Achieve your vision!
Make better strategic decisions
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BIG DECISIONS: Why we make them poorly, how to make them better
(working title, publication expected in 2019)

AHEAD: Strategy is the way to a better future
(2013, available on Amazon)
Like George, we find ourselves in a new world with no certainty.
Where do we go? How do we get there?
What we decide is critical for our success, but we know little about the way ahead.
We are unable to see where our choices will take us.
The road we must navigate is populated with the unseen and the unknown.
And the experts we consult know little more than we do.
How do we escape this predicament?
Why strategy fails

- **Vision issues**
  - Too grand
  - Unclear or uninspiring
  - Not shared

- **Leader issues**
  - Lack belief
  - Lack commitment
  - Plan by command

- **Organization issues**
  - Habits don’t change
  - Alignment lacking
  - Key people resist
Why strategy fails

Process issues:
- Bad practices
- Priorities not set
- Execution plan lacking

Execution issues:
- Plan too complex
- Budget does not support
- Not monitored

External issues:
- Environment ignored
- Superficial insight
- Change
The underlying reason why strategy fails:
We make bad decisions.
We make bad decisions

• In how and when we plan.
• In understanding the present and the future.
• In strategy formulation and selection.
• In how we set up implementation.
• In how we execute.
• In seeing change and altering course.
Strategy IS making decisions.
“Strategy is about making choices, trade-offs; it's about deliberately choosing to be different.”

Michael Porter
Making good decisions is a deceptively difficult process.
“There is no perfect strategic decision. One always has to pay a price. One always has to balance conflicting objectives, conflicting opinions, and conflicting priorities. The best strategic decision is only an approximation – and a risk.”

*Peter Drucker*
So what’s wrong with our decision making?
Decision making processes we learned

Rational decision making

- Problem definition
- Information collection
- Solutions generation
- Optimal decision
Decision making processes we learned

“Satisficing” decision making

Information

Cost

Time

Experience

Area of bounded rationality
What we know influences our decisions

Limits to our knowledge

- We don't know that we don't know
- We know that we don't know
- We think we probably know but don't know
- We think we probably know and do know
- We know and know we know
Decisions are always a leap of faith

Undecidability

“Strategic decisions are always about action under contingency and uncertainty” Andreas Rasche
We can never know enough

Unknowability

Our inability to know how our decision will change the future

Our inability to know how others' decisions will change the future

Decision

“Not only must the person taking the decision not know everything... the decision must advance towards a future which is not known, which cannot be anticipated” Jacques Derrida
Decisions are about the future

Problems seeing the future

**Forever changeless trap**
- We think of the current condition as being the same forever.

**Butterfly effect**
- A small change in the initial conditions of a deterministic nonlinear system can result in large differences in a later state (also known as Explosive Forecasting Difficulty).

**Black Swan blindness**
- We underestimate or ignore the possibility of an outlier event with extreme impact that is outside the realm of regular expectations because we are more comfortable seeing the world as something structured, ordinary, and comprehensible.

**a priori problem**
- We can't get the data we need to predict an outlier event for the very reason that such events are rare.
We are plagued by hundreds of mental traps that lead to bad strategic decisions.
Mental traps that lead to bad decisions

- Errors, biases, shortcuts, fallacies and traps that lead us into making bad decisions
- Psychological
- Perception
- Memory
- Logic
- Physiological
- Social
Psychological traps

“Processing problems”

Errors occurring as a result of our cognitive biases and mental shortcuts that can lead to systematic deviations from logic, probability or rational choice.
165 psychological traps!

