BIAS BUSTERS

Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In this series, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

Resisting the allure of “glamour” projects

Iskandar Aminov, Aaron De Smet, and Dan Lovallo

The dilemma

Imagine you’re a “rock star” manager in a telecommunications company. You have a choice to make: you can oversee the systematic repair of cell towers and other equipment in a particular region, or you can manage the company’s launch of a next-generation smartphone, cobranded with an up-and-coming technology company. Chances are pretty good you’d jump at the chance to lead the sexy new launch. The personal and professional challenges and rewards of such an assignment would be appealing, and in most organizations such “hero” projects attract outsize attention and investment from leaders.[1]

Just be careful that the allure of the shiny new initiative doesn’t distract you from paying attention to other good but mundane projects and investments. Indeed, many companies struggle to find the balance between investing in projects designed to grow the business versus those required to run the business. As a result, they tend to underinvest in so-called unremarkable projects.

The research

This occurs rather naturally for three reasons. First, new discoveries are inherently more exciting than maintaining existing infrastructure, and innovations add to the company’s bottom line. Second, when it comes to continuing projects, the only news is typically bad news—products are overtaken by newer brands, for instance, or equipment gets outdated and the cost of replacing parts or systems is significant.[2] And third, because most companies convene separate funding committees for hero projects and maintenance projects, there is no overlap—and therefore no one with detailed knowledge who can encourage balanced investments in both the old and the new. When cash is limited, and sometimes even when it isn't, new projects often win the argument, even though both types of projects can create significant value for organizations.

The remedies

One oil and gas company recognized that maintenance was getting short shrift with respect to funding and attention, for many of the reasons cited earlier. Its solution? The company assigned two executives who were sitting on the extraction committee to serve on the maintenance committee as well. These executives balanced the demands of both types of committees and interacted directly with the head of the entire field to ensure that maintenance projects received the resources and attention they deserved.

This approach doesn't apply only to oil and gas: in most companies in capital-intensive industries like chemicals, consumer goods, power, and telecommunications, the groups that review operating expenditures are distinct from those that examine capital expenditures. By creating overlapping committees, which convene regularly and give voting rights to members from different parts of the organization, companies can overcome bureaucracy, break down siloes, and, in many cases, reduce unnecessary overhead. Such committees are an elegant and painless way to have a broader view of corporate expenditures and ensure that less-glamorous but still necessary investments are not starved for funds or people. ■

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[1] Michael Birshan, Ishaan Nangia, and Felix Wenger, "Preparing to make big-ticket investment decisions," July 2014, McKinsey.com.

[2] Matt Gentzel, Bill Lacivita, Alan Osan, and John Parsons, "The upside of downtime," May 2016, McKinsey.com.

Iskandar Aminov (Iskandar_Aminov@McKinsey.com) is a senior expert in McKinsey's Perth office, and **Aaron de Smet** (Aaron_De_Smet@McKinsey.com) is a partner in the Houston office. **Dan Lovallo**, an alumnus of the San Francisco office, is a professor of business strategy at the University of Sydney.