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Getting better judgement

Martin Burke



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What to expect

- Example of biases
- Ways to deal with these

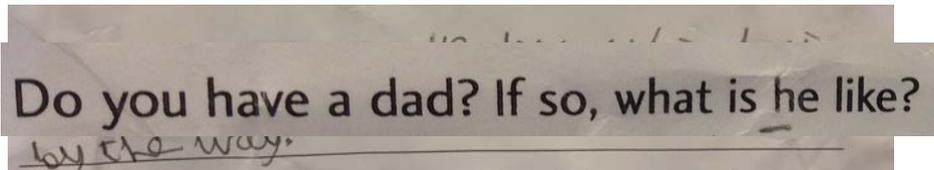


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Example of bias

- 'Raw' expert judgement



Subtitles

"He has a big brain with major thoughts, he is funny by the way"



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...and now a confession...

- Culture, biases, groupthink, behaviours are all pet subjects of mine
- The difficulty comes in measuring the impact of all of these on your business (without becoming paranoid in the process!)
- I don't have a solution, but you can be sure they are there



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What to avoid

“The man [sic] with 2 watches doesn't know what time it is”



So what can you do?



Avoiding Over-Confidence

- Picture the scene...



- Let's quickly walkthrough the approach in respect of setting a 3+ year business plan
- How do we avoid any traps?



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Why is over-confidence important?

- Side effects of over-confidence
 - Prioritising the wrong information
 - Seeking out information that supports the initial hypothesis
 - Worst case could be inventing hypotheses to support our initial view
- Confidence in our abilities to make decisions is enhanced by the quality and coherence of the story you construct, rarely by its validity



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Why is over-confidence important?

- Simple and coherent stories can stick. We are all naturally drawn to “rules of thumb”.
 - In building a plan this can be dangerous as focus can be drawn on the specific scenario of the plan or perhaps a range of modal scenarios
 - What can happen around the edges of the range of outcomes?
- Those in a senior executive positions have almost certainly developed an ability to make others feel confident in your judgements
- We’ve been through the previous planning processes, we may be too anchored in our a priori views



What actions can you take?

- Assess the validity of the situation
 - High validity, e.g. many similar experiences to call upon
 - Low validity situations could be turbulent environments or fairly unique problems, e.g. M&A activity
- Is there an opportunity for feedback in to the decision making process as we go through it?
- Expertise can be useful, but in a business context it can be difficult to perceive the boundaries as to where particular expertise ends



What actions can you take?

- Spread involvement in the plan
 - Be wary of groupthink, which can be exacerbated through hierarchical escalation processes
- Acknowledging that we do have a level of validity and some expertise to draw upon, a proposed way to approach planning process is to
 - Imagine ways the plan could go sour
 - Against that, articulate why the modal scenario(s) appear so attractive



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Pre-Mortem Concept – What Is It?

- Gather your key stakeholders together, Board or Executives
- Our baseline is that the plan represents the modal view
- Adopt a contrarian view, a devil's advocate approach
- Pre-empt a lessons learned
- Imagine you have a crystal ball...(or a time machine)
- We are in 2017/2018/2019
- Assume
 - The plan has failed to deliver
 - It's been a fiasco
- Think through the reasons why



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What's the value of a Pre-Mortem?

- Hindsight can reinforce the trust we have in our gut instincts. A linear approach.
- Change the dynamics of the decision making process
 - Look for the contrary view
- Don't avoid or deny disruptions to harmony
 - Question your own intuitions
- The world is not flat!



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What's the value of a Pre-Mortem?

- Strategies are not achieved in a straight line
 - The wobble factor **This is critically important for managing your stakeholders, including the Board!**
- Don't stifle top down or bottom up perspectives by joining together too soon
- Create the possibility that an idea can be flagged as a poor one before we get too committed



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The true value add is....



Investment Heuristic

- Everyone knows what it is
- Very difficult to be self-aware
- How to deal with “vanity projects”?

Investment Heuristic



- Avoid the emotional
- Minimise your own judgement, if you can
- Focus on the rational
- Data based decision making will out



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What I've learned

- Heuristics are real
 - They're just so appealing as a short cut
- Pre-Mortems really work
- Lesson I learned from early days in reserving
 - Get your judgements framed in terms the audience can understand!
 - The world needs more actuaries but more than that it needs actuaries that can communicate with their Boards!
- Consider the revised TAS framework currently under consultation
 - There is one underlying theme, communication is critical!



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What I'm learning more about

- Framing
- Elicitation
 - Very difficult to carry out
 - Attempt to more fairly assess the views from across the group
- How to identify a confidence trick



Recommended sources

Expert Judgement Working Party – an excellent paper!

Thinking Fast and Slow by Daniel Kahneman as noted in that paper

The Confidence Game by Maria Konnikova

Misbehaving: The Making of Behavioural Economics by Richard Thaler

Story by David Pearl





Questions



Comments

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