

TOP 10 LIST

HOW TO MAKE DAMN GOOD DECISIONS

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1. Decisions Commit Our Resources to Actions

- Decisions are **controllable** choices
 - Decisions are thoughtful actions ↔ actionable thoughts
 - Decisions are not sound bites, mantras, wishes, hopes, or dreams
- Outcomes are **uncontrollable** events
 - Beyond capturing uncertainty with probabilistic judgments by experts, we shouldn't waste precious time worrying about outcomes or consequences
 - *If we begin with certainties, we shall end in doubts; but if we begin with doubts, and are patient in them, we shall end in certainties. -- Francis Bacon*
- Decisions are commitments to irrevocably allocate/invest valuable resources – money, time, people, technology, IP – for a course of action that is expected to deliver significant stakeholder value
 - Spend 1% of the assets to be invested to ensure that you're making the right decision (\$200 for a \$20,000 auto, or \$4,000 for a \$400,000 house)



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2. Reward All Good Decisions – Not Outcomes

- Bad decisions may lead to good outcomes
- Good decisions may lead to bad outcomes
- Empirical evidence suggests that:
 - Regularly experiencing bad outcomes may be the result of making bad decisions
 - Regularly making good decisions increases the odds of getting good outcomes
- We can increase the willingness to take appropriate risk by always rewarding good decisions; conversely, we can reduce any and all willingness to take appropriate risk by punishing bad outcomes
- Longer-term rewards will encourage good strategic decisions, while shorter-term rewards can recognize good operational decisions

	Bad Decision	Good Decision
Good Outcome	Drive Drunk, Home Safely	Drive Sober, Home Safely
Bad Outcome	Drive Drunk, Serious Accident	Drive Sober, Serious Accident

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3. Clear and Appropriate Frames Are Essential

Although likely an urban legend, this transcript of a dialogue between entities along a rocky coast shows the importance of framing:

- **First Message:** "Please divert your course 15 degrees to the North to avoid a collision."
- **First Response:** "Recommend that you divert your course 15 degrees to the South to avoid a collision."
- **Second Message:** "This is the Captain of a Navy ship. I say again, divert your course!"
- **Second Response:** "No. I say again, you divert your course!"
- **Final Message:** "This is one of the world's largest aircraft carriers. We are accompanied by three destroyers, three cruisers, and numerous support vessels. I DEMAND THAT YOU CHANGE YOUR COURSE 15 DEGREES NORTH – THAT'S ONE FIVE DEGREES NORTH – OR COUNTER-MEASURES WILL BE UNDERTAKEN TO ENSURE THE SAFETY OF THIS SHIP!"
- **Final Response:** "We are a lighthouse. Your call."



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4. Ideal Strategies Work Across All Scenarios

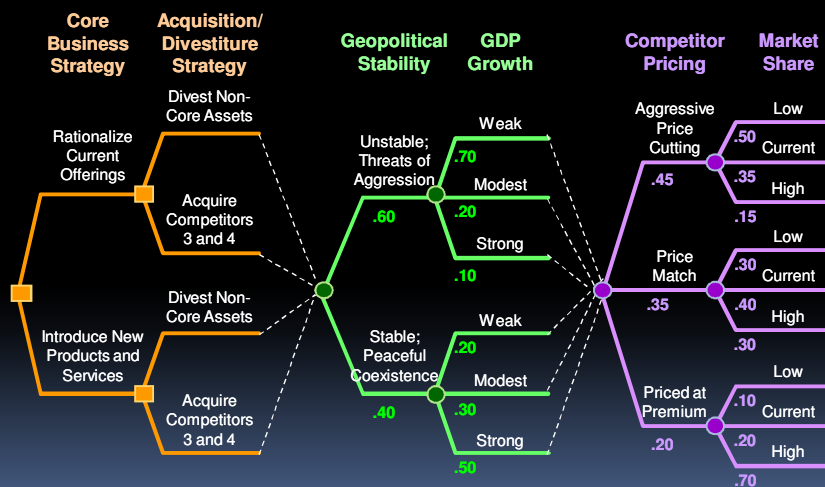
- Beware of false choices among refutable “strawman” alternatives
- Casinos and Mother Nature both follow the same rule: you must place your bets before you see your cards
- Scenario planning and market analysis matrices tools are often used improperly and prematurely to select a recommended strategy for the most likely scenario
 - However, such tools can be used to suggest possible alternatives
- The best strategies deliver the most overall value across the full range of possible scenarios – and are often distinct from other strategies that are best only for specific scenarios

