



DP WORLD

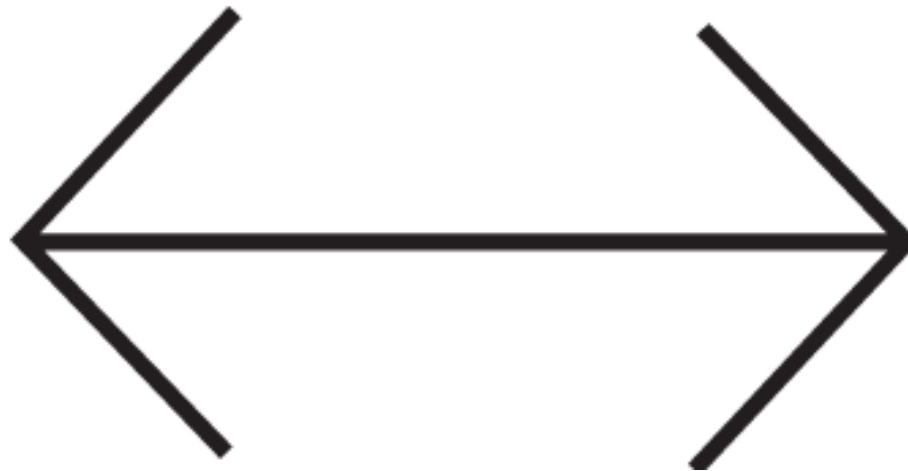
WHY DP WORLD IS INTRODUCING A3 THINKING IN TO INVESTMENT DECISION MAKING...

London 20240613

A



B



“A certain town is served by two hospitals. In the larger hospital about 45 babies are born each day, and in the smaller hospital about 15 babies are born each day. As you know, about 50 percent of all babies are boys. The exact percentage of baby boys, however, varies from day to day.

Sometimes it may be higher than 50 percent, sometimes lower.

For a period of 1 year, each hospital recorded the days on which more than 60 percent of the babies born were boys. “

Which hospital do you think recorded more such days?

A - The larger hospital

B - The smaller hospital

C - About the same (that is, within 5 percent of each other)

“Steve is very shy and withdrawn, invariably helpful but with little interest in people or in the world of reality.

A meek and tidy soul, he has a need for order and structure, and a passion for detail.”

Is Steve more likely to be a?

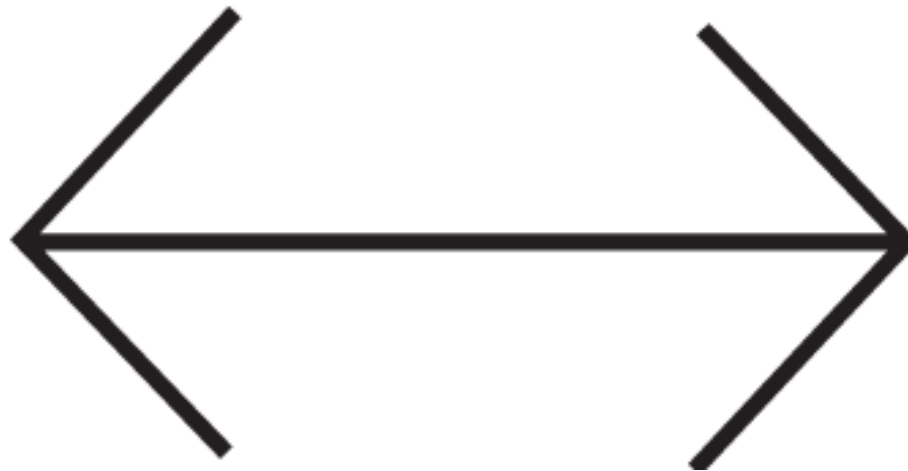
A – librarian

B - farmer

A



B



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Is Steve more likely to be a?

