



Organizational, Social, Psychological, & Statistical Insights

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The purpose of today's lecture:

Pick any of the following insights for your second paper assignment, “research proposal,” and describe how it might operate in a negotiation context.

Feel free to...

Take the perspective of the buyer or seller, or of a third-party balcony observer...or a mediator...or an agent


The other purpose of today's lecture:

Be able to say more than “people are biased” as you navigate the world.

Develop some knowledge of human tendencies to identify, react to, and explain to others some of the basics of human behavior (especially in a negotiation context).



Some things we've learned about how people in organizations think and behave.

A solid red horizontal bar at the bottom of the slide.



Peter Principle

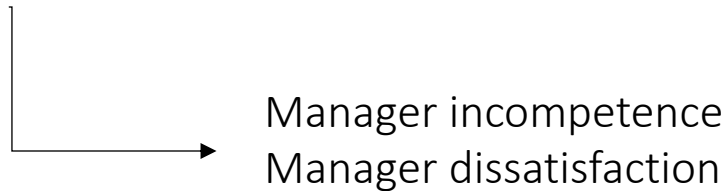
- “Workers are promoted to their level of incompetence.”



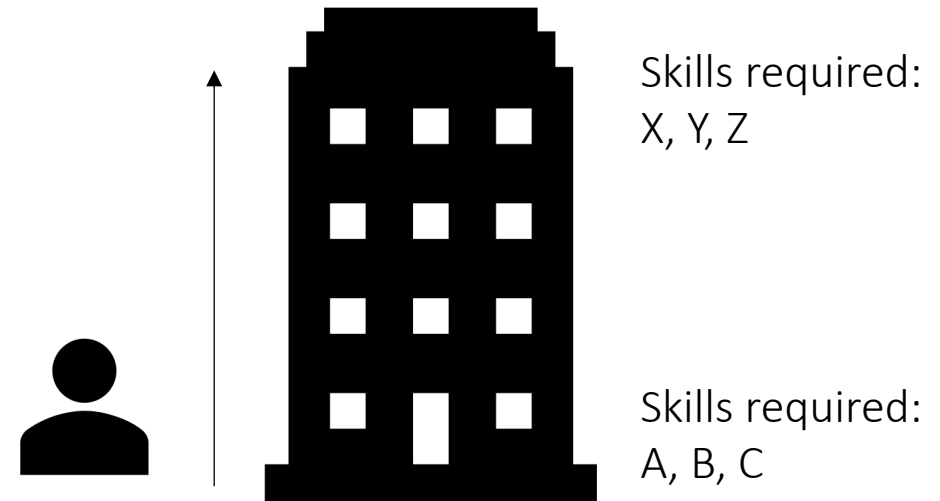
Peter Principle

- “Workers are promoted to their level of incompetence.”

When a person excels at the job, she gets promoted. And she keeps getting promoted until she attains a job that she's not very good at. Then the promotions stop. There she stays, interminably.



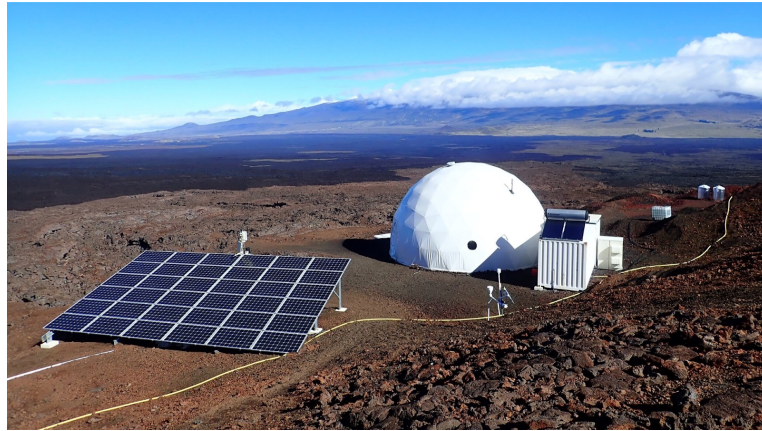
- Moreover, promotions are often based on prior success rather than future potential





Babble Hypothesis

- What predicts whether someone is perceived as a leader?
Not their IQ. Not their experience. Time spent speaking.





Escalation of Commitment

- Commitment to losing courses of action even in the face of negative news

Projects are often allowed to continue for too long before appropriate action is taken to discontinue the efforts

“I’ve already invested so much effort/time/money...”



Escalation of Commitment

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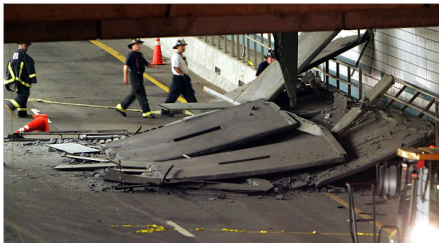
Projects are often allowed to continue for too long before appropriate action is taken to discontinue the efforts

“I’ve already invested so much effort/time/money...”

George Ball writing to President Lyndon Johnson – Vietnam War:

“The decision you face now is crucial. Once large numbers of U.S. troops are committed to direct combat, they will begin to take heavy casualties in a war they are ill equipped to fight. Once we suffer large casualties, we will have started a well-nigh irreversible process. Our involvement will be so great that we cannot – without national humiliation – stop short of achieving our complete objectives. Of the two possibilities, I think humiliation would be more likely than the achievement of our objectives – even after we have paid terrible costs.”

