Decision Making And Problem Solving

The Elements of Good Judgment

How to improve your decision-making by Sir Andrew Likierman

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Summary. Judgment—the ability to combine personal qualities with relevant knowledge and experience to form opinions and make decisions—is "the core of exemplary leadership," according to Noel Tichy and Warren Bennis (the authors of Judgment: How Winning... **more**

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A decision must be made. The facts have been assembled, and the arguments for and against the options spelled out, but no clear evidence supports any particular one. Now people around the table turn to the CEO. What they're looking for is good judgment—an interpretation of the evidence that points to the right choice.

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Judgment—the ability to combine personal qualities with relevant knowledge and experience to form opinions and make decisions—is "the core of exemplary leadership" according to Noel Tichy and Warren Bennis (the authors of *Judgment: How Winning Leaders Make Great Calls*). It is what enables a sound choice in the absence of clear-cut, relevant data or an obvious path. To some degree we are all capable of forming views and interpreting evidence. What we need, of course, is *good* judgment.

A lot of ink has been spilled in the effort to understand what good judgment consists of. Some experts define it as an acquired instinct or "gut feeling" that somehow combines deep experience with analytic skills at an unconscious level to produce an insight or recognize a pattern that others overlook. At a high level this definition makes intuitive sense; but it is hard to move from understanding what judgment is to knowing how to acquire or even to recognize it.

In an effort to meet that challenge, I've talked to CEOs in a range of companies, from some of the world's largest right down to start-ups. I've approached leaders in the professions as well: senior partners at law and accountancy firms, generals, doctors, scientists, priests, and diplomats. I asked them to share their observations of their own and other people's exercise of judgment so that I could identify the skills and behaviors that collectively create the conditions for fresh insights and enable decision makers to discern patterns that others miss. I have also looked at the relevant literatures, including leadership and psychology.

I've found that leaders with good judgment tend to be good listeners and readers—able to hear what other people actually mean, and thus able to see patterns that others do not. They have a breadth of experiences and relationships that enable them to recognize parallels or analogies that others miss—and if they don't know something, they'll know someone who does and lean on that person's judgment. They can recognize their own emotions and biases and take them out of the equation. They're adept at expanding the array of choices under consideration. Finally, they remain grounded in the real world: In making a choice they also consider its implementation.

Practices that leaders can adopt, skills they can cultivate, and relationships they can build will inform the judgments they make. In this article I'll walk through the six basic components of good judgment —I call them *learning, trust, experience, detachment, options,* and *delivery*—and offer suggestions for how to improve them.

Learning: Listen Attentively, Read Critically

Good judgment requires that you turn knowledge into understanding. This sounds obvious, but as ever, the devil is in the detail—in this case your approach to learning. Many leaders rush to bad judgments because they unconsciously filter the information they receive or are not sufficiently critical of what they hear or read.

The truth, unfortunately, is that few of us really absorb the information we receive. We filter out what we don't expect or want to hear, and this tendency doesn't necessarily improve with age. (Research shows, for example, that children notice things that adults don't.) As a result, leaders simply miss a great deal of the information that's available—a weakness to which top performers are especially vulnerable because overconfidence so often comes with success.

Exceptions exist, of course. I first met John Buchanan early in a distinguished four-decade career during which he became the CFO at BP, the chairman of Smith & Nephew, the deputy chairman of Vodafone, and a director at AstraZeneca, Alliance Boots, and BHP Billiton. What struck me immediately and throughout our acquaintance was that he gave me and everyone else his undivided attention. Many people with his record of accomplishment would long ago have stopped listening in favor of pontificating.

Leaders with good judgment tend to be good listeners and readers.

Buchanan was more than a good listener—he was adept at eliciting information that people might not otherwise volunteer. His questions were designed to draw out interesting responses. He told me that when deciding whether to accept a directorship, for example, he would ask questions such as "Where would you place this company on a spectrum of white to gray?" "At first this sounds like a classic piece of managementese that is clever but meaningless," he said. "Yet it is sufficiently open-ended to draw out replies on a wide range of subjects and sufficiently pointed to produce a meaningful response."

Information overload, particularly with written material, is another problem. It's not surprising that CEOs with huge demands on their time and attention struggle to get through the volume of emails and briefing papers they receive. As a director of a large listed company, I would get up to a million words to read ahead of a big meeting. Confronted with such a deluge, it's tempting to skim and to remember only the material that confirms our beliefs. That's why smart leaders demand quality rather than quantity in what gets to them. Three hundred pages for the next big meeting? It’s six pages maximum for agenda items at Amazon and the Bank of England.

