Managers do the daftest things

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But how can they be stopped?

IN THE film “12 Angry Men”, released in 1957, Henry Fonda turns in a remarkable performance as a juror convinced of the innocence of a teenager accused of killing his own father. His 11 fellow jurors are equally convinced of the defendant’s guilt. Mr Fonda’s character battles to prevent the others from leaping to a hasty verdict—and wins them round, one by one.

Business needs more people like “juror number eight”. Mr Fonda’s character has the courage to question the rationale for important decisions—even if that means swimming against the tide. Poor decisions in risk management and a host of other areas have helped plunge many of the world’s largest banks and other financial outfits into a seemingly bottomless abyss.

Financial firms are not the only ones that have made mistakes. So, too, have business giants such as Yahoo!, which rejected a $40 billion takeover offer from Microsoft in February 2008, only to see its share price plunge. The woes of GM and Chrysler, which have been forced to grovel for government handouts, are evidence not just of the scale of the downturn but of the decisions in the upper echelons of the two American car giants.

All of this will come as no surprise to the authors of a new book called “Think Again”, which argues that even the cleverest business leaders slip up in crucial choices. Its authors—Sydney Finkelstein of the Tuck School of Business, and Jo Whitehead and Andrew Campbell of Ashridge Business School—point out that decision-making in business is often far from the rational, data-driven exercise that companies pretend it is. In fact, a decision is susceptible to a whole range of psychological biases that can trip up even experienced executives.
One of these biases is to assume that past experience is relevant today, even when the circumstances are different. For instance, Richard Fuld, the former boss of Lehman Brothers, steered the American investment bank through the choppy market during the collapse and bail-out of Long-Term Capital Management, a hedge fund, back in 1998. When credit markets seized up last year, Mr Fuld appeared slow to grasp the extent of the crisis. Perhaps this was in part because his experience at piloting Lehman through that earlier storm had lulled him into a false sense of where the crisis was leading. Ultimately Lehman failed, with earth-shattering consequences.

Another psychological bias is “pre-judgment”. This happens when managers let a strongly held belief blind them to arguments against it. The authors cite the example of Boots, a British pharmacy chain, which expanded into health-care services such as dentistry and chiropody around ten years ago. Some analysts and Boots board members were sceptical, but Steve Russell had concluded it was the way of the future before he took over as chief executive in 2000. In the end, the move flopped because Boots did not have sufficient know-how to manage the activities in-house. His strategy in tatters, Mr Russell departed in 2004.

Managers can make daft decisions for a host of other reasons too— including close friendships with colleagues and pure self-interest in hoped-for bonuses and other rewards. So how can companies try to stop these biases from causing calamities?

Messrs Finkelstein, Whitehead and Campbell suggest several safeguards. One is to seek out as much data from different sources as possible to ensure that managers weigh all sides of an argument. BP, a British oil giant, sometimes hires two law firms to get contrasting views on important decisions such as a potential acquisition.

Another safeguard is to encourage internal debate before a decision, perhaps by formally asking an individual or a team to play devil’s advocate. GE, an American conglomerate with a financial arm that has been battered by the credit crisis, recently announced that it would encourage more “naysayers” to take part in its planning and operating meetings, in order to stimulate debate. A third safeguard is to monitor the progress of decisions so that errors can be spotted fast—though this does nothing to prevent a bad decision in the first place.
Even with such safeguards, an imperial chief executive surrounded by yes men might neuter the checks—perhaps by undermining devil’s advocates. So boards of directors need a further line of defence. Hence, using their own resources and outside consultants if necessary, they should conduct their own reviews of important decisions.

The book’s authors say that an independent chairman is essential if such oversight is to work. They warn that firms are asking for trouble if they have a single person as chairman and chief executive—as at Marks & Spencer (M&S), a big British retailer. Some M&S shareholders who have been lobbying to reverse Sir Stuart Rose’s appointment to both seats would no doubt agree with that. Better to have a handful of angry executives than an army of angry shareholders.
Intelligent Business

Worksheet

A Warm up

1 Look at this collection of words meaning stupid.
The title of the article is “Managers do the daftest things”. How would this be said in American English?

2 Look at the words in the box below. Work in groups explaining the meanings to each other. Look up the words you do not know.
3 Complete the sentences using the words and phrases from the box.

a  I started at the bottom but after 20 years I’ve reached the _______ of the company.

b  Is this area ______ to earthquakes?

c  I missed my deadline so I’ll have to ______ to my line manager.

d  The oil pump stopped working so the engine quickly _______.

e  She was a ________ in a murder trial.

f  There was a strong wind so even the water in the lake was _______.

g  He appointed a lot of _______ to the board who would support his proposals.

h  Many people will resist any form of change. There are always _______ in any community.

i  They fell into an ______ and dropped down and down.

j  Don’t make the mistake of spending your _______ before you actually get it.

k  He always adopts the role of _______ and argues why a new proposal will fail.

l  The young couple were _______ the disruption that their new twins would create in their lives.

