Why looking on the bright side keeps us from thinking critically.

The Dark Side of Optimism

By Susan Webber

Has positive thinking gone too far in corporate America? That may sound like a bizarre question: Optimism is widely seen as a virtue of American culture and key to success in business. Cultural norms and beliefs about good business practice increasingly stress looking at the sunny side and de-emphasizing the problematic.

But such overly positive thinking is difficult to reconcile with the need to make realistic, objective assessments. Finding the right balance between healthy optimism and delusion is harder than one might imagine, for both individuals and institutions.

And despite years—decades—of sobering examples, we don't seem to be any closer to that balance. The recent recklessness of residential and commercial real-estate lending was in plain view, and a vocal minority wrote about it. But the financial and business communities dismissed all the warnings, insisting that any damage—should it ever arrive—would be contained to the subprime sector. The folly was obvious: Even if decision-makers had deemed the grim forecasts to be of low probability, the potential outcomes were so dire that they *demanded* contingency plans. On other fronts, experts are issuing warnings about the dollar's continuing slide, which could worsen international financial stability, and about oil prices, and the hiring slowdown, and any number of potential crises looming in the near future.

We acknowledge these problems and their seriousness—and then put them out of mind. Instead of treating worrisome developments as new information and looking dispassionately at the risks, we tend to avoid working through downside scenarios because they are upsetting. It's simply easier to put on blinkers and believe everything will work out than to confront the complexities of modern life.

"Negativity," an awkward coinage, has widely come to be used pejoratively. Magical thinking, too, has become increasingly popular as a way to gain the illusion of control in an uncertain world. Rhonda Byrne's motivational best-seller *The*

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Secret, for example, basically says that you get what you wish for. If you don't have the things you want, it means you don't have enough faith. In this construct, neither insufficient effort nor bad luck plays a role.

In the business world, we've moved from hardheaded to feel-good management. As *Financial Times* columnist Lucy Kellaway observed recently: "For people in any position of authority the ability to say no is the most important skill there is. . . . No, you can't have a pay rise. No, you can't be promoted. No, you can't travel club class. . . . An illogical love of Yes is the basis for all modern management thought. The ideal modern manager is meant to be enabling, empowering, encouraging and nurturing, which means that his default position must be Yes. By contrast, No is considered demotivating, uncreative and a thoroughly bad thing."

To illustrate, Tom Peters' *Leadership* offers an impossible, irreconcilable list of exhortations: Be a great salesman, great storyteller, great performer, networking fiend, talent fanatic, relationship maven, visionary, profit-obsessive, and (of course) an optimist. Push your organization; know when to wait; love mess, politics, and new technology; lead by winning people over; foster open communication; show respect; embrace the whole individual. Granted, Peters does give a couple of breaks—leaders get to be angry and make mistakes. But his list is all sizzle, no steak. Not only are his executives reluctant to say no—they don't develop any of the guts of what managing is *really* about: making decisions under uncertainty, creating routines, developing (not merely exhorting) direct reports, responding to crises, building in enough slack to deal with low-probability but high-consequence opportunities and risks.

> Detached, rigorous thinking doesn't fit any of our cultural models.

The religion of management has instead shifted from hard skills to soft, interpersonal ones. While the human touch is important, making it the gold standard of good management practice is dangerous. It reinforces, rather than counters, the role of emotion in our decision processes.

The end result is a bias against critical thinking. It's hard enough, in the delicate social web of most organizations, to question the merits of any given proposal offered in good faith. But now decision-makers stagger under the weight of larger social trends and management fads that favor belief and force of personality over dispassionate analysis. Detached, rigorous thinking simply doesn't fit any of our cultural models. In his 1949 classic *The Hero With a Thousand Faces*, Joseph Campbell showed that the hero's journey is a story found in every culture—just as management literature about leadership, whether knowingly or not, casts corporate chieftains as prototypical heroes. But what archetypes do we have for the anodyne analyst? In mythology, Hermes and Loki were clever but also troublemakers and tricksters. Science fiction, too, has long depicted alien beings as detached, logic-driven Cassandras whose warnings are invariably brushed off by upbeat, forward-thinking Earthlings (whose impetuosity, more often than not, saves the day). But that's just it—it's *science fiction*.

