[Academic Script]

Perception and Decision Making Part-2

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1. Introduction

Hello friends! As we continue our journey through the course in Organizational Behavior, today we will continue with the biases and errors, influences on decision making, global implications and so on. These points will help us to be more mindful in future while making decisions as it is one of the important aspects at workplace. So let's get into the details.

2. Common Biases and Errors in decision making

Generally, people rely a lot on gut feeling, experiences, impulses and convenient rules of thumb. Such shortcuts may help sometimes but however, they can lead to severe distortions of rationality.

Overconfidence Bias

When we are given factual questions and asked to judge the probability that our answers are correct, we tend to be far too optimistic. For instance, studies have found that, when people say they are 65 to 70% confident that they are right, they were actually correct only about 50% of the time. And when they say they are 100% sure, they tended to be 70 to 85% correct.

From an organizational standpoint, one of the more interesting findings related to overconfidence is that those individuals whose intellectual and interpersonal abilities are weakest are most likely to overestimate their performance and ability. So as managers and employees become more knowledgeable about an issue, the less likely they are to display overconfidence. Overconfidence is most likely to surface when organizational members are considering issues or problems that are outside their area of expertise.

The people having low intellectual and interpersonal skills are likely to overestimate their performance and abilities. In case of entrepreneurs, some of them are too confident about their ideas which keep them away from planning how to avoid problems that arise.

Anchoring Bias

A tendency to fixate on initial information and fail to adequately adjust for subsequent information is Anchoring Bias. The cause of that is our mind gives more emphasis than required on the initial information. For e.g. the reaction of a poor person given lakhs of rupees and a person who is from a middle class given the same amount of money are extremely different. The money will impact a lot to the poor fellow as he has not seen so much money together which can be said as he is anchored with his past experiences.

Confirmation Bias

In rational decision making model, we make an assumption that we objectively gather information which is not true. We in reality, select the information out of available. The ones which satisfy and support our thought process are being selected and the ones which are contradicting are being neglected. We also tend to accept at face value information that confirms our preconceived views, while we are critical and skeptical of information that challenges these views. So it can be said that the information gathered is biased towards supporting our own views.

Availability Bias

The availability bias is our tendency to base judgments on information readily available. The information from recent past incidents and memories relative to the current event tend to shape the decision for current event. The information and experiences which might have triggered emotionally at any point of time in the past remain in the memory. For e.g. we generally trust the information given in the media and don't apply own logic and make decisions on the basis of that. That is why managers give more emphasis on recent performances while giving performance appraisals.

Escalation of Commitment

It is a tendency of staying with a decision even when there are clearly visible evidences of it being wrong. The managers sometimes take wrong decisions and invest, when results don't support they invest more money to make the decision work and end up losing all the money. And the situation becomes like a gamble of playing cards where people play and play and believe their next game will win all the things lost in earlier games. Many a times, the managers who have arrived to a decision through rational approach stick more towards it's believed correctness as they have made up their mind towards that in the process regardless of collecting fresh information available.

Randomness Error

The tendency of humans to believe one can predict the outcome of random events is the Randomness error. This is due to the belief of people about having control over outcomes of certain events or destiny or world. For e.g. we predict that we can complete the assigned work on the deadline though given reasonable amount of time at workplaces and end up performing with poor quality. Decision making suffers when we try to create meaning in random events, particularly when we turn imaginary patterns into superstition. For e.g. it is compulsory for some to visit temple before making valuable decisions of life, however, late may they be to reach on time somewhere.

Risk Aversion

To averse a risk is to avoid or to mitigate through some actions. For e.g. in stock markets, the risk is high and the people who play invest crores in spite of knowledge of range of risk. Some people try to stay away from such high volatility and play safe by investing in property or Gold jewellery. Sticking with a strategy that has worked in past does minimize the risk, but in the long run it will lead to stagnation. People generally don't try innovative ways when valueables are at stake for e.g. their position.

Risk preference is sometimes reversed as people prefer to take their chances when trying to prevent a negative outcome.

Hindsight Bias

This is the tendency to believe falsely, after the outcome is known, that we would have accurately predicted it. When we have accurate feedback on the outcome, we seem pretty good at concluding it was obvious. Hindsight bias can effectively alter one's grasp of the past. The change is not dramatic, but results in people being more sure of themselves once they have been proven to be correct. This logical fallacy may result in overconfidence, making people think that they have a special skill for predicting events or understanding situations. For e.g. thinking exams to be very easy and not preparing well and results show a shocking difference from what was expected.

