

Volatility, Recency Effects, and the Decision Maker

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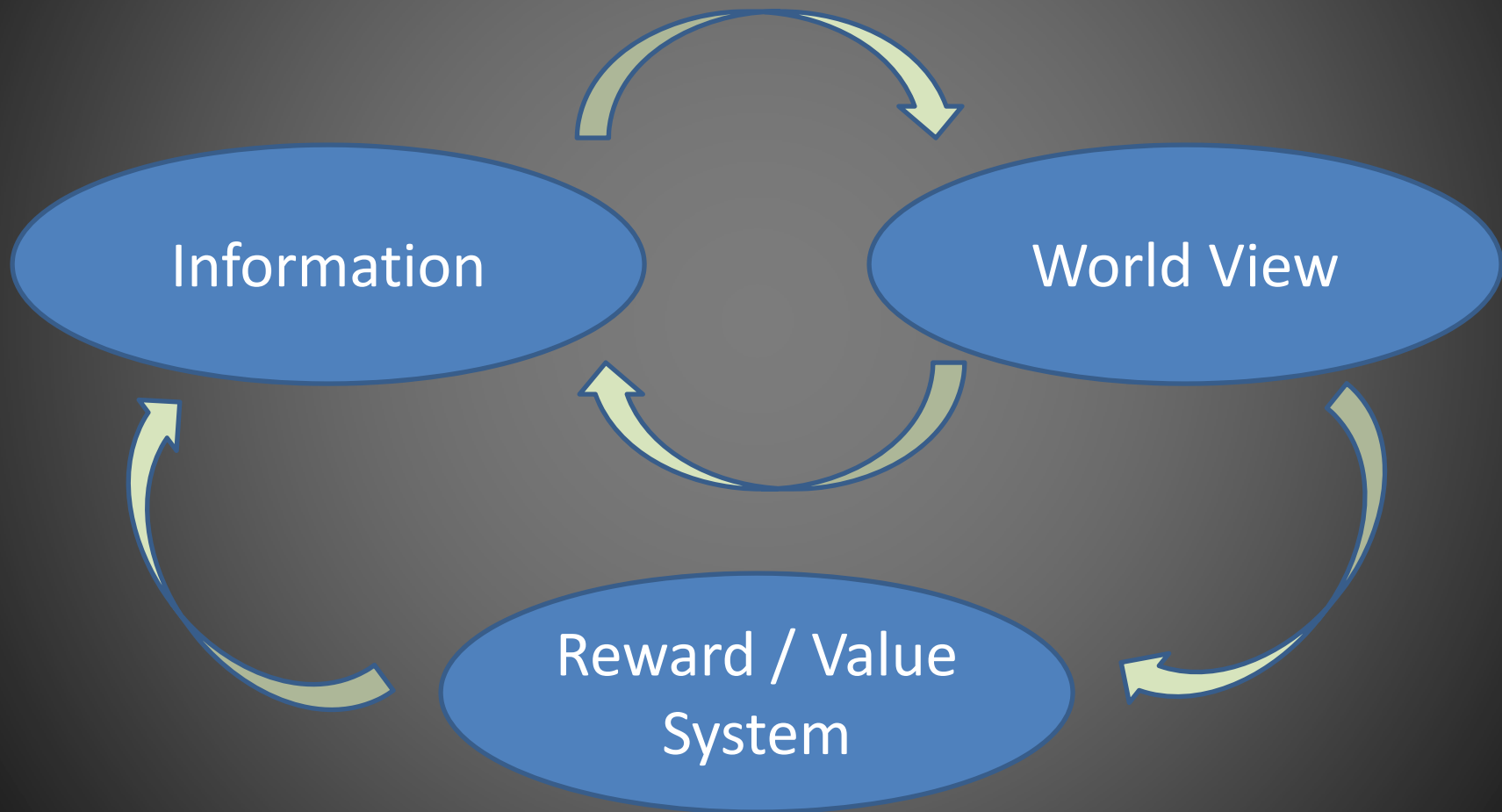
Unparalleled Decision Environment

- Over the last 18-24 months, every corner of business and private life has experienced remarkable **volatility**
- Decision making behaviors have been equally as remarkable
 - Taking of extreme positions
 - Rapid changing of positions
 - **Inability to decide**

