

PART A : ARTICLE

IMPROVING ORGANISATIONAL DECISION MAKING PROCESS

Awareness of the existence and effects of biases does precious little to improve the quality of individual decision making. Why? As Kahneman et. al. explain, "Because System One is so good at making up contextual stories and we're not aware of its operations, it can lead us astray. We almost never catch ourselves in the act of making intuitive errors. Experience doesn't help us recognise them."

Fortunately, things look better at the organisational level. As Kahneman et al. put it, "There is reason for hope, however, when we move from the individual to the collective, from the decision-maker to the decision-making process, and from the executive to the organisation." While we may not be able to control our intuition, we can detect others' biases. Put differently, we can use our System Two thinking to identify System One errors in others' recommendations.

This is what executives are supposed to do when they review recommendations before making a final call. However, often they apply a crude adjustment such as lowering their revenue projection by 25 per cent to deal with the perceived bias. Further, they focus mainly on the *content* of the recommendation and not the *process* underlying the recommendation.

Kahneman et al argue that a thorough process review can mitigate the effects of bias. A recent McKinsey study of over 1,000 major business decisions found that when organisations worked to mitigate the effect of bias in their decision-making processes, they achieved significant gains in returns.

Questions to Assess the Quality of Recommendations

Kahneman et. al. pose 12 questions to help executives assess the quality of decisions and think through the contents and the process of recommendations. They are as follows:

- **Self-interest Bias** Is the team making the recommendations likely to be motivated by self-interest? If so, the proposal has to be reviewed with extra care and especially checked for over-optimism.
- **Affect Heuristic** Has the team making the recommendation fallen in love with its proposal? If so, rigorously apply all the quality controls.
- **Groupthink** Did some members of the team express dissenting opinion? Were these sufficiently explored? If not, solicit dissenting views in a discreet manner, if necessary.
- **Saliency Bias** Was the analysis of the situation overly influenced by an analogy to a memorable success? If so, seek additional analogies and rigorously examine their similarity to the current situation.
- **Confirmation Bias** Does the recommendation include credible alternatives? If not, seek additional options.
- **Availability Bias** If this decision had to be made again within a year, what more information would you require, and can you get it now? Use comprehensive checklists of the data required for each kind of decision.
- **Anchoring Bias** Are you aware as to where the numbers came from and do you know the rationale for using a certain anchor? Use anchors generated by other models or benchmarks and rework the analysis.
- **Halo Effect** Is the team making specific inferences on the basis of a general impression? Refrain from the tendency to make easy attributions based on

- company performance and make decisions based on valid data.
- **Sunk Cost Fallacy, Endowment Effect** Are the recommendations overly based on the decisions taken in the past? Look at the situation from the point of view of a new CEO brought from outside.
- **Overconfidence, Planning Fallacy, Optimistic Bias, Competitor Neglect** Is the base case unduly optimistic? Ask the team to build a case taking the “outside” view.
- **Disaster Neglect** Is the worst case bad enough? Ask the team to do a pre-mortem which involves imagining that the worst has happened and developing a story about its causes.
- **Loss Aversion** Is the recommending team excessively conservative? Provide assurances and explicitly share responsibility for the risk.

Implementing Quality Control Over Decisions

The above questions are helpful in assessing and improving the quality of decisions. But there is a time and place to ask and there are ways to integrate them in the organisation's decision-making process. Here are some suggestions in this respect:

- *Use the checklist selectively* Checklists are helpful for decisions that are both important and recurring and hence justify a formal process.
- *Ensure that the team making the recommendations is independent* Often the decision-maker picks team members whose opinions are known in advance and overtly or covertly influences the team's recommendations. In such a case, the decision-maker becomes a de facto member of the recommendations team. How can he then judge the quality of the proposal?
- *Enforce discipline* Executives must be prepared to be systematic and disciplined, something that is not fully appreciated by all corporate cultures. The benefits of discipline are manifest. For example, doctors who adopt World Health Organization's Surgical Safety Checklist, achieve spectacular reduction in complication and mortality. Partial adherence may result in failure.
- *Do not use time or cost as an excuse* Quality control exercise involves time and cost. Executives in a hurry may not want to delay action and often organisations are not prepared to devote special resources required for quality control.

The concern over time and cost, however, seems misplaced. As Kahneman et al. put it, “The real challenge for executives who want to implement decision quality control is not time or costs. It is the need to build awareness that even highly experienced, superbly competent, and well-intentioned managers are fallible.” They added, “Organisations need to realise that a disciplined decision-making process, not individual genius, is the key to a sound strategy. And they will have to create a culture of open debate in which such processes flourish.”

PART B : SNIPPETS

Leadership Lessons from India

1. Compared to their Western counterparts, Indian business leaders and their organisations take a long-term, internally focused view. They invest aggressively in employee development and strive for a high level of employee engagement and openness.
2. Indian leaders ranked their top four priorities as follows:
 - Chief input for business strategy
 - Keeper of organizational culture
 - Guide, teacher, or role model for employees
 - Representative of owner and investor interests.

Fusion Investing

According to Charles M.C. Lee, fusion investing integrates fundamental value and investor sentiment. Under the fusion investing model, investors engage in fundamental analysis but also consider investment sentiment that reflects fads and fashions. In Robert Shiller's (1984) formal model, the market price of a security is the present value of its expected dividends plus a term that represents the demand from noise traders (reflecting investor sentiment). When noise traders are bullish, stock prices will be higher than what is justified by fundamentals and vice versa.

During some periods when noise traders are inactive and investor sentiment is muted, market returns are influenced primarily by fundamentals. In other periods, when noise traders are very active and investor sentiment is strong, market returns are significantly influenced by investor sentiments. The dual effects apply to the aggregate market, various industrial sectors, and individual stocks.

To derive some estimate of changing investor sentiment, Lee has proposed several measures of investor sentiment the important ones being analysts' recommendations, price momentum, and trading turnover. Significant changes in these variables tends to convert a neglected stock into a glamour stock or vice versa.

Being a Contrarian

John Templeton "It is crucial to understand, and very few people do, that attaining superior investment performance has nothing at all in common with succeeding in 99% of other occupations. If you were building bridges and a dozen consulting engineers experienced in bridge building all gave you the same advice, you'd be stupid not to build your bridge that way ... But the very nature of investment selection turns that scenario topsy-turvy. Let's assume that every securities analyst you see says, "That's the stock to buy!" You might think that if all the experts are saying "buy," you should. But you couldn't be more wrong. To begin with, if they all want it, they will buy it and the price will build up enormously, probably to unrealistic levels. By the same token, if all experts say, "It's not the stock to buy," they won't buy it and the price will go down. It's then if research and common sense tell you the stock does have that potential that you might pick up a bargain."

PART C: WIT AND WISDOM

HUMOUR

Ice Cream/ Laryngitis

A man went to an ice cream parlour and asked the waitress "What flavours of ice cream do you have?"

In a hoarse voice the waitress whispered, "Vanilla and Chocolate." Considering her bad throat, he solicitously asked, "Do you have laryngitis?" The waitress replied, "No! Only Vanilla and Chocolate."

Fog

Two tourists were discussing about foggy places. The first one said, "London is the foggiest place."

The second one said, "There is a city that is foggier than London."

The first one asked, "Which is that city?"

The second one said, "It was so foggy that I could not make out which city it was."

WISE SAWS

1. The chief danger in life is that you may take too many precautions. : Alfred Adler.
2. My personal hobbies are reading, listening to music, and silence. : Edith Sitwell.