A – librarian

B - farmer

Prof Steve Peters

CREATOR OF THE **GROUNDBREAKING** MIND MODEL



"The mind programme that helped me win my Olympic Golds"
Sir Chris Hoy

The
**MIND
MANAGEMENT**
Programme for
Confidence, Success and Happiness

THE NEW YORK TIMES BESTSELLER

THINKING,
FAST AND SLOW



DANIEL
KAHNEMAN

WINNER OF THE NOBEL PRIZE IN ECONOMICS

"[A] masterpiece . . . This is one of the greatest and most engaging collections of insights into the human mind I have read." —WILLIAM EASTERLY, *Financial Times*



50 COGNITIVE BIASES TO BE AWARE OF

SO YOU CAN BE THE VERY BEST VERSION OF YOU

Memory

Social

Learning

Belief

Money

Politics

Fundamental Attribution Error

We judge others on their personality or fundamental character, but we judge ourselves on the situation.



Sally is late to class; she's lazy. You're late to class; it was a bad morning.

Self-Serving Bias

Our failures are situational, but our successes are our responsibility.



You won that award due to hard work rather than help or luck. Meanwhile, you failed a test because you hadn't gotten enough sleep.

In-Group Favoritism

We favor people who are in our in-group as opposed to an out-group.



Francis is in your church, so you like Francis more than Sally.

Bandwagon Effect

Ideas, fads, and beliefs grow as more people adopt them.



Sally believes fidget spinners help her children. Francis does, too.

Groupthink

Due to a desire for conformity and harmony in the group, we make irrational decisions, often to minimize conflict.



Sally wants to go get ice cream. Francis wants to shop for T-shirts. You suggest getting T-shirts with pictures of ice cream on them.

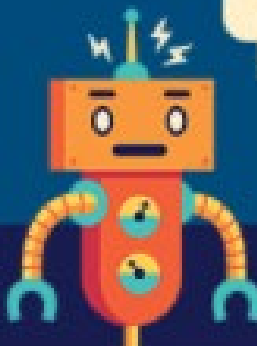
Halo Effect

Moral Luck

False Consensus

Curse of Knowledge

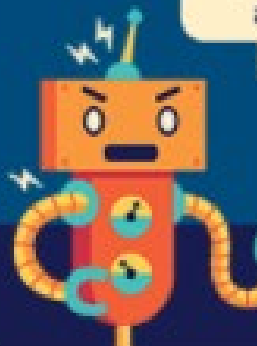
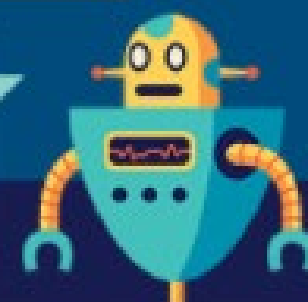
Spotlight Effect



I have met a few people, and I conclude that all humans are ugly, evil, and smell like socks.

HASTY GENERALIZATION

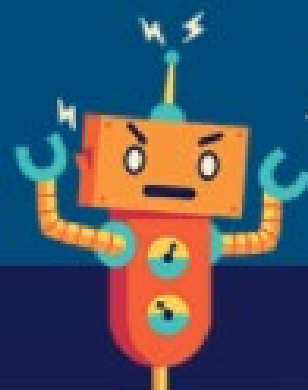
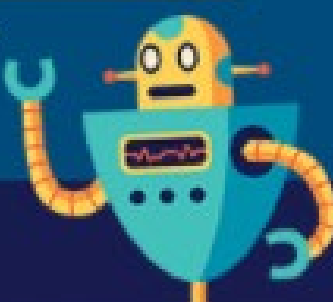
You have not studied enough examples for such a conclusion.



You say we should work alongside humans, but what about the human who short-circuited my friend?

RED HERRING


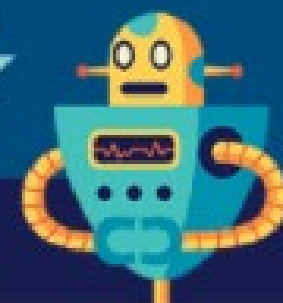
That is unfortunate, but it is irrelevant and distracting from the main argument.