“Big Dig” in Boston

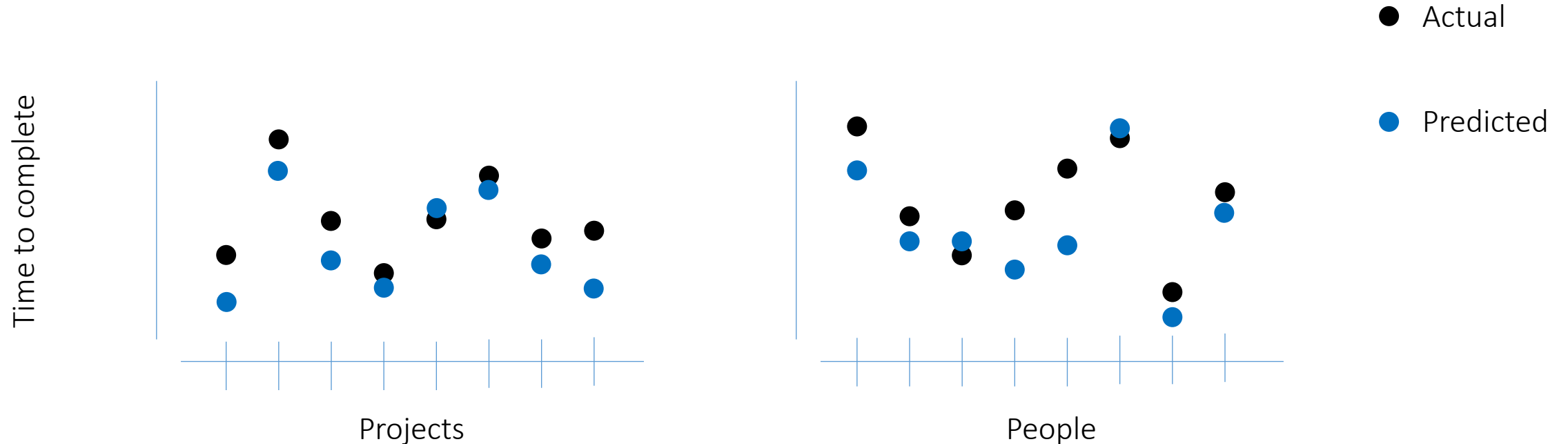


Majority of college grads (~80%) with debt feel obligated to stay within field consistent with their degree until debt is gone

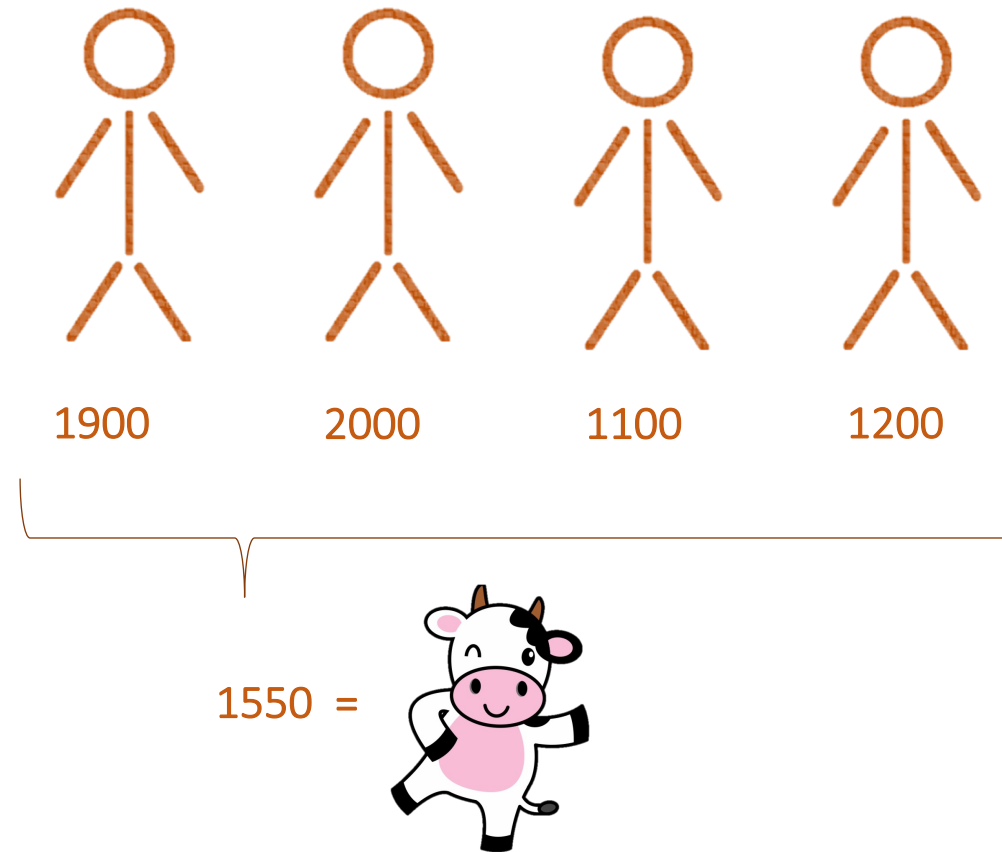


Planning Fallacy

- People tend to under-estimate the time it takes to complete projects



(Narrow) Wisdom of Crowds





Process-Loss in Teams

- One of the fundamental challenges of teams: coordinating multiple members to work together effectively while minimizing “process losses”
- Adding more heads often yields diminishing returns because of greater coordination requirements or decreased member motivation, especially for complex tasks or those with strong interdependence.
- Although having more team members increases the resources available to accomplish a group’s goals (e.g., time, energy, expertise), it may also lead to greater process losses due to the need to coordinate the work of more people.
- In the limit, coordination costs can overwhelm the benefits of added personnel.
- When teams are asked to perform, their work can be lower than what individuals can achieve on their own due to social and coordination costs.
Difference between what individuals generate on own and what team produces = process loss

Process-Loss in Teams

- Brainstorming as a case:

Most naively assume you should put everyone in a room together to generate ideas.

