The Epiphany

It was a bright, sunny day in southern California. I'd flown in from New York to propose a complex two-billion-dollar transaction to the board of directors of a publicly traded company. On the flight out, I reviewed the resumes of the board members and while they all had different backgrounds, each had a stellar educational pedigree and impressive business experience. The fact that they had been asked to be on this board proved they had previously excelled at something, whether it was business or academia.

I gave a relatively smooth presentation and received a number of questions that I handled with ease. After my presentation, three board members near me were discussing whether to proceed with the transaction. This was an important decision that would have a meaningful impact on the company's financial statements. I took a seat and listened. Although aware of my presence, the board members spoke candidly, tossing their differing opinions back and forth.

Two people argued their rationale in favor of the transaction and one person argued his case against the deal. As I listened to the conversations, I heard three different views. Even though the decision had only two possible outcomes (in this case, approve the deal or not), each member had vastly different reasons for reaching his or her own conclusion. The two people in favor of the deal had incompatible reasons for their conclusions, and for his own reasons, the third person did not think the transaction should proceed.

Just like their resumes indicated, all three were intelligent and thoughtful people. As they articulated their independent views, I sat silently observing. How could these three successful people, who had just heard the exact same information at the same time, have such differing opinions? When their conversation began, it had been no more than three minutes since my presentation ended and only twenty-three minutes since it started. It dawned on me that, regardless of their point of view, each of the three members had based his or her decision on some form of very quick, instinctive reaction. Shortly thereafter, their initial reaction hardened into a final conclusion about whether the deal should go forward or not. This was a deal that would impact the company's financial statements and stock price, but the decision makers hadn't allowed themselves enough time to give this decision any real thought.

As they talked, I reflected on the prior week's presentation to another board when I had faced some really thoughtful but difficult questions. This board also asked probing questions, but not the same ones as the other board of directors. Then it clicked. Shouldn't there be some sort of framework, guide, or method for making such a substantial financial decision, or any important decision for that matter? How could these three people just be "winging" this? It was too important. Then I realized that I didn't have a decision-making process either. I knew this deal well, but if I was in their position how would I go about analyzing it?

What questions would I ask? What if the deal was completely outside of my realm of expertise? I think I'm smart and have had a degree of professional success, but what would I do? Would I just assume that because I am smart, or at least think I'm smart, I would automatically get to the right answer?

Perhaps if I were on this board, I would defer the decision to the next meeting in order to have time to think about it. But what would I think about? Sure, I would be thinking about whether to approve the deal or not, but what would I be thinking? *How* would I go about deciding? I have sufficient self-confidence in my ability to examine the problem and think about possible solutions, but did I have a clear plan or method for thinking through the decision? I didn't. I was just like those board members. As I embarked on a decade-long research project on decision making at all levels, I realized that it wasn't just those board members and me; no one seemed to have a structured decision-making process.

The Decision-Making Epidemic

A *New York Times* article titled, "Shake Up at Shell to Speed Decision-Making"[1] focused on the global mega-corporation undertaking realignment in order to make better decisions on a timely basis. One could argue that Shell is an old company that is apt to have multiple layers of management, so of course it could use help in decision making. I haven't personally done a study on Shell, so I don't know whether the organization operates efficiently or not, but this is one of the largest companies in the world, with sophisticated management and access to the best external consultants.

We might assume that problems like Shell's would not extend to a tremendously successful technology company with a worldwide reputation for inspiring and rewarding forward thinking, but we would be wrong. In a 2011 *Wall Street Journal* article titled, "For Google CEO Larry Page, A Difficult Premiere Role,"[2] the journalist recounted that Google's co-founder announced he would shake up the internet giant to accelerate decision making there. This is a modern, highly innovative, high-tech giant that is very young by corporate standards, not old and stodgy. Still, Google and Shell share the struggle of efficient decision making in their organizations.

