

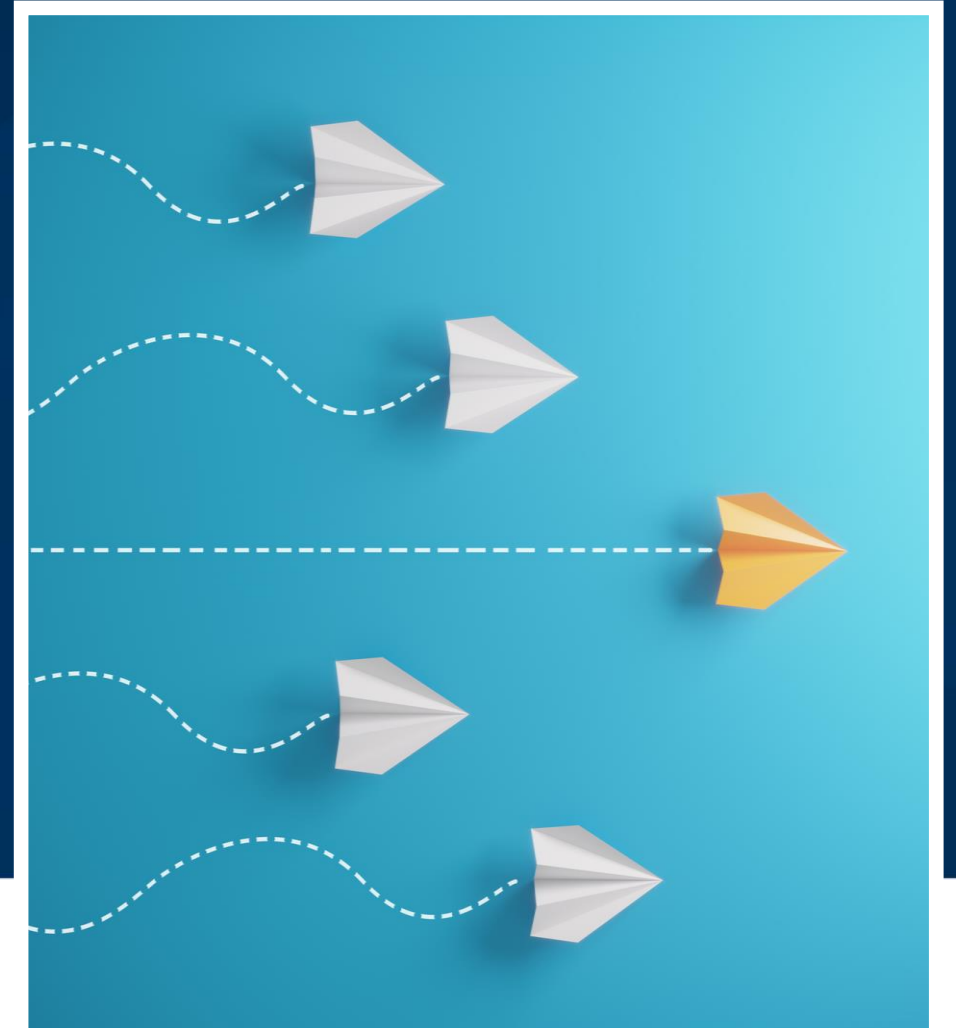
The Psychology of Leadership Decision Making

Presented by IMA Leadership Academy

July 12, 2022



The Association of
Accountants and
Financial Professionals
in Business



Webinar Features and CPE Credit

Q&A

Asking Questions



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Moderator

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Featured Presenter

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Sunil Deshmukh's Biography

- Sunil Deshmukh is a Strategy consultant, Leadership Coach, Start-up Mentor, and Independent Director. He has successfully coached and mentored more than 100 corporate leadership professionals in India and abroad during the last 2 years and also serves as an independent director on the boards of listed, as well non-listed companies and tech start-ups and NGO's.
- Sunil has three decades of global experience as a senior management professional (CFO/ Managing Director/CEO) working with companies such as Goodyear Tires, Foster's Beer, McDonald's, Indo-Jordan Chemicals Co., and AM International Holdings Singapore. His experience ranges from developing business strategies to managing operations, to providing board-level oversight and governance. He has worked across a global range of consumer markets and diverse cultures including Africa, Asia, Middle East and Singapore.
- Sunil is an active member of IMA, currently serving as Global Board Director of IMA, and member of the Strategic Planning Committee. He also currently serves as the President of the Pune Chapter and is a faculty member of the IMA Leadership Academy, as well the Associate Dean for the Leadership Academy's Mentoring Sub-committee. Sunil was the of the recipient of the IMA 2020 Champions Award.

Course Goal and Agenda

Our goal in this course is to help you become a better leader by becoming aware of **how you make decisions** and applying that awareness to enhance your decision making.




- ☒ Introduction
- ☐ The Mind and Decision Making
- ☐ Decision Making in the Business Context
- ☐ Challenges and How to Overcome Them
- ☐ Close


Learning Objectives

AFTER THIS SESSION, ATTENDEES WILL BE ABLE TO:

 **IDENTIFY** how the mind works and influences decision making.

 **LIST** the various factors that contribute to decision making.

 **SUMMARIZE** the challenges and biases that get in the way of good decision making and how to overcome them.

 **EXPLAIN** the various stages of decision making and evaluating decisions.



Reflection

1

Do you have a **specific process** you follow when making decisions? If so, briefly describe it.

2

What do you consider the **biggest challenge** in making good decisions?



