

Practical Guidelines for Making Smarter Decisions



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Decision Making Should be Considered As the Primary Management Skill

The only way you can purposefully improve your business is through the decisions you make. Everything else just happens beyond your control, due to others' decisions and happenstance.

Your decisions empower you to enhance the quality of your life and to make contributions at work in businesses, organizations, and government.

 Thus, your decision-making skills are crucial.

How Are Decisions Typically Made?

We each developed our own decision making style and habits from personal experiences making decisions. Very few of us learned decision-making skills.

Typically, something happens that leads us to

1. recognize a decision problem
2. identify an alternative (or maybe more than one) to solve it
3. evaluate the alternative(s) and implement one

This is Alternative-Focused Decision-Making.

How Good are Humans at Making Decisions?

Research in the behavioral sciences indicate that we all routinely fall into numerous biases and errors (i.e. decision traps) that degrade our decisions.

Over the past 50 years, psychologists, decision scientists, and behavioral economists have identified over 175 separate decision traps that regularly affect our decisions.

Examples include:

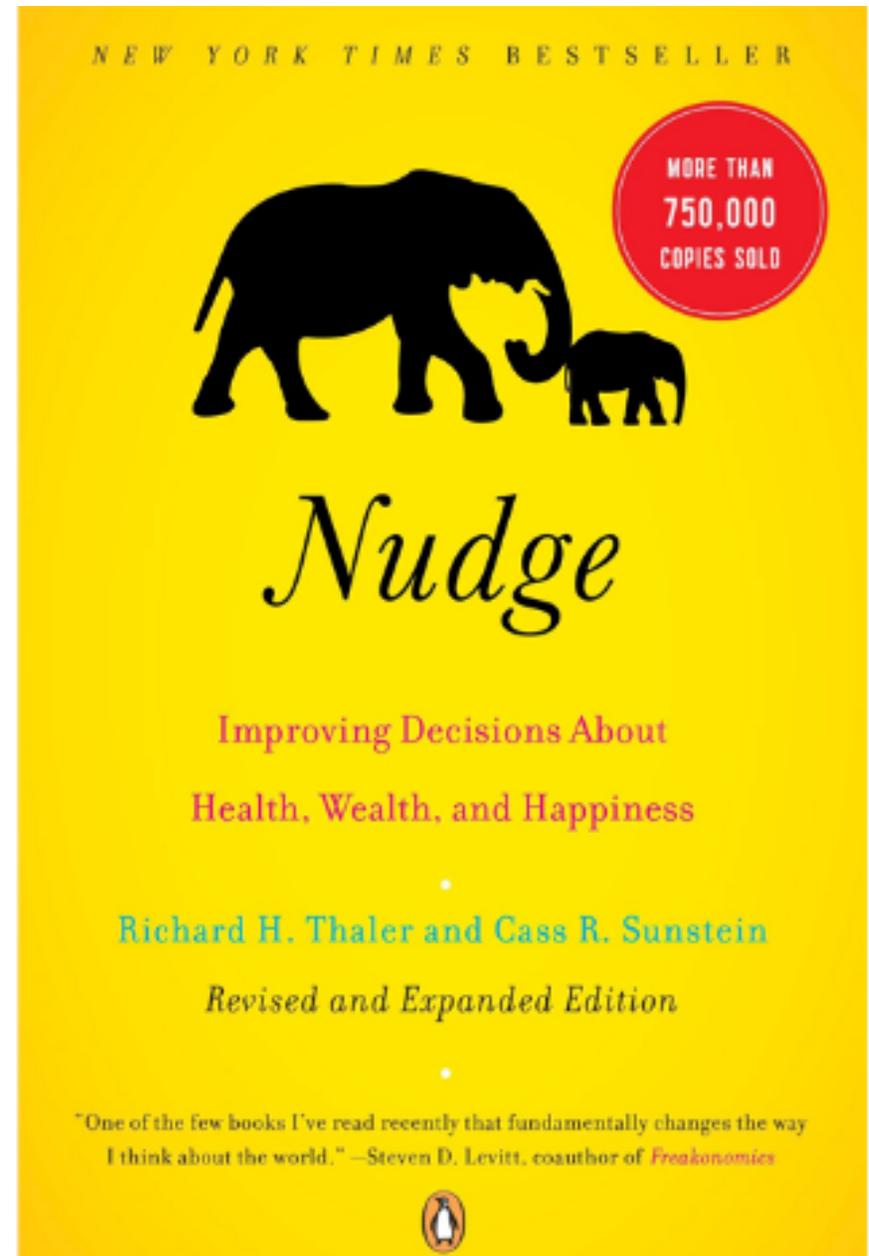
- selecting the default alternative or the easiest to implement,
- anchoring on first thoughts,
- choosing alternatives to justify earlier decisions (sunk costs),
- overweighting confirming evidence and underweighting conflicting information.

