HBR’s 10 Must Reads on Making Smart Decisions

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Key Concepts

Even great leaders make bad decisions, in large part due to unconscious biases, overlooking critical factors, or the lack of a proven, effective, systematic decision-making process. Decision making can be improved by being aware of the following principles:

1. The unconscious workings of the brain can lead to poor decision making. Thought patterns can be helpful in making sense of the world but can get in the way of making objective and informed decisions. Understanding and avoiding the hidden traps and subtle influences routine thought patterns create can lead to better decision making.

2. Bias comes in many forms and can strongly influence decision making. Everyone has biases, some they are aware of and others they are not aware of. Those biases come into play in decision making. When making decisions, leaders need to evaluate not only themselves but also others involved in the decisions, as well as the entire process itself, to bring bias to the forefront—then work to eliminate it.

3. “Near misses” are not lucky breaks; they are critical elements in driving future decisions. All too often “near misses” in which a catastrophe is avoided are considered good luck and are not incorporated into the decision-making process. In reality, near misses can provide critical information that when paid attention to can drive changes that will avoid catastrophes in the future.

4. Decision making is not an event; it is a process. As long as decisions are viewed as singular events, owned by one person, there is little hope that good decisions will be made on an ongoing basis—which is a requirement to succeed in today’s environment. Great leaders work with their organizations to develop informed and repeatable processes with clear roles and responsibilities that drive good decisions over and over again.

5. Strategic planning alone will not result in good decisions. Traditional strategic planning has proven itself to be very ineffective at driving decisions
that meet the needs of today’s fast-paced and frequently changing business environment. While decisions must have a strategic foundation, strategic planning and decision making need to be complimentary and consecutive, operating in parallel. To meet this challenge, successful organizations are transforming strategic planning from “review and approve” to “debate and decide.”

**INTRODUCTION**

Decision making is a leader’s most important responsibility. Good decisions can lead an organization to excellence. Bad decisions can lead to failure. And all too often, even the best and most well-intentioned leaders make bad decisions that are life changing for both their organizations and for their careers. Typically, bad decisions result from unconscious bias, overlooked information, or poorly constructed (or non-existent) decision-making processes that do not take into account the critical factors that go into good decision making. In *HBR’s 10 Must Reads On Making Smart Decisions*, leading experts expose the unconscious and conscious elements that lead to both good and bad decision making, and in doing so help leaders and their organizations avoid the decision-making pitfalls, improve decision-making capabilities, and ensure more good decisions are made on an ongoing basis.

**The Hidden Traps in Decision Making**

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

Bad decisions are sometimes based on the circumstances of the decision making process; for example, not enough time, the wrong information, or an imbalance in assessing costs and benefits. However, bad decisions can also be attributed to the way the human brain operates. The decisions people make are influenced by routine patterns of thinking, or “psychological traps,” that can undermine the decision making process. Understanding and taking the following deliberate steps to avoid the following psychological traps is an important part of improving the decision making process:

**Anchoring**

When presented with multiple pieces of information, people give more weight to the information they receive first. They “anchor” in it, and that information influences subsequent decisions. Comments from others, biases, or past events are all forms of anchoring. Anchoring can be avoided by open-mindedness, developing alternate perspectives, and thinking through a problem before asking others what they think.

**Status-Quo**

People like to stick with what is familiar—in other words “the status quo.”

Anything that deviates too far from the familiar and routine feels risky. The more choices one is faced with, the stronger the pull to stay close to the status quo. Decision makers can avoid this trap by keeping their focus on objectives, considering multiple alternatives, and asking themselves if they would choose the status quo path if it were not the status quo.

**Sunk-Cost**

When people have already heavily invested in something and it is not going well, their tendency is to continue to invest rather than acknowledge the investment is a mistake. Understanding that good decisions can later yield bad results, and then moving on without blame, is a method for getting out of this trap.

