Skillbook
Decision-Making Mistakes
and How to Avoid Them

Decision Making
Skills

Mindtools

Decision-Making Mistakes and How to Avoid Them
# Skillbook

Contents

1. Introduction

Bad decisions can lead to very bad outcomes. Because it's impossible to be 100 percent sure that a decision is right until you actually see the outcome, it's important to recognize your own fallibility in decision making – and to take steps to avoid as many mistakes as you can.

A decision can fail because you, or perhaps other people involved, have not considered all of the key factors as part of the decision-making process.

In this **Skillbook**, we introduce you to some of the decision-making trouble spots you may encounter. The more aware you are of these traps, the less likely you will be to fall into them. We then look at three decision-making scenarios, and examine why and how the people in them failed to make the right decision.

As you work through the Skillbook you'll learn:

- How to decide who to involve in your decision-making process.
- Common decision-making pitfalls.
- Specific strategies to avoid these pitfalls, and ways that you can challenge the validity of your decision making.
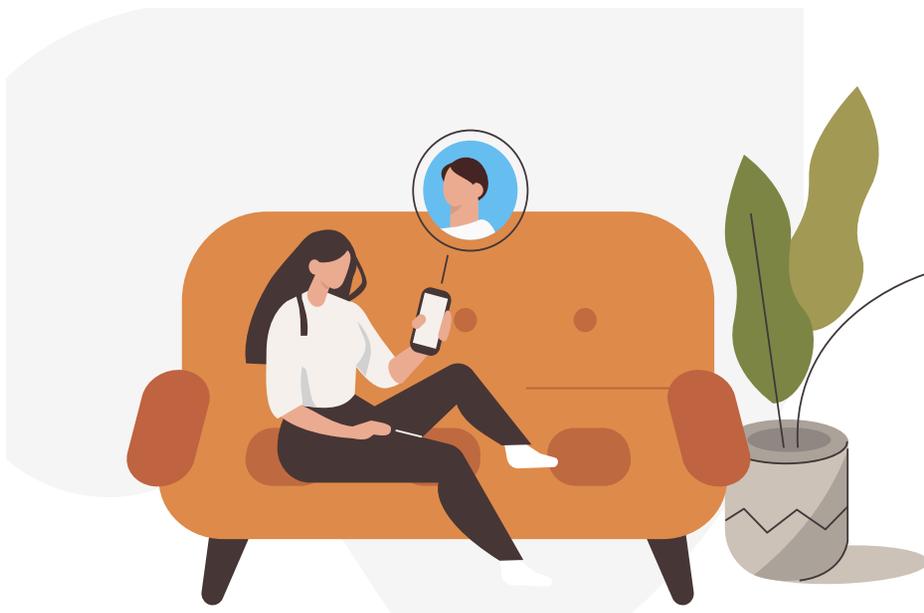
2. Deciding How to Decide

A key part of making a good decision is finding the most efficient and effective method to use.

One of the first things to consider is your preferred approach to decision making. Do you tend to "go it alone" and decide on your own, or do you favor involving other people?

If you have a strong preference for one method or the other, you're at risk of making one of the most common decision-making mistakes – relying on a "one-size-fits-all" approach.

Some situations call for an autocratic, "take charge" approach, but other scenarios may be better suited to a consultative one. Your style of decision making needs to adapt to the circumstances, which means assessing the situation first and then deciding how to decide.

The Vroom-Yetton-Jago Decision Model is a useful tool for deciding how to decide. This uses a series of yes/no questions as a framework for identifying whether a situation requires an autocratic, consultative or collaborative style of decision making.

The seven questions ask you to consider the following:

- Is the quality of the decision important?
- Is team commitment to the decision important?
- Do you have all the information you need to make the decision?
- Is the problem well defined and structured?
- If you make the decision yourself, would the team support it?
- Does the team share organizational goals?
- Is conflict among the team over the decision likely?

Your answers to these questions form a decision tree, as shown in the diagram on the next page.

✔

Tip 1:

At first sight, this process may look complicated. But it's actually quite easy to use, so persevere!

