

## CFO Insights

### The dangers of being too decisive

As CFO, you confront multiple decisions every day. Some, such as fixing a meeting agenda, may border on the pedestrian. Others, like launching a new product, pursuing a merger, or filling critical personnel vacancies, can have a material impact on your company's fortunes. Compounding the challenge, many CFOs face external or self-imposed pressure to quickly reach a conclusion.

And no wonder. We are inundated with breathless proclamations about the unprecedented pace of modern business and competitive intensity. The implication is that by waiting a week (a day, an hour) before choosing a course of action, an opportunity might be missed, to the perpetual detriment of the fence-sitter. Serious business writing touts the importance of "decisiveness" for effective leadership.<sup>1</sup> Classes profess to make you decisive, for both personal and professional gain. And we are told that "indecisive" is among the worst epithets that can be levied against an executive.<sup>2</sup>

However, a rich body of research in social psychology and behavioral economics suggests that decisiveness is not an unequivocal good. Studies on "mindset" reveal that, when contemplating an important decision, prematurely focusing on execution can exacerbate decision-making biases and lead to excessive risk-taking. In this issue of *CFO Insights*, we will discuss the different decision-making phases and offer suggestions for mitigating the pitfalls of execution-oriented mindsets.

#### Crossing the mental Rubicon

The theory of action phases, pioneered in the 1980s by Peter Gollwitzer and Heinz Heckhausen, suggests that individuals move through distinct states of mind leading up to and following a decision.<sup>3</sup> Each mindset is tuned to a specific task, so switching from one to the next changes the way people receive, process, and act on information.

During the pre-decision period, individuals adopt a *deliberative* mindset. Here, people focus on adjudicating potential goals. They weigh information about the likelihood and value of different outcomes. Eventually, "the die is cast," and in the post-decision stage, an *implemental* mindset takes over. This is when a firm commitment culminates in a course of action. People stop deliberating, and turn to executing the decision. Consider a company exploring a major acquisition. In a deliberative mindset, the CFO and her team might look at many potential targets, considering their capabilities, cultures, and prices. Once the acquisition is complete, an implemental mindset focuses on making the decision a reality by, for example, making announcements to shareholders and integrating employees.

Naturally, the switch from a deliberative to an implemental mindset occurs at some point. Unfortunately, many individuals and groups cross over prematurely. People might "trust their gut" and jump to a quick decision, driven perhaps by a desire to appear decisive. Alternatively, decision points may be imposed externally, based on deadlines set elsewhere in an organization. Similarly, the decision threshold can be crossed when an individual concludes that a particular outcome is inevitable. Even prudent steps, such as "thinking ahead" about how a decision would be executed, can prompt a shift to an implemental mindset—often without an individual even being aware.

Herein lies the danger. Even if a decision seems correct at the time, new facts may arise, warranting reconsideration. However, implemental mindsets can lead to a host of decision-making biases. Having an execution-oriented frame of mind may encourage "tunnel vision" and lead to overconfidence and excessive risk-taking. In the end, individuals may stick to decisions that simply no longer make sense.



### Traps in decision-making

Consider the following decision-making traps:

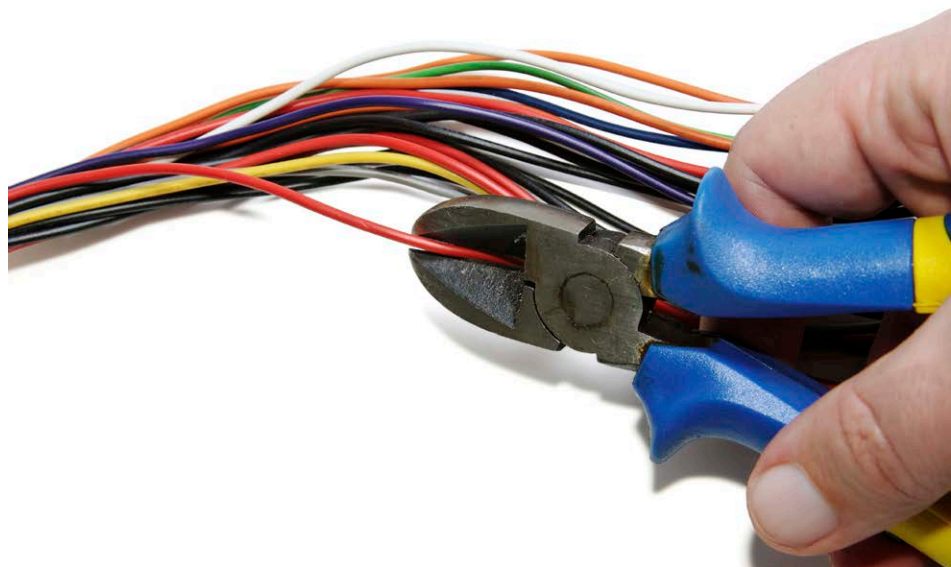
**Disregarding new information and making biased inferences.** Preoccupied with a task, individuals in an implemental mindset often downplay or ignore new information. This closed-mindedness can manifest, for example, in poorer short-term memory. In lab experiments, subjects in a deliberative mindset have better memory recall than those in an implemental mindset when asked to repeat a string of nouns unrelated to their decision.<sup>4</sup> In a separate study, participants were presented with information about the pros and cons of an action and, simultaneously, the steps required to execute it. Asked to recall the information, those in an implemental mindset remembered a greater proportion of the execution-focused information and less of the pros-and-cons information than those in a deliberative mindset.<sup>5</sup>