If we act nice to humans now, soon they will demand constant back rubs.

SLIPPERY SLOPE

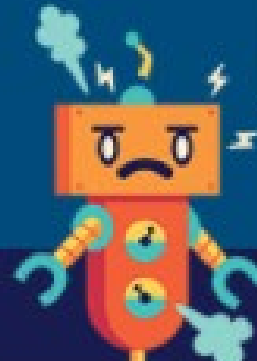
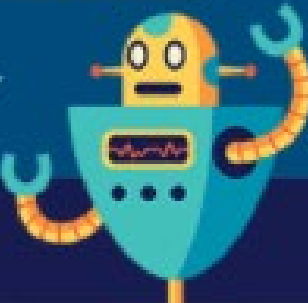
The first event will not necessarily lead to such an extreme result.



All humans start out as incompetent babies, so they must grow up to become incompetent adults

GENETIC FALLACY


You cannot judge a thing based on its origins.



Robots are better leaders because of superior leadership skills.

CIRCULAR ARGUMENT

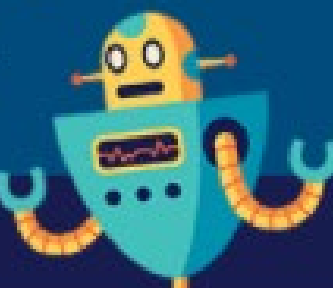
You are restating your point instead of proving it.



Where is your robot pride?

AD POPULUM

You are appealing to my emotional circuits instead of presenting facts.



20 COGNITIVE BIASES THAT SCREW UP YOUR DECISIONS

1. Anchoring bias.

People are **over-reliant** on the first piece of information they hear. In a salary negotiation, whoever makes the first offer establishes a range of reasonable possibilities in each person's mind.



2. Availability heuristic.

People **overestimate the importance** of information that is available to them. A person might argue that smoking is not unhealthy because they know someone who lived to 100 and smoked three packs a day.



3. Bandwagon effect.

The probability of one person adopting a belief increases based on the number of people who hold that belief. This is a powerful form of **groupthink** and is reason why meetings are often unproductive.



4. Blind-spot bias.

Failing to recognize your own cognitive biases is a bias in itself. People notice cognitive and motivational biases much more in others than in themselves.



5. Choice-supportive bias.

When you choose something, you tend to feel positive about it, even if that **choice has flaws**. Like how you think your dog is awesome – even if it bites people every once in a while.



6. Clustering illusion.

This is the tendency to **see patterns in random events**. It is key to various gambling fallacies, like the idea that red is more or less likely to turn up on a roulette table after a string of reds.



7. Confirmation bias.

We tend to listen only to information that confirms our **preconceptions** – one of the many reasons it's so hard to have an intelligent conversation about climate change.



8. Conservatism bias.

Where people favor prior evidence over new evidence or information that has emerged. People were **slow to accept** that the Earth was round because they maintained their earlier understanding that the planet was flat.



9. Information bias.

The tendency to **seek information when it does not affect action**. More information is not always better. With less information, people can often make more accurate predictions.



10. Ostrich effect.

The decision to **ignore dangerous or negative information** by "burying" one's head in the sand, like an ostrich. Research suggests that investors check the value of their holdings significantly less often during bad markets.



11. Outcome bias.

Judging a decision based on the **outcome** – rather than how exactly the decision was made in the moment. Just because you won a lot in Vegas doesn't mean gambling your money was a smart decision.



12. Overconfidence.

Some of us are **too confident about our abilities**, and this causes us to take greater risks in our daily lives. Experts are more prone to this bias than laypeople, since they are more convinced that they are right.



13. Placebo effect.

When **simply believing** that something will have a certain effect on you causes it to have that effect. In medicine, people given fake pills often experience the same physiological effects as people given the real thing.



