

# *Improve Your Real-Time Decision Making: Recognizing the Blindspots*

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Slides are available at [www.paulfriga.com](http://www.paulfriga.com)

# *Some humor to start the day?*



# *Improved Decision Making – A 3 Step Recovery Program*

## 1. Understanding

- Games our minds play
- The current state of business decisions
- The BLINDSPOTS Theory

## 2. Identifying

- Blindspots - in our jobs
- Blindspots – in the movies
- Blindspots – in the news (final exam)

## 3. Mitigating

- At the individual level
- At the team level
- At the organizational level





# Let's assess our starting point - Quick Test: A decision-making audit

Topic	Question	Scale
Structure	Our structure helps rather than hinders the decisions most critical to our success.	1-strongly disagree 2-disagree 3-agree 4-strongly agree
Roles	Individuals understand their roles and accountability in our most critical decisions.	1 2 3 4
Processes	Our processes are designed to produce effective, timely decisions and action.	1 2 3 4
Information	The people in critical decision roles have the information they need when and how they need it.	1 2 3 4
Measures & Incentives	Our measures and incentives focus people on making and executing effective decisions.	1 2 3 4
Priorities	People understand their priorities clearly enough to be able to make and execute the decisions they face	1 2 3 4
Decision style	We make decisions in a style that is effective	1 2 3 4
People	We put our best people in the jobs where they can have the biggest decision impact	1 2 3 4
Behaviors	Our leaders at all levels consistently demonstrate effective decision behaviors	1 2 3 4
Culture	Our culture reinforces prompt, effective decisions and action throughout the organization	1 2 3 4

# *Interpret your results*

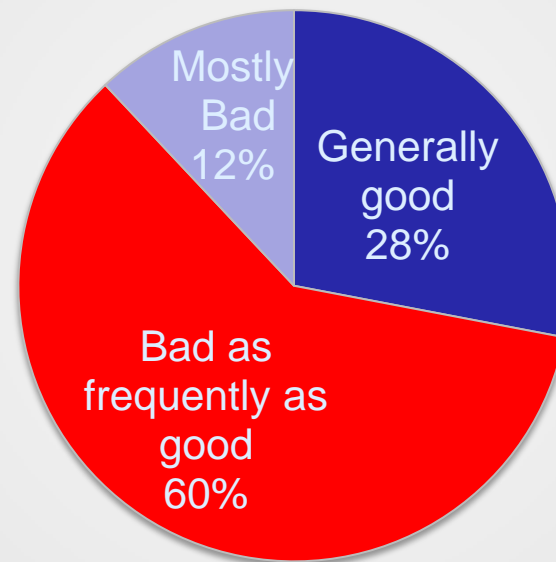
To get your total score, add up your individual scores

**More than 35** = You're doing great; keep it up  
**31-35** = Good, but room for improvement  
**26-30** = Org is serious barrier to decisions  
**10-25** = Major org transformation required

Compared with companies in our database, a score about 35 puts you in the top quartile-meaning your organization is pretty healthy. A score of 31 to 35 indicates room for improvement but no immediate signs of organizational breakdown. A score of 30 or below indicates that you definitely have some organizational challenges to address. If you perform at 2 or less on any one issue, that particular ailment likely needs attention.

# *On a macro level, we have room for improvement*

## **Executives' perceived quality of strategic decisions in their company**



And what do they do wrong? 31% of CEOs/TMTs get fired for mismanaging change, 28% for ignoring customers, 27% for tolerating low performers, 23% for denying reality and 22% for too much talk and not enough action – source: Leadership IQ, 2010

# *Organizations have issues of their own*

- Only 16 of the 100 largest U.S. companies at the start of the 20<sup>th</sup> century are still identifiable today
- In a recent year, 44,367 businesses filed for bankruptcy and many more U.S. businesses failed
- Approximately only 15-20% of all acquisitions/mergers achieve the anticipated synergies identified as justification for the action



# *Recent research findings on the importance of decision making*

Decisions=  
performance

- Decision effectiveness and financial results correlate at a 95 percent confidence level or higher

Quality,  
speed and  
yield  
reinforce one  
another

- The product of the three is a strong predictor of financial performance

Few trade-  
offs

- High performance on quality goes hand in hand with high performance on speed and yield

Improvement  
opportunities

The average organization has the potential to more than double its ability to make and execute critical decisions





