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# Mind Your Own Business

## On the Road to a More Sustainable Future

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## Hidden Traps in Decision-Making

*Excerpts from article originally published in **Harvard Business Review**, September-October 1998*

*John S. Hammond, Ralph L. Keeney, Howard Raiffa.*

“At every stage of the decision-making process, misperceptions, biases, and other tricks of the mind can influence the choices we make. Highly complex and important decisions are the most prone to distortion because they tend to involve the most assumptions, the most estimates, and the most inputs from the most people. The higher the stakes, the higher the risk of being caught in a psychological trap.”

1. **Anchoring Trap:** disproportionate weight to the first information received.  
“Initial impressions, estimates, or data anchor subsequent thoughts and judgments.”
2. **Status-Quo Trap:** bias toward maintaining current situation.  
“The source of the status-quo trap lies deep within our psyches, in our desire to protect our egos from damage.”
3. **Sunk-Cost Trap:** perpetuating mistakes of the past.  
“make choices in a way that justifies past choices, even when past choices no longer seem valid.”  
  
“...sunk-costs – old investments of time or money that are now irrecoverable. We know, rationally, that sunk costs are irrelevant to the present decision, but nevertheless they prey on our minds, leading us to make inappropriate decisions.”
4. **Confirming-Evidence Trap:** finding information to support an existing predilection and to discount opposing information.  
“The confirming-evidence trap not only affects where we go to collect evidence but also how we interpret the evidence we do receive, leading us to give too much weight to supporting information and too little to conflicting information.”  
  
“There are two fundamental psychological forces at work here. The first is our tendency to subconsciously decide what we want to do before we figure out why we want to do it. The second is our inclination to be more engaged by things we like than by things we dislike.”
5. **Framing Trap:** misstating a problem, undermining the entire decision-making process.  
“The first step in making a decision is to frame the question. It’s also one of the most dangerous steps.”  
  
“...people are risk averse when a problem is posed in terms of gains but risk seeking when a problem is posed in terms of avoiding losses. Furthermore, they tend to adopt the frame as it is presented to them rather than restating the problem in their own way.”

6. **Overconfidence Trap:** overestimating the accuracy of our forecasts.

“Even though most of us are not very good at making estimates or forecasts, we actually tend to be overconfident about our accuracy.”

7. **Prudence Trap:** overcautious when making estimates about certain events.

“When faced with high-stakes decisions, we tend to adjust our estimates or forecasts ‘just to be on the safe side’”.

8. **Recall-ability Trap:** undue weight given to recent, dramatic events.

“...we frequently base our predictions about future events on our memory of past events....anything that distorts your ability to recall events in a balanced way will distort your probability assessments.”

9. ???

## Exercise

List the three decision-making traps that you are most prone to fall into:

1 \_\_\_\_\_

2 \_\_\_\_\_

3 \_\_\_\_\_

Forewarned is fore-armed: Know your own tendencies, and those of your colleagues, and guard against these common decision-making pitfalls.

## The Impact Team™

The Impact Team is responsible for guiding the process of program review, organized abandonment, and new venture development. Functionally, the team makes recommendations to the Executive Director and Board. The Team is recruited by the Executive Director, with help from the Board Chair and/or an Internal Champion. In most cases, the Internal Champion organizes and facilitates the Enterprise Team meetings, with assistance from outside counsel.

### Composition

Impact Teams should consist of 12-15 members, including:

- The Internal Champion
- The Executive Director
- Select members of management staff (two to three)
- Members from Board of Directors (two to three)
- “Wild cards” -- people somewhat unfamiliar with agency but experienced in areas that may be increasingly important in the community. Ask them to bring a fresh perspective to your organization (no more than two).
- Serial entrepreneurs -- individuals who have successfully built more than one small or medium-sized businesses.

### Team Role and Responsibilities

- Offer advice and guidance based on experience in entrepreneurial business, marketing and/or strategic planning.
- Challenge assumptions and ask questions, acting as skeptics when necessary in order to keep plans firmly grounded in reality.
- Assist in establishing evaluation criteria, reviewing program analysis results, and making recommendations regarding re-balancing of resources.
- Serve as a sounding board for the project management team as information and research findings are presented.
- Assist in the opportunity research or feasibility study phase by offering ideas on resources for information and community connections.
- Take an active and vocal role in providing the organization with a fresh perspective.
- Assist in analyzing the results of the planning process and formulating recommendations to the Board of Directors regarding next action steps.
- Share business expertise in various aspects of organizational management — human resource development, marketing, financial systems, cost/benefit analysis, and the like.
- Help the organization develop market positioning and strategies for key products and services or develop business plan outline for new high potential ideas.
- Serve as a guide to action plan implementation and provide feedback from general community stakeholders.

