HOW DO LEADERS MAKE TRICKY DECISIONS?

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Leaders like to be decisive and make good decisions, but uncertainty, conflicting interests, and large consequences make some decisions very tricky.

When I studied at university, rational decision-making models and logical decision trees were still in vogue despite mounting evidence that practicing managers often strayed from these prescriptions because they were impractical and inadequate.

A good old-fashioned Pros and Cons list is often the closest that many leaders get to a decision-making system. Steven Johnson describes how Charles Darwin used one of these to decide if he should marry. Apparently, having a child featured highly on the pros' side, and enjoying the stimulating intellectual company of men was a big drawcard for Darwin on the cons list! Recent psychological research suggests that we should not focus too much on the method or the level of rationality, since rationalizations generally follow after a decision is made and are not precursors or causative as they might seem to us. However, Daniel Kahneman who won a Nobel Prize for his research on all the ways we humans deviate from rationality when deciding in the face of uncertainty, still urges us to strive for some form of "bounded rationality" in our decision-making.

Some folk now are championing the use of AI and algorithms as a superior alternative to humans for making decisions. Even intuitive types can see the potential flaw in that proposition – rubbish in, and rubbish out. But before we start dismantling the robots, we do need to acknowledge the limitations in human decision-making. I once left a Critical Decision-Making Program at Wharton Business School reeling at the examples of hubris, over-confidence and systematic error exhibited in decisions made by experts in a large range of professions. There was the piece of research involving leading oncologists who were asked to make diagnoses of patients based on a set of x-rays, and then asked to repeat the exercise a week later. The inconsistency in their own diagnoses of the presence or absence of cancer for the same patients, was a little disturbing. I was worried by the research on leading psychiatrists who used Rorschach tests or the like, which showed that their unqualified assistants who regularly organized the tests were more consistent and accurate in their analyses than the psychiatrists themselves. Apparently, over-confidence leading to shortcuts, had rendered the experts' decisions less reliable in both case studies. "Hacks" are popular in social media these days but stay mindful when using them for decision making.

What useful advice can we give to busy leaders who often need to make important business or organizational decisions in the face of uncertainty, conflicting interests and large consequences? Should you expand into the American market? Should you keep investing effort in this struggling venture? Should your business stay high-touch or migrate to the internet? Should public leaders encourage the elderly to stay and be treated in their family homes, or make it attractive for them to divest?

Firstly, decision-making like leadership itself, does not need to be a solo venture. Although the myth of the "strong man – father knows best" leader is dangerously popular again in politics, as is the feting of celebrity business owners, excessive individualism is not a great recipe for making decisions in business and organizations.

Solo decision-making often has the virtue of speed, but that can also be its weakness. Homogenous management groups, based on same profession, same gender or the like, can achieve focus and alacrity in decision-making too, but lots of research shows that diverse groups will follow better deliberative processes, uncover more valuable alternatives and produce better decisions.

However, collaboration is not always wise for senior executives. It may be difficult for a CEO to consult the management team about their own restructure or a corporate re-organization. And Boards are not always helpful with management or strategy decisions. Recently I have been coaching a number of CEOs in regard to these kinds of decisions. Largely, they are using me as a trusted sounding board for their own thinking. What I have observed is that such a process allows them to see-saw a lot in their thinking about tricky challenges before they finally commit to a single path.

Secondly, after not-one-but-two Nobel Prizes for research on the topic, maybe it is time for senior leaders to make themselves aware of the typical biases, short-cuts and dangers that occur in human decision making. The psychologist Daniel Kahneman was the first non-economist to win the Nobel Prize for Economics for the work he and Amos Tversky did on researching the typical heuristics and biases that colour our judgements. And their devotee Richard Thaler, won a recent Nobel Prize for his role in developing the field of behavioural economics.

Despite the heavy sounding titles to their work, it is often very amusing. They have simple exercises to illustrate common biases and short-cuts, which include: an over-confidence bias; an optimism bias; an anchoring bias; a framing bias; a status quo and sunk cost bias; an intuitive bias to overlook random chance, and; an intuitive bias to disregard sample sizes. These short-cuts and biases in our thinking and decision-making result in regular deviations from rational choices. Awareness of these tendencies is a good start for improving your decision-making, but usually it is not enough, and practical and conscious steps to counter the tendencies are also advised. For instance, when buying or selling it is common for decision-makers to destroy value by anchoring around bottom-lines, and a simple discipline of always having a top-line can loosen the grip of this psychological bias. Max Bazerman and Margaret Neale have a range of decision-making and negotiation books which are useful here, and "The Undoing Project" by Michael Lewis is a great tale about the collaborative efforts of Kahneman and Tversky.

Richard Thaler has recommended ways to take these typical biases and to use "nudges" in public decision making which take advantage of them. For instance, to increase the level of urgent organ donations, some governments have reversed the usual process and given citizens lots of prominent opportunities to opt out rather than opt in to the system. Unfortunately, Greg Hunt and the Federal Liberal Government in Australia have done their best to give "nudges" a bad name through their bungling introduction of the electronic My Health Record. And some commercial practices which require dead people to cancel their own insurance deductions seem more like exploitation than subtle nudges.

Thirdly, be active in expanding the number of alternatives in decision-making. The downside of the popular Pros and Cons method of making decisions is that it artificially narrows your choice to two diametrically opposed alternatives.

Paul Nutt has researched this issue of alternatives in managerial decision-making for several decades. His earlier research found that only 29% of organizational decision makers studied more than one alternative, and 85% of management decisions relied solely on the initial choices on the table with no new options being explored. In later research he found that practicing managers reported far greater success and satisfaction with decisions where they considered more than one alternative, while they rated decisions where they considered only one alternative to be failures at least 50% of the time.

Prominent strategists such as Lafley and Martin in their book “Playing To Win” recommend that leaders and companies do restrict choices to one alternative when they are making strategic decisions. Indeed, they argue that many leaders are not strategic because they do not frame choices and make decisions this way. But, they are referring to the final stages of making a strategic decision and not the detailed preparatory process of elimination.

Finally, leaders need to respect that it is not always the technical aspects of decisions which make them tricky. Often it is the competing and conflicting interests of relevant stakeholders. Teachers of mine on the Program on Negotiation at Harvard used to argue that technical solutions to some challenges can often be simple and obvious – even in very contentious public situations such as the Ulster negotiations and the Palestine/Jerusalem quandary – but the competitive strategies of the parties make them very tricky. Cigarette sales and Global Warming are two issues where the contours of what decision makers need to do are bleedingly obvious, but the trick is how to deal with the competing interests and forces.

Leaders need to devote time and energy to building a winning coalition behind a good and viable decision. Commercial managers do not always appreciate this need as much as their public counterparts. And leaders need to accept that the process of building that coalition will often lead to further refinements of the decision. This is a tricky process of course because too much refinement can turn a good decision into a bad decision. Restructuring the management team may not require an influence strategy, but the implementation of many important strategy decisions will require buy-in if they are to succeed.

Ron Heifetz argues that being decisive and directive are expectations that followers generally have of their authority figures. But if authority figures want to be effective leaders and make good decisions, they will need to disappoint the demand for them to be decisive all the time. Pushing back is risky and takes courage, but the alternative is lots of lousy unilateral decisions.