

The Softer Side of Scale

Harnessing **VOLTAGE** in our FAIR Risk Programs

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Goals for Today

1. Provide an alternative lens to view our challenge
2. Teach you something new
3. Encourage you to rethink
4. Provide you something practically useful
5. Not mention FAIR much

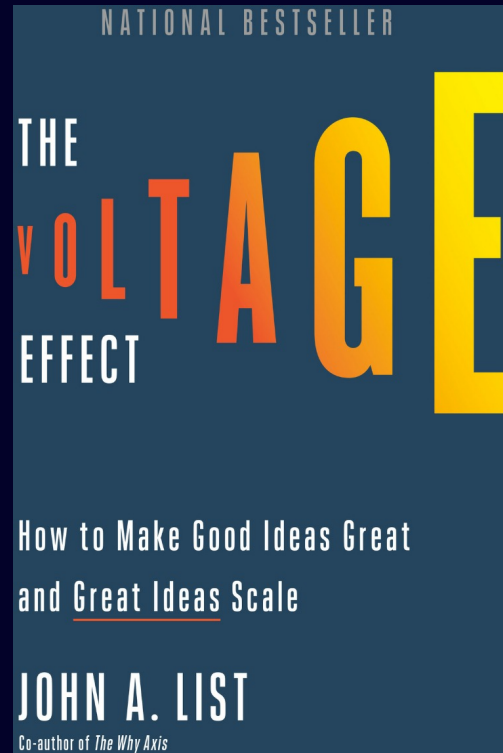
Behavioral Economics

“The agent of economic theory is rational, selfish, and his tastes do not change.”

-Bruno Frey

- Theories of decision can be either **normative** or **descriptive**
 - Normative theory: How you **should** make choices
 - Descriptive theory: Explains how humans **actually** make decisions
- Standard economic theory
 - Foundation based on Expected Utility Theory (rational agent model)
 - Presented as normatively correct and descriptively adequate
- Behavioral Economics: Builds on traditional models
 - Borrows from psychology, neuroscience, evolution and biology
 - **Truly descriptive**: Makes no assumptions of rationality

What does it mean to scale?



“Scaling” means achieving a desired outcome by taking an idea from a small group to a much larger one

- Social and technological **progress**
- Reaching the largest number of **people**
- Early promise to **widespread** impact
- Primary **challenge** and **opportunity**

“Put simply: you can only change the world at scale”

The Voltage Effect

- *Science based scaling*: Giving every idea a chance at success
- Consists of voltage **gains** and voltage **drops**
 - **Voltage Gains**: Positive impact multiplied at scale
 - **Voltage Drops**: Positive results dissolve with increased scale
- **No organization or idea** is invulnerable to voltage drops
- **5 signs** you can monitor to **identify and address hurdles to scaling**
- Adoptable practices to **produce and sustain voltage gains**

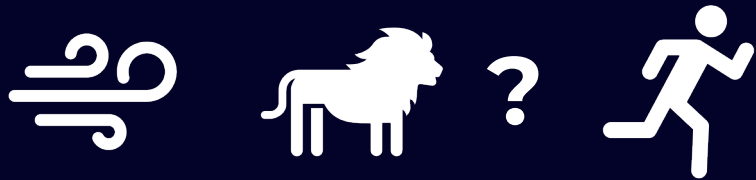
5 Vital Signs

Vital Sign 1: Beware of false positives

- **False Positive:** Something appears true when it is not
 - Type 1 error model in any system where judgments are made
 - Context-dependency: Sample may not represent the population
 - “Outlier groups” can lead to false conclusions and misinformed decisions
- Replicate if possible. And if possible, replicate again
 - This is social science experiment, **treat it as such**
- Why does this occur?
 - Evolution of the decision maker can help explain

A day in the life of an ancient forager

Behavior → Error → Outcome



Type I Error or False Positive

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Survive and reproduce

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Type II Error or False Negative

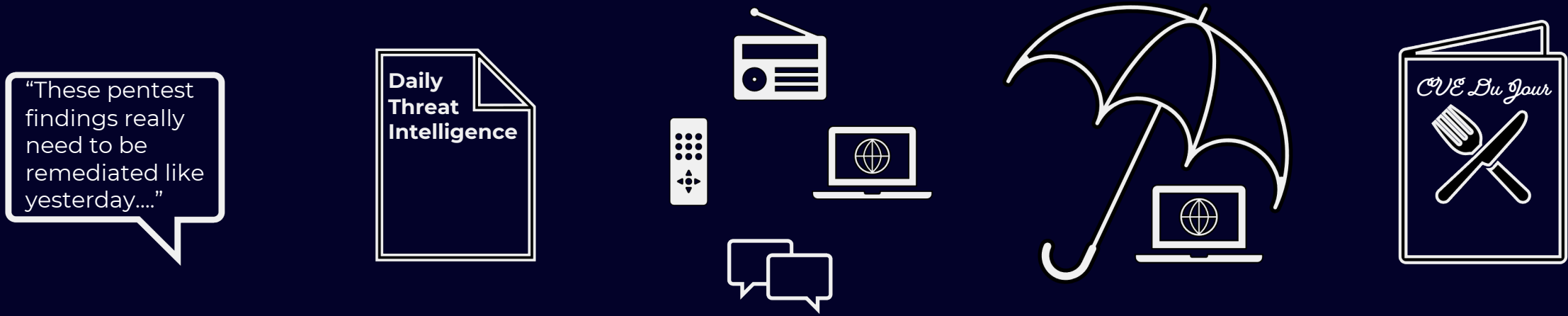
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Not be around very long

