CHAPTER 6

Perception and Individual Decision Making

(Click on title when connected to the Internet for online video teaching notes)

LEARNING OBJECTIVES

After studying this chapter, you should be able to:

1. Define *perception* and explain the factors that influence it.
2. Explain attribution theory and list the three determinants of attribution.
3. Identify the shortcuts individuals use in making judgments about others.
4. Explain the link between perception and decision making.
5. Apply the rational model of decision making and contrast it with bounded rationality and intuition.
6. List and explain the common decision biases or errors.
7. Explain how individual differences and organizational constraints affect decision making.
8. Contrast the three ethical decision criteria.
9. Define *creativity* and discuss the three-component model of creativity.

INSTRUCTOR RESOURCES

Instructors may wish to use the following resources when presenting this chapter:

- **Text Exercises**
    - International OB: East–West Differences: It's Perceptual
    - Myth or Science? Is There Really a Black Swan?
    - An Ethical Choice: Is it Wrong to Rationalize?
    - Point/CounterPoint: When In Doubt, Do
    - Questions for Review
    - Experiential Exercise: Biases in Decision Making
    - Ethical Dilemma: Five Ethical Decisions: What Would You Do?

- **Text Cases**
    - Case Incident 1: National Disasters and the Decisions That Follow
    - Case Incident 2: Predictions

- **Instructor's Choice**
    - Applying Concepts

    This section presents an exercise that is NOT found in the student's textbook. *Instructor's Choice* reinforces the text's emphasis through various activities.

Some *Instructor's Choice* activities are centered on debates, group exercises, Internet research, and student experiences. Some can be used in-class in their entirety, while others require some additional work on the student's part. The course instructor may choose to use these at anytime throughout the class— some may be more effective as icebreakers, while some may be used to pull together various concepts covered in the chapter.

WEB EXERCISES

At the end of each chapter of this Instructor's Manual, you will find suggested exercises and ideas for researching the WWW on OB topics. The exercises "Exploring OB Topics on the Web" are set up so that you can simply photocopy the pages, distribute them to your class, and make assignments accordingly. You may want to assign the exercises as an out-of-class activity or as lab activities with your class.

SUMMARY AND IMPLICATIONS FOR MANAGERS

Perception Individuals base their behavior not on the way their external environment actually is but rather on what they see or believe it to be. Whether a manager successfully plans and organizes the work of employees and actually helps them to structure their work more efficiently and effectively is far less important than how employees perceive the manager's efforts. Similarly, employees judge issues such as fair pay, performance appraisals, and working conditions in very individual ways; we cannot be assured they will interpret conditions about their jobs in a favorable light. To influence productivity, we need to assess how workers perceive their jobs.

Absenteeism, turnover, and job satisfaction are also reactions to an individual's perceptions. Dissatisfaction with working conditions and the belief that an organization lacks promotion opportunities are judgments based on attempts to create meaning in the job. The employee's conclusion that a job is good or bad is an interpretation. Managers must spend time understanding how each individual interprets reality and, when there is a significant difference between what someone sees and what exists, try to eliminate the distortions.

Individual Decision Making Individuals think and reason before they act. This is why an understanding of how people make decisions can be helpful for explaining and predicting their behavior.

In some decision situations, people follow the rational decision-making model. But 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.

Given the evidence we've described on how decisions are actually made in organizations, what can managers do to improve their decision making? We offer four suggestions.

First, analyze the situation. Adjust your decision-making approach to the national culture you're operating in and to the criteria your organization evaluates and rewards. If you're in a country that doesn't value rationality, don't feel compelled to

follow the rational decision-making model or to try to make your decisions appear rational. Similarly, organizations differ in terms of the importance they place on risk, the use of groups, and the like. Adjust your decision approach to ensure it's compatible with the organization's culture.

Second, be aware of biases. Then try to minimize their impact. Exhibit 6-5 offers some suggestions.

Third, combine rational analysis with intuition. These are not conflicting approaches to decision making. By using both, you can actually improve your decision- making effectiveness. As you gain managerial experience, you should feel increasingly confident in imposing your intuitive processes on top of your rational analysis.

Finally, try to enhance your creativity. Actively look for novel solutions to problems, attempt to see problems in new ways, and use analogies. Try to remove work and organizational barriers that might impede your creativity.

Exhibit 6-5	*Reducing Biases and Errors*

Focus on Goals. Without goals, you can't be rational, you don't know what information you need, you don't know which information is relevant and which is irrelevant, you'll find it difficult to choose between alternatives, and you're far more likely to experience regret over the choices you make. Clear goals make decision making easier and help you eliminate options that are inconsistent with your interests.

Look for Information That Disconfirms Your Beliefs. One of the most effective means for counteracting overconfidence and the confirmation and hindsight biases is to actively look for information that contradicts your beliefs and assumptions. When we overtly consider various ways we could be wrong, we challenge our tendencies to think we're smarter than we actually are.

Don't Try to Create Meaning out of Random Events. The educated mind has been trained to look for cause-and-effect relationships. When something happens, we ask why. And when we can't find reasons, we often invent them. You have to accept that there are events in life that are outside your control. Ask yourself if patterns can be meaningfully explained or whether they are merely coincidence. Don't attempt to create meaning out of coincidence.

Increase Your Options. No matter how many options you've identified, your final choice can be no better than the best of the option set you've selected. This argues for increasing your decision alternatives and for using creativity in developing a wide range of diverse choices. The more alternatives you can generate, and the more diverse those alternatives, the greater your chance of finding an outstanding one.

This chapter begins with an introduction to Google Corp. policies toward innovation and creativity in the workplace. Nichols Fox, director of business product management, attributes Google's success to its ability to make intricate and fast adjustment to the business environment. The vignette suggests if creativity and analysis are combined, then innovative change is more easily integrated into company operations.

BRIEF CHAPTER OUTLINE

I.   What Is Perception?
      A. **Definition**: Perception is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment.
      B. Why is this important to the study of OB?
          1. Because people's behavior is based on their perception of what reality is, not on reality itself

II.   Factors That Influence Perception (Exhibit 6-1)
      A. Factors that shape and can distort perception:
          1. Perceiver
          2. Target
          3. Situation

III. Person Perception: Making Judgments about Others
      A. Attribution Theory (Exhibit 6–2)
          1. Our perceptions of people differ from our perceptions of inanimate objects.
          2. Our perception and judgment of a person's actions are influenced by these assumptions.
          3. Attribution theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. That determination depends largely on three factors:
              a. Distinctiveness
              b. Consensus
              c. Consistency
          4. **Fundamental Attribution Error**
              a. There is substantial evidence that we have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors.
          5. **Self-serving Bias**
              a. There is also a tendency for individuals to attribute their own successes to internal factors such as ability or effort while putting the blame for failure on external factors such as luck.
      B. Frequently Used Shortcuts in Judging Others
          1. Introduction
              a. We use a number of shortcuts when we judge others. An understanding of these shortcuts can be helpful toward recognizing when they can result in significant distortions.
          2. Selective Perception
              a. Any characteristic that makes a person, object, or event stand out will increase the probability that it will be perceived.
      C. Halo Effect
          1. The halo effect occurs when we draw a general impression on the basis of a single characteristic:
              a. This phenomenon frequently occurs when students appraise their classroom instructor.
              b. Propensity for halo effect to operate is not random.
      D. Contrast Effects
          1. We do not evaluate a person in isolation. Our reaction to one person is influenced by other persons we have recently encountered.
      E. Stereotyping
          1. Stereotyping—judging someone on the basis of our perception of the group to which he or she belongs.
      F. Specific Applications of Shortcuts in Organizations

        1. Employment Interview
          a. Evidence indicates that interviewers make perceptual judgments that are often inaccurate.
     G. Performance Expectations
        1. Evidence demonstrates that people will attempt to validate their perceptions of reality, even when those perceptions are faulty.
     H. Performance Evaluation
        1. An employee's performance appraisal is very much dependent on the perceptual process.

