MGT 689
Org. Behavior & Design

Decision Making

Professor:
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Objectives

- Describe attribution theory and Decision Making
- Decision biases
- Contrast the rational model of decision making with bounded rationality and intuition.
- Aspects of decision making, including ethics and corporate social responsibility.

Attribution Theory & Decision Making

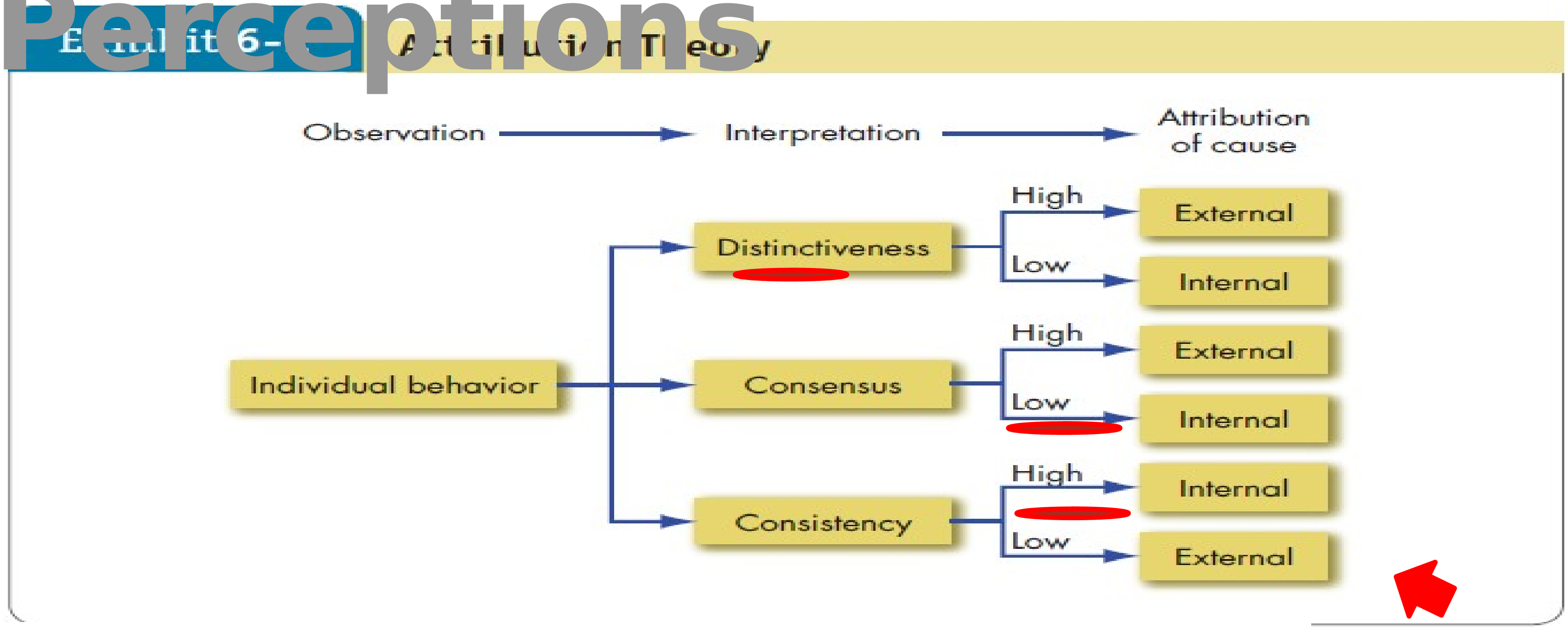
When making decisions, we are influenced by our perception process. Perception is the process we use to organize and interpret our sensory impressions to give meaning to our environment.

Researchers have offered Attribution Theory as a means of helping explain how we perceive others, including the causes of their job performance behavior.

- **Attribution theory** suggests that when we observe an individual's behavior, we attempt to determine whether it was internally or externally caused.
- Determination depends on three factors:
  - Distinctiveness
  - Consensus
  - Consistency

Training Perform ce

Attribution Theory & Perceptions



Cause of Poor Performance by Others	Most Frequent Attribution	Cause of Poor Performance by Themselves
Many	Lack of ability	Few
Many	Lack of effort	Few
Few	Lack of support	Many

Low performance?
Executives: **internal - KSAE**
Vs
Lack of aid

Fundamental Attribution

The Link between Perception & Decision Making

- Individuals make **decisions** – choosing from two or more alternatives.
- Decision making occurs as a reaction to a **problem**.

