

How to Make Better Decisions

How will the Internet impact my business? Where can I find highly qualified personnel? Which customers are critical to my long-term success, and which ones should I shed?

As business owners and managers, we make decisions about issues like these every day. Strangely, the ability to make effective decisions is a vital but rarely discussed business skill.

The purpose of this article is to examine common decision-making errors, and offer a systematic approach to improving your organization's problem-solving capabilities. Toward that end, let's explore four archetypal "thinking traps" – traps that prevent many managers from making better decisions.

Anchoring. This refers to a tendency to pay too much attention to information that's readily available or just anecdotal (but often generally accepted). For example, how would you answer the following questions?

Is the state of Alaska greater than 292,000 square miles; or

What would you estimate, in square miles, is the size of Alaska?

Studies¹ show that most people are influenced by the reference to "292,000 square miles" in the first question – even though the figure was chosen arbitrarily.² When making decisions, the human mind gives disproportionate

¹ *Smart Choices: A Practical guide to Making Better decision:* by John S. Hammond, Ralph L. Keeney, and Howard Raiffa; October 1998, Harvard Business Review

² www.state.ak.us At 586,000 square miles, Alaska is the U.S.'s largest state, over twice the size of Texas.

weight to the first information it receives. Common perceptions, impressions, estimates or data actually *anchor* our subsequent thoughts and judgments.

We sometimes fall victim to this trap when establishing sales objectives. For instance, how many of us, when challenged with a 10% growth objective, would merely assign our sales team that same objective? This adherence to a single statistic may not have any relevance to variables such as market conditions, resources, past performances, etc. And, though it's a comfortable target to choose, this decision may unintentionally punish our best people and reward their less-capable peers.

Supporting a Prior Decision: Have you ever refused to sell a stock at a loss, even though you knew it was a *loser* and there was a more attractive investment available? Have you ever tried to improve an employee's performance, despite the fact you were certain the person should never have been hired?

These are examples of *supporting a prior decision*. Often, a prior decision has nothing to do with current decisions. But, unconsciously or not, we are often slow to admit mistakes, because (in addition to ego) business decisions are highly visible, and people can be dismissed for making bad ones.

This is common in companies where penalties for making bad decisions are severe. Managers will do almost anything (including extending the project, retaining poor performers, etc.), to salvage some value from a prior decision. In a chaotic, high-velocity world, however, good decisions sometimes lead to bad outcomes. Acknowledging this fact and managing accordingly will encourage people to cut their losses rather than compounding their mistakes.

In other words, challenge past decisions ... especially your own!

Unofficial Support: Clearly, I'm an excellent writer, and should write for a living. I know this because my family, friends and colleagues have told me so ...

After receiving such kudos, it's often difficult to recognize that shallow confirmations are meaningless rhetoric from a well-chosen audience. This trap occurs whenever we seek supportive – and only supportive – evidence, and interpret that evidence as final proof.

Any group that functions in an insulated environment with a strong leader, where cohesiveness is rewarded and stress levels are high, will find *unofficial support* everywhere. This support combines to produce what psychologists describe as “group-think.” Groups need *some* level of conformity to operate, but an environment in which individuals are not comfortable challenging the status quo and sharing judgments is headed for decision-making destruction. Different perspectives and honest debate are prerequisites for good problem-framing and solution analysis.

Shooting from the Hip: If your organization appears inconsistent in its decisions, it may have fallen into the trap of “shooting from the hip.” In an effort to avoid what they think is analysis paralysis, despite the fact that little or no analysis has occurred, some managers trust their intuitions, and decide to *wing it*. In these situations, political skills and personality take precedence over facts, logic and genuine analysis. After all, who wants to be confused by mere facts? Who wants to be a “wimp”?

Conclusion: At every stage of the decision-making process, biases and other thinking traps can ambush us, adversely influencing our choices. Complex and important decisions, by their very nature, are prone to distortions because they involve the largest number of assumptions, estimates and outside contributions.

The higher the stakes, the higher the risk of being caught in psychological thinking traps

Although these traps can work in isolation, they often work in conjunction with those of other people – a truly toxic collaboration. For example, a dramatic event may initially anchor our thinking. And, since the world is watching, we take the established path. Then our closest co-workers lend their support to our biases. As a result, we react. When the thinking traps coalesce, wise decision-making is usually the first casualty.

So, how do we combat these forces?

First, move the entire process from the *anecdotal* to the *factual* by gathering and analyzing the data. This includes a serious effort to uncover and understand any conflicting data.

The second step is to be aware that thinking traps exist. Awareness is often the best remedy.

The third step is to continually ask “why” until the *central issue* is revealed. Don’t be satisfied with merely resolving symptoms.

Finally, recognize that in this fast-paced world, most opportunities, projects and problems have more than one possible outcome. Therefore, plan for each scenario so that when unexpected barriers or complications surface, your organization won’t be caught flatfooted in its own *thinking traps*.