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Confirming Evidence

Every individual has opinions, and individuals tend to look for evidence that confirms those opinions. However, this can result in unbalanced information and ill-informed decisions. Rigorous examination of all the evidence, garnering opposing opinions from others, and introspection combined with honesty are methods for avoiding this trap.

Framing

How a problem is presented, or “framed,” can strongly influence decisions about resolving that problem. For example, solutions to positively framed

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problems are more often adopted than solutions to those framed negatively—even though the problem is essentially the same. Decision makers can avoid this trap by framing problems several different ways or creating neutral frames.

Organizations need to realize that a disciplined decision-making process, not individual genius, is the key to a sound strategy. And they will have to create a culture of open debate in which such processes can flourish.

Estimating and Forecasting

People are not very good at making accurate and reasonable estimates and forecasts in unfamiliar situations. Overly confident, overly prudent, or unbalanced judgments based on past events are often what results. By deliberately striving for very realistic and justifiable assessments based on clarity and wider parameters, decision makers can avoid these traps.

Before You Make That Big Decision…
by Daniel Kahneman, Dan Lovallo, and Olivier Sibony

Bias on the part of those recommending specific decisions can unduly influence the proposals that are presented to executives. Decision makers must be on the lookout for this. By answering the following 12 questions, executives can help remove bias from the decision-making process:

1. How significant is the risk of errors motivated by the self-interest of the proposal developers?

2. Are the developers “too in love” with their proposal?

3. Was dissent encouraged and resolved productively in the proposal development process?

4. Are any of the analogies presented in support of the proposal truly relevant to the proposal, or are they skewed?

5. Have other credible alternatives been evaluated?

6. A year down the road, what information would be valuable to know about the proposal in advance, and can that information be unearthed now?

7. Where did the supporting data come from, and is it credible?

8. Is there a “halo effect” in operation, where the solution looks better than it really is because of past successes?

9. How attached to past successes are those recommending the solution?

10. Has the proposal been evaluated with external criteria, or is it too internally focused?

11. Has the “worst case” scenario been described realistically, or is it “too good?”

12. Is the recommendation not ambitious enough? In other words, is it overly cautious because the team is risk averse?

How to Avoid Catastrophe
by Catherine H. Tinsley, Robin L. Dillon, and Peter M. Madsen

“Near misses”—those close calls that could have been disastrous—are more than lucky breaks. They have the potential to play a valuable role in informing decisions in the future. However, their root causes often go unnoticed or are ignored until an “enabling condition” (conditions that were absent during the near miss) turns them into a tragedy.

There are seven strategies for recognizing and preventing near misses that every company should implement:

1. Pay close attention to high pressure situations. High emotional pressure distorts perceptions and compromises good decision making.

2. When some factor of operations deviates from the norm, resist the temptation to simply recalibrate acceptable risk.

3. Avoid the tendency to treat “symptoms.” Look for root causes instead.

4. Hold managers accountable for their assessments, particularly their support for potentially risky situations—including people they do not hold accountable.

5. Realistically consider worst case scenarios, and...
base operations on those.

6. Evaluate every project, both successful and unsuccessful, at every step—successes can be “near misses” in disguise.

7. Motivate and reward employees for speaking up to expose near misses, even when it is due to their mistakes.

Conquering a Culture of Indecision
by Ram Charan

While a leader might appear to be decisive and respected, laying out mandates that everyone agrees with, what is often at work instead is a “culture of indecision” in which decisions presented are applauded but ultimately undermined by contrary behavior. Decisive organizations are those in which open, honest, and informal dialogue drives engaged interactions that further executive decisions. Creating this culture is a leadership responsibility.

Decisive dialogue is foundational to a decisive organization. It is characterized by “openness, candor, informality, and closure.” It must be modeled by the CEO and become pervasive throughout the organization’s social operating mechanisms. Follow-through and feedback are also inherent to a decisive culture, ensuring directness, understanding, and improved performance.

While driving a transformation to a decisive culture is not an easy task, the rewards are great: an “energized, empowered, and engaged” workforce.