What happens: social loafing, shy don't contribute, dominate takes over.

The social burdens of interacting with others (and the coordination demands of a team) reduce the benefit of bringing people together (i.e., process loss).

Better: have people generate ideas on their own. Then, compile those ideas and integrate.



Goodhart's Law

- “When a measure becomes a target, it ceases to be a good measure”

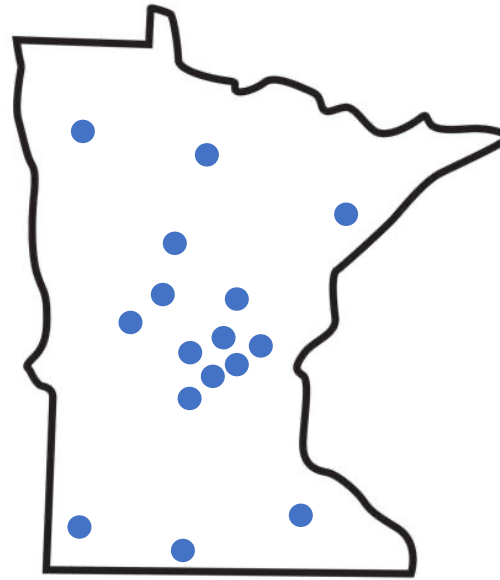
The more any quantitative indicator is used for social-decision making, the more subject it will be to corruption pressures and the more apt it will be to distort the social processes it is intended to monitor.

Goodhart's Law

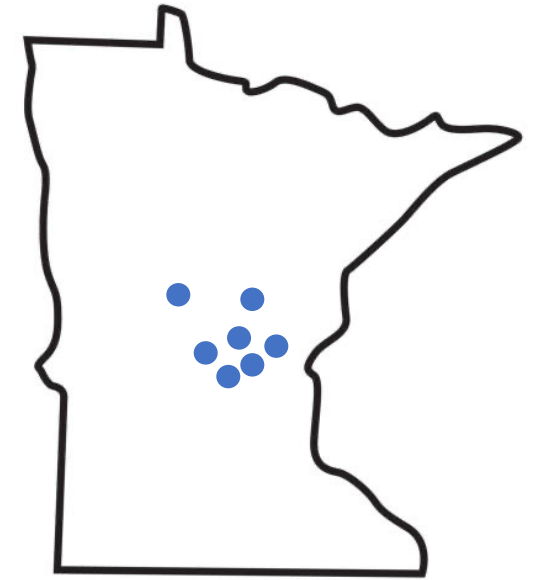


- Case: Allina Health

Before Metric



After Metric

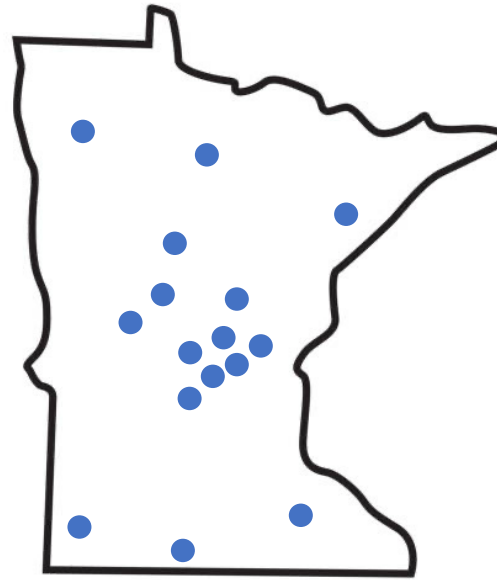


Goodhart's Law

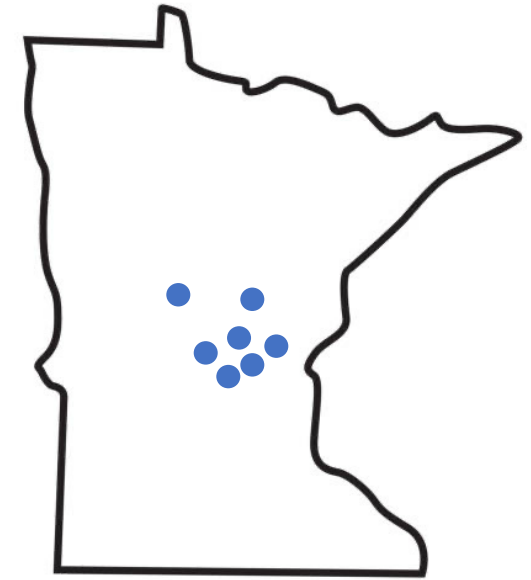
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“This is going to sound terrible,” one chaplain said, “but every now and again I would do what I thought of as spiritual drive-bys to rack up points.” If a patient was sleeping, “I could just talk to the nurse and say, ‘Are there any concerns?’ without speaking with the patient. It counted as a visit, and I therefore acquired a point.”