# *Hello, my name is Paul and I have a “flawed decision” problem...*

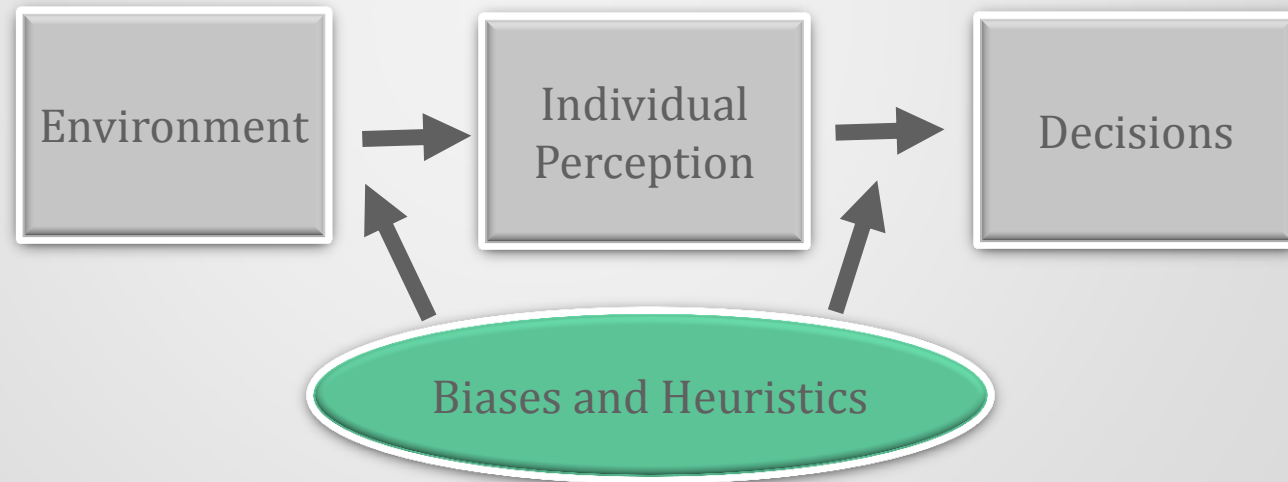
- Do you? Doesn't everyone?
- Individual and full group exercise:
  - Think of a bad decision (either your or more easily someone else's, like your boss)
  - What do you think led to the bad decision?
  - Capture the key culprits on flip charts



# *This has been the subject of much study*

- Kahneman and Tversky were key contributors...

## Flawed Decision Making (not rational)



## *A quick example*

- Linda is 31 years old, single, outspoken and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice and also participated in anti-nuclear demonstrations.
- Which is more likely to be true?
  1. Linda is a bank teller
  2. Linda is a bank teller and is active in the feminist movement



# Other examples

- A coin toss lands “heads” nine times in a row – would you be willing to bet more that it will be “tails” on the tenth toss?



- A classic experiment found that study participants were far more likely to leave an inheritance of several million dollars in low-risk bonds or high-risk stocks than to adjust based upon respective risk portfolios. When was the last time you adjusted your company’s investment portfolio?

- 1 million students were surveyed and were asked if they were below, at or above average in interpersonal interactions...





# *BLINDSPOTS*

**B** – Bad money after good (escalating commitment)

**L** – Limited frame of reference

**I** – Invalid assumptions (taboo or just wrong)

**N** – Non-statistically significant conclusions

**D** – Deal Maker's Curse

**S** – Self-focus over organization

**P** – Problem framing (key issue and components)

**O** – Overconfidence

**T** – Tendency to avoid loss

**S** – Sending good news bias



# *BLIND SPOTS – Definitions*

- **Bad Money After Good (Escalating Commitment):**
  - Resource investments continue (or increase) even when disconfirming evidence surfaces that the initial analysis was flawed, the competitive environment has changed, or internal capabilities have diminished
- **Limited Frame of Reference**
  - Individual decision makers are limited in their ability to objectively assess the probability of outcomes and options given their idiosyncratic past experience (we are a culmination of what we have read, seen, touched, etc.)



# *BLIND SPOTS – Definitions*

- **Invalid Assumptions**
  - Projections of what may happen that are considered by a decision maker are flawed with three primary manifestations – unchallenged, corporate myth, or corporate taboo
- **Non-Statistically Significant Conclusions**
  - Generalizations of a population or class of study based upon limited observations (e.g. small sample, non-random sample, unrepresentative sample, etc.)