3. Influences on Decision Making: Individual Differences and Organizational Constraints

Individual Differences

Along with the above mentioned common biases and errors, the differences between individuals like personalities, gender, mental ability etc. also play a major role in decision making.

Personality

There are two types of people, achievement striving and dutifulness type. Both the types have opposite effects. Achievement striving people are more likely to escalate their commitment as per studies than the other type. Achievement striving people hate to fail, so they escalate their commitments. Dutiful people are inclined to do what they see as best for the organization. People with high self esteem are strongly motivated to maintain it, so they use the self – serving bias to preserve it. They blame others for their failures while taking credit for success.

Gender

Many of us have tendency to analyze past, present and future before taking decision which is observed to be more in women in comparison with men. This tendency of reflecting at length is called Rumination. It is said to overanalyze the problem which involves more careful consideration of problem and alternatives but, it also makes the problem hard to solve, increase regret over past decisions and increase depression. The reason behind women ruminate more can be either parents encourage and reinforce the expression of sadness and anxiety more in female children than male, or women base their self-esteem and wellbeing more on what others think of them or women are more empathetic and more affected by events in others' lives. This difference is more between men and women at the young adulthood and least after the age of 65, when both ruminate the least.

Mental Ability

People who are mentally strong have the same chances of making errors while making decisions as being smart doesn't alter one to the possibility of being too confident or emotionally defensive. However, the intelligence helps to be knowledgeable about such errors so it can be learned to avoid errors. Intelligence also helps to avoid logical errors like false syllogism or incorrect interpretation of data.

Organizational Constraints

While working in organization, the decision making can get influenced through constraints like time availability, time limit provided for that by the organization, precedence, organizations' performance evaluation and reward system etc.

Performance Evaluation

The performance of managers is strongly influenced by the evaluation criteria**.** For e.g. if a person working at a firm is given his job description so he may get an idea upon what he is expected to be judged and where he needs to improve to meet the expectations and work accordingly.

Reward System

The rewards like incentives, promotions, recognition, recommendations, perks, gifts etc. play a major role at workplace towards influencing behavior of employees and in turn produce better results. For e.g. one of the team member rewarded for extra efforts in front of the whole staff energizes other people to work harder to get recognized.

Formal Regulations

At workplaces, there are certain limitations of freedom given to employees according to their designations which differs in every organization. The level of strictness and abidance also differs everywhere. Also, the regulations may get changed time to time at the same place. One is expected to follow them as he is been hired and salaried by the employer.

System-Imposed Time Constraints

The time constraints given for the work to be done like to submit a report before the deadline to the head for their use play a role and affect the work. At last moment, people just work to meet the deadline rather than putting the best things in report. So ultimately the quality of work suffers. This can be worked upon at many times by managing internal factors to bring out the best results.

Historical Precedents

Decisions aren't made in a vacuum, they have a context. The decisions made in past affect and constrain the current choices, also in case of individuals. This can be related to the budget, the largest portion of the budget of any given year is dependent upon last year's budget. The choices made today are largely dependent upon choices made over the years.

4. Ethics in Decision Making

There are three ways to frame decisions ethically which should be considered at every organization.

Utilitarianism

In this the decisions are made solely on the basis of their outcomes, ideally to provide greatest good for the greatest numbers. This view dominates business decision making and is consistent with goals such as efficiency, productivity and high profits.

Another criterion is to make decisions consistent with fundamental liberties and privileges which are given by the constitution in general to every individual such as Bill of Rights. By emphasizing the rights while decision making means respecting and protecting them. For e.g. right to privacy, right to freedom of speech, etc. With such rights, one can be **whistle-blower** against the unethical practices carried out around him in the organization or anywhere else.

Another criterion is to impose and enforce rules fairly and impartially to ensure justice or an equitable distribution of benefits and costs. For that, Unions are created. They work for the common benefits of people associated with unions. Paying people the same wage for a given job regardless of performance differences and using seniority as the primary determination in lay off decisions are the practices under this criterion.

Creativity in Decision Making

The rational decision maker needs creativity: the ability to produce novel and useful ideas. The ideas are different from what's been done before but are also appropriate to the problem or opportunity presented. Why is creativity important to decision making? It allows the decision maker to appraise and understand the problem more fully including seeing problems others can't see. However, creativity's most obvious value is in helping the decision maker identify all viable alternatives.

Most people have creative potential that they can use when confronted with a decision making problem. But to unleash that potential, they have to get out of the psychological ruts most of us get into and learn to think bout a problem in divergent ways.

