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MY THOUGHTS

Exactly...

Considering the knowledge and influence psychologists hold over people, *The CEO Magazine* thought it would be invaluable to adopt a business framework and apply it to the complex world of psychology.

By Philip Owens and Jay Garcia

Many philosophers have found identity and understanding through the analysis of their thoughts—from Descartes' famous claim "I think, therefore I am" to Gandhi's quote "A man is but the product of his thoughts. What he thinks, he becomes." Eastern and Western thinkers have agreed that what a person thinks or believes dictates that person's actions, and perhaps even their character.

However, the complexity of people acting as individuals or in groups means it is nearly impossible to apply objective measures to thoughts, feelings, and even behaviours. It would therefore become infinitely more difficult when we start to consider interactions, relationships, and exchanges between individuals. The human capital of the business is therefore impossible to measure

accurately, so it is here that a CEO has to shift from the hard numbers that can drive a business into the slightly fuzzy, less well-defined world of business psychology.

Business psychology takes two complex fields of study and blends them into one discipline. It adopts the learnings and analytical approach that stem from psychology and applies those teachings to a business environment in order to optimise a company's structural, operational, and interpersonal skills. The reason psychological understanding is so valuable to businesses is because all companies are composed of people—sentient beings who are driven by their thoughts and emotions. Psychology is the study of human interaction, thought, behaviour, and understanding, helping people to better adjust to their own cerebral capabilities and the society that surrounds them.

Considering the complexity of psychology, *The CEO Magazine* spoke with Dr Gerri Spassova, Senior Lecturer at Monash University, who specialises in consumer behaviour. "Among the various subfields within psychology, social psychology and cognitive psychology are perhaps of most relevance to organisations," she says. "The first one studies how people function in a social context. For example, we know that our opinions and behaviour are often influenced by the people around us as much as they are a product of our internal beliefs and values. Individuals or groups of people we connect with matter a lot to us, and we trust them more than we trust institutions or companies.

"Cognitive psychology focuses more on mental processes such as attention, memory, and perception. For example, we know that perception is highly susceptible to

contextual effects. The same wine will taste significantly better if it comes in an expensive-looking—versus a cheap—bottle, or if it is served in a classy restaurant versus a diner.”

Advanced studies into perception and focus demonstrate that we utilise cognitive short cuts (heuristics) to allow us to reduce the effort in getting to common answers. However, this implies that when circumstances are a little different, we will make errors.

We create and maintain schemas in our minds to represent common things, including people, situations, and social rules. Have you ever walked past someone in

a shopping centre and could have sworn it was someone you knew, and then you take a second look and realise it is a complete stranger? That is your mind employing a heuristic—and coming up with an error. It also affects what we choose to focus on and what holds our attention.

For CEOs, it is critical to be aware that in yourself and those who work in your organisations there are always schemas in use. By recognising this, and that it will lead to errors in focus, attention, and decision-making, a great leader might use self-awareness or some personal reflection to check if the decision is valid or just a short cut to the fastest answer.

“A relatively newer discipline that has gained prominence in recent years is behavioural economics,” Gerri explains. “Behavioural economics combines insights from both psychology and economics and deals with how people make judgements and decisions, and, specifically, with the less rational aspect of human thinking and behaviour.”

“Consider, for example, a situation where a company selling bread makers has a very expensive model that has low market share. An intuitive way to address the low demand for this model may be to lower its price or to advertise it more aggressively. A less intuitive solution is to introduce an even more expensive bread maker. In comparison to this new model, the original bread maker will no longer seem so outrageously expensive, and its market share may actually go up. This happens because we often don’t have absolute criteria for what is

expensive or cheap, high quality or low quality; instead, we use readily available reference points to make judgements.”

There has been a lot of work done around behavioural economics and game theory. It appears that people are motivated tacticians, and we have a number of different strategies open to us that we choose between depending upon what we believe will be in our best interests. However, game theory always stumbles at the point of pure rational behaviour, because it cannot fully take into account the social and unconscious motivations which impact choices that individuals make.

In the end, people are complex individuals that may not even know how they are motivated. Understanding the potential frames of motivation can help you consider what may motivate any particular staff member or group of people—or even yourself.

The way things are framed can alter people’s decisions and perceptions in seemingly irrational ways. “This can be illustrated with the now-famous example of the burger that is 20 per cent fat versus 80 per cent lean,” Gerri suggests. “You can guess that promoting the burger as 80 per cent lean versus 20 per cent fat will gain you many more customers, even though it is objectively exactly the same burger and you have not misled the customers in any way. It’s just that framing it as 80 per cent lean draws attention to the virtue aspect of the burger, whereas framing it as 20 per cent fat draws attention to the evil fat content.”

“This is an example of what psychologists call ‘loss aversion’, or the finding that the pain of losing \$50 is felt more strongly than the happiness of finding \$50. Managers who deal with prices are



aware of this phenomenon as they know very well that a price increase is likely to be felt more strongly by customers than the equivalent price reduction. If you are interested in finding out more about the field of behavioural economics, you can read *Thinking Fast and Slow* by Nobel laureate Daniel Kahneman, or *Predictably Irrational* by Dan Ariely; both are fascinating reads."

With all of the work done on 'emotional intelligence' and 'authentic leadership', it has become clear that self-awareness is a critical skill of leadership. People will operate out of habit and defensiveness if they are pushed into stressful or challenging scenarios. This often leads to rigid approaches to situations, which frequently do not promote the best outcomes. Learning all of our good and bad styles, preferences, and how you show up as CEO, partner, friend, and leader means that you can choose your style independently from the circumstance, be flexible and empathetic, and achieve the best outcome for the group as well as for your own personal needs.

