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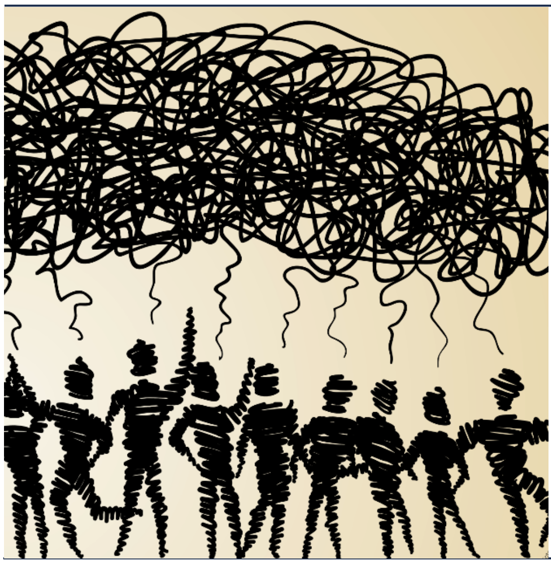

Managers are Simply Human

Cognitive Biases in Top Teams

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Preview

- **Hybris times X:** When the tendency towards overconfidence accumulates
- **Hindering hyperinclusion:** Why top teams often perceive what they want to see
- **Self-serving interpretations:** Why top teams overestimate their influence systematically
- **Illusion of inevitability**: Why the same mistakes are repeated again and again
- **Collective actionism:** When top teams act first, then think
- **Authority focus:** Why the CEO decides, after all

Neuroscience research shows that even the most intellectually gifted professionals default to biases. Our ability to think critically and see patterns drives our success. But our thinking gets entrenched. You may observe these failings in others without recognizing them in yourself. Distorted perceptions tempt managers like everyone else to judge, decide and act irrationally. But at the top, the consequences can be dramatic: Biases and thinking routines in the C-level team are the root causes for poor decisions at the top – they result in collectively less effective decisions as the high individual IQ in the boardroom would suggest.

Whether it's Volkswagen, Deutsche Bank or Bayer - if companies get into rough seas, the verdict is quickly stated: Management failure! But managers are only human beings. They are not the rational decision-makers they claim to be – and they act much more emotionally than they are aware of. Distorted perceptions tempt managers like everyone else to judge, decide and act irrationally.

After all, it is always the same perception errors and distortions that lead to misjudgements and decisions in management teams. In other words: teams fall into the same perception traps over and over again. These perception traps are not an exclusive phenomenon of the management levels. However, they tend to get caught in these perception traps particularly deeply.

The good news is that as tempted as management teams are to (certain) perception traps, it is precisely the team constellation that offers the decisive starting point for avoiding these traps. The most important prerequisite for the team to become aware of its biases: All team members know the typical perception traps and sharpen their awareness of the fact that the group can fall into them at any time.

When asked for assessing one`s own individual performance, management teams almost always follow the same pattern: About 90 percent of the members rate themselves better than the team average.

Why managers act irrationally?
It`s Human – One Psyche, Two Systems

To avoid misunderstanding – let us state again clearly: Errors of perception or biases are not weaknesses of individual managers or "manager failure", but simply human. These distortions are caused by our highly efficient, automatically and unconsciously working mental "routine system", which judges quickly and based on incomplete information. Exactly this is the everyday life of a manager, exactly this is what his personal routine system has optimized perfectly in the course of his career. The problem with this intuitive system? It is susceptible to errors and tempts managers to act only in routines.

Doubt, uncertainty, self-criticism and reflection, on the other hand, are the domains of a second, conscious, deliberate system. Managers who succeed in deliberately slowing down their highly trained, fast system and giving command to the second, slower system can cleverly avoid these biases or perception traps. So, what biases to watch out for? Here are six biases most often observed by us in top management.

1. The Overconfidence Bias

"We've never done a project perfectly in terms of time, quality and budget, but this time we'll make it... – definitely!"

There is a thin line between self-confidence and self-overestimation. Managers usually assess their own knowledge and personal abilities better than they actually are. The optimistic distortion often occurs where people have to decide under high risks and uncertainty – therefore the top management is particularly receptive. Classic examples are the overestimation of the potential success of a new product or the underestimation of time and investment in complex projects. And in strategic planning, too, the overestimation of one's own self strikes – never before there have been so many sales and profit warnings in Germany as in 2018.

2. The Confirmation Bias

"The synergies are not achievable? Impossible – the glass is half full, not half empty! Our decision was and is the right one...we simply have to go through it even more consistently!"

The psychological automatism of the confirmation trap unconsciously filters and interprets information in such a way that people see themselves confirmed – in their own convictions, their behaviour or their own decisions. The top team only finds evidence that confirms the joint decision: "Visible synergies" from the acquisition, "early wins" from the new strategy or green lights in important future projects. Warning signals that could indicate potential failure do not fit in with this positive overall picture. They are unconsciously but systematically ignored as special cases or irrelevant to the success as such.