Overload is not the only challenge when it comes to reading. A more subtle risk is taking the written word at face value. When we listen to people speak, we look (consciously or unconsciously) for nonverbal clues about the quality of what we’re hearing. While reading, we lack that context; and in an era when the term “fake news” is common, decision makers need to pay extra attention to the quality of the information they see and hear, especially material filtered by colleagues or obtained through search engines and social media exchanges. Are you really as careful in assessing and filtering as you should be, knowing how variable the quality is? If you believe that you never unconsciously screen out information, consider whether you choose a newspaper that agrees with what you already think.

People with good judgment are skeptical of information that doesn’t make sense. We might none of us be alive today if it weren’t for a Soviet lieutenant colonel by the name of Stanislav Petrov. It came to light only after the fall of communism that one day in 1983, as the duty officer at the USSR’s missile tracking center, Petrov was advised that Soviet satellites had detected a U.S. missile attack on the Soviet Union. He decided that the 100% probability reading was implausibly high and did not report the information upward, as were his instructions. Instead he reported a system malfunction. “I had all the data [to suggest a missile attack was ongoing],” he told the BBC’s Russian service in 2013. “If I had sent my report up the chain of command, nobody would have said a word against it.” It turned out that the satellites had mistaken sunlight reflected from clouds for missile engines.

To improve: Active listening, including picking up on what's *not* said and interpreting body language, is a valuable skill to be honed, and plenty of advice exists. Beware of your own filters and of defensiveness or aggression that may discourage alternative arguments. If you get bored and impatient when listening, ask questions and check conclusions. If you're overwhelmed by written briefing material, focus on the parts that discuss questions and issues rather than those that summarize the presentations you'll hear at the meeting. (Far too many board packs are stuffed with advance copies of presentations.) Look for gaps or discrepancies in what's being said or written. Think carefully about where the underlying data is coming from and the likely interests of the people supplying it. If you can, get input and data from people on more than one side of an argument—especially people you don't usually agree with. Finally, make sure the yardsticks and proxies for data you rely on are sound; look for discrepancies in the metrics and try to understand them.

Trust: Seek Diversity, Not Validation

Leadership shouldn't be a solitary endeavor. Leaders can draw on the skills and experiences of others as well as their own when they approach a decision. Who these advisers are and how much trust the leader places in them are critical to the quality of that leader's judgment.

Unfortunately, many CEOs and entrepreneurs bring people on board who simply echo and validate them. The disgraced executives Elizabeth Holmes and Sunny Balwani of the start-up Theranos regarded anyone who raised a concern or an objection as a cynic and a naysayer. "Employees who persisted in doing so were usually marginalized or fired, while sycophants were promoted," according to the *Financial Times.* Recently jailed for 18 years, Wu Xiaohui, the founder and leading light of China's Anbang Insurance Group, had built up a diverse international empire, buying major assets that included New York's Waldorf Astoria hotel. He also surrounded himself with "unimpressive people who would just follow his orders and not question them," one employee told FT.

The historian Doris Kearns Goodwin, in her book *Team of Rivals,* noted that Abraham Lincoln assembled a cabinet of experts he respected but who didn't always agree with one another. McKinsey has long included the *obligation* (not a *suggestion*) to dissent as a central part of the way it does business. Amazon's Leadership Principles specify that leaders should "seek diverse perspectives and work to disconfirm their beliefs."

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Alibaba's Jack Ma thinks along the same lines. Recognizing his own ignorance of technology (he was 33 when he got his first computer), Ma hired John Wu of Yahoo as his chief technology officer, commenting, "For a first-class company we need first-class technology. When John comes, I can sleep soundly." Ma isn't the only mega-entrepreneur who has looked for advisers with organizational and personal qualities and experience to fill a void in himself. Facebook's Mark Zuckerberg hired Sheryl Sandberg for a similar reason. And Natalie Massenet, founder of the online fashion retailer Net-a-Porter, hired the much older Mark

Sebba, the "understated chief executive of Net-a-Porter who brought order to the ecommerce start-up in the manner of Robert De Niro in *The Intern*," according to the *Times* of London. My brother Michael told me that one reason his company's chain of opticians, under the brand GrandOptical, became the largest in France is that he partnered with Daniel Abittan, whose operational excellence complemented Michael's entrepreneurial vision and strategic skills.

To improve: Cultivate sources of trusted advice: people who will tell you what you need to know rather than what you want to hear. When you are recruiting people on whose advice you will rely, don't take outcomes as a proxy for their good judgment. Make judgment an explicit factor in appraisals and promotion decisions. Usha Prashar, who chaired the body that makes the UK's most-senior judicial appointments, pointed to the need to probe *how* a candidate did things, not just what he or she had done. Dominic Barton of McKinsey told me that he looked for what was *not* being said: Did people fail to mention any "real" difficulties or setbacks or failures in their careers to date? One CEO said he asked people about situations in which they'd had insufficient information or conflicting advice. Don't be put off by assessments that a candidate is "different." Someone who disagrees with you could provide the challenge you need.

