Case Incident 1

Natural Disasters and the Decisions that Follow

Jeff Rommel's introduction to Florida could be described as trial by hurricane. Rommel took over Florida operations in 2004 for Nationwide Insurance. Over a 2-month period in 2004, Florida experienced its worst hurricane season in history—four major hurricanes (Charley, Frances, Ivan, and Jeanne) slammed the state, causing an estimated $40 billion in damage. In the hurricanes' wake, Nationwide received more than 119,000 claims, collectively worth $850 million.

Although dealing with those claims was difficult, even more difficult was Rommel's later decision to cancel approximately 40,000 homeowners' policies. Nationwide received a huge amount of media attention as a result, almost all negative. In reflecting on the decision, Rommel said, "Pulling out was a sound business decision. Was it good for the individual customer? No, I can't say it was. But the rationale was sound."

Hurricanes aren't the only weapons in nature's arsenal, and the insurance industry is hardly the only industry affected by nature. Consider the airline industry. American Airlines has 80,000 employees, 4 of whom make decisions to cancel flights. One of them is Danny Burgin. When weather systems approach, Burgin needs to consider a host of factors in deciding which flights to cancel and how to reroute affected passengers. He argues that of two major weather factors, winter snowstorms and summer thunderstorms, snowstorms are easier to handle because they are more predictable.

Don't tell that to JetBlue, however. On February 14, 2007, JetBlue was unprepared for a snowstorm that hit the East Coast. Due to the lack of planning, JetBlue held hundreds of passengers on its planes, at JFK, in some cases for as long as 10 hours (with bathrooms closed!). To the stranded travelers, JetBlue's tepid offer of a refund was just as outrageous. For an airline that prided itself on customer service and had regularly been rated as the top U.S. airline in customer satisfaction, it was a public relations disaster. Linda Hirneise, an analyst at J.D. Power, said, "It did not appear JetBlue had a plan." In defending the airline, JetBlue's founder and CEO, David Neeleman, said, "Is our good will gone? No, it isn't. We fly 30 million people a year. Ten thousand were affected by this." In responding to another interviewer, he said, "You're overdoing it. Delta screwed people for two days, and we did it for three and a half, okay? So go ask Delta what they did about it. Why don't you grill them?" Eventually, though, Neeleman himself was affected by it, and he stepped down.

Source: Based on M. Blomberg, "Insuring the Nation," *Gainesville (Florida) Sun* (February 27, 2006), pp. 1D, 8D; M. Trottman, "Choices in Stormy Weather," *Wall Street Journal* (February 14, 2006), pp. B1, B2; C. Salter, "Lessons from the Tarmac," *Fast Company,* May 2007, pp. 31–32; and D. Q. Wilber, "Tale of Marooned Passengers Galvanizes Airline Opponents," *Washington Post* (February 16, 2007), p. D1.

Questions

1. Insurance companies in the state of Florida earned record profits in 2006, suggesting that Nationwide's decision to cancel policies in light of the calm hurricane seasons (in Florida) in 2005–2007 may have cost the company potential revenue and customer goodwill. Do you think Rommel's quote about making a "sound business decision" reveals any perceptual or decision-making biases? Why or why not?

Answer: Yes, Rommel reviewed the scenario and perceived the need to cancel policies and ultimately did. Potentially, if he would have taken more time or reviewed a variety of possible resolutions, his decision would have been different. His judgment about the behavior of people displayed a fundamental attribution error.

2. Review the section on common biases and errors in decision making. For companies such as Nationwide, American Airlines, and JetBlue that must respond to natural events, which of these biases and errors are relevant and why?

   Answer: All of these companies made huge errors in judgment and decision making. The students can give a variety of answers but anchoring bias could have been an issue since they did not seem to adjust to subsequent information or problems as well as escalation of commitment in which they held fast to the decision in spite of public backlash and customer service disasters.

3. In each of the three cases discussed here, which organizational constraints were factors in the decisions that were made?

   Answer: Formal regulations and performance evaluation may have played a part, since all of these people would have had financial accountability to minimize losses. System-imposed time constraints may also be a factor because of the time-sensitive nature of these decisions, particularly the cancellation of flights.