IV. The Link between Perception and Individual Decision Making
     A. Individuals in organizations make decisions; they make choices from among two or more options.
     B. Top managers determine their organization's goals, what products or services to offer, how best to finance operations, or where to locate a new manufacturing plant.
     C. Middle- and lower-level managers determine production schedules, select new employees, and decide how pay raises are to be allocated.
     D. Non-managerial employees also make decisions including whether or not to come to work on any given day, how much effort to put forward once at work, and whether or not to comply with a request made by the boss.
     E. Decision making occurs as a reaction to a problem.
        1. There is a discrepancy between some current state of affairs and some desired state, requiring consideration of alternative courses of action.
        2. One person's problem is another's satisfactory state of affairs.

V. Decision Making in Organizations
     A. The Rational Model, Bounded Rationality, and Intuition
        1. Introduction
          a. To improve how we make decisions in organizations, we must understand the decision-making errors people commit.
        2. The Rational Model
          a. Six steps listed in Exhibit 6–3
            i. Step 1: Defining the problem
            ii. Step 2: Identify the decision criteria important to solving the problem.
            iii. Step 3: Weight the previously identified criteria in order to give them the correct priority in the decision.
            iv. Step 4: Generate possible options that could succeed in resolving the problem.
            v. Step 5: Rate each option on each criterion.
            vi. Step 6: The final step is to compute the optimal decision.
          b. Assumptions of the Model
            i. Problem clarity. The decision maker is assumed to have complete information regarding the decision situation.
            ii. Known options. It is assumed the decision maker is aware of all the possible consequences of each alternative.
            iii. Clear preferences. Criteria and alternatives can be ranked and weighted to reflect their importance.
            iv. Constant preferences. Specific decision criteria are constant and the weights assigned to them are stable over time.
     B. Bounded Rationality
        1. When faced with a complex problem, most people respond by reducing the problem to a level at which it can be readily understood.
        2. Individuals operate within the confines of bounded rationality. They construct simplified models that extract the essential features.

   3. How does bounded rationality work?
      a. Once a problem is identified, the search for criteria and options begins.
      b. The decision maker will identify a limited list made up of the more conspicuous choices, which are easy to find, tend to be highly visible, and they will represent familiar criteria and previously tried-and-true solutions.
   C. Intuition
      1. Intuitive decision making has recently come out of the closet and into some respectability.
      2. What is intuitive decision making?
         a. It is an unconscious process created out of distilled experience. It operates in complement with rational analysis.
         b. Some consider it a form of extrasensory power or sixth sense.
         c. Some believe it is a personality trait that a limited number of people are born with.
   D. Common Biases and Errors in Decision Making
      1. Introduction
         a. Decision makers allow systematic biases and errors to creep into their judgments.
         b. People tend to rely on experience, impulses, gut feelings, and rules of thumb. These can lead to distortions.
      2. Overconfidence Bias
         a. Individuals whose intellectual and interpersonal abilities are weakest are most likely to overestimate their performance and ability.
      3. Anchoring Bias
         a. Fixating on initial information as a starting point and failing to adequately adjust for subsequent information.
      4. Confirmation Bias
         a. Type of selective perception. Seek out information that reaffirms past choices, and discount information that contradicts past judgments.
      5. Availability Bias
         a. Tendency for people to base judgments on information that is readily available
      6. Escalation of Commitment
         a. Staying with a decision even when there is clear evidence that it's wrong.
      7. Randomness Error
         a. Decision making becomes impaired when we try to create meaning out of random events.
      8. Risk Aversion
         a. This tendency to prefer a sure thing over a risky outcome is **risk aversion**.
      9. Hindsight Bias
         a. Tendency to believe falsely that one has accurately predicted the outcome of an event, after that outcome is actually known

VI. Influences on Decision Making: Individual Differences and Organizational Constraints
   A. Individual Differences
      1. Personality
         a. Conscientiousness
      2. Gender
         a. Evidence indicates that women analyze decisions more than men.
         b. Rumination refers to reflecting at length. In decision making it means over thinking about problems.
      3. Mental Ability

a. We know people with higher levels of mental ability are able to process information more quickly, solve problems more accurately, and learn faster, so you might expect them also to be less susceptible to common decision errors.

B. Organizational Constraints
   1. Introduction
      a. The organization itself constrains decision makers. This happens due to policies, regulations, time constraints, etc.
   2. Performance Evaluation
      a. Managers are strongly influenced in their decision making by the criteria by which they are evaluated. Their performance in decision making will reflect expectation.
   3. Reward Systems
      a. The organization's reward system influences decision makers by suggesting to them what choices are preferable in terms of personal payoff.
   4. Formal Regulations
      a. Organizations create rules, policies, procedures, and other formalized regulations to standardize the behavior of their members.
   5. System-Imposed Time Constraints
      a. Organizations impose deadlines on decisions.
      b. Decisions must be made quickly in order to stay ahead of the competition and keep customers satisfied.
      c. Almost all important decisions come with explicit deadlines.
   6. Historical Precedents
      a. Decisions have a context. Individual decisions are more accurately characterized as points in a stream of decisions.

VII. What about Ethics in Decision Making?
   A. Introduction
      1. Ethical considerations should be an important criterion in organizational decision making.
   B. Three Ethical Decision Criteria
      1. Utilitarian criterion—decisions are made solely on the basis of their outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. This view tends to dominate business decision making.
      2. Focus on rights—calls on individuals to make decisions consistent with fundamental liberties and privileges as set forth in documents such as the Bill of Rights.
      3. Focus on justice—requires individuals to impose and enforce rules fairly and impartially. There is an equitable distribution of benefits and costs.
   C. Improving Creativity in Decision Making
      1. Introduction
         a. Definition: Creativity is the ability to produce novel and useful ideas. These are ideas that are different from what has been done before, but that are also appropriate to the problem or opportunity presented.
      2. Creative Potential
         a. Most people have creative potential.
      3. People differ in their inherent creativity.
         a. A study of lifetime creativity of 461 men and women found that less than one percent were exceptionally creative.
   D. Three-Component Model of Creativity. (Exhibit 6-4)
      1. This model proposes that individual creativity essentially requires expertise, creative-thinking skills, and intrinsic task motivation. (See Exhibit 6–4.)

a. Expertise is the foundation for all creative work. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies, and similar expertise in their field of endeavor.
b. Creative thinking skills. This encompasses personality characteristics associated with creativity, the ability to use analogies, as well as the talent to see the familiar in a different light.
c. Intrinsic task motivation. The desire to work on something because it's interesting, involving, exciting, satisfying, or personally challenging. This turns creativity potential into actual creative ideas. It determines the extent to which individuals fully engage their expertise and creative skills.

VIII.   Global Implications
    A. Attributions
        1. The evidence on cultural differences in perception is mixed, but most suggests there *are* differences across cultures in the attributions people make.
    B. Decision Making
        1. The rational model makes no acknowledgment of cultural differences, nor does the bulk of OB research literature on decision making.