Before Metric



After Metric



Goodhart's Law

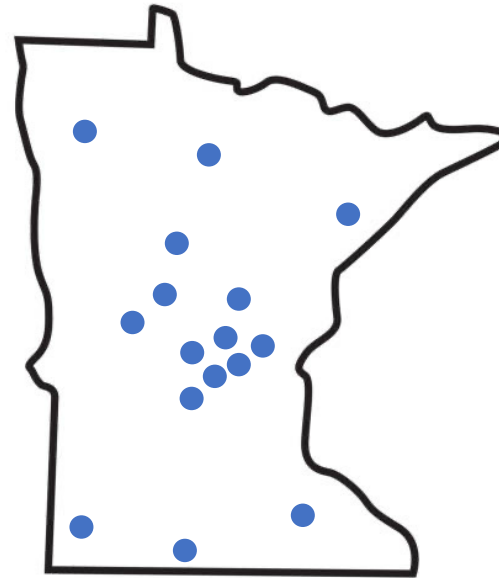
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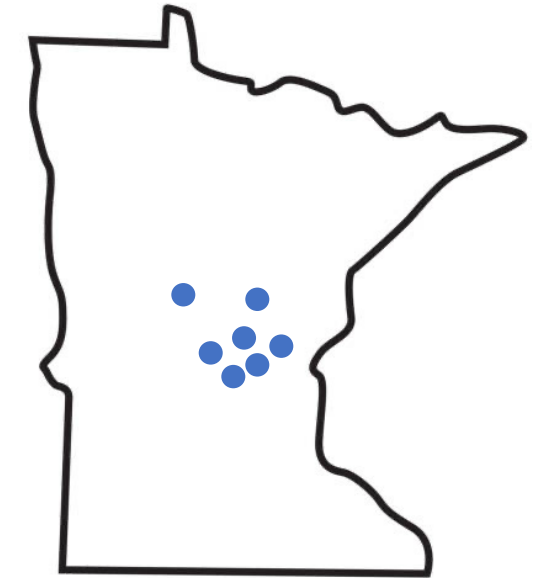
“The original characteristics of the job that attracted me to this work now impeded points.”

Quit

Before Metric



After Metric





Goal-Setting & Performance Management

- What we know...

Do not set goals (or do so with caution) for things people already find intrinsically motivating

In organizations, goals are almost always optimized for short-term success at the risk of long-term failure

Challenging and specific “performance” goals (i.e., score this many points) should be used when the effort-performance link is clear

Clear, specific, and challenging goals tend to generate better performance than abstract, “try your best” goals

Van Eerde, W., & Thierry, H. (1996). Vroom's expectancy models and work-related criteria: A meta-analysis. *Journal of applied psychology*, 81(5), 575.

List, J., Van Soest, D., Stoop, J., & Zhou, H. (2014). *On the role of group size in tournaments: Theory and evidence from lab and field experiments* (No. w20008). National Bureau of Economic Research.

Lee, S., & Puranam, P. (2017). Incentive redesign and collaboration in organizations: Evidence from a natural experiment. *Strategic Management Journal*, 38(12), 2333-2352.

Ordóñez, L. D., Schweitzer, M. E., Galinsky, A. D., & Bazerman, M. H. (2009). Goals gone wild: The systematic side effects of overprescribing goal setting. *Academy of Management Perspectives*, 23(1), 6-16.



Goal-Setting & Performance Management

- How different fields think about facilitating effort...

Organizational Behavior: VIE theory

- What predicts effort/action?
 - Can I achieve the outcome? (do I have the resources, capability, and a clear path to success?)
 - Do I value the outcome?
 - Yes = effort

Economics: Tournament theory

- What predicts effort/action?
 - Are there many competitors?
 - Are there many routes to success? (e.g., do I expect to be successful, if I strive?)
 - Yes = effort



Exploration & Exploitation

- Fundamental tension in life and business: do you explore to find new and better resources (risk of finding nothing) or exploit known alternatives at the cost of never acquiring superior but distant options?

In resource rich environments, people tend to explore

In resource scarce environments, people tend to exploit

Do you continue to exploit familiar, known resources at the risk of missing better resources in "unexplored" areas, or do you explore unfamiliar terrain for new resources at the risk of not finding anything? (think investing, dating, food gathering, career planning, algorithms for search engines, hiring an employee, environmental policy, etc...).

Success at work



Satisfied with work

Career advancement

Success at work



Satisfied with work

Autonomy and control over job

Uniquely valuable

(Lack of terrible) coworkers

Minimum threshold of pay relative to cost of living

Feedback about what you produce

Career advancement



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Feedback about what you produce

Career advancement

“Find your passion” is often terrible advice

Instead:

- What do other people hate doing that I don't mind doing?
- Uniquely valuable
- Once established, negotiate for autonomy