We can start with the obvious. People differ in their inherent creativity. Einstein, Edison, Dali, and Mozart were individuals of exceptional creativity. Not surprisingly exceptional creativity is scarce. A study of lifetime creativity of 461 men and women found that very few than 1 percent were exceptionally creative. But 10 percent were highly creative and about 60 percent were somewhat creative. These findings suggest that most of us have creative potential if we can learn to unleash it.

Uncertainty: A condition in which managers do not have full knowledge of the problem they face and cannot determine even a reasonable probability of alternative outcomes

Creativity is the ability to produce novel and useful ideas. Given that most people have the capacity to be at least moderately creative, what can individuals and organizations do to stimulate employee creativity? The best answer to this question lies in the three component model of creativity based on an extensive body of research. This model proposes that individual creativity essentially requires expertise creative thinking skills, and intrinsic task motivation. Studies confirm that the higher the level of the each of these three components the higher the creativity.

Expertise

Expertise is the foundation of all creative work. Dali's understanding of art and Einstein' knowledge of physics were necessary conditions for them to be able to make creative contributions to their fields. And you wouldn't expect someone with a minimal knowledge of programming to be a highly creative software engineer. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies and similar expertise in their fields of endeavor.

Creative thinking skills

The second component is creative thinking skills. It encompasses personality characteristics associated with creativity, the ability to use analogies, as well as the talent to see the familiar in a different light. For instance, the following individual traits have been found to be associated with the development of creative ideas: intelligence, independence, self confidence, risk taking, internal locus of control, tolerance for ambiguity and perseverance in the face of frustration. The effective use of analogies allows decision makers to apply it and result in a creative breakthrough. Out of such analogy the telephone was conceived. Of course, some people have developed their skills at being able to see problems in a new way. They're able to see problem in a new way. They're able to make the strange familiar and the familiar strange. For instance let us think of hens laying eggs. Now many of us may consider that a hen is only an egg's way of making another egg.

5. Task motivation

The final component in our model is intrinsic task motivation – the desire to work on something because it's interesting, involving exciting satisfying or personally challenging. This motivational component is what turns creative potential into actual creative ideas. It determines the extent to which individuals fully engage their expertise and creative skill. So creative people often love their work up to the point of observed obsessed. Importantly, an individual's work environment and the organization's culture can have a significant effect on intrinsic motivation. Specifically five organizational factors have been found that can impede your creativity: (1) expected evaluation – focusing on how your work is going to be evaluated; (2)

surveillance – being watched while you’re working; (3) external; motivators emphasizing external, tangible rewards; (4) competition – facing – win – lose situations with your peers; and (5) constrained choices – being given limits on how you can do your work.

6. Global Implication of Decision Making

First, business practitioners need to accept that change is often unpredictable, whether domestic or international. Thus making future decisions based on the traditional considerations becomes a dangerous decision premise. Variables that impacted prior quarters may be different from those that will influence future financials. In the past, external conditions were considered a constant, and internal factors were used to predict organizational performance. Today, the opposite is true for most companies. Organizations should be constantly aware of external changes, including changes in global, national, state and regional policies and economic trends. The crisis in Southeast Asia has altered money and capital markets worldwide, directly influencing business decision making within the U.S. El Nino related losses have impacted commodity prices and the cost of doing business. The formation of the European Community may alter the openness of markets and production. Immigration will affect the availability, and cost of labor, as well as productivity.

Understanding which variables are most likely to impact performance is an important step in anticipating how these factors can influence decision-making. Making this determination is not necessarily obvious and empirical analysis may help. One such decision-making tool involves determining the relationship between key company ratios and macro-economic variables over time. An example, using actual company data, can be viewed by clicking below. There is also a downloadable Excel spreadsheet that will let you experiment with some of your company information.

These are interesting times. Executives can be proactive and develop policies that will help their firms remain competitive in a changing world where economic power will likely be internationally disbursed. Or they can choose to be reactive and do "business as usual."

7. Summary

The accuracy of our perception is limited due to errors of judgment that also include our biases. Individuals think and reason before they act. It is because of this that an understanding of how people make decisions can be helpful for explaining and predicting their behavior. Under some decision situations, people follow the rational decision-making model. But for most people, and most non-routine decisions, this is probably more the exception than the rule. Few important decisions are simple or unambiguous enough for the rational model's assumptions to apply. So we find individuals looking for solutions that satisfice rather than optimize, injecting biases and prejudices into the decision process, and relying on intuition.