WHY SMART PEOPLE MAKE BAD DECISIONS

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It's clear that some people have better judgment than others. According to various sources, 25% of people on social media have **posted** something they later regretted, the **divorce rate** in the U.S. is 50%, and over the past decade the **tattoo removal** industry has grown 440%. Although these are relatively benign examples, there are, unfortunately, countless examples of bad decisions that killed individuals' careers, collapsed companies, or cost people their lives.

MORE THAN IQ

"If you look at the correlation between IQ and anything significant, all the predictability is at the low end."

– Dr. Robert Hogan
Founder and President
Hogan Assessment Systems

In other words, IQ does not predict the ability to make good decisions. We've all known smart people who habitually make bad decisions, which suggests that something else is at play. Consider the following:

A ball and a bat together cost $1.10. The bat costs $1 more than the ball. How much does the ball cost?

Most people will intuitively answer, incorrectly, that the bat costs 10 cents. In fact, in a study of 248 university students, only 21 percent of participants came up with the correct answer, five cents.

The same group was then asked another question:

A magazine and a banana together cost $2.90. The magazine costs $2. How much does the banana cost?

In this instance, 98 percent of participants answered correctly. The findings support decades of research that shows when we are faced with problems that are difficult or have an ambiguous solution, our brains purposefully substitute an easier question in order to come up with an answer, even if it's not the right one. Why? Our brains are overloaded.

225

NUMBER OF DECISIONS WE MAKE PER DAY SOLELY RELATED TO FOOD

[Source]

34

GIGABYTES OF DATA PER DAY CONSUMED BY THE AVERAGE AMERICAN

[Source]

57

PERCENTAGE OF PEOPLE ENGAGING WITH TWO OR MORE SCREENS AT ONCE

[Source]

Logic and data-based judgments take up a lot of bandwidth, so our brains create subconscious shortcuts and biases that help us navigate the countless decisions we make every day with less cognitive effort. The answer we come up with may not be optimal, but for most situations – choosing, for instance, what we eat for breakfast – it will be good enough. After all, the consequences of choosing a bowl Frosted Flakes® over Fiber One® are relatively small.

The larger problem develops in the workplace, where we're required to rapidly respond to all manner of difficult, ambiguous situations every day. The cumulative result of how we handle these decision-making processes determines the fate of our careers, and, in the case of leaders, our companies. By better understanding how and why we make the kinds of decisions we make, we can improve our judgment.

HOGAN JUDGMENT MODEL

INFORMATION PROCESSING

HOW PEOPLE PROCESS INFORMATION

Verbal Information
vs.
Numerical Information

DECISION-MAKING APPROACHES

HOW PEOPLE APPROACH DECISIONS

Threat Avoidance
vs.
Reward Seeking

Tactical Thinking
vs.
Strategic Thinking

Data-Driven Decisions
vs.
Intuitive Decisions

REACTIONS TO FEEDBACK

HOW PEOPLE TO REACT TO FEEDBACK ABOUT BAD DECISIONS

Defensive
vs.
Cool-headed

Denial
vs.
Acceptance

Superficial Engagement
vs.
Genuine Engagement

INFORMATION PROCESSING

When it comes to judgment, intelligence is preferable, but not predictive. How people process information, however, matters. **People typically fall into one of four information-processing styles, each of which is better suited to certain professions or situations.**

Deliberate. These individuals take their time processing both numerical and verbal information. They are interested in making accurate decisions based on an understanding of all available information. They tend to do well in occupations requiring meticulously researched and unhurried decisions.

Qualitative. These individuals process verbal information more efficiently than numerical information. They prefer to use words rather than data to interpret events. They tend to do well in story-telling occupations such as communications, literature, philosophy, journalism, and advertising.

Quantitative. These individuals process numerical information more efficiently than verbal information. Because they enjoy identifying patterns and predicting outcomes based on data, they tend to excel in fields such as finance, accounting, engineering, and IT.

Versatile. These individuals efficiently process both numerical and verbal information. They can quickly and efficiently solve problems regardless of required information and tend to do well in occupations requiring quick decisions with limited information across diverse topics.

DECISION-MAKING

Who we are is how we decide. Our personalities determine our pre-decision biases and the manner in which we approach problems. **Decision-making style can be divided into three binary components.**

Threat Avoidance vs. Reward Seeking. All decisions include potential threats and rewards. Some individuals focus primarily on the negative side of the risk-reward equation, preferring to remain cautious to avoid threats. Others focus on the positive side of the risk-reward equation, preferring to seek rewards despite potential consequences. Threat avoiders may be more appropriate for decisions that involve potentially disastrous consequences, and reward seekers are often necessary for building and growing organizations.

Tactical Thinking vs. Strategic Thinking. In approaching decisions, some people focus on tactical issues such as immediate needs and relevant details, whereas others prefer to focus on strategic long-term challenges and opportunities. Tactical thinkers tend to focus on details like cost, implementation, and staffing issues, but may neglect larger issues. Strategic thinkers tend to use a future-oriented, big picture perspective, but may neglect important practical details.

Data-Driven Decisions vs. Intuitive Decisions. Research shows that people approach decisions from either an intuitive perspective, which allows for fast, automatic, and effortless decision-making, or a data-driven perspective, which is slow, deliberate, controlled, and effortful. Data driven decisions are often more effective when there is both information available and time to review it. Intuitive decisions are not only more effective, but also sometimes necessary, when situations dictate that individuals make quick decisions and move on.

REACTIONS TO FEEDBACK

Everyone makes mistakes. In fact, some studies suggest the base rate for bad decision-making is as much as 50%. Unfortunately, when most people receive negative feedback about a decision, they are unwilling to admit they made a mistake. Instead, we argue, rationalize, and engage in a range of tactics to save face. **People tend to react to negative feedback in three ways.**

Defensive vs. Cool-Headed. Some individuals respond to negative feedback with emotional displays. They often project blame on other people, circumstances, timing, and other factors beyond their control. Others respond more calmly, often reflecting on their mistakes and how they contributed to the bad decision. Individuals who remain cool-headed are more likely to recognize their mistakes and take action to correct them.

Denial vs. Acceptance. Some people react to negative feedback with denial and deflection. They may refuse to recognize facts, ignore feedback, spin failure as success, or want to move on. Others are more likely to consider the facts, address their mistakes, and use the negative feedback to improve future decisions. Those who can accept negative feedback are better equipped to correct mistakes and improve future decision-making.

Superficial Engagement vs. Genuine Engagement. Some people appear willing to admit failure and listen to feedback, but are actually putting on an act to maintain positive social impressions. People who genuinely engage in negative feedback are more likely to learn from their mistakes.

THE BOTTOM LINE

In a perfect world, every decision would be rational and deliberate, and every problem would have a clear solution.

In the real world, however, there is rarely enough time or information to make a reasoned decision, and even if there were, the problems we face rarely have an objective determined solution. For that reason, good judgment has to be about more than making the right decision most of the time. By knowing how you process information and how you make decisions, you can play to your strengths and account for your natural biases. By understanding how you react to getting it wrong, you can monitor your behavior to make sure you don't double down on a bad decision, and turn mistakes into opportunities.

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