

# **The Psychology of Leadership Decision Making**

## **Participant Workbook**

***Presented by IMA Leadership Academy***

## TODAY'S AGENDA

1. Introduction
2. The Mind and Decision Making
3. Decision Making in the Business Context
4. Challenges and How to Overcome Them
5. Close

## LEARNING OBJECTIVES

After this session, you'll 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?

## FREUD'S VIEW OF THE MIND



Source: See Bibliography [10]

## BRAIN-MIND CONNECTION

- The **brain** is an organ, but the **mind** isn't.
- The **brain** is a physical place where the **mind** resides.
- The **brain** is the center of the nervous system.
- We all use our **mind** to think, feel, and respond.
- **Mind** refers to a person's understanding of things and consciousness.
- **Mind** also refers to a person's thought process.



## 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

Source: See Bibliography [7]

## BOUNDED RATIONALITY

Human judgment is restricted by:

- Available information
- Available time
- Cognitive limitations

Source: See Bibliography [13]



### 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. Analyze 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?

## TYPES OF DECISION MAKING

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Irreversible</li> <li>• Reversible</li> <li>• Experimental</li> <li>• Trial-and-error</li> <li>• Made in stages</li> <li>• Cautious</li> </ul> | <ul style="list-style-type: none"> <li>• Conditional</li> <li>• Delayed</li> <li>• Routine</li> <li>• Emergency</li> <li>• Strategic</li> <li>• Operational</li> </ul> |
|---|--|

Source: See Bibliography [3]

## TYPES OF SOLUTIONS

- Correct
- Insight
- Tested
- Short-term
- Fuzzy

Source: See Bibliography [3]



## CORPORATE CULTURE IN DECISION MAKING

### Risk-Averse

- Authoritarian
- Conformist



### Adventurous

- Innovative
- Progressive



Source: See Bibliography [3]

## MORE CORPORATE CULTURE AND DECISION MAKING



**INDIVIDUAL**  
*Hierarchical*



**COLLABORATIVE**  
*Spherical*

Source: See Bibliography [2]

## WHY A DECISION NEEDS TO BE MADE

A decision needs to be made in response to

- Disturbance
- Opportunity
- Resource allocation
- Negotiations

Source: See Bibliography [3]



## 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?

## STAGES IN DECISION MAKING





## 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

Source: See Bibliography [4,5]

## JUDGMENT IN DECISION MAKING

Judgment is the ability to determine relationships and also to draw conclusions from events with strong evidence.

Source: See Bibliography [6]

## ELEMENTS OF GOOD JUDGMENT

Element	Application	To Improve
1. Good judgment requires turning knowledge into understanding	<ul style="list-style-type: none"> <li>• Listen actively</li> <li>• Read critically</li> <li>• Look for quality, not quantity</li> </ul>	<ul style="list-style-type: none"> <li>• Practice active listening</li> <li>• Identify and learn how to ignore your triggers</li> <li>• Verify your understanding and interpretation of metrics</li> <li>• Get input from others with different viewpoints</li> </ul>







Element	Application	To Improve
2. Look for what is best for all (or at least the majority)	<ul style="list-style-type: none"> <li>• Draw on the skills, experience, and knowledge of others</li> <li>• Consider the means and the ends</li> </ul>	<ul style="list-style-type: none"> <li>• Seek out a mentor</li> <li>• Avoid people who always agree with you</li> <li>• Ask advice from a variety of people who think differently from you</li> <li>• Hire at least one person who can cover your blind spots</li> </ul>
3. Capitalize on experience	<ul style="list-style-type: none"> <li>• Reflect on experience from all aspects of your life</li> <li>• Gather experience from others</li> <li>• Ignore what isn't relevant to the current decision</li> </ul>	<ul style="list-style-type: none"> <li>• Avoid getting stuck in a rut</li> <li>• Assess how well you draw on your own experience</li> <li>• Ask for someone else to assess the situation</li> <li>• Seek feedback on your strengths and weaknesses</li> <li>• Volunteer for different work experiences</li> <li>• Attend industry meetings to pick up new ideas</li> </ul>
4. Identify and then challenge biases	<ul style="list-style-type: none"> <li>• More on this in the next section</li> </ul>	<ul style="list-style-type: none"> <li>• Accept there are many different viewpoints</li> <li>• Role-play positions you aren't comfortable with</li> <li>• Debate both sides</li> <li>• Learn from people from other cultures</li> <li>• Ask someone to play devil's advocate</li> </ul>

Element	Application	To Improve
5. Question the option set	<ul style="list-style-type: none"> <li>Have all the possible options really been considered?</li> </ul>	<ul style="list-style-type: none"> <li>Clarify data that was summarized</li> <li>Ask for more options</li> <li>Change the weight of the options to see if the decision would change</li> <li>Pilot and model before making a decision, when possible</li> <li>Pay attention to your instincts</li> <li>Consult with others you trust</li> <li>Don't be afraid of radical options</li> </ul>
6. Factor in the feasibility of execution	<ul style="list-style-type: none"> <li>New and novel solutions require change, which people resist</li> <li>Manage risk</li> </ul>	<ul style="list-style-type: none"> <li>Use change management principles</li> <li>Employ your emotional intelligence with those impacted by the change</li> <li>Draw on past experiences</li> <li>Develop checklists</li> <li>Do "after-action reports"</li> </ul>

Source: See Bibliography [9]



## LEADERSHIP JUDGMENT FRAMEWORK

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

Source: See Bibliography [15]








## DECISION ANALYSIS, PART 3

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

- 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?

