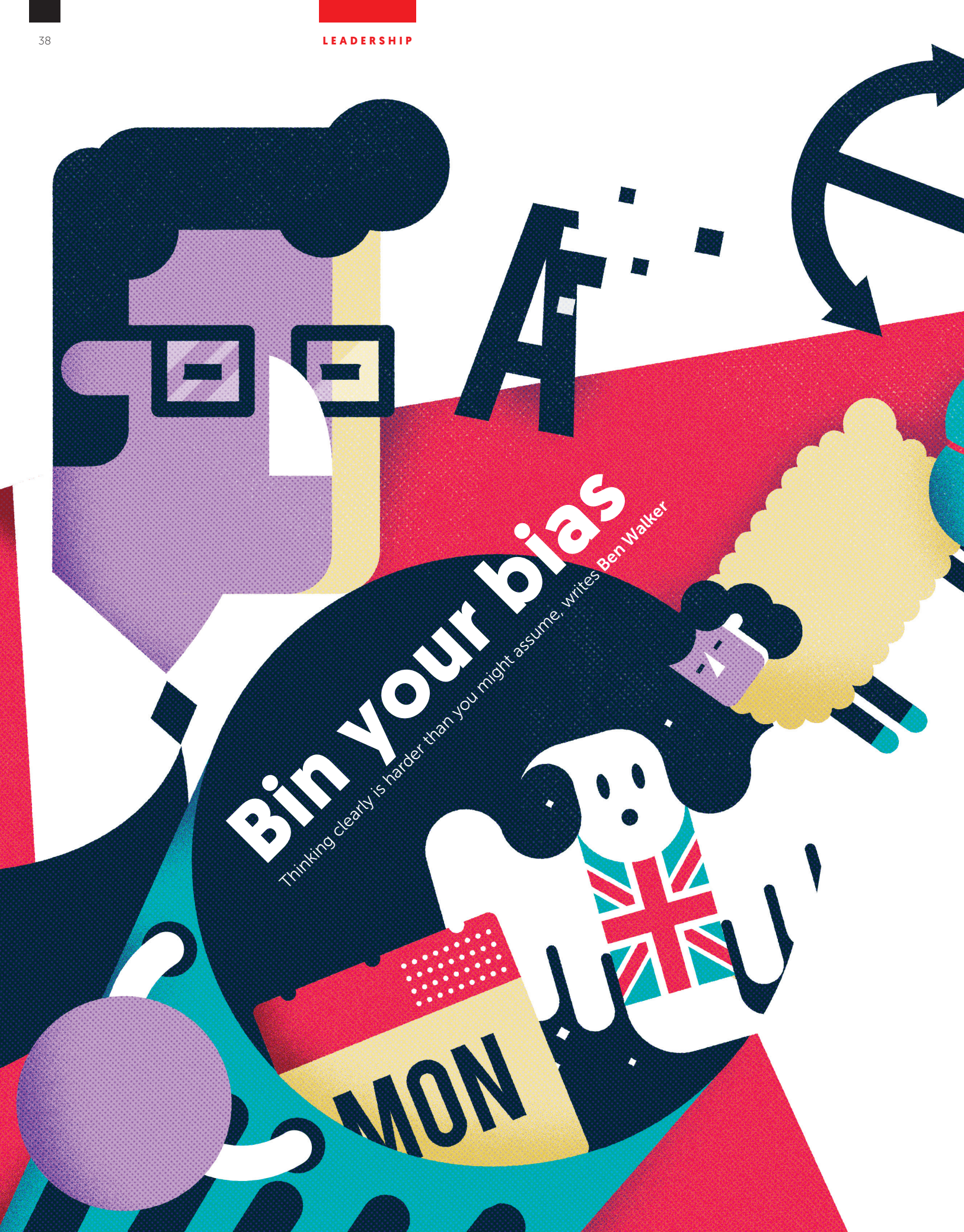
