Book Review:

Thinking Fast and Slow
by Daniel Kahneman

In April, I read two separate articles about making decisions in difficult and unpredictable situations: selecting quarterbacks in the NFL draft, and predicting the future performance of a hedge fund manager. Besides being about high-profile endeavors where many people fail, these two articles had another thing in common: the authors quoted from and borrowed insight from the same book: Thinking Fast and Slow by Daniel Kahneman. In both articles, Thinking provided a way to analyze and think about complicated problems, and I was curious about the possible application to business decisions, particularly in regards to another field with great uncertainty and risk: entrepreneurship.

Mistakes we all make

Kahneman, a cognitive psychologist, has spent his decades-long career measuring how people make mistakes, and what those mistakes have in common. Through thousands of experiences, he’s landed on some pretty heady assertions for how the brain works, including that thinking tends to happen in distinct processes, which he terms System 1 and System 2. System 1 is most of the automatic stuff: pattern recognition and the like. System 2 is what you might call ‘thinking’, the actual evaluation of where information is coming from and what to do with that information. The tricky part is that System 2 is lazy, and always looking for ways to lean on intuition and snap-judgement thinking. The instinctive, snap-judgment thinking can lead you to take short-cuts like substituting an easy question for a difficult one, so instead of the question “Is there a large enough market to support this type of business?” you might ask “Would I buy this product?” So a big part of making better decisions, according to this book, is creating systems for making sure you’re engaging a more thoughtful approach for important decisions. Here are a couple of the examples I found to be potentially useful for people running and starting businesses.

Making tough judgements

One method for creating a system for better judgements is to create a list of the five most important characteristics for an opportunity, and to judge each possibility on a simple scale: 1 point for not good enough, 2 for okay, 3 for great, then adding up the scores for each possibility. This limits the chances that you’ll overly prioritize one of the factors or be affected by a bias towards one possibility.
This method creates interesting possibilities for the assessment of business opportunities: Could you use this for judging new products? New locations?

Getting appropriate feedback

Another challenge for many decision makers is hearing fully from subordinates when making important choices. Once support for a particular option has been voiced in a meeting, it becomes harder for other choices to get an equal hearing. To address this, Kahneman suggests having the team briefed on the choices before the meeting, and to have everyone write out their initial response and bring that to the meeting--this helps ensure that the range of reactions are voiced.

People also often become enamored with projects they’re working on, and fail to consider ways that the project could fail. Important projects could benefit from a “pre-mortem”, where important members of the team can spend time thinking about how the project could fail in one year’s time. Envisioning the worst case scenario, and articulating what would cause that to happen, can give great detail to what might be worries in the backs of people’s minds. With this range of negative possibilities voiced, appropriate precautions are more likely to be taken.

Should you read this book?

I really enjoyed reading Thinking Fast and Slow. That said, the book is long, and main topic is clinical psychology experiments, so it can be slow and dry. If you like Malcolm Gladwell’s books, like Tipping Point and Outliers, but want to understand the psychology behind the stories, then Thinking Fast and Slow would be a great book to pick up.

Terence O’Neill is the Entrepreneurship Librarian at Michigan State University, where he works to connect entrepreneurs to resources that will better inform their business decisions. Through a background in libraries and community education, Terence has worked to support business and innovation internationally and throughout Michigan.

Have a book you want reviewed, or another comment? You can reach Terence at oneillt@msu.edu.