This isn't a case study on Shell, Google, or myriad other corporations that have experienced the same problem. Even start-ups suffer the same malaise. Start-up companies usually have only a few well-defined decision makers who are, most often, the founders. The need to "pivot" is critical, and changes can often be executed overnight if needed. Almost all of the early decisions in a start-up are based on biases and heuristics (covered in detail in the next chapters), with the co-founders relying heavily on

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[1] Saltmarsh, Matthew. "Shake-up at Shell to Speed Decision-Making." *New York Times*, May 28, 2009.

[2] Efrati, Amir. "For Google CEO Larry Page, a Difficult Premier Role." *Wall Street Journal*, August 30, 2011.

gut-level instinct. If their instincts are right, their company may become a viable start-up, receive the requisite financing, and grow.

This is when the seeds for bad decision-making habits are unknowingly sown. If there was never a framework for decision making and these smart creative people got the several important first decisions right, they may develop a sense that they naturally get things right. After all, they may have just received Series A financing or are further down the line and about to reap huge rewards by going public. Their assumption is that they are excellent decision makers, which is validated by the amount of money they have. The start-up then hires more and more people, who in turn do not have any framework for decision making because it's just not taught, and the cycle continues.

What do the old corporations and the newer, expanding companies have in common? Size and people. Once an organization reaches a certain size, it doesn't matter if another one is much larger. It doesn't matter if a company has ten people in its legal department or one hundred lawyers. It doesn't matter if it has four people writing code or five hundred coders. There are now internal departments for legal, accounting, marketing, financing, research and development, and mergers and acquisitions—and a lot more people.

While the typical person who wants to work for Shell may be different than the typical person who wants to work for Google, both of them are still people. If they aren't aware of the influencers on their decisions, they will be inclined to decide based on biases and assumptions. Employees of both companies are also likely to avoid making decisions for the same reasons—primarily, the risk of being wrong and the inability to convince a room full of other people to agree with them. This is how two companies with vastly different corporate cultures could end up with the same problem.

Choosing The "Best" Option

A few years ago, I gave a presentation on decision making to a group of executives at a prominent international financial services company. After the presentation, one senior executive came up to me and announced that his group had already solved their decision-making problems. Intrigued, I asked him how they did it. It turned out that the company's decision-making solution was to detail the troubling situation or problem in an e-mail and then send that e-mail to the top one hundred people in the company, soliciting their solutions to the problem.

Like a modern-day electronic suggestion box, this is a great way to gather a multitude of gut reactions, but then what? The senior executive said that someone would then decide on the "best" option of all of those presented. I asked him how the "best" option was chosen, and he did not know. While I appreciate the organization's attempt to seek more inputs, without a structured, unbiased way to analyze the suggestions from this group of intelligent employees, how could anyone be certain that the most optimal path would be chosen? They couldn't. This is an incredibly common issue.

Score More Points Than the Other Team

A team in the National Football League is searching for a new head coach. Through a connection, you have landed an interview with the current owner. After shaking hands you begin the meeting by telling him that you will lead the team to an unprecedented number of Super Bowl victories. You say, "My plan is to make sure we always score more points than our opponents." The owner's initial thought is to find out which friend of his (now a former friend) arranged this meeting. He then politely tells you that what you have described is not a plan. Yes, it's true. If you score more points than your opponent you will win. Scoring more points than your opponent is always the objective. That's how you define winning. But that's the objective, not a plan. Great coaches are those who have a plan for *how* to achieve that goal.

When I ask people how they make decisions, either on an individual or organizational level, most people's answer is a variation of, "I consider all the options and then choose the best one." Considering all of the options and choosing the best one is NOT a process; it is the overall objective. Choosing the best option is the goal in decision making, but is not a plan for *how* to achieve that goal. It is the exact equivalent of saying you should be head coach because your plan is to score more points than your opponents.

Development of the Framework

The personal "aha" moment after the board presentation launched my ten-year journey to research, observe, and interview individuals and groups of people who made decisions**.** My research has encompassed over ten thousand pages of books, periodicals, and academic articles in addition to personal experience. While a number of well-written, commercially available books point out the common pitfalls we make, none I found presented the most effective method for making optimal decisions. My varied business experiences have given me access to educated, successful people who are in significant decision-making roles. My discussions and interviews with them have allowed me to hone my theories and test the framework that follows while quietly observing missteps in decisions as they were made.

