Decision Making, not Decision Faking

The Big Lie Underlying Business and How To Untell It

by Stowe Boyd

There is an enormous lie underlying business, the lie that decisions are made rationally, applying logic and expertise, sifting evidence, and carefully weighing alternatives. However, the science is clear: in general, we don't really make decisions that way: we fake it, instead.

Daniel Kahneman is a fascinating figure, a psychologist who received a Nobel Prize in Economics, and his best-selling book, Thinking, Fast and Slow, has popularized his findings, which are at the core of what is now called behavioral economics.

In a nutshell, Kahneman and his colleagues[1] laid the groundwork to explain why people consistently make irrational economic choices, and why we act in ways contrary to the predictions of classic economic models. To put it bluntly, there is an enormous lie underlying business, the lie that decisions are made rationally, applying logic and expertise, sifting evidence, and carefully weighing alternatives. However, the science is clear: in general, we don't really make decisions that way: we fake it, instead.

In an interview last year[2], Kahneman reflected on the reality of how we come up with decisions as individuals:

> 'We're fundamentally over-confident in the sense that we jump to conclusions — and to complete, coherent stories — to create interpretations. So we misunderstand situations, spontaneously and automatically. And that's very difficult to control.'

The combination of cognitive biases, limits of attention, and the human tendency to overestimate our competence in areas in which we have little expertise all add up to a lamentable tendency toward bad judgment.

Kahneman offered this insight regarding the threat to business:

> 'You look at large organizations that are supposed to be optimal, rational. And the amount of folly in the way these places are run...is actually fairly troubling.'

So, what is a manager, or any intelligent person in business for that matter, supposed to do, given the compelling science of our flawed ability to make rational decisions? How can we counter the shortcuts in reasoning and the biases that cloud our thinking, and untell the big lie about decision making?

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Let's Rethink Decisions:

A Talk with Erik Larson of Cloverpop

Erik Larson has been pursuing that question for the past several years. His search for an answer led to founding a company, Cloverpop, dedicated to helping us to replace the fakery in our decision processes with a science-based, scalable business software platform.

Why Now? And Now What?

Stowe Boyd: Everyday I seem to discover another mention of human cognitive bias. Earlier today, I saw a cartoon in The New Yorker where the joke pivots on confirmation bias. It's clear that the discussion of cognitive biases and their impact has moved from rarified research journals into everyday discussion. Have we reached a turning point where an understanding of the glitches in human cognition has become more mainstream now?

Erik Larson: I think we have reached a cultural turning point, in that what comes next will be very different from what came before. Up to now, scientists have done amazing research into everyday outcomes of these glitches, as you called them. Some are pretty counterintuitive. For example, it turns out to be harder to make a decision when there are more alternatives to choose from and more data to compare.

Over the past 40 years, researchers have revealed we're predictably irrational creatures, as Dan Ariely characterized us[3]. Much of today's understanding of the irrationality in judgment and decision making is due to the work of Daniel Kahneman. We can point to Kahneman's Nobel Prize in Economics in 2002 as the starting point of a new era in behavioral economics. I think that those two events -- Kahneman's Nobel Prize and the housing bubble and credit crisis that preceded it -- have sent a clear signal that we should pay more attention to the flaws in human cognition.

The Dangers of Advocacy in Business

In the business setting, it's common to appoint a team member to investigate some threat or opportunity, often couched as developing a proposed course of action.

However, a proposal is essentially a sales pitch, which is by definition structured to influence the listener to choose whatever the seller thinks is the best choice. Now that may sound sensible at first glance, but in practice that means the one pitching will structure the pitch to sell the result they believe is best. The argument is skewed by the underlying intention to convince the others to agree with the pitch.

This is human nature, alas.

SB: Kind of like that Walt Kelly line, ‘We have met the enemy, and he is us!’ We’ve learned that our bias is the culprit behind many decision-making crimes. In the case of the housing bust, there is a long list of bad actors, but a lot of people just couldn’t see what was going on right in front of them.

