

# SEIZE THE MOMENT: HOW DATA CAN HELP US MAKE BETTER DECISIONS

WAM-Pro® Paper Series

Volume 1 / Issue 2

02/10/14

## WHAT ARE HEURISTICS AND HOW DO THEY WORK?

In short, heuristics are mental shortcuts. They are the simplified experiences we use to learn from past mistakes and improve our future behavior. They are the quick “rules” our brains reference during decision-making or problem-solving instances. However, since these are shortcuts, they are prone to error and oversimplification.

In this paper, learn about these common heuristic issues, even in WFM:

- Availability
- Anchoring
- Relative Advantage
- Mental Accounting

## DO YOU SEE WHAT I SEE?

You’ve all been here. Adam walks confidently into the boardroom at Consolidated Resources, Inc. His friends are at the table. His presentation is clear, concise, and visually stunning. His solution can save the organization time, money, and compliance headaches. The next day, Adam receives an email with the decision from management: “We appreciate your time and research, but we are not interested at this time.” Adam is stunned. They *need* this! How could this have happened? The decision seems completely irrational.

## WHERE ARE THE WFM LEADERS?

Leadership is constantly besieged with problems from every business area, not least of which are workforce management related. While the opportunities presented to leaders are logical and even desirable, something still prevents them from choosing the right solution.

Traditionally, time and labor management have been transactional and back-office, so strategic ideas from this area do not always get a hearing. Yet, the need for effective workforce management has never been more pressing, and the problems of allocating, scheduling, and retaining talent have never been more complex. Organizations prize leaders who can make tough calls, especially when their decisions save money and reduce risk. To make these difficult decisions, however, leadership needs data, and we must show them how to use it. Most organizations are simply too busy to take advantage of every good opportunity because they are focused on avoiding

risk and loss, and because the organization cannot always see and assess opportunities effectively.

When people process information, they consider more than just the facts and figures, but facts and figures help unpack the issue. The solution that seems so obvious to Adam must overcome an internal set of subjective, decision-making shortcuts for management to accept it. Such rules of thumb stand in Adam's (and your) way with each proposal. Groundbreaking research by behavioral economists has examined the following heuristic hurdles to leadership's reluctance to seize opportunities.

## AVAILABILITY

Some refer to this as *ease of recall* or *bias by association*, but availability means we decide based on what we remember. We better remember what happens more often or more intensely. These memories are personal, not organizational, and therefore stronger and more vivid. They affect our decisions.<sup>i</sup> Readily available memories represent events occurring with greater frequency or more intensity.

For example, Meta Manufacturing conducts a request for proposal (RFP) process for a new scheduling system. As leadership discusses the options, Work Right Now, LLC has all the features Meta Manufacturing wants, but Meta chooses Daily Bread Scheduling, Inc. instead. Meta chooses Daily Bread because they are a household name and because Work Right Now laid off Meta CFO's nephew. Adam's sales ability and charisma would fall flat regardless.

But imagine if a workforce asset management professional, such as Emily, were working with Meta. She can avoid or neutralize these attitudes by conducting blind RFP processes, by learning about each decision-maker, or by offering clear data-driven analyses that compare products based on Meta's requirements.

## ANCHORING

Our first impression lasts whether it be a price, a process, or a person. This *anchor* may be arbitrary, but it does not matter; the anchor is now the familiar and expected standard.<sup>ii</sup> Adjusting to something new or unexpected (a different anchor) feels like saying that the old way is irrelevant or incorrect. When things do not appear broken, it is hard to fix them. When Adam ballparked a figure on the project over the phone, that becomes the expectation for the proposal price at the board meeting. Even if everyone agreed that the price was an estimate at the time and would likely change, people tend to cling to their anchor.