# *BLIND SPOTS – Definitions*

- **Deal Maker's Curse**
  - The desire of a key executive or team to “win” a deal that ultimately results in a losing proposition for the company as too high a price is paid (often driven by the ego of the players)
- **Self-Focus Over Organization**
  - Agency Theory suggests that all humans will keep their individual outcomes as the key decision criteria in most business decisions (survival instinct)





# *BLIND SPOTS – Definitions*

- **Problem Framing**

- The inability of decision makers to take the adequate time to frame the business problem (key question, issue tree and possibly hypotheses) before diving into analysis – there is also a risk of only seeking confirmatory data

- **Overconfidence**

- All of us are overconfident in our own ability to solve problems and that we know the best alternative early in the process (without adequate buy in and supporting data)



# *BLIND SPOTS – Definitions*

- **Tendency to Avoid Loss**
  - Humans are generally risk adverse and will seek the lowest conflict outcomes
- **Sending Good News Bias**
  - Information filtering process whereby the organizational culture rewards the communication of good news over the bad news upward



# *Bad Money After Good - Escalation*

- **Warren Buffet**

*“When you find yourself in a hole, the best thing you can do is stop digging.”*

- **W.C. Fields**

*“If at first you don’t succeed, try, try again. Then quit. No use being a damn fool about it.”*



# *Bad Money After Good - Escalation*

- Tendency to escalate commitment to our initial decision
- External competition strengthens this tendency
- Implications
  - Research and development projects
  - Bank loans
- Why
  - Confirming evidence
  - Framing bias (probability of future success instead of sure loss) will result in risk seeking behavior
  - Impression management





# *Be cautious about your frame of reference*



<http://www.youtube.com/watch?v=Ahg6qcgoay4>

# *Flawed Decisions – A 3 Step Recovery Program*

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## 2. Identifying

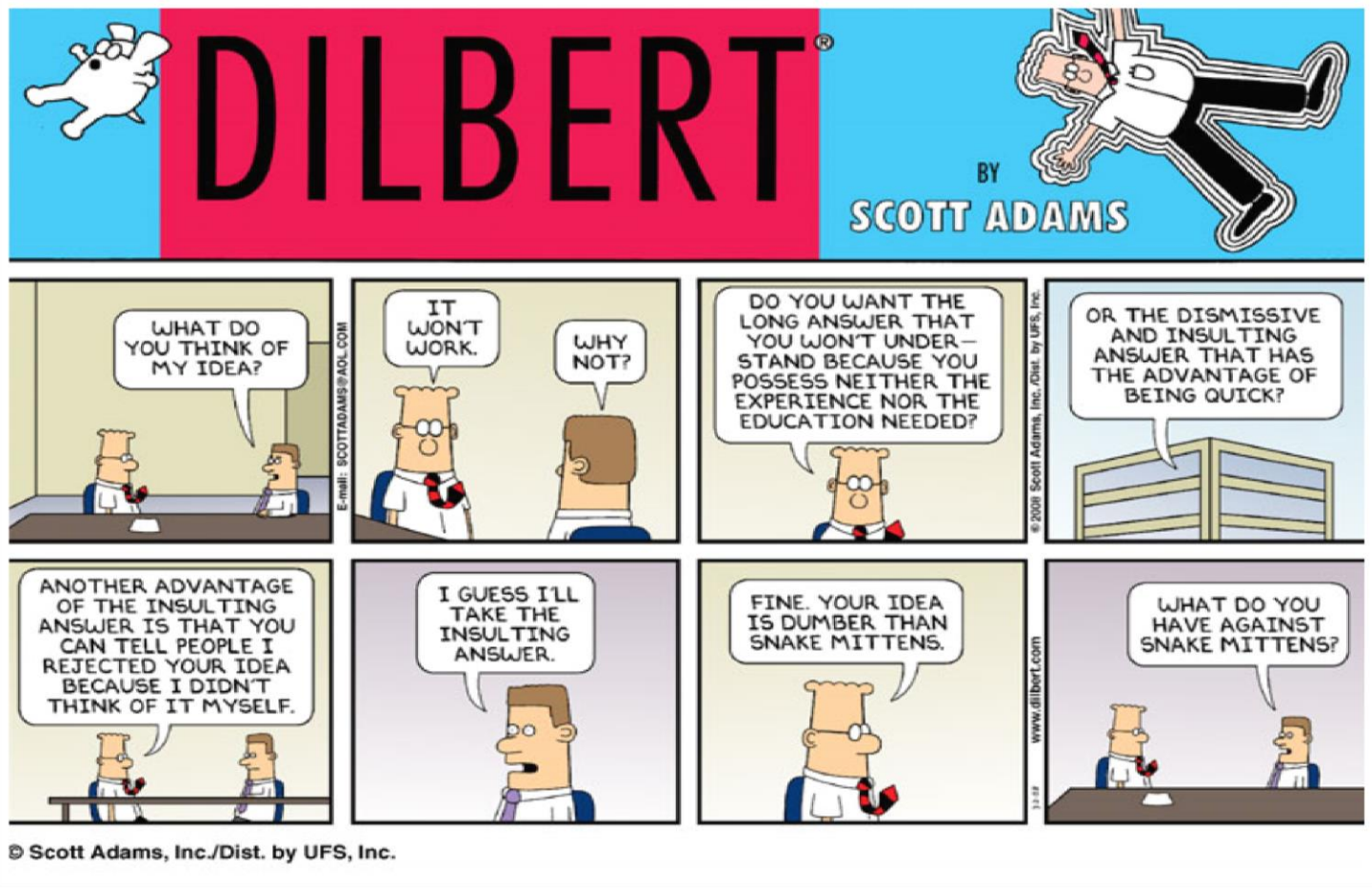
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## 3. Mitigating

