are not based on a human's intuition or judgement alone.

A study from the MIT Center for Digital Business showed that businesses using data-based decision-making were found to have 4% higher productivity and 6% more profit on average, demonstrating the value of using data to help drive decision-making.
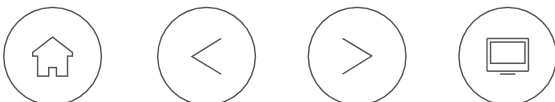
3.4 Think Probabilistically

Even relatively basic training in probability makes people better forecasters and helps them avoid certain cognitive bias (*3 Ways to Improve Your Decision-Making,* Harvard Business Review, 2018). This ability to teach the mind to think in probabilistic terms is a great way for leaders to strip out their ego from the decision and reduce the noise around them.

For example, if you have launched 12 new product lines in the past, 10 have failed and 2 have succeeded, it is very probable this new product launch will fail too. If the two that succeeded were major successes; however, the cost of the launch may well be worth it.

The bias you may have towards the new product (it may even be your idea) can then be taken out and the decision looked at rationally. Using probability will also strengthen your argument with others who may also be emotionally invested.
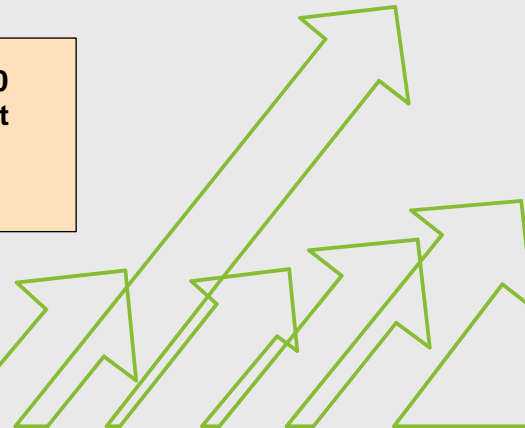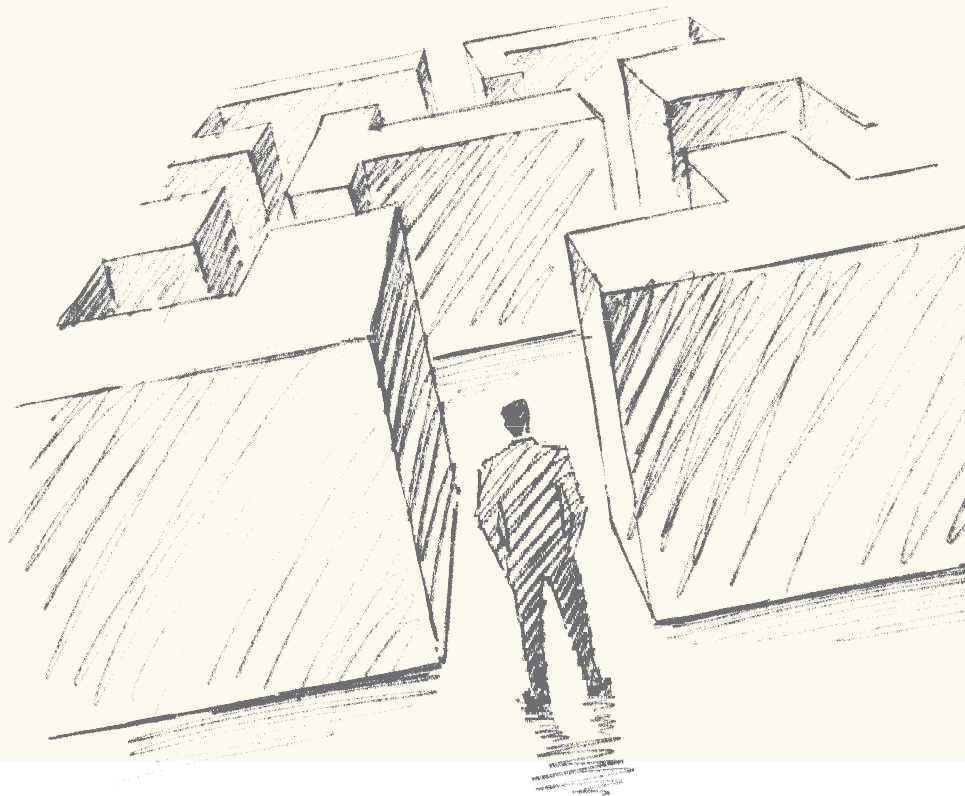
3.5 Use Decision Support Tools and Frameworks

Sometimes the best way to make a decision is to frame it within a structure.