✔

Tip 2:

We use the terms "autocratic" and "collaborative." Don't assume that "autocratic" is always bad, or "collaborative" is always good. Sometimes it's right to be autocratic!

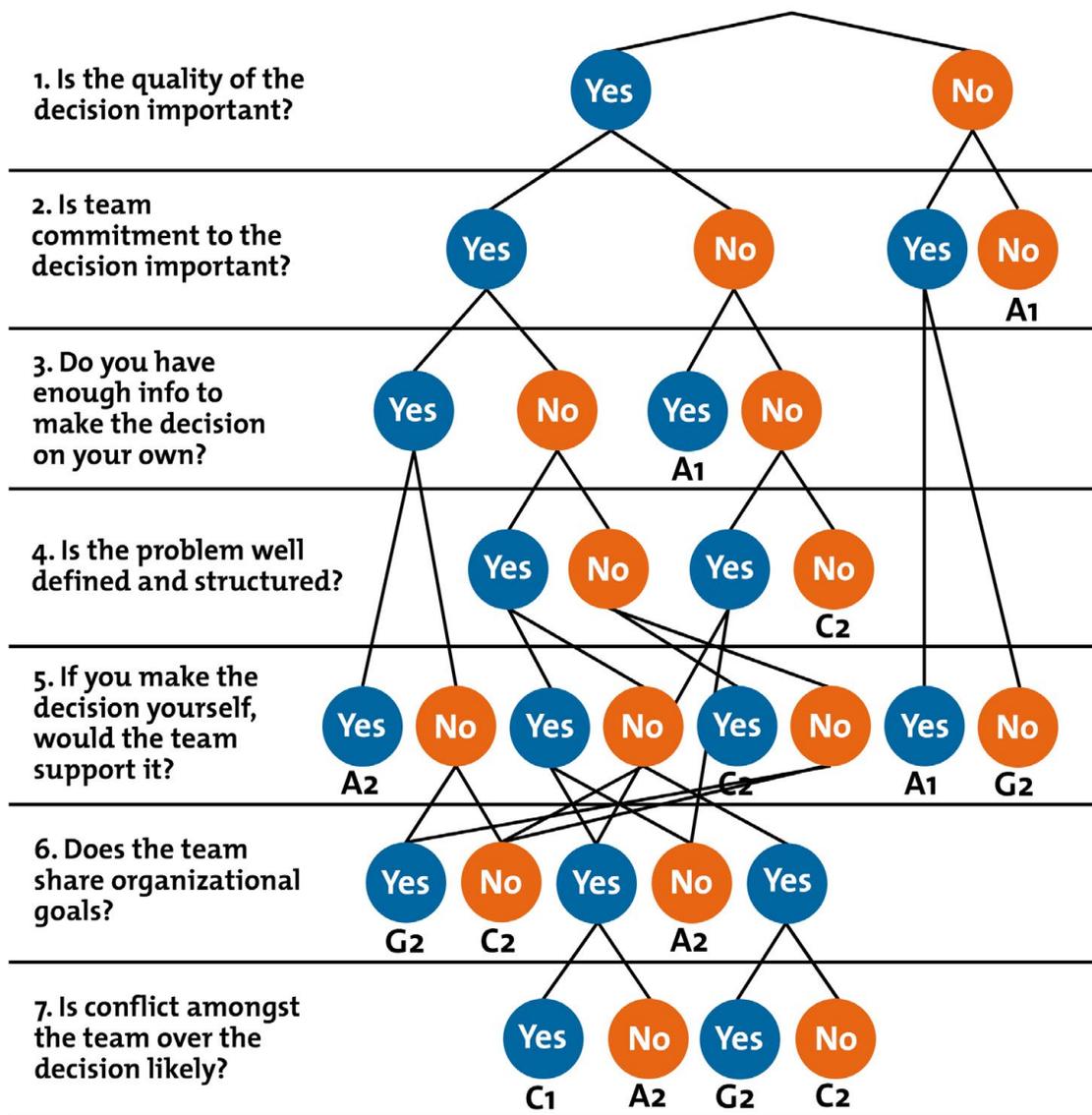|		
1. Is the quality of the decision important?	Yes	No
2. Is team commitment to the decision important?	Yes / No	Yes / No → A1
3. Do you have enough info to make the decision on your own?	Yes / No	Yes / No → A1
4. Is the problem well defined and structured?	Yes / No	Yes / No → C2
5. If you make the decision yourself, would the team support it?	Yes → A2 / No	Yes / No / Yes → C2 / No	Yes → A1 / No → G2
6. Does the team share organizational goals?	Yes → G2 / No → C2	Yes / No → A2 / Yes	
7. Is conflict amongst the team over the decision likely?	Yes → C1 / No → A2	Yes → G2 / No → C2	