The "Bright Side" of Bias

In the real world, it's troubling enough that most of us overrate ourselves and, by extension, our enterprises (see "Are You—Yes, You—Deluding Yourself?" on page 34). But our social orientation makes us more suggestible than we realize in other ways. Out of his own frustration with how easily a smooth salesman could manipulate him, social psychologist Robert Cialdini studied how "influence professionals" exploit our reflexes. His findings, along with those of other psychologists, explain the ways in which optimism can trump logic:

Liking. Cialdini pointed out that we are more apt to comply with those we like—that is, people who are similar to us *and* people whom we find attractive. We are therefore more likely to shun someone who pours cold water on our pet ideas. Thus, people who want social influence will reinforce—or, at least, not dispute—optimistic assessments. To smooth their dealings with others, people resort to white lies—large and small—with startling frequency: A study by social psychologist Robert Feldman found that 60 percent of his subjects told lies, at an average frequency of two to three lies per ten-minute period. No surprise that our co-workers and colleagues reinforce and amplify our rose-colored views more often than they dispute our assessments.

Consistency and commitment. Most of us feel the need to be consistent, not only because society highly values such reliability but because doing so makes it much easier to function in life. As Cialdini suggested, it's simpler to adhere to successive actions and decisions and hope that everything will somehow work out well than to return to initial principles each time you must make a decision. But in an organization, this attachment to commitment can lead to inflexibility, particularly when an initiative or investment that looked good in the planning stages falters in the field. In game theory and economics, the practice of taking unsound actions to justify measures taken earlier is called "irrational escalation."

Confirmation bias. People tend to look for information that proves, rather than disproves, their theories. In 1960, British researcher Peter Watson gave subjects the number sequence 2-4-6 and asked them to identify a rule. The participants could then ask the experimenter if other three-number series fit the rule: For instance, those who believed the numbers had to be even asked about numerous even sequences, whereas people who thought numerals had to increase by two offered several such orders. Some 80 percent of participants overthought the simple problem and got the wrong answer: The numbers simply had to be in ascending order. Watson's study is called a "cold" form of confirmation bias; it merely demonstrates the propensity of humans to look for supporting rather than falsifying data points. "Hot" confirmation bias refers to cases in which the belief is emotionally charged. Not surprisingly, researchers have found individuals with a hot confirmation bias to be even less amenable to information.

Conjunction fallacy. This is one of many cognitive biases that result from our propensity to rely on stories to organize reality. Studies of juries have found that they typically base their decisions on whichever story seems most plausible to them, rather than weighing the evidence. Likewise, people will form their own stories when presented with facts. Consider this example: Linda is 31 years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in anti-nuclear demonstrations.

Rank the following statements from most probable to least probable:

1. Linda is a teacher in an elementary school.
2. Linda works in a bookstore and takes yoga classes.
3. Linda is active in the feminist movement.
4. Linda is a psychiatric social worker.
5. Linda is a member of the League of Women Voters.
6. Linda is a bank teller.
7. Linda is an insurance salesperson.
8. Linda is a bank teller and is active in the feminist movement.

A majority of participants in many repetitions of this exercise rate No. 8 as more probable than No. 6, even though, obviously, it is more likely that Linda is a bank teller than *both* a bank teller and an active feminist. Adding more detail makes something seem more vivid and plausible, and we make the leap to seeing it as more likely.

How does this bias reinforce optimism? It means that we overestimate the likelihood of conjunctive probabilities—that is, the likelihood that A and B will occur together. For instance, estimating the success of a project or investment is a conjunctive probability. Certain elements must all go well for the project to succeed: Customers must place orders, production must meet demand, production then must reach certain efficiencies for the profit margins to be adequate, and so on. The fact that we overestimate conjunctive probabilities means that we tend to overestimate the likelihood of project success.