There are several methods, from conventional capital budgeting tools, qualitative scenario analysis, case-based decision tools, and countless more, that can be learnt and adapted to your business, your role, and the type of decisions you make.
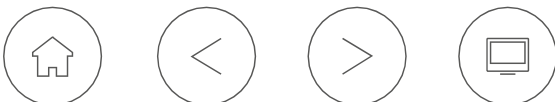
3.6 Reduce Decision Fatigue

We make 226.7 choices about food each day. In total, estimates put the amount of decisions an adult person makes at around 35,000 a day.

Tactics such as reducing multi-tasking and switching between tasks, delegating administrative and low-value tasks, simplify the choices you make every day (such as clothes and food), making major decisions in the morning when the brain is operating optimally, writing down work schedules to improve focus… these are the simple, but hard to initially implement, methods where a leader can reduce their decision fatigue and focus on the choices that matter.

You'll see I wear only grey or blue suits. I'm trying to pare down decisions.

Barack Obama

An individual makes thousands of decisions a day, an organisation makes millions. For senior leaders, what can they do within their organisation to improve decision-making as a whole?

As it is not possible to rewire the human mind, the alternative approach is to alter the environment in which the decisions are made. This will nudge people towards making the right choices, and to put processes and systems in place to remove noise and bias as much as possible.

I make bad business decisions every hour of the day

Melissa Harris-Perry, American writer, professor, television host

3 Steps to Improve your Organisational Decision-making

1. Measure First, Manage Later

The first thing any company has to do to improve their decision-making ability is to judge how they are performing right now. Bain & Company proposes that an organisation's decision-making ability should be judged on four elements – **decision quality, speed, yield and effort**.

Quality
How often do you choose the right course of action?

Speed
How quickly do you make decisions compared with your competitors?

Yield
How often do you execute decisions as intended?

Effort
Do you put the right amount of effort into making and executing decisions?

Conducting a survey amongst your employees to rate your organisation on a scale using the four above questions will give you a real insight into where your organisation is falling down. It may anecdotally be obvious – everyone complains over coffee how slow decisions are made for example – but having quantitative data to truly identify the problem is crucial.
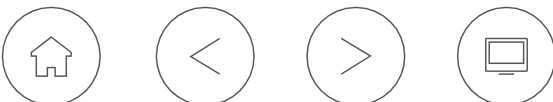
2. Focus on Key Decisions

Generally, there are two types of critical decisions within an organisation. The first is obvious – they are the big strategic decisions that require plenty of debate amongst senior leaders – a move into a new territory, launching a new product line etc.

The second is less obvious, but no less important. These are the operational decisions that happen again and again in your organisation and generate a lot of value (or burden) over time. For example, bank charges can be a small part of each transaction, but if an organisation was unnecessarily paying 0.5% more than they could with a competitor, this will add up significantly over time. Or it could be an inefficient sales support system that means your sales team is overburdened with administrative tasks.

What's the most critical factor in any business decision you'll ever have to make? Basically, it boils down to this question: if this all crashes, will it bring the whole house tumbling down like a pack of cards? One business mantra remains embedded in my brain - protect the downside.

Richard Branson

2.1 Decision Architecture

To categorise these decisions, you can use a process called 'Decision Architecture'. This is where you begin with a long list of decisions your organisation makes and 1) estimate their value to the business and 2) the amount of attention required to make the decision by a manager. By creating this matrix between value and effort, you can quickly see which decisions are truly critical to the success of your organisation.