- **Decision-Making Process -** perception plays a role
  - A set of eight steps that includes identifying a problem, selecting a solution, and evaluating the effectiveness of the solution
- **Problem**
  - A **discrepancy** between an existing and a desired state of affairs requiring consideration of alternative courses of action
- **Decision Criteria**
  - Factors that are relevant in a decision

-Standard
-Previous goal
-Performance benchmark

1. **Identify** the Problem
2. Determine Decision **Criteria** => e.g.: price, durability, maintenance, performance
3. **Weigh** Each Criteria => importance of the criteria for you
4. Develop **Alternatives**
5. **Analysis** of Alternatives => based on the criteria
6. **Selection** of **Alternatives**
7. **Implement** of Alternatives
8. **Evaluation** of Decision

Car Rental Agency Problem – Example

EXHIBIT 3-4 Evaluation of Car Alternatives: Assessment Criteria x Criteria Weight

ALTERNATIVES	INITIAL PRICE [10]		INTERIOR COMFORT [8]		DURABILITY [5]		REPAIR RECORD [5]		PERFORMANCE [3]		HANDLING [1]		TOTAL
Jeep Compass	2	**20**	10	**80**	8	**40**	7	**35**	5	**15**	5	**5**	**195**
Ford Focus	9	**90**	6	**48**	5	**25**	6	**30**	8	**24**	6	**6**	**223**
Mercedes C230	8	**80**	5	**40**	6	**30**	6	**30**	4	**12**	6	**6**	**198**
Pontiac G6	9	**90**	5	**40**	6	**30**	7	**35**	6	**18**	5	**5**	**218**
Mazda CX7	5	**50**	6	**48**	9	**45**	10	**50**	7	**21**	7	**7**	**221**
Dodge Durango	10	**100**	5	**40**	6	**30**	4	**20**	3	**9**	3	**3**	**202**
Volvo S60	4	**40**	8	**64**	7	**35**	6	**30**	8	**24**	9	**9**	**202**
Isuzu Ascender	7	**70**	6	**48**	8	**40**	6	**30**	5	**15**	6	**6**	**209**
BMW 335	9	**90**	7	**56**	6	**30**	4	**20**	4	**12**	7	**7**	**215**
Audi A6	5	**50**	8	**64**	5	**25**	4	**20**	10	**30**	10	**10**	**199**
Toyota Camry	6	**60**	5	**40**	10	**50**	10	**50**	6	**18**	6	**6**	**224**
Volkswagen Passat	8	**80**	6	**48**	6	**30**	5	**25**	7	**21**	8	**8**	**212**

Multiply

Define the problem
Identify criteria
Weight the criteria – their preference
Generate alternatives
Ranking
Product
Optimal choice; implement and evaluate

Shortcuts in the Decision Making Process

Decision Making Errors and Biases

Expertise

Over Confidence

Contrast effects

Halo Effect

Self-serving

Blaming failure on external factors

Motivation, needs

Selective Perception

Sunk Costs

Time
Effort
Resources
change course…
Denver

Fundamental Attribution error

Stereotyping

Immediate Gratification

Alternatives w/ quick payoffs

Confirmation

Maderna

Framing

Threat
vs Opportunity
- newspapers

Representation

Defining a problem as similar to a previous one…
-Alternatives?

Overcome?

Other Shortcuts

- Applications of Shortcuts in Organizations
  - Employment Interview
    - Evidence indicates that interviewers make perceptual judgments that are often inaccurate.
      - 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.

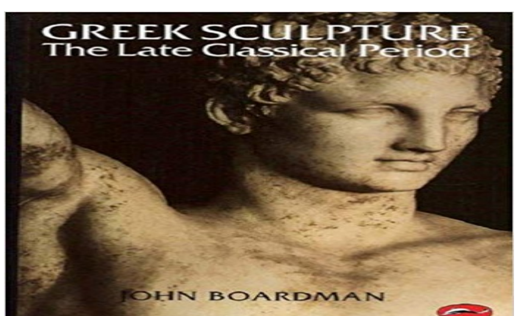
Reliability of intuition for predicting job performance ?

Multiple Interviewers

Other Shortcuts

- Performance Expectations
  - Evidence demonstrates that people will attempt to validate their perceptions of reality, even when those perceptions are faulty.
    - **Self-fulfilling prophecy**, or the *Pygmalion effect*, characterizes the fact that people's expectations determine their behavior.
      - Expectations become reality.

Ideal Soulmate



Golem Effect?

More Shortcuts

- Performance Evaluation
  - An employee’s performance appraisal is very much dependent upon the perceptual process.
    - Many jobs are evaluated in subjective terms.
    - Subjective measures are problematic because of selective perception, contrast effects, halo effects, and so on.

Order effect - Presenters Skills

Objective measures

Rationality in Decision Making

- Assumptions of the Rational Model
  - The decision maker…
    - Has complete information.
    - Is able to identify all the relevant options in an unbiased manner.
    - Chooses the option with the highest utility.
- Most decisions in the real world don't follow the rational model.