IX. Summary and Implications for Managers
    A. Perception
        1. An employee's perception of a situation is the basis for his/her behavior.
        2. To influence productivity, it is important that a manager understand how employees perceive their job.
        3. Employees try to create meaning out of their job in various situations.
        4. Managers are advised to understand how individuals interpret reality.
    B. Individual Decision Making
        1. Individuals think before they act.
        2. How an employee makes decisions may explain their behavior.
        3. Individuals often make decisions that satisfice, rather than optimize.
        4. Four suggestions for improving decision making:
            a. First, analyze the situation. Adjust your decision-making approach to the national culture you're operating in and to the criteria your organization evaluates and rewards. If you're in a country that doesn't value rationality, don't feel compelled to follow the rational decision-making model or to try to make your decisions appear rational. Similarly, organizations differ in terms of the importance they place on risk, the use of groups, and the like. Adjust your decision approach to ensure it's compatible with the organization's culture.
            b. Second, be aware of biases. Then try to minimize their impact. Exhibit 6-5 offers some suggestions.
            c. Third, combine rational analysis with intuition. These are not conflicting approaches to decision making. By using both, you can actually improve your decision- making effectiveness. As you gain managerial experience, you should feel increasingly confident in imposing your intuitive processes on top of your rational analysis.
            d. Finally, try to enhance your creativity. Actively look for novel solutions to problems, attempt to see problems in new ways, and use analogies. Try to remove work and organizational barriers that might impede your creativity.
                i.   Look for information that disconfirms your beliefs.
                ii. Don't try to create meaning out of random events.
                iii. Increase your options.

EXPANDED CHAPTER OUTLINE

I. What Is Perception?
   A. **Definition**: Perception is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment.
   B. Why is this important to the study of OB?
      1. Because people's behavior is based on their perception of what reality is, not on reality itself.

II. Factors That Influence Perception (Exhibit 6-1)
   A. Factors that shape and can distort perception:
      1. Perceiver
      2. Target
      3. Situation
   B. When an individual looks at a target and attempts to interpret what he or she sees, that interpretation is heavily influenced by personal characteristics of the individual perceiver.
   C. The more relevant personal characteristics affecting perception of the perceiver are attitudes, motives, interests, past experiences, and expectations.
   D. Characteristics of the target can also affect what is being perceived. This would include attractiveness, gregariousness, and our tendency to group similar things together. For example, members of a group with clearly distinguishable features or color are often perceived as alike in other, unrelated characteristics as well.
   E. The context in which we see objects or events also influences our attention. This could include time, heat, light, or other situational factors.

III. Person Perception: Making Judgments about Others
   A. Attribution Theory (Exhibit 6–2)
      1. Our perceptions of people differ from our perceptions of inanimate objects.
      2. Our perception and judgment of a person's actions are influenced by these assumptions.
      3. Attribution theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. That determination depends largely on three factors:
         a. Distinctiveness
         b. Consensus
         c. Consistency
      4. Clarification of the differences between internal and external causation:
         a. **Internally** caused behaviors are those that are believed to be under the personal control of the individual.
         b. **Externally** caused behavior is seen as resulting from outside causes; that is, the person is seen as having been forced into the behavior by the situation.
      5. **Distinctiveness** refers to whether an individual displays different behaviors in different situations. What we want to know is whether the observed behavior is unusual.
         a. If it is, the observer is likely to give the behavior an external attribution.
         b. If this action is not unusual, it will probably be judged as internal.
      6. **Consensus** occurs if everyone who is faced with a similar situation responds in the same way. If consensus is high, you would be expected to give an external attribution to the employee's tardiness, whereas if other employees who took the same route made it to work on time, your conclusion as to causation would be internal.

7. **Consistency** in a person's actions. Does the person respond the same way over time? The more consistent the behavior, the more the observer is inclined to attribute it to internal causes.
8. **Fundamental Attribution Error**
   a. There is substantial evidence that we have a tendency to underestimate the influence of external factors and overestimate the influence of internal or personal factors.
9. **Self-serving Bias**
   a. There is also a tendency for individuals to attribute their own successes to internal factors such as ability or effort while putting the blame for failure on external factors such as luck. This is called the "self-serving bias" and suggests that feedback provided to employees will be distorted by recipients.
B. Frequently Used Shortcuts in Judging Others
   1. Introduction
      a. We use a number of shortcuts when we judge others. An understanding of these shortcuts can be helpful toward recognizing when they can result in significant distortions.
   2. Selective Perception
      a. Any characteristic that makes a person, object, or event stand out will increase the probability that it will be perceived.
      b. Since we can't observe everything going on about us, we engage in selective perception.
      c. A classic example:
         i. Dearborn and Simon performed a perceptual study in which 23 business executives read a comprehensive case describing the organization and activities of a steel company. The results along with other results of the study, led the researchers to conclude that the participants perceived aspects of a situation that were specifically related to the activities and goals of the unit to which they were attached.
         ii. A group's perception of organizational activities is selectively altered to align with the vested interests they represent.
C. Halo Effect
   1. The halo effect occurs when we draw a general impression on the basis of a single characteristic:
      a. This phenomenon frequently occurs when students appraise their classroom instructor.
      b. Propensity for halo effect to operate is not random.
   2. The reality of the halo effect was confirmed in a classic study.
      a. Subjects were given a list of traits such as intelligent, skillful, practical, industrious, determined, and warm, and were asked to evaluate the person to whom those traits applied. When the word "warm" was substituted with "cold," the subjects changed their evaluation of the person.
      b. The experiment showed that subjects were allowing a single trait to influence their overall impression of the person being judged.
      c. Research suggests that it is likely to be most extreme when the traits to be perceived are ambiguous in behavioral terms, when the traits have moral overtones, and when the perceiver is judging traits with which he or she has had limited experience.
D. Contrast Effects
   1. We do not evaluate a person in isolation. Our reaction to one person is influenced by other persons we have recently encountered.

2. For example, an interview situation in which one sees a pool of job applicants can distort perception. Distortions in any given candidate's evaluation can occur as a result of his or her place in the interview schedule.

E. Stereotyping
   1. Stereotyping—judging someone on the basis of our perception of the group to which he or she belongs.
   2. Generalization is not without advantages. It is a means of simplifying a complex world, and it permits us to maintain consistency. The problem, of course, is when we inaccurately stereotype.
   3. In organizations, we frequently hear comments that represent stereotypes based on gender, age, race, ethnicity, and even weight.
   4. From a perceptual standpoint, if people expect to see these stereotypes, that is what they will perceive, whether or not they are accurate.

F. Specific Applications of Shortcuts in Organizations
   1. Employment Interview
      a. Evidence indicates that interviewers make perceptual judgments that are often inaccurate.
      b. In addition, agreement among interviewers is often poor. Different interviewers see different things in the same candidate and thus arrive at different conclusions about the applicant.
      c. Interviewers generally draw early impressions that become very quickly entrenched. Studies indicate that most interviewers' decisions change very little after the first four or five minutes of the interview.
      d. Because interviews usually have so little consistent structure and interviewers vary in terms of what they are looking for in a candidate, judgments of the same candidate can vary widely.

G. Performance Expectations
   1. Evidence demonstrates that people will attempt to validate their perceptions of reality, even when those perceptions are faulty.
   2. Self-fulfilling prophecy or Pygmalion effect characterizes the fact that people's expectations determine their behavior. Expectations become reality.
   3. A study was undertaken with 105 soldiers in the Israeli Defense Forces who were taking a fifteen-week combat command course. Soldiers were randomly divided and identified as having high potential, normal potential, and potential not known. Instructors got better results from the high potential group because they expected it, confirming the effect of a self-fulfilling prophecy.