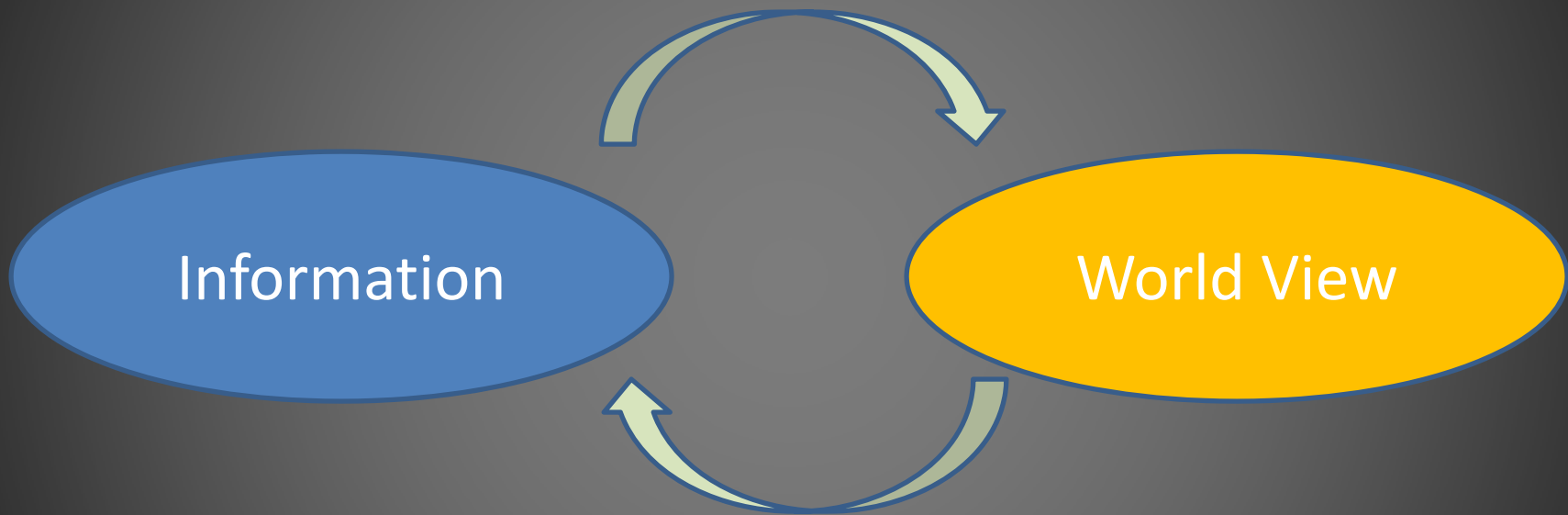
Inability to Decide

- Many colleagues, acquaintances, and local businesses expressed frustration
 - “I have no idea how to proceed”
 - “They want a new forecast before they will give me the money. How on earth can I do that with any certainty?”
- Traditional business models were of little help
 - Decision makers didn’t believe the results
 - “Why didn’t the model see this coming?”

Framework for Today's Discussion



A Debased World View



Rapidly changing and extreme ranging of common information had debased decision makers' world views.

Conflicting World Views

- Initial interviews with decision makers quickly pointed to difficulties rationalizing their world views:
 - Lack of “classic” fundamentals
 - Inexplicable behavior of markets and competition
 - Traditional sources of information and analysis added little clarity
- No discernable “patterns”

Reconciling the World Views

- Resolution through dialog
 - Co-developed rationales for their various world views
 - Many unsustainable assumptions surfaced
 - Inconsistent data sources
 - Overriding data trends with latest information
 - Improper correlations being used
- Tested views with subject matter experts for reasonableness
 - Did not refute or debate “correctness” of the view
 - Frequently lead to more robust rationales

The Reward/Value System



After rationalizing the world views, many decision makers were able to move forward, yet a substantial number remained “stuck”

Personal Experiences Enter the Picture

- Further dialog with those still having difficulty revealed that recent personal history was entering the equation
 - Substantial reductions in retirement account balances
 - Collapsing home values
 - Deferred retirement plans
- **While always present, career implications had taken on a substantially more important role in the decision making process than in the past**

Resolution of the Trade-offs

- Identification and recognition of the career issues was key
 - After discussion, most concerns were unsubstantiated, or much less impactful than feared
 - Verbalizing the issues initiated important dialogs
- Where possible, reward systems were changed to recognize the exceptional decision making environment
 - Explicit performance agreements were modified
 - Measures were introduced to reflect additional efforts required

Selecting the Alternatives

- Revised world views are frequently adopted by agreement, especially on a regional basis
- Revised world views often resulted in new hybrid alternatives
 - Phasing or deferral options
 - Turn-key or lump sum contracting
- Once cleared of the conflicting views and personal influences, our common DA toolset was adequate for selecting the preferred alternative

Questions or Comments?