In 1983, Howard Gardner proposed an idea that there were multiple intelligences, of which IQ was just one component of all the ways someone could express their skills and capabilities. Non-IQ intelligence included artistic intelligence, kinaesthetic intelligence, and emotional intelligence. Daniel Coleman wrote an international bestseller on emotional intelligence and all of a sudden EQ became standard language in business and self-development circles.

There is some argument that if EQ is a trait that someone can possess, is it fixed or learnable? As it is made up of very specific interpersonal and cognitive skills, it appears that it can be both taught

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and learned. It focuses on identifying, using, and managing emotions in yourself and others. Obviously, a key element of EQ is self-awareness and being present enough with yourself and others that you can be aware of the emotional atmosphere in which things are occurring.

Self-awareness and emotional intelligence show how attuned a person is to their thoughts and motivations. "Managers often make decisions based on intuition, and their intuition is generally correct. There are, however, many instances in which intuition fails us, and this is where psychology may help. Consider, for instance, the so-called 'choice overload' phenomenon. Many retailers compete on the comprehensiveness of their assortments, the assumption being that people prefer more choice and variety.

"Research in psychology, however, shows that giving consumers all the choice they want is a double-edged sword," says Gerry, "because even though we may be attracted to a large assortment, we end up being less satisfied with our purchase and may even decide not to purchase at all when there are too many options. This is because the product information becomes too much to process—information overload—and also because we are left with the nagging feeling that we missed out on all those other attractive options. This is something that not only retailers but also financial or retirement-plan advisers should keep in mind as they decide on the optimal number of financial instruments to offer to their customers."

Corporate culture relies on many factors, but, from a CEO point of view, it is about going first, walking the talk, and enforcing clear standards. Too often, leaders want a culture of openness and transparency but do not hold

themselves to the same standard as everyone else.

People are looking for certainty and fairness during change. CEOs can leverage their idiosyncratic credia, their ability to influence, and their authority to ensure people get clear messages and have the ability to stay both engaged and motivated. Talking about the elements of engagement and purpose can be valuable during such times.

"Psychology can also provide useful tools for managers to motivate employees," Gerry notes. "Social psychologists EL Deci and RM Ryan, for example, distinguish between extrinsic and intrinsic motivation. When we engage in something for internal satisfaction or pleasure because we truly enjoy it, we are intrinsically motivated. When we engage for reasons such as receiving a reward or avoiding a punishment, we are extrinsically motivated.

"It has been shown that intrinsic motivation is significantly more effective than extrinsic motivation, and that we are more likely to persist towards a goal if we are intrinsically motivated to do so. Not only this, but offering external rewards for an already intrinsically motivated activity may actually undermine our internal drive. Managers should keep this in mind, as giving employees freedom and flexibility to work on tasks they truly enjoy and find satisfying may be more effective than material rewards."

The art of social influence has been well covered by Robert Cialdini, and more recently there has been a rash of 'neuromarketing' ideas that propose the link between neuroscience and psychological influence. All of these ideas are really valuable in understanding how people (particularly your >



customers and staff) may behave the way that they do.

There is a large body of research into hypnosis and the use of language and hypnotic approaches to influence. We know that working with someone in their frame of reference and ensuring that we are adding value to their experience (not just manipulating them for our own) is critical in driving long-term behaviour change—that is, you can forget trying to manipulate people; influence comes by working for their benefit (as well as yours).

"For us as consumers, psychology can provide valuable insights into our own thinking and behaviour," Gerri explains. "Many of us want to eat healthier, exercise more, reduce credit card debt, or stick to New Year's resolutions, but these lofty goals often evade us. Psychology can be very helpful in this respect as well. For example, Professor Brian Wansink from Cornell University in the US has shown that we have a much higher chance of shedding a few pounds and sticking to it if we cut out just one small item from our daily menu rather than embarking on a spartan diet—it will also be a lot less painful!"

"Wansink and his team have come up with a number of other clever tricks for those who want to lose weight, such as using smaller plates and smaller cutlery, putting tempting foods out of sight, or even wearing tight clothes so we feel full! Also, we are more likely to stick to a plan of action if we write it down on paper or if we share our intention with a friend."

One of the challenges of applying psychological frameworks in the business is translating what is coming out of research into real-world actions that make a difference. Most research is done in very specific settings and under controlled conditions—it has to be to generate outcomes that are valid. However, business is neither that controlled or well defined. In any situation, a range of confounding factors will always exist because we manage businesses and people in the real world.

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One big issue emerges—any single real-world behaviour can be explained by a number of theories. Depending upon the theoretical lens that a CEO uses, they will see aspects of a team's formation and development in very different ways. It also directs their focus. For example, are they looking at creating clear roles in the team as a priority, creating a strong sense of inclusion, or shifting the incentives and resources to drive performance. Depending on your theoretical standpoint, each may be entirely justifiable. However, in the real world, things are never that precise, so a CEO should have a broad overview of what can contribute to a successful outcome and think holistically, or get a specialist in for advice.

Often psychological principles are packaged and sold as manipulation tools and tactics. This is an unfair description of what psychology truly offers business, but it is what is commonly seen (check your inbox for all of the email marketing that is based on these principles). The very best of psychology in business can be used to drive deep insights into both the business and the market, to allow enhanced decision-making and action-taking to improve business outcomes; the very worst plays on the desperate need of some people for mind-jacking, short cuts, or manipulation to reach their goals.

For CEOs, the real value of business psychology is creating understandable theoretical frameworks which allow the messy human dimension of a business to be understood, or even predicted, and to allow better decisions and to deliver better results. It brings the human element of the business model into the boardroom, along with Keynesian and Taylorian thinking, for a more balanced leadership view. It also allows a CEO to be aware of the many tactics that people crudely apply in business to get their way. Being aware of them can make you less of a mark while helping you to become a more conscious leader. ●