During my thirty-year career as a lawyer and investment banker, I spent more than twenty thousand hours with "C-suite" executives and boards of directors at major international companies. As a result, I have seen just about every possible outcome that can result from a decision-making process (or a lack of one.) Some of the research for this book came from the meetings I had with these boards of directors, CEOs, COOs, CFOs, and other executives. When I first started my meetings and interviews, I assumed that these influential people would have a very clear decision-making process. As it turned out, while my clients and others were all smart and well educated, I consistently observed flaws in their decision making, even at the highest levels.

The examples I cite throughout the book are taken from real-life transactions and decisions with which I am personally familiar or that are public knowledge. When an example I cite is based on private information, minor details have been changed to protect the identity of the individual or corporation involved, but the pertinent facts have been maintained to protect the integrity of the analysis. For any public information, I clearly refer to the journal, periodical, newspaper, or other source of information.

Most of the commercially available books that I have read and may refer to in these pages don't directly relate to decision making, per se, except for *Blink*,[3] *Thinking, Fast and Slow*,[4] and, to a certain extent, *Judgment*.[5] In each case, I clearly refer to the books and their information. I encourage you to read some of these books because they raise intellectual issues and are great for sharpening your decision-making skills.

I came up with the framework by observing and analyzing both good and bad decisions. When I started, I had no idea whether my research and analysis would lead me to a three, four, six, eight, or fifteen step process or whether I would able to find a clear decision-making process at all. Did people make good decisions without using a structured decision-making framework? Sure. What decision-making process did they employ? Usually none, because they didn't have one. I call it "accidental correctness." Accidental, because the same people and organizations would later make very poor decisions, not considering all of the variables that they had in a prior problem. Not only was the outcome bad, but the approach was flawed.

The purpose of a structure or checklist is to provide certainty of a thought process when addressing complex problems. A well-thought-out structure provides a way to replicate good decision making. After thinking and analyzing what people did right and what they did wrong, I was able to distill the framework for good decision making, even about complex matters, into the four points that I will discuss in the next section.

The epiphany inside the boardroom that day convinced me that I didn't want to rely solely on my gut instinct for a big decision, regardless

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[3] Gladwell, Malcom. *Blink* (New York: Little, Brown and Company, 2005).

[4] Kahneman, Daniel. *Thinking, Fast and Slow* (New York: Farrer, Straus and Giroux, 2011).

[5] Tichy, Noel M. and Warren G. Bennis. *Judgment: How Winning Leaders Make Great Calls* (New York: Penguin Group, 2007).

of my prior successes. There is always a risk of not getting the result you want in a decision, but what is really a shame are the times we get it wrong when we shouldn't have – those times that we go with our gut instead of employing a more analytical approach.

What Makes a Good Decision?

People are judged every day by the decisions they make, but how would you define whether a decision is good or bad—by the outcome? There is no question that the goal of any specific decision or decision-making process is to get the best result, but is the outcome the only way to define a good decision? The answer is no.

If your financial advisor made you a 50% return on your money last year, you would be ecstatic. That is an outstanding result. If you ask him how he did it and he replies that he picked your investments by throwing darts at the stock listings in a newspaper, would you continue letting him manage your money? Your entire reason for reading this book is to get better results, so we all agree that results count, but results are not the only indicator of whether a decision is good or bad.

The Roulette Wheel

Imagine that you are in a Las Vegas casino waiting to meet your friend by the roulette wheel. A man who is frustrated with his current position in life stands nearby. He begins by telling you his life story and tales of woe. He has come to Las Vegas to gamble his way to wealth. He has a total of $10,000, which has taken years to accumulate. He believes that if he can significantly increase the amount of cash he has, his life will get better.

He steps up to the roulette table and bets all of his money on his lucky number—seven. If the roulette ball lands on seven, his payoff of 36 to 1 will win him $360,000. If the ball lands on any other number, he will lose everything instantly. The roulette wheel begins to spin, and the croupier lets the ball drop.