Nudge

A **nudge** is a gentle push that helps you make a better decision.

The 2008 book Nudge by Richard Thaler and Cass Sunstein indicates how the presentation of decisions to individuals can utilize their natural decision tendencies to nudge them to make decisions more in their own interests.

Examples: retirement accounts, cafeteria eating

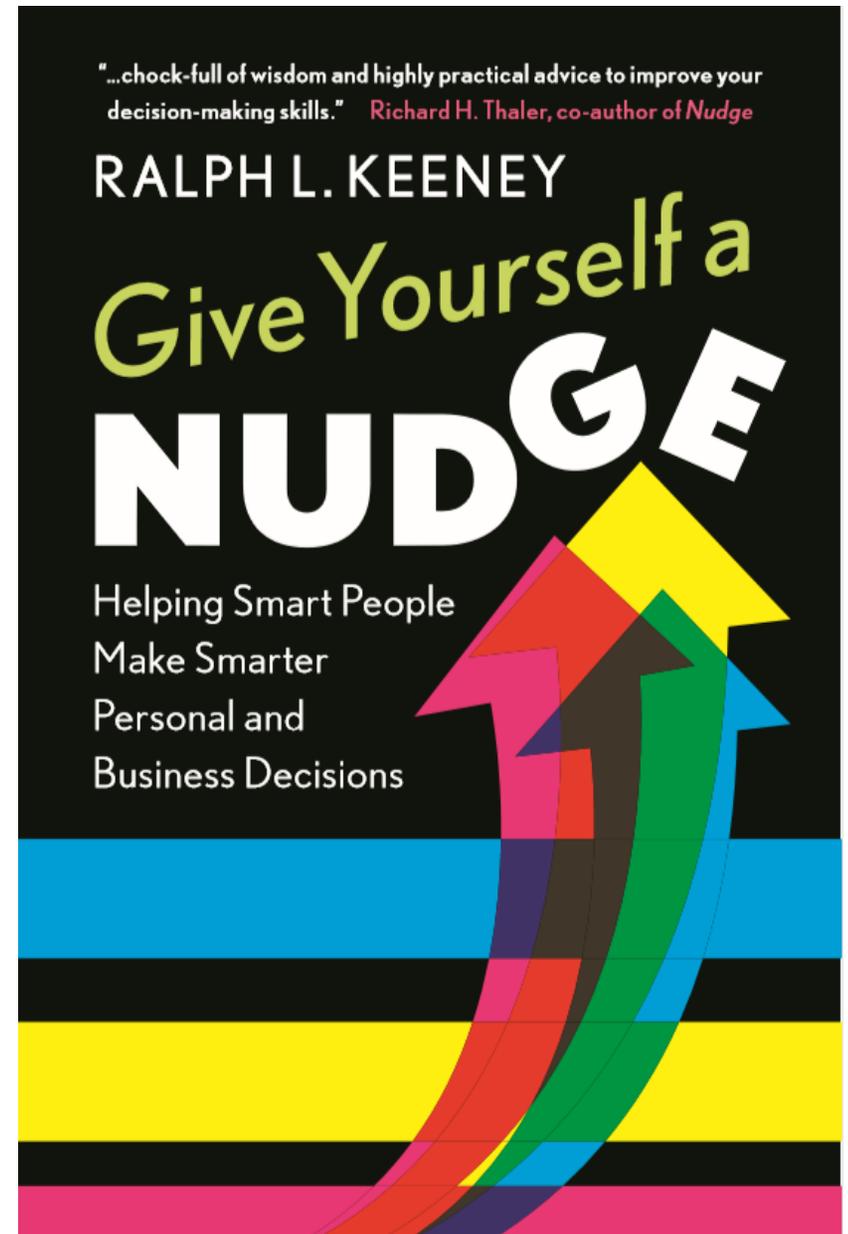


Give Yourself a Nudge

For most decisions that you face, there is no external agent to nudge you, only you can nudge yourself.

This presentation is about **practical nudges** that guide you to make better business and personal decisions.

[Give Yourself a Nudge](#), published earlier this year, provides details and numerous examples.



How Should Decisions be Made

For any decision:

1. Your first conscious thinking should be about your values for a decision – what you want to achieve.
2. Your values then guide all else that you do regarding this decision.

This is

Value-Focused Decision-Making.

It nudges you to make more informed better decisions



Value-Focused Decision Framework

Front-End: Define and structure the decision you face

1. State the decision that you want to face.
2. Identify your values and state them as objectives.
3. Create alternatives that contribute to achieving your objectives.

Back-End: Analyze and appraise your alternatives and make your decision

1. Describe possible consequences to indicate how well each alternative achieves your objectives.
2. Evaluate alternatives by weighing the pros and cons of each.
3. Select an alternative using insight from your analysis.

