How the way you present your options affects decision-making

The origin of framing
Sometimes you read an insight that simply sticks. It sorts of glues itself in your mind. You can't resist thinking about it again. You may recognize this happening to yourself. It happened to me when I read one of Michael Lewis' latest books[1]. The book portrays how the relatively new science of *Behavioral Economics* came into being and how its founding fathers, the psychologists Kahneman and Tversky, reshaped part of economic theory.

As so often psychologists do experiments by asking questions to volunteers. A classic experiment is repeated in full below[1]:

> *Problem A. In addition to whatever you own, you have been given $ 1,000. You are now required to choose between the following two options:*
>
> *Option 1:* *a 50 percent chance to win $ 1,000.*
>
> *Option 2:* *a gift of $ 500.*
>
> *Almost everyone picked option 2, the sure thing.*
>
> *Problem B. In addition to whatever you own, you have been given $ 2,000. You are now required to choose between the following two options:*
>
> *Option 3:* *a 50 percent chance to lose $ 1,000.*
>
> *Option 4:* *a sure loss of $ 500.*
>
> *Almost everyone picked option 3, the gamble.*

There are no magic or hidden clauses here. Materially, the options 1 and 3 respectively 2 and 4 amount to the same thing. It is only *the description of the options* that is different and, remarkably enough, that description makes all the difference. Human perception of gain and loss is not symmetrical. Upon discovering this, Kahneman and Tversky decided to call this phenomenon 'the isolation effect'. After all, when looked upon a case in isolation, the same human could in a materially equal situation take opposite decisions, depending on how the case was presented. The fact that presentation made the difference they called 'framing'.

The relevance of 'framing' in business: how are options presented to you?
In business I see two situations where the phenomenon of framing may well be relevant:

.i. you are being asked to choose from a set of options.
.ii. you ask others to choose.

Consider first that you are being asked to choose from different options. Even when those that put the options forward to you may have been neutral as to the outcome of your choice, the fact remains that 'framing' may well affect the choice you are going to make. The question thus becomes how to defend yourself against your own mind's unintentional delusions.

The checklist of questions (list not exhaustive) to try to spot 'framing' before it affects you almost forms itself:

- What other options are really available to define or describe the problem of choice?
- In how far is what we see all there is?
- How would our decision change when we ourselves reframed this option from a chance of a gain to a chance of a loss?
- What do the outcomes of the two options tell us about our commitment to this decision?
- Last but not least: what choice would those that put this question of choice forward prefer us to take? This is not to suggest that all management decisions that are requested from you have intentionally been framed, but it is also not to say that framing only happens in fairy tales.

The most efficient test prior to taking any management decision I guess is to ask:

- What does the context offer: a frame of a chance of a gain or of a loss? When, it is a gain, beware not to be overly optimistic and for a loss, avoid over-pessimism.

The relevance of 'framing' in business: how do you present your options to others?
As management we not only make choices, we also present choices to others, for example to our management or to our staff. How to frame the options we put forward is now our choice, just as Kahneman and Tversky put forward their options in their words to their volunteer respondents.

The key questions that we may need to ask to achieve optimal decision-making now look different:

- How do we justify the intentional use of 'framing' (if at all) and if so how?
- How to be ethical?
- How many options do we present?
- How to offer the possible 'gain' and 'loss'-framed options in isolation, to demonstrate the manipulative power of framing and of the 'isolation effect'?

A balancing act
In management decisiveness is valued highly and rightly so. The balancing act thus seems to be to avoid both 'analysis paralysis' and overconfidence. It makes no sense to dream up all kind of options, check how these are 'framed', check whether we have seen all frames and subsequently as a result of all our efforts be too late in the market. Neither does being overconfident that 'framing' doesn't happen to you or me, reasoning that if it would have affected you, you would never have reached your current (senior) position.

The balance may well be to always, if only briefly, question your mind. When a gain looks too good to be true, it probably is. Check the frame. Wonder what risk you implicitly tolerate when taking the bait. Similarly, when a loss looks too obvious to avoid, think again. How risky is the bet, actually, when rephrased as a gain? Nobel Prizes have been awarded for the discovery of framing – why not benefit from the insight?

Note

.1. Lewis, M. [2017], The undoing project – a true story, Penguin Books, London, pp. 273-275.