

# ➤ Why do GOOD MANAGERS MAKE BAD DECISIONS?



Does our internal makeup cause us to make poor decisions? Or can we blame these on external factors? **Bongani Mgyai** – a business strategist and consultant who is involved with USB’s marketing, communication and social engagement initiatives – takes a closer look at what hides behind our choices.

## ○ It’s only human ...

Legend tells that Roman Emperor Marcus Aurelius hired a servant whose sole commission it was to follow him as he walked through the Roman town square and to whisper in his ear when people praised him, “You’re only a man, you’re only a man”.

The successful leader is at a risk of falling from grace as his followers increasingly believe in his mystical powers to make the right decisions. The hierarchical organisation perpetuates this belief as it concludes that the closer you are to the top, the closer you are to the answers.

Today’s managers have to master the skill of making quick, intuitive decisions as well as slow, rational decisions. The quality of such decisions is influenced by the manager’s inherent biases, complexity due to uncertainty and lack of information, shortened response times, and the inability to switch between the various styles of decision making.

## ○ Using heuristics to help out

So, managers use heuristics to help them. The reference website *psychology.about.com* defines a heuristic as a mental shortcut or rule-of-thumb strategy to shorten decision-making time and to allow people to function without constantly stopping to think about their next course of action. The Israeli-American psychologist and winner of the 2002 Nobel Memorial Prize in Economic Sciences Daniel Kahneman explained heuristics as follows: “When confronted with a problem – choosing a chess move or deciding whether to invest in a stock – the machinery of intuitive thought does the best it can. If the individual has relevant expertise, she will recognise the situation, and the intuitive solution that comes to her mind is likely to be correct. This is what happens when a chess master looks at a complex position: the few moves that immediately occur to

him are all strong. When the question is difficult and a skilled solution is not available, intuition still has a shot: an answer may quickly come to mind – but it is not an answer to the original question. The question that the executive faced was difficult, but the answer to an easier and related question came readily to his mind and determined his choice. This is the essence of intuitive heuristics: when faced with a difficult question, we often answer an easier one instead, usually without noticing the substitution.” Kahneman is also the author of *Thinking Fast and Slow*.

## ‘Managers can easily over-compensate one stakeholder group at the expense of other stakeholders.’

Heuristics can therefore introduce errors in the problem-solving and decision-making process. Just because something has worked in the past, it does not mean it will work in the future. Heuristics do not take into account the complexity of the underlying issues. Further, relying on an existing heuristic can make it difficult to come up with innovative ideas or search for alternative solutions.

## ○ Quick win or long-term wisdom?

The manager’s decision-making abilities are also affected by uncertainty and competing demands. Ras Myburgh, a USB alumnus, the former CEO of Kumba Iron Ore and founder and CEO of Hindsight Financial and Commercial Solutions, said, “Take the example of the corporate social investment manager. Firstly, this manager is not the owner of the business. Secondly, he may not have the basic understanding of the role of his department or his responsibility in the

business. This lack of clear criteria and a weak mandate for decision-making will lead to poor decisions.

“Managers also have to contend with opposing expectations. Markets are focused on short-term goals, making it easy for a manager whose huge bonus is linked to short-term gains to trade off on the maintenance of the plant due in two years.”

The third King Report on Governance for South Africa sets the tone for good governance and therefore effective leadership and says, “Responsible leaders direct company strategies and operations with a view to achieving sustainable economic, social and environmental performance.”

Myburgh echoes the sentiments of King III, “Managers can easily over-compensate one stakeholder group at the expense of other stakeholders. Corporate citizenship implies balance, an intrinsic value of fairness, caring for the long term, while fostering a culture of resilience to short-term goals. Companies with strong boards of directors stand a good chance of getting things right as board directors don’t have vested financial interests.”

## ○ Don’t be so sure

Toni Beukes, contracts manager of Nordex Energy South Africa, adds another layer to the discussion. She posits that the more power and confidence managers have in their abilities, the more likely they are to take risky decisions. The new manager who has never been in a position of power can become over-confident. If the business has had a good run over time, the manager ignores underlying or external facts that led to this success. These over-confident managers over-estimate their own intelligence or abilities; easily attributing success to themselves, but failure to others.

Beukes warns: “Celebrity leaders really believe they are that good and this is fuelled by the demigod status bestowed