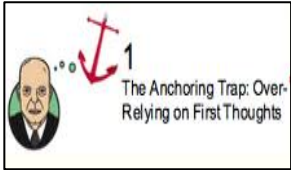
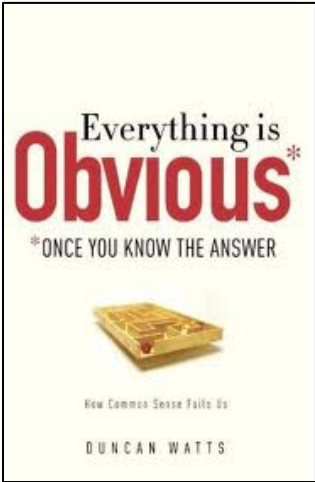


Decision Traps – a Reading:

The following list of ‘decision traps’ is extracted from the Harvard Business Review reading (“Making Smart Decisions”, 2011¹). One of the activities for this Unit is to select two of these “traps” and relate to the members of your group whether you have experience yourself (at work, in your family or in your social life) of instances when a decision may have been negatively affected by just such a trap and why. Each decision trap is briefly described – and an example is given – but your own illustrations (posted to the online forum for this module) should be drawn from your own prior experience or from your reading. [Make sure you do not breach confidentiality in reporting your examples; make sure any taken from readings are properly referenced].

Trap	Description	Example
The Anchoring Trap 	<i>When considering a decision, people give the most weight to information initially received. Initial impressions, data, estimates or quotes ‘anchor’ subsequent judgments.</i>	Asked two questions, people answer the second, based partly on the information implied in the first. Hammond, Keaney and Raiffa (2011, ibid.) asked the following two questions of 50% of their sample: 1. “Is the population of Turkey greater than 35 million?” 2. “What is your best estimate of the population of Turkey?” The second 50% of the sample were given the same questions, but the population estimate in question 1. was raised to 100 million. Answers to the second question by the second 50% group tended to be several million higher than first 50% group answers. The approximate population of Turkey (2013) is 75.6 million.
The Status-Quo Trap 	<i>When choosing possible actions, there is a strong human bias towards ‘doing nothing’. Breaking with the status-quo usually means taking action; taking action means taking responsibility – leading (possibly) to criticism and regret. The safer course is to avoid possible criticism and regret.</i>	In one experiment, people were given one of two gifts, both of the same value. One was a coffee mug; the other a chocolate bar. They were then told they could swap their gift freely for the other one. Statistically one would expect about half (at random) to choose to swap. In fact, only about 10% chose to do so, 90% preferring to maintain the status quo.

Trap	Description	Example
The Sunk Costs Trap 	<i>A 'sunk cost' is a past investment of time, money and resources in some action, which is now irrecoverable. Rationally, sunk cost is irrelevant to making a present decision (cannot be recovered by future action), yet many people and organisations cling to the hope for some return.</i>	Sometimes called "throwing good money after bad". Think banks! During the recent financial crisis, when a borrower ran into trouble with repayments, existing lenders were more likely to offer additional loans in the hope the borrower would recover; others, taking over the debt, were more likely to put the account into default.
Confirming Evidence Trap 	<i>A fairly natural bias in humans is to favour seeking evidence which supports our existing point of view, neglecting contrary evidence. In business decision-making, this is often revealed in decision-makers relying on advice and help from experts and friends who are already "in their camp", ignoring advice from those "in the opposing camp".</i>	One study in human psychology involved presenting two samples with the same two reports. One sample group supported capital punishment; the second group were opposed. Both groups read the same reports on the effectiveness of the death penalty in deterring crime. One report concluded that the death penalty was effective; the second concluded that it was not. After reading both reports, members of each group became more convinced that the evidence supported their initial point of view, ignoring the counter-arguments.

Trap	Description	Example
The Framing Trap  Framing Trap (cont.)	<i>This trap comes in many forms, but derives from the dangerous fact that making a decision often depends on how well the initial question is framed. Framing the question in one way may favour the status quo (see above); framed another way it may introduce an 'anchor' (see above). Choices may be different depending on whether the question is framed in terms of maximising gains or framed in terms of minimising losses.</i>	Based on a classic experiment by Tversky, A., and Kahneman, D. (1981ⁱⁱ), J.S. Hammond (See reference 4) put the following decision problem to marine insurance professionals: Three insured cargo barges have sunk off the SW coast. The value of the cargo on each barge is £200K. All will be lost if not salvaged in 3 days. A salvage company offers two options: Plan A: Takes 3 days; save the cargo of one barge, worth £200K. High probability of success. Plan B: Takes 3 days and has a one-third probability that all three cargos will be saved, worth £600K, but the probability of saving none is two-thirds. In a risk-averse choice, 71% of insurance professionals chose Plan A. A second sample group of insurance professionals, for the same scenario, were presented with the following choices: Plan C: Takes 3 days and has a high probability of losing two of the three cargos – loss of £400K. Plan D: Takes 3 days and has a two-thirds probability of losing all three cargos – loss of £600K – but a one-third probability of saving all three. Faced with these choices (C or D), 80% of respondents favoured Plan D.

		Please Note: Plan A = Plan C; Plan B = Plan D The preferred choices are contradictory – but A and B are framed in terms of gains; C and D are framed in terms of losses.
The Prudence Trap 	<i>Faced with a high risk, high stakes decision, humans and organisations will tend to adjust estimates “just to be on the safe side”. In extreme cases, a decision-maker may favour “worst case analysis” – even when the probability of the worst case is very small. Often, deciding based on “worst-case analysis” can add enormous cost, without practical (probable) benefit. Too much prudence can often be as damaging as too little.</i>	Think about painting a house. How often have you over-ordered paint because of the risk of running out and not finding the same colour again? A classic example (reported in Reference 4) concerned a US car manufacturer when senior managers were deciding how many of a new model to manufacture for their busiest sales season. The marketing department asked each division of the company to supply forecasts based on anticipated sales, dealer inventories, competitor offers, costs. Each department reported their forecasts, slanted in favour of building more cars – “just to be safe”. The marketing planners took each estimate at face value, and then adjusted it to add their own forecast – “just to be safe”. The number of new model cars produced exceeded demand by a very large margin – leaving the company with a surplus which required discount pricing to reduce.

ⁱ Hammond, J.S., Keeney, R. L., Raiffa, H., (2011), ‘The Hidden Traps in Decision-Making’, in Harvard Business Review, “Making Smart Decisions”, Boston, Mass., Harvard Business School Publishing Corporation, pp. 1 – 27.

ⁱⁱ Tversky, A., Kahneman, D., (1981) , ‘The Framing of Decisions and the Psychology of Choice’, *Science*, New Series, Vol. 211, No. 4481., pp. 453-458.