B Comprehension

4 Read the text. Mark the sentences true or false.

a  Microsoft offered $40 billion to buy Yahoo!  T/F

b  The troubles in GM and Chrysler were caused by poor management decisions.  T/F

c  The authors of Think Again! are surprised that so many poor decisions are made.  T/F

d  Most companies say their decisions are based on data and rational thought.  T/F

e  The authors of Think Again! identify and use examples to illustrate different reasons for mistaken decisions.  T/F
Close relationships with colleagues and the desire to be awarded a bonus can lead to the wrong decisions being made. T/F

The belief that “History always repeats itself” always leads to good decisions. T/F

Boots attempts to offer healthcare services failed because they did not know how to manage these activities. T/F

The authors suggest different safeguards to prevent poor decisions. T/F

A devil’s advocate would prepare arguments in favour of the project. T/F

When the Chairman and the CEO are the same person, there will be fewer board-level arguments and sensible decisions can be implanted quickly.

The authors say that incorrect decisions are often the result of psychological biases. Which of the following is not a psychological bias?
(i) Assumption that past experience is relevant in different circumstances.
(ii) Strongly held beliefs leading to pre-judgement.
(iii) Rational, data driven decisions.
(iv) Decisions influenced by personal friendships or a desire to meet a target which would lead to a bonus.

The authors offer a real-life example of an incorrect decision made as a result of each psychological bias. Which example is offered for each of the three correct answers above?

The authors suggest that companies should use a number of safeguards to avoid psychological bias. What are these safeguards?

The writer frequently uses metaphorical language. Look at the words and phrases below. What metaphorical imagery is the writer using?

swimming against the tide
plunge into a seemingly bottomless abyss
the choppy market
The Longman Language Activator suggests the following words connected with sensible when referring to decisions. Use these words in the sentences below.

<table>
<thead>
<tr>
<th>make sense</th>
<th>logical</th>
<th>be a good idea</th>
<th>calm</th>
<th>reasonable</th>
</tr>
</thead>
<tbody>
<tr>
<td>rational</td>
<td>practical</td>
<td>realistic</td>
<td>pragmatic</td>
<td>wise</td>
</tr>
</tbody>
</table>

a An experienced structural engineer could help us to find a ______ solution to this problem.
b You cannot expect ______ decisions from a man who is in love or drunk.
c Our employees want to spend time with their families. We can’t ask them to work 18 hours every day. We must be ______.
d The mathematician offered a ______ solution based on statistical information.
e Although your proposals are good, I don’t think the public will be able to ______ of them.
f Your ideas are very good in theory, but we need a _____ solution.
g Don’t get so angry! Let’s try to make a _____ decision.
h Listen to the _____ words of George. He has worked in this business for fifty years.
i It would ______ to install smoke alarms in the warehouse.
j What would be a ______ price to charge for this product?

D Roleplay

Your company’s car park is too small for all the employees to park their cars. Group A should suggest different solutions. Group B should act as devil’s advocate.

E Twelve Angry Men

_Twelve Angry Men_ directed by Sidney Lumet and starring Henry Fonda is set in the jury room of an American court. They are trying to decide whether a young man is guilty or innocent of the murder of his father. It is a hot, humid day and the 12 jurors are locked in the jury room. In the first vote, 11 jurors vote guilty. Only Henry Fonda votes Not Guilty. over the next 95 minutes he persuades the 11 jurors to change their votes. There are no women, no car chases, no spectacular scenes and yet the film can give the viewer the most gripping 95 minutes for many years. Everyone should watch it.
Abstract

A new book, *Think Again!* identifies psychological biases which contribute to bad decisions illustrated by example from commerce. The authors suggest safeguards which can help firms to overcome these biases.

A1 An American writer would probably write “Managers do the dumbest things”.

A2 *Encourage sharing of knowledge before students consult dictionaries and other resources.*

A3 a) upper echelons, b) susceptible, c) grovel, d) seized up, e) juror, f) choppy, g) yes men, h) nay sayers, i) abyss, j) hoped for bonus, k) devil’s advocate, l) slow to grasp

B4 aT, bT, cF, dT, eT, fT, gF, hT, iT, jF, kF,

B5 a (iii), b (i) Lehman Brothers, (ii) Boots, (iv) no example, c) data from many sources, get contrasting views, encourage internal debate, monitor the progress of decision, boards of directors should review all decisions, The chairman must be independent from the executive.

C6 The writer uses images of the sea.

C7 a) practical, b) rational, c) realistic, d) logical, e) make sense, f) pragmatic, g) calm, h) wise, i) be a good idea, j) reasonable

D Adopting a devil’s advocate position is a useful linguistic and intellectual challenge. After completing one roleplay, ask the teams to swap sides and repeat the task.

E Intermediate – Upper Intermediate students should have no difficulty in following the film in English. If you can, show the 1957 Henry Fonda version, not any of the remakes. The film can be viewed in shorter sections allowing students to discuss the progress and attempting to predict the next juror to change his vote.