

*“From Behavioural Economics
to Behavioural Business”*

Strategic Decision Making and HR

HRFEST

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By **Sandy Vaci**, Founding Partner - Nov. 4, 2020, HUNGARY

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Sandy Vaci – Founder



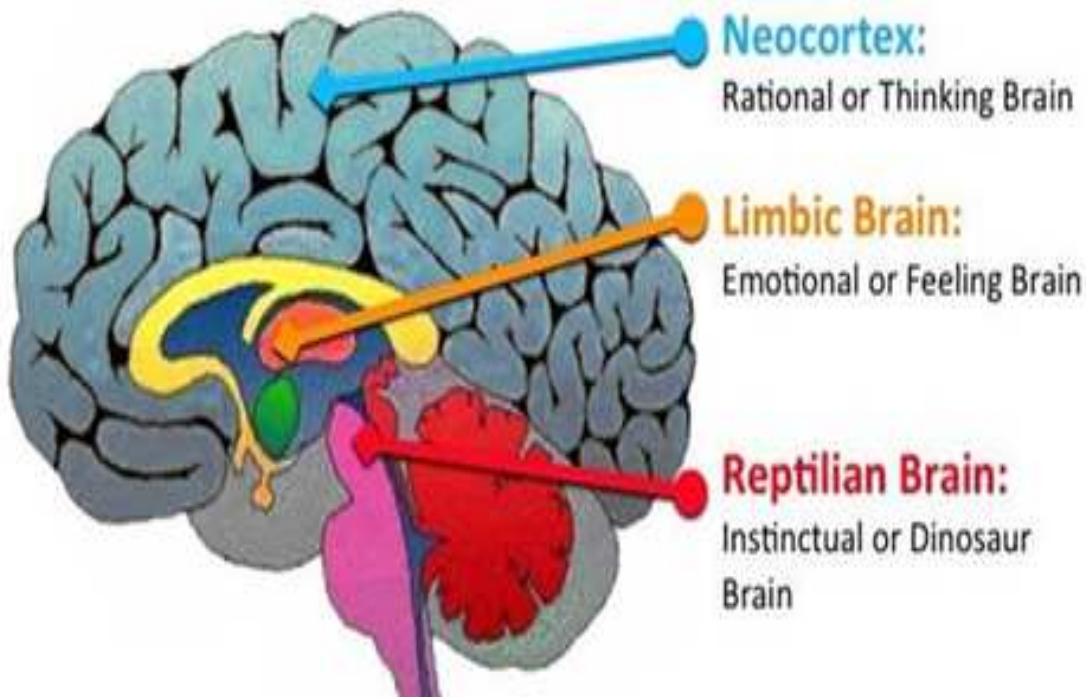
Frigyes Endersz - Founder



Olivier Sibony - Inspiration

“NeuroCognitive and Behavioural Approach”

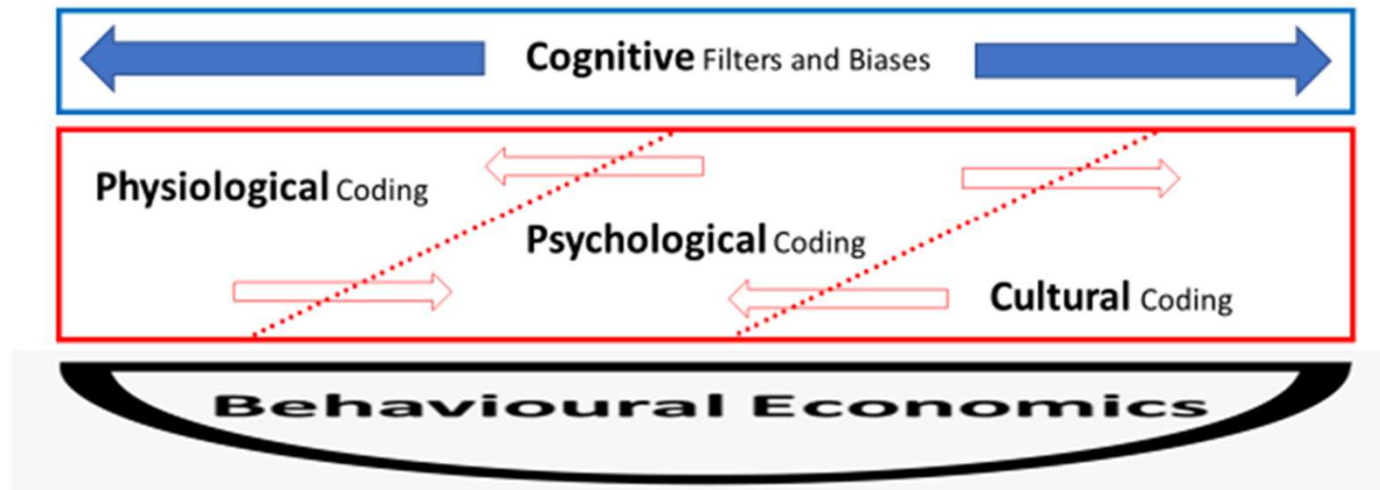
Three Drivers of the Car Called “Brain”