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Career advancement

Quality of network

Political skill

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Big fish small pond

Career advancement

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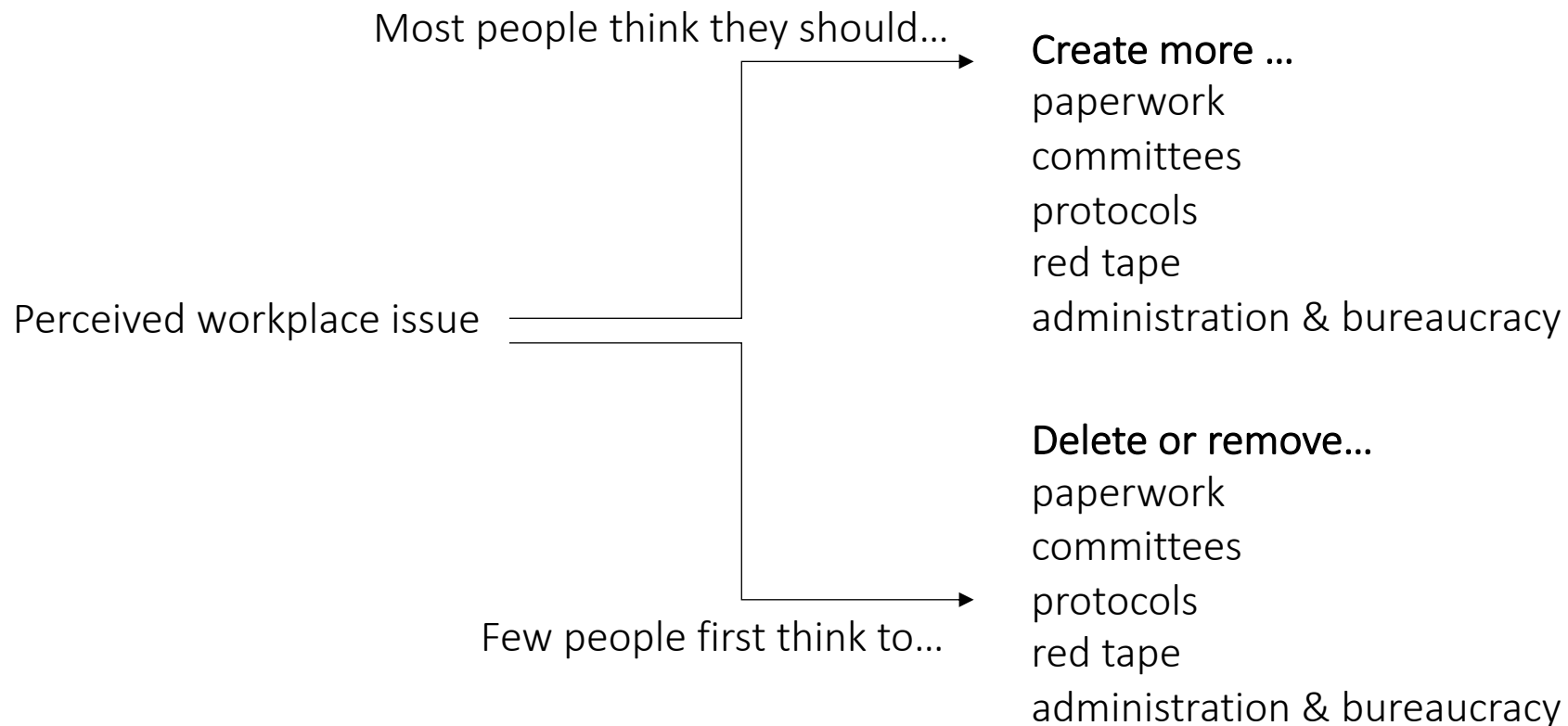
Political skill

Small fish big pond

Action Tendency



- Prone to intervention/action if we perceive a problem

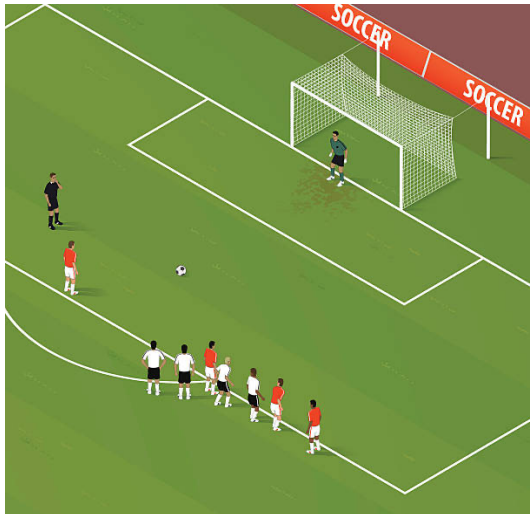


Action Tendency

- Prone to intervention/action if we perceive a problem

Kicks: 1/3 left, 1/3 right, 1/3 center

Goalie Action: 1/2 left, 1/2 right, few center



Most people think they should...

Create more ...

paperwork
committees
protocols
red tape
administration & bureaucracy

Few people first think to...

Delete or remove...

