

Getting Decision-Making Match Fit

- The tendency of the brain to take short cuts can give rise to bias in decision-making.
- Ensuring there is diversity of thought presented when ideas are being discussed is one way of helping to mitigate the inherent bias in decision-making.
- When team members are unwilling to challenge or disagree with each other it's a warning sign for governance professionals that something is wrong.



By Michelle Gibbings, Founder, Change Meridian

With the world changing at exponential rates, organisations are needing to rapidly adapt and become more adept at solving complex problems and making decisions often with incomplete information and time pressures.

In such an environment, the role that governance professionals play in steering the board through decision processes becomes even more important.

Boards are grappling with decisions about how to best position their organisation as the world moves into a period of change so great that the World Economic Forum is calling it the fourth industrial revolution. For most organisations the outcome is the need to undertake significant organisational change and transformation.

This is supported by KPMG's 2016 Global CEO outlook report, which found that 41 per cent of CEOs expect their organisation will be significantly transformed over the next three years; an increase of 12 percentage points on the prior year.

During times of transformation and change, organisations make critical decisions that can shape and impact the organisation's future success. The stakes are high, and decision-making can't be left to chance. However, many people are unaware of the influencing factors that can play into how they decide.

The brain isn't fact based

Research shows that people don't make decisions on facts alone. This is because a person's brain uses information from the past to help it determine how to proceed in the future.

As the brain takes in new information it tries to make sense of it, so that it knows what it needs to do. To ease the cognitive load this processing takes, it compresses information and sorts it into patterns. It looks for things that are familiar and goes — 'I now know what to do'.

This process is effectively a person's brain taking a 'mental short cut', which is known as a heuristic. It's designed to help a person work out what to do as quickly as possible. It's also the brain's way of making big things and complex issues easier to manage, and ultimately remember.

The problem is that this short cutting process isn't always reliable, and it gives rise to bias in decision-making. For example, a person's brain may expect to see something in a certain way, and so it will seek out information to validate that view.

Consequently, the brain can use a past experience or assumption that is no longer relevant to determine how to decide on a present course of action. For leaders facing uncharted territory relying on what they have always done before and using these default thinking patterns is fraught with danger.

Daniel Kahneman in his book, *Thinking Fast and Slow*, shared his years of research into this field. He explained how the automatic and instinctual part of brain can lead people to cognitive bias and people falling into decision traps.

Sunk cost is a good example of a decision trap. In an organisational context it occurs when executives don't want to walk away from a project or investment that's been made, even when the facts show they should.

Their reluctance to change their mind is based on the false logic that given so much time and money has already been invested they should keep going.

Avoid the path of least resistance

These issues of cognitive bias are exacerbated when a person is tired, stressed or under time pressure.

The brain is like a muscle. When a person works out at the gym their muscles get fatigued and need to be rested. If a person wants to be at peak performance, they need to get the right balance between 'working' and 'resting' their muscles.

It's the same for the brain. Every time a decision is made precious resources in the brain are used.

When the brain is tired it more eagerly takes the path of least resistance — making the decision in a way that is easiest, or most familiar.

Researchers examining the decision patterns of US parole boards saw how this played out. The research found that the decision to be paroled had less to do with the facts of the case and more to do with when the prisoner appeared before the parole board. If they appeared in the morning, when the parole board members were less cognitively tired, the prisoners received parole about 70 per cent of time. In contrast, prisoners later in the day were paroled less than ten per cent of the time. Being tired affected the decision that was made.

Governance

The brain is not equipped to multi-task and so being distracted can impact how decisions are made. When focus is lost and attention is dispersed, the person is more likely to miss important elements that should be considered as part of the decision-making process.

Nor is the brain skilled at making effective and ethical decisions when it is busy. This is backed up by research, which shows that when people feel pressed for time they can make decisions that they normally wouldn't have made.

In the early 1970s, John Darley and Daniel Batson (Princeton University) examined how time pressure effects behaviour. They invited students to participate in a series of experiments. In one of these experiments the students were told to move from one building to another. The testers varied the amount of 'urgency' in this message.

To move between the buildings, the students had to go past a person slumped on the floor and moaning. What the researchers found is that the greater the urgency in the message, the less likely it was for the person to stop and offer assistance. At the same time, for those people who didn't stop many of them appeared agitated when they got to the next building. This was because they were conflicted in their desire to help and the instructions they were given to get to the new building quickly.

Consideration therefore needs to be given to the pressure that the board is under when making decisions and the time of day that decisions are made. Scheduling critical decisions to be made at the end of a full day board meeting is not optimal for the brain. People will make better decisions when they aren't tired and stressed.