EL: We’ve learned these cognitive biases are everywhere. Generations of researchers have uncovered dozens of biases, and ways that these biases hurt us. The snowball has been rolling and growing for 40 years: it's not like the research started yesterday. But the financial crisis caused us to pay attention to our cognitive limitations, brought it out to center stage.

I think that the next stage is answering the question ‘what are we going to do about it?’

These biases are very tricky. Cognitive biases are essentially blinders. It's almost impossible to see what’s going on at the time because biases take shortcuts that naturally hide their tracks. It feels like we are making rational decisions that align with our goals, but we are actually rationalizing choices that were preselected for our consideration by these unconscious biases.

Confirmation bias is a great example. It causes us to lend more weight to new evidence that supports our preconceptions, while steering us away from evidence that disproves them. We barely notice important new information, or conflicting choices. And as a result, it feels like the world keeps telling us we made the right decision.

The narrative fallacy is a related example. We rely on stories to understand and explain data, and we are more likely to trust a clear story based on weak facts than we are a confusing story based on strong ones. As a result, a competent business person advocating a specific course of action naturally filters out or downplays conflicting information (see The Dangers of Advocacy in Business). This experience can be so convincing that we aren’t even aware we've made a decision on a specific alternative. Later, we may spend days or weeks convincing ourselves that it is the right thing to do, even in the face of conflicting evidence. We rationalize the decision, after it’s made, by aggregating evidence that supports it.

SB: It's the ‘fish can't see the water they swim in’ problem, right? We

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EL: That's right.

How To Unshort The Short Cuts and Unbind Our Biases

SB: In your HBR article, *A Checklist for Making Faster, Better Decisions*[4], you presented a practical application of behavioral economics to everyday decision making. You suggested that systematically following a specific process can counter a great many of these problems (see A Decision-Making Checklist).

People may think that they go through those steps in their reasoning, but they don't actually walk through the step-by-step process of writing all these things down, or even take all the steps.

EL: Process improvement is fundamental to any business, especially successful ones. It turns out that decision making is a process, just like sales is a process, marketing is a process, or running your financials is a process.

SB: Like a company's process for hiring, or deciding what software to use.

EL: Generally, we are very inconsistent about making sure that we do the right things leading up to that decision. We very rarely use a checklist that asks, 'did you do these things before we actually accept this as a decision?' Following a defined process and keeping a clear record of our decisions almost doesn't make sense to us, it doesn't come to mind. It's that burglar again: the thief cleans up all evidence of the crime, and steals away.

SB: Well, in some narrow domains organizations do follow tightly-defined procedures. Doctors have adopted -- in just the last few

A Decision-Making Checklist

Take these steps to significantly improve decision making:

1. List 3 to 5 existing company goals impacted by the decision.
2. Identify 4 or more alternative choices.
3. Detail any missing information that would be likely to change your decision.
4. Describe the expected impact of the decision, good and bad.
5. Record and communicate this decision context in writing.
6. Follow up to track the results of the decision.

years -- the notion of checklists that should be run through before they undertake risky activities, like surgery, or even everyday tasks like changing dressings.

EL: Right. It's interesting, that the two groups that are most fully embracing the checklist are doctors and Air Force pilots. This trend started in the Air Force where they use checklists to make sure their planes won't fall out of the sky because someone forgot to turn on a hydraulic system. Now doctors are doing the same thing, so that they don't accidentally forget a scalpel or a sponge inside of a patient. Both groups are amongst the most highly trained people on earth, and they now understand the power of checklists. Checklists are used, generally, to avoid unintended consequences due to common, easily avoided mistakes with serious consequences.

The biggest impact of applying systematic decision making processes happens with the most common management decisions. Not the months-long strategic decision projects, or dozens of daily trivial decisions like where to go to lunch, but the common collaborative decisions made week in and week out by teams of managers and executives.