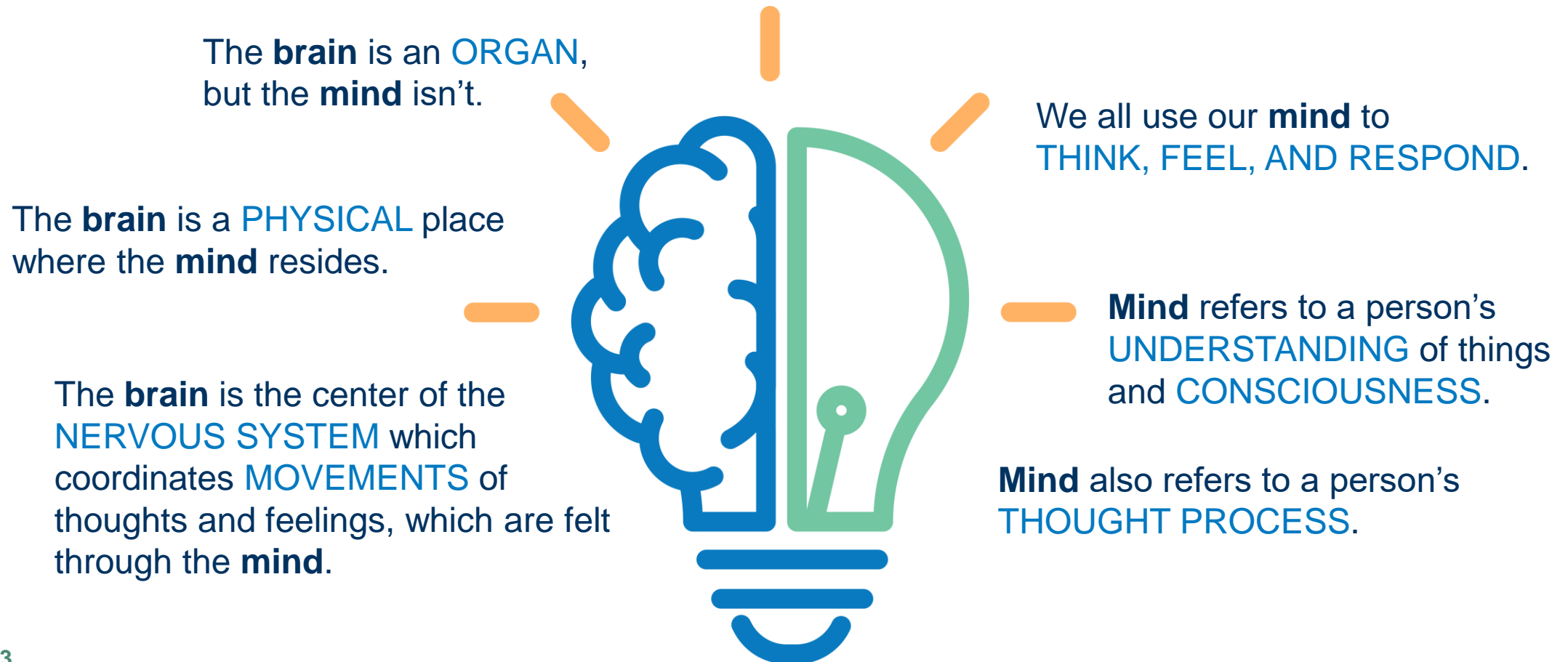
The Mind and Decision Making



Freud's View of the Mind



Brain-Mind Connection



Some Additional Definitions



Explicit Knowledge

Information that can be readily articulated, codified, stored, accessed, and transmitted to others.