Do you think he has made a good decision or a bad decision by betting his life savings on a roulette spin? The ball bounces from number to number as the wheel spins and our gambler anxiously awaits the result. You hope he will win, but you know that the odds are stacked against him. He only has a 1 in 38 chance of winning (around 2.6%).[6] The chances that he will lose everything are overwhelming (97.4%).

If he wins, will you think he made a good decision by gambling his life savings on a roulette spin? Most people would agree that this is a very risky decision and probably not the smartest. If he wins, everybody will congratulate him, but this cannot be considered a good decision when there is such high risk and unfavorable odds.

Can You Really Never Be Wrong Again?

It's true that you can never be wrong again. While this seems like an outrageous claim, I am willing to stand behind it completely. You can never be wrong again in your decision-making thought process. Our dart-throwing investment advisor and the roulette playing desperate man have clearly demonstrated that making a good decision is not defined solely by the outcome, because the outcome can be influenced by things such as luck and unexpected events. If the roulette ball landed on his chosen number, our gambler would have won big, but he would have just been extremely lucky. He would not have made a good decision. Making a good decision is about the process, not the outcome. A better process drives better results.

Nothing can guarantee a specific result for two basic reasons. First, there are factors beyond your control. The overheated housing market in the United States and resulting lack of confidence in mortgage-backed securities was the catalyst for the Great Recession. I am guessing that you had nothing to do with either of those things and, unless you were among a

[6] The typical casino roulette wheel in the United States has 38 numbers (1-36 plus 0 and 00). Notice that the risk is 1 out of 38, but the payoff is only 36:1, which is why casinos want gamblers to come visit and stay for a long time.

handful of experts, never saw it coming. Nevertheless, it probably impacted your life and some decisions you made before the financial crisis happened. Say, for example, that you and your spouse both had good jobs and decided to purchase a larger home in a nicer area than where you were living at the time. With two salaries, the price of the house was well within your means. Then the Great Recession happened and, through no fault of his own, your spouse lost his job and is still currently unemployed. If you had known that there would be a substantial economic downturn that would adversely impact your household income, you probably would not have purchased the new home.

Second, no decision is 100% assured. Let's say that after reading this book, you undertake a thoughtful decision-making analysis and, after considering all aspects, determine that you have an 80% chance of getting the result you want, which is a very high percentage. By definition, that means there still is a 20% chance that the outcome will not be the one you want. Every decision has some level of risk. You always want to increase your chances of getting the outcome you desire, but you should not judge a decision by the result.

That said, the entire point of learning to make better decisions is to get better outcomes. A good decision-making process will lead to better results. Your goal should be to never have a flaw in your decision-making process, which in turn, increases the chances of achieving your desired outcome. The "right" decision is the decision that optimizes your chances of obtaining the result you desire. You are "wrong" when you don't get the outcome you want but could have with a better thought process. Using the four-point framework in this book will maximize your chances for the optimal result and lead you to the right decision every time, which also means that you will never be wrong again.

The Science Behind the Art of Decision Making

It's often said that decision making is an art. I agree that it is not a hard science in that even the best decision process cannot guarantee that you will achieve your goal. But people mistakenly jump to the conclusion that since decision making is not a hard science, it is 100% art.

In fact, there is a science to the art of good decision making. Do you know what else is an art? Art. I will posit that there is nothing more art than art itself. Almost all of the great artists trained under others to learn, among other things, the impact of lighting and shading, how to mix the proper color, and how to create textures. When artists want to create a certain shade of color, they use their knowledge of which combination and proportion of two or three other colors will create the exact hue they want. There is skill to be learned in becoming a better artist. Just as Leonardo da Vinci studied science as a method to improve his art, there is a method to becoming better at the art of decision making.

Research in academic papers and in published books is overwhelmingly clear: While sometimes comical and sometimes quite sad, the fact is that the human mind still reacts and decides the same way it did thousands of years ago when we were farming in the grasslands or hunting in the jungle.

Very simply, few of us have actually developed a consistent thought process for making decisions. When you pause and reflect on that, it is really quite staggering. At this point in your life, you have made countless decisions but have relied, for the most part, solely on your gut instinct. From the largest, most successful organizations to individuals facing an important choice, having a clear structure and practice for thinking through important decisions cannot only help cause a better outcome, but also make the decision process more efficient.