This presentation concerns the crucial front-end.

Why the Front-End Is So Crucial

- The front-end takes you from your initial thought that you have a decision to make to a unambiguous frame of the decision you should address
- The quality of the front-end greatly enhances the insight from and the quality of any back-end modeling, analysis, and evaluation of the alternatives.
- Most decisions will not have a back-end analysis.
 1. Very few individuals could do such an analysis
 2. It is rarely worth the time and effort
- In these cases, the only contribution to a quality decision is the front-end decision structuring, which **nudges** you to make better decisions.

1. Your Decision Statement

- Your decision statement should clearly, accurately, and concisely state the decision you want to address.
- It guides the identifying of the values for your decision and an appropriate set of alternatives to consider.
- These values and alternatives define **your decision frame, which then replaces your decision statement.**

EXAMPLE: Sales are down, expenses exceed income. So you might state your decision as:

- Dismiss 20% of the employees
- Reduce costs by 15%



Your Decision Frame

Front-End

1. State the decision.
2. Identify your values.
3. Create alternatives.

Your clearly framed decision: Choose the alternative that best achieves your stated values.

from the set of alternatives that best achieves

	Alternative A	Alternative B	Alternative C	Alternative D
Value 1 Objective 1				
Value 2 Objective 2				
Value 3 Objective 3				
Value 4 Objective 4				

Choose the alternative

your stated objectives

Decision Frame

Your decision frame is the foundation for any useful information, analysis, or evaluation of alternatives

Composing Your Decision Statement

Begin your decision statement with *decide* typically followed by which, what, when, whether, how or if.

Create and consider different decision statements.

Your decision statement often uses either the values you hope to achieve or the alternatives you want to consider. Respective examples are ‘*decide* how to reduce costs by 15%’ and ‘*decide* who should be dismissed in the 20% reduction’. Then, make sure that it summarizes a decision that you want to make.

Poor Decision Statements

- Decide what to do because my job isn't interesting
vague: not learning anything, few interesting
colleagues, bad boss, no fun?
- Decide whether to visit Canada on my vacation this
next summer. unclear: what would you otherwise do?
- Decide whether or not to visit your grandmother this
weekend. versus decide when to visit your
grandmother the next four months; you may never
visit with sequential decisions
- Decide whether to exercise today. versus policy
decision to decide whether to exercise regularly.
Then rarely make the daily decision.

Questions

2. Identifying and Organizing Your Values



If you don't know what you want to achieve by making a decision, how could you possibly make a good decision?

- When facing any decision, your first thought should be 'what are my values for this decision'
- Your values, which are what you care about achieving in making this decision can be stated in any convenient form; just articulating each value is the key.
- Your values should then guide your decision-making.

Summary of Experimental Results

Decision makers

- often identify **less than half** of their values
- miss values roughly as important as those identified



The implication: It is important to **dedicate serious effort to specify the values for each of your decisions**

EXAMPLE - important business dinner

NUDGE

A Process to Help Identify Your Values

- Step 1** Create a wish list. Include every value you hope to achieve in the decision situation.
- Step 2** Stimulate additional values by using mind-probing techniques.
- Step 3** Ask others for suggested values. Their suggestions may be one of your values or stimulate you to think of others.
- Step 4** Use previously identified values to identify additional values

Clarifying Values

- Once you have listed values for your decision, meaning anything you care about stated anyway that comes to mind, it is useful to state them in a common format.
- An **objective** is a value stated in a **verb-object format** that clarifies the meaning of that value, for example:
 - ‘money’ becomes ‘maximize my salary’ or ‘maximize profits’ or ‘minimize cost’
 - ‘a smelly river’ becomes ‘reduce pollutant inflow’ or ‘restore habitat’ or both
 - ‘successful’ becomes ‘increase my skills’, ‘be promoted’, or ‘be respected by peers’

EXAMPLE – Cancer Treatment

Objectives for Cancer Treatment

- Get all the cancer
- Avoid a recurrence of cancer
- Ensure that the cancer doesn't spread
- Minimize medical risks of treatment
- Minimize medical risks of cancer
- Reduce the likelihood of death in the near future
- Reduce the likelihood of serious complications
- Minimize personal costs of the entire procedure
- Have insurance pay the maximum possible
- Limit any pain and suffering
- Minimize inconvenience to self
- Have a comfortable hospital room
- Avoid worry about treatment
- Have trust in doctors
- Minimize inconvenience to family
- Receive good communication
- Have the best physicians
- Receive quality healthcare
- Limit time in hospital
- Minimize limits on activities after recuperation
- Receive friendly service at the hospital
- Provide future financial security for family

It is difficult to make sense and gain insight from such a long and multifaceted list of objectives