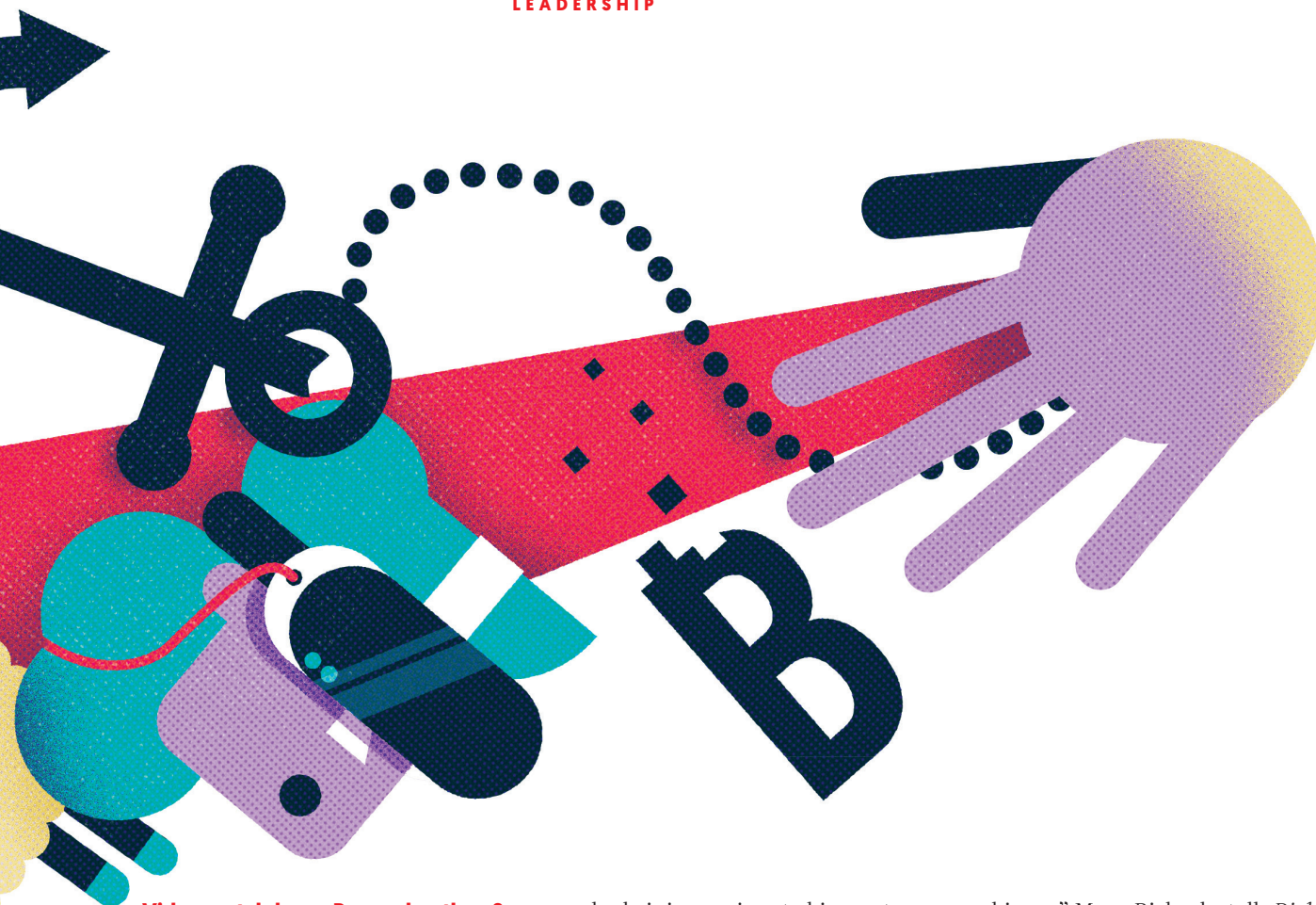


