

Professional Judgment

A behavioral problem for regulatory governance

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- 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 CEOs immediate network for large sums of money







- 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
- accountability significantly improves judgment



Results in this case



- Reseach 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

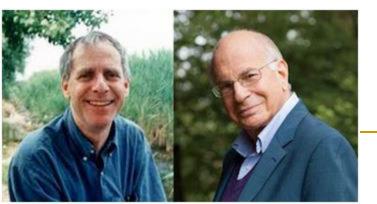
System I

System II

Automatic

Reflective

Uncontrolled Effortless Emotional Fast Unconcious Controled Effort-full Deductive Slow Concious







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. Anonimity 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

- Interpretended in the second secon
 - ... presentational order information
 - ... role of attorneys
- … fatigue

... ambiguity avoidance





Regulatory professionals all have impossible - inhuman - jobs



What can be done?

Professional solutions

Professional risks

Accountability

Indidividuals

- Checks and balances
- Professional norms, training, teams and routines
- We *know* 'repeat players' are better ...
- ... but also over-confident
- Timely and targeted feedback
- Power of anticipation
- Confidence + self-reflection
- "Respect for the game"