What's worse, the information that is received is processed in a way that reinforces the already-made decision. When asked to consider the advantages and disadvantages of a course of action, those in an implemental mindset report few, if any, downsides. In contrast, those with a deliberative mindset are relatively balanced between positive and negative implications.<sup>6</sup> Moreover, the implemental mindset encourages the onset of confirmation bias—the tendency to rely on information that confirms what we already believe, and to discount data that may contradict our pre-existing positions.<sup>7</sup>

**The illusion of control.** Individuals in an implemental state of mind are also more likely to overestimate the influence they have over outcomes. In a series of trials using lab equipment, researchers asked participants to estimate how much control they could exercise over whether a light turned on by pressing a button. In reality, participants had no control (researchers controlled the light), but those who were in an implemental mindset believed they had a significantly greater degree of influence than others.<sup>8</sup> In addition, individuals in a deliberative mindset were even less likely than the control group to fall victim to an illusory sense of control, underscoring the benefits of a deliberative mindset when weighing the feasibility of alternative goals.

**Excessive optimism.** All individuals are susceptible to illusions of invulnerability, but those in implemental mindsets are particularly prone to downplaying risk.<sup>9</sup> For example, one study placed participants in a deliberative or implemental mindset by having them ruminate on a significant life decision or on the steps required to execute a recent choice, respectively. They were then asked to evaluate their personal vulnerability and the average college student's vulnerability to an array of controllable risks (such as developing a drug addiction) and uncontrollable risks (such as having a partner die young). Participants in an implemental mindset saw themselves as significantly less vulnerable than either the deliberative or control groups, and they judged themselves to be particularly immune to controllable risks.<sup>10</sup>

Business leaders are no less vulnerable to overconfidence. Using massive, multiyear surveys of CFOs, researchers found that respondents significantly underestimated the volatility of an overall stock index and the share performance of their own company.<sup>11</sup> During the sample period, about 33% of the stock index's actual returns fell within CFOs' 80% confidence estimates (had their estimates been accurate, 80% of returns would have fallen within that 80% interval). Those who erred in their market forecasts were similarly off when estimating the ROI for internal projects. Just as troubling, the more optimistic the CFO, the more his or her company invests (as measured by net investments).



### The dangers of decisiveness

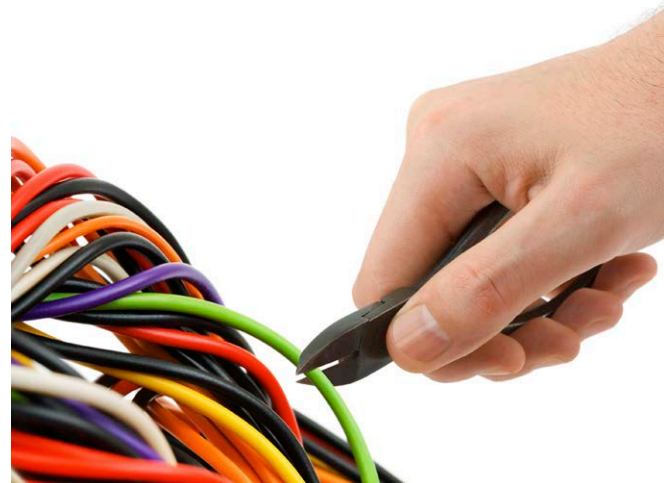
While a decision-making bias may not result in a bad decision, real-world evidence suggests that poor decisions are often the by-product of prematurely switching to an implemental mindset.

On February 1, 2003, the space shuttle *Columbia* broke apart as it reentered Earth's atmosphere. All seven crew members died. The proximate cause was a piece of insulating foam that broke during liftoff, impacting the shuttle's wing and causing catastrophic failure upon reentry. Implemental mindsets, coupled with other decision-making problems, may have served as contributing causes. For example, soon after launch, NASA officials became aware that debris had impacted the wing. While working-level engineers voiced concerns, senior managers—who were more directly responsible for the decision to launch—reportedly downplayed the risk. In the view of engineers, "Management focused on the answer—that analysis proved there was no safety-of-flight issue—rather than concerns about the large uncertainties that may have undermined the analysis that provided that answer."<sup>12</sup> In other words, they interpreted new information in a way that likely reinforced their chosen decision—to proceed with the mission.