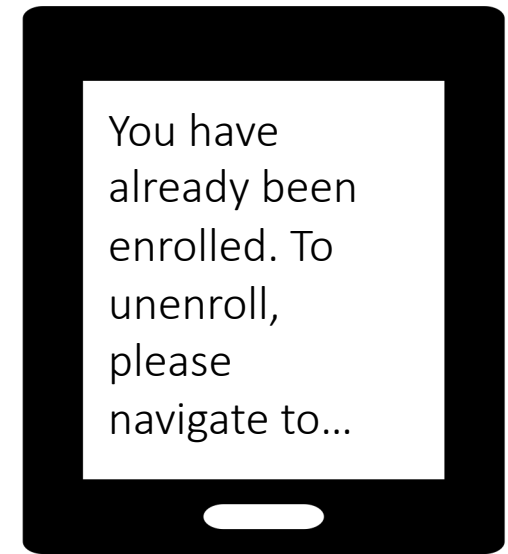
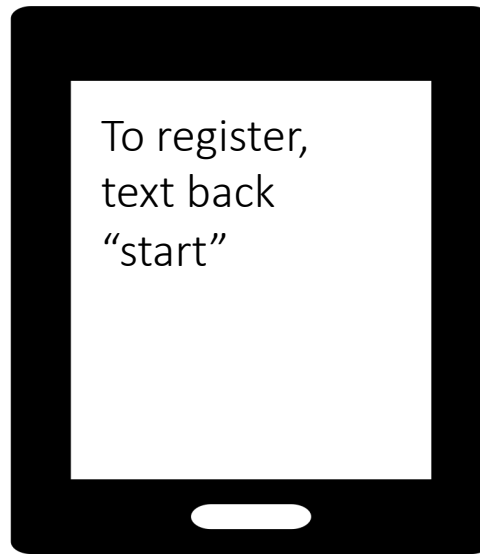
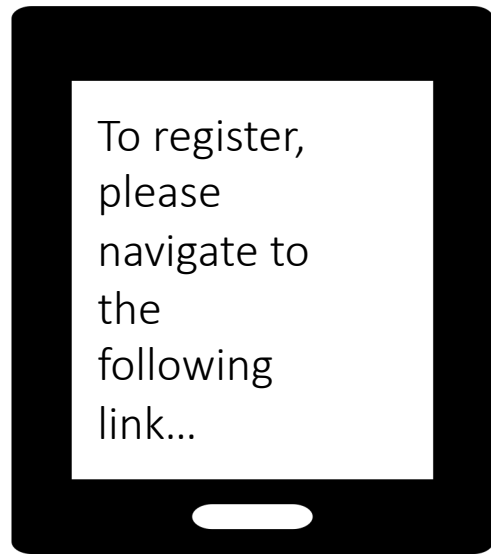
paperwork
committees
protocols
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Downstream Behavior

- Behavior/action via removing constraints rather than creating demands

2017 Department of Education – Parent Sign-Up





Confirmation Bias

- Tendency to...
 - seek out confirming rather than disconfirming evidence
 - downplay disconfirming evidence once confronted with it

Guess the rule producing this sequence:
2, 4, 6, ...



Fundamental Attribution Error

- Tendency for observers to underestimate situational (external) influences and overestimate dispositional (internal) influences on others' behavior

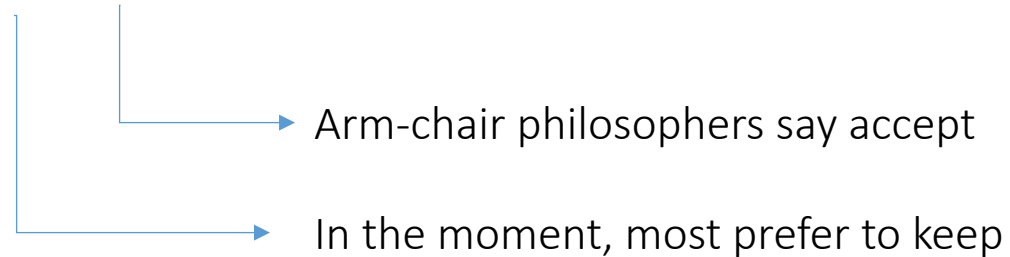
If someone is late, we are likely to consider his/her personality flaws and not his/her situation constraints



Endowment Effect

- We consider things to be more valuable when we own them

Salesman wanted 25k for a car. I got it for 20k. The next day, my neighbor walks over and offers 26k on the spot.





Hyperbolic Discounting

- Prefer immediate (even smaller) rewards over future (but larger) rewards



Marginal Thinking Errors

- Discount the demands required to achieve additional units of an outcome

“Our efforts reduced unethical research practices from 30% to 3%. We won’t stop until we reach 0%.”

“NFL safety measures have cut concussions in half over the last five years. We would like to cut these numbers in half again over the next five years.”



Paradox of Choice & Decision-Fatigue

- More choices =

More stress

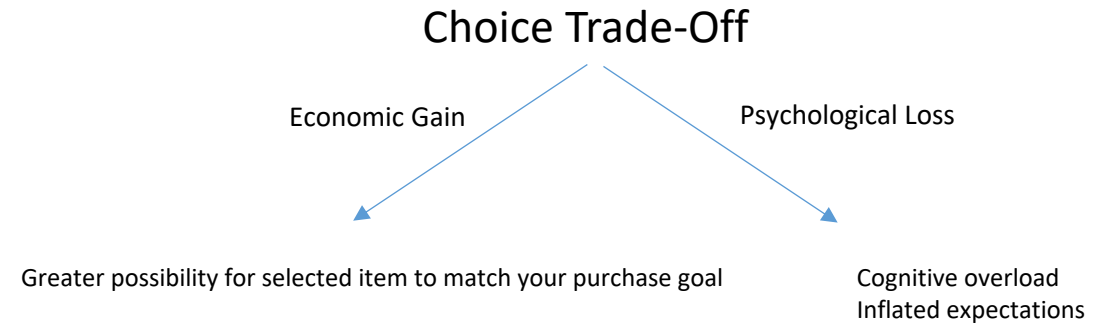
Less satisfied with current selection

More information to deal with

Discomfort about which choice to make

Less likely to make an actual purchase

...often fuels rumination. People wonder, “did I make the right choice? Are better options out there?”