Bin your bias

Thinking clearly is harder than you might assume, writes Ben Walker





Video rental shops. Remember them?

It's possible that you don't. While they were once commonplace on Western high streets, the concept of going out to select a movie to rent, then having to trudge back to the store a day or so later to return it, now seems faintly absurd. Digital technology soon saw to that.

Now cast your mind back to the early 2000s. In those dark days, soggy Saturday afternoons spent trawling through a limited range of rental DVDs was still normal. Streaming video, meanwhile, was rare. Blockbuster, the video-shop market leader, had a chance to buy the – then nascent – Netflix for \$50 million. Despite frequent approaches from the streaming service – which craved Blockbuster's wide range of films – Blockbuster repeatedly refused. The rest is history. Blockbuster filed for bankruptcy in 2010, having lost more than \$1 billion. By that point, Netflix's valuation had risen to a cool \$13 billion.

Blockbuster's decision not to buy Netflix at the turn of the millennium ranks as one of the worst business calls of all time. It is also a classic example of status quo bias – assuming the current situation will endure and therefore being resistant to making even small bets on change. Students of leadership should take careful note:

nobody is impervious to bias, not even the decorated, multimillionaire businesspeople that lead the world's most popular brands.

For their book *Freestyle Decision Making*, Drs Mona and Ari Riabacke set out to discover the key influences – environmental, social and biological – that trigger bias and prevent leaders from making cool, clear, dispassionate decisions. If leaders can identify what is affecting and biasing their thinking they are more likely to be able to shrug off those forces. "It's crucial, because otherwise their organization's future is in the hands of 'hidden forces' – their

biases," Mona Riabacke tells *Dialogue*. "It's important that leaders acquire awareness of what triggers people to act as they do when they make decisions. Today, many companies seem to believe that it's all about acquiring more information and better technology. However, in many cases, the most important building block contributing to the resolution of decisions – the human being – is more or less totally forgotten. Gaining an understanding of our biases is a crucial component to improve our decision-making. Leaders should take a step back to move forward."

THE ANATOMY OF A LEADER

Leaders, as a rule, have better decision-making power than the average person. They tend to exhibit three key traits:

- they are more willing than average to take decisions on behalf of a group
- they are more determined than average to make the right calls, even when these are unpopular
- they are more prepared than average to combat inertia and push through their changes

Yet even the greatest leaders are susceptible to bias. Social conditioning, environment, and resistance to change are evergreen drivers of the human psyche.

The six shades of bias

1

HALT!

Halt – hungry, angry, lonely, tired. Stands to reason, doesn't it? Be honest with yourself. If your state of mind falls into any of the four above categories, leave the decision for another day. You are simply not up to making a call. One of the paradoxes of modern business life is that company cultures and regulatory pressures can make it less likely that executives are in the sort of mental shape needed to make decisions. "The constant grind of the short term and the operational, and focusing on regulatory issues, can cause people to think constantly about the day-to-day," says Camelia Ram, a consultant with Decision Strategies International who specializes in improving decision-making processes in financial services organizations. "Some people are asked to tick all these boxes – and therefore do not have the time or energy to step back. It's important that companies recognize that intense focus on the day-to-day is likely to significantly reduce their power to think strategically."

Solution: There's a common British English idiom that is instructive here: "Sleep on it." Defer your decision making until you feel fresher.



2

GROUPTHINK

Think collaborative working is better than individual endeavour? You might be wrong. Studies have shown that 'herd instinct' can kick in during group-working exercises. Human beings are social animals and most have an instinctive preference for conformity.

Solution: In some cases, setting different individuals the same challenge, then identifying the single best, or blended, solution may give you a wider – and better – range of options than working by committee (see case study, p41). "The rewards of collective wisdom are seldom reaped if group members have been influenced by one another – which is generally the case," the book *Freestyle Decision Making* says.



3

FEAR OF FAILURE

Fear of failure is likely to stop you taking any risk, and sometimes prevents you from making any decision at all. In a recent interview with British newspaper *The Observer*, three Michelin-starred chef Heston Blumenthal warns that fear of being unsuccessful destroys ambition. “All these ideas of success and failure just equal fear of failure,” the culinary innovator says. “It’s judgment of others and blame of others. It restricts creativity. The opposite of failure is discovery. Failure is an opportunity to learn.”

Is this a British disease? “Geographically that is to some extent true,” says Ram, who has worked on both sides of the Atlantic. “But, in my firm we do encourage that learning culture. I think it comes down to organization culture. Obviously, there will be a geographical element, but it’s about how you engender that feeling that we don’t know – and we won’t know unless we try, so we are going to find a way to fail fast, and fail cheaply.”

Solution: Encourage small gambits to test new avenues and to build confidence in change. “Unless we give it a go how will we know whether we should invest more in a certain product, for example?” says Ram. “What you can do is make small bets and retain optionality until it is clearer to you how to go forward.”

CASE STUDY

THE DEVIL’S ADVOCATE

How to beat groupthink

Camelia Ram was asked to solve a problem. “We were called in by a large asset management firm where groupthink had been a trigger for poor team performance,” she tells *Dialogue*. “There was not enough constructive or active debate on their own investment positions, so they were then slow in exiting certain positions and sluggish in ramping up investments in certain asset classes.”

One of the techniques used to approach the problem was assigning one member in each team to play ‘devil’s advocate’. The devil’s advocate was made responsible for taking a completely opposite view from the position of the team and seeking out evidence that supported that point of view.

“We then coached them to ensure that it was happening, and that the devil’s advocate was speaking up and challenging assumptions with information,” says Ram. The strategy had to be pressed home: challenging superiors can be counter-cultural in the financial services sector. “Banks today are still very hierarchical,” says Ram, “so the groupthink is driven by what the senior people think is the best thing to do. You find that the junior members of the team either just chime in or don’t say anything at all. But the process ought not be about protecting individual egos but what actually works for the organization.”