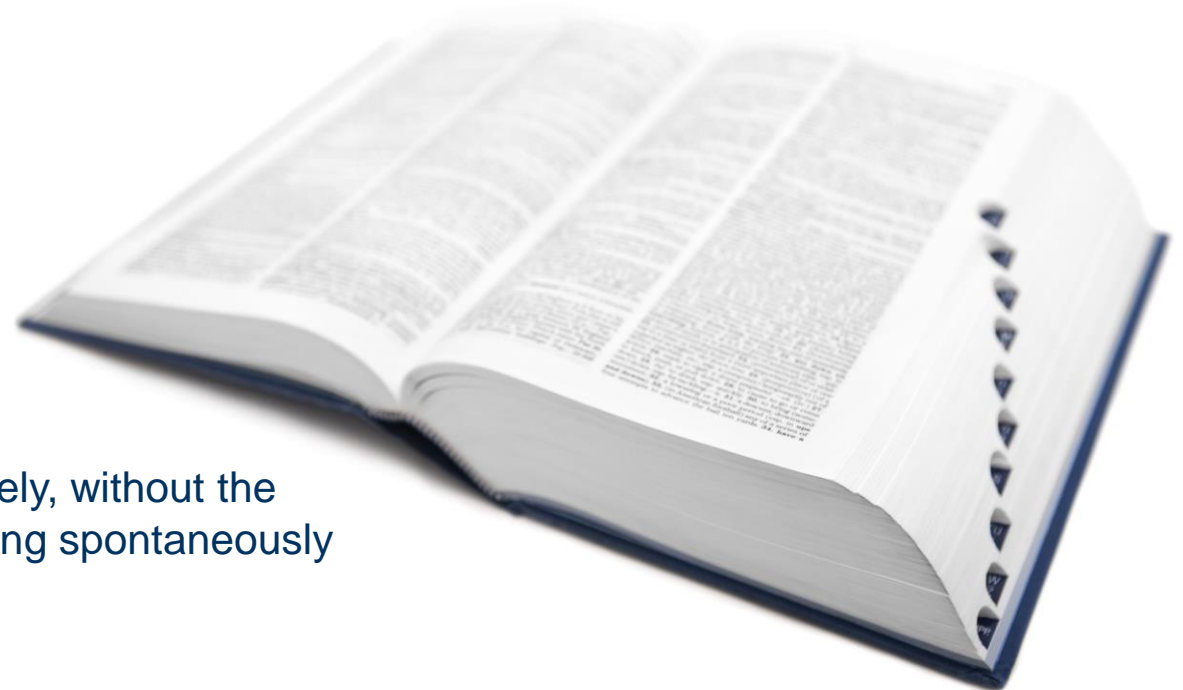
Tacit Knowledge

Information that's difficult to express or extract, and thus, more difficult to transfer to others by means of written or spoken words.



Intuition

The ability to understand something instinctively, without the need for conscious reasoning. An insight arising spontaneously without conscious reasoning.

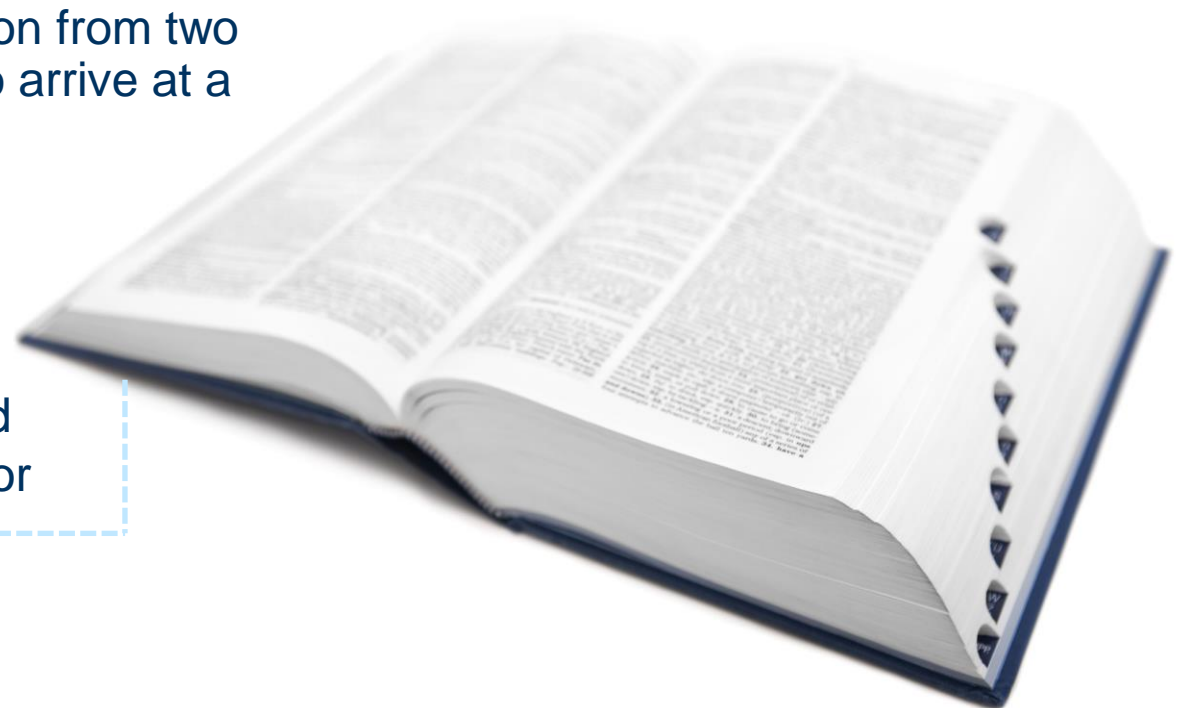


Decision Making Defined

DECISION MAKING

involves the **selection** of a course of action from two or more **possible alternatives** in order to arrive at a **solution for a given problem**.

decision making is the **process** we use to **identify** and **choose** alternatives, producing a final choice, that may or may not result in an action.



Two Thought Systems

SYSTEM 1



- Operates automatically and quickly
 - Takes little or no effort
 - Instinctual
 - No sense of voluntary control
-
- Fast system
 - Used 90% of the time
 - May increase chances of survival
 - More prone to error

SYSTEM 2



- Requires attention, concentration
 - More rational
 - Takes effort
 - Sense of control
-
- Slow system
 - Used 10% of the time
 - Likely to be more accurate
 - Less prone to error

Bounded Rationality

HUMAN JUDGMENT

is restricted by:

- Available information
- Available time
- Cognitive limitations

Decision Analysis, Part 1

Think of a recent decision making situation that you faced, personally or in business. Something that took moderate attention from you, or where you didn't give it enough attention for one reason or another.

Begin analyzing it using these questions.

- **HOW** did you use each of the thought systems in your decision making?
- **WHAT** limitations created bounded rationality in your situation?
- **WHAT** were the results of the decision you made?



Poll Question #1

Which factor of bounded rationality has **most impacted your decision making** in the past month?