People waste an enormous amount of time in broken decision-making processes, leading to delays, frustration, and political infighting.

SB: But people don't regularly use checklists in their routine team decision making, do they?

EL: People resist using checklists for the same reasons doctors and pilots resisted it. 'I know what I'm doing. How did I get here if I didn't know what I'm doing?'

SB: 'I make great decisions, that's why I'm CEO of this company, or CFO, or VP of engineering.'

EL: That's right. Their emotional ego resists a better decision-making process.

These biases make our lives worse. They make work harder. They slow things down. They fill our calendars with meetings, and our inboxes with emails. Most -- if not all -- of the meetings and emails about decisions are inefficient, and about half are unnecessary. They burn up time better

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spent innovating, learning, building relationships, and solving hard problems.

Team Size Matters

SB: In your HBR article, you also said a team involved in decision making should be at least three and no more than seven people to reduce bias and increase buy-in. I've worked years in big companies, and in some cases I've seen dozens of people involved with decision making, even in what I would consider trivial cases.

What about this limitation of seven people? Is that where there's a tremendous amount of heat loss in the decision-making apparatus of a company? We're constantly setting up situations where nominally we bringing two dozen people to a meeting to discuss a possible decision, but that's just inefficient and not helpful.

EL: There are two reasons to limit the number of people involved in a decision. One, you don't actually need that many people. More than seven people tends to duplicate perspectives rather than adding new ones.

SB: You're saying that you have sufficient diversity with seven people?

EL: It's diverse enough. And above seven a group becomes so big that communication gets complicated and people naturally start to form factions[5].

The combination problem gets serious when you get past a group of seven because of time and bandwidth limits for the people communicating. To have one-on-one conversations between five people you have to orchestrate 10 conversations - something that can actually happen in the course of a well run hour-long meeting. Increase that just a bit to eight people and now you're looking at almost 30 separate conversations. It's just too many.

So groups for. A few say, "Oh, I'm one of the people who supports this," and a few say, "I'm part of the group against it." People do this because

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we are more skilled with small group interactions. Smaller groups are easier to deal with. But these self-reinforcing factions make it more difficult and time consuming to reach agreement, and amplify groupthink.

SB: Five to seven people is a more manageable group size.

EL: Exactly, but if you're in a world where you record decisions -- where you write them down, share them with stakeholders and publish them to the organization -- it's easier to communicate with people after the fact, and so the need to have everybody involved upfront is lessened because people aren't blindsided later. You avoid the classic conversation of someone walking down the hallway and saying, 'Hey boss, how come I didn't know about that decision?'

When someone says that, they're saying two things. The context is, 'Hey, I wish you'd told me sooner, because I've been wasting my time or the company's time working on the wrong stuff.' That's inefficient. The subtext is, 'Hey, I'm pissed off. I wasn't involved. I'm not empowered. I'm not a trusted part of this group.' That increases employee churn, frustration and disengagement.

A bad way to solve that problem is to invite everyone to the meetings and cc everyone with the email threads. A good way is to clearly record and share the details of the decisions after they're made.

People are ready for fewer annoying meetings, emails, or chat. They're ready for things to happen more quickly. They're ready to be more involved with the important parts of their work, and to be empowered to actually make decisions when they are the experts.

Software To Bring Together the Art and Science of Decision Making

SB: Capturing the activities and information involved in a decision-making process is a place where software tools really can help. The fundamental thing is that making better decisions is not a matter of willpower or having a 'good gut' or simply spending more time and effort on decisions. You're saying that decision making can involve less time and less effort with better results if it's done differently.

EL: That's correct. People are ready for fewer annoying meetings, emails, or chat. They're ready for things to happen more quickly. They're ready to be more involved with the important parts of their work, and to be empowered to actually make decisions when they are the experts.

