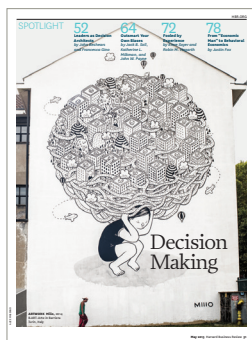


## EXECUTIVE SUMMARIES MAY 2015

## SPOTLIGHT ON DECISION MAKING



The study of decision making spans highly analytic fields (think Bayesian statistics) to deeply psychological ones (think cognitive biases). This package, which includes a review of those perspectives, looks at how leaders can “nudge” employees into better choices and at how people can work around their own biases.

## BEHAVIORAL ECONOMICS

## Leaders as Decision Architects

John Beshears and Francesca Gino  
page 52

Everyone from CEOs to frontline workers commits preventable mistakes—for example, underestimating how long it will take to finish a project or focusing too much on information that supports their current view. It is extraordinarily difficult to rewire the human brain to undo the patterns that lead to such mistakes. But there is another approach: Alter the environment in ways that encourage people to make decisions that lead to good outcomes.

Leaders can do this by restructuring how work is performed, say Harvard Business School's John Beshears and Francesca Gino. In this article, they offer a five-step process for mitigating the effects of cognitive biases and low motivation on decision making:

1. Understand the kinds of systematic errors people make and the factors that affect motivation.
2. Define the problem to determine whether behavioral issues are at play.
3. Diagnose the specific underlying causes.
4. Design a way to tweak the environment to reduce or mitigate the negative impact of cognitive biases and insufficient motivation on decisions.
5. Rigorously test the proposed solution.

**HBR Reprint R1505C**

## MANAGING YOURSELF

## Outsmart Your Own Biases

Jack B. Soll, Katherine L. Milkman,  
and John W. Payne | page 64

When making decisions, we all rely too heavily on intuition and use flawed reasoning sometimes. But it's possible to fight these pernicious sources of bias by learning to spot them and using the techniques presented in this article, gleaned from the latest research. They'll open up your thinking about possible outcomes, objectives, and options and lead to better choices.

To broaden your perspective on the future, the authors suggest, you can use proven tactics for improving the accuracy of estimates and preparing for contingencies. You'll think more expansively about your objectives if you come up with many possibilities before deciding what's most important, get input from others, and then carefully examine one goal at a time. And you'll generate better options if you identify several and evaluate them side by side. Don't settle for the first one that's acceptable; imagine that you can't pursue it, and you might find an even stronger alternative.

Strong emotional attachments or investments make cognitive biases even harder to overcome. When that's the case, use checklists and algorithms to stay focused on the right things, and set “trip wires” to trigger planned responses at key points in the decision-making process.

**HBR Reprint R1505D**

## DECISION MAKING

## Fooled by Experience

Emre Soyer and Robin M. Hogarth  
page 72

We interpret the past—what we've experienced and what we've been told—to chart a course for the future. It seems like a reasonable approach, but it could be a mistake.

The problem is that we view the past through filters that distort reality. One filter is the business environment, which focuses on outcomes rather than the processes that lead to them and celebrates successes while ignoring failures, thus making it hard for us to learn from mistakes. Another is our circle of advisers, who may censor the information they share with us. A third filter is our own limited reasoning abilities. We tend to focus on evidence that confirms our beliefs and gloss over information that contradicts them, and we read too much into our personal experience, which inevitably involves a small sample of incidents.

We can base our decisions on a clearer view of the world if we study failures and near misses—especially the processes behind them; encourage all employees to pursue preventive measures instead of just solving problems; surround ourselves with people who will speak frankly; search for evidence that our hunches are wrong, and encourage employees, data scientists, and consultants to do the same; and broaden our perspective in order to give new meaning to our varied experiences.

**HBR Reprint R1505E**

## RESEARCH

## From “Economic Man” to Behavioral Economics

Justin Fox | page 78

When we make decisions, we make mistakes.

We all know this from personal experience, of course. But in case we didn't, a stream of experimental evidence in recent years has documented the human penchant for error. This line of research is probably best known for its offshoot, behavioral economics. Its practitioners have played a major role in business, government, and financial markets.

