

Professional Judgment

A behavioral problem for regulatory governance

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Case



- A semi-public organization goes bankrupt ...
- ... question is: is the CEO culpable of mismanagement?
- ... you are asked to assess the now available information

My question:

Do you think the CEO is culpable of mismanagement?





- The organization's business model was built on expected growth in revenues while in reality revenues were decreasing.





The CEO was “Public manager of the year 2019”





- The CEO is said to take all financial decisions mainly on his own





- The CEO had been warned by the external auditor





- The organization's decisions regarding outsourcing are compliant with European regulations





- Many organizations in this sector have run into financial problems since 2008





- There were regular management meetings with all managers, where crucial decisions were on the agenda





- The organization outsourced some tasks to contractors from the CEO's immediate network for large sums of money



So?



- How likely is it (on a scale 0-100) that the CEO is culpable of mismanagement?
- And for what reasons?



A situated experiment



- Scenario based on classic psychological experiment
- A realistic assessment with experienced professionals: regulatory professionals and judges
- Demonstrates:
 - 1) our judgment is feeble, and
 - 2) accountability significantly improves judgment



Results in this case



- **Research question:** the effects of various types of accountability on the quality of judgment by accountability forums

- Measures for quality of judgment
 - **Effort:** time spent on the task

 - **Accuracy:** nr of errors made

 - **Informed:** nr of reported statements

 - **Unbiased:** no recency effect



Relevance: judgment is terribly difficult

- Research in psychology/decision making shows many failures (Tetlock)
- Philosophy: *Das Ding an sich ist Unbekanntes* (Kant)
- Psychology: *A lazy machine for jumping to conclusions* (Kahneman)



7-11-16 'Clinton has a 90 percent chance of winning'





Predictably irrational humans

System I

System II

Automatic

Reflective

Uncontrolled

Controlled

Effortless

Effort-full

Emotional

Deductive

Fast

Slow

Unconscious

Conscious





Psychology of accountability

- People as intuitive politicians and intuitive prosecutors
- Prevalence of system 1: “low-effort cognitive strategies” to satisfy the ‘prosecutor’
- Biases: ‘systematic deviance from rationality’
- Heuristics: intuitive rule of thumb solutions



Confirmation bias

Member board: *"I pretty much know what sort of issues these types of organizations have"*.

Confirmation bias: our observations too readily confirm our prior expectations



Personal top 7 errors of judgment

Phase one: observation

1. Confirmation bias: confirmation of prior expectations
2. Hubris: over-confidence on judgmental capacity

Phase two: judgment

1. Anonymity effect: sub-optimal information processing
2. Group-think: dissociation through internal closure
3. Fundamental attribution error: erroneously blaming agent

Phase three: conclusions and recommendations

1. Availability heuristic: excessive focus on the readily available
2. Bandwagon-effect: over-reliance on popular solutions



Evidence from research on regulatory judgment

Judgments found to be influenced by

- ... framing information
- ... presentational order information
- ... role of attorneys
- ... fatigue
- ... ambiguity avoidance



SO?

Regulatory professionals all have impossible – inhuman - jobs



What can be done?

Professional solutions

- Checks and balances
- Professional norms, training, teams and routines

Professional risks

- *We know* 'repeat players' are better ...
- ... but also over-confident

Accountability

- Timely and targeted feedback
- Power of anticipation

Individuals

- Confidence + self-reflection
- "Respect for the game"

