DECISION MAKING BIAS AND ERRORS

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Overview

- Most of the manager have a tendency to take decisions based on rule of thumb.
- Rule of thumbs makes decision making quick and easy.
- However, these rule of thumb may not be reliable and may lead to error and biasness.

Types of Error or Biasness in Decision Making

- Overconfidence Bias
- Immediate Gratification.
- Anchoring effect
- Selective Perception
- Confirmation
- Framing
- Availability
- Representation Bias
- Randomness
- Sunk costs
- Self Serving
- Hindsight

Overconfidence

- This error occurs when the decision maker believe that they know more than what they actually do.
- Another cause is holding too much positive views of themselves.
- In simple words " I can't go wrong"

Immediate Gratification

- Decision makers who can't wait and want immediate results of their decision.
- They even don't care of the cost.
- For them any choice that provide quick payoff is more appealing to them.

Anchoring effect

- Some decision maker have a tendency give more weightage to first piece of information.
- They tend to ignore the information received in the later stages.
- First impression their priority

Selective Perception Bias

- When decision makers selectively organise and interpret events based on their biased perception.
- They create a perception (which may be wrong) and take decision based on that.

Confirmation Bias

- There are decision makers who seek out information that reaffirms their past judgements and leave out information that challenges their preconceived views.

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Framing Bias

- When a decision maker highlight certain aspect of a situation while excluding others.
- they have a tendency to omit certain parts and end up on incorrent reference point.

Availability Bias

- When decision makers only remembers events that are more recent.
- This distorts their judgements as they are not able to recall past events.

Representation Bias

- When decision makers tries to compare every new situation with the past event.
- They have a tendency to a create analogies and see identical situations where they don't exist.

Randomness Bias

- when decision makers have a tendency to create meaning from random events.
- There are so many events that happens by chance and there is no way you can predict them.

Sunk Cost Bias

- This error occurs when decision makers forget that current choice can’t correct their past.
- They keep on investing time on their past expenditure rather than focussing on future consequences.

Self Serving Bias

- This error occurs when decision makers are quick to take credit of their success and blame the outside factors for the failure.

Hindsight Biasness

- When decision makers say that they would have predicted the results of any event after the event outcome is already known.

THANKS