The 9 Decision Making Frameworks Cheat Sheet

In this document, I'll cover 9 of my favorite decision making frameworks that'll help you make decisions in a consistent, efficient and systematic manner.

For each framework, you'll learn what it is, and an example of how it can be applied.

Before we dive in, here's a summary of the frameworks that we will cover:

1. The Cynefin Framework
2. The OODA Loop (Observe, Orient, Decide, Act)
3. Multi-Criteria Decision Analysis (MCDA)
4. The Six Thinking Hats
5. Cost-Benefit Analysis (CBA)
6. Regret Minimization Framework
7. WRAP (Widen Your Options, Reality-Test Your Assumptions, Attain Distance Before Deciding, and Prepare to Be Wrong)
8. One-Way Door vs. Two-Way Door Framework
9. Pareto Analysis (80/20 Rule)

1. The Cynefin Framework

What It Is:

The Cynefin Framework categorizes problems into five domains: simple, complicated, complex, chaotic, and disorder. The decision-making process differs for each domain:

1. Simple (Obvious): These are problems with clear cause and effect relationships. Solutions can be easily applied using established best practices. Example: following a recipe in cooking.
2. Complicated: These problems may have multiple correct solutions, requiring expert analysis or advice. Cause and effect relationships exist but are not immediately apparent. Example: repairing a car engine.
3. Complex: In this domain, there's no one right answer, and cause and effect relationships only become clear in retrospect. These problems require a probing, experimental approach. Example: managing a team in a rapidly changing industry.
4. Chaotic: In chaotic problems, there's no clear cause and effect, and decisions must be made quickly. These problems require immediate action to stabilize the situation. Example: responding to a crisis or emergency.
5. Disorder: This domain is for problems that can't be clearly classified into one of the other domains. Decision-making in this domain involves figuring out which of the other four domains is most applicable.

Example:

Suppose you're a business leader dealing with a sudden market shift due to a global event. Using the Cynefin Framework, you might identify this as a chaotic problem. Instead of trying to predict or analyze the situation, you'd focus on taking immediate, decisive action to stabilize the situation, then learn from the experience and adjust your approach as necessary.

2. The OODA Loop (Observe, Orient, Decide, Act)

What It Is:

The OODA Loop is a decision-making process typically used in combat operations. It involves a continuous cycle of observing the situation, orienting oneself based on the observations, deciding on a course of action, and then acting on that decision. Stages are defined as follows:

1. Observe: This stage involves gathering as much information as possible about the current situation. This includes understanding the broader context, such as market trends, competitive landscape, and customer needs. The goal is to create a comprehensive picture of the environment in which the decision will be made.
2. Orient: In this stage, you interpret the information gathered during the observation stage. You align this information with your own perspectives, experiences, and objectives. It's

about understanding how the information affects you or your organization, and it's where biases can come into play. It sets the stage for making a decision.
3. Decide: This is where you determine a course of action based on your observations and orientation. You assess potential outcomes and choose the best path forward. This requires balancing risk and reward, considering both the short-term and long-term implications of your decision.
4. Act: In the final stage, you implement the decision. You also monitor the results to gather feedback and data, which feeds back into the observation stage of the next OODA loop. This cyclical nature allows for continuous improvement and adaptation.

Example:

Consider a company launching a new product. They'd first observe the market conditions, consumer trends, and competitor products (Observe). Then, they'd interpret this information in the context of their own product's strengths and weaknesses, and their company's goals (Orient). The company might decide to set a competitive price and focus on certain unique features in their marketing campaign (Decide). Finally, they'd launch the product, monitor sales and customer feedback, and adjust their strategy as needed (Act). The OODA Loop would continue as they take in new information and make further decisions on product improvements or changes in marketing strategy.

3. Multi-Criteria Decision Analysis (MCDA)

What It Is:

MCDA, also known as Multi-Criteria Decision Making (MCDM), is a decision-making approach that takes into consideration multiple conflicting criteria in decision making. MCDA allows decision makers to weigh the importance of different criteria, compare options, and make more informed, transparent decisions. It is particularly useful in complex scenarios where decisions involve trade-offs between different criteria.

