# Decision-making Biases and Pitfalls

Notably, it is normal for human beings to make different mistakes in their decision-making processes. In most cases, cognitive biases have been established to be the primary cause of such errors in verdict creation. Therefore, we tend not to examine all available options, but instead take shortcuts in making choices. Such biases are usually predictable and consistent as they encompass our various beliefs on the way situations should be handled (Kourdi, 2011). Overall, adverse decisions originate from the way multiple individuals think and reflect on a particular topic. In such a way, individuals should ensure to embrace the ability to think critically through preexisting situations and all the possible solutions before they can choose a final action plan to undertake.

The first case takes into account a chief financial officer of a corporation who believes that marketing is one way of squandering the company's resources without much gain. The fact is a representation of an anchoring bias, which is when a decision maker puts more emphasis on the first piece of information that they receive and fail to adjust to any subsequent data on the situation. The chief financial officer had access to a bit of information that demonstrated a lack of increase in sales due to more expenditure on marketing. Further, he cut the marketing cost to almost zero, which significantly reduced the sales of the company (Hammond, Keeney, & Raiffa, 2006). However, when the officer was approached by an employee who thought that the decrease in marketing was the cause of the corresponding reduction in sales, she was quick to dismiss them because of the earlier information that she had received. The avoidance of an anchoring bias can involve making a substantial list of an individual’s thoughts regarding the decision in question. Further, all the issues presented in the outline should not receive rankings that will ensure assessment of the information is done without prejudice. Additionally, taking time off the topic at hand may help in overcoming an existing anchor about a particular decision. In such a way, it is critical to ensure that an individual is not attached to the various ideas as it will become effortless to overcome the favoritism in the entire decision-making process.

The case of a CEO who is considering a merger of a rival company represents an overconfidence bias. The self-confidence prejudice encompasses a decision maker who possesses overly positive views of themselves and their choices. For instance, most top managers try to warn the CEO against acquiring a merger as it will require considerable debts to accommodate the competing company. Furthermore, the organizational structure of the contending corporation is entirely different from that of the CEO’s enterprise (Kourdi, 2011). Despite the fact that his managers give substantial reasons why the merger might fail, the manager demonstrates his positive belief that his decisions will become successful. Overcoming an overconfidence bias is quite hectic as it needs the intervention of a third party who can convince the victim beyond reasonable doubts why they need to consider alternative decisions. Therefore, the CEO can find a person who can act as their voice of reason and present them with all the existing and relevant data about a situation. Afterwards, the third party gives their independent and unbiased decisions about the case. Additionally, individuals should strive to ensure that their optimism does not outweigh the reality.

The decision of purchasing factory A is a representation of a framing effect. Since factory A demonstrates 94% success rates and factory B presents a 5% failure rate, the CEO is quick to judge and decide that the first company is worth purchasing. The verdict is made despite the fact that the latter has higher success rates of 95%. The resolution occurs because of the different ways of information presentation to the investor. The avoidance of a framing bias lies in knowing that information presentation aims to trigger emotional reactions (Kourdi, 2011). Therefore, accurate decision making requires that a thorough scrutiny is conducted on the presented facts to ensure that the intent of the message is understood. In such a way, it is crucial to pay attention to the details of the information shown and comprehend the facts rather than scheming through its original format.

The case of purchasing a high-end technology vehicle with the hope of improving a company's profits demonstrates a sunk-cost bias. The more the invested money in acquiring a particular good, the harder it is for an investor to give up on that product. In as much as the selling of the hybrid technology vehicle adds minimal value to the company, the CEO is reluctant to give up on selling them. Therefore, based on investment capital, the CEO is bound to make poor decisions, which include declining to let go the hybrid technological vehicle and concentrate on cars that improve the profitability margins of the firm. The conscious or unconscious unwillingness to accept mistakes is the primary cause of the sunk-cost bias. Further, to overcome this challenge, early planning and evaluation of an investment based on its rewards and shortcomings are mandatory (Bolland & Fletcher, 2012). Additionally, if a decision causes any implications of not providing profits, it is prudent that it is abandoned so that the employees' energies are focused on more productive actions. Additionally, admitting mistakes as they are spotted is one way to ensure that further losses of a company are avoided. Moreover, individuals should try not to attach themselves emotionally to past decisions as it will help let go of poor ideas of the former. Further, setting long-term objectives and keeping them in mind will assist in avoiding sunk-cost biases in various corporations.

Overall, various biases exist in the decision-making process of companies. Leaders should ensure to take into account the immediate enterprise goals and long-term objectives in guaranteeing the success of a firm by increasing its profitability margins. I think the sunken-cost bias is the most dangerous for the management of a corporation. It is vital to ensure that all the decisions made are not regretting in the future and do not cause harmful effects on the productivity margins of the business (Hammond, Keeney, & Raiffa, 2006). Furthermore, it is vital for leaders to accept their mistakes and be ready to correct them as they are discovered. Additionally, the sunken-cost bias can cause an escalation of unprofitable commitment, which is a flawed way of trying to cope with the wrong decisions in a company. Since the sunken-cost bias does not consider the outcomes of a decision to business, it is easy to lose focus on attaining the goals of an enterprise and instead concentrate on not losing an investment that has already shown to be less profitable to a firm. Therefore, the entire company treads on dangerous grounds as more losses are likely to be incurred as the management hopes to make profits from their poor decisions.

## References

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