

Harvard Business Review

WEBINAR SUMMARY

Using Data to Make Decisions in the Face of Uncertainty

Cheryl Strauss Einhorn

AUGUST 2, 2021

Using Data to Make Decisions in the Face of Uncertainty

PRESENTER:

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Overview

At times, all individuals must make high-stakes decisions in the face of uncertainty. But most individuals lack a systematic process for making these decisions. As a result, individuals often make decisions based on bias, intuition, and emotion.

There is a better way. The AREA Method, developed by Cheryl Strauss Einhorn, is a decision framework for making complex decisions. Instead of starting with the problem to be solved, AREA starts by answering the personal question, “What has to happen in the outcome of the decision for you to know that it has succeeded for you personally?” The AREA Method then proceeds through a series of steps to gather information, broaden the decision maker’s perspective, challenge assumptions, reduce uncertainty, and ultimately make a decision. AREA can be successfully used for any type of high-stakes decisions, including both personal decisions, such as career decisions, and business decisions.

Context

Cheryl Strauss Einhorn explained the AREA Method for complex decision making, shared examples of how this framework can be used, and responded to numerous questions about how to use this framework to make better decisions.

Key Takeaways

Despite the importance of decisions, most individuals lack a framework or process for making complex decisions.

Some decisions, like what to buy at a grocery store, are minor decisions where relying on habits and cognitive biases to make fast decisions is perfectly appropriate. But at times, everyone must make important, high-stakes decisions.

These are decisions where:

- The outcome is unknown.
- The decision will have a long-term impact.
- A wrong decision will be costly.

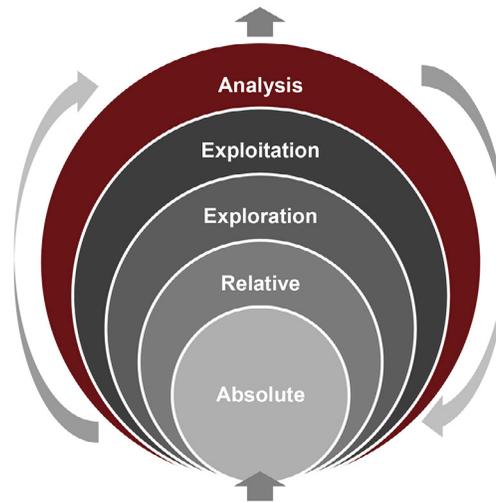
Despite the importance of high-stakes decisions, most individuals lack a framework or a process for making these decisions. In a poll of webinar participants, only 38% said they had a process for making complex decisions while 61% lacked such a process. In the absence of a process, decisions are affected by emotions and biases, which decreases the effectiveness of decisions.

“When you meet the criteria [for high-stakes decisions], that’s when I think you want a system for complex problem solving.”

—Cheryl Strauss Einhorn

The AREA Method is a better process for making complex decisions.

AREA is an acronym for Absolute, Relative, Exploration and Exploitation, and Analysis. Visually, the AREA Method can be thought of as a series of concentric circles.



What Is Reliable Information?

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FIGURE 1: THE AREA METHOD – HOW DOES IT WORK?

The AREA Method starts with **Absolute**, which is understanding the target. It proceeds to **Relative**, which is researching related sources. The process then moves to **Exploration** to broaden perspectives through great questions and by conducting interviews. **Exploitation** involves looking inward and challenging assumptions. **Analysis** is thinking about failure and identifying weaknesses in a plan before executing it. Then, the decision maker makes the decision.

“AREA’s value proposition is that it breaks down research into a logical progression.”

—Cheryl Strauss Einhorn

		IDEA	RESULT
A	Absolute	Understand your target	1. Look at the numbers
			2. Explore the website
R	Relative	Research related sources	3. Learn about leadership
			1. Map the industry
E	Exploration	Broaden perspectives	2. Review the literature
			3. Reconcile narratives
	Exploitation	Challenge assumptions	1. Identify good prospects
			2. Craft great questions
A	Analysis	Reduce uncertainty	3. Conduct interviews
			1. Consider rival hypotheses
			2. Conduct pro/con exercises
			3. Analyze future scenarios
			1. Think about mistakes
			2. Conduct a pre-mortem
			3. Come to conviction

TABLE 1: THE AREA METHOD “CHEETAH SHEET”

Decision makers need to be aware of and overcome biases in making complex decisions.

Three common biases that negatively impact decisions are saliency, framing, and clustering.



FIGURE 2: COMMON BIASES THAT AFFECT COMPLEX DECISIONS

- **Saliency:** People have a tendency to remember one discrete data point and then rely heavily on this data point to make a decision.
- **Framing:** Individuals tend to compare things when making decisions but may not choose the right frame.

- **Clustering:** Individuals mistakenly think they identify a pattern, like having a hot hand when rolling dice, but don't think logically about the probabilities.

Humans always look at historical information from the past to make decisions about the future. But looking at the past incorporates biases and has limited utility in predicting the future unless the right data is used in context to draw relevant conclusions.

The way to combat biases is to invert the conventional problem-solving process by starting at the end. This means not starting by defining the problem but instead starting with great questions to learn what you need to know. What questions do you need answers to? What would you do if you had answers to these questions? What has to happen in the outcome of the decision for you to know that it has succeeded for you personally?

Great questions focus on the roots of uncertainty, which involve behavior, opinion, feeling, and knowledge. Types of great questions are:

- **Behavioral:** These are questions about how someone asks or responds to information.
- **Opinion:** This gets at how a person interprets information.
- **Feeling:** Questions that ask about feeling get at how someone responds emotionally to a topic.
- **Knowledge:** These are questions about facts.

“Stepping back to first identify what is it that you really need to understand and then separating out your questions into these four different categories can help you better unpack the uncertainty mixture so you can identify what it is that you really want to understand.”

—Cheryl Strauss Einhorn

Other Important Points

During the webinar, Einhorn shared tips and responded to questions about complex decisions.

- **Decision audits.** We audit our finances, but do we audit our decisions? The AREA Method provides an audit trail and a way to audit decisions.
- **Cheetah pause.** Cheetahs are known for their speed, but cheetahs also have the ability to decelerate and pause. The idea of a cheetah pause—or a strategic stop—is important when making a high-stakes decision to ensure the decision is following a sound process and is not made based on emotion or gut feelings.

Additional Information

To learn more about Cheryl Strauss Einhorn's AREA Method, visit www.areamethod.com. This website contains information and examples on the AREA Method, access to Einhorn's two books, *Problem Solved* and *Investing in Financial Research*, and a video of her TED Talk.



Cheryl Strauss Einhorn is the founder and CEO of Decisive, a decision sciences company using her AREA Method decision-making system for individuals, companies and nonprofits to solve complex problems. Decisive offers digital tools and in-person training, workshops, coaching and consulting. Cheryl has taught for over a decade at Columbia Business School and also teaches at Cornell. She has won several journalism awards for her investigative news stories. She's authored two books on complex problem solving, *Problem Solved* for personal and professional decisions, and *Investing In Financial Research* about business, financial and investment decisions. This article is an excerpt from her upcoming book about different decision-making approaches called *How You Decide*. For more information please watch Cheryl's [TED talk](#) and visit areamethod.com.



Sarah Moughty is the executive editor of HBR.org. A graduate of Wellesley College, she previously was the executive director, digital at Marketplace and the managing editor for digital at PBS's Frontline.

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