

MST 514– Introduction to Organisation Behaviour

Lecture 6

August, 2015



Topics to be covered today

1. Perception and decision making

The Link Between Perceptions and Individual Decision Making

Problem

A perceived discrepancy between the current state of affairs and a desired state.

Decisions

Choices made from among alternatives developed from data perceived as relevant.

Perception of
the decision
maker

Outcomes

Decision-Making Models in Organizations

- **Rational Decision Making**

- The “perfect world” model: assumes complete information, all options known, and maximum payoff
- Six-step decision-making process

- **Bounded Reality**

- The “real world” model: seeks satisfactory and sufficient solutions from limited data and alternatives

- **Intuition**

- A non-conscious process created from distilled experience that results in quick decisions
- Relies on holistic associations
- Affectively charged – engaging the emotions

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Steps in the Rational Decision-Making Model

1. Define the problem.
2. Identify the decision criteria.
3. Allocate weights to the criteria.
4. Develop the alternatives.
5. Evaluate the alternatives.
6. Select the best alternative.

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Common Biases and Errors in Decision Making

- **Overconfidence Bias**

- Believing too much in our own ability to make good decisions, especially when outside of own expertise

- **Anchoring Bias**

- Using early, first received information as the basis for making subsequent judgments

- **Confirmation Bias**

- Selecting and using only facts that support our decision

- **Availability Bias**

- Emphasizing information that is most readily at hand
 - Recent
 - Vivid

More Common Decision-Making Errors

- **Escalation of Commitment**

- Increasing commitment to a decision in spite of evidence that it is wrong
 - especially if responsible for the decision!

- **Randomness Error**

- Creating meaning out of random events – superstitions

- **Risk Aversion**

- The tendency to prefer a sure gain of a moderate amount over a riskier outcome, even if the riskier outcome might have a higher expected payoff

- **Hindsight Bias**

- After an outcome is already known, believing it could have been accurately predicted beforehand.

Individual Differences in Decision Making

- **Personality**

- Conscientiousness may effect escalation of commitment
 - Achievement strivers are likely to increase commitment
 - Dutiful people are less likely to have this bias
- Self-Esteem
 - High self-esteem people are inclined to self-serving bias

- **Gender**

- Women analyze decisions more than men – rumination
- Differences develop early

- **Mental Ability**

- Information processing, solving problem & decisions.

- **Cultural Differences**

- Speed of decision making, type of decision making or collective decision making.



Organizational Constraints on Decision Makers

- **Performance Evaluation**
 - Evaluation criteria influence the choice of actions.
- **Reward Systems**
 - Decision makers make action choices that are favored by the organization.
- **Formal Regulations**
 - Organizational rules and policies limit the alternative choices of decision makers.
- **System-imposed Time Constraints**
 - Organizations require decisions by specific deadlines.
- **Historical Precedents**
 - Past decisions influence current decisions.

Ethics in Decision Making

Ethical Decision Criteria

- **Utilitarianism**

- Seeking the greatest good for the greatest number.

- **Rights**

- Respecting and protecting basic rights of individuals such as whistleblowers.

- **Justice**

- Imposing and enforcing rules fairly and impartially.



Toward Reducing Bias and Errors

- **Focus on goals.**
 - Clear goals make decision making easier and help to eliminate options inconsistent with your interests.
- **Look for information that disconfirms beliefs.**
 - Overtly considering ways we could be wrong, challenges our tendencies, to think we're smarter than we actually are.
- **Don't try to create meaning out of random events.**
 - Don't attempt to create meaning out of coincidence.
- **Increase your options.**
 - The number and diversity of alternatives generated increases the chance of finding an outstanding one.

Thank you

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