

# REDUCING WORKPLACE BIAS: HYPERBOLIC DISCOUNTING

## SHORT DESCRIPTION

### WHAT:

Hyperbolic discounting is the tendency to choose short term payoffs over longer term benefits.

### PROBLEM:

Hyperbolic discounting can lead to very myopic, short term decision-making and poor planning. The neglect of the future is a serious issue for many people, especially in regards to health and finances.

### SOLUTION:

The lesson and meditation will help you reflect on this dangerous tendency to discount the future and appreciate the importance of effective planning in all areas of life.



Hyperbolic Discounting is the tendency for people to prefer more immediate payoffs compared to later payoffs. This Hyperbolic discounting bias leads to inconsistency over time because we often make choices in the present that our future selves would prefer not to have made.

Leaders and managers have to be careful about situations which focus too heavily on the present rather than the future. It's easy to pay less attention to future outcomes or underestimate the impact of current practices.

Or accurately estimate the impact on future practices, but not be appropriately concerned about them because they are in the future.

Suppose as a leader you are presented with a crisis. That can obviously lead to some short-sighted decision-making which has longer term effects. The more dire the situation, the more short term it becomes, which can be the opposite of what is needed. People will avoid making really transformational decisions until there are no realistic other alternatives, and even then they might not.

Often the immediate effect that is desired might not come about – more positive press coverage – and even if it does, it's no certainty that it will advance the future cause.

Part of the answer is long range planning and goals for certain stages, worked out as a plan in advance which might be some protection against over-reacting to the present. There's a balance between strategic planning and responding to changes in the operating environment.

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One good question is to consider is how this decision will look in the future?

Looking back, how will it be judged? Not necessarily the outcome but the process.

See choice supportive bias above.

The excessive focus on the present might seem logical because the future can't be effectively predicted. However, it is precisely because the future can't be predicted that it needs to be considered and contingency plans for a variety of events, especially game-changing ones, like for example, the demise of the bricks and mortar retail sector.

Prediction and forecasting aren't easy but they are necessary. Prediction involves knowing the stable elements of the equation and making the best guess – ideally an informed guess – at the unstable elements and working on the possible interactions.



*You must always be able to predict what's next and then have the flexibility to evolve.*

– Marc Benioff

The problem is that because the answer is unknown, it is easy to be swayed by cognitive biases, that can be used to misinterpret the data.

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*An unsophisticated forecaster uses statistics as a drunken man uses lamp-posts - for support rather than for illumination.*

– Andrew Lang

Accurate forecasting and effective adaptation are the keys to success in almost any endeavor, but especially problems that have to be dealt with in the present. However, forecasting is difficult and subject to bias. Understanding the biases involved and being wary of their influence will help develop more accurate forecasting.

And repeated review of past predictions and the actual outcomes can help to develop insight into the forecasting process as well as shed light on how it could be improved. Anything that can improve facing the future is a major plus because forecasting is difficult.

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*Prediction is very difficult, especially if it's about the future.*

– Nils Bohr

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*A good forecaster is not smarter than everyone else, he merely has his ignorance better organized.*

– Anonymous

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*An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.*

– Evan Esar

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## MEDITATION

Predicting the future is an important part of life, and certainly critical for any business or organization. The prediction process needs to be as informed as possible by relevant data interpreted by inquiring minds who are aware of the bias implicit when one is seeing through the lens of the present.

The process of predicting does not only have value if the forecast is right, it has value in shedding light on the ways we try to predict the future. *A good forecaster is not smarter than everyone else, he merely has his ignorance better organized.*

Understanding one's ignorance is the first step to wisdom. The future realized, highlights the errors of the past. The best measure of yesterday's thinking is today's outcome.

*An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today.*

Human beings thrive on certainty, which is why they overvalue the present. However, there is nothing more certain than the fact that the future is uncertain. Uncertainty about the future however, needs to be addressed. Great leaders don't let uncertainty about the future dissuade them from predicting it.

Whether you realize it or not you are predicting the future, even if consciously you are unaware that you're doing so. Making no plans to change what you are currently doing means that you think that your current strategy will continue to work.

It is an unconscious prediction that things will stay essentially the same, and example of the Normalcy bias. *It is far better to foresee even without certainty than not to foresee at all.*

Great leaders don't be deterred from conscious predictions. They can make you wiser. A good forecaster is not smarter than everyone else, he merely has his ignorance better organized. Even if your forecast about a specific future is wrong, keep making predictions because your forecasting will improve in the future.

An economist is an expert who will know tomorrow why the things he predicted yesterday didn't happen today It's easy to adapt to today, but much harder to adapt to tomorrow.

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*It is far better to foresee even without certainty than not to foresee at all.*

– Henri Poincare