Adaptation level
Ambiguity effect
Anchoring effect
Anecdotes before data
Availability Heuristic
Backfire effect
Bad news avoidance
Belief bias
Belief bias
butterfly effect
Buyer’s Stockholm Syndrome
Categorization
Choice blindness
Choice overload
Choice-supportive bias
Cognitive dissonance avoidance
Commitment heuristic
Confirmation bias
Conflicts Create Productive Change Trap
Conservatism (Bayesian)
Consistency bias
Cumulative advantage
Current Moment Bias
Decision paralysis
Decoy effects
Default option
Denomination effect
Denominator neglect
Disconfirmation bias
Distinction bias
Dunning–Kruger effect
Duration neglect
Egocentric bias
Ellsberg paradox
Emotion
Endowment effect
Epistemic arrogance
Escalation of commitment
Exaggerated expectation
Experimenters or expectation bias
Fading affect bias
False causality
Familial heuristic
Focalism
Focusing effect
Force Can Do It Trap
Forer effect or Barnum effect
Forever Changeless Trap
Framing
Frequency illusion
Functional fixedness
future blindness
Hard–easy effect
hindsight bias
Hostile media effect
Hyperbolic discounting
IKEA effect
Illusion of certainty
Illusion of control
Illusion of external agency
Illusion of truth effect
Illusion of validity
Immune neglect
Impact bias
Impulsivity
inability to predict impact on self and others
Inability to self assess
Information bias
Investment trap
Irrationality
Isolated Problem Trap
Leniency error
Loss aversion
Less avoidance
Matthew effect
Medium-maximization
More exposure effect
Money illusion
Moral credential effect
Moral luck
More Is Better Trap
Myopic loss aversion
Naive diversification
Naïve realism
Narrow framing
Negativity Bias
No Limits Trap
Normalcy bias
Not invented here
Not using the unconscious
Observational Selection Bias
Observer effects
Observer-expectancy effect
Omission bias
Opportunity costs
Optimism bias
Order effect
Ostrich effect
Overconfidence effect
Overconfidence effect
Paradox of choice
Pessimism bias
Placebo effect
Planning fallacy
Positive expectation bias
Positivity effect
Post hoc interpretation
Post purchase rationalization
Power
Preferential attachment
Present bias
Primal effects
Primacy effects
Process-Event Trap
Pseudocertainty effect
Reframing
Regret
Relativity trap
Representativeness Heuristic
Restraint bias
Rewards
Rhyme as reason effect
Risk blindness
Risk averse
Risk compensation / Peltzman effect
Risk seeking
Scandal of prediction
Scarcity
Scarcity heuristic
Scope neglect
Selective perception
Self deception
Self-serving bias
Semmelweis reflex
Serial position effects
Similarity matching
Single Effect Trap
Solve It by Redefining It Trap
Status-Quo Bias
Stereotypes
Subject-expectancy effect
Subjective validation
Suggestibility
Survivorship bias
System justification
Telescoping effect
There’s Got to Be a Winner Trap
Time-saving bias
Tournament effect
Unawareness of cognitive process
Unawareness of thought
Underestimating the importance of luck
Unit bias
Unknowledge
Unsought introspection
Vivid representation
Well travelled road effect
Zero-risk bias
Zero-sum heuristic
Examples of psychological traps

- Availability Heuristic
- Confirmation Bias
- Pseudocertainty Effect
- Status Quo Bias
Examples of psychological traps

Availability Heuristic

We determine the likelihood of something based on what easily comes to mind.
Examples of psychological traps

Availability Heuristic

EXAMPLES:
Earthquake insurance purchases go up immediately after quakes.

People typically estimate the death rates from accidents and disease to be the same – but deaths from disease are 16X higher.

Even experienced investors overestimate the rates of corporate bankruptcy.
Examples of psychological traps

Availability Heuristic

What’s on our mind can bias what we project for the future.

Because we see more small risks, that’s what we anticipate – not big risks.

EXAMPLE:
We tend to protect against frequent small floods but not infrequent large ones.
Examples of psychological traps

**Confirmation Bias**

We dismiss what threatens our world view by surrounding ourselves with people and information that confirm what we think.

We seek evidence in support of what we believe, not against what we believe.

Despite contrary information, we cling to our beliefs.
Examples of psychological traps

Confirmation Bias

EXAMPLES:
We will spend 36% more time reading an essay if it aligns with our opinions.
When we research a new purchase, we tend to seek reviews favoring the brand we like.
When we are hiring, we see what we want to see in resumes and test scores.
Examples of psychological traps

Confirmation Bias

Because of confirmation bias, decision makers may actually be less aware of problems with their current commitments.

It can cause decision makers to escalate commitment to bad investments.

Confirmation bias can also make it more difficult for us to “think outside the box.”
Examples of psychological traps

Pseudocertainty Effect

We tend to make risk-averse choices if the expected outcome is positive and risk-seeking choices to avoid a negative outcome.

