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Understand decision-making pitfalls

The challenge

Decision-making is an eminently biased process. The experts show that even the most careful and competent individuals regularly fall into the same traps, to the point where one of every two strategic decisions ends up being a mistake!

So, how can one avoid making bad decisions? The fact is that mistakes are very often made upstream in the decision-making process. Those involved must stay on their toes throughout the entire process to ensure that they are not trying to solve the wrong problem, are not using irrelevant information or selecting among the wrong options, etc.

Four steps to make good decisions

Failure to define the problem correctly is a frequent cause of bad decisions: failing to take all the issues into consideration, making wrong assumptions, etc. e.g.: "How far should I cut my price to win this contract?" Is a lower price really the best way to win the contract? At what point does winning the contract matter more than my margins and the credibility of my prices?

Check-list:

- ✓ What underlying assumptions am I making?
- ✓ Have I validated these assumptions?
- ✓ What factors do I consider to be immutable? Could they change?
 ✓ Am I using the right criteria
- Am I using the right criteria to measure success?
- How might others approach this problem?

Define the problem correctly



Make

the right

decision

The information we use to make decisions is not always the most relevant, because we are influenced by our initial assumptions, as well as many psychological biases. e.g.: Coca-Cola launched "New Coke" based on a study showing that consumers really liked the taste. However, taste was far from being the dominant criterion in the purchasing decision. New Coke went down in history as a major commercial disaster.

Check-list:

Am I restricting myself to information that confirms my assumptions?

Collect relevant information

Am I granting too much importance to certain facts, due to the influence of recent or remarkable events?

✓ Do I clearly understand the degree of uncertainty of my forecasts?



Our choices are never completely rational. We must **take our intuition and underlying emotions** into consideration to make lucid decisions.

e.g.: The decision to acquire a business is dependent as much on such factors as the CEO's desire to do the deal or an intuition as on an objective analysis of the numbers. This explains the high rate of M&A failure.

Check-list:

- What implicit rules underlie my reasoning? Are these rules still valid in the current context?
- Is my perception of the risks skewed by the importance of the stakes or past successes or failures?
- Have I truly listed all of the factors to be taken into account?



Consider all the options

We tend to reason in binary terms, i.e., "go" or "no go". Yet, expanding the options is often the best way to arrive at a good decision.

e.g.: A sales manager was reluctant to restructure his sales force by customer segment rather than by geography.

Rather than make a binary decision, he launched a pilot test and created a timeline of successive decisions.

Check-list:

- ✓ Have I taken the time to think of intermediary or dramatically different scenarios?
- Could I defer part of the decision and gather more information before making irreversible commitments?
- ✓ Is the status quo really an option?