4. How do you think people like Rommel, Burgin, and Neeleman factor ethics into their decisions? Do you think the welfare of policy owners and passengers enter into their decisions?

   Answer: Unfortunately, ethics may not be a factor. These people are making decisions based on perceived bottom line impact versus overall public relations and/or what is best for the customer. The irony is that the most ethical companies are also usually some of the most profitable ones.

Case Incident 2
Predictions

Consider the following:

- **Prediction:** "A very powerful and durable rally is in the works."—Richard Band, editor, *Profitable Investing Letter* (March 27, 2008)
    - **Status:** At that time, the Dow average was trading at 12,300; one year later, it was at 6,626.
- **Prediction:** AIG "could have huge gains in the second quarter."—Bijan Moazami, analyst, Friedman, Billings, Ramsey (May 9, 2008)
    - **Status:** AIG lost $5 billion that quarter, $25 billion the next, and $62 billion the quarter after that, before being given a $90 billion credit by the U.S. government in 2008–2009.
- **Prediction**: "Freddie Mac and Fannie Mae are fundamentally sound . . . in good shape moving forward."— Barnie Frank, House Financial Services Chairman (July 14, 2008)
    - **Status:** By August 2008, Fannie Mae and Freddie Mac were downgraded to the lowest credit ratings; on September 7, 2008, they were placed in conservatorship in "one of the most sweeping government interventions in private financial markets" in history.
- **Prediction:** "I think Bob Steel's the one guy I trust to turn this bank around, which is why I've told you . . . buy Wachovia."—Jim Cramer, CNBC (September 15, 2008)
    - **Status:** Wachovia shares lost half their value from September 15 to December 29, and Wachovia was taken over by Wells Fargo.
- **Prediction:** "I think you'll see $150 a barrel [oil] by the end of the year."—T. Boone Pickens, investor (June 20, 2008)
    - **Status:** By December of 2008, oil was trading at $40 per barrel.
- **Prediction:** "In today's regulatory environment, it's virtually impossible to violate rules . . . your money is safe with me."—Bernie Madoff (October 20, 2007)
    - **Status:** In 2009 Judge Denny Chin handed Madoff a 150-year sentence for his "extraordinarily evil" Ponzi scheme, defrauding investors in the biggest financial swindle in history.
- **Prediction:** "Smart investors should buy [Merrill Lynch] stock before everyone else comes to their senses."—Jon Birger, senior writer, *Fortune's Investors Guide 2008*
    - **Status:** Merrill agreed to be acquired by Bank of America to avoid insolvency; the takeover nearly cost Bank of America its own solvency.

Source: Based on P. Coy, "Worst Predictions about 2008," *Business Week* (January 12, 2009), pp. 15–16; D. Ng, "How Wrong They Were!" *The World I Know* (January 4, 2009), danielngsh.blogspot.com; and R. Frank and A. Efrati, "'Evil' Madoff Gets 150 Years in Epic Fraud," *Wall Street Journal* (June 30, 2009), pp. A1, A12.

Questions

1. Do you think these examples paint a misleading or unfair picture of financial market predictions? Why or why not?
   Answer: These are not unfair perspectives on financial market predictions, but they may be examples of an application of chaos theory or allness (see Myth or Science? in this chapter). The predictions are modified by unknown variables

that have an effect on the situation of concern. These unknown elements are hard to predict unless the person is looking for them very hard.

2. What perceptual or decision-making errors can you identify in these predictions?
   Answer: Of the errors listed in the chapter, the case includes:
   - Overconfidence Bias
     - The "Experts" may not really have the intellectual capability to be making such predictions.
   - Anchoring Bias
     - Fixating on initial information as a starting point and failing to adequately adjust for subsequent information.
   - Confirmation Bias
     - Type of selective perception. Seek out information that reaffirms past choices, and discount information that contradicts past judgments.
   - Availability Bias
     - Tendency for people to base judgments on information that is readily available
   - Escalation of Commitment
     - Staying with a decision even when there is clear evidence that it's wrong.
   - Randomness Error
     - Decision making becomes impaired when we try to create meaning out of random events.
   - Risk Aversion
     - Seeking risk aversion when it is difficult to predict and control.