SB: Maybe we need a new line item in the list of software tools business people use every day. They use ERP systems for budgets. They don't do it manually anymore, and they don't just carry the numbers around their head. They use a CRM app for sales. They use task software tools for project and task management. Everyone has accepted these use cases. But decision making feels different because we've never thought of it this way before.

EL: This is similar to sales before CRM. Sales staff considered their work to be more art than process, then. It was about relationships. It was about the gut, personality, and intangibles. That was the source of the cliché about extroverted salespeople.

So when CRM came along, sales staff resisted. 'Why are you asking me to write this down? You're telling me that the art and magic of sales can be reduced to filling in a few little check boxes!?'

And to some extent, they were right. There is clearly an art of selling, and an importance to relationships, but that's not the only thing that's happening.

Marketing automation was a similar shift. Marketing was a creative art. CMOs were creative branding and advertising wizards, like the Mad Men days. But now marketing is measured to the nth degree as a matter of course, and you can't be a CMO today if you don't get both the creative art and the digital and mathematical science of marketing.

SB: It's the same story as Moneyball. Michael Lewis writes about the people who started tracking complex stats on baseball prospects, and they changed the world of the baseball scouts.

EL: Yes, that's a perfect example. 'Hey, does he look like a fastball pitcher?' 'Yeah'. 'Is he an actual fastball pitcher?' 'What to do you mean, look at him! He's six foot four and has a big jaw.' Compared to the guy who's five eleven with a big pot belly. The fat guy throws perfect strikes all the time and has total mastery of the batter but the other guy looks the part.

The fact is that there is no war between the art and science of sales and marketing, there's no war between the art and science of baseball, and there's no war between the art and science of decision making in business. What there is right now is a lack of visibility into decision making, and the lack of an accompanying change in behavior.

The fact is that there is no war between the art and science of sales and marketing, there's no war between the art and science of baseball, and there's no war between the art and science of decision making in business. What there is right now is a lack of visibility into decision making, and the lack of an accompanying change in behavior. That is substantial. CRM didn't happen overnight.

Businesses managers and executives underperform by 20% because of poor decision making

SB: Do you envision this new way of decision making becoming ubiquitous? Do you think we'll have a decade where we'll go from where we are today -- where cognitive biases are something that people are only aware of to some small extent -- but that awareness hasn't really had an impact on how everyday business is conducted? And where a decade from now, perhaps, there will be a widespread and different approach to decision making?

EL: I think it could be completely different for some companies. From what we can see so far, every company on earth can perform 20% better by improving the effectiveness of their decision-making processes.

SB: How will this change management? Will there be more decisions, fewer deciders? You pointed out that less time might be spent at it. Smaller groups doing it. Do you see that it will go along with the trend we were seeing, like greater work autonomy where smaller groups are making more of their own decisions about what they're going?

EL: I think the biggest change is that we will think of decision making as a type of work that has a consistent pattern to it, something that should be more automated and measured. You won't make a decision unless the decision is being measured and tracked according to a collaborative digital process. Decisions made in leadership teams, on project teams, around business processes - all will be measured and tracked, and made faster and better as a result.

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I think that is a fundamental change in the way we think now, in the same way that the baseball scout or old-time salesman thought about their job as an art, not a science. Imagine a marketer today, a CMO, saying that she doesn't need to keep track of the numbers, which once was the case. Until recently, unless you were running a direct mail business you didn't keep track of all the numbers. Saying marketing is highly measurable seems so obvious today that it goes unsaid. But I remember trying to sell marketing software to CMOs, and often their eyes glazed over when I used the word ‘number’. But now marketing is very measurable and the processes are automated. And if you measure actions and results, you can make predictions and make the process better.

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Decision-making tools, not decision-making fools

SB: What do you think the growth curve of decision-making tools like Cloverpop will be? Will it be like the rise of work chat, spreadsheets, or CRM? All of these had quick adoption, relative to tools that preceded them.