## COMMON BIASES IN DECISION MAKING

Pitfall	Definition	How to Overcome
1. Anchoring effect 	A tendency to fixate on initial information as most important.	<ul style="list-style-type: none"> <li>• Recognize that we're all vulnerable to first impressions.</li> <li>• Particularly scrutinize initial values that seem unusually high or low.</li> <li>• Be cautious with best- or worst-case scenarios.</li> <li>• Be aware that after considering a decision under ideal conditions, it's difficult to arrive at a realistic projection.</li> <li>• As a buyer, pay little attention to initial offers.</li> <li>• As a seller, try to take the initiative by defining an initial price.</li> </ul>
2. Familiarity bias 	When a situation seems similar to previous situations, we tend to regress to the comfort of choices we've made before.	<ul style="list-style-type: none"> <li>• Force yourself outside your comfort zone and look for options that seem distant or alien.</li> <li>• Don't put all your eggs in one basket.</li> <li>• Continually scan your environment for diversity.</li> </ul>

Pitfall	Definition	How to Overcome
3. Sunk cost fallacy 	The tendency to make decisions to justify past choices.	<ul style="list-style-type: none"> <li>Ignore sunk costs—look to the future.</li> <li>Recognize that it's okay to admit mistakes.</li> <li>Be aware that flexibility can be better than consistency.</li> </ul>
4. Confirmation bias 	A tendency to seek information that supports our existing point of view.	<ul style="list-style-type: none"> <li>Become a skeptic.</li> <li>Actively seek information that doesn't support your point of view.</li> <li>Consider reasons why your point of view might be wrong.</li> </ul>
5. Framing bias 	Defining a problem by highlighting certain aspects while omitting or downplaying other aspects.	<ul style="list-style-type: none"> <li>Be aware of the frame you're using.</li> <li>Make sure your frame fits the problem.</li> <li>Try to reframe your problem in different ways.</li> <li>Challenge your frame by trying to falsify it.</li> </ul>

Source: See Bibliography [11]








## DECISION ANALYSIS, PART 4

Using the same decision situation used in Part 1, further analyze the 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?

## COMMON BIASES IN DECISION MAKING, continued

Pitfall	Definition	How to Overcome
6. Overconfidence 	A tendency to hold unrealistically positive views of ourselves, overestimating our knowledge and ability to control events, and underestimating risk.	<ul style="list-style-type: none"> <li>Recognize your tendency to be overconfident.</li> <li>Be especially alert to overconfidence when considering issues outside of your expertise.</li> <li>Look for reasons why your predictions or options might be wrong.</li> </ul>
7. Availability bias 	A tendency to remember events that are most recent and most vivid.	<ul style="list-style-type: none"> <li>Don't over-rely on your memory.</li> <li>Ask yourself if you're being unduly influenced by information that's readily available, recent, or vivid.</li> <li>Expand your experiences.</li> </ul>
8. Procrastination 	A tendency to put off the stages of the decision-making process, particularly selecting an option and implementing it.	<ul style="list-style-type: none"> <li>For minor decisions, just make a choice.</li> <li>For major decisions, consider imposing voluntary constraints on yourself and creating automatic "action" strategies and up-front commitments.</li> <li>For extreme issues, use a mentor or a professional therapist.</li> </ul>
9. Risk aversion 	A desire for outcomes to be completely as predicted.	<ul style="list-style-type: none"> <li>Accept that you can't control everything, and things will seldom go completely as planned.</li> <li>Seek assistance to objectively assess the risk associated with each option and whether the outcome is worth the risk.</li> <li>If severe, seek a mentor or professional's help.</li> </ul>

Pitfall	Definition	How to Overcome
10. Randomness 	The desire to create meaning out of random events.	<ul style="list-style-type: none"> <li>• Accept that there are events outside of your control and that luck plays a role in every success story.</li> <li>• Don't try to create meaning out of random events.</li> <li>• Acknowledge your superstitions and challenge their validity.</li> </ul>

Source: See Bibliography [8, 11]



## DECISION ANALYSIS, PART 5

Consider the decisions you have been analyzing.

- Which pitfalls 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?





## 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?

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