EXAMPLE: When decision makers do worst-case scenario planning, they tend to generate extreme responses to negative outcomes.
Examples of psychological traps

Pseudocertainty Effect

EXAMPLE:
Would you choose to receive a vaccine 100% effective against 70% of virus strains causing a cancer, or one 70% effective toward 100% of virus strains causing this cancer?
Examples of psychological traps

Pseudocertainty Effect

EXAMPLE:
Despite the same net effectiveness, people report stronger intentions to receive a vaccine phrased to convey 100% efficacy.
Examples of psychological traps

**Status Quo Bias**

We are apprehensive of change. We find it tremendously attractive to do nothing (decide by not deciding).

Our choices often guarantee things will remain the same, or change as little as possible.

We assume that another choice will be inferior or make things worse.
Examples of psychological traps

Status Quo Bias

We often judge outcomes not based on absolute gain or loss, but in terms of change from the status quo.

EXAMPLES:
Sellers put a much higher price on their possessions than buyers.
CEOs can be change-resistant because they benefit greatly from the status quo.
Examples of psychological traps

Status Quo Bias

In business, where sins of commission (doing something) tend to be punished much more severely than sins of omission (doing nothing), the status quo holds a particularly strong attraction.
Perception traps

“Input problems”

Effects and errors in the organization, identification, and interpretation of sensory information we use to represent and understand the environment around us.
Perception traps

- Change blindness
- Cheerleader effect
- Choice blindness
- Contrast effect
- Diminishing sensitivity
- Epistemic opacity
- Fundamental cognitive error
- Illusory correlation
- Inattention blindness
- Inverse problem
- Pareidolia
- Pattern recognition
- Peak-end rule
- Platonicity error
- Salience biases
- Vivid descriptions
Examples of perception traps

Choice Blindness
Change Blindness
Peak-End Rule
Salience Biases
Inverse Problem
Examples of perception traps

Choice Blindness

We often fail to recognize that what we get is not what we expect. And then we come up with reasons to defend our “choice.”

EXAMPLE:
Male/female attractiveness – stated importance not matched in dating.
Examples of perception traps

Change Blindness

We can miss noticing a change in a visual stimulus.

Our poor ability to detect changes reflects the fundamental limitations of human attention.
Examples of perception traps

**Change Blindness**

People missed unexpected events (such as the famous video of a gorilla walking across the court while viewers are asked to count the times the ball is passed) up to 2/3 of the time.

Why does this happen?

Selective attention.
Examples of perception traps

Change Blindness

Our attention is optimized for a world where things don’t disappear or change suddenly. Visual attention is like a spotlight that only illuminates parts of a stimulus. We block unwanted information and promote wanted information.
Examples of perception traps

Peak-End Rule

We tend to perceive not the sum of an experience but the average of how it was at its peak (e.g. pleasant or unpleasant) and how it ended.
Examples of perception traps

Salience Biases

Colorful, dynamic, or other distinctive stimuli disproportionately engage our attention and thus disproportionately affect our judgment.
Examples of perception traps

Inverse Problem

We have difficulty recreating a past state from current results.

There are always more theories and more distributions can fit a set of data.

“Humpty Dumpty sat on a wall. Humpty Dumpty had a great fall. And all the king’s horses and all the king’s men Couldn’t put Humpty together again.”
- Mother Goose
Examples of perception traps

Inverse Problem

The inverse problem is like the error of Platonicity, thinking the image we have in our mind is what we see out the window.

Plato theorized we can never truly view reality, only its shadow.
Memory traps

“Storage and recall problems”

Errors from the process in which information is encoded, stored, and retrieved from our brain.
25 memory traps

Bizarreness effect
Change bias
Conservatism or Regressive bias
Context effect
Cryptomnesia
Deese–Roediger–McDermott paradigm
False memory reconstruction
Generation effect (Self-generation effect)
Humor effect
Lag effect
Leveling and Sharpening

Memory bias
Misinformation effect
Modality effect
Mood-congruent memory bias
Next-in-line effect
Part-list cueing effect
Picture superiority effect
Rosy Retrospection
Self-relevance effect
Spacing effect
Von Restorff effect
Zeigarnik effect
Zipf's law
Examples of memory traps

Rosy Retrospection
Misinformation/Backfire Effect
Memory Bias
False Memory Reconstruction
Examples of memory traps

Rosy Retrospection

Our memories of the past often paint it as better than it really was.

