

GIBBS & SOELL

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Overconfidence, Delusion and Voices of Reason

*"He who ascends to mountaintops, shall find
The loftiest peaks most wrapt in clouds and snow..."*
- Lord Byron

In a recent article in *The New Yorker*, Malcolm Gladwell, author of best-sellers *The Tipping Point*, *Blink*, and *Outliers*, explores the problem of overconfidence in business. He describes a psychological experiment in which traders from an investment bank were presented with a set of buttons and a computer screen with a line moving across it, sometimes turning upward or downward. They were asked to press the buttons, and told that this might or might not affect the movement of the line. Afterward many of the traders felt they'd been successful in manipulating it – but in truth, the buttons had no effect at all.

Gladwell's point is that humans tend to overestimate the accuracy of their own judgments and the degree of control they have over events. The more experience and success a person has had, the more overconfident he'll tend to become.

His thesis may carry especially important lessons for communications professionals, who, because of our relationships with key stakeholders, are in a unique position to question whether an organization is losing touch because of overconfidence.

The 2008 financial crisis provides striking examples of extremely rich and successful executives losing touch. Gladwell cites the book *House of Cards*, by William D. Cohan, which chronicles the fall of investment bank Bear Stearns in early 2008. "Until the very end," he writes of the firm's chairman and CEO, "he evidently saw the world that he wanted to see." Says one analyst in the book: "They forgot the basic concept of risk and return. They got caught drinking their own Kool-Aid."

SpinCo, Delusion City

A more recent book, *A Colossal Failure of Common Sense* (McDonald and Robinson), details missteps

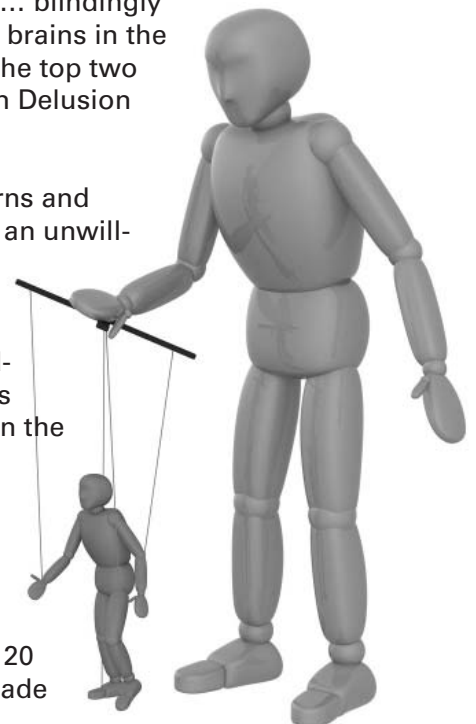
leading to the bankruptcy of Lehman Brothers later in 2008:

- Ratcheting up the firm's leverage, much of it built on subprime mortgages, to 44 times assets in 2007, *even as clear signs appeared that the mortgage bubble was beginning to burst.*
- CEO Richard Fuld antagonizing Treasury Secretary Hank Paulson by telling him, "Don't tell me how to run my company." He then misrepresented the meeting in an internal e-mail: "We have a huge brand with Treasury."
- A last-gasp plan, with the firm's debt at a mind-boggling \$660 billion, to move Lehman's bad assets to a new entity to be called SpinCo (really). The plan was ridiculed in a memorable rant by a Lehman managing director in front of 80 top executives.

In the words of the author, a former Lehman vice president: "It was... blindingly obvious to the big brains in the organization that the top two guys were living in Delusion City."

At both Bear Stearns and Lehman Brothers, an unwillingness to heed warnings and cut losses by acting on the impending subprime crisis played a key role in the firms' downfall.

Contrast this with Mattel's handling of the crisis over lead paint and loose magnets on 20 million Chinese-made



toys in the summer of 2007. The company accepted responsibility, put its CEO out front, apologized, issued a second apology to *the Chinese* after finding that a Mattel design flaw created some of the problems, and committed itself to a major recall. Wrote John Quelch of the Harvard Business School: "The CEO knows that Mattel's brand trust – built up over 62 years – is at stake." The recall cost \$42 million in 2007, but Mattel finished the year with sales and profits both up over 2006.

Needed: Voices of Reason

Research psychologists use the term "overconfidence" in place of more morally charged words like arrogance. They describe it as a state that most humans are susceptible to, rather than a character trait.

And while we might expect to find egregious examples in the rough-and-tumble, confidence game of investment banking, overconfidence doesn't discriminate. Most marketers and PR people have seen it in one form or another.

It could be launching a new brand based on features that don't matter to customers, underestimating a competitor's new technology, or pricing a me-too product at a stiff premium.

It could be misleading partners or regulators about vital interests, greenwashing, or trying to hype a minor initiative as a major CSR commitment.

Rather than overconfidence or arrogance, we might call it "internal focus," "tunnel vision," "navel-gazing" or, like Bear Stearns, "drinking the Kool-Aid."

This is where communicators can play a critical role as a voice of reason – or collective conscience – in our organizations. It's our job to manage perceptions of custom-

ers, influencers, regulators, media and other key audiences. To manage these audiences, we have to be in touch with them. And if we're in touch with them, we can bring them into the meeting room by representing their points of view:

"We know regulators are critical to getting this product launched. How will they see this?"

"Didn't market research show that customers don't really care about our R&D investment – the reason they buy is the relationship with our local rep?"

"We're hearing from the media that people are becoming skeptical of green claims. We need to be sure we can really back it up."

Research Adds Authority


When the PR people speak up, will top management listen? Every situation is different. But PR has a tool that can add authority and credibility to its arguments: research.

Research can be as big, formal and expensive as a major quantitative study involving 1,000 people or more. Or it can be as simple and informal as ongoing dialogue with reporters and editors to discern viewpoints and gather intelligence. In-between are various tools such as focus groups, surveys, content analysis of news media or social media, and structured audits of an organization's leadership.

Primary research conducts new studies and generates new data. Secondary research, sometimes overlooked but often valuable, involves mining pre-existing data and information for insight on a current situation.

Having done our research homework, armed with solid information on the views of key

stakeholders, PR people can cut through the "clouds and snow" of overconfidence, help point their organizations toward rational positions and sound decisions, and even prevent full-blown disasters.

In the fairy tale *The Emperor's New Clothes*, it takes a young child to point out that the emperor is, in fact, parading in front of his constituents wearing nothing at all. We can always count on somebody bursting the bubble of deluded overconfidence. Let's not let our organizations go out there naked. 

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