Table 2.1 Decision Methods for Group and Individual Problems. From "Leadership and Decision-Making," by Victor H. Vroom and Philip W. Yetton. © 1973. All rights are controlled by University of Pittsburgh Press, Pittsburgh, PA 15260. Used by permission of the University of Pittsburgh Press.

The three styles described in the model (autocratic, consultative and collaborative) involve different processes, as marked on the diagram, and are explained below:

Autocratic – you make the decision.

- A1: You rely on your own knowledge, experience and information to make the decision, and then inform your team of that decision.
- A2: You ask for specific information from team members, and then use it to make the decision on your own.

Consultative – you gather information from the team and then make a decision.

- C1: As you gather information from individuals, you ask for their opinions, and let them know why you need it. You make the decision on your own, once you have enough information.
- C2: You gather information in a group setting, asking for people's suggestions and perspectives. Using what you learn, you make the decision.

Collaborative – you work with your team or group to make the decision by consensus.

- G2: You facilitate the decision-making process, and help the team find a solution that everyone can agree on.

Time may be a factor in your decision making. If you have to make a decision swiftly, the fewer people involved in the process, the quicker it will be. If you adopt a collaborative style, you involve more people, the process becomes more complicated, and reaching a decision takes more time.

Let's look at some examples of a decision that you need to make, and examine what approach would allow you to make it effectively:

If you are trying to decide on a new marketing strategy, you will probably want your team members to buy into it, to ensure they are highly committed to implementing it. In that case, you would adopt a collaborative or consultative approach.

If you are setting a budget for the strategy, it's probably fine for you to make that decision autocratically, without much involvement from others.

Note:

Being aware of the different styles of decision making is an important factor in making good decisions. Always collaborating might not anger your team as much as always being autocratic, but it's just as ineffective.

3.   Common Decision-Making Mistakes

T o make a good decision, you need relevant and accurate information – and you need to use it the right way. Even the best decision-making process will lead to a poor outcome if its inputs are invalid or faulty.

No decision can be 100 percent guaranteed, but taking a few extra steps to check the quality of your decisions will significantly improve the likelihood of making the "right" one. Here are a number of common decision-making mistakes you should avoid:

Not Being Systematic

You need to thoroughly test the assumptions that underlie any decision you make. For example, you wouldn't decide to hire three more team members because you assume sales will rocket with the release of your newest product. You would test those assumptions using market data that has been carefully gathered and analyzed.

Typically, when we make decisions, we use our experiences and understanding of the world to interpret and filter the information we receive. What starts out as fact – our customers buy more jewelry when it's on sale – is interpreted to mean that our prices are too high. This leads to the assumption that our customers want lower prices, and so the decision is made to cut the retail prices by 10 percent. Had the situation been examined further, we might have realized that customers bought more on sale simply because the peak buying periods coincided with holidays and special occasion promotions. By lowering its prices, all the company has done is reduce its profit margin.

Some common assumptions people make include:

- Using biased information. That is, relying on data because it supports your existing beliefs, or rejecting data that contradicts what you think is true.
- Believing that something will or won't happen based on anecdotal experience or "gut feel."
- Thinking a piece of information is more or less significant than it really is.
- Thinking others will prefer what we prefer.