- a. Available information
- b. Available time
- c. Cognitive limitations
- d. I haven't noticed any of these limitations



Poll Question #1 Results

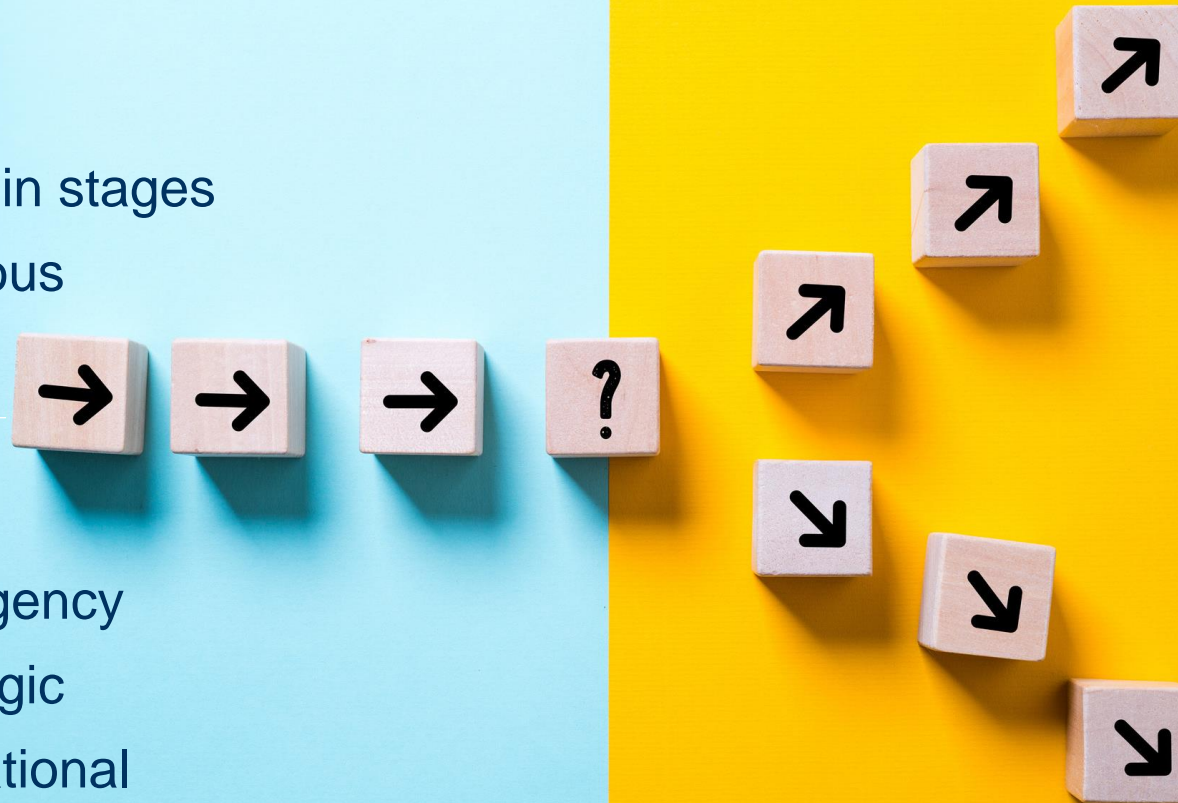


Decision Making in the Business Context



Types of Decision Making

- Irreversible
- Reversible
- Experimental
- Trial-and-error
- Conditional
- Delayed
- Routine
- Made in stages
- Cautious
- Emergency
- Strategic
- Operational



Types of Solutions

FUZZY

Tested

CORRECT

Insight

Short-term

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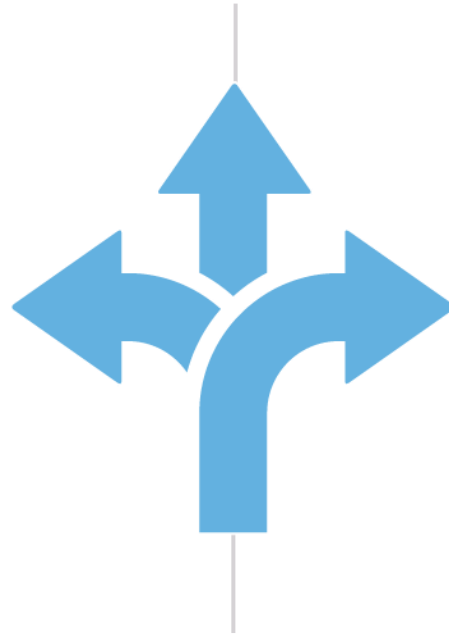
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Corporate Culture in Decision Making



RISK-AVERSE

Authoritarian
Conformist



ADVENTUROUS

Innovative
Progressive

More on Corporate Culture and Decision Making



INDIVIDUAL
Hierarchical



COLLABORATIVE
Spherical

Why a Decision Needs to be Made

A DECISION NEEDS TO BE
MADE IN RESPONSE TO

Disruption

Opportunity

Resource allocation

Negotiations



Decision Analysis, Part 2

Using the same decision situation used in **Part 1**, further analyze the situation by answering:

- **WHAT** type of decision making was involved?
- **WHAT** type of solution resulted?
- **HOW** might the corporate culture or the gender of participants have impacted the decision making?
- **WHAT** was the reason a decision needed to be made?



Poll Question #2

In thinking about your corporate culture, **how would you categorize it** in relationship to decision making?

- a. Very risk-averse
- b. Somewhat risk-averse
- c. In the middle of risk-averse and adventurous
- d. Somewhat adventurous
- e. Very adventurous
- f. I'm not sure



Poll Question #2 Results



Stages in Decision Making



①

IDENTIFY
the problem



②

GENERATE
options



③

ANALYZE
the options



④

SELECT
the best option



⑤

IMPLEMENT
the decision



⑥

EVALUATE
and learn from
the decision

Sensemaking

SENSEMAKING IS REACTING TO, MAKING SENSE OF, AND ACTING UPON THE ENVIRONMENTS AND EVENTS AROUND US, ESPECIALLY NEW AND UNKNOWN STIMULI.