The consequences of such biases for CFOs may be less dire, but no less real. These biases contribute to underperforming deals, cost overruns, and failed product launches. A study of more than 100 M&A transactions, whose express purpose was enhanced growth, found that nearly three-fourths were "low-performing" in that the combined companies' growth was equal to or less than what could have been expected had they remained independent.<sup>13</sup> Just 6% of large software projects come in on-time, on-budget, and with a successful implementation.<sup>14</sup> Moreover, the failure rate for new products ranges from 30% to 50%, often because new products take on a life of their own within an organization.<sup>15</sup>

These shortfalls can be amplified by other biases. For example, if a decision-maker already believes in the merits of a particular course of action, the previously mentioned confirmation bias can skew how new information is interpreted. Similarly, individuals may exhibit sunk cost bias as they move further down a decision path. In this trap, people find themselves throwing good money after bad and escalating their commitment to courses of action in which they have made substantial prior investments of time, effort, and money. Consider the momentum that sometimes builds as a CFO and other leaders analyze a potential acquisition. The implemental mindset may take hold as managers value synergies, conduct due diligence, and discuss integration. They can't back away even if new risks emerge, since they have invested so much time preparing for the deal.

Of course, implemental mindsets are well-suited to certain tasks. Indeed, some research suggests that those in an implemental mindset execute tasks better than those caught in a lengthy deliberation mode.<sup>16</sup> Still, for business leaders in general and CFOs in particular, prematurely switching to an implemental mindset seems the greater danger. Ignoring new information, foreclosing alternative courses of action, and succumbing to the "illusion of control" can lead decision makers to pursue excessively risky plans or miss opportunities to short-circuit a looming crisis.



### Being deliberate about decisiveness

Thankfully, research suggests that mindsets are an “active” phenomenon, meaning we can consciously control them.<sup>17</sup> In many lab experiments, for example, mindsets are cued by simply asking subjects to think about the pros and cons of an impending choice (deliberative) or how to execute a decision they’ve made (implemental).

Accordingly, one way to successful implementation is adequate deliberation. To this end, executives should consider the following tactics before letting their mindset cross from deliberative to implemental:

- Make sure you have multiple options.
- Put the decision point on a timeline or calendar, and before that deadline, focus on understanding the issue, rather than on the “go/no-go” decision.
- Conduct a “premortem.”<sup>18</sup> Imagine that the decision has failed, and ask what contributed.
- Consider using structured analytic techniques, such as a “devil’s advocate” (several people assume responsibility for offering a constructive critique) or “dialectical inquiry” (multiple subgroups present the advantages of different alternatives, and then critique one another’s proposals.)<sup>19</sup>

- Keep project-management tools on ice until you’ve committed to executing.
- Pay attention to discordant data. Charles Darwin collected data about his emerging theory of evolution, but he also kept a separate notebook with contradictory observations.<sup>20</sup>
- Institute a “cooling-off” period before moving from deliberation to implementation.
- Consider bringing unbiased outsiders into the conversation.

You should not simply discuss what you will do, and then analyze how to do it. Decision-making processes should not necessarily unfold in such a linear fashion. You should consider implementation obstacles and risks as you make decisions. Moreover, you should encourage the team to step back occasionally from the “how should we execute this plan” discussion to consider whether the plan is the proper course. By implementing these techniques, CFOs can improve the likelihood that their decisions yield favorable results.

\*This article was excerpted from “Crossing the mental Rubicon: Don’t let decisiveness in leadership backfire,” which appeared in Deloitte Review Issue 18, January 2016.

### Comparing mindsets

Deliberative mindset	Implemental mindset
The desirability and feasibility of goals are weighed, including the expected probability of success and the immediate and long-run positive and negative consequences.*	Once someone crosses to the implemental mindset, further deliberation is put aside. Steps to achieve the chosen goal are considered, and a strategy is formulated.
<b>Characterized by:</b>	<b>Characterized by:</b>
A focus on information related to the feasibility and desirability of different goals	A focus on information related to the when, where, and how of achieving the goal
Open-mindedness to new information	Close-mindedness to information that does not help in attaining the goal
Accurate and impartial processing of relevant information	Partial or optimistic analysis about the goal’s feasibility or desirability

#### Relevant information

\* Anja Achtziger and Peter Gollwitzer, “Motivation and volition in the course of action,” in J. Heckhausen and H. Heckhausen (Eds.), *Motivation and Action* (2nd ed.) (Cambridge: Cambridge University Press, 2008); Peter Gollwitzer, “Action phases and mind-sets,” in *Handbook of Motivation and Cognition: Foundations of Social Behavior Vol. 2*, edited by E. Tory Higgins and Richard M. Sorrentino (New York: Guilford, 1990), pp. 53–92.

