Critical Decision Making for Auditors

Deciding How to Decide

November 2012

Agenda

- A new direction, risk or problem
- Decision inhibitors
- Deciding how to decide

New Direction

Defining a Risk or Problem
Risk

- Risks are not issues or problems
- If it has happened it is an issue or a problem
- Risk components
  - A potential future root cause(s)
  - A probability
  - A consequence

1996 Mount Everest - Summit

1996 Mount Everest - Terrain

1996 Mount Everest - Treacherous
Urgency or Pressure

- Mount Everest 29,035 feet high
- 2 months to prepare to climb
- Final round trip summit trek is 18-hours
- Governance
  - Start out very early to reach summit by 2:00 PM
  - If not you will be climbing down in the dark
  - Weather can change within minutes
- Three deaths
- Three elements ignored (Bias)
  - Overconfidence – done this before, worked 39 times so far
  - Sunk-Cost – violated the turnaround rule, substantial investment
  - Availability – too much emphasis on current evidence, good weather

Krauker, Into Thin Air

NASA Space Shuttle Columbia

- Foam does not pose a safety threat
- Confirmation bias
  - Confirmed existing beliefs
  - Downplayed or avoided anything that disconfirmed their current assessment
  - Each safe return of the shuttle confirmed existing beliefs, even with foam strikes
  - Picked outside experts that shared their opinion

Decision Inhibitors
Framing

- Assumptions
- Beliefs used to simplify the complex
- A risk may be framed in terms of:
  - A Threat but it may be dismissed (GM vs. Japan)
  - An Opportunity to generate adaptation (Newspapers vs. Web)
- Leaders have a tendency to frame risk influencing the outcome
- Leaders should hold back on their initial assessment

Selective Search

- Gather facts to support certain conclusions
- Disregard other facts that support different conclusions
- Vietnam War
  - Body count of the enemy means we are winning

Intuition

- Pattern recognition and matching based on past experience
- Spot certain clues to conclude “I got it”
- May lead to failure to explore range of options
- Similar to the “Shotgun Approach”

Group Think

- Peer pressure to conform to the opinions held by the group
- The group is too close and wants to remain cohesive
- Going along to get along*
- Strive to get along rather than think critical*
- Discounts warning signs

*Irving Janis
Wavering Decisions

- Cost growth - 60% over 35 programs after baseline
- **42% related to decisions**
  - Quantity [22], Requirements [13], Schedule [9]
- 15% related to estimates
  - Cost [10], Technical [4], Schedule [1]
- Since 1995 Army cancelled 22 programs
  - Equipment never built or fielded
  - Cost ~ $32 Billion

Inability to Decide

- Endless debate and chronic indecision
- Culture of “Yes”, “No”, and “Maybe”
- No
  - Dissecting others ideas with no good alternatives to offer
- Yes
  - Silence if there is a disagreement then lobby or undermine to overturn
- Maybe
  - Analysis paralysis; greater clarification required
  - I know I can make the wheel more perfect if I just have more time

Critical Decisions

- Decision reasoning
  - Over confidence
  - Sunk-cost
  - Chief executive decides
  - Decision made in a box or “off line”
  - Decisions are intellectual exercises
  - Managers analyze then decide
- Critical decisions gone bad have consequences

Deciding How to Decide

“We can’t solve problems by using the same kind of thinking we used when we created them.”

Albert Einstein
Governance

- Leadership tolerance
- Steering committee
- Documented risk culture of the organization
  - Risk averse – Financial community
  - Risk tolerant – R&D
- Leaders don’t have all the answers

Process

“If you can't describe what you are doing as a process, you don’t know what you’re doing.”

W. Edwards Deming

Stimulate Conflict & Debate

- Point-Counterpoint
  - Red team and Blue team
- Role-play with diverse teams
  - Competition or customer
- Scenario-planning (mind mapping)
  - Military & Royal Dutch Shell
  - Mapping out alternatives for all possible scenarios
- Devil’s advocate
  - Constructive conflict
- Develop well defined roles for any approach
- Revisit bias and facts

Creativity & Brainstorming

- Creativity requires a willingness to fail
- Encourage people to make useful and intelligent mistakes
- Use experts and their wisdom appropriately
- Stimulate open brainstorming & deferred judgment
- Encourage open disagreement
Digging Deeper

- Hidden problems destroy effective critical decision making
- The optimum depth of a risk or problem must be explored
  - Toyota, Chrysler, GM

5 Whys

1. **Why** is our terminal customer unhappy?
   - We didn't deliver on time

2. **Why** were we unable to deliver on schedule?
   - The job took much longer than we estimated

3. **Why** did it take longer than estimated?
   - Because we underestimated the complexity of the job

4. **Why** did we underestimate the complexity of the job?
   - Because we made a quick estimate of the schedule

5. **Why** did we do a quick estimate?
   - Because we were running behind on other projects due to lack of resources

Fishbone - Ishikawa

- 4Ms – Machine, Material, Measurement, Method
- 4Ps – People, Procedures, Policies, Plant

Seek Out Problems

- Build a sense of preoccupation with failure
- Sensitivity to deviations from expected results
  - Don’t dismiss small deviations
  - Investigate the outliers
- Challenge the conventional wisdom
- Welcome a wide variety of perspectives
- Empower frontline workers
- Recognize & accept that mistakes happen
Change

“It is not necessary to change. Survival is not mandatory.”
W. Edwards Deming

Summary

- People can't make critical decisions in a vacuum
- Critical decisions require critical thinking
- Critical decision making involves rational and irrational individuals

“Making good decisions is a critical skill at all levels.”
Peter Drucker