Fast thinking kept us alive

And it had a lot of practice

The modern-day decision maker



- The brain grew and adapted to deal with **more difficult problems**
- Older core regions and layers **did not turn off**
 - Mental shortcuts used due to **limited cognitive capacity**
 - Basic assessments substituted for harder questions

Contributing to false positives

Heuristics & Biases: Answering an easier question

- *Confirmation bias*
 - Dismiss/ignore information inconsistent with our beliefs
- *Social influence*
 - Suppresses freethinking and rethinking
 - Ideas generated by the few rather than the many
- *Winner's curse*
 - Large up front investments skew perception of scalability

Vital Sign 2: Know your audience

- Who are you marketing to, and what drives their decisions?
 - Memories: Preference are **assembled**
 - Goals: Deep rooted drivers of **reward**
 - Context: External signals suggest ways to **achieve goals**
- How will you handle variability across groups and customers?
 - Selection bias and representativeness
 - Current audience vs. the future one
 - Voltage drops can occur when this is ignored

Vital Sign 3: Know your recipe

- Circumstances needed to sustain high voltage
 - Identifying ingredients in your secret sauce
 - Preserving high performing drivers
 - Continuous value assessment of your ingredients
 - Remaining faithful to **those that matter most**
- *Negotiables vs. Non-Negotiables*
 - *Non-negotiables*: Value is infinite
 - Are these people?
 - *Negotiables*: Value is fixed, and tradeoffs can be made
 - Voltage loss will occur when **non-negotiables no longer scale**

Vital Sign 4: Spillovers

- “*Spillover Effect*”: **Unintended** impact of human actions on others
 - Murphy’s Law: Anything that can happen, will... **at scale**
 - Intentional outcomes create unexpected outcomes (positive and negative)
- Considering spillovers in 3 categories
 1. *Broad equilibrium*: Large, organization-wide tipping point
 2. *Social*: Observing what others do and say changes behavior (really)
 3. *Networked*: Adoption amplifies benefits or costs for all
- Mitigate/exploit negative/positive spillovers, respectively

Vital Sign 5: Supply-side economics

- Optimum scaling achieves *economies of scale*
 - Early investments are unavoidable up-front *fixed costs*
 - Average cost to produce must decrease
- *Diseconomies of scale* when average cost *increases*
 - Key resources are scarce or difficult to acquire
- Questions to ask at this stage:
 - Who likes your idea?
 - How much will they pay for it?
 - How much does it cost to provide?

Producing Voltage Gains

Tools of the trade: Choice Architecture

“All choice architecture is a conversation between the designer and the chooser.”

-Eric J. Johnson

- We're all choice architects (designers)
 - Design & construct decision making environments for our choosers
 - Influence the plausible path our choosers take (intentionally or not)
- Making this a conscious effort can pay dividends
 - Optimize **load shedding** (attention scarcity)
 - Choices and consequences separated in time
 - Inform the **right decisions**

1. Getting the incentives right

- *Incentives* deal with *how* people work rather than *who* works
- Well-designed **incentives scale**, while humans **inherently do not**
- Incentives help **shape choices, behaviors and outcomes**
- Getting incentives right at scale is important, and can be cheap
- Applying concepts from Behavioral Economics can help

Loss Aversion

"I hate losing more than I even wanna win."

-Billy Beane

- *Prospect Theory*: Gains and losses carry value
- Choices evaluated as **change** from the current **referenced state**
- *Status quo* as a reference point
 - Changes viewed as concessions (losses)
 - Preference to stick with current holdings (inertia)
 - ✓ Design for **small changes** and **avoid taking things away** (endowment)
- *Future goals (reward)* as a reference point
 - Failure to achieve a goal is a loss, exceeding the goal is a gain
 - ✓ Design to incentivize with segregated returns **above expectations**

Social Norms

- Humans are wired as **social beings** seeking cooperation
 - Motivated by a **desire to conform**
 - Dispositioned to **construct self-image** and **preserve it**
 - Incentivized to **avoid social losses**
- Nudging for good via *social influence* can **improve outcomes**
 - ✓ **Design** to elicit social cascades and bandwagon effects
 - ✓ **Construct** to promote social comparisons
 - ✓ **Market** what we are doing as the new normal

2. Normalize quitting as a strength

- Investments from the past are *sunk costs*
 - Unpromising past investments, time spent, previously held beliefs
- *Sunk cost fallacy*
 - Commitment to resources spent (incurred costs = losses)
 - Loss/regret are psychologically painful and avoided
 - Ignore/underweight *opportunity costs*
- “Quitting is for winners”
 - Forecasting future well-being (current emotions rule)
 - ✓ **Examine** the decision problem with a **broader frame**
 - What if you didn’t own this? How much would you pay?

3. Human nature in our risk programs

We are **humans**

- We're biased and we blunder
- We seek the easy route
- We believe then confirm (WYSIATI)
- We are averse to losses

We are not **Econs**

- Stable preferences
- Conscious deliberators
- Consistent and logical
- Mr. Spock and Gandhi

- ✓ Understanding this distinction helps
- ✓ Design for humans not Econs
- ✓ Build programs that work with human nature, not against it

So, is your idea ready to scale?

- **Success** at scale is more about the **what** than the **who**
- There are more ways to fail than to succeed
 - ✓ Assessment of your pulse is a must (Five vital signs)
 - ✓ Certain practices can help achieve and maintain gains
 - ✓ Design optimal choice environments for decision makers
 - ✓ Change is psychologically difficult. Treat it as such

Questions?