

Why people gravitate towards sub-optimal decisions... ..

Whether hiring the next engineer, assigning a project manager, or staff reduction, management is required make some serious decisions. Yet, many managers find it difficult to entertain the idea that they might not be making optimal decisions.

This is because in a conventional sense we tend to judge the quality of a decision by the outcome; i.e. if the desired objective is achieved, then we say, "*It was a good decision*". At the time we make a decision, we cannot say we made good decisions – we have to wait for the *outcome*. All we can say is that we used a reliable methodology to arrive at the optimum decision. Thus it is the *process* that we can judge – not the *outcome*.

This is analogous to driving a car. When driving, there is no guarantee that we would reach our destination without having an accident. Yet, if we were to adopt a defensive approach, with attention to road conditions, etc. [*the process*] the probability of reaching our destination without an accident is greatly increased.

Furthermore, a *good decision* is not necessarily an *optimum decision*, because even a good decision might consume far more resources than it deserves.

What the experts know....

In 1956 Prof. George A. Miller of Princeton University's Department of Psychology, wrote paper titled: "*The Magical Number Seven, Plus or Minus Two: Some Limits on Our Capacity for Processing Information*" – where he said that we humans can process only a limited amount of information. Sadly, in today's IT environment, this is further compounded because we are bombarded with information.

Experiments conducted by Prof. Dan Ariely of MIT's Sloan School, and others (See "*The Experiments*") confirm the human tendency to gravitate towards sub-optimal decisions.

The general consensus is:

1. If there are *no options*, people tend to procrastinate, and try to avoid having to make a decision (implementation).
2. If there are *too many options*, people are confused, hence reluctant to make a decision.
3. If there are *a few options*, there is a greater propensity to make a decision. However, people are focused on "*which is the better option*", even if a decision is not warranted. In fact marketing gurus exploit this human failing.
4. If the general public has concluded something is better, there is a greater propensity for us to agree with this.
5. We humans can process only a limited amount of data & information, at any given moment.

What is a “good” decision?

First we must recognize – that even if you make an optimum decision – there is no guarantee that you would have the desired outcome. The *quality* of the decision you make will depend on five factors (see box). However, the *outcome* will depend on a different set of factors, related to the implementation of the decision. So the next time, don’t rush to condemn a decision based on the outcome. It might have been an excellent decision that was poorly implemented.

Here we must pay close attention to *timing*! The timing of the implementation will have a huge impact on the outcome.

Consider the 1973 war, when Syria and Egypt attacked Israel, on the holiest day in the Jewish calendar – *Yom Kippur*. What is more significant is that they picked the exact time when they – when the Jewish people were in the Synagogues. Those were days before the cell phone, and the Generals had to drive back to the Command centers to give specific orders. As much as one would deplore such an act, this example demonstrates the incredible significance of timing.

The Holistic Approach

What is required is a structured methodology, not just an algorithm or a computer program. Such a technique should consider all the fundamental elements of decision-making. We recommend the seven-step technique outline here (see box).

Conclusions

Before a decision is made, all quantitative data are transformed into qualitative interpretations. This is where our beliefs, instincts, values, etc. are incorporated into the decision. While there is no way to totally eliminate “common-sense” and “gut-feel” from our decisions, a structured methodology will ensure that such tendencies would not overly bias our decisions.

Everyone needs to anchor themselves to a structured methodology for decision-making.

A more comprehensive discussion of the Seven-step methodology is available at www.XpertUS.com

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The quality of the decision will depend on:

1. Data & Information (problem domain)
2. Context Information
3. Creative Options
4. Solution Technique
5. Expertise (of the decision-maker)

However, the final outcome will depend on:

1. Appropriate Timing
2. Adequate Resources
3. Commitment to Execution
4. Changing Circumstances

The Seven-Step Holistic Methodology

1. Study the problem and clearly define your objective.
2. Identify all relevant criteria and define the prerequisites.
3. Extract obligatory criteria; all criteria are not of the same significance.
4. Creatively identify all available candidates or options that meet all prerequisites.
5. Gather information on the candidates— especially as they relate to the criteria, and also add any new criteria.
6. Assign weights to the obligatory criteria.
7. Rank the candidates.

The Experiments

Beer & Vinegar....

Students were told they were required to taste two different beers, and then select a free pint of one of the brews. Brew A was Budweiser. Brew B was Budweiser, plus 2 drops of balsamic vinegar per ounce. When students were not told about the nature of the beers, they overwhelmingly chose the balsamic beer. When students were told about the true nature of the beers, they overwhelmingly chose the Budweiser.

Conclusion: If you tell people up front that something might be distasteful, the odds are good they'll end up agreeing with you, because of their expectations.

Caltech & Stanford University.....

Business Week (April 2008) published a study done at two prestigious US colleges.

Students were wired up and put through MRI machines. Before passing through the machines each was asked to taste sips of red wine. The bottle and the price tag were clearly displayed. Unbeknown to the students.. the same wine was presented, with two different price tags. One with the real price of \$5.00, and the other with a fictitious price of \$45.00.

All the students concluded that the \$45.00 wine tasted better.

Conclusion: We just assume that something that is more expensive is likely to be better.

Too many to chose from...

In an experiment academics set up a tasting booth in a store in California. On some days they put out six kinds of jam, on others 24. When the booth had 24 types, it was mobbed - "there was more color, more excitement". But it was the actual sales that were truly remarkable!

With six jams on show, 30% of customers bought a jar; however, when 24 were displayed, only 3% did.

Conclusion: Jams are hardly complex things, but people saw 24 stacked together and thought: "I have no idea how to deal with this."

Offering a pair...

When William & Sonoma, a high end kitchen equipment vendor, offered a \$85.00 bread-machine – sales were sluggish. Rather than remove the item from the shelves, they placed a \$135.00 bread-machine next to it. Suddenly the \$85.00 machine started to sell well.

Conclusion: Rather than even thinking if they needed a bread-machine, customers were seeing a bargain! They were now thinking of which of the two.