

Dunning-Kruger Strikes Again

Written by Nick Sanders

Friday, 25 November 2016 00:00

Reference is made to a [prior blog article](#) on the topic of the Dunning-Kruger effect, defined by Wikipedia as “a cognitive bias in which low-ability individuals suffer from illusory superiority, mistakenly assessing their ability as much higher than it really is.” We concluded that prior article by providing the following advice:

So, dear readers, try to be aware of The Dunning-Kruger Effect (and other cognitive and social biases) and mitigate it by recognizing the limits of your own expertise. Don't try to leave the bounds of what you know and 'wing it' by guessing about what you don't really know. Hire subject matter experts, and listen to them.

That's not to say that all self-proclaimed subject matter experts are equal, or that they are all worthy of veneration. The fact is, you must do your due diligence on the consultants you hire, the same way you do your due diligence on the employees you hire.

If you are aware of your limitations, and think you've picked the right business advisor—then listen to what your advisor tells you. And do it.

Recently we were ambushed once again by the D-K effect. We saw it coming but we still walked right into it. All the warning signs were there, but we brushed them off. Mind if we share the story with you?

Picture a small business, a pretty successful one. It has a multi-faceted business model, selling its products commercially and (with modification) to prime defense contractors. It enters into firm, fixed-price, subcontracts at values below the threshold at which certified cost or pricing data would be required. It performs its job well and delivers high-quality products on time with minimal (if any) change order nonsense.

The General Manager – let's call him “Rocko” – runs a tight ship and he's a very nice man. His employees like him a lot. For one thing, he lets the office staff bring pets into the workplace. But make no mistake: it's Rocko's ship and he runs it his way. His way has been pretty successful and it has kept a lot of people employed.

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The company successfully developed a derivative of its primary commercial product for one of the prime defense contractors and that prime successfully walked its program through Milestone Decision Authority reviews, moving from Low-Rate Initial Production (LRIP) to Full-Rate Production (FRP). In support of the FRP contract, the prime wanted to award Rocko's company a FFP subcontract for one year plus four options. The total value of the award was in excess of \$750,000. Unless the prime was going to compete the subcontract, Rocko's company was going to have to prepare, submit, and negotiate its very first cost proposal in the FAR Table 15-2 format and disclose certified cost and pricing data. And they had no clue about any of that stuff.

Rocko's company had developed the product and successfully tested it under the LRIP program. It was only natural the prime would award a sole-source (or single source, if you prefer) to the small business. But that pesky cost & pricing data issue scared everybody. Therefore, the prime decided to compete the award and Rocko's company received a competitive Request for Quotation (RFQ) and submitted a quote to the prime. Unfortunately, they were the only company to submit a quote; nobody else had the capability to make the product to spec. Even though it was a derivative from a commercial item, the technology used by Rocko's company was a barrier to the other potential competitors. So competition wasn't achieved, and the prime was back to a sole source award, and Rocko was back to figuring out this whole certified cost and pricing data and this whole FAR Table 15-2 thing, and so Apogee Consulting, Inc., was called in to assist.

Who called us? It was a representative of the prime contractor. The prime wanted a neutral, knowledgeable, source to work with Rocko to prepare a cost proposal suitable for cost analysis and negotiation. That was a little weird but we thought "why not?" And so we took the gig.

That was our first mistake. The last time we got D-K'd it was also a referral. From now on, we don't accept referrals. If you want to hire us, you better get to know us first.

Our second mistake was dealing with Rocko. Our first dealings with him were via email and phone, as is the case with so many of our clients. But the communications were a bit off. For example, I emailed Rocko and told him that Ed would be contacting him first thing Monday morning to set up an appointment to come visit him. At 8:30 AM I received an angry call from Rocko, asking why Ed hadn't yet contacted him and why did I say "first thing" in the morning if I didn't mean it? (Note: Ed called him at 8:45 AM.)

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How do you explain to somebody that “first thing” means different things to different people? For example, “first thing” to a Washington, D.C. law firm means between 9:00 and 9:30 AM; whereas “first thing” to a manufacturer might mean 6:30 AM. Since Ed didn’t know what “first thing” meant to Rocko—who was, after all, the company General Manager—he compromised and called at 8:45 AM. Rocko didn’t understand any of that decision-making, and that lack of understanding (or empathy, if you will) should have been a big red flag. We ignored it, of course.

Strike two. And we hadn’t even showed up to begin work yet.

Speaking of showing up to work, we had trouble scheduling meetings with Rocko. He was unavailable for much of the time, whereabouts unspecified. More to the point, his staff was reluctant to meet without him. (It was, after all, his company.) Ed and I discussed this issue and we decided to force things by setting up a two-hour meeting for a Friday morning at 10 AM. Rocko didn’t show but he participated via speaker phone. We had his staff there and we developed a project plan that would lead to the desired outcome. Everybody in the room agreed with the plan. They took action items. They seemed enthusiastic. Rocko was noncommittal.

One early question concerned the initial quote submitted when the company thought it was a competitive acquisition. Did Rocko want to hold to his quote, or did he want to let the bottoms-up estimating process (required for a FAR Table 15-2 compliant proposal) dictate the price of his new offer? We noted that, since he had a seeming lock on the work, he was free to ask for whatever profit rate he might think his customer would pay. While his staff nodded encouragingly at our comments, Rocko was noncommittal. Again.

The next challenge concerned due dates. Rocko was about to leave the country for several weeks and Ed had a two-week vacation planned. Given the scheduling conflicts, we all agreed that we would ask the prime for an extension. Ed called the prime’s representative and learned that this would not be a problem, since the prime wasn’t going to negotiate its contract until late Q1 2017. Everybody sighed with relief, now that the time pressure had been reduced.

We all agreed that, while Rocko was away, his staff would work on the detailed estimates. As data was developed it would be reviewed by Apogee Consulting, Inc. for compliance.

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At least, that's what we *thought* we all agreed to.

If you would like to hear the rest of the story, stay tuned.