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ChangeAbility  
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(I) How To Make Better Decisions: Avoid The Hidden Traps!

Making decisions is the most important job of business owners and  
executives. It is also the toughest and the riskiest. Bad decisions can ruin  
your business or career. So where do bad decisions come from?

In many cases they can be traced back to a flawed decision-making  
process – the alternatives were not clearly defined or the right

information was not collected. However, more often than not, the fault lies not in the decision-making process but rather in our mind. The way the human brain works can sabotage decision-making.

Over the course of this and the next edition of *ChangeAbility*, I will examine four, well-documented psychological traps and tell you what you can do about them in order to make better decisions. These four traps are:

++THE ANCHORING TRAP++  
++THE STATUS-QUO TRAP++  
++THE SUNK-COST TRAP++  
++THE CONFIRMING EVIDENCE TRAP++

++THE ANCHORING TRAP++  
How would you answer these two questions?  
Is the population of Turkey greater than 35 million?  
What is your best estimate of Turkey's population?

If you are like most people, the figure of 35 million cited in the first question influenced your answer to the second question. Studies show that if you use, for example, "100 million" in the first question, the answer to the second question increases by many millions.

This simple test illustrates the common mental phenomena of anchoring: When considering a decision, the mind gives disproportional weight to the first information it receives. Initial impressions, estimates, or data anchor subsequent thoughts and judgments.

Because anchors can establish the terms on which a decision will be made, they are often used by savvy negotiators. The first offer in any negotiation will serve as an anchor. Therefore, it is important to really understand your position before any negotiation in order to avoid being anchored by the other party's initial offer.

#### WHAT CAN YOU DO ABOUT THE ANCHORING TRAP?

No one can avoid the influence of anchors. They are too wide spread. However, by being aware of the dangers of anchors and using the following techniques, you can reduce their impact:

+Think about the problem on your own before consulting others to avoid becoming anchored by their ideas. When consulting others, seek information and opinions from a wide variety of people.

+ Be careful to avoid anchoring advisors, consultants and others from whom you solicit counsel. Tell them as little as possible about your own ideas or tentative decisions. If you reveal too much, you might simply anchor their thinking.

+Think through your position *before any negotiation begins* in order to avoid being anchored by the other party's initial proposal. At the same time, use anchors to your own advantage. If you are a seller, for example, suggest a high but defensible price as a first offer.

### ++THE STATUS-QUO TRAP++

When faced with a decision, we all display a strong bias towards the status quo. The source of the status-quo trap lies deep within our psyches, in our desire to protect our egos from damage. Breaking from the status quo means taking action. When we take action, we take responsibility; thus we open ourselves to criticism and regret.

Many experiments have shown the magnetic attraction of the status quo. In one, a group of people were randomly given one of two gifts of the same value: half received a mug, the other a Swiss chocolate bar. They were told they could easily exchange the gift they had received for the other. While you might expect that about half would have wanted to make the exchange, only one in ten actually did. The status quo exerted its power even though it had been arbitrarily established only minutes before.

In business, where the sins of doing something tend to be punished much more severely than the sins of doing nothing, the status quo holds a particularly strong attraction. In merger situations, for example, the acquiring company often fails to take swift action to impose a new, more appropriate management structure early on. "Let's not rock the boat; let's wait until things stabilize," goes the reasoning. However, as time goes on, the existing structure becomes more entrenched and changing the structure becomes harder, not easier. The acquiring company has fallen into the Status-Quo Trap.

### WHAT YOU CAN DO ABOUT THE STATUS-QUO TRAP?

Remember that in any given decision, maintaining the status quo may indeed be the best choice, but you do not want to choose it just because it is comfortable. Once you are aware of the status quo trap, you can use the following techniques to mitigate its influence:

+Ask yourself whether you would choose the status-quo alternative if, in fact, it weren't the status quo.

+Always remind yourself of your objectives and examine how they are served by the status quo. You might find that elements of the status quo are detrimental and prevent you from achieving your goals.  
+If you have several alternatives that are superior to the status-quo, don't default to the status-quo simply because you're having a hard time picking the best alternative. Force yourself to choose.

Your Take-Away:

When facing major decisions in your business or life, be sure to use the above techniques to avoid falling into the Anchoring Trap and the Status-Quo Trap. In the next ChangeAbility, I will discuss the Sunk Cost Trap and the Confirming Evidence Trap.

This article is based on: "Hammond, Ralph & Raiffa: The Hidden Traps in Decision Making," *Harvard Business Review*, January 2006.

## II Urs's Personal Note: A Great 2006 and Some Changes For 2007

I am looking back over a very successful 2006 in my business and in ultracycling.

In my business, I have the privilege to work with highly motivated executives of large and small companies who are willing and ready to make changes to increase their effectiveness as leaders. My business has made more money than ever, with an increase in both revenue and profitability of almost 100 % over 2005. I am supported by a great executive assistant who frees me up so I can focus on doing what I do best.

In my ultracycling, I re-qualified for the Race Across America. Furthermore, I won and set course records at two of the three events I participated in. I will end up having ridden almost 10,000 miles during 2006.

After a lot of reflection, I have decided to change some of my focus for 2007: I will spend more time with my family and will cut back some at work and at riding.

I still plan to grow as a coach and ultracyclist, but I will be OK if 2007 is more of a consolidation year than a growth year.

Because I know how easy it is for me to get sucked into the world of overachievement ('now that project/client/race sounds really interesting, let's just squeeze it in somehow...'), I need to build boundaries and structure in order to force myself to slow down.

Below are some of the (very personal) structures and boundaries I will be implementing in 2007:

- + I will spend Mondays with my 15-month-old son, Luc
- + I will take Luc to my home country, Switzerland, for one month in the summer
- + I will organize child care support for my (working) wife Catherine when I am business traveling
- + I will spend Tuesdays, Wednesdays and Thursday mornings doing billable client work. I will not accept billable work outside of these hours.
- + I will spend Thursday afternoons and Fridays on either buffer activities (new business meetings, reading, writing, admin) or training on my bike (rather than doing these things at night).

As 2007 approaches, ask yourself:

- + Are you spending your time and energy on the people/things which are most important to you?
- + If not, how might you re-structure the way you spend your time and energy so it is more in line with whom and what you're passionate about?

+++++LET ME KNOW WHAT YOU THINK+++++  
Simply reply to this newsletter. I welcome your feedback!

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ChangeAbility is a publication of Redpoint Business Coaching, which is run by Urs Koenig PhD, MBA.

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