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Kahneman on “Noise”

by Adi Ignatius

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Daniel Kahneman is surely one of the world’s nimblest thinkers. In 2002 he shared the Nobel Prize in Economic Sciences, a neat trick for a psychologist who claims he never so much as sat in on an economics course. He has also made valuable contributions to the field of management, and I suspect he didn’t do a lot of classwork in that area either. Kahneman has cowritten a couple of articles for *Harvard Business Review*—on how teams can make better decisions by identifying and reducing the biases that inevitably pop up in their thinking, and on how delusional optimism can lead executives to choose the wrong strategic path.

This month he’s back with another compelling piece, coauthored with Andrew M. Rosenfield, Linnea Gandhi, and Tom Blaser, all of TGG Group, a Chicago-based consulting firm that Kahneman helped found.

The article demonstrates how inconsistent decision making can add up to a huge hidden cost for companies. Human judgments can be influenced by irrelevant factors such as mood and even the weather. The authors refer to this chance variability as “noise,” and they call it an “invisible tax” on corporate bottom lines.

One solution: algorithms, which can replace human judgment far more often than one might expect. Although they sometimes sound dauntingly complex, algorithms don’t always need a lot of outcome data to be valid, and they can be created from commonsense rules. The authors even describe how to build them.

The result, they promise, is less noise, more consistency, and a more effective company. You don’t have to be an economist to see the value in that.

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Adi Ignatius is the Editor in Chief of *Harvard Business Review*.

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