Research Spotlight
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DECISION DE-BIASING

THE INFLUENCE OF COGNITIVE BIASES ON MARKET DECISIONS OF TOP MANAGERS AND HOW DECISIONS COULD BE IMPROVED

Digitalization in recent decades has led to an ever-increasing amount of data and information in organizations while at the same time development and change cycles are becoming way shorter.

In a perfect world, human decision-makers would be able to process this rapidly changing information completely and without loss of time to make perfectly rational decisions on the basis of it. However, this model assumption of the rational decision maker, the so-called homo oeconomicus, is of a very theoretical nature and mainly serves the formalized analysis of decision behavior.

In reality, the rational and comprehensive information processing of decision makers is limited by numerous constraints. There are usually only limited resources available, so that information cannot be searched and processed indefinitely. Decisions in the real world must be made based on incomplete information and under uncertainty. In addition, decisions may be limited by cognitive abilities. This can be summarized under the term "bounded rationality", which was introduced by Herbert Simon (1959) and for which he received the Nobel Prize in Economic Sciences in 1978.

In such situations, decision-makers often resort to heuristics to make the best possible decisions. Such simplified decision rules or mental shortcuts enable them to make efficient decisions - even in uncertain situations and with limited information. Although heuristics may well lead to optimal decisions, they carry the risk of systematic errors or biases. A topic so severe that for their research on “cognitive biases” Amos Tversky and Daniel Kahneman (1974) were later awarded the Nobel Prize.

Managers who make decisions for their organizations are just as affected by such biases as consumers. As early as the 1980s, for example, Staw and others (1981) found that managers tend to be less innovative in threatful situations. Other research shows that people tend to be less risk-averse when making financial decisions if they have previously won money and more risk-averse if they have suffered losses in the past (Thaler & Johnson, 1990).

But which of these biases are particularly relevant for decision-makers in marketing and strategy today? Which biases do managers see in others - and which ones can they recognize in their own behavior? And even more important: What determines which biases decision makers are particularly susceptible to and what can be done to improve decision quality?

In order to answer these questions, NIM partnered with the Institute for Media and Communications Management (MCM) of the University of St. Gallen (HSG) and interviewed top-level corporate decision-makers (C-1) from the US and Europe. Managers were asked about the cognitive biases they observe in colleagues and in their own behavior and the effects on decision quality. In addition, extensive information on decision-making styles was collected.

First Results and Outlook

The four behaviors with the most severe impact on decision quality

28%	Using tools, resources, or data only in the traditional way and do not envision other ways of how they could be used more effectively.
22%	Preferring people from one's own department over people from other departments, just because they are from one's own department.
21%	Planning too optimistically, even if one should have enough experience from past planning failures.
20%	Using only the information one could recall quickly and easily for a decision.

Problems in others are recognized - but are difficult to see in oneself.

Preliminary results indicate that:

- Behaviors that have the greatest negative impact on decisions are more likely to be seen in others than in oneself.
- Only relatively simple measures to improve decisions are considered being helpful.
- "Uncomfortable" measures, such as those designed to specifically provoke contradiction, tend to be avoided by most managers in the study.

The four most frequently used measures for improving decision-making

78%	Creation of simple pro and con lists for decision options
70%	Creation of advanced decision matrices with weightings of relevant dimensions
70%	Getting a "second opinion", e. g., discussing options with colleagues or other experts
65%	Revealing and questioning basic assumptions behind a decision.

OUTLOOK

The aim of the project is not only to identify the most important biases, but most of all to develop countermeasures which target the respective decision-making behavior. Another interesting question is whether there are differences between companies or rather between decision-making functions within the company (marketing or strategic corporate development). To this end, extensive data analysis will be conducted in cooperation with the University of St. Gallen (HSG).

BACKGROUND

- Cooperation with the Institute for Media and Communications Management (MCM) of the University of St. Gallen (HSG)
- Survey of 500 top managers of Forbes Global 2000 companies
- Results and further publications soon on our homepage

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