		Primary Markets	
		Shrinking	Growing
Economy	Strong	Reposition	Invest for Growth
	Weak	Divest Business	Cherry Pick

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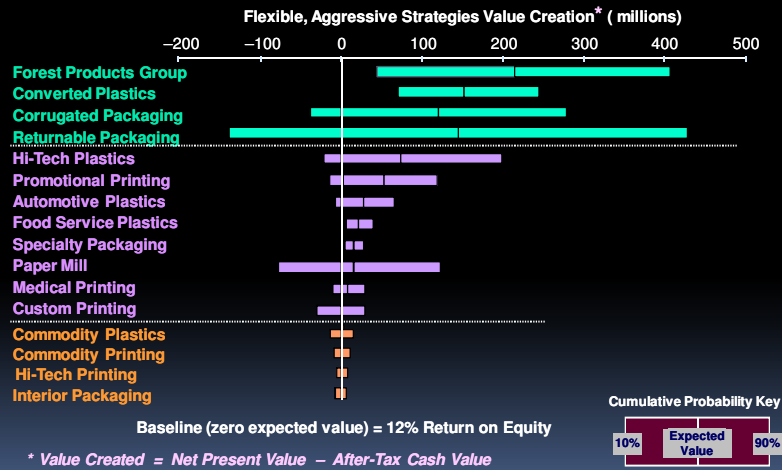
5. The “5 +/- 2” Rule Focuses Decision Analysis



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6. Discipline and Diversification Create Value



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7. Share Ventures According to Risk Tolerance

- Risk tolerance (R) measures the decision maker's willingness as well as ability to take risk (first defined by LaPlace in 1812)



- Joint venture partners should share both the investments and the returns in proportion to their respective risk tolerances

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8. Be Careful...You May Get What You Wish For

- We usually anticipate intended consequences very well...*BUT*, we seldom anticipate **unintended** consequences -- some of which are good, and some of which are bad
- **Black Swans** (*Taleb*) are rare, improbable, unexpected, unpredictable, unstructured – yet highly consequential – random events
- The **Monkey's Paw** (*Jacobs*) illustrates the dangers of a Faustian bargain with the devil (*Goethe's tale is retold in the movie Bedazzled*)
 - *There are two tragedies in life. One is not to get your heart's desire. The other is to get it. (George Bernard Shaw)*



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9. Human Behavior Is Often Irrational...Duh!

- We all **think we know more** than we actually do (*Kahneman, Tversky*)
 - We adjust and anchor around our best-guess estimates
 - We're biased by recently available information
 - We don't account for prior or conditional knowledge
 - We repeat mistakes when we don't learn the lessons of history
- We all **act more confidently** than we really ought to
 - We mismanage agreements, practice group think, and assign blame (*Harvey*)
 - We fall into decision traps: "plunging in", "winging it", and "action anxiety"
 - We fail to identify which 20% of our effort produces 80% of our value
 - We satisfice instead of optimize whenever we make important decisions
- Markets are inefficient because investors often allow **emotions to override rational** behavior (*Graham, Williams, Fisher, and Buffet*)
 - *Be fearful when others are greedy ... Be greedy when others are fearful*
 - *Buy low and sell high (long option) ... Sell high and buy low (short option)*



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10. Make Decisions from a Well Tuned Gut Feel

- If we rely on nothing but intuitive hunches to make important decisions, we'll inevitably make some very big mistakes
 - We'll erroneously pursue the Holy Grail of Certainty, or become victims of "analysis paralysis"
 - We'll believe snake-oil charlatans who promote snap, intuitive judgments that cause "extinction by instinct"
- By tuning our gut feel with clear, logical reasoning about what we can and can't do, what we know and don't know, and what we want and don't want, we can confidently **make DAMN good decisions**
 - *See Danger ... Look for Opportunity*
See Opportunity ... Look for Danger
 - Lance Armstrong won the Tour de France a record-breaking 7 years in a row (1999-2005) because he made excellent decisions from a perfectly tuned gut feel