We remember our choices as better than they actually were.

We recall more positive attributes for the option we chose and more negative attributes for options we rejected.
Examples of memory traps

**Rosy Retrospection**

Our attitudes shift and our memories become distorted to make us feel better about our choices.

**EXAMPLES:**
Memory of grades.
Recall of running a marathon.
Examples of memory traps

Rosy Retrospection

Reinforcing a bad decision can lead to more bad decisions.

That’s a problem in a changing environment when unbiased fact finding and assessment are needed for better decisions.
Examples of memory traps

Misinformation/Backfire Effect

We instinctively and unconsciously protect our beliefs from harm.

When faced with information inconsistent with our beliefs, we tend to stick to them rather than questioning them.
Examples of memory traps

Misinformation/Backfire Effect

Efforts to correct us or to dilute our misconceptions often backfire and strengthen them instead.

EXAMPLE:
A study by the CDC giving evidence to parents that vaccines are not dangerous and that their children needed to be vaccinated actually strengthened the views of the anti-vaccination parents.
Examples of memory traps

Misinformation/Backfire Effect

People stick with wrong facts, but it isn't just stubbornness — it's a brain glitch.

People remember the information, to which they attach a tag, "Oh no, it's not true." But this tag can be forgotten.

You remember the misinformation, but not that it is false.
Examples of memory traps

**Memory Bias**

Our predictions of future experiences are often based on memories of related past experiences.

But the predictions may be biased because the past experience may actually be dissimilar or be misremembered.
Examples of memory traps

False Memory Reconstruction

False memories can be expressed with a lot of confidence, detail and emotion. They have the same characteristics as true memories.

False memories can mislead people into thinking something is real when it's not.
Logic traps

“Reasoning problems”

Errors arising from making fallacious arguments that are deductively invalid or inductively weak or that contain an unjustified premise or ignore relevant evidence.
# 80 logic traps

| 100% effect | Denying the antecedent | Interview illusion |
| A priori problem | Exclusive alternatives trap | Irrational escalation |
| Ad hoc rescue | Expert problem | Jumping to conclusions |
| Affirming the consequent | Explosive forecasting | Lay rationalism |
| Anecdotal evidence | difficulty | Less-is-better effect |
| Appeal to ignorance | Fallacy of origins | Line-drawing |
| Appeal to money | Fallacy of silent evidence | Ludic fallacy |
| Base-rate neglect | Fallacy of virtues | Narrative fallacy |
| Be fair….in the middle heuristic | False analogy | Non Sequitur |
| Begging the question | False dilemma | Not averaging |
| Biased generalizing | Faulty comparison | Not thinking statistically |
| Black Swan blindness | Faulty generalization | Opposition |
| Certainty bias | Fooled by randomness | Persistence of commitment |
| Circular reasoning | Gambler’s fallacy | Prediction with limited experience and information |
| Clustering illusion | Genetic fallacy | Pro rata bias |
| Common cause | Group think | Problem of induction |
| Concorde fallacy | Guilt by association | Prosecutor’s fallacy |
| Confusing an explanation with an excuse | Hasty generalization | Regression |
| Congruence bias | Hot-hand fallacy | Regression toward the mean |
| Conjunction fallacy | Inconsistency | Retrospective distortion |
| Converse Accident | Inductive conversion | Reversing causation |
| | Insensitivity to sample size | Reversion to the mean |
| | Insufficient statistics | |
Examples of logic traps

Conjunction Fallacy
Narrative Fallacy
Not Thinking Statistically
Selection Bias or Sample Bias
Selection Factors
Gambler’s Fallacy
Base Rate Neglect
False Dilemma
Sunk-Cost Fallacy
Reversion to the Mean
Examples of logic traps

Conjunction Fallacy

The probability of two things being true can never be greater than the probability that one of them is true.

However, sometimes we make an error by saying two things are more likely to be true than just one of the things.

EXAMPLE: The probability that an apple is red and another is green will always be lower than that of one apple being green.
Examples of logic traps

Narrative Fallacy

We are vulnerable to over-interpreting facts and prefer stories.

We find it difficult to look at a set of facts without seeing an explanation for them or forcing a logical relationship among them.

This wrongly increases our impression of understanding.
Examples of logic traps

Not Thinking Statistically

Many of us make all kinds of errors because we can't think statistically and don't realize the need for a control group.