Remember, a singular decision may be of negligible value, but if it is being made thousands of times over and over again, it could be as critical as any part of your strategic plans.
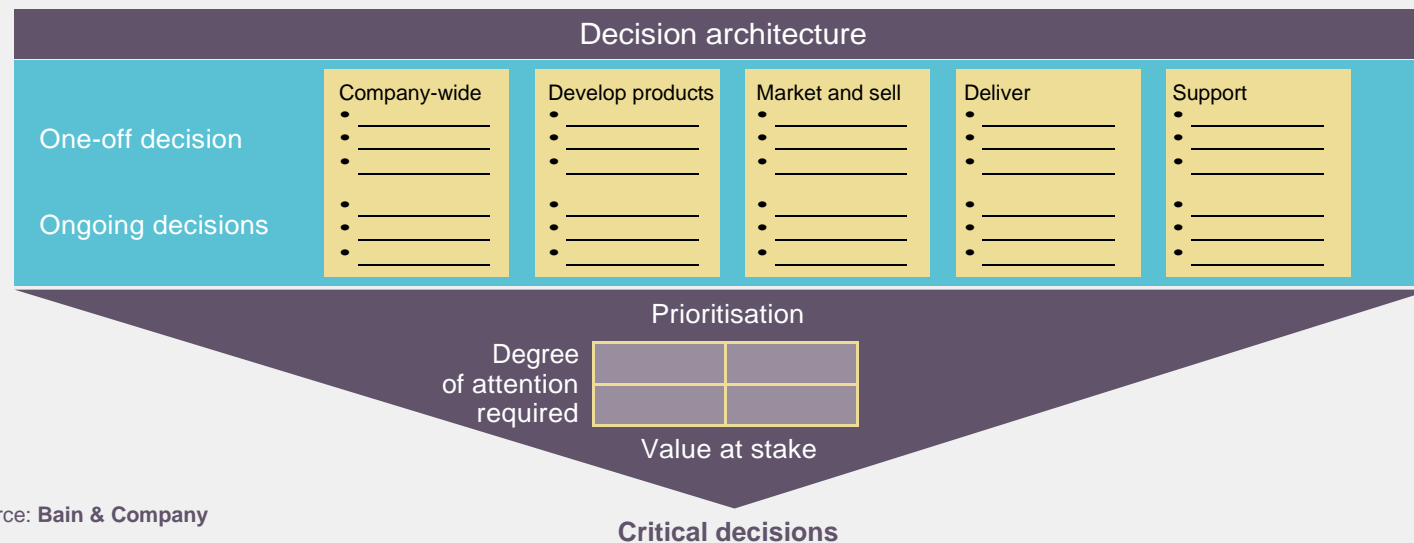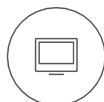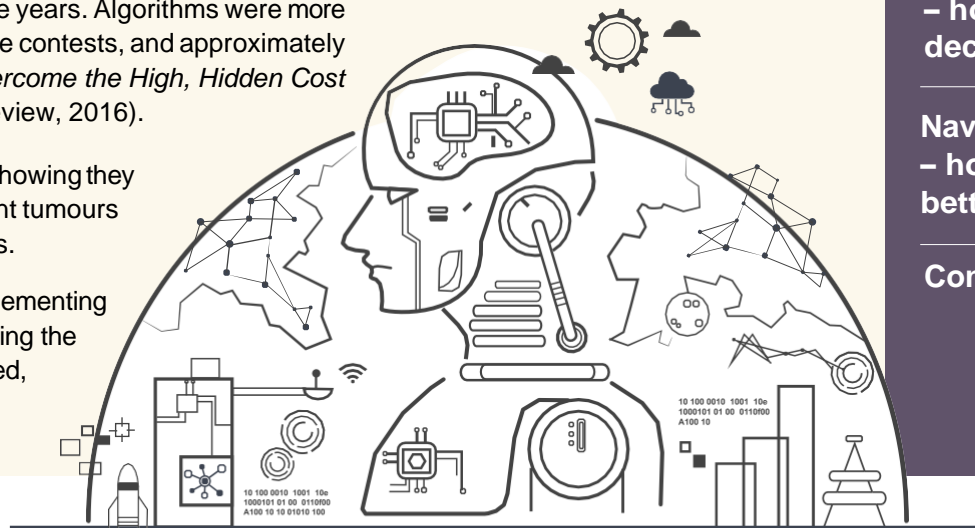

Source: **Bain & Company**

2.2 Bring on the Machines

As automation, machine-learning and AI become a bigger part of our professional life, the benefits they can bring to decision-making are both hard to judge and hard to underestimate. However, this is particularly applicable to those small-value decisions that happen in large volumes already discussed.