## Asset Identification Worksheet (Part 1)

**Instructions:** Use this form to list your organization’s assets. Be creative and think beyond your mission and what you currently do. Keep in mind that you do not have to conceive of a viable commercial opportunity for any of your assets at this point. Get all of your assets “on the table” first. Use additional sheets of paper as necessary.

### People/Reputation

**Key questions:** What people do you have that are particularly valuable to your organization? (e.g., name recognition, skill sets, and the like). What does your name mean in the community? To whom is it valuable?

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### Core Competencies

Underlying capabilities that enable you to provide products and services to your clients that are as good - or better - than your clients' alternatives. They are what your stakeholders would list if you asked them what you are known for, or what value you deliver to them. They are a difficult-to-duplicate collection of capabilities that work together to create a competitive advantage. Programs are not core competencies (see examples below).

**Key questions:** What makes us unique? What do our customers, clients, partners say about us? What are the key benefits do we provide? What kinds of skills and expertise do our staff members have?

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### Physical Assets

Things that you have such as facilities with excess capacity, land, vehicles, computers, software, intellectual property (copyrights, trademarks, patents), and the like. This can include physical property that you might not currently view as an “asset” (leftover building materials, obsolete equipment, etc.)

**Key questions:** What do we have or have access (ideally exclusive access) to? To whom might this be of value? Why?

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## Asset Identification Worksheet (Part 2)

### Technical/Knowledge Assets

Intangible assets such as; your knowledge and expertise in particular areas, access to desired resources, process expertise, market expertise, and the like.

**Key questions:** What processes have we perfected that provide value to our clients/customers? What processes have we perfected that enable us to operate more efficiently/smoothly? What kinds of skills and expertise do your staff members have? Internal or external processes? What about your advisory board? Your volunteers?

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### Relationships

People you know, organizations you know and/or have close relations with, your reputation (locally, regionally, nationally), members, suppliers, and the like.

**Key questions:** Who/what organization(s) play the following roles? A) the user of our product/service? B) the decision-maker(s) C) the buyer/payer? D) the influencer/influentials, E) supplier of raw materials necessary to deliver/produce our products and services. What are the key strengths of your target audience? (e.g., size, demographics, psychographics, loyalty, etc.) What other key relationships do you have with charismatic or well-known leaders?

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Refer to your answers in all of the above categories, and list your top 10 most valuable assets.

1	6
2	7
3	8
4	9
5	10

## Examples of Core Competencies:

**Core Competency:** *Closely related set of skills or areas of expertise that, combined, enable you to deliver exceptional value<sup>1</sup> to customers. There are three types:*

### 1. Superior Technological Know-how

Honda			
Core Competency	Engines and Powertrains		
Product Lines	Cars	Motorcycles	Lawnmowers
End Products	Accord	Gold Wing	etc.
	Civic	etc.	etc.

### 2. Reliable Processes

UPS		
Core Competency	Logistics	
Product Lines	Package Delivery	Consulting
End Products	Overnight Weekend	etc.
	Overnight Weekday	etc.

### 3. Close External Relationships

American Red Cross, GC - Transportation		
Core Competency	Connecting seniors to the community	
Product Lines	Transportation	Partnerships
End Products	Medical	
	ADL – activities of daily living	
	Entertainment	

<sup>1</sup> as good as or better than alternatives

## Brainstorming

Brainstorming is used to draw out ideas from all participants, and to make those ideas accessible to the rest of the team. This is most effective in a forum that is free of criticism, critique, or judgment, and that encourages creative and unrestricted exploration of options or solutions.

Effective brainstorming can help the group to break free from long-held assumptions and “conventional wisdom”. This open-ended, rapid-fire technique often produces ideas that seem foolish or impossible to implement, but those “bad” ideas often help other team members to see the issue in a new light, and may lead to new and original solutions to problems.