- More decisions over the course of the day =

More fatigue

Reduced cognitive capacity



Team (Scaling) Fallacies

- People tend to over-estimate the benefits of large, diverse teams and under-estimate the time/resources lost due to coordination demands

Brook's Law: adding people to a late-stage software project makes it later

Diverse teams can sometimes be more creative, but small homogenous groups are often more efficient

Narrow problem specification: people view problems and solutions only in ways consistent with their domain of expertise. *What is the crux of the problem?* Psychologists see misguided beliefs, sociologists see status conflicts, engineers see improper tools, surgeons recommend surgery whereas nutritionists recommend diet



Prospect Theory (Risk Aversion)

- People tend to ...

Prefer guaranteed rewards over uncertain rewards of greater value

Option A
\$100 (100%)

Option B
\$250 (50%), \$0 (50%)



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\$100 (100%)	\$250 (50%), \$0 (50%)

Risk-seek in gain situations but risk-avoid in loss situations

Gain Situation
Start with \$0. Choose...
A: Flip a coin: heads = \$100, tails = \$0
B: \$50 guaranteed

Loss Situation
Start with \$100. Choose...
A: lose \$50 guaranteed
B: Flip a coin: heads = lose \$100, tails = lose \$0



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\$100 (100%)	\$250 (50%), \$0 (50%)

Risk-seek in gain situations but risk-avoid in loss situations

Gain Situation
Start with \$0. Choose...
A: Flip a coin: heads = \$100, tails = \$0
B: \$50 guaranteed

Feel greater intensity from the pain of losing relative to the pleasure of winning

Loss Situation
Start with \$100. Choose...
A: lose \$50 guaranteed
B: Flip a coin: heads = lose \$100, tails = lose \$0



Irrelevant Third Option (Decoy)

- Decision-makers sometimes change their preferences by the mere presence of an irrelevant option

Flight	A	B
Cost	\$600	\$530
Layover Time	1H in Dallas	2.5H in Dallas



Irrelevant Third Option (Decoy)

- Decision-makers sometimes change their preferences by the mere presence of an irrelevant option

Flight	A	B	C
Cost	\$600	\$530	\$675
Layover Time	1H in Dallas	2.5H in Dallas	1H in Dallas

Now, most pick A



Irrelevant Third Option (Decoy)

- Decision-makers sometimes change their preferences by the mere presence of an irrelevant option

Flight	A	B	C
Cost	\$600	\$530	\$530
Layover Time	1H in Dallas	2.5H in Dallas	3.5H in Dallas

Now, most pick B



Sample-Induced Misperceptions

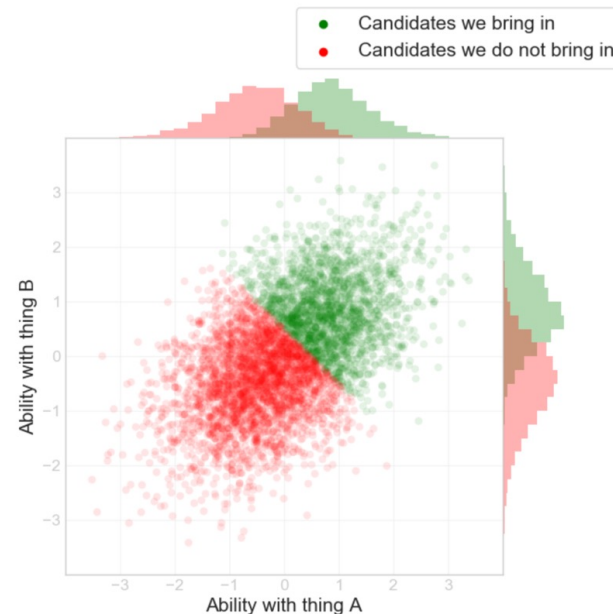
- Missing the broader trend because of limited encounters (with people, places, or time)



Sample-Induced Misperceptions

- Missing the broader trend because of limited encounters (with people, places, or time)

“I thought the candidates for this organization were supposed to be high quality”



We're going to hire some people, so we look at a bunch of resumes and decide who's going to make it to the next stage. The best candidates are the ones that are great at both A and B, and we'll obviously bring them in.

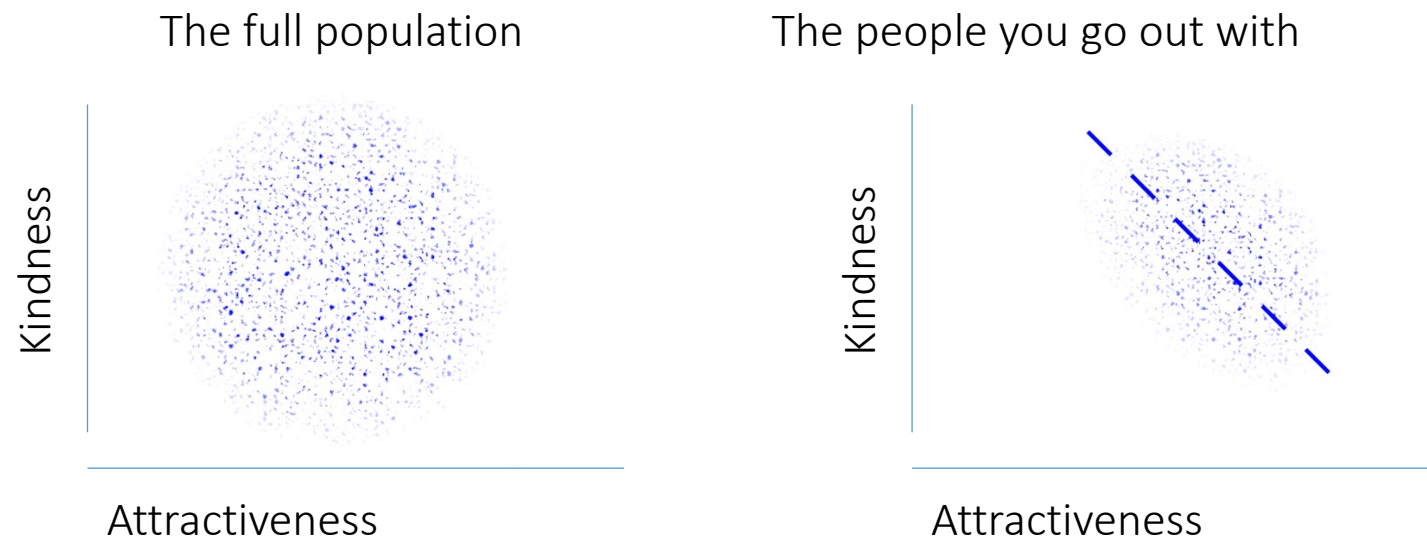
The candidates we bring in exhibit a *negative correlation between thing A and B*, despite those being independent or even positively related.