Machines, at their base level, are simply algorithms, and people have competed against algorithms in 100s of accuracy contests over the years. Algorithms were more accurate than human professionals in about half of these contests, and approximately tied with the humans in the others (*Noise: How to Overcome the High, Hidden Cost of Inconsistent Decision Making*, Harvard Business Review, 2016).

In healthcare, AI-based medical-imaging solutions are showing they can examine x-rays and CT scans and identify malignant tumours more quickly and accurately than highly trained experts.

However, for the average leader today, it will be the complementing of their skills with these big data processes, and identifying the areas of their business that could be effectively automated, that will be key to their success.

3. Carry-through on your Decisions

To make decisions work there needs to be clarity on what the decision is, who is to carry it out, how it is to be done, and when. This seems painfully obvious, but leaders will have numerous experiences of walking out of a meeting without a clear outcome. This leads to drift and, inevitably, more meetings to find out why.

Clarity: This is up to the leader, both in terms of knowing exactly what the decision is, but also framing it in a way that will engage and empower those that are carrying it out. Beyond just simple directions, explaining the purpose behind the decision will give employees both motivation, but also a 'mission statement' in terms of changing the direction of the decision at any point – if they know the end goal, they can change the path as long it reaches the same destination.

Decide Roles: Beyond simply assigning responsibilities to individual decisions as they come about, how can you decide roles to execute a decision? Bain & Company proposes the RAPID® model, which allows leaders to spell out roles clearly, and assigns accountability.
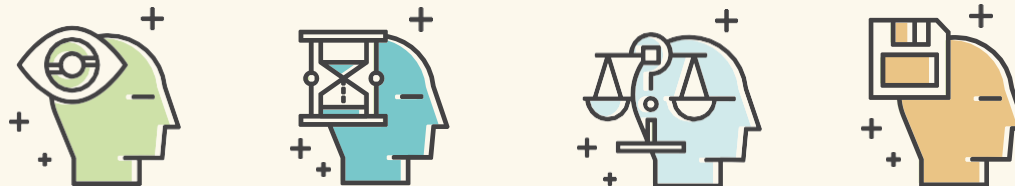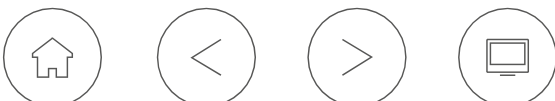
In Rapid (R) model, one person or group makes a Recommendation (for example, division leaders), other stakeholders provide Input (for example, the Board of Directors), other stakeholders then Agree (for example, Marketing agree that the project is executable) and, finally, others Perform (for example, mid-level management and the Marketing Team).

Understand the How: Looking at the structure of any decision will help you find potential gaps. Is it a decision to solely be made by the CEO, or is it a Board-level decision? How will the decision be framed by various stakeholders and will you have to control that message? Tackling these questions before options are presented to stakeholders can avoid speedbumps down the road.

Knowing the When: Clear, sensible timetables of actions and responsibilities are crucial for any decision to be carried out. It is also important here to remember the fact people aren't good at predicting their ability to do a job, and the time it takes. Microsoft adds on 50% more time to any major Windows project compared to their engineer's projections – this is based on industry norms worldwide.

Recommend a decision or action

Formally **agree** to a decision – Views must be reflected in final proposal

Decide
Make the decision – Commit the organisation to action

Provide **input** to a recommendation – Views may or may not be reflected in final proposals

Be accountable for **performing** a decision once made

Conclusion

Decision-making is not an exact science. There can be so many overpowering external factors influencing the outcome of a decision that the impact of a singular leader's choice can be so negligible to be non-existent.

