How to Make Tough Decisions: Crash Course Business - Soft Skills #11

Crash Course: Business - Soft Skills
https://youtube.com/watch?v=vLxjUNINfnY
https://nerdfighteria.info/v/vLxjUNINfnY

Remember what it was like to be 8 and agonize over picking ice cream?

Do I get the tweety bird with gumball eyes or the ninja turtle with gumball eyes?! It was probably the most important decision of your day.

But now, we're adults. We make small choices like what to eat for lunch, but we also have to set goals, pick a career, and decide how to invest our hard-earned money. It's not easy!

We don't want to make a decision out of fear, rather than doing what's best for us. And we don't want to regret a big choice and dwell on the "what ifs" either. There are lots of pretty common psychological phenomena that can skew the way we view choices, like the sunk cost fallacy, loss aversion, and anchoring.

So today, we're going to take a step back, understand how to really look at the decisions we're making, and learn what not to do when facing a difficult choice. I'm Evelyn from the Internets, and this is Crash Course Business: Soft Skills. [Intro Music Plays] Decision-making is a process when it comes to big choices. Most of us wouldn't just flip a coin to decide whether to quit a job.

We take the time to weigh our options, think about the benefits and downsides, and look at how what we do now could affect us down the road. Every decision has an opportunity cost. Nothing is really ever free, because choosing one opportunity means you're giving up another.

So, if you decide to binge something on Netflix, you're giving up time you could spend reading a bestselling memoir. Or doing your homework. On a bigger scale, if you're figuring out where to move to after you graduate, you can't live in both New York and Chicago.

So it's important to think about how the time, money, and energy you could invest in an opportunity compares with other options. If you decide to go to college, there are lots of opportunity costs. But, to focus in on the financial stuff: you have to consider more than just different tuitions.

You also have to weigh the money you could've made by working instead of going to school, even though a degree usually means higher earnings in the future. And remember how we talked about anchoring in negotiations? Anchoring may mean you're happy with an option because it's better than the first option you were given, not because it's great or even fair.

Anchoring is why we feel good after buying something marked at a discount, even though the original sticker price could've been random. But hey, there's no shame in looking for deals. So make sure to take a step back and do research to make sure you're fairly judging an opportunity and its costs.

Whether we're choosing a college or picking a career, thinking about opportunity costs can seem daunting. It can feel like every decision has a drastic long-term impact that could make us fail or succeed. But sometimes, decisions are just decisions.

The butterfly effect is a great movie with Ashton Kutcher, but it shouldn't be a metaphor that rules your life. For all my fellow perfectionists out there: perfect is the enemy of good. By that I mean, it's better to make a decision quickly than avoid it for a month because you're afraid of choosing.

Mulling things over until you're stuck in decision gridlock is exhausting. Plus some choices, like job offers, usually have deadlines. So to keep our brains from getting totally overwhelmed, we shouldn't think about the opportunity cost of every single option if we can help it.

Narrow down the list and try comparing only the best two or three. If the company that just hired you has offices in a bunch of cities, you might narrow your choice to Seattle, New York, or LA. Next, think about the value and opportunity costs of each option.

To do that, you can make a list of pros and cons. Or better yet, create a weighted scorecard, which is a sheet where you assign bigger point values to your bigger priorities. This way you can tell if one, huge pro outweighs a group of little cons.

That's so… Virgo. So, if public transportation matters to you more than the weather, then New York would get more points than LA. Then, stay calm and give yourself some space.

You don't want to delay for weeks, but if you're about to make a snap decision, you may end up picking something you regret. You'll want at least one night to 'sleep on it.' But you might take a couple days for major choices, like responding to a job offer. And you don't have to make decisions alone.

If you're ruminating, it's probably good to get a fresh perspective from someone who's not as worried about all those opportunity costs. Consider their opinion even if it's not what you wanted to hear. Asking for advice isn't the same as asking for a pump-up speech!

You need to take different perspectives into account in order to avoid confirmation bias, which is our tendency to ignore evidence that doesn't support our own opinions. It's why fake news can be powerful. Or why bad research gets spread.

We like to be comfortable in what we know, and being challenged can feel scary. Deep down, most of us are loss averse. Risk is kind of on a sliding scale.

Many entrepreneurs are willing to take a leap of faith and make the financial risk to develop the next big thing. Other people prefer to work a lower-risk 9-to-5 job and build up a simple savings account and a retirement fund. But no matter whether you take big risks or not, failure hurts.

Losses feel bigger than gains, and, psychologically speaking, we're more likely to be hurt by failures than appreciate successes. We anxiously remember the interviews that went wrong, but how often do we replay the ones that went right? So if you're making a big decision, like a career change, use an alternative frame of reference.

Don't ruminate on the negatives. Think about how happy you'll be as a freelancer. Then weigh it with the pay cut you'll take by quitting your advertising gig.

