Should we be blaming the bankers? The importance of understanding thinking style preferences within the financial sector

In the current financial crisis people are blaming the banks and the bankers, who, in turn, are arguing that they did the best they could at the time. But research shows that executives are often more judgmental and less rational than they think they are and the decisions that they make, particularly under pressure, are affected by certain biases and skewed ways of thinking that they are unaware of.

So, rather than blaming the bankers, which, although may make us feel slightly better in the shorter term, is not altogether helpful, we need to encourage them to become more aware of how their own thinking style preferences affect the ways in which they make decisions, solve problems, evaluate risk and formulate strategy. The new psychological science of *behavioural economics* recognises the importance of individual thinking styles in how executives, bankers and investors operate.

Cognitive biases drive the kind of information people prefer to concentrate on and how they prefer to use that information. Individuals' preferred thinking style combinations go further than that – they give indications of the kinds of shortcut thinking they like to use: some people call this 'intuition' or 'gut-feel', academics and researchers call these short-cuts 'heuristics'. Although short-cut thinking can be a vital timesaver in a pressured situation, the consequence of it is that executives tend to use their preferred thinking styles to the exclusion of others when time is short. Executives therefore ignore information they are not cognitively comfortable with meaning that their decisions, problem-solving approaches and strategy outcomes are not optimised and their cost-benefit analyses assessments are often weak.

What does this mean in practise in the financial sector?

1. Understanding executives' risk characteristics are vital; research shows key factors are the information they prefer to focus on and whether they can appropriately balance their intuition with appropriate analysis.

2. Basing decisions on information that is sub-consciously skewed leads to wrong valuations and investment mistakes, which in turn can lead to market distortions.

3. Lack of time is a major factor in poor decision-making: developing thinking flexibility to help people to manage their attention in the time they have available is critical for improving decision outcomes.

4. People tend to seek information that confirms their biases - by the time they accept the need to adjust their beliefs (if they ever do) it may be too late.

5. If emotion overrides rational decision-making, whole brain thinking is not optimised. Under stress or time pressure, people's thinking styles become less flexible and more rigid and their heuristics are driven by their own biases and short-cuts which reinforce flawed thinking.

To improve the quality of any problem solving and decision-making, not just strategic decisions, the decision-makers need to fully understand how they arrive at their decisions. For example: What is their temporal balance? How long or short- term do they tend to think? Are they so proactive that they risk taking action before they have all of the critical information? Do they make correct or incorrect intuitive leaps? How do they use their own personal heuristics to balance the analytical and the intuitive? Do they tend to rely on what is familiar or do they prefer to seek new information from other people and other markets, making their decision-making potentially slower and making them erroneously appear indecisive?

This is just a flavour of the areas of executive development which focus specifically on how thinking both underpins and drives behaviour, and how critical that understanding is for both the present and the future of the financial services sector.

What can Thinking Styles do within this context? It shows financial executives:

- *How their judgements may be unconsciously biased*
- *Their balance between the intuitive and the analytical*
- *The heuristics they prefer to adopt*
- *Their approach to risk*
- *Their flexibility of thinking style*
- *How they are likely to react, cognitively and behaviourally, under pressure.*

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