This doesn't mean managers and leaders should throw their arms up in the air and begin rolling dice whenever they make a choice. There are methods and techniques to make yourself a better leader and your organisation a better decision maker.

In a complex, rapidly moving and increasingly data-driven world it will be the leaders that can make effective decisions that will get to, and remain, at the top. Even with the proliferation of machines, automation and data-driven decisions, ultimately, it'll come down to the leader's intuition to get that decision right.

Don't ever make decisions based on fear. Make decisions based on hope and possibility. Make decisions based on what should happen, not what shouldn't.
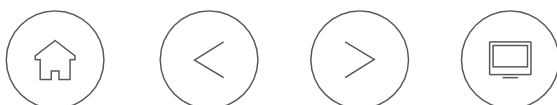
Michelle Obama

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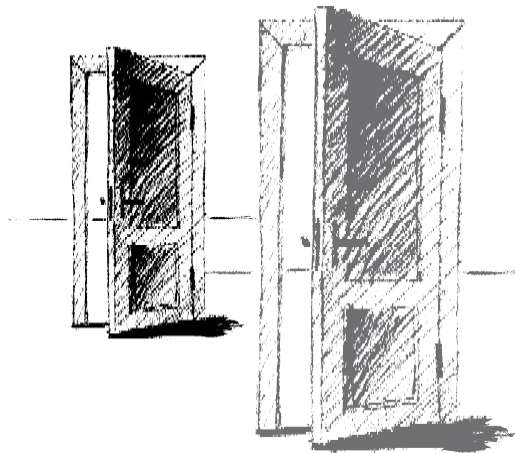**For more details contact the team at info@sterlingdevelopment.co.uk**
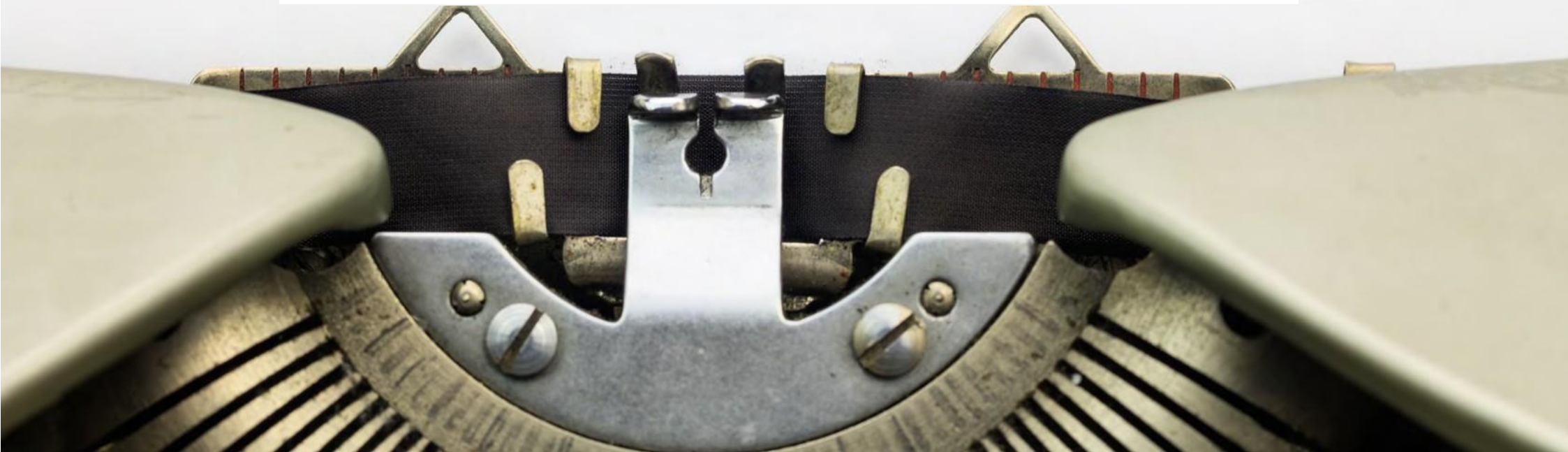
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