For example, halfway through the product selection process, executive leadership at Logical Chemical calls it off due to lack of options. But other team members realize that price is the real culprit. No vendor offered an option under \$100,000. Logical Chemical bought their last time and attendance system ten years ago for \$10,000. Adam cannot convince leadership to buy a new, more expensive product. The technology improved drastically over the past ten years, and the organization has tripled in size since original installation. But leadership overlooks the savings from the pre-loaded features as

well as the costs of their current noncompliant behaviors. Adam has not drawn their attention to these hidden costs and savings. So instead, the leaders are left wondering how the system could really be ten times better than the original. Maybe it can wait until next year.

If Eve, our workforce asset management professional, was here, she would avoid anchoring by presenting current market research on prices for a broader perspective. She might show what similar organizations are paying for their time and attendance systems, or better yet, what a competitor is *saving* by using their's. Emily might also compare this investment to a similar one Logical Chemical made last year. By showing how the eventual savings outweighed initial cost, Emily shows Logical Chemical why the risk was valuable.

## RELATIVE ADVANTAGE

Most people do not know what they want until they see it.<sup>iii</sup> Until we appraise what is (and therefore what is not) available, we cannot determine the relative advantage of one option over the others. This is why people choose the middle option between high and low. Cognitive psychologists call this “satisficing” because it represents no extreme loss or gain: it is sufficiently satisfactory.<sup>iv</sup>

For example, Baylor & Fist Corp. knows it has excessive absences, but their system does not measure or record them. Absent employees get paid, but managers do not call in alternates for backup. To make a profit, Baylor & Fist needs people on the floor selling. If the absence system doesn't alert the manager and scheduler when someone does not show, this system can't make sure that there are enough people on the floor.

So the organization looks at three absence management tools.

| Absence Management System   | Cost      |
|---|-----------|
| <i>While You're Away, LLC</i> <ul style="list-style-type: none"> <li>• Tracking tools               <ul style="list-style-type: none"> <li>○ On-premises reports</li> </ul> </li> <li>• Customized dashboard alerts for managers</li> <li>• Self-service time-off requests and shift-swapping for employees</li> <li>• Full integration between scheduling and time and attendance systems</li> </ul> | \$100,000 |
| <i>AbsenteeFree, LLC</i> <ul style="list-style-type: none"> <li>• Tracking tools               <ul style="list-style-type: none"> <li>○ On-premises reports</li> </ul> </li> <li>• Customized dashboard alerts for managers</li> <li>• Self-service time-off requests and shift-swapping for employees</li> </ul>   | \$85,000  |
| <i>Catch Me If You Can Absence Mgmt, Inc.</i> <ul style="list-style-type: none"> <li>• Lightweight, SaaS</li> <li>• Managers manually input absences into cloud database</li> <li>• CMIYCA, Inc. runs reports and sends directly to managers</li> </ul>   | \$40,000  |

When comparing only While You're Away and Catch Me If You Can, Baylor & Fist might have trouble deciding between two dissimilar options. However, when given a third option, most choose AbsenteeFree because it is similar to the first, only cheaper.

While You're Away may be the best solution, but it is negated simply based on expense. "Integration is nice, but maybe it's something we should invest in later," says leadership. They need enough information to know that absence flagging and shift swapping *require* updated schedule data; updated data that comes from system integration. When leaders see that, the integration turns from luxury to clear necessity.

Emily tackles such problems by reminding leaders of the true requirements and helping Baylor & Fist avoid sacrificing significant long-term benefits for a one-time cost savings. Although they want to simplify the options and make a faster decision, a workforce asset management professional helps leadership keep their original objectives – avoiding risk and loss – in sight.

## MENTAL ACCOUNTING

Framing is not just an old persuasion technique; it's a commonly used rationale for decision-making. Mental accounting is a subjective way of grouping money (or assets) based on acquisition and transaction value.<sup>v</sup> Basically, how useful is this money where it is and what does it do now compared to where it could go and what it might do later?

How we frame what is lost (transaction – is this a good deal?) determines the use and value of what is gained (acquisition – is this worth it?). People want to gain more than they lose, and herein lies the problem. Mental accounting places an invisible, immeasurable, and often illogical value on assets. Leaders may internally "decide" where and how to spend money without ever considering the real value behind that decision.