Experience: Make It Relevant but Not Narrow

Beyond the data and evidence pertinent to a decision, leaders bring their experience to bear when making judgment calls. Experience gives context and helps us identify potential solutions and anticipate challenges. If they have previously encountered something like a current challenge, leaders can scope out areas in which to focus their energy and resources.

Mohamed Alabbar, the chairman of Dubai's Emaar Properties and one of the Middle East's most successful entrepreneurs, gave me an example. His first major property crisis, in Singapore in 1991, had taught him about the vulnerability that comes with being highly geared in a downturn—and in real estate, only those who learn the lessons of overgearing in their first crash survive in the long term. Alabbar has since navigated Dubai's often dramatic economic cycles and today owns a portfolio that includes the Burj Khalifa, the world's tallest building, and the Dubai Mall, one of the world's largest shopping malls.

Success Is Not a Reliable Proxy for Judgment

But—and it's a big but—if the experience is narrowly based, familiarity can be dangerous. If my company is planning to enter the Indian market, I might not trust the judgment of a person whose only product launches have been in the United States. I would probably be less worried about someone who had also launched new products in, say, China and South Africa, because such a person would be less likely to ignore important signals.

In addition, leaders with deep experience in a particular domain may fall into a rut, making judgments out of habit, complacency, or overconfidence. It usually takes an external crisis to expose this failure, for which the lack of lifeboats for the *Titanic* is the enduring symbol and the 2008 financial crisis the moment of truth for many apparently unassailable titans. The equivalent today are those leaders who have underestimated the speed with which environmental issues would move center stage and require a tangible response.

To improve: First, assess how well you draw on your own experience to make decisions. Start by going through your important judgment calls to identify what went well and what went badly, including whether you drew on the right experience and whether the analogies you made were appropriate. Record both the wrong and the right. This is tough, and it's tempting to rewrite history, which is why it can be helpful to share your conclusions with a coach or colleagues, who might take a different view of the same experience. Try also to recruit a smart friend who can be a neutral critic.

Leaders with deep experience in a particular domain may fall into a rut.

Second, especially if you're a young leader, work to expand your experience. Try to get postings abroad or in key corporate functions such as finance, sales, and manufacturing. Get yourself on an acquisition team for a major deal. And as a CEO, a crucial support you can give high-potential managers is more-varied exposure, so get involved in career planning. That will not just do the young managers a favor; it will help the company and very possibly you, because it will broaden the experience into which you can tap.

Detachment: Identify, and Then Challenge, Biases

As you process information and draw on the diversity of your own and other people's knowledge, it's critical that you understand and address your own biases. Although passion about objectives and values is a wonderful leadership quality that can inspire followers to greater efforts, it can also affect how you process information, learn from experience, and select advisers.

The ability to detach, both intellectually and emotionally, is therefore a vital component of good judgment. But it's a difficult skill to master. As research in behavioral economics, psychology, and decision sciences has shown in recent years, cognitive biases such as anchoring, confirmation, and risk aversion or excessive risk appetite are pervasive influences in the choices people make.

The German utility RWE provides a cautionary example. In a 2017 interview its chief financial officer revealed that the company had invested $10 billion in constructing conventional power-generation facilities over a five-year period, most of which had to be written off. RWE conducted a postmortem to understand why an investment in conventional power technology had been chosen at a time when the energy industry was switching to renewables. It determined that decision makers had displayed status quo and confirmation biases in evaluating the investment context. It also found a number of cases in which hierarchical biases had been in play: Subordinates who doubted the judgment of their bosses had kept quiet rather than disagree with them. Finally, the CFO said, RWE had suffered from "a good dose of action-oriented biases like overconfidence and excessive optimism."

It is precisely for their ability to resist cognitive biases and preserve detachment in decision-making that we often see CFOs and lawyers rise to the CEO position, especially when an organization is in a period of crisis and people's jobs are under threat. This quality was widely praised after the International Monetary Fund chose Christine Lagarde as its director following the dramatic exit in 2011 of her predecessor, Dominique Strauss-Kahn, in the wake of a lurid scandal. Although Lagarde was not an economist—unusual for an IMF chief—she had demonstrated her abilities as France's finance minister despite little political experience. And, undoubtedly, having been a partner in a major international law firm equipped her to approach negotiation with detachment—a critical capability at a time when the global financial system was under severe stress.

To improve: Understand, clarify, and accept different viewpoints. Encourage people to engage in role-playing and simulations, which forces them to consider agendas other than their own and can provide a safe space for dissent. If employees are encouraged to play the role of a competitor, for example, they can experiment with an idea that they might be reluctant to suggest to the boss.

