

Is your decision-making dangerous?

Michelle Gibbings provides eight tips to guide you through mastering your decision-making.

Financial planners make decisions every day – for themselves and their clients. Consequently, having highly attuned and advanced decision-making skills is critical.

However, most people are unaware of the limitations and bias that surrounds their decision-making. This bias is pervasive and often unconscious.

The brain takes short cuts

Decisions aren't made on facts alone. They are made on assumptions, feelings and gut reactions.

The pre-frontal cortex, which is the part of the brain that's involved in thinking, analysing and reasoning, gets tired easily.

Consequently, the brain, very cleverly, has found a way of conserving energy. It takes short-cuts. A mental short-cut is known as a heuristic. The brain uses heuristics to make big things and complex issues easier to manage, and ultimately remember.

As the brain takes in new information, it tries to make sense of it, so that it knows what it needs to do. To ease the cognitive load this processing takes, it compresses information and sorts it into patterns. It looks for things that it has seen or experienced before and so, 'knows what to do'.

Of course, the brain's short cutting process isn't always reliable and it gives rise to bias in decision-making. For example, the brain may expect to see something in a certain way, and so it will seek out information to validate that view. It filters out information that doesn't fit with

its view of the way things should be. It's therefore very easy to close your mind to new information that may be relevant and help you make better decisions.

Decision-making traps are everywhere

Daniel Kahneman in his brilliant book *Thinking Fast and Slow* shared his years of research into this field. He explained how the automatic and instinctual part of the brain can lead to cognitive bias, and that people often place too much confidence in their own judgement.

This leads to decision traps such as: sunk cost (where due to loss aversion, people don't walk away from something, even when the facts show they should), anchoring (where decisions are influenced by the earliest piece of information received), and others.

These traps are exacerbated when a person is tired.

The brain is like a muscle. When you work out at the gym, your muscles get tired and need to be rested. If you want to be at peak performance, you get the right balance between 'working' your muscles and 'resting' them.

It's the same for your brain. Every time you make a decision, you use up precious resources in your brain.

When the brain is tired, it more easily takes the path of least resistance, and this is where it gets dangerous. Because taking the path of least resistance means a person is letting expectations and

assumptions drive how they think and act, rather than being conscious and deliberate about the decisions they are making.

For example, a US study of parole board decisions found that the decision to be paroled had less to do with the facts of the case and more to do with when the prisoner appeared before the parole board. If they appeared in the morning, the prisoners received parole about 70 per cent of time. In contrast, those later in the day were paroled less than 10 per cent of the time. Being tired affected the decisions being made.

8 tips to make better decisions

It's important to be deliberate about how and when you make decisions. This is because good decisions are the result of deliberate planning, consideration and effort. They don't happen by chance.

It was the esteemed management guru, Peter Drucker, who said: "Making good decisions is a crucial skill at every level."

The following are eight tips to help you master your decision-making:

- 1. Know your bias** – Bias pervades decision-making because we don't make decisions on facts alone, and so be curious and invite different opinions.
- 2. Don't silence the dissenters** – Be alert to when the person raising the dissenting idea is being ignored. Hearing their opinion will broaden your perspective.
- 3. Get deliberate** – It's easy to get distracted, so be clear on the process



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and timeframe for the decision-making. Multi-tasking and good decision-making are not a successful combination, as you lose concentration and productivity as you switch between tasks.

4. Know your options – Get clear on the options and likely consequences or outcomes. Choosing to do one thing, may prevent you from doing something else. Understanding the trade-offs means you are making the decision with your eyes wide open.

5. Be determined – Some decisions are easy as the best path forward is quickly

identified. Other decisions are more complex. Be comfortable with the fact that sometimes you need to make a decision with incomplete data.

6. Get sleep – When your brain is tired it takes the path of least resistance, so be conscious of the time of day you are making a decision. Make important decisions when you are alert.

7. Make the decision – No decision is a decision. Procrastinating will not make the process any easier.

8. Reflect on it – Take the time to reflect

on the process and outcomes. What happened? Did it turn out as expected? If not, why not? What could you do differently next time?

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