The MCDA process typically involves the following steps:

1. **Define the problem and objectives:** The first step is to clearly identify the decision that needs to be made and the overall objectives of the decision.
2. **Identify decision criteria:** List all the relevant factors that will impact the decision. These criteria are often conflicting (like cost vs. quality), and should reflect the objectives defined in step one.
3. **Weight the criteria:** Assign a weight to each criterion to reflect its relative importance in the decision. The weights can be assigned through various methods like ranking, rating, pairwise comparisons, etc.
4. **Identify the alternatives:** These are the different options or strategies that could be chosen to meet the objectives.

5. **Rate each alternative on each criterion:** Evaluate how well each alternative satisfies each criterion. This often involves assigning a score to each alternative for each criterion.
6. **Calculate a total score for each alternative:** Multiply the weight of each criterion by the score of each alternative on that criterion, and then sum these to get a total score for each alternative.
7. **Make the decision:** The alternative with the highest total score is usually considered the best option, although the decision-maker may also take other factors into consideration.

Example:

Suppose you need to decide where to open a new store. Your criteria might include population density in the area, proximity to public transportation, number of competitors nearby, rental costs, and potential market growth. Each of these factors is weighted based on their importance. For instance, you might decide that potential market growth is the most important factor, so it gets a higher weight. You then score each potential location (alternative) on each of these criteria. The scores are multiplied by the weights and summed up to give a total score for each location. The location with the highest total score would be the most suitable for opening the new store, according to MCDA.

4. The Six Thinking Hats

What It Is:

The Six Thinking Hats is a decision-making technique developed by Edward de Bono that provides a way to look at decisions from multiple perspectives. The "six hats" represent six modes of thinking, each with a different focus. Using this method, groups or individuals can ensure they examine all aspects of a decision and avoid the confusion of too many viewpoints being considered simultaneously. Here are more details on what each "hat" represents:

1. **White Hat:** This is the objective, data-driven hat. When wearing it, you look at the facts and figures, and focus on information that you know to be true.
2. **Red Hat:** This hat represents feelings, intuition, and emotions. When you put this hat on, you're allowed to express gut feelings and emotions without needing to justify them.
3. **Black Hat:** This hat is for critical judgment and cautiousness. Wearing this hat, you consider the cons, risks, and challenges associated with a decision.
4. **Yellow Hat:** This hat represents optimism and positivity. When wearing it, you consider the benefits, value, and feasibility of a decision, focusing on why something will work and the potential positives.
5. **Green Hat:** This hat stands for creativity and new ideas. When you put this hat on, you're encouraged to propose creative solutions, alternatives, and fresh concepts.
6. **Blue Hat:** The blue hat represents control and organization. When you wear this hat, you're tasked with overseeing the decision-making process, ensuring all hats are utilized, summarizing what's been discussed, and drawing conclusions.

Example:

Let's say you're part of a team deciding on a strategy for a new project. You all decide to use the Six Thinking Hats technique:

- First, everyone puts on the White Hat to look at the facts and data. You all discuss the budget, timeline, and specific requirements of the project.
- Then, switching to the Red Hat, each person shares their initial feelings about the project and their gut reactions to different strategies.
- You then put on the Black Hat and start pointing out potential risks and problems that could arise with each strategy.
- Putting on the Yellow Hat, you start looking at the bright side, discussing how each strategy might benefit the project and lead to positive outcomes.
- Switching to the Green Hat, the team gets creative. You brainstorm new, out-of-the-box approaches or improvements to the strategies you've already discussed.
- Lastly, everyone dons the Blue Hat. You help organize all the information that's been shared, make sure every perspective has been considered, and guide the team to reach a conclusion and decide on the next steps.

In this way, the team ensures a comprehensive decision-making process, and you personally contribute from various perspectives to a well-rounded and thoughtful decision.

5. Cost-Benefit Analysis (CBA)

What It Is:

Cost-Benefit Analysis (CBA) is a systematic approach to estimating the strengths and weaknesses of alternatives in decision-making. It is a method that involves comparing the total expected cost of each option against the total expected benefits, to see whether the benefits outweigh the costs, and by how much.

