



CUTTINGS

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Strategic Distortions and Deceptions

Sometimes strategic decisions fail. Behavioural economics – a new field merging the insights of psychology and economics – may provide some insights that can help practitioners avoid pitfalls and make better decisions.

Distortions and deceptions can occur in strategic decisions: for example, take the case of a CEO who relies on the advice of a divisional director regarding a proposed merger. If the merger goes through, the director stands to gain by running a larger division and positioning him or herself as the CEO's successor. Unaware that the forecasts are too rosy and the challenges haven't been sufficiently examined, the CEO and board decide to go through with the merger. The merger ends in a spectacular loss of value when the anticipated strategic synergies fail to materialise.

There are both cognitive distortions and deceptions at work. Distortions can come in the form of over-optimism about the likelihood of success

resulting in unrealistic forecasts, or over-confidence about what you know or don't know about a situation which can result in an underestimation of risks and challenges.

Deceptions – either conscious or unconscious – can occur at either the individual or group level. Such as misaligned time horizons where a manager's emphasis on actions with short-term impact may be helpful to their career but harmful to the company's long-term strategy. There is champion bias where a senior manager will accept the evaluation of a proposal more willingly when it comes from a trusted associate. Another deception is called sunflower management, a type of groupthink, where a collective consensus emerges around a senior person's presumed opinion resulting in an absence of dissent or debate in important decisions.

These distortions and deceptions can sometimes be intertwined with what behavioural economists call the 'principal-agent' problem. This phen-

omenon occurs when the incentives of certain employees (agents) are not aligned with the company's (the principal's) interests, thus causing employees to look after their own interests in often deceptive ways. The trusted director in the example was motivated to leave certain stones unturned and overemphasise the potential success of the merger.

What to do?

Reduce exposure to these intertwined and harmful patterns by: becoming more aware of how biases can affect decision making; becoming more mindful of how past decisions have been made; embedding safeguards into formal decision-making processes; and encouraging active open-mindedness through a culture of dialogue and debate.

Mark Hanna, Wharton Leadership Digest September 2006

Dan P. Lovallo and Olivier Sibony, "Distortions and deceptions in strategic decisions," The McKinsey Quarterly, 2006

How Your Mindset Impacts Your Success

Another article recently on brain and cognitive function, this time by Stanford University's Dr. Carol S. Dweck, one of the world's leaders in the field of motivation.

She identifies two predominant mindsets: a fixed mindset where people believe that talents and abilities are fixed and can't be developed, and a growth mindset where people believe their talents and abilities can be cultivated through dedication, effort, and education.

In the fixed mindset, people believe they are only as good as their latest performance, they have to prove that ability over and over. They are also not eager for new learning, because they are afraid they might expose deficiencies, they might be found out. So, they tend to stick to the tried and

tested; things they know they can do well. They are defensive when they hit setbacks or encounter criticism, because they feel that this casts doubt on their basic talents or abilities. And they tend to be competitive in order to show others as deficient to look good themselves.

In the, the whole goal is to learn and improve and people see challenges, hard work, education, and dedication as ways to become more talented and more skilled. Growth mindset people's motivation is actually enhanced by setbacks - they delight when given problems that are too hard. Also, people in this mindset tend to be more team players – someone else's success does not diminish them and they say one of their goals is to help other people improve.

Research with students of all ages show that those with a growth mindset do substantially better. Their self-esteem thrives in a challenging environment, whereas the self-esteem of those in a fixed mindset is threatened. There are many examples where success has come not from predicted ability – people can do a lot more than we think.

In the workplace, change abandons the tried and tested, so is anathema to the fixed mindset and sustenance to the growth mindset. Managers with a growth mindset sought and accepted more feedback, criticism and suggestions for improvement. They also were more likely to be developmental coaches.

How Your Mindset Impacts Your Success in Business and in Life. HR.Com, August 2006

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Snippets

A collection of thought provokers and quotations ...

- ✂ "In every out thrust headland, in every curving beach, in every grain of sand there is a story of the earth." *Rachel Carson*
- ✂ "Much of what keeps us alive or kills us remains a medical mystery. People who by all medical predictions should die young often don't, and those who it seems should not too often do. The answer to this paradox may rest in learning less about why we get sick and die and more about why we don't become ill and why we thrive." *Dr. Paul Pearsall*
- ✂ "No problem can be solved from the same level of consciousness that created it." *Albert Einstein*
- ✂ "Openly questioning the way the world works and challenging the power of the powerful is not an activity customarily rewarded." *Dale Spender*
- ✂ "It is not enough to have knowledge, one must also apply it. It is not enough to have wishes, one must also accomplish." *Goethe*
- ✂ "You can't build a reputation on what you are going to do." *Henry Ford*
- ✂ "You miss 100% of the shots you don't take." *Wayne Gretzky*
- ✂ "It is not every question that deserves an answer." *Publilius Syrus*
- ✂ "Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning." *Albert Einstein*
- ✂ "We have no choice but to think together, to ponder, to gather in groups and communities. The question is how to do this, how to come together and think and hear each other in order to touch and be touched by the intelligence we need." *Jacob Needleman*
- ✂ "A proverb is a short sentence based on long experience." *Miguel de Cervantes*

Some famous miss-readings of the future:

- ✂ "Everything that can be invented has been invented." *US Patent Office 1899*
- ✂ "We don't like their sound. Groups of guitars are on the way out." *Decca Records rejecting the Beatles 1962*

A Chance to Start Over

It was a cold December night in West Orange, New Jersey.

Thomas Edison's factory was humming with activity. Work was proceeding on a variety of fronts as the great inventor was trying to turn more of his dreams into practical realities. Edison's plant, made of concrete and steel, was deemed "fireproof".

As you may have already guessed, it wasn't!

On that freezing night in 1914, the sky was lit up by a sensational blaze that had burst through the plant roof. Edison's 24 year old son, Charles, made a frenzied search for his famous inventor father. When he finally found him, he was watching the fire. His white hair was blowing in the wind. His face was illuminated by the leaping flames.

"My heart ached for him," said Charles. "Here he was, 67 years old, and everything he had worked for was going up in flames. When he saw me, he shouted, 'Charles! Where's your mother?' When I told him I didn't know, he said, 'Find her! Bring her here! She'll never see anything like this as long as she lives.'"

Next morning, Mr. Edison looked at the ruins of his factory and said this of his loss: "There's value in disaster. All our mistakes are burned up. Thank God, we can start anew."

What a wonderful perspective on things that seem at first to be so disastrous. A business failure, divorce, personal dream gone sour. Whether these things destroy an individual depends largely on the attitude he or she takes toward them.

Sort out why it happened, and learn something from the blunders. Think of different approaches that can be taken.

Start over.

Author unknown.

Posted on the Appreciative Inquiry ListServe September 2006

- ✂ "64K ought to be enough for anybody." *Bill Gates 1981*
- ✂ "Who the hell wants to hear actors talk?" *Harry Warner, Warner Bros 1927*
- ✂ "There is no reason anyone would want a computer in their home." *Ken Olson, Digital Equipment 1977*

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