M1L9. How We Make Decisions

Slide #1

In this topic, we will discuss how we make decisions.

I am going to teach you a systematic decision-making process that you can use in your organization to combine managers judgment and data to make sound decisions.

Leaders' ability to make intuitive decisions is valuable and important because the unconscious decision-making processes enable leaders to make quick and effective decisions with limited information under stressful environments.

However, that subjective judgment decision-making process can be distorted by our emotional attachment or self-interest, given the way our brains work.

Human beings have biases while making judgment calls.
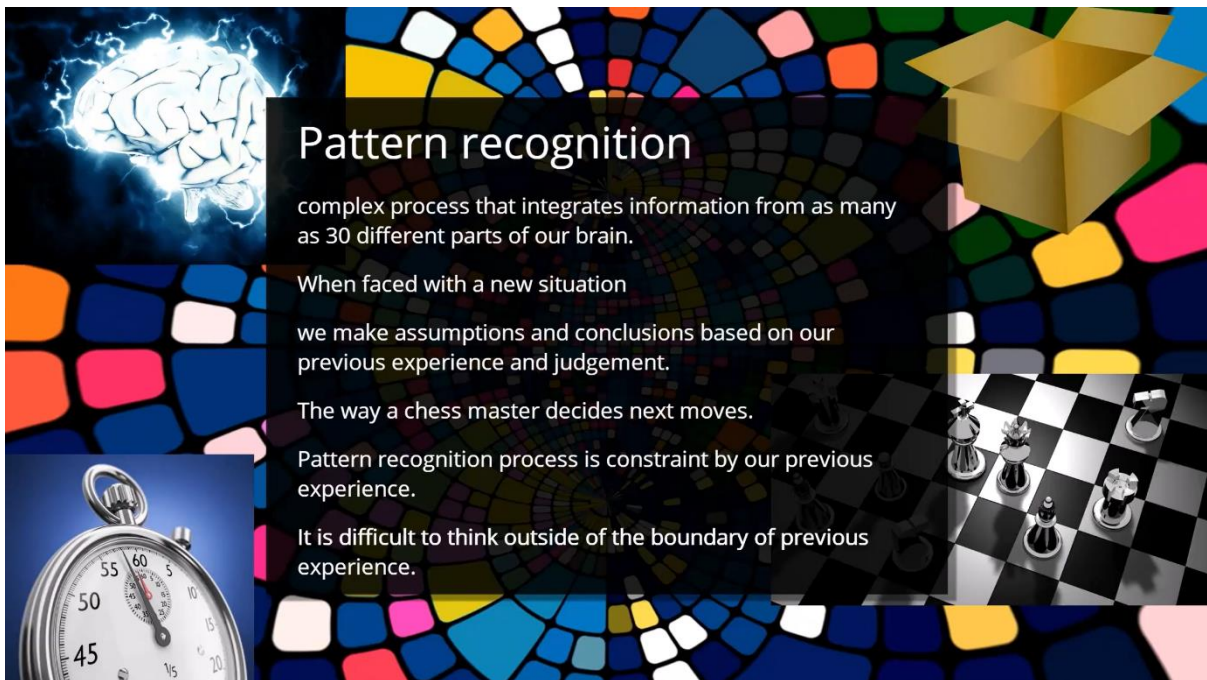
Slide #4

Our brains depend primarily on two hardwired processes for making decisions, pattern recognition and emotional tagging.

Pattern recognition is a complex process that integrates information from as many as 30 different parts of our brain.

When faced with a new situation, we make assumptions and conclusions based on our previous experience and judgment.
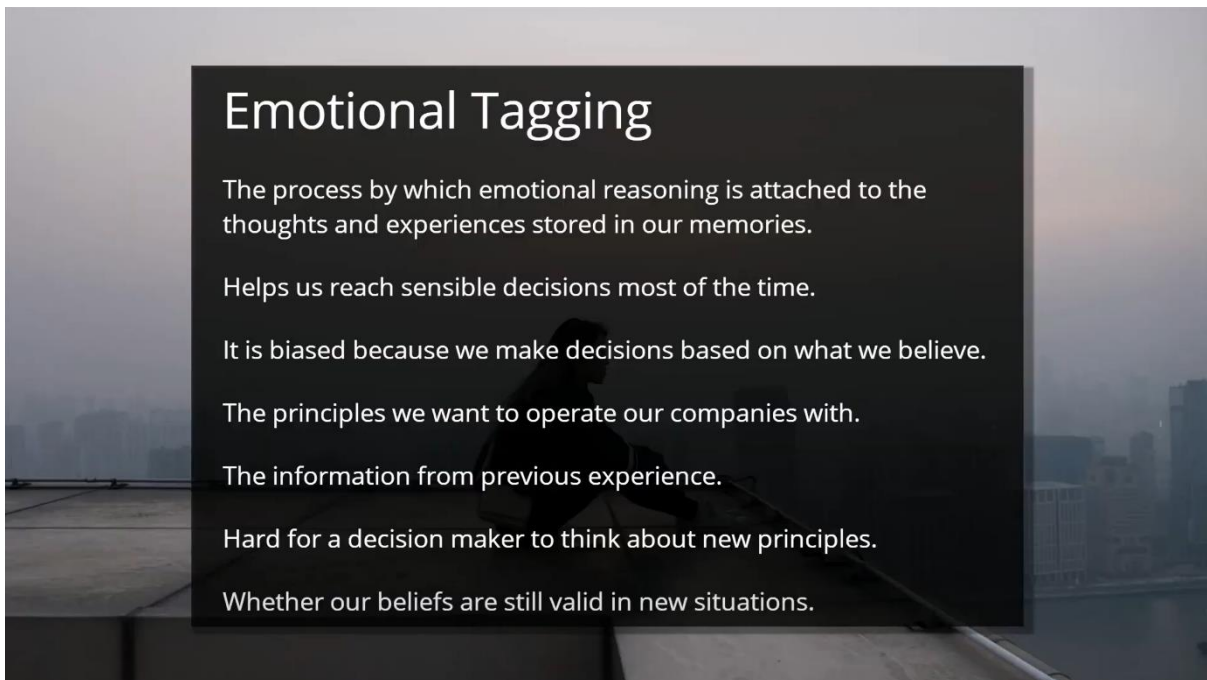
This is the way a chess master decides the next moves when playing a chess game. A chess master can choose a high-quality move in as little as six seconds by drawing on the patterns he or she has seen before.

While we are dealing with seemingly familiar situations, our brains can cause us to think we understand the situation and draw conclusions based on the decisions we have made before.

However, you can see the pattern recognition process is constrained by our previous experience.

It is difficult for decision-makers to think outside of the boundary of their previous experience.

The second decision-making process is called emotional tagging. Emotional tagging is the process by which emotional reasoning is attached to the thoughts and experiences stored in our memories.

Like pattern recognition, emotional tagging helps us reach sensible decisions most of the time, but it is biased because we make decisions based on what we believe.

These are the principles based on which we want to operate our companies and the information we have from previous experiences.

It will be very hard for a decision maker to think about new principles, to think about whether our beliefs are still valid in new situations.

Pattern recognition and emotional tagging processes are normally reliable.

They are part of our evolutionary advantage, but in certain environments, both lead to biased judgment calls.

In the next weeks, we will discuss in detail how our brains rely on those two psychological processes to make excellent decisions and sometimes bad decisions.

Given the way human brain works, they cannot rely on leaders to spot and safeguard against their own errors in judgment.

The simple answer is to involve a systematic process to support judgment calls with logic, data, and analysis before a decision is made.