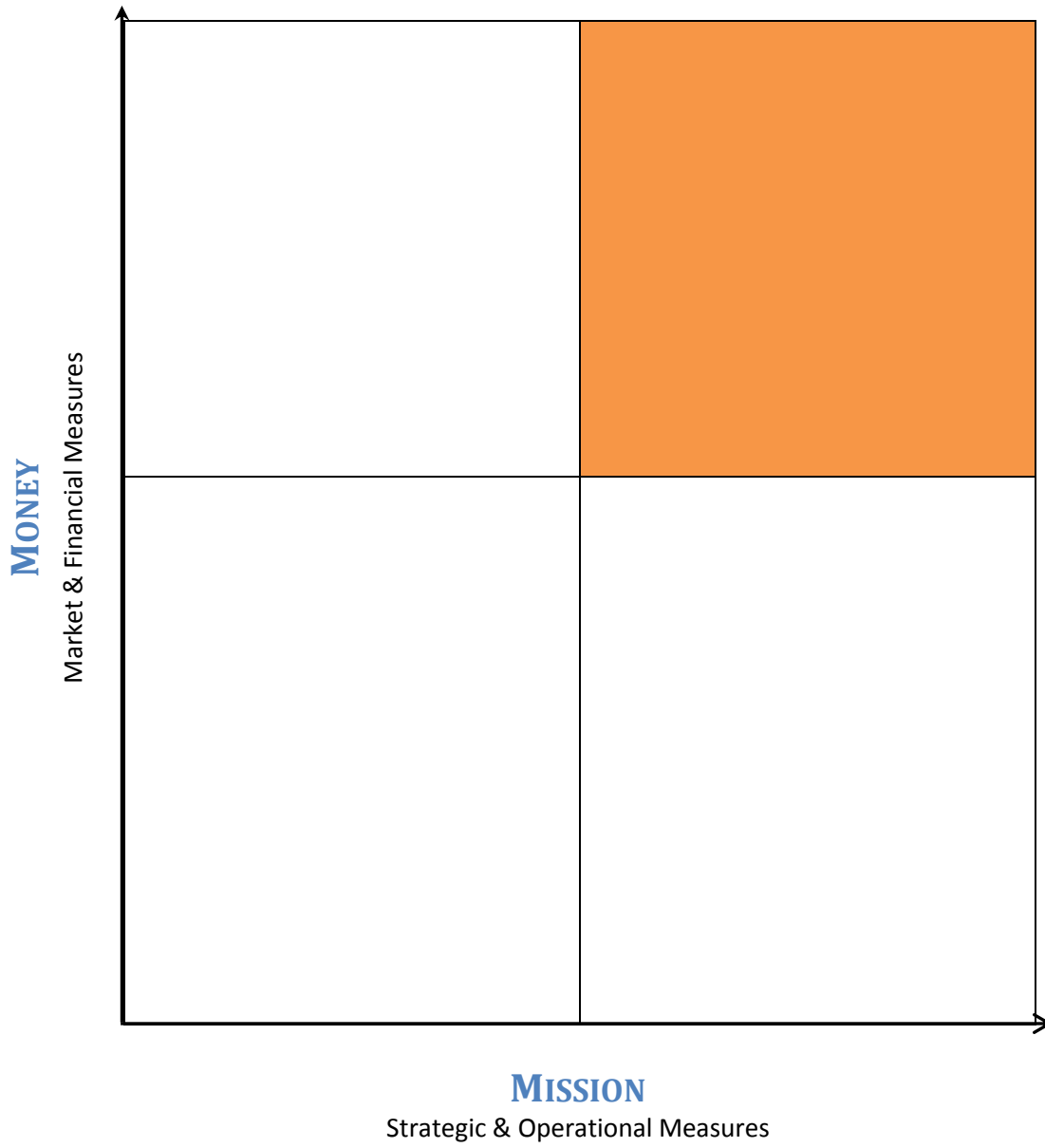
Brainstorming is useful when you want to generate a large number of ideas about issues to tackle, possible causes of problems, approaches to use, or actions to take.

## Brainstorming Ground Rules

- All team members are active participants. Everyone expresses his or her ideas, even if they seem silly or off-topic.
- No discussion—criticisms, compliments, or other comments—during the brainstorm. The facilitator may ask for clarification, but this should be kept to a minimum.
- No interruptions. Allow each speaker to finish his or her thought before moving on to the next.
- Build on ideas generated by other team members.
- All ideas written exactly as presented and displayed where everyone can see them. Two recorders with blank flip-charts or whiteboards can take turns writing down ideas, so that none are overlooked or lost.
- Set a time limit. Fifteen to twenty minutes is the maximum we recommend.
- Clarify ideas. After the brainstorm, go over the list to make sure that all participants understand the ideas, and that the descriptions accurately reflect the originators’ intent. Keep in mind that you are only clarifying at this point, not making any judgments about the ideas themselves.
- Combine ideas, where appropriate, to arrive at a list of unique concepts. Two or more closely related ideas can often be combined into a single item on the list.