Means and Fundamental Objectives for Cancer Treatment

Means Objectives

Get all the cancer
Avoid a recurrence of cancer
Assure that the cancer doesn't spread
Minimize medical risks of treatment
Minimize medical risks of cancer
Receive friendly service at the hospital
Reduce the likelihood of serious complications
Have insurance pay the maximum possible
Have a comfortable hospital room
Have trust in doctors
Receive good communication
Have the best physicians
Receive quality healthcare

Fundamental Objectives

Minimize the likelihood of death in the near future
Minimize personal costs of the entire procedure
Limit any pain and suffering
Avoid worry about treatment
Minimize inconvenience to self
Minimize inconvenience to family
Minimize limits on activities after recuperation
Provide future financial security for family
Limit time in hospital

Fundamental Objectives for Evaluating Cancer Treatment

Illustration of Component Objectives

- Minimize the likelihood of death in the near future
- Minimize limits on activities after recuperation
- Provide future financial security for family
- Minimize personal costs of the entire procedure
 - for the hospital
 - for physicians
 - for recovery
- Minimize inconvenience for self and family
 - limit any pain and suffering
 - avoid worry about treatment
 - limit time in hospital



Questions

3. Creating Alternatives

- Alternatives are the potential choices for pursuing your objectives. They must be completely under the control of the decision maker; **EXAMPLE: stock with highest return**
- **Two important facts about alternatives:**
 - You can never choose an alternative that you haven't identified
 - Your chosen alternative can be no better than the best of those that you have identified

Pitfalls when Creating Alternatives



- No (or little) time spent creating alternatives
- Stopping your search after one alternative is identified
- Thinking too narrowly (e.g. business as usual)
- Inappropriate constraints
- Focusing on alternatives presented by others
- Incrementalizing existing alternatives
- Lack of guidance for creating good alternatives

Conventional Advice: Think Outside of the Box

The spirit of this advice is worth following.

However, outside of the box is everywhere else, which is a phenomenally large space to look for anything.

You cannot look everywhere effectively or efficiently.
Guidance on where to look would be useful.



“the proverbial box”



“outside the box”

My Advice: Think Inside the Right-Sized Box

You need to think “outside of the box”, but not “outside of a box”. You should think inside a bigger ‘right-sized’ box.



The proverbial box
(a too-small box)



The Alternatives Box
(a right-sized box)



Outside of The box
(a very large space)

The size of this right-sized *Alternatives Box* is defined by your objectives.

How Should You Create Alternatives Inside the Alternatives Box?

- Since alternatives are the means to achieve the objectives ...
- Thinking about 'how to better achieve each objective' can suggest alternatives or elements of alternatives that will contribute to achieving your objectives

Practical Guidance for Creating Alternatives

Create alternatives using your objectives.

First identify alternatives to achieve each objective.

Second, use pairs of objectives, and then larger sets of objectives.

Third, enhance alternatives that you have already created. Initially, work alone to create alternatives, so you do not anchor on suggestions made by others.

Fourth, have friends and other knowledgeable individuals suggest alternatives or enhancements.

EXAMPLE



Questions

4. Decision Opportunities

How Do Your Decision Problems Occur?

- Your decision problems are caused by the decisions of others, happenstance, actions that you take without thinking, and bad consequences of your decisions (from good decisions or poor decisions).
- Examples: your employer eliminates your job, you contract a serious illness, fire damages your home.
- Each of these situations presents you with a decision problem and it is definitely a problem.

Who wants to always deal with only problems?

Your Decision-Making



- Who should make your decisions?
 - **You should!**
- Who should choose the decisions that you face?
 - **You should, at least more than you do.**
- Making decisions on problems that you must face is **reactive**.
- You have the power to create some of the decisions that you choose to face. This is **proactive** and I refer to these decisions as **decision opportunities**.

Creating Decision Opportunities

- **Decision opportunities** are more attractive decisions than the **decision problems** that you must face.
- You can create decision opportunities by thinking about or dreaming about improvements that you would like to experience in your business or your life. Decision opportunities offer you the possibility to achieve very desirable consequences.
- **Value-focused thinking** helps you be systematic about creating decision opportunities.

