

Think Again

*Why Good Leaders Make
Bad Decisions and How to Keep It
From Happening to You*

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INTRODUCTION

Decision making lies at the heart of our personal and professional lives. Every day we make decisions. Some are small, domestic, and innocuous. Others are more important—decisions that affect people’s lives, livelihoods, and well-being. Inevitably, we make mistakes along the way. We are only human—even when we are at work. Indeed, the daunting reality is that enormously important decisions made by intelligent, responsible people with the best information and intentions sometimes go wrong.

Good leaders make bad decisions. Even great leaders can make bad decisions.

President Kennedy is famous for his blunder over the Bay of Pigs. President Hoover failed to inflate the economy after the great crash of 1929. Margaret Thatcher, the British prime minister, championed a “poll tax” that contributed to her being ousted by her own party. Paul Wolfowitz, the former U.S. deputy secretary of defense, was asked to resign as president of the World Bank because of a pay settlement related to his partner, who also worked at the bank.

And it’s not just politicians and public servants who get it badly wrong; business leaders, too, are prone to misjudgment. Juergen Schrempp, CEO of Daimler-Benz, led the merger of Chrysler and Daimler-Benz against internal opposition. Nearly ten years later, Daimler was forced to virtually give Chrysler away in a private equity deal. Lee Kun Hee, CEO of Samsung, pushed his company into a disastrous investment in automobiles. As losses mounted, he was forced to sell the car division

for a tenth of the billions he had invested. An Wang, founder of the electronics company Wang, insisted on a proprietary operating system for his company's personal computer, even after it was clear that the IBM PC would become the industry standard. The company is now history.

Whether the decision is a personal one, as in the case of Wolfowitz, or of global importance, as in the case of the U.S. government reaction to the financial crisis in the late 1920s, mistakes happen. But why do good leaders make bad decisions? And how can we reduce the risk of its happening to us?

The Decisive Heart

To find out, we traveled to the heart of decision making in organizations of all shapes and sizes throughout the world. Each of the authors brought his particular perspective to the problem. As one of the world's leading researchers into corporate strategy, for example, Andrew has been privy to some of the most important decisions made in some of the world's biggest companies. While, in his research—captured in his best-selling book, *Why Smart Executives Fail*—Sydney has examined the intricacies of failure. Finally, from his doctoral research on decision making and his years with The Boston Consulting Group, Jo has a unique combination of intellectual rigor and practical experience. What linked all our work and brought us together was a fascination with not just why bad decisions are made, but also what can be done to mitigate the dangers.

This unique combination of backgrounds and perspectives has been supplemented by our joint research. We began by assembling a database of decisions that went wrong. Let's be clear: we were not looking for decisions that simply turned out badly. We were looking for decisions that were flawed at the time they were made. This is an important point. It isn't that with twenty-twenty hindsight we identified these decisions as flawed. We sought out decisions in which any clearheaded analysis at the time would have concluded that it was the wrong decision.

Of course, many bad outcomes are due to bad luck or to taking calculated risks. In the business and political worlds in particular, sensible

decisions based on considered thinking can turn out badly thanks to the unavoidable risks involved. Sometimes people are just unlucky.

As you can imagine, trying to distinguish between flawed decisions and calculated risks that turned out badly is not easy. For each, we made an assessment. Given the information available at the time, did we think that a reasonably competent person would have made the same decision?

We also looked for dissenting views in the decision-making process. The existence of contrary views is not proof that a decision is wrong. Many decisions have contrary views. But if there were no contrary views at the time, we excluded the decision from our rapidly expanding collection.

We quickly found there are an awful lot of bad decisions out there! Indeed, in unfamiliar circumstances, such as businesses entering new markets or politicians coping with new challenges, flawed decisions abound. We did not find it hard to identify eighty-three of them (appendix I lists the entire database of decisions we studied).

We are not claiming that we have a unique ability to spot flawed decisions. Indeed, some of the decisions we examine may be considered by others as wise choices that turned out badly. Fortunately, our argument does not depend on whether our examples are correctly categorized. Our understanding of why flawed decisions are so common comes from the work that has been done by neuroscientists and decision scientists to understand how the brain works when faced with a set of circumstances that require a decision.

Flaws of the Jungle

So what did we find in our quest to understand why capable people make errors of judgment? The answers were simpler and more powerful than we were expecting.

Two factors are at play in a flawed decision: an individual or a group of individuals who have made an error of judgment, and a decision process that fails to correct the error. Both have to be present to produce a bad decision. This was an important realization. A bad decision

starts with at least one influential person making an error of judgment. But normally, the decision process will save the day: facts will be brought to the table that challenge the flawed thinking, or other people with different views will influence the outcome. So the second factor that contributes to a bad decision is the way the decision is managed: for whatever reason, as the decision is being discussed, the erroneous views are not exposed and corrected.

