Decision Tools to Keep You on the Right Path

This article shows how to use decision trees and expected value to improve decision-making processes. Drawing on studies and experiments used in his classes, the author suggests practical strategies for limiting the influence of human biases on decision-making, both at the individual and organizational levels.

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Suppose you have a big decision to make, like investing in a project in a context of highly uncertain market conditions. Tools such as decision diagrams can help managers to structure problems, carefully consider alternatives and calculate the risks involved. This article shows how to use decision trees and expected value to improve your decision-making processes.

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However, don't be fooled into thinking that applying a "scientific" process will guarantee success. Drawing on several well-known studies and experiments used in his classes, the author shows how managers need to watch out for human biases that make our seemingly rational decisions far from infallible. He suggests a number of practical strategies for limiting the influence of these biases on decision-making, both at the individual and organizational levels.

Tools and Frameworks

"**Mapping Marc's Decision**" presents a sample decision tree, showing how to map out a problem to clarify and evaluate the potential risks.

"**Marc's Decision Diagram Reduction**" updates the previous decision tree with the expected value of each decision, which indicates the best strategy to follow at each decision point.

"**Into the Vortex**" shows how human biases, like escalation of commitment, manifest themselves in numerous small-scale daily decisions.

Examples Cited

European pharmaceutical company, publishing company, Amazon, organ donation program, Barings Bank, Nick Leeson, Société Générale, Jerome Kerviel, JP Morgan

Research Basis

Draws on several well-known studies, as well as a technical note by the author, experiments used in his classes, and an IESE case study on Société Générale.

About the Author

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