Needed when:

- Our understanding of the work becomes blurred
- The environment is changing more quickly than expected
- The business world has too much uncertainty and complexity
- High anxiety in the external world is impacting the organization



Judgment in Decision Making

JUDGMENT is the ability to **determine relationships** and to **draw conclusions** from events with strong evidence.



Judgment Element #1

GOOD JUDGMENT REQUIRES TURNING KNOWLEDGE INTO UNDERSTANDING

- Listen actively
- Read critically
- Look for quality, not quantity

To improve:

- Practice active listening
- Identify and learn how to ignore your triggers
- Verify your understanding and interpretation of metrics
- Get input from others with different viewpoints



Judgment Element #2

LOOK FOR WHAT IS BEST FOR ALL (OR AT LEAST THE MAJORITY)

- Draw on the skills, experience, and knowledge of others
- Consider the means and the ends

To improve:

- Seek out a mentor
- Avoid people who always agree with you
- Ask advice from a variety of people who think differently from you
- Include someone on your team who can cover your blind spots



Judgment Element #3

CAPITALIZE ON EXPERIENCE

- Reflect on experience from all aspects of your life
- Gather experience from others
- Ignore what isn't relevant to the current decision

To improve:

- Avoid getting stuck in a rut
- Assess how well you draw on your own experience
- Ask for someone else to assess the situation
- Seek feedback on your strengths and weaknesses
- Volunteer for different work experiences
- Attend industry meetings to pick up new ideas



Judgment Element #4

IDENTIFY AND THEN CHALLENGE BIASES

- More on this in the next section

To improve:

- Accept there are many different viewpoints
- Role-play positions you aren't comfortable with
- Debate both sides
- Learn from people from other cultures
- Ask someone to play devil's advocate



Judgment Element #5

QUESTION THE OPTION SET

- Have all the possible options really been considered?

To improve:

- Clarify data that was summarized
- Ask for more options
- Change the weight of the options to see if the decision would change
- Pilot and model before making a decision, when possible
- Pay attention to your instincts
- Consult with others you trust
- Don't be afraid of radical options



Judgment Element #6

FACTOR IN THE FEASIBILITY OF EXECUTION






- New and novel solutions require change, which people resist
- Manage risk

To improve:

- Use change management principles
- Employ your emotional intelligence with those impacted by the change
- Draw on past experiences
- Develop checklists
- Do “after-action reports”



Leadership Judgment Framework

	IDENTIFY	DEFINE PROBLEM	GENERATE/ANALYZE	SELECT	IMPLEMENT	EVALUATE
						
GOOD JUDGMENT	<ul style="list-style-type: none"> ▪ Enables early identification in the environment ▪ Mobilizes to act ▪ Energized about the future 	<ul style="list-style-type: none"> ▪ Able to cut through the complexity and get to the essence ▪ Clearly sets parameters of a problem ▪ Provides context and language 	<ul style="list-style-type: none"> ▪ Identifies key stakeholders ▪ Engages and energizes around framing ▪ Taps best ideas from anywhere 	<ul style="list-style-type: none"> ▪ Exercises yes/no judgment ▪ Clearly explains judgment 	<ul style="list-style-type: none"> ▪ Stays in the game ▪ Supports those making it happen ▪ Sets clear milestones 	<ul style="list-style-type: none"> ▪ Gets feedback ▪ Makes adjustments ▪ The feedback is continuous
BAD JUDGMENT	<ul style="list-style-type: none"> ▪ Can't read the environment ▪ Fails to see reality ▪ Not following your gut 	<ul style="list-style-type: none"> ▪ Frames the wrong decision/judgment ▪ The ultimate goal isn't clearly defined ▪ Stuck in old paradigm 	<ul style="list-style-type: none"> ▪ Doesn't set clear expectations ▪ Wrong people involved ▪ No self-correction 	<ul style="list-style-type: none"> ▪ Still makes bad/wrongheaded call ▪ Fails to see how things intersect and are likely to play out ▪ Avoids making the call 	<ul style="list-style-type: none"> ▪ Walks away ▪ Bad information ▪ Failure to see all factors 	<ul style="list-style-type: none"> ▪ Resistance by organization ▪ No or wrong metrics ▪ Lack of operating mechanisms for dealing with changes

Decision Analysis, Part 3

Using the same decision making process you have been using, consider the following questions:

- Did you **USE** a specific decision making process? If so, how well did it work for you and what could you do to improve your process? If not, how might using a decision making process have helped your decision?
- **HOW** well did you exercise good judgment in making your decision?



Poll Question #3

Which **element of good judgment** do you most want to **improve**?

- a. Turning knowledge into understanding
- b. Looking for what is best for all
- c. Capitalizing on experience
- d. Identifying and then challenging biases
- e. Questioning the option set
- f. Factoring in feasibility
- g. I need to think about it some more



Poll Question #3 Results



Challenges and How to Overcome Them



10 Common Biases in Decision Making

ANCHORING EFFECT ①

FAMILIARITY BIAS ②

SUNK COST FALLACY ③

CONFIRMATION BIAS ④

FRAMING BIAS ⑤

⑥ OVERCONFIDENCE

⑦ AVAILABILITY BIAS

⑧ PROCRASTINATION

⑨ RISK AVERSION

⑩ RANDOMNESS

Anchoring Effect

A TENDENCY TO FIXATE ON INITIAL INFORMATION AS MOST IMPORTANT.