What You Don’t Know About Making Decisions
by David A. Garvin and Michael A. Roberto

Most leaders do not do a very good job at decision making. This is primarily because they consider decision making an event, rather than a process. Good decision makers are those who design and manage an effective decision-making process. A process approach is either inquiry-based or advocacy-based. The two might appear to be similar, but they are fundamentally different and have very different outcomes.

An advocacy-based approach is inherently competitive, seated in special interests, and easily antagonistic. Objectivity typically falls by the wayside in favor of factioning. Information is often withheld and selectively presented. This frequently results in poor decisions and a demoralized workforce. On the other hand, an inquiry-based approach encourages disparate views, fosters a climate of open and non-threatening dialogue, and leaves egos at the door. Conflict is encouraged, but it is not destructive. Inquiry is about inspiring critical thinking and teasing out the best ideas, not winning the game.

Debate is a key component in the inquiry process. Leaders can encourage constructive debate through proper framing, guiding the conversation toward issues rather than personalities, and asking that people “argue” for the opposing view.

A sense of fairness, where everyone has been heard and understood, is characteristic of the inquiry process, as is proper closure on the decision, which is not too early (before all possibilities have been considered) or too late (out of a fear of risk).

Decisions are the coin of the realm in business. Every success, every mishap, every opportunity seized or missed is the result of a decision that someone made or failed to make.

Who Has the D?
by Paul Rogers and Marcia Blanko

Not knowing who is responsible for making which decisions can stall the decision-making process in even the most decisive companies. One of four bottlenecks is usually to blame:

1. Global versus local
2. Center versus business unit
3. Function versus function
4. Inside versus outside

By assigning clear roles and responsibilities, companies can avoid these bottlenecks and improve their decision-making acumen. The RAPID approach (“recommend, agree, perform, input, and decide”) is an effective way to determine roles and responsibilities and avoid bottlenecks in any or all of these areas.
“Recommend” applies to those who are responsible for making a proposal. Those who “agree” are those with sign off authority, allowing the proposal to move forward. “Input” applies to consultants who judge the viability of the proposal. “Perform” applies to managing the proposal’s execution, once it has been “decided” on by the ultimate decision maker.

The assignment of roles and responsibilities in each situation is based on who provides the most value to the business in relation to those roles and responsibilities. Good judgments in making assignments will result in much better decisions and the elimination of bottlenecks.

Managers who aspire to be ethical must challenge the assumption that they’re always unbiased and acknowledge that vigilance, even more than good intention, is a defining characteristic of an ethical manager. They must actively collect data, shape their environments, and broaden their decision making.

**How (Un)ethical Are You?**
*by Mahzarian R. Banaji, Max H. Bazerman, and Dolly Chugh*

No matter how ethical people might perceive themselves to be, there are four sources of unconscious bias at play that influence decisions to be less than ethical—without any conscious ill intent on the part of the decision maker. The following biases can lead managers to unwittingly make bad decisions, often in the area of human resources and to the organization’s detriment:

1. **Implicit prejudice** stems from thought processes that lead people to make unconscious associations between things, thereby developing patterns that seem to make sense and are repeated over and over again. However, these unconscious patterns can be wrong.

2. **In-group favoritism** means helping those one has positive associations with (such as friends and family) over others.

3. **Overclaiming credit** is the tendency people have to overestimate their own contributions to a particular success or effort while underestimating the contributions of others.

4. **Conflict of interest** is favoritism toward results that benefit the individual making the decision.

While education and ethics programs might help leaders and organizations become more aware of these biases, what is more important is developing a strong mindfulness of these biases, then taking deliberate and proactive steps to eliminate them from the decision-making process. A few such steps are:

- **Collecting data** through specific tests that reveal bias as well as systematically analyzing decisions for bias
- **Shaping the environment** by removing bias-provoking cues
  - Broadening the decision-making process by extending the parameters to reach beyond possible sources of bias and taking a more analytical approach

Most important is adopting a vigilant recognition that bias exists even in the most well-intentioned people, and making an equally vigilant attempt to eliminate its sources by deliberately working to create a level, unbiased playing field for every decision—especially those involving staffing and interpersonal relations.