- 2-3 mill. yr. old (“New Kid on The Block”)
- Conscious decisions, abstract thinking
- Cultural biases
- Makes us sentient, intelligent individuals
- 150 mill. yr. old
- Psychological and some physiological biases
- Creates individuality in us
- Makes us social beings (like primates)
- 500 mill. yr. old
- Evolutionary (physiological) biases
- Survival instincts
- Makes us adaptable animals

Behavioural Business

DECISIONS and ACTIONS Based On Built-In Drivers of Human Information Processing and Responses



Physiological Codes: Mostly programmed into us during evolution, to ensure survival

Psychological Codes: Develop as we grow up, influenced by our immediate environment

Cultural Codes: Develop as we grow into, and adapt to, our wider environment

Cognitive Biases: Sum total of all coding, but usually in a non-differentiated, "integrated" way

Behavioural Economics: Takes all this coding into account for better business predictions

Behavioural Business: Better decisions, communication and actions - based on all of this

Cognitive Biases

They are...

1. Individual
2. Hard to see
3. Mostly useful
4. Impossible to eliminate

Note:

- Impossible to define “*the Bias*” responsible
- Not all bad decisions are due to biases

SYSTEM 1

First Reactions

95%

Fast
Automatic
Impulsive
Little / No Effort
Emotional

SYSTEM 2

Thinking

5%

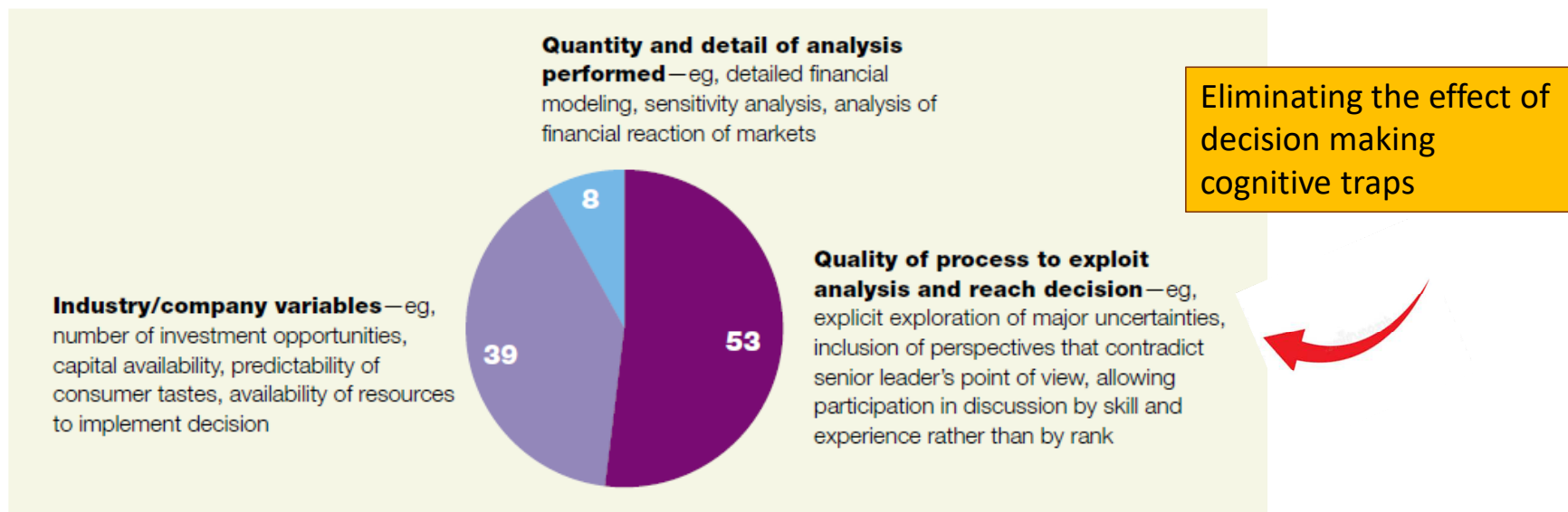
Slower
Deliberate
Reflective
Effortful
Analytical