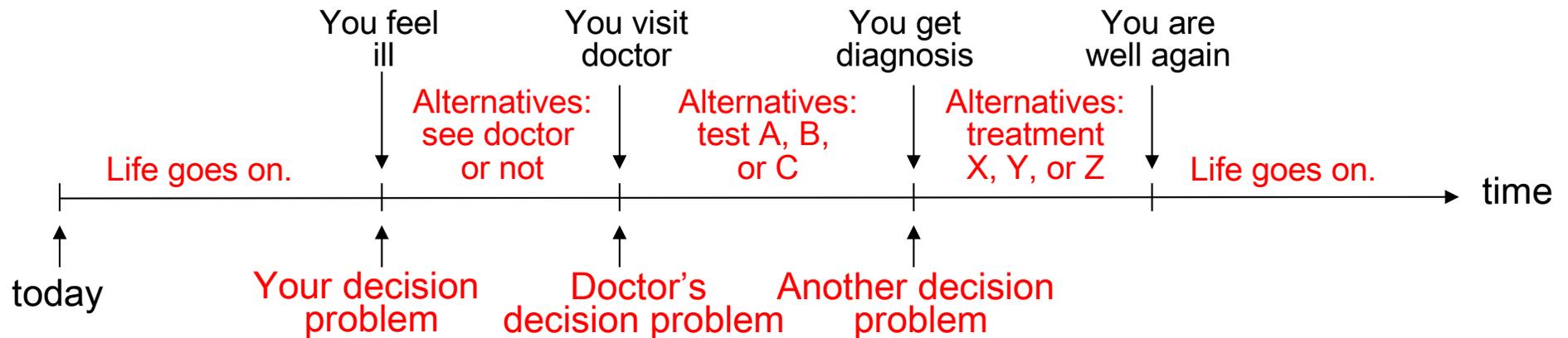
EXAMPLES: decide to write this book, to routinely exercise, have weekly date night, develop a new work skill