EL: Cloverpop is in the hands of customers now, and we as a company have been using it for almost a year. I will never work any other way again. It hurts to think about the amount of time that I’ve wasted in my life working through decisions where the conclusion was obvious from the start, or where the premise was wrong from the start.

Those are two very different cases. When the conclusion is obvious but people don’t see it, then you end up wasting time too many meetings meandering to a decision. When the premise is wrong, you make a series of seemingly good decisions, but you end up in a crappy place. We can see it in the data that those two make up 80% of decisions. That means 80% of the decision-making processes going on in companies today are just unnecessarily awful. The other 20% of the time, we do things right from the start, or we get lucky. It’s hard to tell.

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When you avoid those pitfalls, when you don’t have stupid meetings that are rehashing the same things again and again, you don't have people coming out to you and saying, 'How come I didn't know about that' or 'I didn't get a chance to weigh in' or 'I don't remember it that way.' When you avoid those outcomes, it's just better. You have more time for creative thought, for more effective planning, for building better relationships, for getting the best out of people around the table and not just rambling on.

Bain & Company did a study where they looked at what they considered the big three levers of business success. The first was the organizational structure of a company. The second was the financial structure. And the third was the effectiveness of the company's decision-making processes.

The researchers scored a sample of companies based on these three levers, to see if they could predict financial performance, earnings per share, and competitiveness. It turns out that the first two levers -- people/organization and finance structure/assets -- are not well correlated with how well the company will perform in the future.

Decision making effectiveness is 95% correlated with business performance. If you look at how a company makes decisions now, you see how the company is going to perform in the future.

Decision making is the most important business process. As this basic idea permeates business culture, I think investors are going to start asking companies about their decision-making processes as a predictor of future business success.

SB: Imagine the not-too-distant future, and investors are thinking about putting money in a company that's growing relatively well. They sit down at the table with the CEO and say, 'Well, okay. I'm not interested in your capital structure. Yeah, you seem to have a lot of really bright people. But explain to me in detail how you make decisions.'

EL: Or even more to the point: 'Show me the last 500 decisions that you and your managers and executives made in support of the growth initiatives you just outlined. What decisions are being made, what results are expected?' They'll ask because the answers will predict future results with high confidence. But how many companies can answer that question today? Not many. Not yet.

SB: How is it possible that people are managing the most important

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Decisions Make Goals Happen

Cloverpop research found — in a study of 100 managers and executives — that 89% of the decisions they made using the Cloverpop platform met or exceeded expectations three months later.

Because what gets decided gets done, business leaders should shift away from thinking of goals as an aspirational motivation technique, and instead use goals as a way to guide better decision making.

predictor of business success in the twenty-first century with stone-age techniques? We're living in a digital world, otherwise.

EL: It seems like that's just the way that decision making works. The reason that decisions are so powerful is because they act on us in ways that we don't notice. It turns out that people follow through on business decisions almost 90% of the time (see Decisions Make Goals Happen). Essentially, we're inclined to do what we have decided to do, come hell or high water.

The best results come from applying processes and tools to improve the quality of decisions, clearly communicating decisions as they are made, and keeping a record of the results. Otherwise, our decision making will remain rooted in an era before behavioral economics and business software, held back by our cognitive biases. We won't be able to systematically improve, since we won't be keeping track. And we won't even notice that we aren't, because our blinders conceal what's going on in our heads.

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Untelling the lie at the heart of business

Our understanding of the limitations of human cognition has increased enormously over the past decades, but thus far has had only a small impact on how business is conducted. The work of Daniel Kahneman and other researchers may have shed light on the biases that act as almost inescapable barriers to rational decision making, and their work may have led to Nobel Prizes and sold millions of best selling books, but hardly anything has changed in the workplace.

We are living a lie about how we approach making decisions. Ask yourself: how were the last few important business decisions you were involved with made? If I asked you today, could you show me the full context, expectations and results for the past 10, 20 or 200 decisions made by your leadership team, and their teams, and so on across your company? I confess that I cannot.