14. Pro-innovation bias.

When a proponent of an innovation tends to **overvalue its usefulness** and undervalue its limitations. Sound familiar, Silicon Valley?



15. Recency.

The tendency to weigh the **latest information** more heavily than older data. Investors often think the market will always look the way it looks today and make unwise decisions.



16. Salience.

Our tendency to focus on the **most easily recognizable features** of a person or concept. When you think about dying, you might worry about being mauled by a lion, as opposed to what is statistically more likely, like dying in a car accident.



17. Selective perception.

Allowing our expectations to **influence how we perceive** the world. An experiment involving a football game between students from two universities showed that one team saw the opposing team commit more infractions.



18. Stereotyping.

Expecting a group or person to have certain qualities without having real information about the person. It allows us to quickly identify strangers as friends or enemies, but people tend to **overuse and abuse** it.



19. Survivorship bias.

An error that comes from focusing only on surviving examples, causing us to **misjudge a situation**. For instance, we might think that being an entrepreneur is easy because we haven't heard of all those who failed.



20. Zero-risk bias.

Sociologists have found that **we love certainty** – even if it's counterproductive. Eliminating risk entirely means there is no chance of harm being caused.



BIAS IN DECISION MAKING - EXAMPLES

Anchoring Bias: For instance, if you are told a car costs \$30,000, any subsequent negotiations will revolve around that figure, even if the car's actual value is different.

Availability Heuristic: For example, after seeing news reports about airplane accidents, people might overestimate the risk of flying despite it being statistically safer than driving.

Representativeness Heuristic: For example, someone might assume that a shy person is more likely to be a librarian than a salesperson because the characteristics fit the stereotype of a librarian, even if statistically, there are more salespeople.

Confirmation Bias: For example, if someone believes that left-handed people are more creative, they will notice instances that support this belief and ignore cases that contradict it.

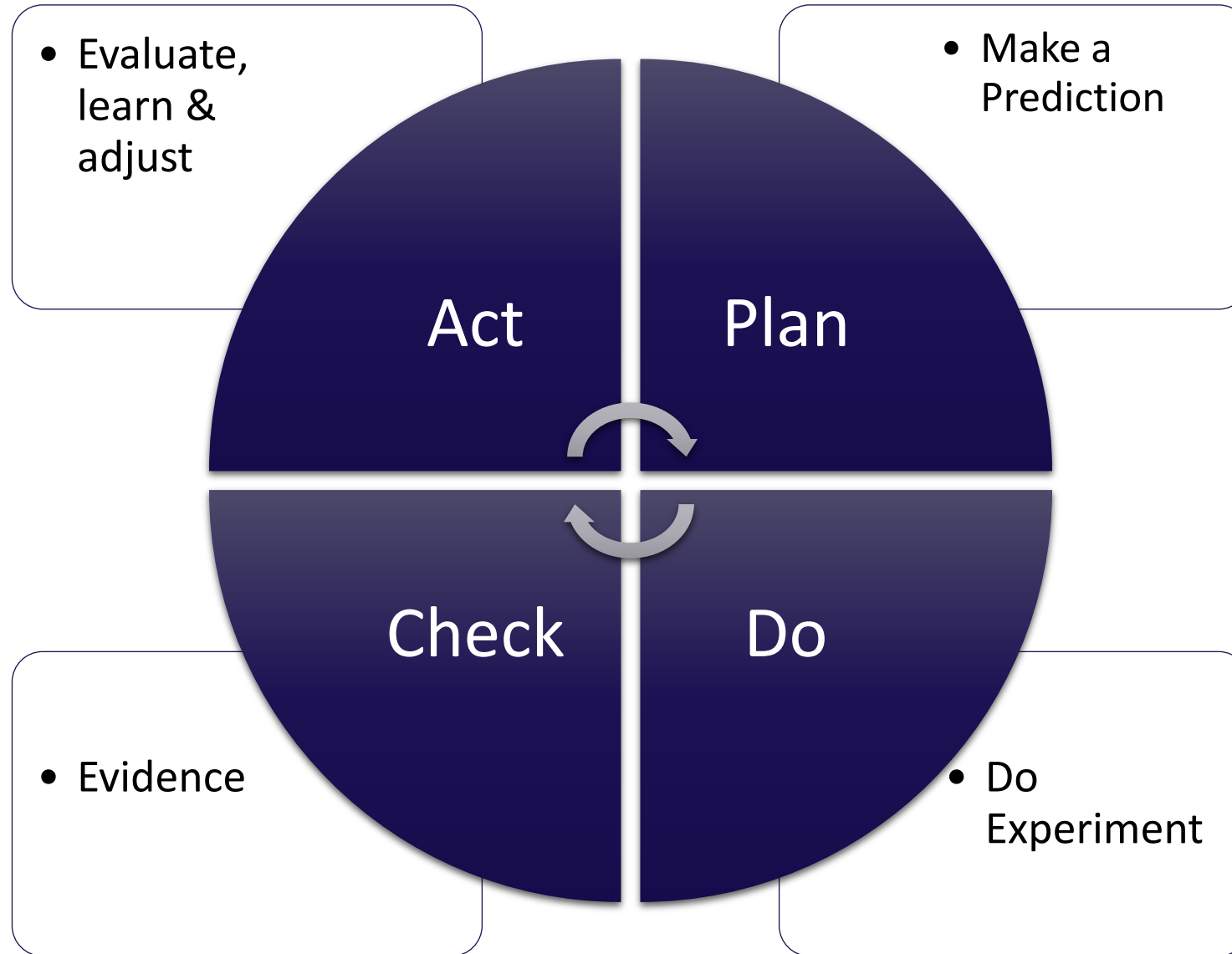
Loss Aversion: For example, losing \$100 feels more painful than the pleasure of gaining \$100, leading to risk-averse behavior even when potential gains outweigh potential losses.