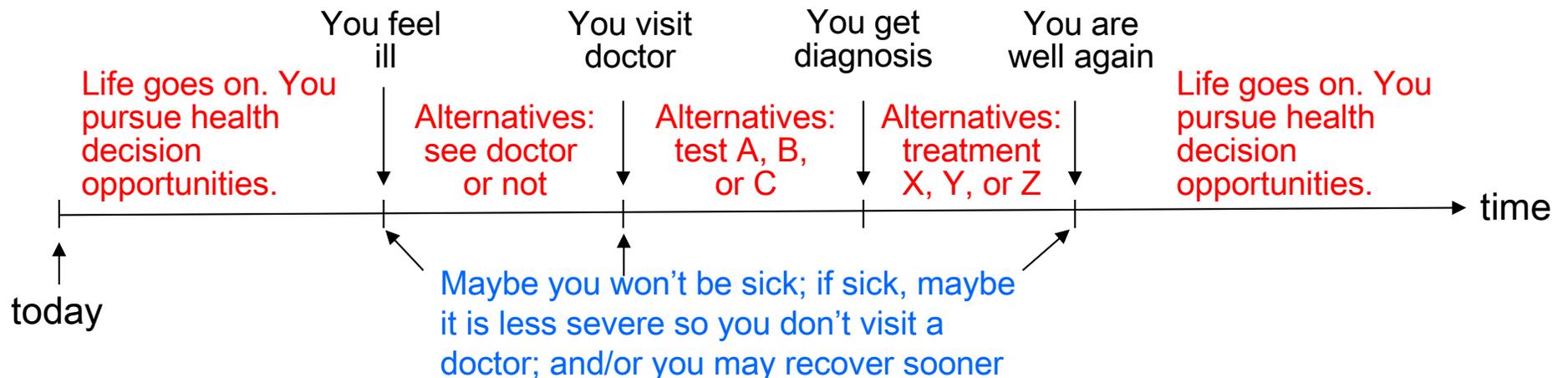
NUDGES

Reactive versus Proactive Decision-Making for Health Decisions

Reactively Solving Decision Problems

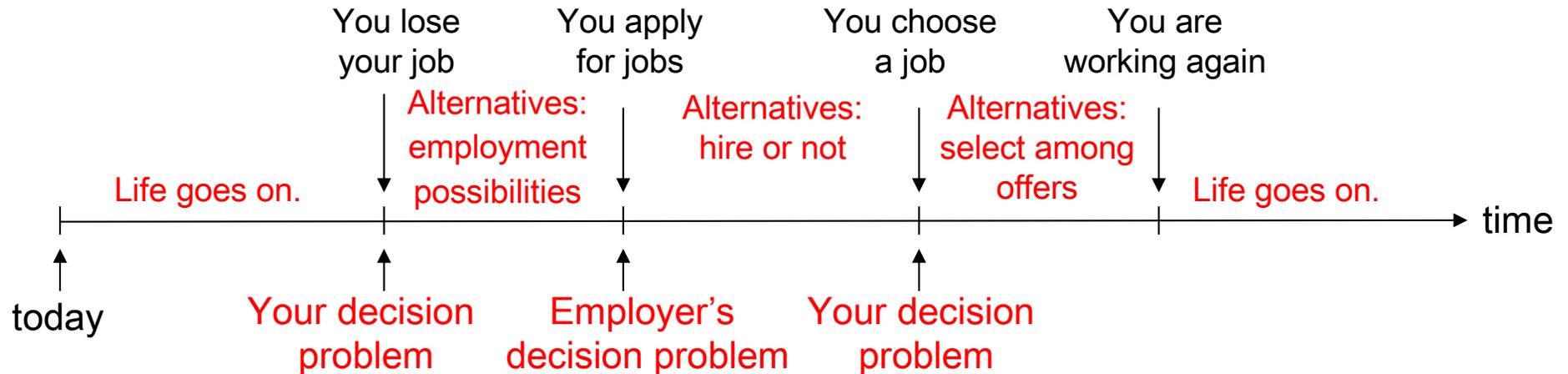


Proactive Pursuing Decision Opportunities

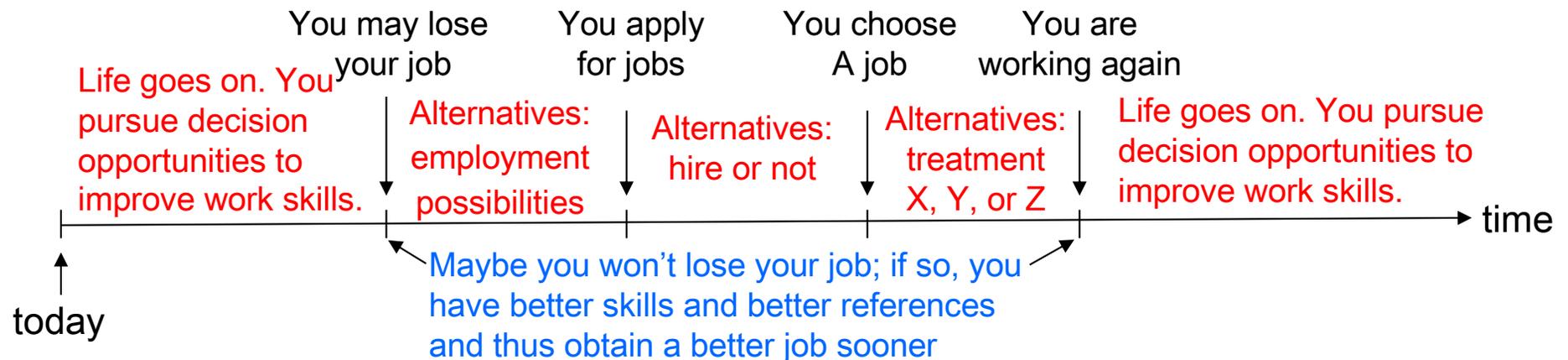


Reactive versus Proactive Decision-Making for Employment Decisions

Reactively Solving Decision Problems



Proactive Pursuing Decision Opportunities



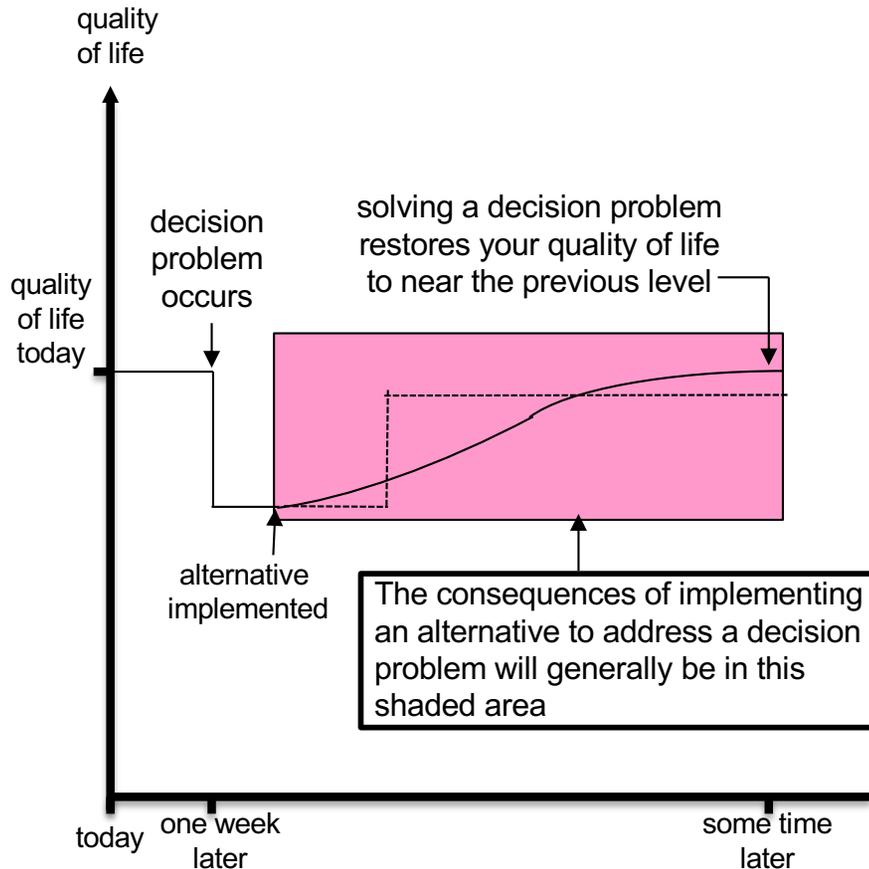
Decision Problems and Decision Opportunities

- The occurrence of **a decision problem lowers your quality of life** and the purpose of solving it is to try to return to the quality of life that you had prior to the decision problem.
- **Decision opportunities are created to increase the quality of your life** relative to that you have now.

