

White Paper

# Intelligence and Good Judgment

Robert Hogan  
Hogan Assessment Systems

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THE SCIENCE OF PERSONALITY

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It is hard to overstate the importance of the concept of intelligence for applied psychology; intelligence testing may be the most important single contribution psychology has made to larger society. Advocates of intelligence testing provide data showing that IQ predicts virtually every significant life outcome from income and occupational status to life expectancy. Nonetheless, the concept continues to make some of us uncomfortable for three reasons. First, the concept of intelligence is still poorly defined; the default definition is, “intelligence is what intelligence tests test”. Second, all of us know people who have received very high scores on standard IQ measures who nonetheless have trouble functioning in the world. And third, in standardized cognitive assessment, problems are fully defined; in the real world, problems are almost always poorly defined.

The term “intelligent” is a judgment that we use to evaluate performance; for example, in athletics, certain people are known as smart players and others are not. A moment’s reflection suggests that the term “intelligent” mostly applies to decisions—smart decisions precede smart actions and vice versa. Decision making is particularly important in business, politics, and warfare where money and lives are on the line and bad decisions affect the welfare of many people. Decision making is also typically difficult in business, politics, and warfare because there is almost never enough time or information to make a carefully reasoned decision. The term “good judgment” applies to the ability to make sound and defensible decisions with limited time and information.

The book, *“Why Smart Executives Fail”* by Sydney Finkelstein (2003), contains a large number of richly detailed case studies of failed business enterprises and is a superb data base for thinking about good (and bad) judgment. At the surface level, businesses fail for a variety of reasons—technology shifts, new competitors, ill-advised acquisitions—but at a deeper level, bad judgment appears to be the cause of the problem in every case. And in every case, the bad judgment was exercised in two stages. In the first stage, the company’s CEO chose the wrong means to accomplish a desired end. In the second stage, the CEO stayed with his/her choice despite information that the choice was a bad one.

For example, in the 1980s, General Motors (GM), the world’s largest automobile manufacturer, faced two looming problems. The first was competition from low cost, high quality Japanese cars. The second was labor unrest at home. The CEO of GM, Roger Smith, decided he could solve both problems by replacing his workers with robots. He invested more than \$45 billion in robots—enough to buy both Toyota and Nissan—but the investment failed because the key to the Japanese success was the manner in which they integrated their technology with their workforce, rather than their robotic technology per se. As one

industry insider noted, by using technology without the prepared workforce, all Roger Smith did was automate confusion. However, he persisted in his decision, and GM's productivity continued to decline relative to Toyota.

Again, bad judgment is a two stage process. In the first stage, a person chooses the wrong means to get to the desired end. In the second stage, a person persists with the choice despite evidence that it was wrong. For persons familiar with the structure of the Hogan Business Reasoning Inventory (HBRI), choosing the wrong means to get to a desired end is a failure in Strategic Reasoning, while persisting in a bad choice after data are available is a failure of Tactical Reasoning.

Consider one more example of this flawed problem solving process. In 2001 the United States was attacked by Islamic extremists thought to belong to a group called Al Queda, whose leadership was located somewhere in northern Afghanistan. To solve the problem, President Bush decided to invade Iraq, where there were no members of Al Queda. Five years after the invasion, the US military is still in Iraq with no signs of progress in shutting down Al Queda. Meanwhile the war has cost trillions of dollars, with over 4,000 dead and 20,000 wounded American casualties and an unknown but staggering number of Iraqi casualties.