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While interviewing Erik Larson, I realized that even though I had read a great deal of the research about cognitive bias, and how these mental blinders negatively impact our ability to dispassionately evaluate alternatives creating the context for decision making, I had not put a structured decision making process in place, personally, or advocated doing so in my company. I am myself proof that simply being aware of a bias -- like those that act as a minefield around effective decision making -- is not enough to counter the bias.

Larson's argument, in the final analysis, is that we have to commit to the process -- to actually adopt a collaborative, checklist-based procedure for the significant decisions manager and executives make on a weekly basis. We have to untell the lie about decision making, which is that we are rationally evaluating alternatives, weighing the evidence, and making decisions only after all factors are examined. As difficult as it is to admit, that is not what we do: not at all.

I am hopeful that in the not-too-distant future, we will give up on 'decision faking', and actually put the supports in place to base our business planning and operations on real, behaviorally-grounded decision making. Just like today's financial systems, sales and marketing automation, and human resources tools, we will have to adopt and deploy tools to help us weigh and document decisions, rather than rely on 'our gut', and our prejudices.

To get there, we will need systems of engagement for decision making, software tools purpose built for this unique and mission-critical process. And, just as software tools have shaped the world of business before -- consider email, CRM, project management, and work chat, for example -- we can anticipate that decision making tools will leave a telling mark on us, as well.

We have to untell the lie about decision making, which is that we are rationally evaluating alternatives, weighing the evidence, and making decisions only after all factors are examined. As difficult as it is to admit, that is not what we do: not at all.

Footnotes

1 Especially Amos Tversky, whose working relationship with Kahneman is the subject of Michael Lewis' new book, *The Undoing Project: A Friendship That Changed Our Minds.*

2 From Daniel Kahneman's *Strategy for How Your Firm Can Think Smarter, Knowledge@Wharton.*

3 Dan Ariely, *Predictably Irrational*

4 Erik Larson, *A Checklist for Making Faster, Better Decisions*, *Harvard Business Review*

5 After seven, each new member in a decision-making group decreases effectiveness by 10%, according to Marcia W. Blenko, Michael C. Mankins, and Paul Rogers, authors of *Decide and Deliver: 5 Steps to Breakthrough Performance in Your Organization.*

Erik Larson

Cloverpop is a product of Erik's desire for people to be happy at work, his passion for building great things and his curiosity about how our brains create our minds, our minds perceive our world, and our world becomes what we decide it to be. An Illinois farm boy turned MIT rocket scientist and Harvard MBA, Erik spent the past decade launching a dozen v1.0 SaaS products at Adobe and Macromedia.

Cloverpop

There is nothing more important than decision making, and yet strangely companies don't keep track of the who, what, why and when of the decisions they make, let alone the concrete results of past decisions. Cloverpop is changing this.

Cloverpop helps enterprises revolutionize how decision-driven work is done. Our powerful and easy to use cloud platform combines team decision making with practical decision analytics to increase decision velocity across entire organizations. We re-think how decisions are made and communicated using deep analytics and behavioral science insights (no PhD required). Imagine if your company made 75% better decisions twice as fast with half as many meetings, and increased management performance by up to 20%. That's what we do.

Cloverpop was founded in San Francisco in 2012. The leadership team has launched over 15 new SaaS products while at Adobe, IBM, Cisco, Domo, and Marin Software. Cloverpop is backed by True Ventures and TDF Ventures.

Stowe Boyd

Stowe is editor-in-chief at Work Futures, a cabal of futurists exploring the shifting realities of work and our place in it. He's founding partner at Another Voice, rethinking research for the new economy with a confederation of practitioners and theorists. He serves as futurist-in-residence at Spark, a research, strategy, and marketing communications agency based in San Francisco and New York City.

In 2015, Stowe was identified as one of the world's leading futurists, in several reports. He serves on Microsoft's future of work advisory board, and the Pew Research Center advisory group on robotics and automation.