Sample-Induced Misperceptions

- Missing the broader trend because of limited encounters (with people, places, or time)

“All the hot people I date are jerks”

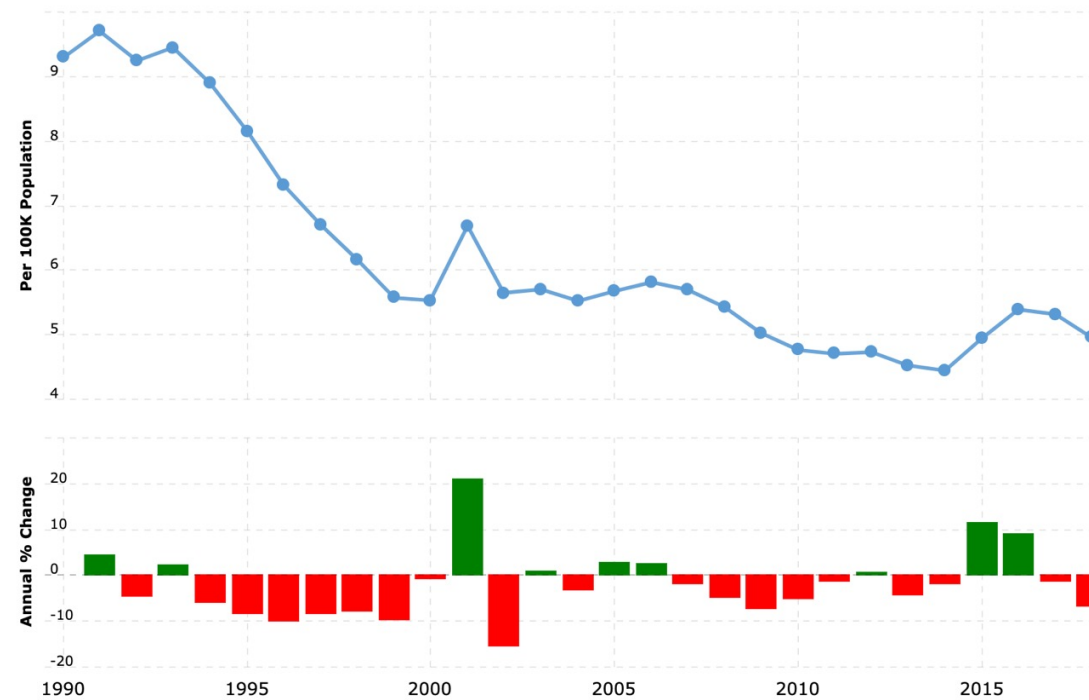




Sample-Induced Misperceptions

- Missing the broader trend because of limited encounters (with people, places, or time)

Average Crime in the U.S.





Sample-Induced Misperceptions

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Twitter: only 1 in 5 people in the U.S. have and use a Twitter account. Twitter users vastly over-estimate the number of people in the U.S. who also use Twitter



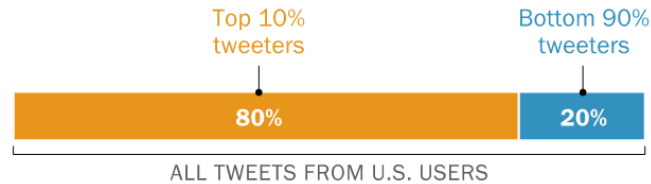
Pareto Principle (80/20)

- Many outcomes are distributed according to a power law

A minority of causes, inputs, or efforts lead to a majority of results, outputs, or rewards

A large majority of tweets come from a small minority of tweeters

Share of all tweets from U.S. adult users created by ...



Note: No institutional accounts are included.

Source: Survey of U.S. adult Twitter users conducted Nov. 21-Dec. 17, 2018. Data about respondents' Twitter activity collected via Twitter API.

"Sizing Up Twitter Users"

PEW RESEARCH CENTER

80% of retail complaints come from 20% of the customers

80% of world's internet traffic goes to 20% of websites

20% of someone's wardrobe is worn 80% of the time

20% of criminals commit 80% of crime



Peak-End Rule & Overblown Implications

- Peak-End Rule

When retrospectively evaluating an experience (e.g., the previous workday), people rely heavily on moments with peak intensity and the final episode.

- Overblown Implications Effect

People over-estimate how much one-off events signal to others their true competency. We think people judge us by a single success or failure much more than they actually do.