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# Some more related Dilbert humor



# *Problem Framing*

- Questions

If you were faced with the following choice, which alternative would you choose?

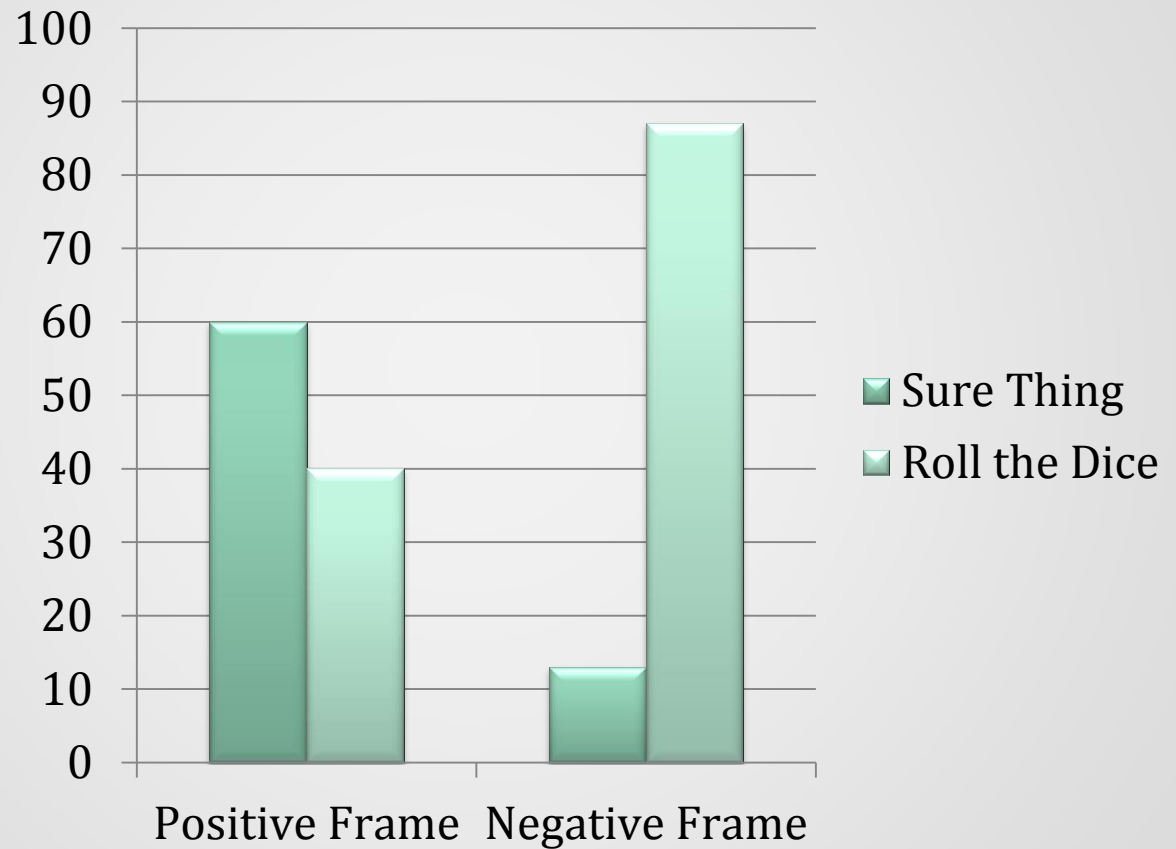
- A sure gain of \$250
- A 25% chance to gain \$1000 and a 75% percent chance to gain nothing

If you were faced with the following choice, which alternative would you choose?

