



DON'T STEP IN THESE TRAPS!

People make bad decisions every day. They hire the wrong people, develop the wrong products, adopt misguided strategies, say yes when they should have said no and no when they should have said yes... When you see the wreckage that results, all you can do is shake your head and wonder, "What were they *thinking?*"

That's the heart of many poor decisions—people who think they are making clear-headed, rational choices get ambushed by their own thought processes and decision-making habits. Can you be sure you're not going to fall into a similar trap, the next time you have to make a high-stakes decision?

Only by awareness and self-monitoring can you avoid stumbling into decision disaster.

THE HIDDEN DANGERS

The greatest threats to good decisions are inside, in your own mental processes. Over millennia, the human mind has been optimized to rely on various built-in biases and mental shortcuts to sift the environmental signals bombarding us and guide us to conclusions without overloading the conscious thought-processes. The results are pretty reliable most of the time—but like all processes that depend on norms and averages, they can go disastrously wrong in certain cases. By becoming consciously aware of these inherent biases in normal thought processes, you stand a better chance of recognizing when they might be

leading you down a path you don't want to take.

- **Anchoring** means giving disproportionate weight to the first information received. One common form in business is to anchor to past experience or trends. For example, when people make forecasts of future performance, they frequently anchor their estimates on the figures for past performance, adjusting them up or down—which weights past events too heavily and slights other influences. In a volatile or changing environment, this can lead to faulty conclusions and bad choices. To minimize the danger, it is important to view a problem from multiple perspectives, seek a wide range of inputs, and think about the problem on your own first, before you consult with other people (to avoid anchoring on their interpretation).

- **Framing.** The way a question is asked, and the problem framed, can influence everything that follows. People will take risks to avoid losses, avoid risks to preserve gains, depending on whether the choice is presented in terms of losses or gains, even if the underlying figures are the same in either case. The frame of reference is also a critical issue: incremental changes are more dramatic and prompt a more conservative reaction than changes proposed contextually. Frames are often hard to identify, so it is important to try to

reformulate problems in as many different ways as possible, and stay alert to the way other people frame their contributions to the discussion.

COSTLY ERRORS AT COKE

The 1985 decision of Coca-Cola to withdraw its flagship cola and replace it nationwide with the reformulated New Coke illustrates the danger of anchoring and framing errors. Coca-Cola, faced with eroding market share, anchored its analysis to its rival's Pepsi Challenge, spending \$4 million on taste tests that agreed 60% of cola drinkers preferred a smoother, sweeter taste than the traditional Coke. But when they rolled out New Coke the result was a marketing and public-relations disaster: within 3 months, Classic Coke was back on the shelves, and New Coke quietly faded away.

What had gone wrong? Coke executives, framing the problem in terms of wooing the people who preferred the taste of Pepsi, ignored the 40% who preferred Coke. And by using a frame that made taste the only criterion of choice, they missed seeing how their action threatened people's emotional attachment to the Coke brand. The public outcry proved how badly they had miscalculated.