Seek diversity of opinion

It was the French anthropologist, Claude Levi-Strauss, who said, 'The wise man doesn't give the right answers, he poses the right questions'.

Ensuring there is diversity of thought presented when ideas are being discussed is one way of helping to mitigate the inherent bias in decision-making. Such diversity is generated not just from the information that is shared, but by the questions that are asked.

Research by Associate Professor of Management and Organisations at the Kellogg School of Management, Katherine Phillips, and colleagues found that diverse teams often make better decisions as they ensure different views are considered. The research showed that the better decisions were not the result of new ideas, but because the diversity caused more careful information processing than in the homogeneous groups.

If the focus is on getting to a resolution swiftly, rather than ensuring the quality of the decision process, then it will be much harder to have an environment where diverse opinions are actively gathered, shared and challenged.

Beware of easy consensus

It can be easy to equate a healthy culture with getting agreement being reached easily. It's the fallacy of 'consensus rules'.

When team members are unwilling to challenge or disagree with each other it's a warning sign for governance professionals that something is wrong. People need to be able to robustly discuss and disagree as part of a healthy decision-making process.

Humans are tribal creatures, who like to fit in and be part of the pack, creating a pressure to conform. This pressure means people can hold

off challenging the status quo or questioning. In fact, a decision to take action can be made with little more reason than the fact that everyone else is doing it.

This is more likely to happen in groups which are homogeneous, which is why having a diverse range of people involved in the decision process is an essential element for effective decision-making process.

ANU Professor, Andrew Hopkins, has written extensively on risk failures, and the dangers of consensus decision-making. His research has found that groups are often more inclined to make riskier decisions than individuals. This is because of the process of what he terms 'de-individualisation'.

How this plays out is that because there are many people responsible for the decision, the individual feels as though they are not personally responsible for it. They are therefore more likely to take risks, and can be persuaded by the group to go against their own values. He says, 'Everyone is responsible for the decision which means, in turn, that no one person feels personally responsible. The end result is non-responsible decision-making'.

'Wherever you see a successful business, someone once made a courageous decision'.

For organisations facing increasing complexity, they need people who are willing to challenge and ask questions. It can be hard to be the person who plays the role of the sceptic, and who puts on what Edward de Bono called the ‘black hat’. The person can worry that if no one else is voicing the concern perhaps they’ve misinterpreted the issue being discussed. Silence becomes an easier option.

But remaining silent may result in poor decisions being made. It can be useful to recall the comment by Alfred Sloan, the former CEO of General Motors who said: ‘... I take it we are all in complete agreement on the decision here...’

Then I propose we postpone further discussion on this matter until our next meeting to give ourselves time to develop disagreement and perhaps gain some understanding of what the decision is all about’.

Be prepared and deliberate

Not many people wake up in the morning with the intent of making a poor decision. Quite the contrary. Most people want to make good decisions and in fact, would classify themselves as a good decision-maker.

However, experience shows that making consistently good decisions takes time, focus, awareness and planning. It also takes courage. Courage to challenge, and courage to be open to checking how decisions are made and determining if there is a better way.

As esteemed management guru, Peter Drucker said, ‘Wherever you see a successful business, someone once made a courageous decision’.

Good decisions are made cognisant of the consequences and implications from those decisions. This means the options are identified, considered and determined. This is necessary because selecting one option usually prevents something else from being actioned. When people are aware of the trade-offs and risks involved they can make the decision with their eyes wide open.

Given that good decisions are at the core of organisational performance, if an organisation wants better outcomes it needs more robust decision processes and leaders better able to manage complex decision processes.

For leaders, this means they need to take the time to:

- **Consider** — what’s happening around them and reflect on what they are seeing and hearing, and therefore what action they should take
- **Challenge** — assumptions they and others may have to ensure they are making a good decision and are being open to dissenting views and outlier opinions
- **Check** — their facts and interpretations of those facts as they are on the lookout for bias, which may adversely impact their thought processes and decisions.

Nurture the environment

Governance professionals play a role in nurturing the right environment to facilitate effective and sustainable decision-making.

To understand whether the board environment enables good decision-making, it can be helpful to ask:

- Do the directors encourage debate, or are dissenting opinions seen as a bad thing?
- Is enough time allocated to enable the board to critically think and ponder ideas?
- Is appropriate diversity of opinion presented or present around the board table?
- Are the right stakeholders involved at the right time and in the right way for the decision-making process?
- Are critical decisions made when the directors are cognitively alert?
- Are actions taken to consciously be alert to the bias in the decision process, and steps taken to mitigate?

Decision-making processes and capability matters. And in times of change, it matters even more.

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