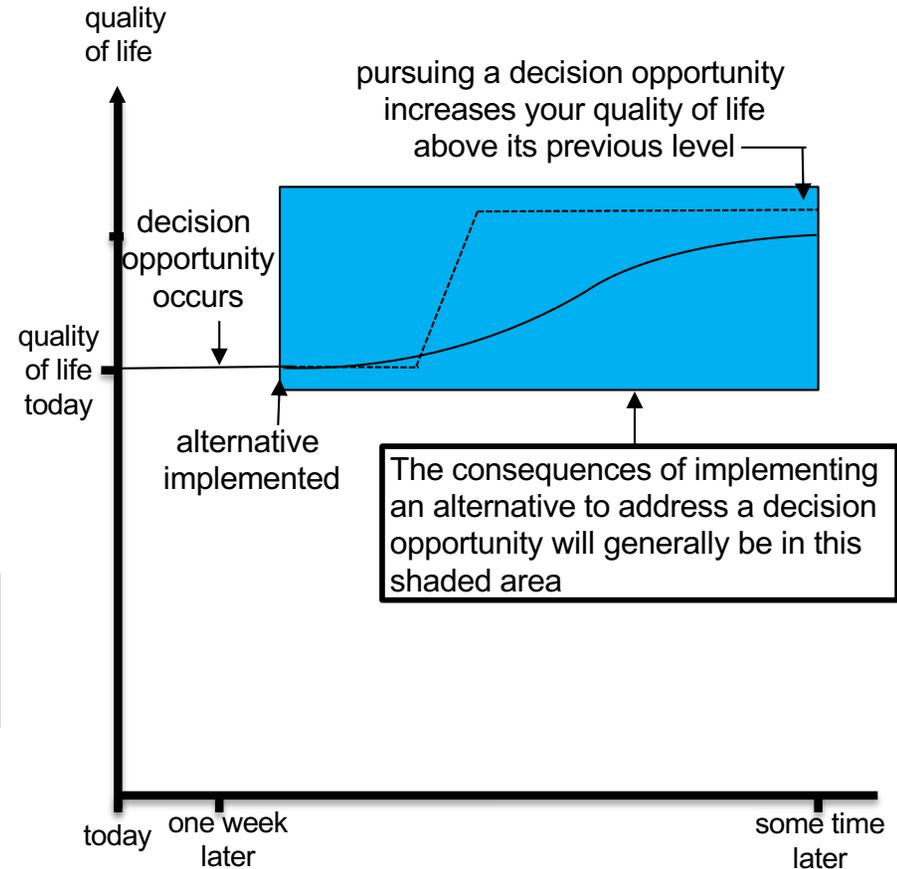
A Key Distinction between Decision Problems and Decision Opportunities

Decision problems usually do not improve your life

Decision opportunities usually do improve your life



A Decision Problem



A Decision Opportunity

Questions

5. Decisions Requiring Authorization

The situation: another individual - an authorized decision-maker - controls whether an alternative that you want can be implemented.

- You and an authorized decision-maker both recognize your joint authority to implement alternatives that you each pursue (buying - selling a house)
- Only you recognize that an authorized decision-maker shares the joint authority to implement an alternative that you jointly pursue (co-authoring a book, creating a new business)

EXAMPLE: you cannot afford to buy a house you want, offer to purchase house, allow seller to live rent free for a couple months after sale



NUDGE

An Offer that Cannot Be Refused

For a decision opportunity, you create a ‘dream’ alternative, but you need someone’s (e.g. boss, friend, parent, teacher, colleague) authorization to implement it. *At this time, the authorized decision-maker is unaware of your thoughts.*

