



Freeman Consulting *Helping organizations achieve their objectives*

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Management Minute: *The Best Laid Plans*

The best laid schemes o' Mice an' Men, Gang aft a'gley, An' lea'e us nought but grief an' pain, For promis'd joy! – “To A Mouse” by Robert Burns,

“Organizations face the challenge of controlling the tendency of executives competing for resources to present overly optimistic plans. A well-run organization will reward planners for precise execution and penalize them for failing to anticipate difficulties, and for failing to allow for difficulties that they could not have anticipated – the unknown unknowns.”

“In the standard rational model of economics, people take risks because the odds are favorable – they accept some probability of a costly failure because the probability of success is sufficient.

“When forecasting the outcomes of risky projects, executives too easily fall victim to the planning fallacy. In its grip, they make decisions based on delusional optimism rather than on a rational weighting of gains, losses and probabilities. They overestimate benefits and underestimate costs. They spin scenarios of success while overlooking the potential for mistakes and miscalculations. As a result, they pursue initiatives that are unlikely to come in on budget or on time or to deliver the expected returns – or even to be completed.

“In this view, people often (but not always) take on risky projects because they are overly optimistic about the odds they face. . . it probably contributes to an explanation of why people litigate, why they start wars, and why they open small businesses.”

- Excerpt from *Thinking, Fast and Slow* by Daniel Kahneman, Professor of Psychology Emeritus at Princeton University and recipient of the 2002 Nobel Prize in Economic Sciences (Farrar, Straus and Giroux, New York, 2011, page 252-253):