But that isn't the only useful way to think about making decisions. The academic arena alone contains two other distinct schools of thought, one of which has a formal name—decision analysis—and the other of which can be characterized as demonstrating that we humans aren't as dumb as we look.

Each school of thought brings vital insights to bear. Managers need to understand when to make decisions formally, when to make them by the seat of their pants, and when to blend those approaches.

This article briefly tells the story of where the three schools arose and how they have interacted, beginning with the explosion of interest in the field during and after World War II and continuing to the present day, when companies such as Chevron have hundreds of decision analysts on staff. Its aim is to make readers more-informed consumers of decision advice—which in turn should make them better decision makers.

**HBR Reprint R1505F**

## The Big Idea

## Features



## STRATEGY

**The 3-D Printing Revolution**

Richard D'Aveni | page 40

The use of 3-D printing, also known as additive manufacturing, has moved well beyond prototyping, rapid tooling, trinkets, and toys. Companies such as GE, Lockheed Martin, and BMW are switching to it for industrial production at scale. More companies will follow as the range of printable materials continues to expand. Already available are basic plastics, photosensitive resins, ceramics, cement, glass, numerous metals, thermoplastic composites (some infused with carbon nanotubes and fibers), and even stem cells. In this article the author makes the case that additive manufacturing will gain ground quickly, given advantages such as greater flexibility, fewer assembly steps and other cost savings, and enhanced product-design possibilities.

Managers, D'Aveni writes, should now be engaging with strategic questions on three levels: Sellers of tangible products should ask how their offerings could be improved, whether by themselves or by competitors. Industrial enterprises should revisit their operations to determine what network of supply chain assets and what mix of old and new processes will be optimal. And leaders must consider the strategic implications as whole commercial ecosystems begin to form around the new realities of 3-D printing.

Many of the biggest players already in the business of additive manufacturing are vying to develop the platforms on which other companies will build and connect. Platform owners will be powerful because production itself is likely to become commoditized over time. Those facilitating connections in the digital ecosystem will sit in the middle of a tremendous volume of industrial transactions, collecting and selling valuable information.

HBR Reprint R1505B

## ENTREPRENEURSHIP

**Two Keys to Sustainable Social Enterprise**Roger L. Martin and Sally R. Osberg  
page 86

## Amazon repurposed public satellite infrastructure to track real-time changes in the Amazon basin.

Social entrepreneurship has emerged over the past several decades as a way to identify and bring about potentially transformative societal improvements. Ventures in this realm are usually intended to benefit economically marginalized segments of society that can't transform their prospects without help. But the endeavors should be financially sustainable, because there's no guarantee that subsidies from taxpayers or charitable givers will continue indefinitely. Grameen Bank is a famous example of a social venture that met both goals.

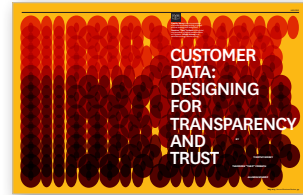
In studying the winners of the Skoll Award for Social Entrepreneurship, the authors found that they all focus on changing two features of an existing system: the economic actors involved and the enabling technology applied. For example, the children's rights activist Kailash Satyarthi realized that reaching ethically concerned consumers through Rugmark (now GoodWeave International) could help foil exploitative labor brokers in India's carpet-weaving industry. And through the Kiva platform, Matt Flannery and Jessica Jackley enabled small-scale lenders in wealthy countries to lend to small-scale borrowers in poor countries. Today GoodWeave operates globally, and Kiva is on track to facilitate more than \$1 billion in microloans within the next couple of years.

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## CUSTOMERS

**Customer Data: Designing for Transparency and Trust**

Timothy Morey, Theodore "Theo" Forbath, and Allison Schoop | page 96



With the help of technology, companies today sweep up huge amounts of customer data. But they tend to be opaque about the information they collect and often resell, which leaves their customers feeling uneasy. Though that practice may give firms an edge in the short term, in the long run it undermines consumers' trust, which in turn hurts competitiveness, say authors Morey, Forbath, and Schoop.