- A sure loss of \$750
- A 75% chance to lose \$1000, and 25% chance to lose nothing



# *How most folks shift based on framing*





# *Another Quick Exercise*

- I will give you a series of three numbers which conform to a simple rule
  - Rule relates to their relationship not magnitude
- You are to discover the rule
  - Write down as many sets of three numbers you think you will need to discover the rule
  - After each set of numbers I will tell you if it conforms to rule
  - When you have enough information, guess the rule
- The 3 numbers  
2,4,6



# Identifying the blindspots (individually)

*Crimson Tide: New Russian leadership threatens world with possible nuclear action. Captain with significant experience brings on a new XO for a US nuclear submarine (the Alabama) commissioned for response to Russian nuclear submarines. Clip commences right after they launch and ends just after the XO makes a major strategic decision.*

Blindspots	Examples at work	Examples in the movie
Bad Money After Good		
Limited Frame of Reference		
Invalid Assumptions		
Non-Statistically Significant Conclusions		
Deal Makers Curse		
Self-Focus		
Problem Framing		
Overconfidence		
Tendency to Avoid Loss		
Sending Good News Bias		



# *Flawed Decisions – A 3 Step Recovery Program*

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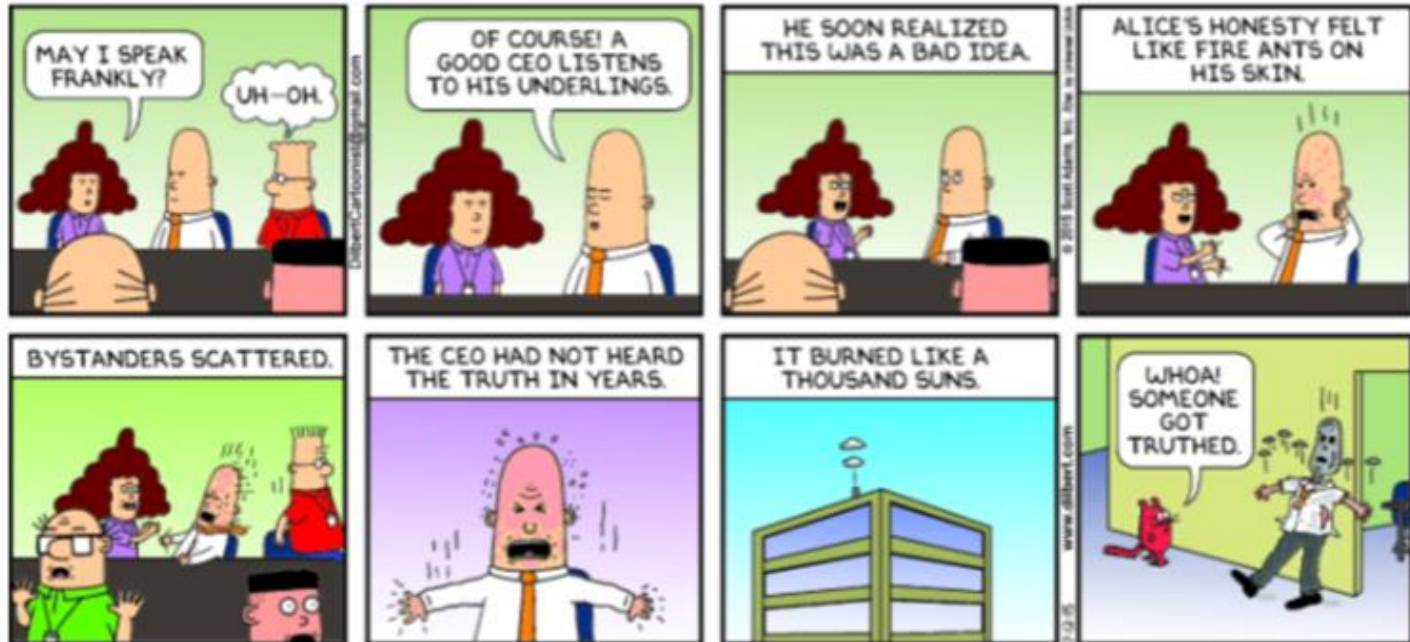
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# Some more related Dilbert humor