As a result, we began to focus our research on how our brains make decisions. Part 1 describes how the brain has been wonderfully designed for decision making—but also how it can be tricked into false judgments.

Part 2 describes the four conditions under which flawed thinking is most likely to happen. We call these *red flag conditions* because they provide a warning that when these conditions exist, even an experienced decision maker may get it wrong. Complex decisions, involving interpretation and judgment, are difficult to get right. You need debate—but how do you know when you or the other party is arguing from a biased position? You need consensus—but how do you know when your consensus is really groupthink? What is needed is a diagnostic for knowing when the risk of being wrong is at its highest—when the decision makers need to step back and “think again.” Our red flag conditions are a simple, but not simplistic tool to help decision makers know when to pause for breath—when you need to take special steps to make sure that a decision does not go off the rails.

Part 3 describes what you can do about it. Unlike other writers in this increasingly popular field we believe that it is impractical for us to correct our own mental processes. The brain’s way of working makes this solution particularly difficult. Hence, when there are red flag conditions, we recommend *safeguards* that are external to the individual. We describe four types of safeguard; each helps to strengthen the decision process, so that the influence of distorted thinking is diluted or challenged.

Safeguards reduce the risk that red flag conditions will lead to a bad decision: they act as a counterweight (see figure I-1). Choosing safe-

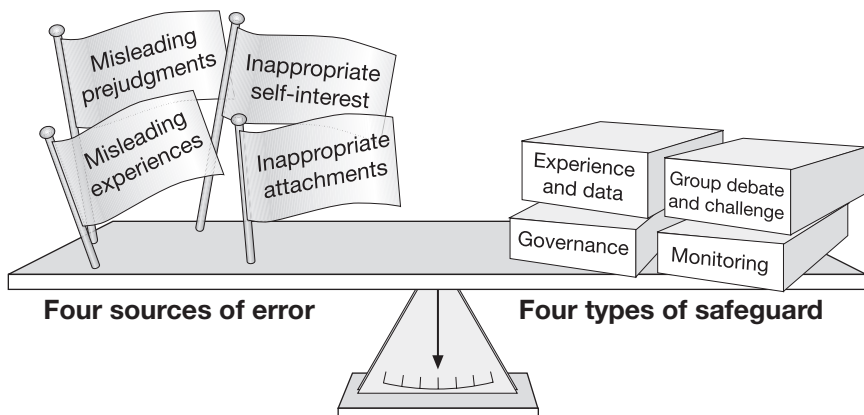
guards is not mechanical. There is no direct link between a particular red flag condition and a particular safeguard. Instead, safeguards need to be chosen not only with an understanding of the red flag conditions but also with knowledge of the people and the organization, as well as a healthy skepticism of too much bureaucracy.

Our red flags and safeguards framework not only helps defend against bad decisions, it also helps cut back on bureaucracy. In many organizations, governance processes and decision rules have been developed with the intention of defending the organization against all possible errors in decision making. Each major blunder leads to additional processes and rules that are applied to all major decisions. The result is a bureaucracy that is costly, time consuming, and demotivating. Most importantly, managers start to lose respect for the system and seek ways of circumventing the processes.

Armed with our red flags and safeguards framework, leaders can now strip away much of this standardized bureaucracy. For decisions where there are no red flags, the decision process can be fast and simple. But for decisions with red flags, leaders can design appropriate safeguards

FIGURE I-1

Safeguards can defend against the risk of error



that are more likely to be effective and less likely to demotivate or dehumanize the managers involved. In other words, we are not recommending *more* process but *more targeted* process. In chapter 10 we give guidance on how to do this.

Of course, it is not possible to eliminate all the risks. Even armed with our safeguards framework, leaders will still make mistakes—but it is possible to improve the odds. Further advice and ideas can be found on our Web site, www.thinkagain-book.com. Our hope is that *Think Again* will help decision makers talk about an issue that everyone recognizes but does not have a way of discussing. If we have one ambition for the book, it is to legitimize more discussion about red flag conditions and to energize people everywhere to feel comfortable raising issues of decision process design. The simple questions “Are there any red flags here?” and “Have we got a good process for this decision?” should be as common as “What decision are we trying to make?” or “Who is making this decision?”

It won’t guarantee you never make a bad decision again—what book could?—but it will enable you to better understand why decisions go wrong, and help protect yourself and your colleagues from the inevitable errors of judgment you will make.

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