In this article, the three share the results of a survey of 900 people across five countries, which looked at attitudes about data privacy and security. It examined what people knew about the information trails they leave online, which organizations they did—and did not—trust with their data, and which data they valued the most.

The results show that the value consumers place on different data depends a lot on what it is and how it is used. In general, the perceived value rises as the data's breadth and sensitivity increases from basic, voluntarily shared information to detailed, predictive profiles that firms create through analytics, and as its uses shift from benefiting the consumer to benefiting the company. If data is used to improve a product, consumers generally feel the enhancement itself is a fair trade, but they expect more in return for data used to target marketing, and the most in return for data sold to third parties.

To build trust, companies must be transparent about the data they gather and offer consumers appropriate value in exchange for it. Simple legal disclosures aren't enough, however; companies must actively educate their customers and incorporate fairness into their products and models from the start. Companies that get this will win consumers' goodwill and business and continued access to their data. Companies that don't will find themselves at a serious disadvantage, and maybe even shut out.

HBR Reprint R1505H

## How We Did It

### LEADERSHIP

#### Cisco's CEO on Staying Ahead of Technology Shifts

John Chambers | page 35



In his youth Chambers had no interest in technology—until an IBM recruiter suggested that he think of it as a tool for helping customers transform their businesses. Then stints at IBM and Wang taught him that even

great companies are imperiled if they miss a market transition, such as the shift from mainframe computers to minicomputers or from minicomputers to PCs. In the 20 years since he became Cisco's CEO, a whole series of transitions have occurred in the kinds of technology companies rely on and in how organizations consume solutions. Anticipating those transitions and getting ahead of them has driven Cisco's evolution from routers and switches to mobile and video technology to application-centric infrastructure and cloud computing.

The company has three ways to adapt. (1) If it sees a shift early enough, it develops the new technology in-house, as part of the traditional R&D process. In addition, its Entrepreneurs in Residence program financially supports and mentors early-stage entrepreneurs working in areas where Cisco sees huge potential, such as big data analytics and enterprise security. (2) It may make an acquisition—as it has done 174 times. (3) It may use a “spin-in,” assembling some engineers and developers to work on a specific project outside the company, as if they were at a start-up.

“You have to be bold,” Chambers writes. And you need “a resilient culture with an appetite for change.”

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## Managing Yourself

#### The Art of Evangelism

Guy Kawasaki | page 108



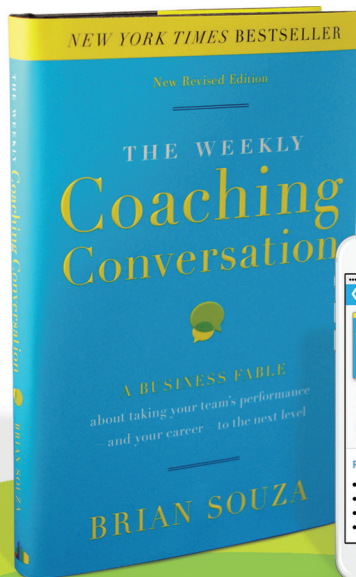
The author was Apple's second software “evangelist” and is now the chief evangelist for Canva, an online design firm. He believes that all managers can adopt the practice, with great benefit to their organizations and their careers. No matter what your company, it probably offers something valuable and differentiated and therefore worth evangelizing about: if not goods or services, then corporate values, cutting-edge accounting practices, or flexible work-at-home policies.

Kawasaki outlines three ways to effectively evangelize: (1) *Schmoozing*. This requires you to get out of your office, ask questions, unveil your passions, follow up with people, e-mail effectively, make it easy to get in touch with you, and do favors. (2) *Public speaking*. You need

to deliver quality content, omit the sales pitch, customize the speech for your audience, focus on entertaining your listeners, tell stories, circulate in the audience beforehand, control scheduling and venue when you can, and practice and speak all the time. (3) *Social media*. When posting you should offer value, be interesting, take chances, add drama, tempt with headlines, use hashtags, and stay active.

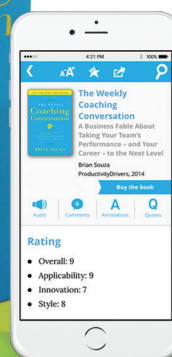
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