Jumping to conclusions is another mistake that's related to making faulty assumptions. It often happens because, when faced with a decision, we can tend to make a quick decision in our heads, rather than take the time to examine all the possible options. After that, we interpret further information in a way that validates our initial response.

Carrying on Regardless

When you commit to an idea or solution, you have a vested interest in its success. When it becomes clear that it isn't working, it's not easy to admit that you've made a mistake and to stop the project, especially if you had to fight to get your way in the first place.

What we tend to do instead, is throw even more time and resources at the idea in the hope that we can "make it right." This approach is often as successful as trying to gamble your way out of debt. As you go through your decision-making process, stay objective and focused. Try to keep your emotions out of it, and don't view "cutting your losses" as a personal failure.

Not Considering Different Perspectives

Adopting a narrow perspective is dangerous. Such "tunnel vision" limits the number of factors you consider, and can lead you to make many faulty assumptions.

One example of tunnel vision is always using the same decision-making style. It can happen when you take a framework that you have used successfully in one situation, and then apply it to all similar situations in the future. As we saw earlier, there is no "one-size-fits-all" approach, and you need to get a good overview of the people and elements affected by your decisions.

Being Impulsive or Over-Confident

When you are over-confident, you may make a decision too quickly, without considering enough of the relevant data, facts and potential consequences.

This can happen when you have a track record of successful decision making, don't challenge your assumptions, or when you rely on "best estimates" instead of taking the time to gather reliable information. For example, a snap decision you make in your department could have a potentially counter-productive effect in another department.

Impulsive decisions often arise when you fail to challenge inputs, and take information at face value. Focusing exclusively on the benefits that you may enjoy once a decision has been made can also lead to hasty decisions. When you have a long list of plusses, it's easy to ignore or downplay the negatives.

4.   Challenging Faulty Decisions and Inputs

To improve your decision making, you need to increase your awareness of decision-making traps, and you also need a tool to challenge them. The Ladder of Inference provides a very useful set of questions you can ask yourself to make sure that you have considered all of the angles:

- Why have I chosen this course of action?
- Were there other actions I should have considered more thoroughly?
- What belief led to this action?
- Was the belief valid and supported by evidence?
- What conclusions did I draw?
- Were these conclusions sound?
- What assumptions have I made?
- How valid are these assumptions?
- What data have I collected and used?
- Was the data collected properly?
- What are the facts I used in my decision?
- Are there other facts I should be considering?

As you work through these questions, you can also bounce ideas off other people to get their perspective. Having someone to play "devil's advocate" can be a good way to consider counter arguments and challenges to your assumptions.

Be honest with yourself about your motives whenever you are making decisions. Do you, or anyone involved in the process, have a conscious or unconscious "agenda?" Uncovering these underlying motivations can improve the integrity of your decisions.

There are many techniques you can use to improve your decision making, and they all start with a thorough examination of the situation you are dealing with. When you have studied and understood all of the factors involved, you can then decide on a decision-making process that works best for you at that time.

Decide who should be involved in the process and what information you need, and then gather that information systematically. The more you use facts and truths in your decision, as opposed to assumptions and "gut feel," the higher the quality of your decisions will be.

5. Scenarios

In our scenarios, we look at three situations where people have made poor decisions. As you read each one, make a note of your observations and answer the questions at the end.

Scenario 1

Launching a New Business

Dan has decided it is time to strike out on his own and start a financial consulting business. He's been working for 12 years with one of the most prominent firms in town offering this service, and he has built some strong business contacts.

Dan's clients often tell him that he is the main reason they started or continue to do business with the company. Riding this wave of confidence, he creates a business plan and secures financing for his new business.

He leases a downtown office. It's more expensive than he wanted but it is convenient for his potential clients, who are used to coming downtown to see him. He buys high-end furnishings, and hires a designer to create luxury surroundings. He also employs a receptionist/office manager to greet visitors and serve refreshments.

Dan's excited when he finally opens for business, but is soon worried as none of his previous clients have made the move to join him. He follows a few leads and works his contacts, but he doesn't have much money left for advertising.