We typically don't use the scientific method and statistical inference to address problems.
Examples of logic traps

Selection Bias or Sample Bias

We often unknowingly select a sample of people or events that is non-representative of the larger population of people or events.

We believe the sample to be valid when it is not and therefore draw conclusions from the sample that are not true.
Examples of logic traps

Selection Factors

We often ignore or confuse our or others’ predisposition to be good (or not good) at something with the results we or others obtain.

EXAMPLES:
Swimmers – Effort is not enough.
Examples of logic traps

Gambler’s Fallacy

We incorrectly predict odds.

We over-weight past events and confuse our memory with how the world actually works, believing past events will affect future outcomes.

EXAMPLE:
Flipping a coin – Has to be heads this time!
Examples of logic traps

Base Rate Neglect

When we assess if something will happen, we tend to ignore less conspicuous but more important background evidence and focus on what’s obvious at the moment.

We ignore the base rate, the probability the event will occur across a large population.

EXAMPLE:
Buying a new phone – Sally loves hers!
Examples of logic traps

False Dilemma

We engage in faulty reasoning when we require or accept that a choice must be made among a short menu of options.

Why just these options? Who said these are the only choices?
Examples of logic traps

Sunk-Cost Fallacy

We tend to persist in achieving a goal due to our already committed investment, even when the prognosis is poor. By continuing, we justify our previous decision and avoid loss based on the confidence we made a good bet, whether or not this is the case.

EXAMPLE:
The Concorde – Can’t quit now!
We don't recognize that systems involving luck revert to the mean for the group over time.

An extreme outcome is more likely to be followed by one closer to the average.
Physiological traps

“Limbic system problems”

Mental processing and judgment shortfalls caused by physical factors that affect the function of our brain, such as arousal, depression and fatigue.
5 physiological traps

Chemical arousal
Decision fatigue
High stress
Sleep deprivation
Stimulated limbic system
Examples of physiological traps

- Decision Fatigue
- Chemical Arousal
- High Stress
- Sleep Deprivation
Examples of physiological traps

Decision Fatigue

Our brain gets tired just like a muscle. When our brain is exhausted, we tend to make worse decisions.
Examples of physiological traps

Chemical Arousal

Use of alcohol or drugs (prescription, over the counter, in food - such as caffeine - or recreational) can lead to a higher than normal rate of perception errors and bad decisions.
Examples of physiological traps

High Stress

Stress releases chemicals into our bloodstream that cause us to make greater than normal perception errors that can lead to bad decisions.
Examples of physiological traps

Sleep Deprivation

Getting too little sleep can lead to a higher than normal rate of perception errors and bad decisions.
Social traps

“Interpersonal problems”

Biases and errors stemming from how we view and interact with the people around us, with causes including social categorization, in-group favoritism, prejudice, discrimination, and stereotyping.
45 social traps

Above average effect
Actor–observer bias
Authority
Availability cascade
Bandwagon Effect
Bias blind spot
Bystander apathy
Curse of knowledge
Defensive attribution hypothesis
Egocentric bias
Empathy gap
Essentialism
Extrinsic incentives bias
False consensus effect
Foot-in-the-door technique
Fundamental attribution error
Group attribution error
Group polarization effect
Halo effect
Identifiable victim effect
Illusion of asymmetric insight
Illusion of transparency
Illusory superiority
Independent Self Trap
Inevitable antagonism trap
Ingroup bias
Just-world hypothesis
Lake Wobegon effect
Liking
Low-ball procedure
Naïve cynicism
Negativity effect
Outgroup homogeneity bias
Projection Bias
Reciprocation
Sense of relative superiority
Shared information bias
Social comparison bias
Social desirability bias
Social proof heuristic
Spotlight effect
Superiority bias
Trait ascription bias
Ultimate attribution error
Worse-than-average effect
Examples of social traps

- Ingroup Bias
- Bandwagon Effect
- False Consensus Effect
- Liking
- Illusory Superiority
- Availability Cascade
- Shared Information Bias
Examples of social traps

**Ingroup Bias**

We tend to bond with our in-group and to be suspicious, fearful, and disdainful of others.