H. Performance Evaluation
   1. An employee's performance appraisal is very much dependent on the perceptual process.
   2. Although the appraisal can be objective, many jobs are evaluated in subjective terms. Subjective measures are, by definition, judgmental.
   3. To the degree that managers use subjective measures in appraising employees, what the evaluator perceives to be good or bad employee characteristics or behaviors will significantly influence the outcome of the appraisal.

IV. The Link between Perception and Individual Decision Making
   A. Individuals in organizations make decisions; they make choices from among two or more alternatives.
   B. Top managers determine their organization's goals, what products or services to offer, how best to finance operations, or where to locate a new manufacturing plant.
   C. Middle- and lower-level managers determine production schedules, select new employees, and decide how pay raises are to be allocated.

D. Non-managerial employees also make decisions including whether or not to come to work on any given day, how much effort to put forward once at work, and whether or not to comply with a request made by the boss.
E. A number of organizations in recent years have been empowering their non-managerial employees with job-related decision-making authority that historically was reserved for managers.
F. Decision making occurs as a reaction to a problem.
   1. There is a discrepancy between some current state of affairs and some desired state, requiring consideration of alternative courses of action.
   2. One person's problem is another's satisfactory state of affairs.
G. Every decision requires interpretation and evaluation of information. The perceptions of the decision maker will address these two issues:
   1. Data are typically received from multiple sources.
   2. Which data are relevant to the decision and which are not?
H. Alternatives will be developed, and the strengths and weaknesses of each will need to be evaluated.

V. Decision Making in Organizations
   A. The Rational Model, Bounded Rationality, and Intuition
      1. Introduction
         a. To improve how we make decisions in organizations, we must understand the decision-making errors people commit.
      2. The Rational Model
         a. Six steps listed in Exhibit 6–3
            i. Step 1: Defining the problem
               (a) A problem is a discrepancy between an existing and a desired state of affairs.
               (b) Many poor decisions can be traced to the decision maker overlooking a problem or defining the wrong problem.
            ii. Step 2: Identify the decision criteria important to solving the problem.
               (a) The decision maker determines what is relevant in making the decision. Any factors not identified in this step are considered irrelevant.
               (b) This brings in the decision maker's interests, values, and similar personal preferences.
            iii. Step 3: Weight the previously identified criteria in order to give them the correct priority in the decision.
            iv. Step 4: Generate possible options that could succeed in resolving the problem.
            v. Step 5: Rate each option on each criterion.
               (a) Critically analyze and evaluate each alternative.
               (b) The strengths and weaknesses of each option become evident as they are compared with the criteria and weights established in the second and third steps.
            vi. Step 6: The final step is to compute the optimal decision:
               (a) Evaluate each option against the weighted criteria and select the alternative with the highest total score.
         b. Assumptions of the Model
            i. Problem clarity. The decision maker is assumed to have complete information regarding the decision situation.
            ii. Known options. It is assumed the decision maker is aware of all the possible consequences of each alternative.
            iii. Clear preferences. Criteria and alternatives can be ranked and weighted to reflect their importance.

           iv. Constant preferences. Specific decision criteria are constant and the weights assigned to them are stable over time.
      c. No time or cost constraints. The rational decision maker can obtain full information about criteria and alternatives because it is assumed that there are no time or cost constraints.
      d. Maximum payoff. The rational decision maker will choose the alternative that yields the highest perceived value.

B. Bounded Rationality
  1. When faced with a complex problem, most people respond by reducing the problem to a level at which it can be readily understood.
      a. This is because the limited information-processing capability of human beings makes it impossible to assimilate and understand all the information necessary to optimize.
      b. People satisfice—they seek solutions that are satisfactory and sufficient.
  2. Individuals operate within the confines of bounded rationality. They construct simplified models that extract the essential features.
  3. How does bounded rationality work?
      a. Once a problem is identified, the search for criteria and options begins.
      b. The decision maker will identify a limited list made up of the more conspicuous choices, which are easy to find, tend to be highly visible, and they will represent familiar criteria and previously tried-and-true solutions.
      c. Once this limited set of options is identified, the decision maker will begin reviewing it.
          i. The decision maker will begin with options that differ only in a relatively small degree from the choice currently in effect.
         ii. The first option that meets the "good enough" criterion ends the search.
  4. The order in which alternatives are considered is critical in determining which alternative is selected.
  5. Assuming that a problem has more than one potential solution, the satisficing choice will be the first acceptable one the decision maker encounters.
  6. Options that depart the least from the status quo are the most likely to be selected.

C. Intuition
  1. Intuitive decision making has recently come out of the closet and into some respectability.
  2. What is intuitive decision making?
      a. It is an unconscious process created out of distilled experience. It operates in complement with rational analysis.
      b. Some consider it a form of extrasensory power or sixth sense.
      c. Some believe it is a personality trait that a limited number of people are born with.
  3. The expert's experience allows him or her to recognize the pattern in a situation and draw upon previously learned information associated with that pattern to quickly arrive at a decision choice.
  4. The result is that the intuitive decision maker can decide rapidly with what appears to be very limited information.
  5. While intuition isn't rational, it isn't necessarily wrong. Nor does it always operate in opposition to rational analysis; rather, the two can complement each other.
  6. Eight conditions when people are most likely to use intuitive decision making:
      a. When a high level of uncertainty exists

   b. When there is little precedent to draw on
   c. When variables are less scientifically predictable
   d. When "facts" are limited
   e. When facts do not clearly point the way to go
   f. When analytical data are of little use
   g. When there are several plausible alternative solutions to choose from, with good arguments for each
   h. When time is limited, and there is pressure to come up with the right decision
   7. We now recognize that rational analysis has been overemphasized and, in certain instances, relying on intuition can improve decision making.
   D. Common Biases and Errors in Decision Making
   1. Introduction
       a. Decision makers allow systematic biases and errors to creep into their judgments.
       b. People tend to rely on experience, impulses, gut feelings and rules of thumb. These can lead to distortions.
   2. Overconfidence Bias
       a. Individuals whose intellectual and interpersonal abilities are weakest are most likely to overestimate their performance and ability.
       b. The more knowledgeable, the less likely to display overconfidence
   3. Anchoring Bias
       a. Fixating on initial information as a starting point and failing to adequately adjust for subsequent information.
       b. Anchors are widely used by people in advertising, management, politics, real estate, and lawyers—where persuasion skills are important.
   4. Confirmation Bias
       a. Type of selective perception. Seek out information that reaffirms past choices, and discount information that contradicts past judgments.
   5. Availability Bias
       a. Tendency for people to base judgments on information that is readily available
   6. Escalation of Commitment
       a. Staying with a decision even when there is clear evidence that it's wrong.
       b. People who carefully gather and consider information consistent with the rational decision-making model are *more* likely to engage in escalation of commitment than those who spend less time thinking about their choices.
   7. Randomness Error
       b. Decision making becomes impaired when we try to create meaning out of random events.
   8. Risk Aversion
       a. This tendency to prefer a sure thing instead of a risky outcome is **risk aversion**.
       b. Risk aversion has important implications.
       c. Risk-averse employees will stick with the established way of doing their jobs, rather than taking a chance on innovative or creative methods.
       d. Ambitious people with power that can be taken away (most managers) appear to be especially risk averse, perhaps because they don't want to lose on a gamble everything they've worked so hard to achieve.
       e. Because people are less likely to escalate commitment where there is a great deal of uncertainty, the implications of risk aversion aren't all bad.
       f. When a risky investment isn't paying off, most people would rather play it safe and cut their losses, but if they think the outcome is a sure thing, they'll keep escalating.