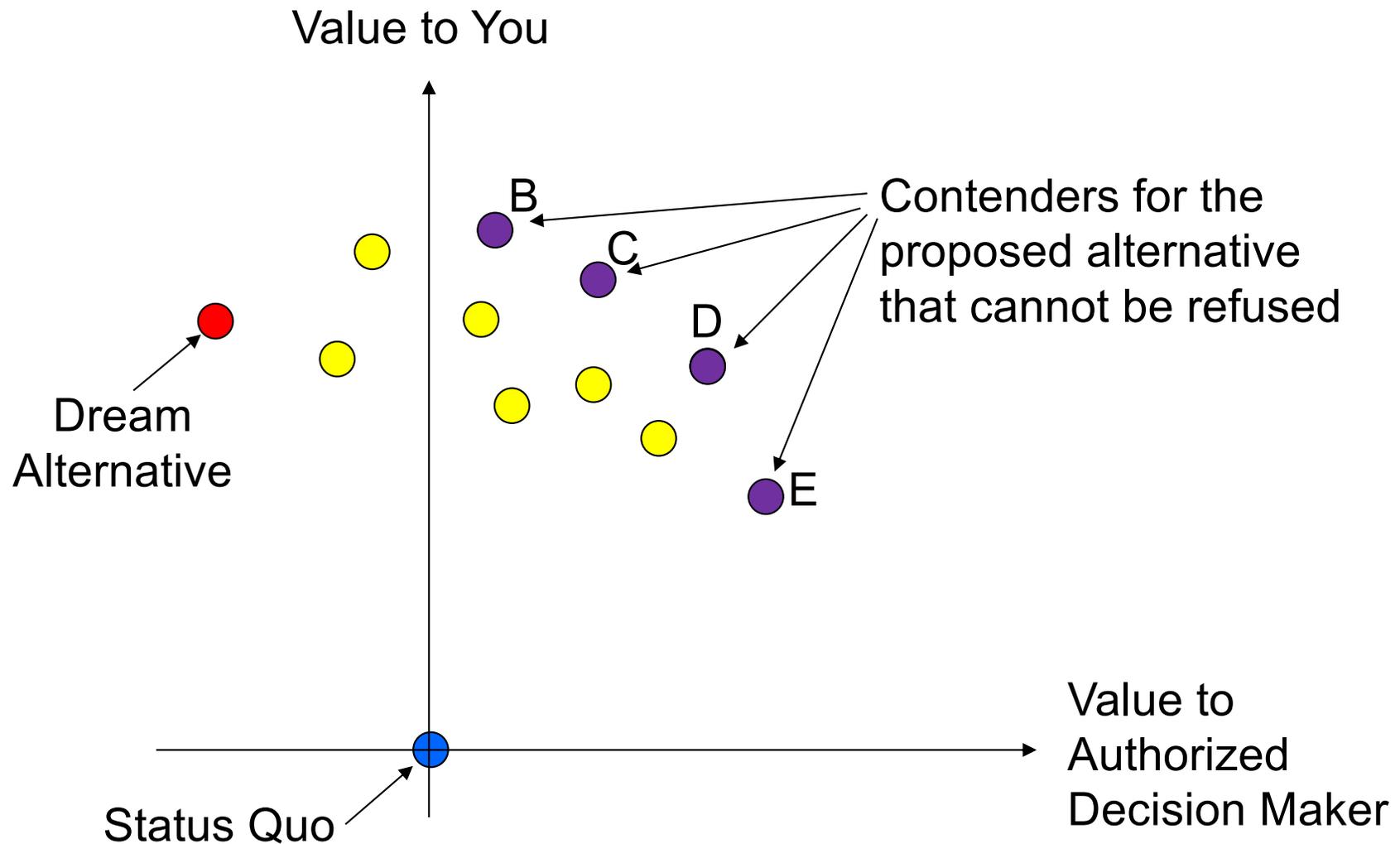
Identify: the values of the authorized decision-maker for the alternative that you want.

Create: an alternative that provides what you want and also is better than the status quo of the authorized decision-maker.

Act: propose that win-win alternative to the authorized decision-maker, which should be an alternative that can't be refused.



An Alternative that Can't Be Refused



▶ *Co-authoring a book*

▶ *Leave of absence*

Questions

The Key **Nudges** of Value-Focused Decision-Making

We discussed five key practical nudges that you can use:

- **State the decision that you face clearly and thoroughly.**
- **Understand your values.** For any decision, create a list of what you care about. State values as objectives and organize them.
- **Create alternatives.** Don't just accept the obvious alternatives. Create new alternatives that may be better.
- **Generate decision opportunities.** Do not wait for problems to occur. Proactively create decision opportunities to make your life better and possibly avoid future decision problems.
- **Create alternatives that please others.** The authorization of others is frequently required for an alternative that you want to be feasible. Learn the others' values and design your desired alternative to include benefits for them. It is this newly created win-win alternative that is feasible.

Becoming a Value-Focused Decision Maker

Requires developing a set of skills:

1. Learn the concepts and their usefulness for decision-making.
2. Practice using those concepts on less complex and less important decisions

This is analogous to developing competence with other skills, such as any sport, playing a musical instrument, being a good parent, or cooking.

3. As you become more skilled, you can naturally address more complex decisions more effectively.

Last Thoughts

Being a proactive value-focused nudging decision maker is conceptually easy, but requires operational skills.

Most of us have years of experience and a life-long habit of being a reactive alternative-focused decision maker.

It requires some effort to break such an engrained habit, but becoming skilled at using value-focused nudges is worth it.

Give Yourself a Nudge and master that skill.

Thank You

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