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How to test your decision-making instincts

Executives should trust their gut instincts—but only when four tests are met.

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One of the most important questions facing leaders is when they should trust their gut instincts—an issue explored in a dialogue between Nobel laureate Daniel Kahneman and psychologist Gary Klein titled “Strategic decisions: When can you trust your gut?” published by *McKinsey Quarterly* in March 2010.¹ Our work on flawed decisions suggests that leaders cannot prevent gut instinct from influencing their judgments. What they can do is identify situations where it is likely to be biased and then strengthen the decision process to reduce the resulting risk.

Our gut intuition accesses our accumulated experiences in a synthesized way, so that we can form judgments and take action without any logical, conscious consideration. Think about how we react when we inadvertently drive across the center line in a road or see a car start to pull out of a side turn unexpectedly. Our bodies are jolted alert, and we turn the steering wheel well before we have had time to think about what the appropriate reaction should be.

The brain appears to work in a similar way when we make more leisurely decisions. In fact, the latest findings in decision neuroscience suggest that our judgments are initiated by the unconscious weighing of emotional tags associated with our memories rather than by the conscious weighing of rational pros and cons: we start to *feel* something—often even before we are conscious of having *thought* anything. As a highly cerebral academic colleague recently commented, “I can’t see a logical flaw in what you are saying, but it gives me a queasy feeling in my stomach.”

Given the powerful influence of positive and negative emotions on our unconscious, it is tempting to argue that leaders should never trust their gut: they should make decisions based solely on objective, logical analysis. But this advice overlooks the fact that we can’t get away from the influence of our gut instincts. They influence the way we frame a situation. They influence the options we choose to analyze. They cause us to consult some people and pay less attention to others. They encourage us to collect more data in one area but not in another. They influence the amount of time and effort we put into decisions. In other words, they infiltrate our decision making even when we are trying to be analytical and rational.

This means that to protect decisions against bias, we first need to know when we can trust our gut feelings, confident that they are drawing on appropriate experiences and emotions. There are four tests.

¹“Strategic decisions: When can you trust your gut?” mckinseyquarterly.com, March 2010.

1. **The familiarity test: Have we frequently experienced identical or similar situations?** Because our subconscious works on pattern recognition, familiarity is important. If we have plenty of *appropriate* memories to scan, our judgment is likely to be sound; chess masters can make good chess moves in as few as six seconds. “Appropriate” is the key word here because many disastrous decisions have been based on experiences that turned out to be misleading—for instance, the decision General Matthew Broderick, an official of the US Department of Homeland Security, made on August 29, 2005, to delay initiating the Federal response following Hurricane Katrina.

The way to judge appropriate familiarity is by examining the main uncertainties in a situation—do we have sufficient experience to make sound judgments about them? The main uncertainties facing Broderick were about whether the levees had been breached and how much danger people faced in New Orleans. Unfortunately, his previous experience with hurricanes was in cities above sea level. His learned response, of waiting for “ground truth,” proved disastrous.

Gary Klein’s premortem technique, a way of identifying why a project could fail, helps surface these uncertainties. But we can also just develop a list of uncertainties and assess whether we have sufficient experience to judge them well.

2. **The feedback test: Did we get reliable feedback in past situations?** Previous experience is useful to us only if we learned the right lessons. At the time we make a decision, our brains tag it with a positive emotion—recording it as a good judgment. Hence, without reliable feedback, our emotional tags can tell us that our past judgments were good, even though an objective assessment would record them as bad. For example, if we change jobs before the impact of a judgment is clear or if we have people filtering the information we receive and protecting us from bad news, we may not get the feedback we need. It is for this reason that “yes men” around leaders are so pernicious: they often eliminate the feedback process so important to the development of appropriate emotional tags.
3. **The measured-emotions test: Are the emotions we have experienced in similar or related situations measured?** All memories come with emotional tags, but some are more highly charged than others. If a situation brings to mind highly charged emotions, these can unbalance our judgment. Knowing from personal experience that dogs can bite is different from having a traumatic childhood experience with dogs. The first will help you interact with dogs. The second can make you afraid of even the friendliest dog.

A board chairman, for example, had personally lost a significant amount of money with a previous company when doing business in Russia. This traumatic experience made him wary of a proposal for a major Russian expansion in his new company. But he also

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realized that the experience could be biasing his judgment. He felt obliged to share his concerns but then asked the rest of the board to make the final decision.

4. **The independence test: Are we likely to be influenced by any inappropriate personal interests or attachments?** If we are trying to decide between two office locations for an organization, one of which is much more personally convenient, we should be cautious. Our subconscious will have more positive emotional tags for the more convenient location. It is for this reason that it is standard practice to ask board members with personal interests in a particular decision to leave the meeting or to refrain from voting. Also for this reason, we enjoy the quip “turkeys will not vote for Christmas.”

A similar logic applies to personal attachments. When auditors, for example, were asked to demonstrate to a Harvard professor that their professional training enabled them to be objective in arriving at an audit opinion, regardless of the nature of the relationship they had with a company, they demonstrated the opposite.

If a situation fails even one of these four tests, we need to strengthen the decision process to reduce the risk of a bad outcome. There are usually three ways of doing this—stronger governance, additional experience and data, or more dialogue and challenge. Often, strong governance, in the form of a boss who can overrule a judgment, is the best safeguard. But a strong governance process can be hard to set up and expensive to maintain (think of the US Senate or a typical corporate board). So it is normally cheaper to look for safeguards based on experience and data or on dialogue and challenge.

In the 1990s, for example, Jack Welch knew he would face some tough decisions about how to exploit the Internet, so he chose experience as a solution to the biases he might have. He hired a personal Internet mentor who was more than 25 years his junior and encouraged his top managers to do the same. Warren Buffett recommends extra challenge as a solution to biases that arise during acquisitions. Whenever a company is paying part of the price with shares, he proposes using an “adviser against the deal,” who would be compensated well only if it did not go through.

There are no universal safeguards. Premortems help surface uncertainties, but they do not protect against self-interest. Additional data can challenge assumptions but will not help a decision maker who is influenced by a strong emotional experience. If we are to make better decisions, we need to be thoughtful both about why our gut instincts might let us down and what the best safeguard is in each situation. We should never ignore our gut. But we should know when to rely on it and when to safeguard against it. ○