

32. Decision traps

Purpose, participants and application

- **Purpose**
 - To ensure that important decisions are made on as accurate a basis as possible.
- **Participants**
 - Individual and team decision-makers.
- **Application**
 - In all phases.

The anchoring trap

Giving disproportionate weight to the first information received.

This can occur if, early in a project - or during the preparation of a business case - some initial calculations are made regarding how much can be saved in, for example, inventory. Such preliminary analyses might show a potential savings of 20%. People then remember the 20%, even though that it may have been calculated on an uncertain basis. A solution can be to consider solution options from multiple perspectives and obtain input from others.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The status quo trap

One has preference for solutions preserving the current state.

Such situations can arise when choosing a solution that one is already familiar with. This could be, for example, investing in a new conveyor belt in a factory area and opting for the same system as already installed in another part of the factory. People stick with the known system, even though alternative systems might solve the task better. A solution can be to never consider the status quo as the only solution. Would one choose the status quo if it actually wasn't the status quo?

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

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The sunk cost trap

One justifies previous decisions, even if they are no longer valid.

For example, one might have invested a large sum in an automated warehouse based on demand assumptions for goods suitable for automated storage, which are no longer valid. One continues to hold on to the automated warehouse, even though the solution may not be optimal and up-to-date. The solution can be found by stress-testing the assumptions both by maintaining the current solution and by considering alternative solutions. Everyone can make mistakes, even the best.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

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The confirming evidence trap

One seeks information that supports one's viewpoints.

In a decision-making situation, one may seek information from the professional network or consultants to confirm, for example, that a lean project yields the desired effect. The trap can be managed by having others to play the devil's advocate.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The framing trap

Decisions are made based on how a question or problem is formulated or framed.

This can be exemplified by decision-making regarding the establishment of a central warehouse, which only includes cost considerations but does not take market conditions into account – for example, what this decision could mean for lost sales because the market reacts negatively to the decision. The solution involves looking I to the mirror – bringing out the clear motives.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The estimation and forecast trap

Decisions are made under uncertainty.

One might be overly optimistic about the extent of savings that can be achieved by reducing for example the number of items stocked. This trap can be addressed by identifying best-case and worst-case scenarios for the solution, thus providing a broader range of estimates.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The overconfidentiality trap

Believing that estimates and forecasts are precise.

This can happen if calculations for cost savings are based on incorrect assumptions – for example, choosing to relocate production to Asia to save on labor costs without considering a range of indirect costs such as reduced quality, additional inventory, and extra transportation. This trap can be addressed by having others to stress-test the proposed solutions.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The prudence trap

The estimates and forecasts are adjusted to 'be on the safe side'.

This could be, for example, calculations of cost savings from switching third-party logistics providers. There is uncertainty in the calculations, so to be on the safe side, a conservative estimate of 10% savings is presented, even indications suggest around 20%. This trap can be addressed by spending more time and focusing sharply on one's own calculations.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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The recall-ability trap

One predicts the future based on memories of past events.

One decides not to carry out an improvement project because of past negative experiences, such as the implementation of an S&OP (Sales and Operations Planning) project. This resulted in great organizational resistance, and the objectives were not met. The memory of the turmoil it caused can lead to reluctance to initiate a new S&OP project, even if the company would benefit from it. This trap can be mitigated by checking one's assumptions—check the mood and assess whether there are better political winds now.

Sources:

Hammond, J.S., Keeney, R.L. & Raiffa, H. (1998), "The hidden traps of decision making", *Harvard Business Review*, Vol. 76 No. 5, pp. 47-58.

Emiliani, M.L. (2006), "Executive decision-making traps and B2B online reverse auctions", *Supply Chain Management: An International Journal*, Vol. 11 No. 1, pp. 6-9.

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