We overestimate the abilities and value of our in-group members over others.
Examples of social traps

Bandwagon Effect

Often unconsciously, we love to go with the flow of the crowd. When the masses start to pick a winner or a favorite, our individual brains start to enter into a kind of "groupthink" or hive-mind mentality.

The bandwagon effect can be seen in a small groups, such as a strategic planning team.
Examples of social traps

Bandwagon Effect

The bandwagon effect can cause behaviors and beliefs to propagate among a group — regardless of supporting evidence or motives.

Much of this bias has to do with our built-in desire to fit in and conform.
Examples of social traps

False Consensus Effect

We tend to overestimate how much other people are like us and share our beliefs.

Sometimes we believe others are making judgments about the same thing that we are when they actually are making judgments about something very different.
Examples of social traps

False Consensus Effect

The false consensus effect justifies and can perpetuate what we think and do.

We don’t want to be outsiders or to hold extreme opinions. When we overestimate the prevalence of our opinion, we are more resistant to changing it.
Examples of social traps

Liking

People are more likely to be persuaded or influenced by people that they like.

EXAMPLE:
Tupperware sales – the host, not the product.
Examples of social traps

Illusory Superiority

Most of us demonstrate flawed self-assessment skills.

We tend to overestimate our abilities, competencies and characteristics, and underestimate our less desirable qualities - especially in contrast with how others assess us.
Examples of social traps

Availability Cascade

Our collective belief in something can gain more and more plausibility through a self-reinforcing process of increasing public repetition - even without more evidence.

If we say it enough, it has to be true!
Examples of social traps

Shared Information Bias

A group tends to focus more on discussing information that all members are familiar with and less on discussing information that only some members are aware of.
Traps have led many organizations to make very bad, even catastrophic decisions on their strategic journey.
Problems seeing the future
Traps led Yahoo to spurn Google – twice!

YAHOO DIDN’T BUY GOOGLE
Change blindness  Anchoring effect  Status quo bias  Loss aversion
Problems seeing the future

Traps caused Custer’s catastrophic loss

CUSTER’S LAST STAND

Stereotypes  Narrative fallacy  Probability neglect  Confirmation bias
More bad decisions

- Invading Iraq. (The U.S. government)
- Using two different measurement systems to guide a Mars orbiter. (NASA)
- Dramatically overleveraging the investment bank. (Lehman Brothers)
- Hastily producing a new kind of tire. (Firestone)
Some good decisions

- Building the Nano. (Tata)
- Pulling Tylenol laced with cyanide off the shelves at a cost of $100 million. (Johnson & Johnson)
- Engaging W. Edwards Deming to learn how to make quality products. (Japanese business leaders)
You are seeking great investment returns. The CEO of a blue chip Wall Street firm which has had the best returns over 30 years invites you to invest.
Your leading product has made your firm a huge success – it leads the market. But low-cost competition is beginning to undercut your sales. You have a promising new product that as of now has little sales.
You chair the Board of Directors. Your current CEO has made big strategic errors and the company is in trouble. Previously you fired your founding CEO, who led the company to great initial success, because he was not a Fortune 500 CEO-type and wanted total control. Do you rehire him?
Your decision?

You are the Board Chair. Your CEO wants to close all of your stores on Black Friday, the biggest day of the year for sales, to build customer relationships.
To make good decisions, use a set of decision tools.
Decision making tools

1. Use System 2 to make strategy decisions.
2. Look for evidence before hypothesizing.
3. Recognize and eliminate anchoring.
4. Average multiple judgments.
5. Use the base rate.
6. Consider luck.
7. Generate options but don’t overload.
8. Have others challenge your thinking.
Decision making tools

9. Reframe for change.
10. Discern among experts
11. Discount sunk costs.
12. Consider opportunity costs.
13. Be a Bayesian.
14. Lead a learning process.
15. Check it off, simulate and keep score.
We use two mental systems to make decisions:

System 1 - Quick, primitive, and automatic.
System 2 - Careful, calculated and conscious.

For strategy, slow down and engage System 2.

Impulsive, reactive decision making has no place in strategy creation and execution.
Decision making tools

Look for evidence before hypothesizing

Our natural tendency is to immediately fit facts to a simple story: the “narrative fallacy.”

Seeking more evidence in lieu of forming an opinion of the situation can avoid jumping to the wrong conclusion and over-reliance on anecdote.
Decision making tools

Look for evidence before hypothesizing

Question your intuition.