The process involves the following steps:

1. **Identify potential costs and benefits:** Begin by listing all possible costs and benefits associated with the decision or project. Remember to consider all stakeholders who may be impacted.
2. **Assign a monetary value to the costs:** Costs may be direct or indirect, and could include items such as labor, materials, training, and loss of productivity during a transition period.
3. **Assign a monetary value to the benefits:** Benefits could be direct revenue or indirect benefits such as improved customer satisfaction, increased productivity, or enhanced reputation.
4. **Compare total expected costs with total expected benefits:** Subtract the total costs from the total benefits to get the net benefit or net cost.

5. **Perform sensitivity analysis:** This involves adjusting the costs and benefits to see how changes would affect the outcome. It helps to identify which variables are most important and where more accurate estimates could be useful.
6. **Make a decision:** If the benefits outweigh the costs, then the decision or project is potentially a good choice.

Example:

Suppose you're thinking about investing in a new software system for your company. With a CBA, you'd first list all the potential costs, such as the price of the software, installation and maintenance costs, time and resources for training staff, and potential productivity loss during the transition period.

Next, you'd identify the benefits. This could include expected improvements in operational efficiency, reduced labor costs, higher customer satisfaction leading to increased sales, and the value of having up-to-date technology.

Then you'd assign a monetary value to both the costs and benefits as accurately as possible. This might involve some research or estimation.

After that, you'd subtract the total costs from the total benefits to see if your investment would be worth it.

Finally, you might also adjust your estimates to see how changes in costs or benefits might impact the outcome. This could help you decide whether or not to move forward with the new software system.

6. Regret Minimization Framework

What It Is:

The Regret Minimization Framework is a decision-making process proposed by Amazon founder Jeff Bezos. The framework suggests making decisions based on the principle of minimizing future regrets, rather than just weighing the present potential gains and losses.

The framework revolves around the idea of picturing oneself at a future point in life (Bezos suggests around 80 years old) and reflecting on potential decisions from that perspective. The goal is to imagine which decisions one might regret not having taken or which paths not pursued.

The steps typically include:

1. **Consider the decision:** Think about the decision you are about to make. This could be anything from a career choice to a personal life decision.
2. **Project into the future:** Imagine yourself in the future, looking back on your life. Bezos suggests picturing yourself at 80 years old.

3. **Evaluate potential regret:** Consider whether you would regret not making this decision or taking this action. Think about how it would feel if you missed this opportunity.
4. **Make a decision based on minimizing regret:** If the potential future regret of not making the decision outweighs the risks and potential downsides of the decision now, then go ahead with the decision.

Example:

Let's say you're currently in a stable, but not entirely satisfying job. You've always had a passion for entrepreneurship and now have an opportunity to start your own business. Naturally, you're concerned about the risks involved, like giving up a consistent income, the uncertainty of the business's success, and the commitment of time and resources required.

Now, let's apply the Regret Minimization Framework. Imagine yourself many years down the line, say when you're 80. You look back on your life and this very moment of decision. Ask yourself:

- "Would I regret not seizing the chance to pursue my passion and start my own company?"
- "Would the regret of not giving it a shot outweigh the potential regret if the business didn't succeed?"

If you realize that the future regret of not trying would weigh heavier than the potential regret of failure, then it's a signal to move forward with starting your business. By choosing this path, you are working to minimize future regret.

7. WRAP (Widen Your Options, Reality-Test Your Assumptions, Attain Distance Before Deciding, and Prepare to Be Wrong)

What It Is:

The WRAP framework, proposed by Chip and Dan Heath in their book "Decisive", is designed to counteract biases that often affect our decisions. WRAP stands for:

1. **Widen Your Options:** Instead of getting stuck in a narrow frame of "this or that" decision-making, this step encourages us to consider a broader set of possibilities.
2. **Reality-Test Your Assumptions:** This involves seeking information that might challenge our beliefs and assumptions about the situation. It's a form of due diligence that helps avoid confirmation bias.
3. **Attain Distance Before Deciding:** This step involves gaining perspective on the decision, either by taking a step back and reflecting on the decision more objectively or by considering the decision from a longer-term view.

4. **Prepare to Be Wrong:** Recognize the uncertainty in every decision and prepare for different outcomes. This could involve setting a tripwire or a predetermined point at which you will reconsider your decision.