Did the experience train their minds to be more open to opposite views in future? “Yes,” says Ram. “Because what you are trying to reconfigure are group habits. A good process does not necessarily guarantee a good outcome. But all you can do in the moment in making an investment decision is making use of all the information available and that means taking views that both support, and conflict with, your hypothesis.”

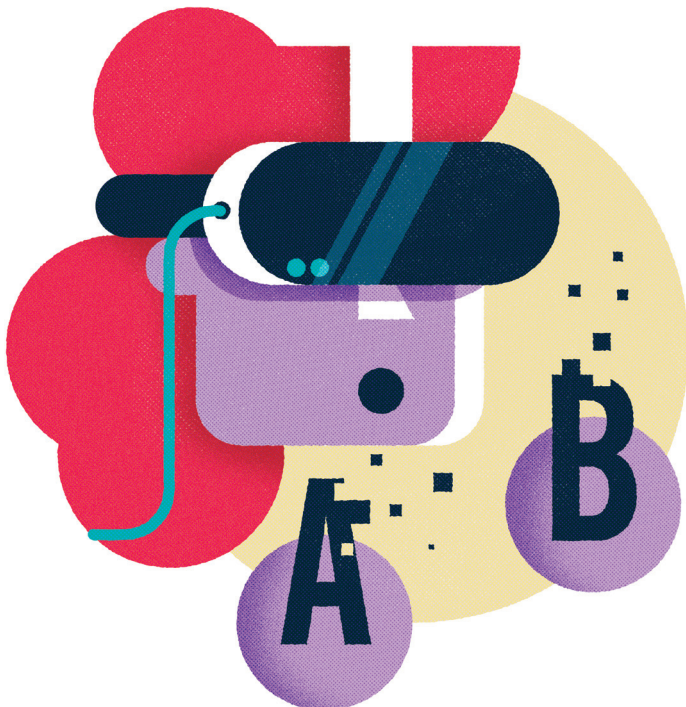
4

HYPOTHETICALS

Human beings are programmed to make judgments on situations and circumstances to which they can relate, that are – or at least seem – real. There's an instructive passage in *Freestyle Decision Making* about a variant on the Wason Test, a logical exercise you can find online.

Only 25% of Stanford students passed the test when letters and numbers were used. Yet when the test was recast so they were given the quasi-real-life responsibility of being a bartender deciding to whom to serve alcohol, their scores improved massively.

Solution: Make storytelling a core part of your business. "One of the core techniques that we use at DSI is scenario-based planning," says Ram. "We encourage executives to create stories about the very different paths that may emerge based on the environment in which they operate. We encourage them to ask themselves what a killer competitor looks like in this world. What are our strengths and weaknesses relative to that competitor? They then do that for at least three different scenarios and can look across those very different worlds. Through that process they get a clearer picture of what it is that will absolutely work given the complexities. And they also learn those areas where their knowledge is weaker, and where incremental investments are needed to test the waters."



THE TROUBLE WITH MEN: HOW COCKINESS WRECKS COGNITIVE POWER

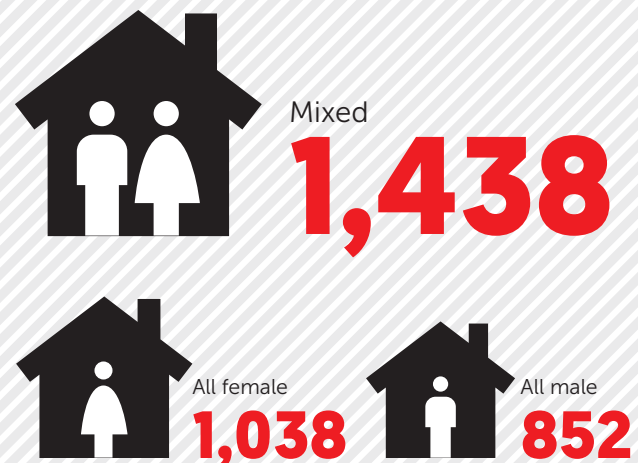
When researchers set out to find out how gender affected stock trading, they discovered men had a key weakness: they were overconfident in their own abilities. And here's the rub: overconfident investors do worse. They trade more, and gain lower returns on the investments they make. The article *Boys will be Boys: Gender, Overconfidence and Common-Stock Investment* found that men traded 45% more than women overall, and that unattached males traded less sensibly than married men. This suggests that the very presence of women in men's lives is an important – and positive – check on male behaviour.