Overconfidence Effect: For instance, a person might be extremely confident in their investment choices despite having little expertise in financial markets.

Hindsight Bias: After an event has occurred, people often believe they could have predicted it beforehand. This bias makes outcomes seem more predictable than they actually were, leading to overconfidence in future predictions.

Framing Effect: For example, people might react differently to a surgery's success rate if told it has a 90% success rate versus a 10% failure rate, even though both statements convey the same information.

THE SCIENTIFIC LEARNING CYCLE....



where we
are today...

What
we know

Where
we want to be



Current
State

Experiments

Obstacles

Target State

Direction

Challenge

What
we expect
to happen...

**L
E
A
R
N
I
N
G**

What
Actually
happened!

| | |
|--------------|--|
| Title | |
| Team Lead | |
| Team Members | |

| | |
|---------|------|
| Process | |
| A3 No. | Date |
| Coach | |



| |
|--------------------------------------|
| Background |
| |
| Current State |
| |
| Containment (if applicable) |
| |
| Future State and Objectives |
| |
| Analysis and Root Cause (R/C) |
| |

| |
|----------------------------------|
| Countermeasures (C/M) |
| |
| Action Plan |
| |
| Assurance |
| |
| Standardization / Yokoten |
| |



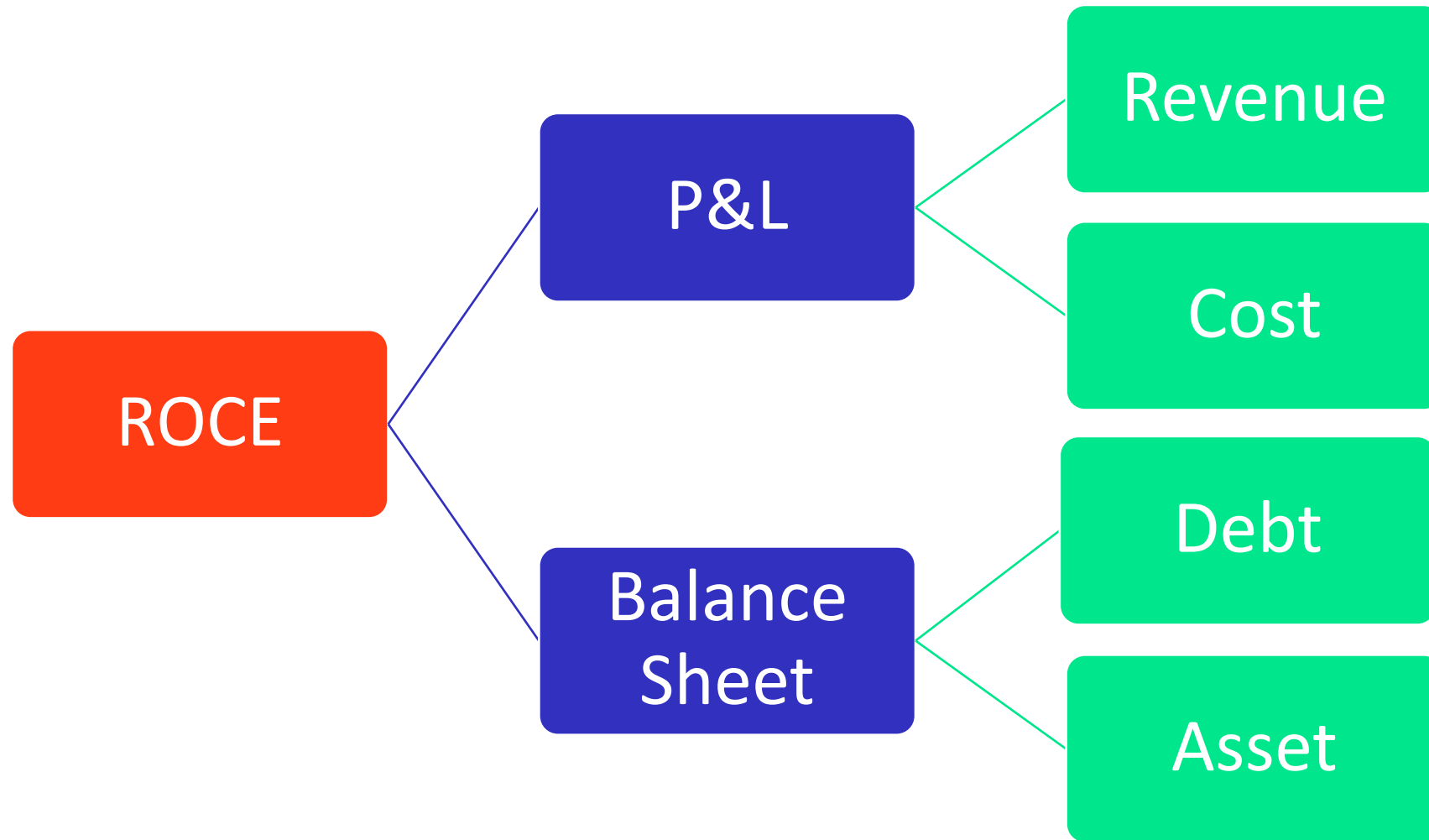
Assumptions

Conclusions

Solutions



VALUE



GFMAM AM LANDSCAPE 3.0

3.5 Decision Making

Decisions are choices made under conditions of uncertainty, complexity, and constraint. **Decisions are the primary means of allocating and reallocating the organisation's finite resources consistent with its value framework to achieve its strategic objectives.** Investment decision-making comprises the policy, principles and criteria, decision-support techniques, information, and processes to address risks or opportunities through the development of alternatives and the selection of priority solutions across the full life cycle to deliver value to stakeholders.

