

Decision Making and the Paradox of Choice

In this article we consider how decisions are made, how bad ones are avoided, and the one fact that unites them all – the human mind.

The idea

Paradoxically, the more choices you have the tougher life can be. This is because greater choice comes at a price: potentially more time, demands on your cognitive abilities, confusion and paralysis resulting from indecision. Decision making is central to business success and generating new ideas, yet it is littered with hazards. Understanding the pitfalls is half the story, trusting yourself is the other.

In practice

The way that people think, both as individuals and collectively, affects the decisions that they make, in ways that are far from obvious and rarely understood. John Hammond, Ralph Keeney and Howard Raiffa writing in the Harvard Business Review recognised the following traps in decision making (see John S. Hammond, Ralph L. Keeney and Howard Raiffa, *The Hidden Traps in Decision-making*, Harvard Business Review, September-October 1998).

The anchoring trap is where we give disproportionate weight to the first piece of information we receive. The initial impact of the first information, our immediate reaction to it, is so significant that it outweighs everything else, ‘drowning’ our ability to evaluate a situation.

The status quo trap biases us towards maintaining the current situation – even when better alternatives exist – due to inertia or the potential loss of face if the current position was to change.

The sunk-cost trap inclines us to perpetuate the mistakes of the past, because the investment involved makes abandonment of previous decisions unthinkable.

The confirming evidence trap (confirmation bias) is when we seek information to support an existing predilection, to discount opposing information, to justify past decisions and to support the continuation of the current favoured strategy.

The over-confidence trap makes us overestimate the accuracy of our forecasts. Linked to confirming evidence, it occurs when a decision maker has an exaggerated belief in their ability to understand situations and predict the future.

Information

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The framing trap is when a problem or situation is incorrectly stated, undermining the decision making process. This is often unintentional, but not always. How an issue or situation is seen is important in providing the basis for developing an effective strategy or decision.

The recent event trap leads us to give undue weight to a recent, possibly dramatic, event or sequence of events. It is similar to the anchoring trap, except that it can arise at any time – not just at the start – and cause misjudgment.

The prudence trap leads us to be over-cautious when estimating uncertain factors. There is a tendency to be very risk averse and is likely to occur when there is a decision dilemma – when the decision maker feels both the current approach and alternative courses carry risks.

As well as these thinking flaws and coping patterns, there are two potential pitfalls resulting from the culture or environment of the organization: fragmentation and groupthink.

Fragmentation occurs when people are in disagreement, either with their peers or their superiors. Usually, the expression of emerging dissent is disguised or suppressed, although it may appear as ‘passive aggression.’ Dissenting opinion often festers in the background – mentioned informally in conversation, rather than clearly raised in formal situations, such as meetings. Fragmentation is corrosive, hindering effective analysis and decision making, and can worsen when the views of one group dominate. It also feeds off itself in a self-sustaining cycle, as any move to break it is seen as an attempt to gain dominance by one side. It can therefore become locked-in to the organization and be extremely difficult to reverse.

Groupthink is the opposite of fragmentation. It occurs when the group suppresses ideas that are critical or not in support of the direction in which the group is moving. The group appears to be in agreement or certain but is neither. It is caused by many factors, such as past success breeding a belief of an infallible team and complacency. Groupthink may occur because the group is denied information or lack the confidence or ability to challenge the dominant views of the group. People may be concerned about disagreeing, either because of past events, present concerns or a fear of what the future might hold, therefore seek safety in numbers.

Groupthink is exacerbated by the fact that cohesive groups tend to rationalize the invulnerability of their decision or strategy, and this in turn inhibits critical analysis and the expression of dissenting ideas. The effect is an incomplete survey of available options and a failure to examine the risks of preferred decisions.

Groupthink can occur in organizations where teamwork is either strong or weak. As with fragmentation, groupthink is self-sustaining. The longer it lasts, the more entrenched and ‘normal’ it becomes. It can be very difficult to reverse.

The solutions

Having explained the pitfalls what are the solutions? A great deal has been written about the rational, process-driven approach to decision-making but the psychological aspects are also important and are only recently beginning to be understood.

Be bold and don't fear the consequences of decisions – we tend to over-estimate the consequences, good and bad, of our choices. We also tend to discount our ability to make the right choice. This results from ‘loss aversion’: the view that a loss will hurt more than

a gain will please. Remember, the worst case scenario might never occur and even if it does people invariably have the psychological resilience to cope.

Trust your instincts and emotions – we have evolved to make good decisions and manage their implementation. Sometimes, quick decisions work best precisely because you have picked up on the key pieces of information quickly and then responded. More time can simply lead to information-overload and other distractions.

Be prepared to play devil's advocate – searching for flaws and failings will strengthen your decisions and illuminate factors affecting the decision and other issues, such as biases. This means being aware of confirmation bias and using it.

Avoid irrelevancies – irrelevant information distorts our perception, as described in the anchoring trap. The solution is to be ready to question the context of the information. What are you basing your decision on, and is it really relevant?

Reframe the decision – this will help you view the issues from a new perspective.

Don't let the past hold you back – the sunk-cost trap highlights our tendency to stick with previous choices because too much has been invested. Don't: better alternatives may exist.

Challenge groupthink – people are often afraid to comment or to act because of social pressure. This is a poor excuse. Find out what people really think and use that to inform decisions.

Limit your options – this is the paradox of choice: the more options we have, the harder life can be. Choose the most promising options, this can help to remove pressure and clarify your thinking. We are fixated with choices, believing more to be better. In truth, less choice can be more satisfying. Also, it may be worth delegating the decision to someone else better qualified.

The challenge is to make sure that, as far as possible, you enjoy what you are doing, and that the decision is made by the best person, in the right way at the right time.

Now there's an idea.