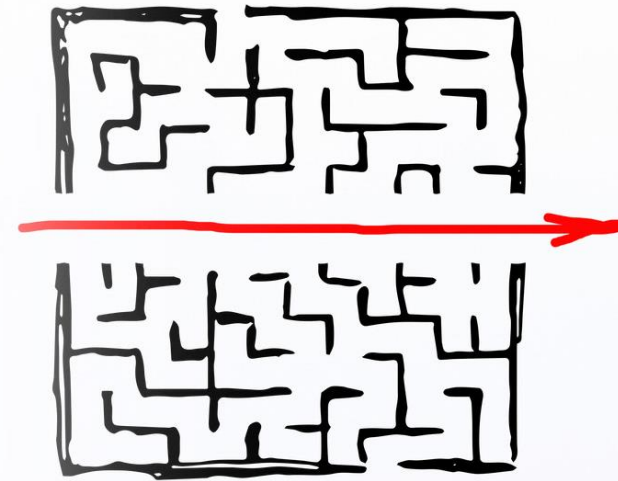
- **RECOGNIZE** that we're all vulnerable to first impressions.
- Particularly **SCRUTINIZE** initial values that seem unusually high or low.
- **BE CAUTIOUS** with best- or worst-case scenarios.
- **BE AWARE** that after considering a decision under ideal conditions, it's difficult to arrive at a realistic projection.
- As a buyer, **PAY LITTLE ATTENTION** to initial offers.
- As a seller, try to **TAKE THE INITIATIVE** by defining an initial price.



Familiarity Bias

WHEN A SITUATION SEEMS SIMILAR TO PREVIOUS SITUATIONS, WE TEND TO REGRESS TO THE COMFORT OF CHOICES WE'VE MADE BEFORE.

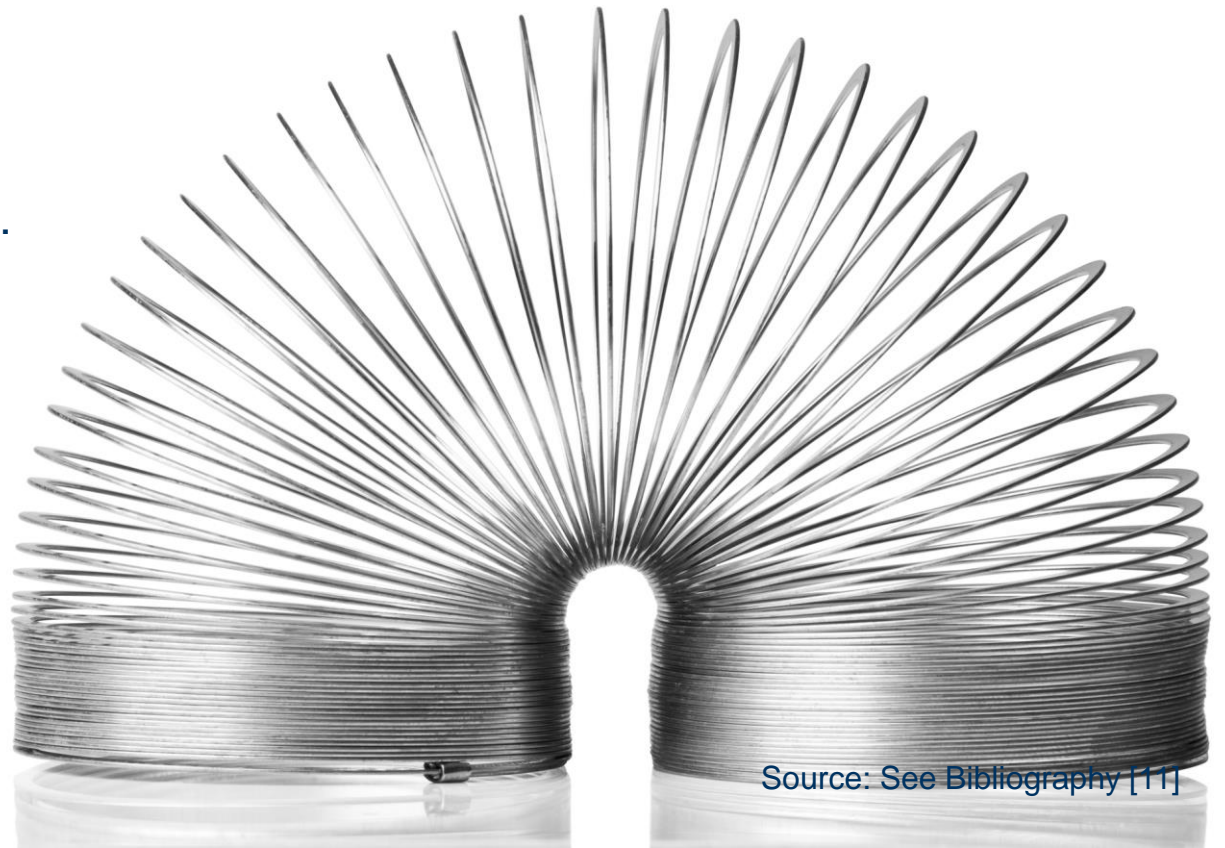
- **FORCE YOURSELF** outside your comfort zone and look for options that seem distant or alien.
- **DON'T** put all your eggs in one basket.
- Continually **SCAN** your environment for diversity.