“The voice of reason may be much fainter than the loud and clear voice of an erroneous intuition.” - Daniel Kahneman

Find another scenario to explain the evidence. Seek alternative explanations to avoid traps such as group think and hasty generalization.
Decision making tools

Recognize and eliminate anchoring

We can be "primed" by an initial piece of information (valid or not) in making comparisons and decisions.

Comparing an anchor value to options only shows the differences between options, not each one’s worth.
Decision making tools

Recognize and eliminate anchoring

Recognize anchoring to avoid bait and switch, decoy effects and other framing traps.
Average multiple judgments

We avoid averaging in decision making due to traps such as authority (leader knows best), false consensus (we think alike), and illusory superiority (I'm smarter).

Averaging multiple judgments "yields an estimate more accurate than its individual components, on average."

- Krueger and Chen
Decision making tools

Average multiple judgments

Accuracy is better even when averaging two estimates by the same person.

“As aggregation raises accuracy, correspondence rationality is enhanced and the risk of being wrong is reduced.”
- Krueger and Chen
Decision making tools

Use the base rate

The base rate is prior knowledge about the probability of something (e.g. 50% of all commercial airline crashes with fatalities were caused by pilot error).

"Base rate neglect" is ignoring the base rate in making assumptions and predictions.
Decision making tools

Use the base rate

For example, assuming Malaysian Airlines flight 370 crashed due to sabotage ignores the base rate: The first assumption should be pilot error.

In decision making, people often focus on irrelevant information rather than considering prior knowledge of the probability that something will occur.
Consider luck

In systems involving a modicum of luck (investing, for example), results over time cluster around the mean (average) outcome.

Not looking for "reversion to the mean" is a trap: We see an outcome that in reality is extreme and unlikely to occur again, but we tend to predict it will recur.
Decision making tools

Generate options, but don't overload

When developing a vision or strategies, avoid the false dilemma trap - requiring or accepting that a choice must be made among limited options.

Use a technique such as brainstorming to develop more options.
Decision making tools

Generate options, but don't overload

But beware of the paradox of choice: Too many options can inhibit decision making.

EXAMPLE: Seniors offered many Medicare drug plans tend to choose on the basis of irrelevant features. Relevant features are too numerous and complex to evaluate.

Use a multi-voting technique such as N/3 to narrow a long list of options.
Decision making tools

Have others challenge your thinking

Power can lead to bad decision making.

“...the smartest thing you might ever do is bring people together who will inspect your thinking and who aren't afraid to challenge your ideas.” – Nathanael Fast
The meaning of a situation or set of circumstances comes from the frame in which we view it. Reframing the "facts" gives the situation new meaning.

Look at it another way. Reverse the meaning (e.g. "empty" means "ready to fill"). Redefine, emphasize or downplay words and actions (e.g. an impossibility can become a possibility).
Decision making tools

Discern among experts

Recognize the difference between "true experts" and those who are not.

Discount “experts” who deal with the future and base their skills on the non-repeatable past (except short-term physical processes).

“They are close to a fraud, performing no better than a computer, blinded by intuition.” – Nassim Nicholas Taleb
Decision making tools

Discount sunk costs

A sunk cost is paid: It can't be recovered.

Ignore sunk costs. Consider future costs and benefits to decide whether to continue an activity or invest more - don’t pursue a losing proposition.

Escalation of commitment to an activity based on sunk costs can block needed change and limit innovation.
Consider opportunity costs

We often don't recognize that when we do anything we are paying an “opportunity cost” for our choice, because we could have done something else.

Opportunity costs are not only financial; they can involve output, time, pleasure - any benefit or value.
Consider opportunity costs

Ask: “Do we want to do something else?”

The opportunity cost of a choice is the value of the next best alternative.

Considering opportunity costs in strategy decisions helps ensure wise use of scarce resources.
Decision making tools

Be a Bayesian

Statistical analysis can lead to false conclusions because of bad data, loose confidence intervals, sample bias and erroneous assumptions.

Instead, consider using Bayesian inference. Bayesians look for the base rate and then revise predictions in light of new evidence.
Decision making tools

Lead a learning process

Strategy creation and execution is a major exercise in learning and change.

