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## KNOW THE RULES OF DECISION MAKING TO WIN THE BUSINESS CHALLENGE



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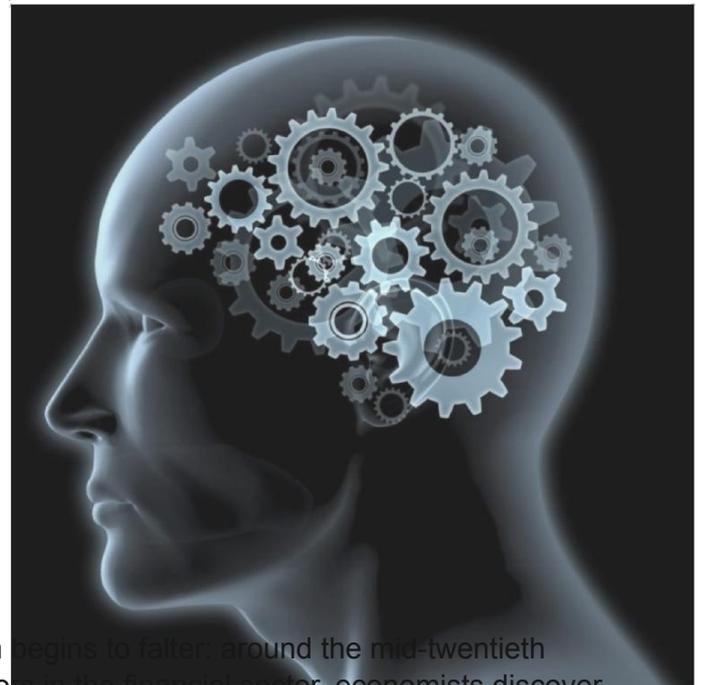
We are led to believe that the ability to make correct and effective decisions is based on rationality...

... The greater is the ability to analyse the factors of a situation, the greater is the ability to consider different solution options, the greater will be the ability to make correct and effective decisions.

In a way, this is a cultural heritage that has come down to us, through the centuries, from the Enlightenment (a philosophical approach born in England in the XVII century that establishes the "triumph of reason").

It is in the field of economic research that this paradigm begins to falter: around the mid-twentieth century, studying the decision-making models of investors in the financial sector, economists discover that they never act the decision-making behaviors identified by the rules of normative theories; in fact, they do not respond to the logic of perfect rationality by making recurring errors, called bias, not attributable simply to distraction or lack of information.

The most recent studies of cognitive psychology and the contribution of neuroscience have shown that in reality in the decision-making process, among the intrinsic limitations of short-term memory, the influence of emotions and the use of shortcuts of thought, called heuristic, there is little room for rational thinking.



Let's see together which factors can lead to distortions in the decision-making process, and which shortcuts of thought can guide, even unconsciously, our choices.

# Here are the 6 factors of thought distortion that influence our decisions:

## 1. MEMORY AND ATTENTION

The memory of previous decisions influences the perception of problems and, consequently, future decisions.

## 2. COMPARISON OF OPTIONS

Our brain presents us as the best the options already chosen previously.

## 3. PERCEPTUAL LOAD

Being under pressure, such as having to make more than one decision at the same time, or being subjected to an additional stimulus that adds to the relevant information for the decision makes the decision-maker more inclined to make impulsive choices: this is why music in shops and malls.

## 4. SUBJECTIVITY

Decision-makers generally stop looking for alternative options or further information when they think they already have satisfactory material at hand: this assessment is based, however, on subjective and arbitrary assumptions.

## 5. CHARACTERISTICS OF THE STIMULI

The way and timing of presenting problems or options of choice influences the assessment that the decision-maker makes of them: an option presented in the middle of a list of options will be considered with less attention than those at the beginning or at the end of the same list.

## 6. FRAMING EFFECT

The value attributed by the decision-maker to the different options of choice depends on the way, positive or negative, in which they are framed within the problem: in the psychological economy, the weight attributed to losses is greater than that attributed to winnings (aversion to losses).

Up to now we have understood that Decision Making does not follow the rules of perfectly rational thought, however it does follow schemes that simplify and, in some ways, automate the decision-making process or at least parts of it.



THESE ARE THE SO-CALLED SHORTCUTS OF THOUGHT, THE HEURISTICS, IDENTIFIED BY PSYCHOLOGISTS DANIEL KAHNEMAN (NOBEL PRIZE FOR ECONOMICS IN 2002 ALONG WITH VERNON SMITH) AND AMOS TVERSKY.

## THESE ARE THE 7 MAIN THINKING STRATEGIES THAT GUIDE OUR DECISIONS:

### 1. AVAILABILITY

Instinctively, our brain assesses the probability of an event based on how easy it is to retrieve similar events in our memory, or how easy it is to imagine them.

### 2. ANCHORING AND ADJUSTMENT

It is a small process in two parts; the first part is the anchoring process, in which our brain takes as a parameter of evaluation an event or a judgment of others considered particularly authoritative, the second part, called adjustment or accommodation, consists in adjusting the information on the problem to be evaluated according to the anchor chosen: if the anchor is faulty, the whole process is prejudiced.

### 3. REPRESENTATIVITY

We evaluate the probability or frequency of occurrence of an event based on the similarity with other events of which we have already had experience; for example, it is this heuristics that makes us evaluate that a person in formal dress with a briefcase belongs to a given professional category.

### 4. ILLUSION OF CONTROL

It is the result of people's belief that they can control a situation to the point of influencing its outcome; it manifests itself in deliberately acting risky behaviour such as not wearing a seatbelt in a car, or intervening manually on an industrial plant without observing all safety procedures (the cause of many disabling accidents at work).

### 5. TENDENCY TO CONFIRMATION

It is the innate tendency of our brain, already at the stage of formulating options, to prefer information that confirms their choices to the detriment of those that would put them in crisis, considered less important; the result is a thought that tends to self-confirm ... even in errors!

### 6. EVALUATION FOR PROTOTYPES

Our brain builds, for simplicity and economy, a prototypical representation of a category of objects, events, people, situations, etc.; the evaluation that is made later does not take into account all the actual characteristics of that event, or that person or that situation, but considers only those that fall into the prototype, neglecting the others with an obvious loss of useful information.

### 7. AFFECTIVITY

We all affectively label, positively or negatively, what we keep in memory of events or objects: we attach a sort of affective label that we will consult, later, when making a decision; this certainly simple and efficient strategy presents many risks if you are not sufficiently aware of your emotions.

The picture we have produced undoubtedly presents a certain complexity and elements of elusiveness: what tools can allow us to manage our daily, professional and personal Decision Making in a more controlled way?

- To deepen the **knowledge** of the **cognitive functions** that regulate the decision-making process: perceptive mechanisms, memory functioning and cognitive distortions.
- To acquire **awareness** of your own **use of heuristics** of thought to limit the potential for error.
- To **become aware** of your own **emotional component**, as this influences the perception of the problem, the collection and choice of information and the evaluation of options.
- To have adequate **Business Intelligence** tools for the collection and processing of the information necessary to support your decisions.

Decision Making has many other aspects, among which the most interesting and useful one to deepen is the one that deals with decision-making styles as a factor of success of individuals in their professional role: we will talk about it in one of the next newsletters.



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If you are also interested in improving your Decision Making and want to deepen your knowledge of your Decision Making style to learn about its strengths and areas for improvement, contact us.

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