Sunk Cost Fallacy

THE TENDENCY TO MAKE DECISIONS
TO JUSTIFY PAST CHOICES.

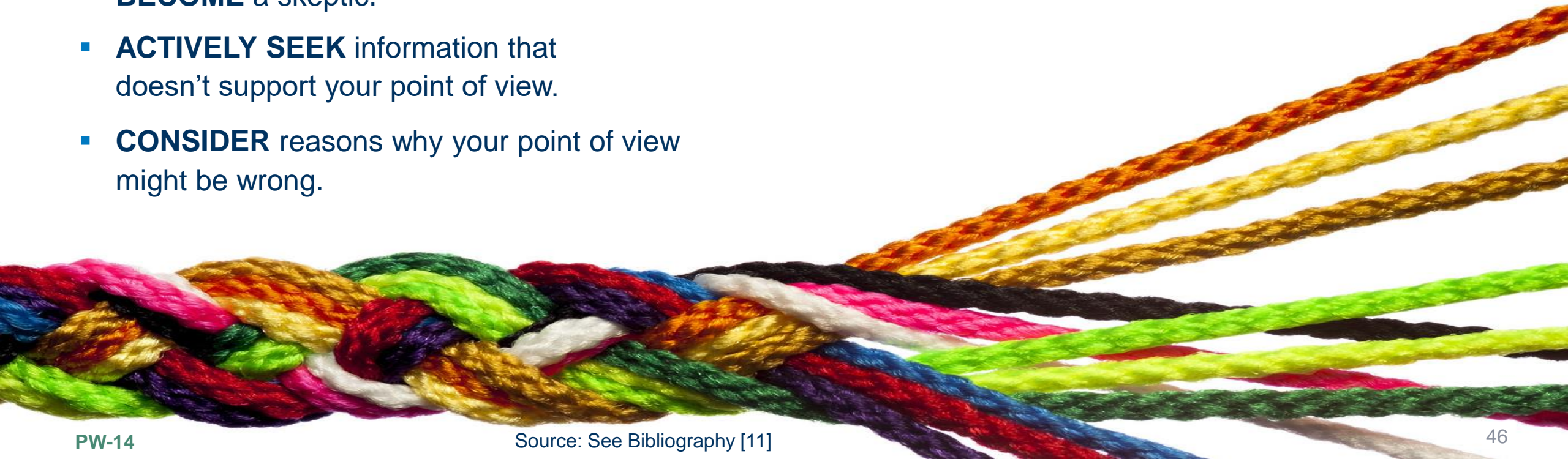
- **IGNORE** sunk costs—look to the future.
- **RECOGNIZE** that it's okay to admit mistakes.
- **BE AWARE** that flexibility can be better than consistency.



Confirmation Bias

A TENDENCY TO SEEK INFORMATION THAT SUPPORTS OUR EXISTING POINT OF VIEW.

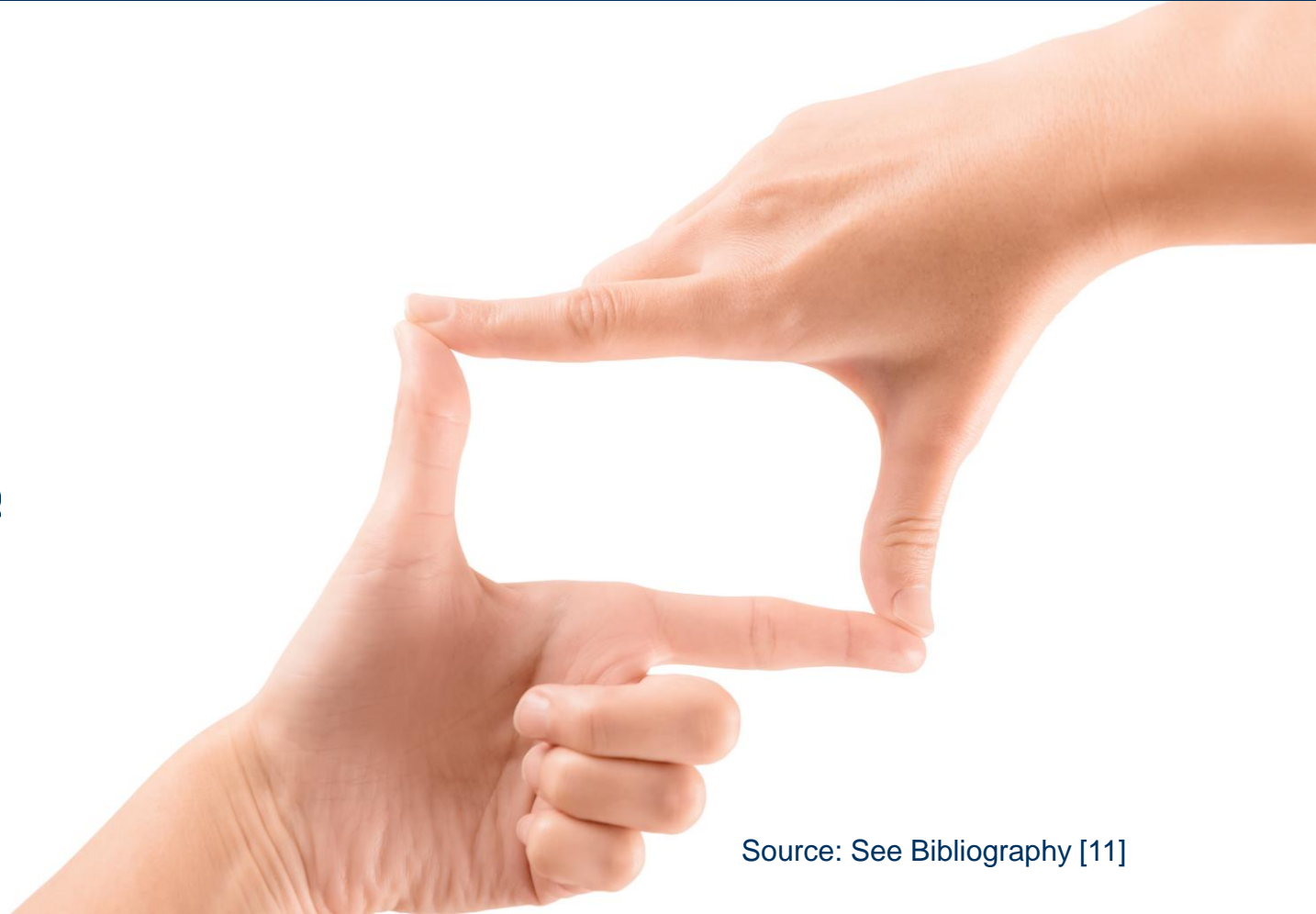
- **BECOME** a skeptic.
- **ACTIVELY SEEK** information that doesn't support your point of view.
- **CONSIDER** reasons why your point of view might be wrong.