## Tips

- State the issue clearly, in the form of a question, at the beginning of the session. Allow a few minutes for the participants to consider the issue before you start taking ideas.
- Have participants take turns. This assures that you get everybody’s input.
- Collect as large a list as possible. Set a high goal (ie “50 ideas in ten minutes”), in order to encourage idea flow and build momentum. Brainstorming sessions often start slowly, but can accelerate very rapidly.



	1	2	3	4	5	
Could result in substantial revenue surplus	Decide	Decide	DO	DO	DO	5
Could result in some level of revenue surplus	Don't	Don't	Decide	DO	DO	4
Revenue will probably cover costs	Don't	Don't	Decide	DO	DO	3
Could result in some level of revenue deficit	Don't	Don't	Decide	Decide	Decide	2
Will probably lead to a substantial deficit	Don't	Don't	Decide	Decide	Decide	1
	Not Needed	Some Need	Moderate Need	Substantial Need	Critical Need	
	<b>Community Need (Mission)</b>					

**Earned Income Potential (Money)**

## Concept QuickScreen™

1. Fits with our vision, mission and core values		_____
Yes	4	
Somewhat	2	
No	0	
2. We have the necessary relationships		_____
Yes	4	
Somewhat	2	
No	0	
3. There is evidence this concept is viable		_____
Yes	4	
Somewhat	2	
No	0	
4. This concept will help us realize our money objective		_____
Yes	4	
Partially/Significantly	2	
No	0	
5. The investment required is		_____
Less than our maximum	4	
Equal to our maximum	2	
Beyond our maximum	0	
6. There is a champion who will refine the concept and own project		_____
Yes	4	
No	0	
<b>Total Score</b>		_____

**Program/Project Evaluation Scorecard (outline)**

Capabilities A. Score\_ B. Multiplier: \_\_\_\_\_ Weighted Score (A x B) \_\_\_\_\_

- 5 — No outside assistance needed
- 4 — ...
- 3 — ...
- 2 — ...
- 1 — No internal expertise at all

Funding C. Score\_ D. Multiplier: \_\_\_\_\_ Weighted Score (C x D) \_\_\_\_\_

- 5 — No additional capital needed, or very small project, or funding already secured “no strings attached”
- 4 — ...
- 3 — ... *Compare financial needs of project to organization’s annual budget*
- 2 — ...
- 1 — Large capital requirements and/or very risky funding strategy – significant risk to organization

Opportunity Size, Duration, and “Shelf Life”

E. Score\_ F. Multiplier: \_\_\_\_\_ Weighted Score (E x F) \_\_\_\_\_

- 5 — Large market with excellent long-term growth potential and sustained projected need
- 4 — ...
- 3 — ...
- 2 — ...
- 1 — Small or shrinking market; short-term opportunity only

Time and Implementation Risk

G. Score\_ H. Multiplier: \_\_\_\_\_ Weighted Score (G x H) \_\_\_\_\_

- 5 — Short implementation time; realistic projection for rapid return on investment
- 4 — ...
- 3 — ...
- 2 — ...
- 1 — Very long implementation time and/or significant obsolescence risk

Business Model Flexibility: Expansion, Reuse, or Replication

J. Score\_ K. Multiplier: \_\_\_\_\_ Weighted Score (J x K) \_\_\_\_\_

- 5 — Many related opportunities identified; Model easily adaptable/expandable with little additional work
- 4 — ...
- 3 — ...
- 2 — ...
- 1 — No related opportunities; All work dedicated solely to this project unlikely to be used elsewhere

Net Income Potential (Estimated)

L. Score\_ M. Multiplier: \_\_\_\_\_ Weighted Score (L x M) \_\_\_\_\_





- 5 — Positive net income within short time period
- 4 — ...
- 3 — ...
- 2 — ...
- 1 — Low net income, negative or breakeven medium- or long-term net

**Total Score**

100 points possible. Score > xx = Pass Score < yy = Fail

**Program/Project Tracker**

<u>Project</u>	<u>Idea</u>	<u>Concept Case</u>	<u>Bus Plan Development</u>	<u>Approval</u>	<u>Implementation</u>	<u>Ongoing Operations</u>	<u>Next Steps</u>
Project 1	High Priority	High Priority	High Priority	High Priority	High Priority	High Priority	
Project 2	High Priority	High Priority	High Priority	High Priority	High Priority		
Project 3	High Priority	High Priority					
Project 4	Advisory Only	Advisory Only					
Project 5	Medium Priority	Medium Priority					
Project 6	Medium Priority	Medium Priority					
Project 7	Low Priority	Low Priority					
Project 8	Low Priority	Low Priority					
Project 9	Low Priority						

-  High Priority
-  Medium Priority
-  Low Priority
-  Advisory Only