Leadership development programs are a great forum in which to challenge assumptions by exposing people to colleagues from different cultures and geographies, who come to the discussion with different views.

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Finally, people with good judgment make sure they have processes in place that keep them aware of biases. After discovering how much value had been destroyed, RWE established new practices: Major decisions now require that biases be on the table before a discussion and, when necessary, that a devil's advocate participate. Acknowledge that mistakes will occur—and doubt the judgment of anyone who assumes they won't.

Options: Question the Solution Set Offered

In making a decision, a leader is often expected to choose between at least two options, formulated and presented by their advocates. But smart leaders don't accept that those choices are all there is. During the 2008–2009 financial crisis, President Obama pressed Treasury Secretary Timothy Geithner to explain why he wasn't considering nationalizing the banks. Geithner recalls, "We had one of those really tough conversations. Are you confident this is going to work? Can you reassure me? Why are you confident? What are our choices? I told him that my judgment at the time was that we had no option but to play out the thing we'd set in motion."

Obama was doing what all good leaders should do when told "We have no other option" or "We have two options and one is really bad" or "We have three options but only one is acceptable." Other options almost always exist, such as doing nothing, delaying a decision until more information is available, or conducting a time-limited trial or a pilot implementation. Tim Breedon, formerly the CEO of the UK financial services company Legal & General, described it to me as "not being boxed in by the way things are presented."

When You Have to Move Fast

In hindsight, many bad judgment calls were inevitable simply because important options—and the risk of unintended consequences—were never even considered. This happens

In most cases, good judgment requires reflection before action. A pause for reflection may well make you less likely ...

for a variety of reasons, including risk aversion on the part of people supplying potential answers. That's why thoroughly exploring the solution set is key to a leader's exercise of judgment. It's not the CEO's job to come up with all the options. But he or she can ensure that the management team delivers the full range of possibilities, counteracting fears and biases that cause the team to self-edit. When all the options can be debated, the judgment is more likely to be right.

To improve: Press for clarification on poorly presented information, and challenge your people if you think important facts are missing. Question their weighting of the variables on which their arguments depend. If timing appears to be a key consideration, determine that it's legitimate. Factor in the risks associated with novel solutions—stress and overconfidence—and look for opportunities to mitigate them through piloting. Use modeling, triangulation, and the opportunities afforded by artificial intelligence. Follow King Solomon (a popular nominee in answer to my question "Who do you think has/had good judgment?") and dig out people's stakes in the final decision. A telltale sign is being oversold on a particular outcome. What are the personal consequences to them (and to you) if their solution works or fails? Consult those you trust. If there isn't anyone, or enough time, try to imagine what someone you trust would do. Get clear about rules and ethical issues, because they will help you filter your choices. Finally, don't be afraid to consider radical options. Discussing them could make you and others aware of some that are less radical but well worth considering and may encourage other people to speak up.

Delivery: Factor in the Feasibility of Execution

You can make all the right strategic choices but still end up losing out if you don't exercise judgment in how and by whom those choices will be executed. In 1880 the French diplomat and entrepreneur Ferdinand de Lesseps persuaded investors to support digging a canal in Panama to link the Atlantic and Pacific Oceans. Because de Lesseps had just completed the Suez Canal, investors and politicians—failing to understand that building a canal through sand does not qualify you to build one through jungle—did not give his plans the scrutiny they deserved. His approach proved disastrously unsuitable, and it was left to the U.S. government to complete the canal by taking a very different approach.

When reviewing projects, smart leaders think carefully about the risks of implementation and press for clarification from a project's advocates. This is as important for small decisions as it is for big ones.

A leader with good judgment anticipates risks after a course has been determined and knows by whom those risks are best managed. That may not be the person who came up with the idea—particularly if the proposer is wedded to a particular vision, as was the case with de Lesseps. More generally, flair, creativity, and imagination aren't always accompanied by a capability to deliver—which is why small tech firms often struggle to capitalize on their inspiration and are bought out by less-inventive but better-organized giants.

To improve: In assessing a proposal, make sure that the experience of the people recommending the investment closely matches its context. If they point to their prior work, ask them to explain why that work is relevant to the current situation. Get the advocates to question their assumptions by engaging in "premortem" discussions, in which participants try to surface what might cause a proposal to fail. RWE now does this as part of its project-evaluation process.

CONCLUSION

Leaders need many qualities, but underlying them all is good judgment. Those with ambition but no judgment run out of money. Those with charisma but no judgment lead their followers in the wrong direction. Those with passion but no judgment hurl themselves down the wrong paths. Those with drive but no judgment get up very early to do the wrong things. Sheer luck and factors beyond your control may determine your eventual success, but good judgment will stack the cards in your favor.

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