On a smaller scale, loss aversion can lead to decisions like useless purchases. Our brains are weird. Avoiding an extra $5 charge feels better than spending 5 fewer dollars, even though it's the same thing.

It's like why you might add 30 bucks of clothing to your online cart to avoid a $7 shipping cost. But loss aversion can also lead to really bad business decisions, like when people do unethical things in order to succeed. One of these unethical things is known as motivated blindness, which is when someone avoids asking important questions or ignores unethical behavior because it benefits them.

It might feel safer to be blissfully ignorant, but ignoring a problem only helps perpetuate it. It's important to consider the larger

impacts of your decisions. To see what I mean, let's go to the Thought Bubble.

The Enron scandal led to huge changes in the way we make companies report their financial gains and losses on their quarterly reports. The Enron Corporation was the nation's seventh largest company. A leader in the energy sector, it was considered highly respected and profitable.

But in late 2001, they unexpectedly declared one of the largest bankruptcies of all time. Estimated losses totaled 74 billion, and shares plummeted from almost 90 dollars to 26 cents. By using some pretty creative accounting methods and outright fraud, executives had been hiding billions of dollars of debt from shareholders and investors for years.

Kenneth Lay, the former CEO, said, "I take responsibility for what happened at Enron, both good and bad. But I cannot take responsibility for criminal conduct that I was unaware of." He was convicted of fraud, by the way. So he knew.

But even if he hadn't, it would have been his responsibility. This criminal conduct never came to light because Enron was plagued by a culture of motivated blindness. Enron's incentive structure required 20% of their employees to be ranked "below average" and encouraged to leave.

So some of them ignored the fraud and failed to ask questions about projects that were their responsibility. But many did the ethical thing and tried to confront the issues. Some employees quit when they realized their complaints did nothing.

Others were fired when they posted their suspicions online to try and generate conversation. But it was Sherron Watkins, a vice president of Enron, who sent Lay an anonymous memo warning of "an elaborate accounting hoax." She became known as the "Enron whistle-blower." She eventually revealed her identity. It cost her some influence and a lot of cash, but it led to testimony that ended Enron's crimes and some hefty jail time for its CEOs.

Thanks, Thought Bubble! If there's any potential that you could contribute to something unethical at a job, consider whether you've asked the right questions to the right people. And consider what power you have to make different choices… even if that choice is quitting.

Of course, there are lots of things we have to think about. We need to put food on the table and pay our bills. I would love to just travel the world in a wide-brimmed hat and flowy dress.

But I need a savings account more than an Instagram aesthetic. But that doesn't mean we should necessarily stay at a job if we're miserable. The more time or effort we put into a project, the less likely we are to scrap it, even when it isn't working out.

This quirk is called the sunk cost fallacy. It's what keeps you from walking out in the middle of a really bad movie, even when you could spend that time doing something you actually like. I sat through all of Sausage Party, even though I probably could've done literally anything else - grocery shop.

I could've grocery shopped instead. Now, we're not just saying to give up if you feel like you're bad at something. Nobody starts as an expert.

And if you're determined to put in the work to accomplish a difficult dream, stick with it! Seriously. My very first ever YouTube video was a process.

But if a choice isn't working out, you shouldn't feel stuck with it. Instead of escalating your commitment, think about your opportunity cost and set a cutoff point of time or money to make a different decision. Be careful though, because we're all susceptible to the planning fallacy and underestimate how long things are going to take.

Even huge companies do this -- it's how the city of Boston managed to spend almost 8 extra years and 14.6 billion dollars on a transportation project that was supposed to cost 2.6 billion. It was called the Big Dig. And it was a big mess.

It really stinks to realize that you've put time and effort into something that isn't going to work out, whether it's a job or a long-term relationship. But you're always paying an opportunity cost, so don't be afraid to shift directions. It's better to appreciate the good times, look back on what you've learned, and put your time towards something that's going to make you happier.

And when it comes to learning from past decisions to make better ones in the future, it's best to think about why we failed or succeeded. Sometimes we can fail, even if we did the right thing. And sometimes, bad behavior can produce good results.

We tend to put a lot of weight on outcomes that are completely arbitrary or that we don't have context for. It's why autobiographies can be inspirational, but are bad for specific career advice. Everyone's path is different!

Like, you shouldn't start drinking a Dr. Pepper a day because a 101-year-old lady says it's the secret to her success. So try and think about your decisions in terms of the research you did and steps you took to accomplish your goal.

A lot of times, decision-making comes down to trial and error. So if you take nothing else from today's episode, remember: Decision-making is a process. Take time to consider your opportunity costs.

Look out for common psychological errors like anchoring or the sunk cost fallacy. Learn from your past choices by thinking about what happened and why it happened. Watch out for ethical mishaps by making sure you're asking the right questions.

You don't always make decisions solo. So next time, we'll help you work effectively with a team to accomplish goals and keep pesky meetings at a minimum. Thanks for watching Crash Course Business.

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