His strategy to get his former clients into his new office isn't working, and he has an employee to pay. Dan gains a few clients over the next few months , but he's not paying himself yet and some months he barely makes enough money to cover his costs.

He doesn't understand why his clients didn't follow him to his new company, and he can't figure out what is going wrong with his marketing.

Question 1:

What do you think went wrong with Dan's decision making?

Question 2:

What key assumptions was he relying on?

Scenario 2

Employee Turnover

Laurence is the owner of a fast food restaurant franchise, and employees come and go regularly. Head office sets the wages, so he has to figure out other ways to keep his people after he's trained them.

Laurence has heard about a great book on employee incentive plans, and thinks that it will help him retain his team members. He reads the book cover to cover, and makes a note of the programs he is going to try:

- Supervisors will "catch people doing things right," and not focus so much on any negatives.
- The shift schedule will be agreed upon by employees every two weeks, and they will have their say on the days and times they work.
- The "Employee of the Month" award will be replaced by "Supervisor of the Month." His team members will decide who gets the award, and he hopes it will incentivize them and create a great working atmosphere.

Laurence arranges a team meeting and unveils his plans, but is completely surprised when it has little effect on staff turnover — in fact the figures increased in the three months after he implemented his new ideas.

Question 1:

What is wrong with the decision-making process used here?

Question 2:

What do you think Laurence should have done differently?

Scenario 3

Pricing New Products

It's Monday morning, and Eleanor and her team have been tasked with setting the price for a new product line their company will be distributing. There is a regional marketing meeting being held on Thursday and all the top executives will be there. Eleanor and her team want to make a good impression, so they decide to unveil their pricing strategy at the meeting and book time on the agenda to do so.

Now Eleanor must get the information she needs and prepare the report. The company is excited about acquiring the distributorship of this line of products, so her people want to get everything right.

But they hit their first snag on day one, when they are unable to get firm costs for all of the products. Four new products were added to the lineup, and they haven't received the breakdown of costs by order volume for these yet. They do have the cost breakdowns of the other products, though. They figure that by averaging the costs across the different volumes for these products, it will give them solid cost figures to work with for the new products.

The team focuses on making sure profits are maximized for the various sales forecasts, and is pleased with its results. Under its pricing strategy, the product line has the potential to be the best revenue generator in the company.

Eleanor and her team present the report at the sales meeting, as planned. The following Monday morning, she arrives at work to find an urgent message in her inbox. The executives are not pleased with the pricing strategy, and have demanded that it be redone. Worse, they have given the task to a different team. So much for a good impression!

Question 1:

What flaws in the decision-making process do you see?

Question 2:

Why do you think this happened?

6.   Suggested Solutions

Scenario 1: Launching a New Business

What do you think went wrong with Dan's decision making? What key assumptions was he relying on? What factors should Dan have considered to test his assumptions?

Dan assumed things about buyer behavior that he did not test for validity. These faulty assumptions led him to become overconfident, and to make a hasty decision to open his own business.

Dan assumed that his clients would follow him. Did he get any commitments? Was there a policy that meant clients weren't able to follow him? What else about the experience with the original firm went into the clients' buying decisions? Maybe clients want the stability of a long-standing company? Maybe the company offered other complementary services that they used. Were Dan's rates competitive?

Dan also assumed that clients would be influenced by how luxurious his office was. Having nice furniture probably didn't warrant the level of start-up budget he allocated to it.

He assumed that having a receptionist was key to client satisfaction. It's a nice idea if a business can afford to cover the cost of such a position, but here it was not viable.

Essentially, Dan got caught up in a tunnel vision approach to defining his customer base. He was thinking in terms of long-standing customer expectations, and not about what it would take to get a new client in the door.

Scenario 2: Employee Turnover

What is wrong with the decision-making process used here? What do you think Laurence should have done differently?

Laurence's main mistake was to take an autocratic approach to a situation that required collaboration. He made decisions for and about the supervisors' actions without consulting or including them. His plan's successful implementation hinged on his supervisors cooperating with him, so he needed to get their buy-in before moving forward.

