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.

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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

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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.

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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

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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.

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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

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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.)

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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.

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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.

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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.

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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.

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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.

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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

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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.

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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.

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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.)

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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.

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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.

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