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

h. Trying to cover up wrongdoing instead of admitting a mistake, despite the risk of truly catastrophic press coverage or even jail time, is another example.

i. People will more likely engage in risk-seeking behavior for negative outcomes, and risk-averse behavior for positive outcomes, when under stress.

9. Hindsight Bias

a. Tendency to believe falsely that one has accurately predicted the outcome of an event, after that outcome is actually known.

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

A. Individual Differences

1. Personality

a. Conscientiousness

2. Gender

a. Evidence indicates that women analyze decisions more than men.

b. Rumination refers to reflecting at length. In decision making it means over thinking about problems.

i. Women, in general, are more likely than men to engage in rumination.

ii. Rumination tendency appears to be moderated by age. Differences are largest during young adulthood and smallest after age 65.

3. Mental Ability

a. We know people with higher levels of mental ability are able to process information more quickly, solve problems more accurately, and learn faster, so you might expect them also to be less susceptible to common decision errors.

B. Organizational Constraints

1. Introduction

a. The organization itself constrains decision makers. This happens due to policies, regulations, time constraints, etc.

2. Performance Evaluation

a. Managers are strongly influenced in their decision making by the criteria by which they are evaluated. Their performance in decision making will reflect expectation.

3. Reward Systems

a. The organization's reward system influences decision makers by suggesting to them what choices are preferable in terms of personal payoff.

4. Formal Regulations

a. Organizations create rules, policies, procedures, and other formalized regulations to standardize the behavior of their members.

5. System-Imposed Time Constraints

a. Organizations impose deadlines on decisions.

b. Decisions must be made quickly in order to stay ahead of the competition and keep customers satisfied.

c. Almost all important decisions come with explicit deadlines.

6. Historical Precedents

a. Decisions have a context. Individual decisions are more accurately characterized as points in a stream of decisions.

b. Decisions made in the past are ghosts, which continually haunt current choices. It is common knowledge that the largest determining factor of the size of any given year's budget is last year's budget.

VII. What about Ethics in Decision Making?
  A. Introduction
    1. Ethical considerations should be an important criterion in organizational decision making.
  B. Three Ethical Decision Criteria
    1. Utilitarian criterion—decisions are made solely on the basis of their outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. This view tends to dominate business decision making.
      a. Advantages/Disadvantages:
        i. Promotes efficiency and productivity
        ii. It can result in ignoring the rights of some individuals, particularly those with minority representation in the organization.
        iii. Decision makers tend to feel safe and comfortable when they use utilitarianism. Many critics of business decision makers argue that this perspective needs to change.
    2. Focus on rights—calls on individuals to make decisions consistent with fundamental liberties and privileges as set forth in documents such as the Bill of Rights.
      a. Advantages/Disadvantages:
        i. Protects individuals from injury and is consistent with freedom and privacy.
        ii. It can create an overly legalistic work environment that hinders productivity and efficiency.
      b. An emphasis on rights means respecting and protecting the basic rights of individuals, such as the right to privacy, to free speech, and to due process.
    3. Focus on justice—requires individuals to impose and enforce rules fairly and impartially. There is an equitable distribution of benefits and costs.
      a. Advantages/Disadvantages:
        i. Protects the interests of the underrepresented and less powerful
      b. It can encourage a sense of entitlement that reduces risk taking, innovation, and productivity.
    4. Increased concern in society about individual rights and social justice suggests the need for managers to develop ethical standards based solely on non-utilitarian criteria.
  C. Improving Creativity in Decision Making
    1. Introduction
      a. Definition: Creativity is the ability to produce novel and useful ideas. These are ideas that are different from what has been done before, but that are also appropriate to the problem or opportunity presented.
    2. Creative Potential
      a. Most people have creative potential.
      b. People have to get out of the psychological ruts most of us get into and learn how to think about a problem in divergent ways.
    3. People differ in their inherent creativity.
      a. A study of lifetime creativity of 461 men and women found that less than one percent were exceptionally creative.
      b. Ten percent were highly creative; about sixty percent were somewhat creative.
  D. Three-Component Model of Creativity (Exhibit 6-4)
    1. This model proposes that individual creativity essentially requires expertise, creative-thinking skills, and intrinsic task motivation. (See Exhibit 6–4.)

a. Expertise is the foundation for all creative work. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies, and similar expertise in their field of endeavor.

b. Creative thinking skills. This encompasses personality characteristics associated with creativity, the ability to use analogies, as well as the talent to see the familiar in a different light.

c. Intrinsic task motivation. The desire to work on something because it's interesting, involving, exciting, satisfying, or personally challenging. This turns creativity potential into actual creative ideas. It determines the extent to which individuals fully engage their expertise and creative skills.

VIII.   Global Implications
   A. Attributions
      1. The evidence on cultural differences in perception is mixed, but most suggests there *are* differences across cultures in the attributions people make.
      2. Attribution theory was developed largely based on experiments with U.S. and western European workers.
      3. But these studies suggest caution in making attribution theory predictions in non-Western societies, especially in countries with strong collectivist traditions.
      4. The basic process of attribution applies across cultures but it takes more evidence for Asian managers to conclude someone else should be blamed.
   B. Decision Making
      1. The rational model makes no acknowledgment of cultural differences, nor does the bulk of OB research literature on decision making.
      2. We need to recognize that the cultural background of a decision maker can have a significant influence on the selection of problems, the depth of analysis, the importance placed on logic and rationality, and whether organizational decisions should be made autocratically by an individual manager or collectively in groups.
      3. Cultures differ in their time orientation, the importance of rationality, their belief in the ability of people to solve problems, and their preference for collective decision making.
      4. While rationality is valued in North America, that's not true elsewhere in the world.
      5. Some cultures emphasize solving problems, while others focus on accepting situations as they are.
   C. Ethics
      1. There are no global ethical standards, as contrasts between Asia and the West illustrate.
      2. Although ethical standards may seem ambiguous in the West, criteria defining right and wrong are actually much clearer there than in Asia, where few issues are black and white and most are gray.
      3. Global organizations must establish ethical principles for decision makers in countries such as India and China and modify them to reflect cultural norms if they want to uphold high standards and consistent practices.

IX. Summary and Implications for Managers
   A. Perception
      1. An employee's perception of a situation is the basis for his/her behavior.
      2. To influence productivity, it is important that a manager understand how employees perceive their job.
      3. Employees try to create meaning out of their job in various situations.

4. Managers are advised to understand how individuals interpret reality.
   B. Individual Decision Making
      1. Individuals think before they act.
      2. How an employee makes decisions may explain their behavior.
      3. Individuals often make decisions that satisfice, rather than optimize.
      4. Four suggestions for improving decision making
         a. First, analyze the situation. Adjust your decision-making approach to the national culture you're operating in and to the criteria your organization evaluates and rewards. If you're in a country that doesn't value rationality, don't feel compelled to follow the rational decision-making model or to try to make your decisions appear rational. Similarly, organizations differ in terms of the importance they place on risk, the use of groups, and the like. Adjust your decision approach to ensure it's compatible with the organization's culture.
         b. Second, be aware of biases. Then try to minimize their impact. Exhibit 6-5 offers some suggestions.
         c. Third, combine rational analysis with intuition. These are not conflicting approaches to decision making. By using both, you can actually improve your decision-making effectiveness. As you gain managerial experience, you should feel increasingly confident in imposing your intuitive processes on top of your rational analysis.
         d. Finally, try to enhance your creativity. Actively look for novel solutions to problems, attempt to see problems in new ways, and use analogies. Try to remove work and organizational barriers that might impede your creativity.

