

This is a brief paper on decision-making based on my keynote speech “The psychology of decision making – the three levels.”

Let's review one question from the speech again: If you were given a choice, which of the following gambles would you prefer?

- a) €1,000,000 for sure
- b) 10 % chance of getting €2,500,000
89 % chance of getting €1,000,000
1 % chance of getting €0

There is no right or wrong answer here as all depends on one's risk profile. From an expected value perspective option b) is more attractive. However, many people choose the “safe” version (option a). We can see from this example the three levels that are at play when we make decisions. Questions appear in our head on the cognitive level (“what is the optimal solution?”); on the emotional level (“what if choose be and I end up having nothing?”); and social level (“will I look like a fool if it goes wrong?”).

As discussed in the keynote speech, we want to make sure that we take all three levels into account when making a decision. Only then we will be able to approach good and holistic decision-making. Let's explore the levels one by one.

Cognitive level

Give a quick answer for yourself for the following, without using a calculator 😊 (The correct answer is at the end of the document*)

$$8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1 = ???$$

$$1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8 = ???$$

Not only during our session but also in the literature people routinely not only underestimate the real outcome of these equations. The interesting additional effect is that people routinely give a smaller estimate for the second equation. Mathematically they are the same but we usually anchor the first things we see. And the 1's, 2's and 3's lead to a smaller result in our head than the 8's, 7's and 6's in the beginning. Anchoring is one of the strongest effects on decision making that exist, especially in the corporate world.

What can you do here?

Give ranges and challenge and communicate your initial assumptions. Do a “white sheet” analysis i.e. deconstruct and build up cost, assumptions etc. from the bottom up. Immediately ask from your teams to have various options/solutions presented rather than the only one outcome or number.

Emotional level

The author Seth Godin says about decisions: “Irrational decisions are almost always caused by fear. If you want to change the behavior, address the fear.” We can see this for example at play with the question that we discussed in the keynote: “What kills more people, coconuts falling from trees or sharks?”

It is estimated that there are ten times more people killed by coconuts than by sharks. However, when we hear sharks very often horror pictures of “Jaws”, media news etc. come to mind...the emotional affection and recognition is high and triggers humans to overestimate in this case the likelihood of events.

The power of emotions can of course be very positive in business interaction, however, we have to be also aware of the negative effects and how they take over from the rational “I” that we often think is in control but in reality is not always.

What can you do here?

Take the view from another side and include different roles when approaching decision-making. Ensure to have a diverse team. Breadth of perspectives can help us gain insights that we did not have before, and let us harvest the benefits of emotions while taking out the potential pitfalls. As G.B. Stern put it: “Both optimists and pessimists contribute to our society. The optimist invents the airplane and the pessimist, the parachute.”

Social & group level

The cognitive and emotional factors are even more at play when we bring in our fellow humans. If we are forced to look at a decision, presenting results etc. and we are under pressure of a full group watching us like in this picture, then very often decision-making can go out of hand if we do not manage it well.



As the German communication professor Schultz von Thun points out, every time we interact and communicate there are 4 levels at play. When a boss says e.g. to an employee “Your desk is quite full”, s/he actually communicates 1) topic, 2) a should message (“you should really clean up”); 3) the relationship and hierarchy (“I am your boss so I can tell you that”) and 4) self-revelation (“I like clean desks, otherwise I would not mention this”).

We humans are very perceptive to all of the dimensions so in a decision-making context this can quickly take over. Just think about what’s going on in your heard if you hear somebody typing on the phone while you have a discussion about a decision. What do you think then? Maybe “Wow, that person is very efficient – s/he can multitask!” Maybe. But most likely you have different thoughts and you are upset about this rudeness. And this can then seriously cloud your joint decision-making.

What can you do here?

The key factor here is again awareness and making sure the battle is won before it has begun. Stress is high when we are under pressure and the effect on us is often underestimated. By laying out a decision framework beforehand one can avoid this “headless chicken syndrome” of

everybody running around when a difficult situation has to be managed. Discuss with your team from time to time on how you will decide (“If situation X happens we will first look at Y...” and so on). Then, if the moment comes, you have a good discussion base that everybody can go back to. That is also how disaster plans in hospitals, airplanes etc. work.

Avoiding the pitfalls and optimizing decision-making

The key to good decision making is to acknowledge that cognitive, emotional and social factors are at constantly play. Installing the strategies outlined above has helped me greatly especially in corporate contexts. Additionally, one should constantly work on building one’s decision-making muscles. By e.g. writing down four factors for every major decision (emotions at play, process that was followed, assumptions that were made; and of course outcomes) and then reviewing this after six to twelve months you will get better and better at your decision-making.

Literature

Kahneman, Daniel: e.g. Thinking Fast & Slow

Plous, Scott: The Psychology of Decision Making

Sudmann, Lars / Lenzen, Wolfram: Die Psychologie der Krise, Controller Magazin



Lars Sudmann is an internationally acclaimed expert on leadership and communication. The former CFO of Procter & Gamble Belgium has trained and consulted thousands of business leaders. His clients range from Fortune50 companies to start-ups and they seek his advice on leadership challenges such as decision-making, complexity management, high-performance culture, leadership development and communication. For more information and Lars’ blog visit www.lars-sudmann.com or follow him on twitter @larssudmann.

* Correct answer is 40.320