You can see this in the most prosaic of examples. In much of Europe, it's common practice for landlords to let large country homes for weekend parties. Few homeowners are keen on letting their properties to single-sex groups, with some refusing them altogether. Yet as much of the *demand* for such homes is for stag and hen parties (bachelor or bachelorette parties in the US), which tend to be by definition single-sex, some landlords reluctantly allow them.

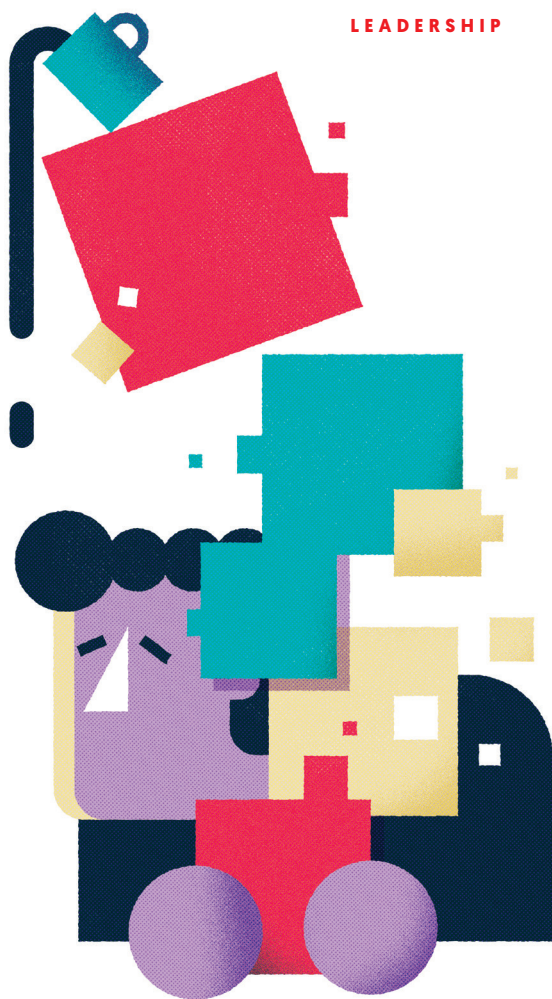
The website groupaccommodation.com, which lets houses in Europe and in the wider world, has 1,438 properties available for mixed-sex groups, 1,038 for exclusively female hen parties and just 852 for exclusively male stag parties (see Figure 1). These restrictions might be born of stereotyping. But landlords, who are keen to let their properties, argue that it is based on simple experience – that single-sex groups tend to make worse decisions, are less sensible and take more risks. The two sexes act as checks on one another. And if you must have single-sex groups, all-female groups are clearly preferred to all-male.

FIG 1

NUMBER OF PROPERTIES ON OFFER BY GROUP TYPE



Source: groupaccommodation.com



5

TOO MUCH INFORMATION

A fascinating research study examined the public response to subscription rates to journal *The Economist*. The alternatives were:

- a) \$59 a year for an online-only subscription
- b) \$125 a year for print only
- c) \$125 a year for print and online

Some 16% chose option a – online only. The remaining 84% went for option c. No surprise, you might say; what sort of fool would pay the same rate for print only as for the full package? But here's the rub: when the publisher removed option b, 68% chose the cheapest option and demand for the full package – the sale the publisher most favoured – slumped. *Economist* readers are fairly intelligent people. Yet this demonstrated that irrelevant information – in this case the obviously lousy option b – can have a huge influence on our decision making.

Solution: Separate the wheat from the chaff. As well as collating information, have an analyst check it before distributing it to your team. The key role of the analyst is to remove useless or irrelevant data: don't assume your executives will make the distinction themselves.

6

STATUS QUO BIAS

Inertia is a powerful force. Organizations have a strong bias for standing still – to move is to change, and change is often perceived as a risk. Yet, too rarely, the often substantial risk of remaining stationary isn't properly considered. "To some extent, status quo bias is related to groupthink bias and information overload," says Ram. "You are slow to act because you are mired in information or you are not sure about timing. So you stay too long in a certain position without making a move at the right time, or without making a small bet."

Solution: Incentivize and praise those who are willing to explore new avenues, whether successful or not. Encourage a culture of experimentation. ■

Further reading

Freestyle Decision Making
Drs Mona & Ari Riabacke
LID Publishing

► bit.ly/freestyledecision