Framing Bias

DEFINING A PROBLEM BY HIGHLIGHTING CERTAIN ASPECTS WHILE OMITTING OR DOWNPLAYING OTHER ASPECTS.

- **BE AWARE** of the frame you're using.
- **MAKE SURE** your frame fits the problem.
- **TRY** to reframe your problem in different way
- **CHALLENGE** your frame by trying to falsify



Decision Analysis, Part 4

Once again, analyze your chosen decision situation.

- Did any of the challenges we've already covered **IMPACT** your decision situation? How?
- Do you have any other suggestions for **OVERCOMING** the challenges we've covered?



Poll Question #4

Have you run into any of the challenges we have covered? Which one has **most impacted the decisions you have made in the past month?**

- a. Anchoring effect
- b. Familiarity bias
- c. Sunk cost fallacy
- d. Confirmation bias
- e. Framing bias
- f. None of the above



Poll Question #4 Results



Overconfidence

A TENDENCY TO HOLD UNREALISTICALLY POSITIVE VIEWS OF OURSELVES, OVERESTIMATING OUR KNOWLEDGE AND ABILITY TO CONTROL EVENTS, AND UNDERESTIMATING RISK.

- Recognize your tendency to be overconfident.
- Be especially alert to overconfidence when considering issues outside of your expertise.
- Look for reasons why your predictions or options might be wrong.



Availability Bias

A TENDENCY TO REMEMBER EVENTS THAT ARE MOST RECENT AND MOST VIVID.

- Don't over-rely on your memory.
- Ask yourself if you're being unduly influenced by information that's readily available, recent, or vivid.
- Expand your experiences.



Procrastination

A TENDENCY TO PUT OFF THE STAGES OF THE DECISION MAKING PROCESS, PARTICULARLY SELECTING AN OPTION AND IMPLEMENTING IT.

- For minor decisions, just make a choice.
- For major decisions, consider imposing voluntary constraints on yourself and creating automatic “action” strategies and up-front commitments.
- For extreme issues, use a mentor or a professional counselor.



Risk Aversion

A DESIRE FOR OUTCOMES TO BE COMPLETELY AS PREDICTED.

- Accept that you can't control everything, and things will seldom go completely as planned.
- Seek assistance to more objectively assess the risk associated with each option and whether the outcome is worth the risk.
- If severe, seek a mentor or professional's help.



Randomness

THE DESIRE TO CREATE MEANING
OUT OF RANDOM EVENTS.

- Accept that there are events outside of your control and that luck plays a role in every success story.
- Don't try to create meaning out of random events.
- Acknowledge your superstitions and challenge their validity.



Decision Analysis, Part 5

Consider the decisions you have been analyzing.

- **WHICH** challenges have you struggled with the most?
- Looking at your complete analysis, **WHAT** is one thing you can do right away that will improve your decision making?



Poll Question #5

Of the following challenges, which have you seen **impacting your company's decision making** the most?

- a. Overconfidence
- b. Availability bias
- c. Procrastination
- d. Risk aversion
- e. Randomness
- f. None of the above



Poll Question #5 Results



Close



Review



THE MIND AND
DECISION MAKING



DECISION MAKING
IN THE BUSINESS
CONTEXT




CHALLENGES AND
HOW TO OVERCOME THEM


Learning Objectives, revisited

AFTER THIS SESSION, ATTENDEES WILL BE ABLE TO:

 **IDENTIFY** how the mind works and influences decision making.

 **LIST** the various factors that contribute to decision making.

 **SUMMARIZE** the challenges and biases that get in the way of good decision making and how to overcome them.

 **EXPLAIN** the various stages of decision making and evaluating decisions.



Action Plan

WHAT IS A NEW IDEA I GOT FROM THIS COURSE?	WHY IS THIS NEW IDEA IMPORTANT TO ME AND MY WORK?	WHAT IS SOMETHING I WILL DO WITH THIS NEW IDEA ?



Questions and Answers



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Thank You to Our Presenter!

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Final Reminders

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