Optimism Through the Years

There's nothing new about overdoing optimism. In his 1835 *Democracy in America*, Alexis de Tocqueville saw it as one of the young nation's defining characteristics. Early in the following century, Dale Carnegie showed millions how to win friends and influence people using positive thinking and presentation. And from Benjamin Franklin to Steve Jobs, successful entrepreneurs have always preached the gospel of believing in your dreams. It's a message that extends into politics, too. Every four years, presidential candidates compete to be the sunniest; this election cycle, Massachusetts ex-governor and Bain & Co. co-founder Mitt Romney is far out in front in that element of the race, proclaiming that "the future's going to be even brighter than our past" and that "America has to be optimistic and recognize that there's nothing we can't overcome."

And for centuries—at least since the Greeks coined the word *hubris*—critics have warned of the dangers of overweening optimism. Take Croesus, who thrust into Persia on the Delphic oracle's vague prediction that if he crossed the Halys River, "a great empire would be destroyed." That empire turned out to be his own.

Executives, of course, often look to warfare for models, and military history is rife with other examples of leaders who overestimated their odds of success, with disastrous results: Hitler attacked Russia, ignoring his generals and the cautionary examples of Napoleon's and Charles XII of Sweden's failed invasions. Robert E. Lee came to believe in his troops' invincibility and chose to storm well-positioned Union forces at Gettysburg against the advice of Gen. James Longstreet. The World War I battle of Gallipoli was the product of so much misguided Allied thinking that one wonders how it could possibly have gone ahead. And in the Iraq misadventure, the United States ignored postwar planning out of a belief that Iraqis would welcome American forces—even though it is well-nigh impossible to come up with an example of an occupying army ever being well-received. —S.W.

Getting Real

We're always told to look on the bright side of things, to stay positive. After all, individuals and companies need a positive outlook to succeed, right? Isn't positive thinking essen-

Are You—Yes, You—Deluding Yourself?

In the Indian epic *Mahabharata*, Yudhisthira goes looking for his missing brothers, who went searching for water. He finds them all dead next to a pond. In despair, but still parched, he is about to drink, but a crane tells him he must answer some questions first. The last and most difficult: "What is the greatest wonder of the world?" Yudhisthira answers, "Day after day, hour after hour, countless people die, yet the living believe they will live forever." The crane reveals himself to be the Lord of Death and, after some further discussion, revives the brothers.

Human existence, to paraphrase the Samuel Johnson adage, is the victory of hope over experience. Indeed, psychologists have found that most people systematically overestimate their odds of success, and it may be rooted in our denial of our mortality. Yet a major tenet of psychology is that healthy individuals are well-grounded in reality.

Perhaps not, say Shelley Taylor and Jonathon Brown. In a seminal 1988 journal article, "Illusion and Well-Being: A Social Psychological Perspective on Mental Health," the two researchers explored the possibility that healthy self-regard may be founded on delusion, asking: "How can positive misperceptions of one's self and the environment be adaptive when accurate information processing seems to be essential for learning and successful functioning in the world?"

You've doubtless seen numerous survey results regarding this phenomenon. Eighty percent of drivers rate themselves as above average. One English engineering firm ascertained that 43 percent of its engineers rated themselves in the top 5 percent. Further, according to Taylor and Brown, "[P]eople give others less credit for success and more blame for failure than they ascribe to themselves." No wonder performance reviews are so fraught.

From a managerial perspective, Taylor and Brown write, it is troubling that people also overrate their degree of control and likelihood of success: "Over a wide variety of tasks, subjects' predictions of what will occur correspond closely to what they would like to see happen or to what is socially desirable rather than to what is objectively likely." Conversely, people who are slightly depressed or have poor self-esteem actually see themselves and their prospects far more accurately, leading the researchers to wonder whether the price of self-honesty is too high.