International OB
East–West Differences: It's Perceptual

As you read this book, you'll find we often compare how organizational behavior concepts and theories work in the East (particularly Asia) and the West (particularly the United States). Given the size, economic power, and value differences between them, the comparison makes sense.

Nowhere are their OB differences clearer than in perception. First, Asians are less likely to commit the fundamental attribution error. Specifically, Japanese are less likely to show a bias in attributing a person's behavior to internal factors rather than external or situational forces.

Second, and related, Asians appear to focus more on the context or environment than on the person. When researchers showed Chinese and U.S. participants a photo with a focal object (like a train) with a busy background, using eye-tracking devices they found U.S. subjects were more likely to focus on the focal object, whereas Chinese were more likely to look at the background. As one researcher, University of Michigan's Richard Nisbett, concluded, "If people are seeing different things, it may be because they are looking differently at the world."

These differences may even be rooted in our brain architecture. Using brain scanning devices (fMRI), Denise Park of the University of Illinois found that when Singaporeans were shown pictures where either the foreground or background was varied, their brains were less attuned to new foreground images and more attuned to new background images than those of U.S. subjects. This suggests that the tendency to focus on the person or the context is rooted deep in the "hard wiring" of our brains.

Finally, Cornell's Qi Wang has found that culture affects what we remember as well. When asked to remember events, U.S. subjects recall more personal detail and their own personal characteristics, whereas Asians recall more about personal relationships and group activities.

As a set, these studies provide striking evidence that Eastern and Western cultures differ in one of the deepest aspects of organizational behavior: how we see the world around us.

Source: Based on T. Masuda, R. Gonzalez, L. Kwan, and R. E. Nisbett, "Culture and Aesthetic Preference: Comparing the Attention to Context of East Asians and Americans," Personality and Social Psychology Bulletin 34, no. 9 (2008), pp. 1260–1275; Q. Wang, "On the Cultural Constitution of Collective Memory," Memory 16, no. 3 (2008), pp. 305–317; D. C. Park, "Developing a Cultural Cognitive Neuroscience of Aging," in S. M. Hofer and D. F. Alwin (Eds.), Handbook of Cognitive Aging (Thousand Oaks, CA: Sage Publications, 2008), pp. 352-367; and C. West, "How Culture Affects the Way We Think," APS Observer 20, no. 7 (2007), pp. 25–26.

Class Exercise

In 1995 Bud Light's advertising agency began working on the concept of standardizing advertising across all global markets of the product. They created an advertisement that contained no words by presenting a concept in visual context. Without words, the problem of translation to a different language and logistic of production were reduced.

One of the early global markets was the Chinese market. Because of cultural perceptions, the result in China was very much different from what the agency expected.

1. Divide into groups of three to five people.
2. View the ad as an individual or as a group. http://www.youtube.com/watch?v=-BwPz574MA
3. Discuss in the group how differences in culture might result in differences of interpretation.
4. If you decide there is a possibility of misinterpretation, what would you suggest as a solution to meet the advertiser's goals while ensuring more similar interpretations globally?
5. Present your conclusion to the class to open discussion to each group's interpretations.

Note: This is a real situation. When the ad was played in China, it was early in Bud Light's marketing efforts so the people were not totally aware of the product. When the Chinese saw the ants carrying the "brown bottle" and going vertical in their nest, followed by the pounding earth, they thought it was a pesticide killing the ants (predominant use for brown bottles in Chinese culture). To overcome the misinterpretation, the modified version of the ad ended with a pan down shot to the underground ant nest showing them partying at what looks like a bar or nightclub. This ensured that the viewers knew they were partying and not dying.

Source: David L. Sturges, personal observation, Corporate Communication Conference, Madison, NJ. 1996.

Myth or Science?
"Is There Really A Black Swan?"

Wall Street trader and NYU professor Nassim Nicholas Taleb is famous for his best-selling book *The Black Swan*. The title comes from John Stuart Mill's philosophical position that just because all swans we have seen are white doesn't prove there is no such thing as a black swan (there are black swans, though Europeans had not seen one until they were discovered in Australia in 1697). Taleb uses the term black swan to denote rare but highly consequential events we often fail to appreciate and argues that the subprime meltdown, the financial sector collapse, and global recession all represent such occurrences.

Taleb is correct, of course, that there are black swans. Outlier events often define the course of organizations. Yet they are generally hard to predict and difficult to manage because they are rare. Long-Term Capital Management, the hedge fund founded by Nobel laureates, did quite well until, like many investment firms, it found itself surprised by "shocks" its complex models had not considered. Once its returns went negative, like many funds, it experienced a flight-to-liquidity crisis and is no more.

How is Taleb's black swan useful? Taleb argues we are too focused on, and too confident about, future predictions. "What is surprising is not the magnitude of our forecast errors," he writes, "but our absence of awareness of it." Danger is especially great when times are good and volatility is low because, like the turkey fed every day until Thanksgiving, we discount the possibility of calamitous shocks.

According to Taleb, we should recognize the importance of what we don't know—the "unknown unknowns"— rely less on our financial models, weigh risk more, and resist the temptation to rationalize past black swan events as predictable. "Trying to model something that escapes modelization is the heart of the problem," he says.

Source: Based on N. N. Taleb, The Black Swan: The Impact of the Highly Improbable (New York: Random House, 2007); "Fear of the Black Swan," Fortune (April 14, 2008), pp. 90–91; and R. Langreth, "Black Swan Bets," Forbes (January 15, 2009), www .forbes.com.

Class Exercise

A rising theory that includes the concepts inherent in the Black Swan is Chaos Theory. Originally a mathematical concept, it recently has been applied to events in organizational operational environments. One of the most public applications was the movie *Jurassic Park*.

1. Form groups of three to five students.
2. Read the essay at http://www.directessays.com/viewpaper/11610.html
3. Have the group discuss the ramifications of the Black Swan or Chaos Theory on the university operational environment.
4. Have the groups present to the class.

Note: William Haney in his book *Communication and Interpersonal Relations*, Richard D. Irwin, Inc., 1979, suggested one of the earliest applications of this concept to

organizational behavior. There he talks about a barrier to communication called "allness," defined as situations based on two assumptions. 1) It is possible to know and say everything about something, and 2) What I am saying (or writing or thinking) includes all that is important about a subject. This means that it is common for people communicating to assume they know everything about the topic. No recognition is acknowledged that unknown facts exist which can have tremendous effects on the situation. The result can be catastrophic events caused by the failure to communicate.

One of the best public examples of this is the television show *All in the Family*. Allness was a frequent basis for the show's humor. As an example, view http://www.youtube.com/watch?v=kCB0xJhSz44.

An Ethical Choice
Is It Wrong to Rationalize?

The self-serving bias lets us claim credit for our successes but avoid responsibility for our failures. A related concept, rationalization, lets us construct explanations for our behaviors that may be inaccurate or self-serving.

When are rationalizations right and wrong? The easy answer is that rationalizations are right when they're factually correct—we should explain our behavior accurately, acknowledging that luck or others' help may explain our success and that some failures are our own fault.

But even our perceptions of fact may be self-serving. In one experiment, individuals rated the desirability of owning various objects and were told they could take home one of two objects they rated the same. After the subjects had made their choice, the researchers found they perceived the object they chose as much more desirable than the one they didn't—even though minutes before they had rated them equally desirable.