**DILBERT** by Scott Adams



# *Carter Racing*

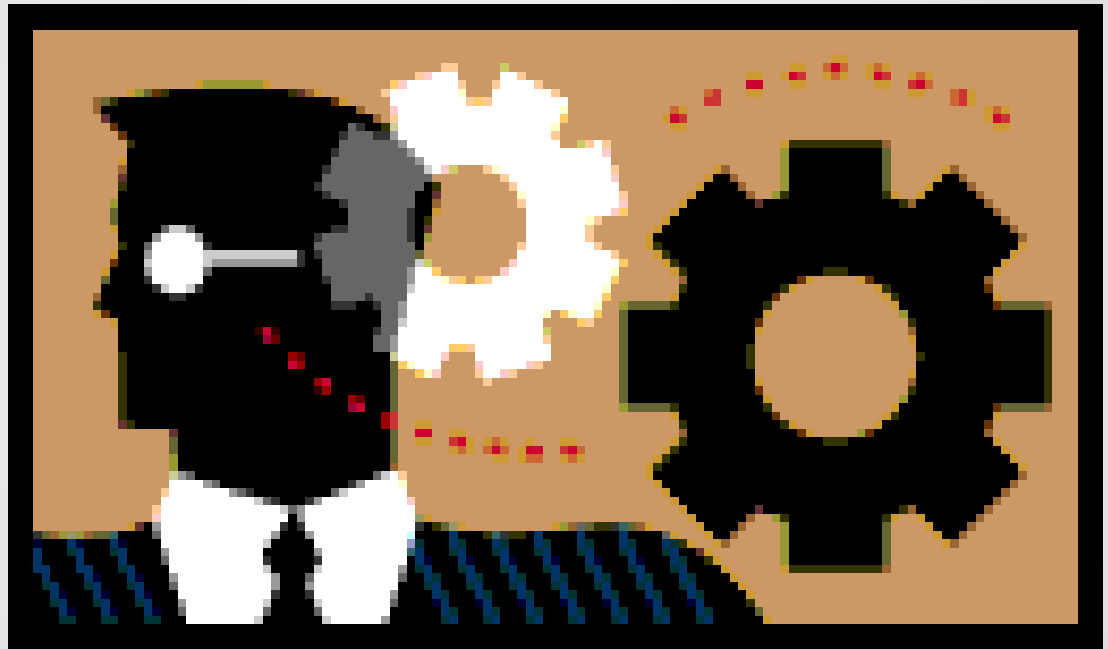
- Individual vote: Race or Not Race
- Group votes: Race or Not Race
- Justifications (time to debate/convince)
  - To Race
  - To Not Race





# *Can you really change a person?*

- Rhetorical question but with some relevance



*Or are you better off mitigating around them?*

## *Without looking at the next slides...*

- In your small groups, identify at least 10 ways to mitigate blindspots (i.e. manage around them) at all three levels:
  - Individual
  - Team
  - Organization
- We will summarize them and create a master list of tips (in addition to the ones I will show you next)



# *Mitigation Strategies – Individual*

1. Become aware of the “blindspot” problem
2. See your own blindspots
3. Seek external and diverse opinions on major issues and decisions (support group)
4. Be particularly conscious of overconfidence
5. Set limits for gambling
6. Balance personal vs. organizational returns
7. Learn statistical analysis
8. Utilize the scientific method of problem solving
9. Do not repeat failure – learn from it
10. Be open to devil’s advocate assessments



# *Mitigation Strategies – Team*

1. Become aware as a team of potential blindspots
2. Document explicit assumptions on the team
3. Appoint a devil's advocate
4. Understand and utilize the scientific method
5. Focus on data-driven analysis and support
6. Search for analogies in other industries
7. Set limits in advance on major deals
8. Incorporate an external perspective (consultant?)
9. Ignore sunk costs
10. Seek diversity on all teams



# *Mitigation Strategies – Organization*

1. Encourage all employees to be aware of blindspots
2. Establish a culture of open communication
3. Encourage learning from failure (and benefits)
4. Create a system of checks and balances
5. Assemble multi-functional and diverse teams
6. Involve more employees in strategy sessions
7. Analyze scenarios (and especially worst case)
8. Incorporate independent external perspectives
9. Reward innovation and entrepreneurship
10. Provide training in blindspot mitigation!