Source: Daniel Kahneman

Eliminating the effect of cognitive traps – WHY?

- McKinsey study of 1048 decisions – success measured by revenue, profitability, market share and productivity increase
- Percentage contribution to decision success:



9 Decision Making Traps – Prof. Sibony's Methodology



1. Story telling
2. Imitation
3. Intuition
4. Overconfidence
5. Inertia
6. Risk perception
7. Time horizon
8. Groupthink
9. Conflict of interest

Decision Making Trap #4

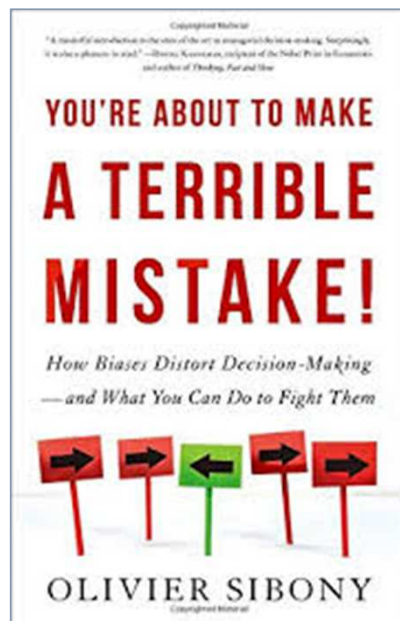


“Overconfidence”

- Own ability overestimation
- Planning fallacy (optimism)
- Precision overconfidence
- Competitive ignorance
- **Leadership bias (action bias without solid decision first)**
- **Control bias (optimistic about uncontrollable items)**

Role of the Leader

From “Lead and Decide” to...



- Lead and *be prepared* to decide
- Conduct “Decision Making Orchestra”
- **Create Strategic Decision Architecture**
- Use the “40 Yes/No” template

Business Challenge: Building a Decision Architecture

- A. Orchestrate **dialogue**
- B. Encourage **divergence**
- C. Create the right **environment**
- D. Start using your **tools**



Your “Architecture Development Template”

- A) Dialogue - 10 Yes/No questions
- B) Divergence - 12 Yes/No questions
- C) Environment - 12 Yes/No questions
- D) Tools - 6 Yes/No questions

**Simple,
40-question
template
from**



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HR challenge – from player to conductor...



1. How to **select** potential future leaders, capable of making the change?
2. How to **define** in advance, and spot in time, the “change point”?
3. How to **help** leaders make the change?
4. How to **embed** the new approach in the organization?
5. How to **ensure** you do it right?

If you'd like to learn more, you are invited to...

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Recap and THANK YOU



- From Behavioural Economics to Behavioural Business
- 3 levels of coding, 9 cognitive decision making traps
- Create a strategic decision architecture – “40 yes/no” template
- Special HR challenges – shifting role of executives
- For more information:

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