available to support every decision. Is that really so?

In my opinion, the authors could have divided decisions into subcategories. Analyzing whether decisions are based on time (here and now or not here and now) or importance (very important or not so important), for instance, could be a useful tool for management.

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Pfeffer and Sutton respond: It is impossible for managers to find the facts before making some pressing decisions, but too many use time pressure to justify basing nearly every decision on gut instinct. This is a dangerous path. These managers invoke imperfect information as an excuse for avoiding the hard thinking required to uncover new ideas and better evidence – virtually ensuring that the future will be a perfect imitation of the past.

David Boan's comments on infrastructure are correct: Implementing fact-based decisions requires the capacity to gather and analyze information. Yet leaders should not use a poor infrastructure as an excuse to avoid digging into the logic of current decisions, nor should they use it as an excuse for doing what they have always done. Even companies with excellent infrastructures can't generate rigorous data for every decision, but their leaders learn from small experiments, pilot programs, and qualitative data.

Thomas Hosszu is right that sometimes action is imperative. That is no excuse for avoiding evidence-based management. Many business leaders claim to be too rushed to commit to reflection, review, and evidence, but such practices are routine in medicine and the military precisely because of the severe pressure to make instant decisions. Yes, experience is the only way that managers can learn their craft, but those who are too confident in their well-honed instincts are flirting with disaster. Decades of psychological research shows that people routinely fall into dangerous ruts. Andrew Hargadon at the University of California at Davis asks managers who claim to base a decision on 20 years of experience, "Do you have 20 years of experience, or do you have the same year of experience repeated 20 times?"

There are always unknown risks and pressure to act on incomplete information, and it is impossible to anticipate the consequences of every decision. But when our money is at stake, we bet on leaders who are committed to finding, facing, and acting on the hard facts rather than on those who view such objectives as hopeless and naive.

Decisions Without Blinders

Max H. Bazerman and Dolly Chugh's article, "Decisions Without Blinders" (January 2006), offers fascinating insights about how bounded awareness affects executives, and what they can do about it. A key blinder, the "failure to see information," also applies to stock market investors.

In our article, "Limited Attention, Information Disclosure, and Financial Reporting," in the *Journal of Accounting and Economics* (December 2003), we showed that if investors neglect certain kinds of accounting information, management has a strategic incentive to manipulate disclosures. For example, firms accentuate the positive in their pro forma earnings disclosures, which often show up prominently on the newswires but are not part of their audited financial statements. Our theory suggests that when pro forma earnings are higher than GAAP earnings – and they almost always are – investors will tend to overvalue the firm, causing its stock to subsequently perform poorly. In this and other research, we apply the notion of bounded investor awareness (which we call "limited attention") to such issues as the effects of expensing employee stock options, the power of earnings management to distort stock prices, and the temptation for managers to withhold adverse information about their firms.

A firm that makes a lot of accounting adjustments to boost earnings over time, or that capitalizes its spending as fixed assets rather than expensing, will end up with a bloated balance sheet. In the December 2004 issue of the same journal, we and our coauthors, Kewei Hou and Yinglei Zhang, found that companies with bloated balance sheets are overvalued by the market. As a result, investors can predict future stock returns using balance sheet information. Investors with limited attention focus on an accounting measure of profitability (earnings) and neglect cash profitability (free cash flow), which is also informative about value. When we cumulated the deviation between the two over time, we got a measure of how bloated a firm's balance sheet is.

Investors who focus only on the income statement fail to recognize the warning signs on the balance sheet. Neglecting relevant information can cause stock market mispricing. As a result, a profitable trading strategy can be built from our bloatedness measure.

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