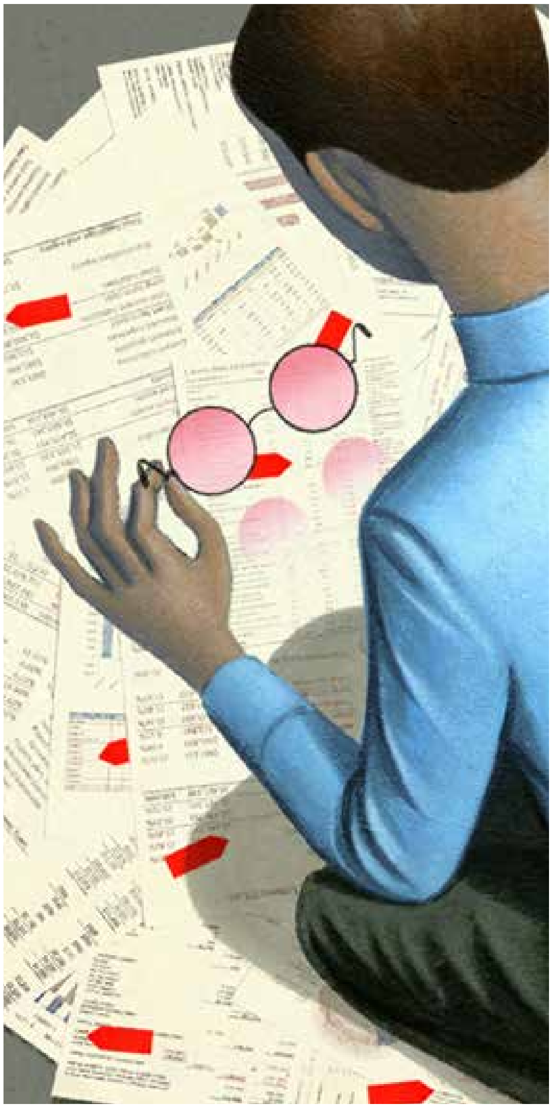
What if you're... wrong?



CORPORATE leaders typically rely on the capital planning process to help shape high-stakes decisions such as launching a new product, investing in equipment, or weighing the merits of an acquisition. Shareholders, creditors, and employees expect management to take this obligation seriously, and get it right consistently.

Yet something can prevent leaders and organizations from making the best decisions, large or small: biases. Ingrained, powerful, subjective thinking that people across the org chart often default to can cloud judgment, negatively skew outcomes, and result in poor choices. No matter the organization, biases will likely influence the capital decision-making process if left unchecked. So how can companies avoid succumbing to their influence? Here are some ways behavioral science techniques can be used to make more optimal capital-planning decisions.

Overcoming common decision-making biases

Capital decision bias	What it could look like	How you could address it
Optimism bias	• Overconfidence in estimates • Narrow range of prediction • Opting for narratives over data points	• Track predictions against reality • Remove anecdotal "proof points" from the decision-making process
Expert bias	• Relying on a single decision-maker • "Chasing" a person's or group's past performance	• Pool recommendations from a diverse set of qualified individuals • Do not chase past performance
Narrow framing	• Focusing on a single attribute to make the decision	• Determine a portfolio of relevant metrics • Make capital decisions in aggregate rather than on a case-by-case basis

Financial decisions are typically fueled less by the underlying capital and more by the people tasked with driving the decision. With this in mind, before organizations choose *where* to spend capital, they should consider determining *how* to make those decisions. We recommend leaders ask two questions:

- **How are we submitting proposals?** To avoid narrow framing and expert bias, consider seeking capital-spending proposals from a diverse set of employees and departments. Broadening the portfolio of submissions can decrease the likelihood of only seeing the world through a single lens.
- **How are we assessing proposals?** Consider replacing catchy narratives with coherent, consistent metrics. Doing so could level the playing field across (hopefully) a broad set of proposals and reduce much of the noise throughout the decision-making process.

For more on how reducing biases can improve capital-planning decisions, read *Capital bias: Reducing human error in capital decision-making* on www.deloitte.com/insights.