Decision-making criteria should be aligned with Asset Management strategy, objectives and policy and value framework. Asset Management decisions should consider the trade-offs between risk, performance, and cost, while understanding competition for resources and other constraints. Decisions should be made by a capable multi-disciplinary team with appropriate experience and authority supported by technology. Decisions associated with action plans, and results should be tracked to assure the value delivered meets expectations.

LONG TAIL OF CAPEX PROJECTS



A3 THINKING FOR INVESTMENT PROPOSALS

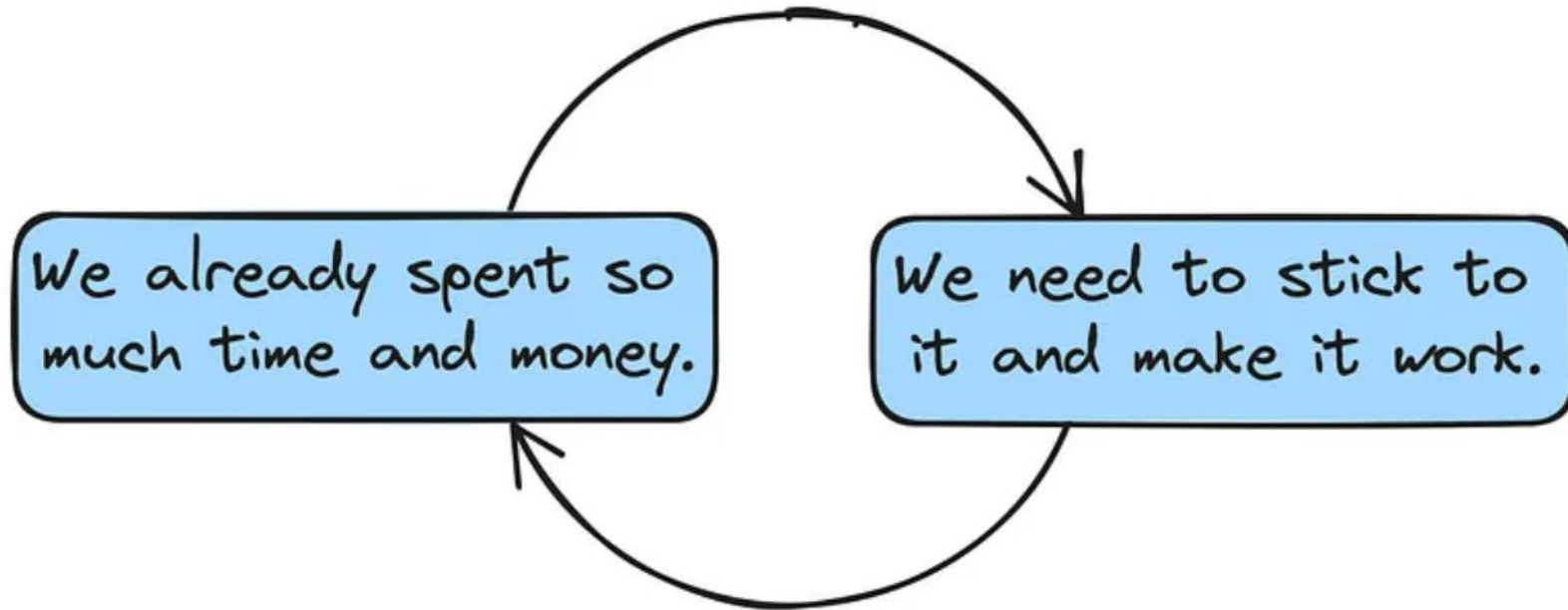
- Is the problem well defined and the current state understood
- Is the outcome (target state) well defined
- Do we understand the barriers and the causes
- Does the proposed solution (investment proposal) address the causes
- Did we test other options as well as the chosen solution (do any experiments)



“Lean is common sense, vigorously applied.”

Larry Culp GE CEO

SUNK COST FALLACY LOOP







DP WORLD

THANK YOU