Optimal solution

Bounded Rationality in Decision Making

- Bounded Rationality
  - Most people respond to a complex problem by reducing it to a level at which it can be readily understood.
    - People *satisfice* – they seek solutions that are satisfactory and sufficient.
  - Individuals operate within the confines of **bounded rationality.**
    - They construct simplified models that extract the essential features.

Satisfying Solution …

Intuitive Decision-Making -

- Intuition - it has advantages, though lacks rationality
  - Problem approach that is flexible and **spontaneous**.
  - A key element of decision-making under risky and uncertainty conditions.

    Quickly size up a situation: the alternatives and make a decision

Cpt. Sully – Flight 1549? Training… experience *combine?*

Other Common Decision-Making Biases

- **Overconfidence bias** – overestimating one's abilities during decision making.
- **Availability bias** – Tendency for people to base their judgments on information that is readily available to them. This may be events that are particularly vivid. It most also may be events that are most recent. This latter example is often referred to as the 'recency effect.

- **Randomness Error:** our tendency to believe we can predict the outcome of random events.
  - Decision making becomes impaired when we try to create meaning out of random events. (Cause and effect)

Minimizing Biases:

Goal setting – what information is relevant
Disconfirming information
Don't look for meaning in random events (salient variables)
Exhaust all alternatives
Framing
Training

Organ. Constraints on Decision Making

Managers and Leaders are strongly influenced by organizational factors when making decisions, such as:

- Performance Evaluation – the firms' criteria, etc.
- Reward Systems – what benefits them financially: risk aversion and
- conservative decisions
- Formal Regulations – rules they must follow-that standardize behavior
- System-Imposed Time Constraints – imposed deadlines – exhausting
- alternatives?
- Historical Precedents – what has been done in the past (budgets)
- commitments made, etc.

Just as a leader's decisions are constrained by his or her bounded rationality (i.e., cognitive limits especially in the face of much stimuli), the leader is constrained by the firm context.

Ethics and Decision Makin

- Ethical Decision Making – Making **decisions that lead to <u>behavior</u> that is** good, just, **right** and honorable. (e.g., gas emissions)

- Unethical Decision Behavior – Making decisions that lead to behavior that is bad, unjust, wrong, and dishonorable.

Transferred energy out of CA to create a blackout then transferred back at higher prices.

Managers often compromise their standards?

Different Areas of Ethics

- Personal Ethics: the moral principles and standards that define the behavior you personally believe is acceptable.

- Business ethics: the moral principles and standards that define acceptable behavior in business.

What is unethical conduct?

foreclosures

mass trading scandal

Financial incentives available ?

Corporate America

Ethics Theories

- <u>Utilitarianism</u>: it is ethical if it results in the **greatest good** for the greatest number.
- <u>Rights</u>: it is ethical if it does not **infringe** on individual rights_
- <u>Justice</u>**:** it is ethical if there is a **fair** distribution of costs and benefits among those affected **Compensation**
- <u>Egoism</u>: it is ethical if it serves your selfis interests (with consideration of others' interests) *Max revenue; low prices*

More Ethics Theories

Legalizing

- **Hedonism**: it is ethical if it makes you feel good.
- **Professional Standards**: it is ethical if it is within the professional **code of conduct**. **Eng/ accountant** (e.g., Arthur Andersen tried to defend their actions in the Enron debacle by saying they followed Generally Accepted Accounting Principals (GAAP).)
- **The Golden Rule**: it is ethical if you are "doing unto others as you would want done to yourself; **in-group;** (e.g., deciding whether it's adequate to let someone go with 2 weeks notice by considering how you would react if someone did the same to you.)
- **Categorical Imperative**: it is ethical **if no extreme hardship** would result from everyone doing the action in question.

The CSR Pyramid

Corporate Social Responsibility

Do any organizations really fall at the top of this pyramid?

Rolex

endangered species

Is just obeying the law enough?

GE

You've probably heard leaders explain unethical behavior by **saying they did it to try to keep the company in business**. This is an example of leaders focused on economic responsibilities at the expense of obeying legal responsibilities.

The corporate social responsibility (CSR) of an organization is the net effect of the behavior and decisions of the firm members.

Collaborative Work

1. What kinds of implications does the 'fundamental attribution error' have for organizations?

2. How do decision making biases relate to bounded rationality? Provide two examples of common decision making biases (not from the book) that you have encountered in your organizations.
3. Consider the Enron and WorldCom examples - Where on the Corporate Social Responsibility (CSR) pyramid were they operating? Where would you place Starbucks? What about Tesla; Disney? Explain.

4. Provide an example of a for-profit company that you think represents the highest level of the CSR pyramid? Challenge yourselves whether a company ever reaches this level. Does it matter if their responsibility efforts have benefits (e.g., improves reputation)?

5. In the article entitled "I was greedy too", the author argues that greed is common and possibly a function of our psychology and the way we are raised. What consequences does this have for ethics?

Email your collaborative work to zaronson@stevens.edu