3. The Self-Serving Bias

"The new product is a failure? Our problem is not the product! Here is the real problem: our customers just haven't understood it yet."

The self-serving bias is deeply anchored in the mental model of successful managers: they overestimate the influence and power of the individual. The inner logic is captivating: Managers attribute success to their own competence, but failures are the result of adverse circumstances. Once the company has had an excellent financial year, the CEO pats himself and his team on the back – success is the direct result of far-sighted decisions and effective leadership. If the year was bad, customers did not understand the product, the economy cooled down or managers and employees did not follow suit. Management in the self-serving bias lays the foundation for decay.

4. The Narrative Fallacy

"I have been successful – I am successful – and I will be successful."

Our personal past is nothing objective – it is something that we have individually defined. Thus, every manager has constructed seemingly consistent stories about his successful career. He has a firm opinion about what behaviour was the reason for his own success. These stories create deceptive security because they involve a risk: the illusion of inevitability. In retrospect, personal success seems to follow a compelling inner logic based on a combination of one's own foresight, competence and leadership strength – not on favourable circumstances. The dangers are arrogance and false predictions. The fallacy tempts managers to repeat mistakes and apparently apply success models from the past under completely different conditions.

Management teams tend to overestimate the urgency for action and underestimate the need for deeper reflection.

5. The Action Bias

"We'll decide - and we'll decide NOW! After all, we get paid for acting, not for not acting!"

Acting in case of doubt – this is the unspoken motto among managers. Especially in complex situations, the impulse of the manager as a man of action dominates at the top of the company – regardless of whether acting is right or whether waiting and understanding would be better alternatives. The logic behind it is striking: Owners and supervisory boards hardly consider it a success if a manager does the right thing by not acting. The top management in particular is urged to visibly keep the reins of action in their hands in every situation and to demonstrate determination by making decisions.

6. The Authority Bias

"Our CEO will know what he's doing - I don't understand it, but I'm not throwing myself in front of the train here."

In complex situations people turn to authorities – managers in top teams are no exception. Especially with dominant CEOs, there is a danger that the authority bias will snap shut. The team members bend openly or covertly to their authority and surrender their co-responsibility. The CEO receives allegiance and loyalty – the team members in return receive security and avoidance of conflict. A practical deal with devastating consequences for the company: The fact that a CEO makes better decisions alone than the entire team has often proven to be a false hope.

Antidotes & Methods

Do you know your individual and your team`s collective bias? There are pragmatic, simple methods to arm oneself against these most common biases or perception errors in top management. We would like to highlight again six techniques as antidotes – just try:

1. Cultivating disagreement

Nothing is less effective than a harmony cartel at the top of the company. Thus, it is important to cultivate disagreement within the team. Managers can consistently create a culture of dissent and disagreement, thus encouraging themselves and others to doubt and facilitate constructive debate. Bart Becht in his CEO-times at Reckitt Benckiser was a master in this, establishing the rule "Disagree and Commit". Another well-known example is McKinsey`s internal rule called "Obligation to Dissent".

2. Analyzing failure constructively

Enabling a culture of failure – doing a regular joint "Autopsy without Blame" – creates the basis for openly addressing the team`s as well as individual challenges and mistakes. And it systematically encourages the top team to jointly learn from wrong decisions. Our experience shows: When the CEO is able to create Psychological Safety based on trust, this exercise can develop into a positive, healthy team routine.

3. Reframing doubts as a service to the team

In order not to fall into intuitive patterns, it is recommendable to define counter-arguments as a duty and service to the team. The top team can appoint a member as a "Devil's Advocate" – with the explicit mandate to fundamentally question decisions. Of course, this role should rotate within the team to allow and challenge everyone acting in this role. Or the team analyses an imminent decision in two "Red and Blue Groups" – defining selling arguments and counter-arguments from two opposing perspectives. We observed that these groups dive deep into one position and defend theirs – thus, creating a strong, healthy dialogue within the entire team.

4. Anticipating “getting off track”

"What must we do to avoid mistakes?" "What do we learn from failure?" – a constructive “failure focus” can also be helpful when decisions still have to be made: The team imagines that a certain approach leads to failure and then analyzes the reasons. A "Pre-Mortem Session" in which the team hypothetically anticipates failure and analyses its potential root causes upfront prevents blind actionism. We experience this in our client teams always as a revealing discussion about positive and unproductive patterns within the team.

5. Leveraging the team`s Bias Checklist

And finally, the team can systematically check its behaviours using a "Bias Checklist". The team reflects and creates its customized list of the most common team biases and regularly discusses: “What perceptual trap could have influenced our decision and how?” One client, a Finance Team of a large corporate, established this technique to be aware of its own biases and to counter-balance the CEO`s position. In fact, this was triggered by the CEO himself, stating: "The most dangerous situation is when my CFO and I agree – and are taking our entire Executive Board hostage."

A top team, able to avoid the bias traps, will significantly improve the quality of its decisions. This is the only way for top teams to develop a quality of collaboration that enables effective leadership at the top.

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