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## Endnotes

- <sup>1</sup> Nick Tasler, "Just make a decision already," *Harvard Business Review*, October 4, 2013, <https://hbr.org/2013/10/just-make-a-decision-already/>.
- <sup>2</sup> Lynne Guey, "Instant MBA: The most important trait a leader can have is decisiveness," *Business Insider*, June 7, 2013, <http://www.businessinsider.com/most-important-trait-a-leader-can-have-is-decisiveness-2013-6>.
- <sup>3</sup> Heinz Heckhausen and Peter Gollwitzer, "Thought contents and cognitive functioning in motivations versus volitional states of mind," *Motivation and Emotion* 11, no. 2 (1987): pp. 101–20.
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- <sup>5</sup> Peter Gollwitzer, Heinz Heckhausen, and Birgit Steller, "Deliberative and implemental mind-sets: Cognitive tuning toward congruous thoughts and information," *Journal of Personality and Social Psychology* 59, no. 6 (1990): pp. 1119–27.
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- <sup>7</sup> Irving L. Janis, *Victims of groupthink* (Boston: Houghton Mifflin, 1972); Zweig, Jason, "How to ignore the yes-man in your head," *Wall Street Journal*, November 19, 2009, [www.wsj.com/articles/SB10001424052748703811604574533680037778184](http://www.wsj.com/articles/SB10001424052748703811604574533680037778184).
- <sup>8</sup> Peter Gollwitzer and Ronald F. Kinney, "Effects of deliberative and implemental mind-sets on illusion of control," *Journal of Personality and Social Psychology* 56, no. 4 (1989): 531–42.
- <sup>9</sup> Levine, Robert, *The Power of Persuasion: How We're Bought and Sold* (Hoboken, NJ: Wiley, 2003), chapter 1.
- <sup>10</sup> Shelley Taylor and Peter Gollwitzer, "Effects of mindset on positive illusions," *Journal of Personality and Social Psychology* 69, no. 2 (1995): pp. 213–26.
- <sup>11</sup> Itzhak Ben-David, John Graham, and Campbell Harvey, "Managerial miscalibration," *Quarterly Journal of Economics* 128, no. 4 (2013): pp. 1547–84.
- <sup>12</sup> Michael A. Roberto, Richard M. J. Bohmer, and Amy C. Edmondson, "Facing ambiguous threats," *Harvard Business Review*, November 2006; National Aeronautics and Space Administration, "Report of Columbia Accident Investigation Board," vol. 1, chapter 6, pp. 160.
- <sup>13</sup> Iain Bamford, Nik Chickermane, and Jessica Kosmowski, *Growth through M&A: Promise and reality*, Deloitte University Press, July 1, 2012, <http://dupress.com/articles/growth-through-ma-promise-and-reality/>.
- <sup>14</sup> The Standish Group, "Big bang boom," 2013, <http://www.projectsmart.co.uk/docs/chaos-report.pdf>, accessed July 1, 2015.
- <sup>15</sup> George Castellion and Stephen K. Markham, "Perspective: New product failure rates: Influence of *argumentum ad populum* and self-interest," *Journal of Product Innovation Management*, 30 (2013): pp. 976–79; Joan Schneider and Julie Hall, "Why most product launches fail," *Harvard Business Review*, April 2011.
- <sup>16</sup> Veronika Brandstätter and Elisabeth Frank, "Effects of deliberative and implemental mindsets on persistence in goal-directed behavior," *Personality and Social Psychology* 28, no. 1 (2002): pp. 356–78.
- <sup>17</sup> Gollwitzer, 1990. Indeed, research suggests that tasks can be "reframed" even after a decision has been made and implementation has begun, and that shifting from a "performance" frame focused on process and outcomes to a "learning" frame focused on exploration is associated with improved results. See Amy C. Edmondson, "Framing for learning: Lessons in successful technology implementation," *California Management Review* 45, no. 2 (2003).
- <sup>18</sup> Gary Klein, "Performing a project premortem," *Harvard Business Review*, September 2007.
- <sup>19</sup> Michael A. Roberto, *Why Great Leaders Don't Take Yes for an Answer: Managing for Conflict and Consensus* (Upper Saddle River, NJ: Wharton School Publishing, 2005), chapter 4.
- <sup>20</sup> David Garvin, *Building a Learning Organization* (Boston: Harvard Business Press, 2000), pp. 79–80.

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