The other major mistake Laurence made was assuming that the main problem with staff turnover rested on the supervisors' behavior. This lack of perspective and information-gathering meant that his incentive plan was badly designed.

Laurence should go back and start from the beginning. He should use observation, surveys and discussions to determine the facts about turnover. When he knows why people are leaving, he can then work with his team to come up with strategies for retaining them.

Scenario 3: Pricing New Products

What flaws in the decision-making process do you see? Why do you think this happened?

Eleanor and her team messed up right at the start, when they assumed that the pricing strategy needed to be completed for the sales meeting. This self-imposed deadline caused them to cut corners and make faulty assumptions.

Because they had incomplete information about distribution costs, their attention focused solely on this aspect of pricing. Combined with the time pressures, this led to them getting tunnel vision and forgetting to incorporate environmental data and consumer behavior into their strategy.

While struggling with their lack of information about cost, they also made a poor decision by assuming that it would be acceptable to use a smoothed average as the basis for pricing. Eleanor and her team should not have assumed the costs would work like that. It's likely they wouldn't have acted in that way if they weren't trying to beat the clock.
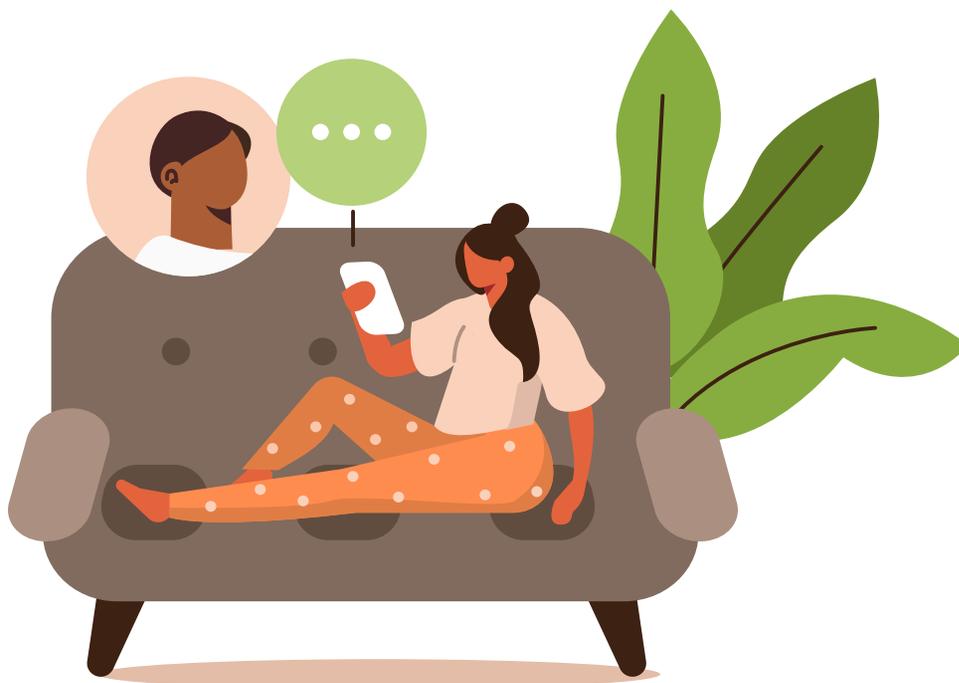
7.   Key Points

To make good decisions, you need good data and you need to know who to involve in your decision-making process.

So, your first task is to decide how to decide. Use a tool such as the Vroom-Yetton-Jago Decision Model to determine whether the decision you need to make is suited to an autocratic, consultative or collaborative approach.

Next, consider some of the common decision-making mistakes that could trip you up. Make sure you have reliable information, look at your situation from other perspectives, and do not make assumptions without testing them thoroughly against carefully-analyzed data.

Once you've challenged and tested all your assumptions, data and inputs, you will be fully armed with everything you need to make your decision, and you can choose a course of action that leads to your desired, successful outcome.