Example:

Suppose you've received a job offer that seems exciting, but you're not sure whether to accept it. You can apply the WRAP framework:

- **Widen Your Options:** Instead of limiting your choice to either taking the new job or staying with your current one, consider other options as well. Maybe there are other job opportunities out there that you haven't explored yet, or perhaps you could negotiate different terms at your current job.
- **Reality-Test Your Assumptions:** Check your assumptions about both the new job and your current one. For the new job, you could reach out to current or former employees to get a more accurate picture of the work environment. For your current job, you could talk with your supervisor about your future prospects.
- **Attain Distance Before Deciding:** Take some time to reflect on your decision. Consider how you will feel about this decision in a few months or years. Consult with mentors or trusted friends who can provide unbiased advice.
- **Prepare to Be Wrong:** Recognize that there are uncertainties in any decision. Think about what could go wrong in either scenario and plan for those possibilities. For example, set a personal 'tripwire' – if the new job doesn't meet certain expectations within a defined timeframe, you'll reconsider your position or explore other opportunities.

8. One-Way Door vs. Two-Way Door Framework

What It Is:

The One-Way Door vs. Two-Way Door decision-making framework, attributed to Jeff Bezos, founder of Amazon, is a strategy for assessing the level of commitment and potential risk involved in decisions. It categorizes decisions into two types:

1. **One-Way Door decisions:** These are high-stakes decisions that, once made, are challenging or impossible to reverse. These decisions require in-depth consideration, thorough research, and extensive planning due to their potentially significant long-term impacts.
2. **Two-Way Door decisions:** These are decisions that are reversible. If the outcome doesn't meet expectations, you can reevaluate and choose a different path. These types of decisions typically carry lower risk and allow for a more agile approach, where fast, iterative decision-making is possible, and learning from mistakes is part of the process.

Example:

One-Way Door decision: Launching a new product line for organic hair care products is a significant One-Way Door decision. It involves considerable research, development, marketing, and production costs. You'd need to invest in testing and certification, secure suppliers for new ingredients, possibly hire more staff, and run a marketing campaign to introduce the new products. If this new line doesn't perform well in the market, the costs you've invested can't easily be recovered (or at all). Hence, this decision requires careful market research, financial planning, and thoughtful consideration.

Two-Way Door decision: On the other hand, testing a new marketing strategy for this potential hair care line is a Two-Way Door decision. For instance, you might want to run a small, targeted social media campaign to gauge interest in organic hair care products among your current customer base. If the campaign doesn't generate much interest, you can quickly pivot your strategy, try different marketing messages, or choose to delay the product line launch. The potential negative impact of this decision is much smaller, and you can learn valuable lessons from any missteps. Thus, this decision allows for more flexibility and can be made relatively quickly.

9. Pareto Analysis (80/20 Rule)

What It Is:

Pareto Analysis, also known as the 80/20 rule, is a decision-making technique based on the Pareto Principle. The principle, named after economist Vilfredo Pareto, proposes that a significant majority of effects (around 80%) often result from a minority of causes (around 20%). In decision-making, this method helps identify the most important factors in a situation (the 20%) that are resulting in the majority of the effects (the 80%). Using Pareto Analysis can aid in prioritizing tasks, issues, or resources, based on their overall impact, so effort can be directed towards areas that will have the biggest returns or effect.

Example:

Imagine you're a sales manager, and after analyzing your sales data, you realize that roughly 80% of your company's sales come from a small group, about 20%, of your clients. Although this initially suggests that focusing more on these clients could bring the most return on investment, you also consider the concentration risk - the potential negative impact if one or more of these major clients were to reduce orders or cease doing business with you.

In this case, using the Pareto Analysis as a decision-making tool, you would balance the need to maintain strong relationships with these high-value clients, while also developing strategies to reduce the concentration risk. This could include efforts to diversify your client base, such as identifying potential new clients that resemble your top clients in terms of their needs and preferences, but are from different industries or markets.

Furthermore, you might also look at the characteristics of your remaining 80% of clients that currently make up 20% of your sales. Are there underserved segments or needs among this

larger group that, if addressed, could help increase their sales contribution and improve overall client diversification?

This approach ensures that while your sales and marketing efforts remain focused and efficient, they also promote resilience and long-term stability for your business.