# *Final Exam – identifying and mitigating the potential blindspots (team)*

Blindspots	Example in the news	Mitigation Strategies
Bad Money After Good		
Limited Frame of Reference		
Invalid Assumptions		
Non-Statistically Significant Conclusions		
Deal Makers Curse		
Self-Focus		
Problem Framing		
Overconfidence		
Tendency to Avoid Loss		
Sending Good News Bias		



# *Four red flags to warn us that our thinking may be at risk*

Misleading experiences

Inappropriate self interest



Misleading pre-judgements

Inappropriate attachments



# Bonus for more scientific team problem solving - the TEAM FOCUS model (from my latest book)

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TEAM

## Talk

- Communicate constantly
- Listen attentively
- Separate issues from people

## Evaluate

- Discuss group dynamics
- Set expectations and monitor results
- Develop and reevaluate a personal plan

## Assist

- Leverage expertise
- Keep teammates accountable
- Provide timely feedback

## Motivate

- Identify unique motivators
- Positively reinforce teammates
- Celebrate achievements

FOCUS

## Frame

- Identify the key question
- Develop the issue tree
- Formulate hypotheses

## Organize

- Develop a high-level process map
- Create a content map to test hypotheses
- Design the story line

## Collect

- Design “ghost charts” to exhibit necessary data
- Conduct meaningful interviews
- Gather relevant secondary data

## Understand

- Identify the “so what(s)”
- Think through the implications for all constituents
- Document the key insight on all charts

## Synthesize

- Obtain input and ensure buy-in from client
- Offer specific recommendations for improvement
- Tell a good story

# *The Six Steps to Decision-Driven Reorganization*



1

- Identify your organization's key decisions.

2

- Determine where in the organization those decisions should happen.

3

- Organize the macrostructure around sources of value.

4

- Figure out what level of authority decision makers need.

5

- Align other elements of the organizational system, such as incentives, information flow, and processes, with those relate to decision making

6

- Help managers develop the skills and behaviors necessary to make and execute decisions quickly and well

# Taking the bias out of meetings

Make sure the right people are involved

- Diversity
- Subject matter experts
- Minimum number

Assign homework

- Create fact base
- Obtain input from outsiders
- Consider alternative hypotheses

Create the right atmosphere

- Encourage participation
- Allow disagreement
- Separate people from ideas

Manage the debate

- Clarify meeting's purpose
- Discuss decision criteria
- Cover pro's and con's
- Careful framing

Follow up

- Commit to decision
- Monitor pre-agreed upon criteria
- Conduct a postmortem





# Thank You

- The key process points we covered:
  - *Understanding*
  - *Identifying*
  - *Mitigating*
- I wish you the best in your “blindspots” mitigation!
- Please stay in touch...
  - pnf@unc.edu
  - [www.paulfriga.com](http://www.paulfriga.com)



# *If you want to learn more...*

- *Judgment Calls* – Davenport and Manville -2012
- *The Decision Driven Organization* – Blenko, Mankins and Rogers -2010
- *Predictably Irrational – The Hidden Forces That Shape Our Decisions* – Dan Ariely - 2010
- *Why We Make Mistakes* – Joseph Hallinan – 2009
- *The Assault on Reason* – Gore - 2007
- *Distortions and Deceptions in Strategic Decisions* – Lovallo & Sibony – 2006
- *Delusion of Success – How Optimism Undermines Executive’s Decisions* – Lovallo and Kahneman – Harvard Business Review – 2003
- *Hidden Flaws in Strategy* – Roxburgh – McKinsey Quarterly – 2003
- *Blindspot Analysis (Chapter 10)* - Fleisher and Bensoussan – Strategic and Competitive Analysis – 2003 (not the 2006 or later versions)
- *Decision Traps* – Russo – 1990
- *The hubris hypothesis of corporate takeovers* – Roll – Journal of Business – 1986
- *Cognitive biases and their impact on strategic planning* – Barnes - Strategic Management Journal – 1984
- *Prospect Theory: An analysis of decisions under risk* – Kahneman and Tversky – Econometrica – 1979
- *Judgement under uncertainty: Heuristics and Biases* – Tversky and Kahneman – 1974

