

8 Traps of Decision Making

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Before making an important decision, prudent managers

evaluate the situations confronting them and often fall into one of the eight traps of faulty thinking.

Researchers have identified a series of flaws in the way we think when making decisions. They are hardwired into our thinking process, so we often fail to recognize them.

While we cannot entirely rid ourselves of them, we can learn to understand the traps and compensate for them.

1. The Anchoring Trap

When considering a decision, the mind gives disproportionate weight to the first information it receives. Initial impressions, estimates or data anchor subsequent thoughts and judgments. In business, a common anchor is a past event or trend. While relying on such may lead to a reasonably accurate estimate of future numbers, it also tends to give too much weight to past events and not enough to other factors.

The Antidote

Anchors affect how virtually all professionals make decisions. No one can avoid their influence. But becoming aware of their dangers can reduce their impact:

- Always view a problem from different perspectives. Try using alternative starting points and approaches rather than sticking with your first line of thought.
- Think about the problem on your own before consulting others.
- Be open-minded. Seek opinions from a variety of people to widen your frame of reference.
- Avoid anchoring your advisers, consultants and others from whom you solicit information. Tell them as little as possible about your ideas and estimates. If you reveal too much, your preconceptions may simply come back to you.

2. The Status-Quo Trap

We are predisposed to perpetuating the status quo. Deep within our psyches, we are self-protective and risk-averse.

The Antidote

Don't maintain the status quo just because it's comfortable. Do so only when it turns out to be the best choice.

- Remind yourself of your objectives. Examine how they would be served by the status quo.
- Never think of the status quo as your only alternative. Identify other options.
- Ask yourself: Would I choose the status quo if it weren't so?

3. The Sunk-Cost Trap

We tend to make choices in ways that justify past decisions, even when the latter no longer seem valid. We know rationally that sunk costs are irrelevant to present decisions, but they nevertheless lead to inappropriate choices. This frequently occurs when we're unwilling, consciously or not, to admit a mistake.

The Antidote

- Seek feedback from those who were uninvolved in the earlier decision.
- Examine why admitting a past mistake distresses you. Even the best and most experienced managers are not immune to errors in judgment.

- Be on the lookout for the influence of sunk-cost biases in subordinates' decisions and recommendations.
- Don't cultivate a failure-fearing culture that leads employees to perpetuate and cover up mistakes.

4. The Confirming-Evidence Trap

Leaders sometimes seek out information that supports their existing instinct or point of view, while avoiding information that contradicts it. This trap affects where we go to collect evidence, as well as how we interpret it.

The Antidote

Don't necessarily disregard the choice to which you're subconsciously drawn, but make sure it's the smart one.

- Check whether you're examining all evidence with equal rigor.
- Ask someone you respect to play devil's advocate.
- Be honest with yourself about your motives. Are you really gathering information to help you make a smart choice—or are you looking for evidence that confirms what you already think and want to do?
- When seeking others' advice, don't ask leading questions that invite confirming evidence.

5. The Framing Trap

The first step in making a decision is to frame the question. It's also one of the most dangerous; how you frame a problem can profoundly influence your choices.

The Antidote

Limit adverse effects by employing the following:

- Don't automatically accept the initial frame, whether it was formulated by you or someone else. Always try to reframe the problem in various ways.
- Try posing problems in neutral ways that combine gains and losses or embrace different reference points.
- When others recommend decisions, examine the way they framed the problem. Challenge them with different frames.

“...how you frame a problem can profoundly influence your choices.”

The Estimating and Forecasting Traps

Meteorologists and bookies have opportunities and incentives to maintain records of their forecasting abilities. The rest of us seldom have enough carefully tracked data to adequately calibrate our minds to make reasonable estimates in the face of uncertainty. This sets us up for three more traps.

6. The Overconfidence Trap

Most of us are overconfident about our judgment abilities and prediction accuracy, as we remember our successes and quickly forget our errors. Our hubris tricks us into considering only a narrow range of possibilities.

Major initiatives and investments often hinge on estimate ranges. Managers who underestimate the high end (or overestimate the low end) of a crucial variable may miss attractive opportunities or expose themselves to far greater risk than ever imagined.

7. The Prudence Trap

When faced with high stakes, we tend to adjust our estimates or forecasts with prudence, "just to be on the safe side." Too much prudence can be as dangerous as too little.

Memories of dramatic events leave strong impressions on our minds and can skew future decision-making efforts.

The Antidote

Take a disciplined approach to forecasting.

- Start by considering the extremes: the low and high ends of possible value ranges. Then, challenge your estimates, as well as those of your subordinates and advisers.
- Always state your estimates honestly, and explain to anyone who will be using them that they have not been adjusted. Emphasize the need for frank input to anyone who will be supplying you with estimates. Test estimates over a reasonable range to assess their impact.

Carefully examine all of your assumptions to ensure they're not unduly influenced by your memory. Get actual statistics whenever possible, and avoid being guided by impressions.