In the end, Taylor and Brown make their case for optimism: "The individual who responds to negative, ambiguous, or unsupportive feedback with a positive sense of self, a belief in personal efficacy, and an optimistic sense of the future will . . . be happier, more caring, and more productive than the individual who perceives this same information accurately and integrates it into his or her view of the self, the world, and the future." —S.W.

tial for progress? Not necessarily. No one is encouraging pessimism; rather, evidence from top-performing companies suggests that success lies in a realistic outlook. Organizations with a point of view based in realism have a keen eye for problems, and when they find them, they attack them with a doggedness that verges on the compulsive. Yet we fail to recognize this realism because it's at odds with the romanticized ideas we have about leadership. It's much more compelling for a CEO to see himself—and the public to see him—as a modern protagonist in a hero's journey than as an executive performing the mundane and often thankless task of making a large enterprise more effective.

In addition, corporations often hide their worries. During its rise to industry leadership, Goldman Sachs had a culture that could best be described as intolerant of error and obsessed with containing risks. Yet the firm's spokespeople and sales staff always presented a confident, professional demeanor. Similarly, the press wrote about the firm's aggressiveness, emphasis on recruiting top talent, and cohesiveness, not its sharp eye for trouble.

Jim Collins, in *Good to Great*, found that his top-performing companies confronted the brutal facts. To illustrate, he quotes Pitney Bowes CEO Fred Purdue: "When you turn over rocks and look at all the squiggly things underneath, you can either put the rock down, or you can say, 'My job is to turn over rocks and look at the squiggly things,' even if what you see can scare the hell out of you."

Collins cites retail food chain Kroger as another exemplar of tough-minded realism. As consumers became more affluent, their grocery-store preferences shifted away from utilitarian outposts toward more attractive stores with a range of offerings, in particular higher-quality perishables such as bread, meat, and vegetables. The industry was aware of these changes, yet Kroger was alone among the incumbents to upend its business system: "By 1970," Collins writes, "the Kroger executive team had come to an inescapable conclusion: The old-model grocery store (which accounted for nearly 100 percent of Kroger's business) was going to become extinct." Collins goes on to quote then-CEO Lyle Everingham: "'Sure, there was some skepticism at first. But once we looked at the facts, there was really no question about what we had to do. So we just did it.'"

Toyota, another reality-driven top performer, has patiently gone from making cars that American consumers ignored to being the world's second-largest automaker. One of the keys to Toyota's success is its drive to seek rather than avoid impediments. As a *New York Times Magazine* article noted, "It is human nature to cover up a problem rather than call attention to it. At a Toyota plant, the identification of a problem became imperative and exciting. Because then it could be addressed." Put simply, shortcomings are seen as potential opportunities. If Toyota can come up with a solution, it puts the company ahead of competitors.

Likewise, Andy Grove created a culture at Intel that was deeply insecure, and rightly so. Leadership in the computer-chip business is tenuous, since manufacturers are only as good as their newest design and product life cycles are short. Recall that the United States appeared doomed to lose its technology leadership to Japan in the 1980s, and Taiwan has been steadily improving the sophistication of its chips over the last decade. Grove's famed paranoia included an obsessive focus on competitors and evolving customer needs. As he described it: "Think of the change in your environment, technological or otherwise, as a blip on your radar screen. You can't tell what that blip represents at first but you keep watching radar scan after radar scan, looking to see if the object is approaching, what its speed is and what shape it takes as it comes closer. Even if it lingers on your periphery, you still keep an eye on it because its course and speed may change."

Grove uses a military analogy completely different than those of most business leaders, who see themselves as generals out to subjugate enemy territory. He puts himself in the shoes of a lowly radar operator, underscoring the importance of relentless attention and accurate reporting by the rank and file.