Your gut instinct may prove to be the right one, but when the stakes are high and the outcome of your decision matters, doesn't common sense dictate that we should have a check and balance system to test our first visceral reaction?

Complex Decisions Require a Structured Analysis

In the book *The Checklist Manifesto*, author Atul Gawande points out that there are three categories of problems or tasks: simple, complicated, and complex. A simple task would be learning how to pack a grocery bag

– heavy items on the bottom, eggs on top. This is something you could figure out on your own or with minimal training. Sending a rocket into space, however, is extremely complicated and requires a deep knowledge of physics, math, liquid fuels, materials, and so on. However, once you have solved the equations needed, you could probably replicate them with only a minimal amount of new knowledge needed for your second launch, which makes this a complicated task. A complex problem is a complicated problem that is not necessarily capable of being easily replicated.

Gawande is a medical doctor, so his analysis centers on the complex problem of diagnosing and treating patients. If I go to a hospital with chest pains, the doctors may immediately get an accurate diagnosis of my issues and come up with the proper solution, but the problem and proposed solution for the next person who comes to the hospital with chest pains could be completely different from mine. What worked for me may not work for the next guy. The overarching point of *The Checklist Manifesto* is that complex problems require a checklist instead of reliance on gut instinct and memory recall.

Every important decision in our lives is like a patient in Gawande's example—unique and with individual facts, assumptions, and overall scenarios that may vary. Important decisions need to be examined independently. The best solution to one problem may be very different from a previous solution to a similar problem. If you jump to the conclusion that an important problem in front of you is exactly like the last problem you faced and therefore should be treated the same, you are like a doctor who assumes all chest pains should get treated the exact same way. Important decisions, which are defined as decisions with high stakes, usually present complex problems and need a structured solution. We need to use a decision-making "checklist" of sorts so that we don't solely use our preliminary conclusions and end up making poor decisions.

What Type of Book is This?

Never Be Wrong Again is a self-help book if you use it to become a better decision maker in personal matters. It is a business management book if you use it to help make business and investment decisions. Mostly, it is a how-to book. How-to books teach you how to do something, and this book is intended to teach you how to reach the best decision possible every time you are faced with an important choice. By providing a proven structure for decision making, *Never Be Wrong Again* helps you do just that. You can never be wrong if you are making decisions that offer the greatest chances for getting the result you want.

Whatever your goal is, the decision-making framework presented in these pages will help you think through important decisions to achieve that goal. Having a structure to follow will also help you make decisions more efficiently and mitigate some of the stress involved in making those important decisions. In the end, it is my hope that *Never Be Wrong Again* will help many people and organizations make better decisions, faster, with less stress.

How to Use This Book

Decision making can be stressful and time consuming, but it doesn't need to be. Using a structured framework is not about discarding your initial visceral reaction, but instead presents a process for validating it. If your gut reaction contradicts a more analytical information-based approach, one of them is wrong. Using a clear decision-making framework, you can achieve better decisions more efficiently and more confidently.

My initial focus primarily addressed business scenarios, but as I made presentations to groups of investment professionals, the feedback was consistent: People also wanted to know how to apply these concepts to life decisions. Based on this, I have deliberately included examples of choices that are more personal—matters like marriage, legalization of marijuana, and playing the lottery.

The first section of this book is designed to shed light on the common pitfalls we face in decision making. Having an efficient decision-making structure will increase your chances for a good result, but it does not inoculate you against subtle and not-so-subtle emotional stumbling blocks.

Raising your awareness of these forces will help protect you from getting unconsciously manipulated by them.

The middle section of the book details the four-point framework: Timing, Balance, Probabilities, and Pattern Recognition. Each chapter begins with an overview of what you can expect to learn in that chapter and ends with a checklist of reminders for that section.

In the final section of the book, I apply the four-point framework to various scenarios to reach a final conclusion. You may not agree with my conclusions, but we will agree exactly on where we disagree.

Let's start with a decision that is important to the participant but is not complex: "Deal or No Deal."