For example, United Good Health gives on-call employees a premium pay rate, even if they don't come in to work. United Good Health started this policy to compensate employees for picking up on-call shifts because they are generally over forty hours per week already. However, a recent assessment shows that there is no limit to the number of on-call shifts an employee has. An employee may sign up for multiple on-call shifts at the same time in different departments, collecting combined rates of pay. Managers do not check for on-call status across departments, so no one ever noticed before.

## HEURISTICS VERSUS LOGIC

Although these two terms seem to be at odds with each other, most circumstances call for a combination. Of course, gut reactions and personal experience will always remain a factor (a strong one even) in decision-making or problem-solving. No one can be expected to be entirely logical, and it would not be realistic to operate as such. But if we refuse to acknowledge and balance these internal rules with external logic and data, then we risk making poor decisions.

It is especially important for leaders to perform self-examinations. Rooted beliefs or traditional patterns should be tested and questioned; maturity often requires pruning.

United Good Health expected some excess expenditure on on-call pay, but so far fewer no-shows and absence issues balanced out the equation (acquisition and transaction value were mentally accounted for). Despite the losses, leadership does not want to forgo the on-call premium because not only is it already on the budget, but also because employees expect it. Adam is at a loss. Employees and management seem happy with the way things are, but the policy is being abused and causing profit losses.

Emily works through this problem by reframing. Emily can provide a measurement on this cost of culture. If managers use this premium as a gift or reward to only savvy employees, it doesn't incentivize the right attendance and work behavior. It is not always about the amount of money spent, but *how* it is spent. Limiting on-call shifts to one per day per employee could be a way to strike a balance between employee incentives and abuse. Emily could also suggest that United Good Health use the excess funds from the on-call premium to fund another reward program employees enjoy.

## CONCLUSIONS

Leaders make decisions every day. Cost, convenience, and competition constantly confront them and unless a workforce asset management professional makes the decision clear, it gets muddled by the confusion. No specific theory or model solves the issue of decision-making because there is no perfect answer. Workforce asset management professionals can, however, show leadership the hidden costs and lead a comparative analyses between different options. They can tell leadership about how to defray upfront investment costs by measuring the profits from higher productivity and savings from better employee retention. Workforce asset management professionals keep the competitor's methods top of mind and objectives in sight.

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*“Ultimately, leadership requires action: daring to take steps that are necessary but unpopular, challenging the status quo in order to reach a brighter future.”\**

*Benazir Bhutto (1953-2007), Pakistani politician and first woman to lead a Muslim state*

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Access to data is better than it's ever been because data accuracy is requisite. Workforce asset management benefits from being quantifiable, but workforce asset management professionals lose this advantage when they don't use the data to point to an answer. They should use data to help leadership manage the choices, assess global expense and risk, and encourage the examination of what we do now and how we can do better. Even now, Socrates's wisdom rings true: “...the life which is unexamined is not worth living”.<sup>vi</sup>



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<sup>i</sup> Tversky, A, and Kahneman. "Availability: A heuristic for judging frequency and probability." *Cognitive Psychology*. no. 1 (1973): 207-233; Bazerman, Max. *Judgment in Managerial Decision-Making*. New York: John Wiley & Sons, Inc. 2001. Page 7

<sup>ii</sup> Ariely, Dan. *Predictably Irrational*. New York: Harper Collins. 2008.

<sup>iii</sup> Ariely, Dan. *Predictably Irrational*. New York: Harper Collins. 2008.

<sup>iv</sup> Simon, H.A. "Rational Choice and the Structure of the Environment." *Psychological Reviews*. no. 2 (1956): 129.

<sup>v</sup> Concept first introduced by Richard Thaler, 1980.

<sup>vi</sup> Plato. *Apology*. Circa 390 BCE. 38a

\*Bhutto Quote from "Reflections on Working Towards Peace", from Collony, Michael. *Architects of Peace: Visions of Hope in Words and Images* (2000)