How can you avoid rationalizing? Here are some guidelines:

1. First, **admit you have a problem** (as do we all). Several studies of physicians reveal that while they deny the influence on their prescribing behavior of gifts and meals from pharmaceutical representatives, such contacts do influence them. It's hard to analyze the ethicality of our behavior if we don't start by being honest with ourselves.
2. **Don't rely on public disclosure and accountability to shame people out of rationalizing.** That may only exacerbate self-serving biases because they make people more defensive. We may only succeed in burying the rationalization so it's harder for everyone to see.
3. **Let yourself off the hook.** Everyone rationalizes at one time or another. Our tendency to rationalize may be biological—even monkeys show evidence of self-serving attributions. As one review concluded, "Bias is not a crime, is not necessarily intentional, and is not a sign of lack of integrity; rather, it is a natural human phenomenon."

Source: Based on J. Shepperd, W. Malone, and K. Sweeny, "Exploring Causes of the Self-Serving Bias," Social and Personality Psychology Compass 2, no. 2 (2008), pp. 895–908; D. M. Cain and A. S. Little, "Everyone's a Little Bit Biased (even Physicians)," JAMA: Journal of the American Medical Association 299, no. 24 (2008), pp. 2893–2895; and J. Tierney, "Go Ahead, Rationalize. Monkeys Do It, Too," New York Times (November 6, 2007), pp. S1–S2.

Class Exercise

1. Divide the class into groups of three to five students each.
2. Have the students view the video http://www.youtube.com/watch?v=jP7v62zD6b8 as a group or individually.
3. Discuss the application of rationalization.
4. Ask if anyone wants to relate a situation they rationalized. What were the ramifications of rationalization? What would they have done differently to accomplish a different outcome?

Point/CounterPoint
When In Doubt, Do!

Point

Life is full of decisions and choices. The real question is not "To be, or not to be" but rather "To do, or not to do?" For example, "Should I confront my professor about my midterm grade?" "Should I buy a new car?" "Should I accept a new job?" "Should I choose this major?" Very often, we are unsure of our decision. In such cases, it is almost always better to choose action over inaction. In life, people more often regret inaction than action. Take the following simple example:

Say you carry an umbrella and it doesn't rain, or you don't carry an umbrella and it does rain. In which situation are you worse off? Would you rather experience the mild inconvenience of the extra weight of the umbrella or get drenched? Chances are you'll regret inaction more than action. Research shows that after we make a decision, we indeed regret inaction more than action. Although we often regret actions in their immediate aftermath, over time these regrets decline markedly, whereas regrets over missed opportunities increase. Suppose you finally decide to take a trip to Europe. You have an amazing time, but a few weeks after you get back, your credit card bill arrives—and it isn't pretty. Unfortunately, you have to work overtime and miss a few dinners out with friends to pay off the bills. A few months down the road, however, you decide to reminisce by looking through your photos from the trip, and you can't imagine not having gone. So, when in doubt, just do!

CounterPoint

It's just silly to think that, when in doubt, you should always act. People will undoubtedly make mistakes following such simple advice. For example, you're out of work, but you still decide to purchase your dream car—a BMW, fully loaded. Not the smartest idea. So why is the motto "Just do it" dangerous? Because there are two types of regrets: hot regret, in which an individual kicks herself for having caused something bad, and wistful regret, in which she fantasizes about how else things might have turned out. The danger is that actions are more likely to lead to anguish or hot regret, and inaction is more likely to lead to wistful regret. So the bottom line is that we can't apply simple rules such as "just do it" to important decisions.

Act	State	
	Rain	Shine
Carry Umbrella	Dry (Except for Feet)	Inconvenience
Don't Carry Umbrella	Miserable Drenching	Unqualified Bliss

Class Exercise

1. Divide the class into four groups.
2. Assign two of the groups the Point perspective and two the CounterPoint perspective.

3. Ask students to spend some time developing the philosophies represented in the two perspectives on the topic of carrying a camera with them when going out shopping.

Act	State	
	Event happens	No event happens
Carry Camera	Get pictures that may be important	Inconvenience
Don't Carry Camera	Miss documenting event	Unqualified Bliss

4. Select a Point group and a CounterPoint group to debate the two perspectives in front of the class.

Questions for Review

1. What is perception, and what factors influence our perception?

    Answer: Perception is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment. What one perceives can be substantially different from objective reality. Perception is important in the study of OB because people's behavior is based on their perception of what reality is, not on reality itself. Factors in the perceiver such as attitudes and motives; factors in the situations such as time, work or social setting; and factors in the target such as proximity, sounds, motion are all factors that can influence our perception.

2. What is attribution theory? What are the three determinants of attribution? What are its implications for explaining organizational behavior?

    Answer: Attribution theory suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused. That determination depends largely on three factors: distinctiveness, consensus, and consistency. An implication for managers is that errors or biases distort attribution. For example, while making judgments about the behavior of other people, we tend to overestimate the influence of personal factors or internal factors and underestimate the influence of external factors.

3. What shortcuts do people frequently use in making judgments about others?

    Answer: Selective Perception - People selectively interpret what they see on the basis of their interests, background, experience, and attitudes.
    *   Halo Effect - Drawing a general impression about an individual on the basis of a single characteristic
    *   Contrast Effects - Evaluation of a person's characteristics that are affected by comparisons with other people recently encountered who rank higher or lower on the same characteristics
    *   Stereotyping - Judging someone on the basis of one's perception of the group to which that person belongs – a prevalent and often useful, if not always accurate, generalization

4. What is the link between perception and decision making? How does one affect the other?

    Answer: Individuals must make decisions at work. Decision making occurs as a reaction to a problem, which is a discrepancy that exists between the current state of affairs and a desired state. The perception of problems differ between people. The awareness of whether a problem exists and subsequently whether a decision needs to be made is a perceptual issue. Perceptual distortions also affect decision making.

5. What is the rational decision-making model? How is it different from bounded rationality and intuition?

Answer: The optimizing decision maker is rational. He/she makes consistent, value-maximizing choices within specified constraints. The Rational Model—six steps listed in Exhibit 6–3.

   a. Define the problem.
   b. Identify the decision criteria important to solving the problem.
   c. Weight the previously identified criteria in order to give them the correct priority in the decision.
   d. Generate possible alternatives that could succeed in resolving the problem.
   e. Critically analyze and evaluate each alternative.
   f. Compute the optimal decision.
   g. Evaluate each alternative against the weighted criteria, and select the alternative with the highest total score.

The rational model differs in that bounded rationality is the "real world" model: that seeks satisfactory and sufficient solutions from limited data and alternatives. Intuition is a non-conscious process created from distilled experience that results in quick decisions. It relies on holistic associations and is affectively charged.

6. What are some of the common decision biases or errors that people make?

   Answer:
   a. Escalation of Commitment - Increasing commitment to a decision in spite of evidence that it is wrong – especially if responsible for the decision!
   b. Randomness Error - Creating meaning out of random events - superstitions
   c. Winner's Curse - Highest bidder pays too much due to value overestimation. The likelihood increases with the number of people in auction.
   d. Hindsight Bias - After an outcome is already known, believing it could have been accurately predicted beforehand.

7. What are the influences of individual differences, organizational constraints, and culture on decision making?

   Answer: Individual differences can result in deviations in decision making. A person's personality can influence his/her decision making. Achievement-striving people may fall prey to a hindsight bias. Gender may also impact decisions such as the concept of rumination whereby women in general reflect at length about possible decisions. Organizational constraints can include:
   a. Performance Evaluation - managerial evaluation criteria influence actions
   b. Reward Systems - managers will make the decision with the greatest personal payoff for them
   c. Formal Regulations - limit the alternative choices of decision makers
   d. System-Imposed Time Constraints - restrict ability to gather or evaluate information
   e. Historical Precedents - past decisions influence current decisions
Cultural differences also impact decision making based on traditions, customs, religion, etc.