3. Why do we like making predictions so much?
   Answer: It is simply because people seek to reduce uncertainty. Predictions that can be believed in can be a rationalization about the certainty of the future that makes us more comfortable, even if it has the chance that some unknown factor will intervene and change the situation drastically.

4. Why do you think predictions seem so hard to make?
   Answer: Simply because no one can ever know everything upon which to base the prediction.

Instructor's Choice
Applying the Concepts

Bill Ford never doubted that he could run his family's company—Ford Motor Company. He just had to convince others that he could. It is not everyday that an owner decides to throw him- or herself into the management pool and learn to swim with different strokes. When Ford took over in 1999, many were skeptical and predicted a continued slide for Ford Motors. However, Ford believed that his new strategy would once again bring the Ford Company to prominence. The strategy was very simple—make more money selling fewer cars. Even though this strategy runs contrary to others in the industry, Ford has demonstrated that unprofitable lines can be eliminated, costs can be reduced, more affluent customers can be targeted, and that a rifle approach can win over the traditional shotgun approach. The key to Ford's new approach is to surround himself with a team of executives that are decisive, can get along with one another, and are willing to take risks as a group. His team was assembled from all over the world. Different points of view were essential to the decision-making success of the group. Ford believes in-group decision making as opposed to the lone gun approach. The new bottom line is profits and a vision for the company that makes sense. Will Ford and his company make these dreams come true—analysts are betting "yes" and have the stock numbers to support their vote.

- Using a search engine of your own choosing, find an article about Bill Ford and the job he is doing at Ford Motor Company. What evidence of team-oriented decision making did you find in your article? Be sure to summarize any approach identified.
- Using a search engine of your own choosing, find an article about Ford's new hybrid car called the Escape. Note that the Escape comes in a traditional and hybrid version. Since the Escape hybrid will take some time to show profits, why would Ford pursue such a car given the strategic information presented in the story above?
- Go to the Ford Web site (see www.ford.com) and find two examples of team-oriented decision making at the company. Be specific in your examples and be sure to demonstrate how your example demonstrates the team-oriented approach.

Instructor Discussion

The transformation of Ford Motor Company under the leadership of Bill Ford is nothing short of amazing. Mr. Ford was probably given more room and time to make changes because of his unique position in the company at the onset; however, Wall Street very closely watched him. His team approach is something new at Ford. Traditionally, separate projects and divisions were very territorial and managers seemed to seek the spotlight instead of enhancement of the bottom line. Ford's cost-cutting measures were also against industry tradition. For more information on Bill Ford and his team decision-making approach, see "Bill's Brand New Ford," in *Fortune*, June 28, 2004, pp. 68–76.

Exploring OB Topics on the World Wide Web

Search Engines are our navigational tools to explore the WWW. Some commonly used search engines are:

www.goto.com	www.google.com	www.excite.com
www.lycos.com	www.hotbot.com	www.bing.com

1. Read more about ethics in the workplace. A comprehensive guide on many topics confronting managers can be found at http://www.mapnp.org/library/ethics/ethxgde.htm. In particular look at the pages on the myths and benefits of managing ethics in the workplace. Also look at the roles and responsibilities of managing ethics in the workplace. Write three major ideas you learned from reading this page and bring them to class for further discussion.

2. Learn more about Attribution Theory at http://www.as.wvu.edu/~sbb/comm221/chapters/attrib.htm. Does this information explain how we as humans can explain anything? Obviously, there are accurate attributions and errors in attributions that we make everyday. Write a paragraph or two about what you learned from this article.

3. For a "spirited" overview of decision making and intuition, go to the following Web site sponsored by the U.S. Army's surgeon general: http://www.hooah4health.com/spirit/decisions.htm.

4. Conduct a Web search on one of the topics from this chapter combined with the word "culture." For example, stereotyping and culture, ethics and culture, decision making and culture. Write a two-page paper on the topic of your choice. Be sure to address how culture relates to the topic you chose.