

Strategic Mistakes

The Sunk Cost and Planning Fallacies

I. Sunk Cost Fallacy *is the decision to invest additional resources in a losing cause; it is a costly error to throw good money after bad and it is a mistake occurs in decisions large or small. Two cautions: (1) Know when to hold them and know when to fold and (2) When you are in a hole, stop digging.*

II. Planning Fallacy *is the tendency to develop plans and forecasts that are unrealistic and actually are close to the best-case scenario rather than a realistic assessment. Consider the following factors as you plan:*

1. Optimistic bias is the tendency to estimate benefits while underestimating costs.
2. Inside view of planning is much more likely to be accepted rather than an outside view, in spite of the fact that outside views are more likely to be more accurate.
3. Irrational perseverance the tendency and folly not to abandon a project or idea when it is increasingly clear that the goals will not be achieved.
4. Reality Distortion Field is the view that sees the impossible as possible.

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