Planning as group learning combats shared information bias and narrow framing (evaluating options singularly rather than as part of a portfolio).
Decision making tools

Check it off, simulate and keep score

Use a checklist to assure the quality of strategy decisions.

“Assess the quality and independence of information, the possibility of group think, the leader's influence and how group consensus was postponed and judgments were kept independent.”

– Daniel Kahneman
Check it off, simulate and keep score

Simulate or “war-game” proposed strategy “to identify risks and opportunities and facilitate change.” - Chris Paton

Do a plan pre-mortem to see how it might fail. - Gary Klein

Learn from your mistakes: Keep score on the quality of your strategy decisions. – Daniel Kahneman
To make good decisions, use an evidence-based decision making framework.
Evidence-Based Decision Making

The iDECIDE Framework

IDENTIFY the need.
DEFINE the problem.
EXPOSE traps and biases.
CHALLENGE the evidence.
INTERPRET the evidence.
DETERMINE the best course.
EXECUTE the decision.
iDECIIDE: Make better decisions

Step 1: IDENTIFY the need

• Identify the need for a strategic decision
• Slow down
• Take a step back
• Be humble
• Use System 2
iDECIDE: Make better decisions

Step 2: DEFINE the problem

• Draft the problem statement: What’s the decision to be made?
• Ask what's new: Why decide this?
• Consider if this is not the case or untrue
• Ask what leads us to believe this
• Determine the source and the motive
• Ask if deciding will get us what we want
• Finalize the problem statement
iDECIDE: Make better decisions

Step 3: EXPOSE traps and biases

- Priming and anchoring
- Presuppositions
- Sunk costs
- Group think
- Luck
- Framing
- Expert problem
- Other biases and traps
iDECIDE: Make better decisions

Step 4: CHALLENGE the evidence

- Develop more evidence
- Solicit individual views
- Have the group develop alternatives
- Solicit outside views
- Consult other sources
- Seek alternative explanations
- Benchmark against other organizations
iDECIDE: Make better decisions

Step 5: INTERPRET the evidence

- Aggregate views
- Average
- Forecast
- Look for the base rate
- Conduct Bayesian analysis
- Consider opportunity costs
- Conduct other analyses
Step 6: DETERMINE the best course

- Develop more options, then limit options
- Make a tentative decision
- Affirm against vision/goal
- Introduce changed variables and validate
- Conduct a pre mortem
- Scenario planning, simulation, war game
- Beta test
- Make the final decision
iDECEIDE: Make better decisions

Step 7: EXECUTE the decision

- Commit to a third party
- Amplify intermediate rewards
- Take small bites
- Keep vision / goal up front
- Keep score
- Abort, modify or continue
- Conduct a post mortem
- Develop a checklist for the future
- Learn
Go bravely forward on your strategic journey!
Questions?
Presenter

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2016 Strategic Leader Survey

Preliminary Findings – 314 leaders
For strategic decisions:
While 2/3 of organizations say they use consensus decision making, the organizational leader obtains consensus only 29% of the time.
2016 Strategic Leader Survey

Preliminary Findings – 314 leaders

The leader decides 66% of the time (but before deciding does consult with others half of the time).
2016 Strategic Leader Survey

Preliminary Findings – 314 leaders

Few organizations use an outside facilitator: Just 4% to lead the process for developing options and 5% for assessing options.
2016 Strategic Leader Survey

Preliminary Findings – 314 leaders

Just 9% of organizations have individuals list options and assess options before group discussion.
Preliminary Findings – 314 leaders

Only 22% of organizations develop a long list of strategic options.
Only 24% of organizations reduce the number of options to a short list.
Only 35% seek contrary views and explore alternative explanations and outcomes in assessing options.
In assessing threats and opportunities, 9% consider luck, 36% consider reversion to the mean, 25% look for priming, 25% look at the base rate.
2016 Strategic Leader Survey

Preliminary Findings – 314 leaders

75% of organizations use forecasts, but only 8% average forecasts and just a third look back for accuracy.
Only 59% say they monitor the results of their strategic decisions.
56% of organizations are not quick to modify or change course when it is seen that a decision is not working out as expected.
Only 52% regularly report on the results of strategic decisions, good news or bad, to decision makers and relevant stakeholders.
53% do not conduct internal assessments on the results of strategic decisions and just 15% use outsiders to assess results.