Building Realism

For companies that believe that all news must be good, senior management must take deliberate, concerted measures to signal that it is less interested in boosting morale than in the cold, hard truth. New messages must be consistent, firm, and frequent. Cultural change does not happen overnight and requires considerable attention and constant reinforcement. The leadership group needs to be certain it is prepared to go this route, since pretending to be interested in candor but persisting with old habits of denial will simply increase cynicism. Some measures to consider:

Never shoot the messenger. Some managers may seem to be hopeless worrywarts, but remember Grove's warning: Better to be aware of a potential problem than not. Over time, you can calibrate whether some managers or units are indeed canaries in the mineshaft and, conversely, whether managers who dismiss possible dangers do so for valid rea-

It Pays to Be Negative

By Derek Gatehouse

Most owners and executives focus on all the *positive* motivators: a strong commission plan, bonuses, perks, and incentives. This is certainly not wrong, but it *is* incomplete. It turns out that a full half of the world's best salespeople are actually more motivated by *negative* motivators—by the ramifications of what will happen if they do *not* accomplish something—than they are by all the rewards of the positive motivators. In spite of the nasty connotation of the word "negative," negative motivators do just that—they *motivate*.

I realize many of you forward-thinking executives will recoil at the phrase *negative motivator*. We have all become so conditioned to the importance of treating our employees well that we walk on eggshells in the face of anything that might seem negative. While this is understandable, and while I am probably the world's number-one advocate for treating your people like kings and queens, I must tell you that a negative motivator is not negative at all. As a matter of fact, you are doing your valued employees a *disservice* if your program lacks negative motivators.

The explanation is certainly a primal one. You must realize that there is positive motivation and negative motivation in every task we undertake in our lives. We don't eat just for pleasure or to become full—we eat to avoid the very negative feeling of being hungry. We seek companionship not only for the positive feelings of love, trust, fun, and so on, but also to avoid the negative feelings that come from being alone. We so often hear of rich people whose primary reason behind their tremendous drive to make a lot of money does not come from the loss of obvious positives—it is fear of poverty, a negative motivator if I ever heard one.

Negative motivators are not a negative thing. They are a positive thing with a negative-sounding name.

Derek Gatehouse is CEO of Vendis Inc., a New York-based consulting firm. From The Perfect Salesforce: The 6 Best Practices of the World's Best Sales Teams *(Portfolio)*. ©2007 sons—or do so out of inertia.

Show interest in the downside *and* the upside. Grill executives on the risks inherent in their forecasts. Display interest in bad or problematic news, and express interest in having more early-warning systems for adverse developments.

If your company has deeply ingrained prohibitions against bringing up bad news—particularly if it is considered to be a sign of professional weakness—have brief one-on-one reviews individually with key business managers to discuss their operations and build a spirit of greater openness. Later, in a larger group setting, use the information gathered, starting with challenges common to several units so as not to put any one executive on the spot.

Shake up habits and procedures. It's hard to get people to think and act in a new way if they continue to go through the same old rituals. It may be worthwhile to look at your management-information systems and decision processes to see if they provide adequate mechanisms to obtain and air unbiased information.

Another way to rattle hidebound thinking is to engage in scenario planning. Most companies have a well-understood official version of the future, which is codified in their business plans, and the organization may also have one or two other major scenarios in mind. However, businesses tend to ignore low-probability but potentially devastating events, just as they ignore fundamental challenges even when they look increasingly likely. (Consider how Detroit resisted the production of smaller, lighter cars and, now, how many corporations aren't taking the implications of global warming seriously.) Don't let your company be caught off-guard.

Establish a house skeptic. It can help to have a designated critic. Sometimes that role falls naturally to a staff department, such as corporate development. The trick, then, is to ensure that its questions and concerns are treated seriously (i.e., to make sure representatives have some power) and that it focuses on substantive issues, rather than process or minor details. If you lack a logical internal party to play this role, use an outside adviser, such as a retired executive, a consultant, or a business-savvy lawyer. Generally, it is best to involve the person in major strategic decisions and acquisitions first, and at as early a stage as possible.

Regardless of what steps you take, your goal is not to squash optimism but, rather, to build a sense of realism into your company's culture. And keep in mind that what works for an individual isn't always successful on the level of a larger enterprise. While the elixir of optimism may help us get through the day, it is toxic to corporations when taken in excess.