**Make Better Decisions**
*by Thomas H. Davenport*

There is a rampant decision-making disorder plaguing both the public and private sector. This disorder is attributable to two factors:

1. The tendency for decisions to be made by individuals, typically at high levels
2. The failure of organizations to create solid and effective decision-making process that meet the needs of today’s world

Creating a strong framework for effective decision making is achieved through the following four steps:

1. **Identifying** the decisions that need to be made and then prioritizing them to make sure the most important ones get done.
2. **Inventorying** all the required factors that need to be addressed to make the decision (who, what, when,
3. **Intervening** in each decision to establish the best way to make that, and similar, decisions—thereby creating an ongoing process.

4. **Institutionalizing** a formal methodology for “deciding how to decide” to be used as a criteria for managers whenever they are faced with a decision.

An equally important part of improving the decision-making process is performing a post mortem on all decisions made—the good ones as well as the bad ones. This effort both informs the process and helps guide future decisions.

**Why Good Leaders Make Bad Decisions**  
*by Andrew Campbell, Jo Whitehead, and Sydney Finkelstein*

Even the most highly effective, intelligent, and experienced leaders make bad decisions, often due to errors in judgment that have their roots in neuroscience. The brain guides decision making through the unconscious processes of:

- **Pattern recognition**—in which past experiences create assumptions that people then apply to similar situations
- **Emotional tagging**—in which emotions connect with experiences to drive action in future similar situations

Compounding these influences are “red flag conditions” that further distort the decision-making process by fueling emotions:

- **Inappropriate self-interest** can skew pattern perception toward what is more beneficial to the self.
- **Distorting attachments** refers to emotional bonds from the past applied to the current situation.
- **Misleading memories** can distort the perception of the current situation, making it appear to be more similar to a past situation than it really is.

While people can learn to recognize biases, no one can always completely understand nor control their biases. Therefore, safeguards need to be applied to the decision-making process, such as:

- Presenting new information or novel approaches
- Increasing and expanding debate
- Imposing governance structures that remove sole responsibility for decisions

**Stop Making Plans; Start Making Decisions**  
*by Michael C. Mankins and Richard Steele*

While a strategic planning process is necessary, the traditional strategic planning process has long been under fire as a useless and time-consuming effort. Not only that, it has been demonstrated over and over that the typical strategic planning process does little to nothing to address the decisions businesses are faced with on an ongoing basis. This is due in large part to the “once per year” strategic planning cycle and the emphasis on individual business units. A more timely and holistic approach that meets today’s business needs is required.

Savvy businesses are adjusting both the timing and the focus of their strategic planning processes to transform them from “review and approve” to “debate and decide.” In “decision-focused” strategic planning, strategy development runs in parallel with decision making. There is a thematic focus on important and common issues across the business, strategy reviews take place continually throughout the year, authentic dialog and debate are encouraged, and planning reviews result in real-time decisions. This approach tends to unearth hidden strategic issues as well as drive many more decisions, offering up additional opportunities for growth and increased profits.

**Features of the Book**

**Estimated Reading Time: 3–4 hours, 175 pages**

_HBR’s 10 Must Reads On Making Smart Decisions_ is a collection of articles written by well-known leadership experts. The book is intended for leaders in any industry or occupation. The book can easily be read cover to cover, but each article is a standalone piece, so readers can also pick and choose what most interests them. Each of the ten articles includes an “Idea in Brief” section summarizing the key points in the article. A few articles include an “Idea in Practice” section that provides practical steps for the reader to use in applying the key principles. Also included are
charts, checklists, and many specific and enlightening case studies to further illustrate key concepts. This book has value for any leader who wants to improve his or her own decision-making capabilities and for those interested in driving new decision-making process within an organization.

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