


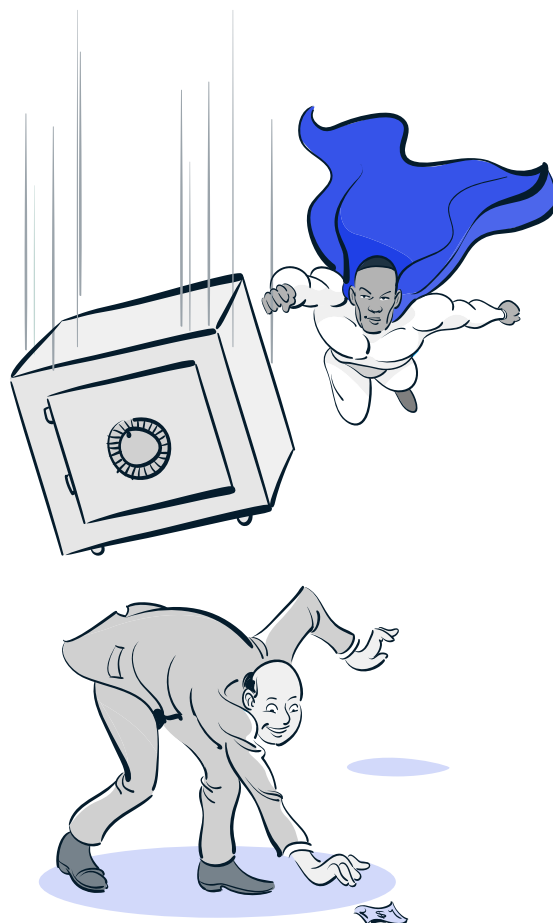
Despite their best intentions, executives fall prey to cognitive and organizational biases that get in the way of good decision making. In this series, we highlight some of them and offer a few effective ways to address them.

Our topic this time?

Avoiding snap judgments

by Tim Koller, Dan Lovallo, and Phil Rosenzweig

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The dilemma

The board of a mining company thinks it's time for a new CEO, one who understands the increased role of technology in the industry and can inspire the next generation of mining leaders. The hiring committee has a few internal candidates in mind—namely, the heads of the copper, nickel, and coal divisions. All three have similar years and types of industry experience and comparable P&L responsibilities. But the front-runner in the minds of many on the committee is the head of the copper division. After all, copper has contributed the most to the bottom line over the past few years, while the other divisions have been lagging. It must be because the unit head is a tech-savvy people person, with a good understanding of industry trends, they reason. “Seems like a no-brainer,” the head of the hiring committee notes. But how can the board be sure that it is picking the best candidate for the top job?

The research

Important personal and professional choices are often subject to the *halo effect*, which is the tendency for individuals to make specific judgements based on overall impressions.¹ Individuals' desire for excessive coherence (or fitting complicated ideas into simple mental frames) also prompts them to

draw conclusions faster than they should. It's a common dynamic. The media, for instance, pays outsized attention to companies with remarkably good (or notably bad) performance and tries to offer logical explanations for their outcomes, even when the reality is much more nuanced and intricate.

These distortions don't apply only to company performance; the halo effect can also alter how we view individual performance. That's what happened in the case of the mining company. The front-running CEO candidate's division had performed well in large part because of a significant spike in the price of copper, something over which he had no control. Yet the halo of high profits shined on the business-unit leader, the hiring committee's initial impressions of him stuck, and he was appointed CEO. Much to the board's dismay, the new CEO did not demonstrate either skillful use of technology or strong leadership, two capabilities that were critical for this role. Early in his tenure, the company incurred billions of dollars in losses.

The remedy

When it comes to hiring decisions, structured interviews can help mitigate the halo effect. They've been shown to significantly increase the validity

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¹ The concept was first identified in 1920 by US psychologist Edward Thorndike.

² See James E. Campion, Michael A. Campion, and David K. Palmer, "A review of structure in the selection interview," *Personnel Psychology*, September 1997, Volume 50, Number 3, pp. 655–702, onlinelibrary.wiley.com; and Philip A. Lichtenfels, Elliot D. Pursell, and Patrick M. Wright, "The structural interview: Additional studies and a meta analysis," *Journal of Occupational Psychology*, September 1989, Volume 62, Issue 3, pp. 191–199, onlinelibrary.wiley.com.

of interviews.² Candidates are measured against valid indicators—the attributes and experiences defined as being most important for success in the position. (For C-suite level roles in particular, leadership attributes and experiences typically matter more than knowledge and skills.) All three CEO candidates at the mining company, for instance, might have been asked specific questions about their experiences in dealing with new technologies or resource shortages and surpluses. All should have been subject to the exact same criteria and questions. Then each could have been scored, criterion by criterion, using a standardized rating scale before an overall evaluation was made. Only then should the hiring committee have discussed the relative merits of the three candidates. The structured interview does not prohibit the use of executive intuition, but it can usefully delay it.

Executives can reduce the impact of the halo effect in other types of business decisions by first acknowledging their intuitions and then taking a minute to ask themselves: “What sort of judgment would I make if I set aside my first impressions?” It’s the mental equivalent of a blind taste test, where consumers are asked about products whose brand names have been removed: Without the strong glow of a brand’s halo, consumers can say what they really think.

Whether executives are facing hiring decisions or other important choices, they need to make judgments based on evidence that is independent and valid, and not merely inferred from what they already know—or think they know.

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