8. Are unethical decisions more a function of an individual decision maker or the decision maker's work environment? Explain.

   Answer: This answer will vary according to the situation. Ethical criterion is essential in decision making. The ethical criteria discussed are utilitarianism – providing the greatest good for the greatest number, ethical criterion based on rights, which are fundamental liberties and privileges, and justice, which imposes rules

fairly and impartially. The ultimate decision is always an individual one, although work environments can influence decisions both positively and negatively.

9. What is creativity, and what is the three-component model of creativity?

    Answer: Creativity is the ability to produce novel and useful ideas. The three-component model includes: expertise as the foundation; creative-thinking skills are the personality characteristics associated with creativity; and intrinsic task motivation is the desire to do the job because of its characteristics.

Experiential Exercise
Biases in Decision Making

Step 1
Answer each of the following problems.

1. *Fortune* magazine ranked the following 10 corporations as being among the 500 largest United States–based firms according to sales volume for 2008:
   a. Group A: Apple Computer, Hershey Foods, Kellogg, McDonald's, U.S. Airways
   b. Group B: Altria Group, AmerisourceBergen, Cardinal Health, McKesson, Valero Energy

   Which group would you say (A or B) had the larger total sales volume? By what percentage (10 percent, 50 percent, 100 percent)?

   Answer: Group B had the larger total, with combined sales of $127.6 billion. Group A had combined sales of $22.1 billion. Students often choose this group because of the available heuristic—the companies are better known. Group B exceeded sales by 500 percent. Group B has 5 times the sales but is less well known and is comprised of industrial firms.

2. The best student in your introductory MBA class this past semester writes poetry and is rather shy and small in stature. What was the student's undergraduate major: Chinese studies or psychology?

   Answer: Illustrates representative heuristic. Most students would offer "Chinese studies," overlooking that psychology majors outnumber Chinese studies majors 50:1.

3. Which of the following causes more deaths in the United States each year?
   a. Stomach cancer
   b. Motor vehicle accidents

   Answer: Stomach cancer. Twice as many as from motor vehicle accidents, but this represents available heuristic because of the emphasis in the media on car accidents.

4. Which would you choose?
   a. A sure gain of $240
   b. A 25 percent chance of winning $1,000 and a 75 percent chance of winning nothing.

5. Which would you choose?
   a. A sure loss of $750
   b. A 75 percent chance of losing $1,000 and a 25 percent chance of losing nothing

6. Which would you choose?
   a. A sure loss of $3,000
   b. An 80 percent chance of losing $4,000 and a 20 percent chance of losing nothing

Step 2
Break into groups of three to five students. Compare your answers. Explain why you chose the answers you did.

Step 3
Your instructor will give you the suggested answers to each problem. Now discuss the accuracy of your decisions, the biases evident in the decisions you reached, and how you might improve your decision making to make it more accurate.

Source: These problems are based on examples provided in M. H. Bazerman, Judgment in Managerial Decision Making,3rd ed. (New York: Wiley, 1994).

Teaching Notes:

1.   Answer found in instructions above.
2.   Answer found in instructions above.
3.   Answer found in instructions above.
4.   Which would you choose?

Answer: [The percentage of responses come from the author's experience. The percentages are not important but the general pattern in your class is. In all likelihood, your class will parallel the author's experience.] In a test, 84 percent of students chose "b"—a sure gain. Sixteen percent chose "a"—a 25 percent chance. This exemplifies our tendency to be risk-averse concerning gains and positively framed questions.

5.   Which would you choose?

Answer: [The percentage of responses come from the author's experience. The percentages aren't important but the general pattern in your class is. In all likelihood, your class will parallel the author's experience.] Eighty-seven percent chose "b"—75 percent chance, and 13 percent chose "a"—a sure loss. This demonstrates our tendency to be risk seeking concerning losses and negatively framed questions.

6.   Which would you choose?

Answer: [The percentage of responses come from the author's experience. The percentages aren't important but the general pattern in your class is. In all likelihood, your class will parallel the author's experience.] This is the same question as number five, but the amounts will probably shift students to choosing "a"—the sure loss because "b"—the 80 percent loss is much greater, if they calculate the percentages.

Ethical Dilemma
Five Ethical Decisions: What Would You Do?

Consider the following ethical decisions. How would you respond to each of the following situations?

1.   You're a middle manager in a company with about a thousand employees. You're negotiating a contract with a potentially very large customer whose representative has hinted that you could almost certainly be assured of getting his business if you gave him and his wife an all-expense-paid cruise to the Caribbean. You know the representative's employer wouldn't approve of such a "payoff," but you have the discretion to authorize such expenditure. What would you do?

   Answer: Students' responses will vary significantly. Two suggestions for discussing these questions: First, do not show shock at the lack of ethicality of the students. Research shows, for some reason, business students have far lower ethicality than practicing managers. The point of these questions is to help the students develop their ethical frameworks. Second, suggest the students analyze the question based on the following criteria.

   • Impact on people—Who are the key stakeholders? What is the potential for harm to them?
   • Organizational systems—In what way does the organization's way of doing business, policies and procedures contribute to the ethical conflict.
   • Choice—What alternatives do they have? How much risk do they face in doing the ethical thing?

2.   You have an autographed CD by Sean Combs. You have put the CD up for sale on eBay. So far, the highest bid is $74.50. You have a friend who has offered you $100 for the CD, commenting to you that he could get $150 for the CD on eBay in a year. You know this is highly unlikely. Do you have an obligation to tell your friend that you have listed your CD on eBay?

   Answer: See #1 above.

3.   Your company's policy on reimbursement for meals while traveling on business is that you will be repaid for out-of-pocket costs, not to exceed $80 per day. You don't need receipts for these expenses—the company will take your word. When traveling, you tend to eat at fast-food places and rarely spend in excess of $20 a day. Most of your colleagues put in reimbursement requests in the range of $55 to $60 per day, regardless of what their actual expenses are. How much would you request for your meal reimbursements?

   Answer: See #1 above.

4.   You work for a company that manufactures, markets, and distributes various products, including nutritional supplements, to health food and nutrition stores. One of the company's best-selling products is an herbal supplement called

Rosalife. The company advertises that Rosalife "Achieves all the gains of estrogen hormone replacement therapy without any of the side effects." One day a research assistant stops by your office with some troubling information. She tells you that while researching another product, she came across a recent study that suggests that Rosalife does not offer the benefits the company claims it does. You show this study to your supervisor, who says, "We're not responsible for validating non-FDA-controlled products and nobody's hurt anyway." Indeed, you know that this is not the case. What is your ethical responsibility?

Answer: See #1 above.

5.   You're the manager at a gaming company, and you're responsible for outsourcing the production of a highly anticipated new game. Because your company is a giant in the industry, numerous companies are trying to get the bid. One of them offers you some kickbacks if you give that firm the bid, but ultimately, it is up to your bosses to decide on the company. You don't mention the incentive, but you push upper management to give the bid to the company that offered you the kickback. Is withholding the truth as bad as lying? Why or why not?

Answer: See #1 above.

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)
  - o **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)
  - o **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)
  - o **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)
  - o **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)
  - o **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)
  - o **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*
  - o **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.