



Lecture 6: Decision Making in Organizations

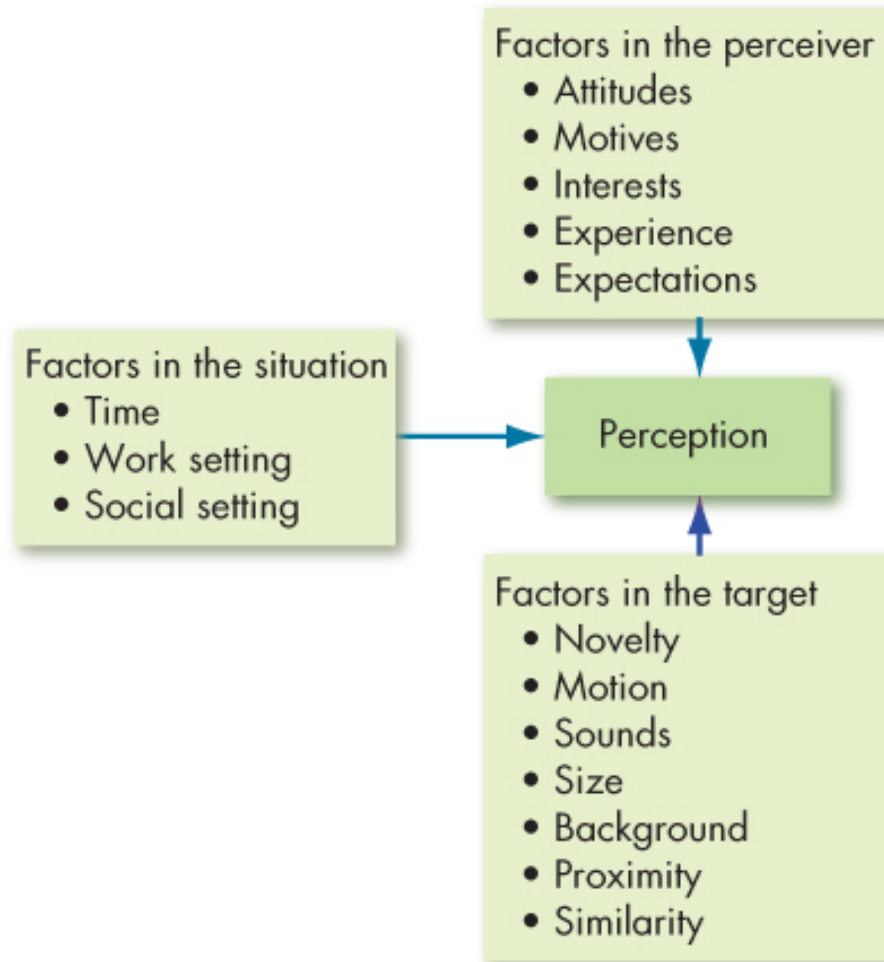
Learning Objectives

1. Explain the factors that influence perception.
2. Describe the errors possible when making attributions.
3. Explain the rational model of decision making.
4. Describe the errors possible when making decisions.
5. Contrast the three ethical decision criteria.

Perception Defined

- Perception is the process by which we organize and interpret sensory information and give meaning to our environment.
- Our behaviors are based on our perceptions of reality (which can be different from objective reality).

Perception Defined



Attributions and OB

- **Attribution theory**

- We try to identify whether others' behaviors are caused by internal or external factors.
 - **Internal attribution:** Cause determined to be under the individual's personal control
 - **External attribution:** Cause assumed to outside the individual's personal control
- Attributions prone to bias and error

Attributions and OB

- **Employment Interview**

- Evidence suggests that interviewers make perceptual judgments that are often inaccurate.
- Interviewers generally draw early impressions that become very quickly entrenched.
 - Most interviewers' decisions change very little after the first four or five minutes of the interview.

Attributions and OB

- **Performance Expectations**
 - Evidence suggests that people attempt to validate their perceptions of reality (even inaccurate perceptions).
 - The **self-fulfilling prophecy** (or the **Pygmalion effect**) is the cyclical process by which our expectations of others lead them to behave in ways that fulfill our expectations.

Attributions and OB

- **Performance Evaluation**

- Many jobs are evaluated using objective and subjective measures.
 - E.g., products sold vs. supervisor's rating of friendliness
- Subjective measures are problematic due to rater bias and error.
 - Ratings may be inaccurate.

Attributions and Bias

- **Fundamental attribution error**
 - Underestimating the influence of external factors and overestimating the influence of internal factors
- **Self-serving bias**
 - Attributing our success to internal factors and blaming our failures on external factors
- **Halo effect**
 - Evaluating someone based on our assessment of a single characteristic

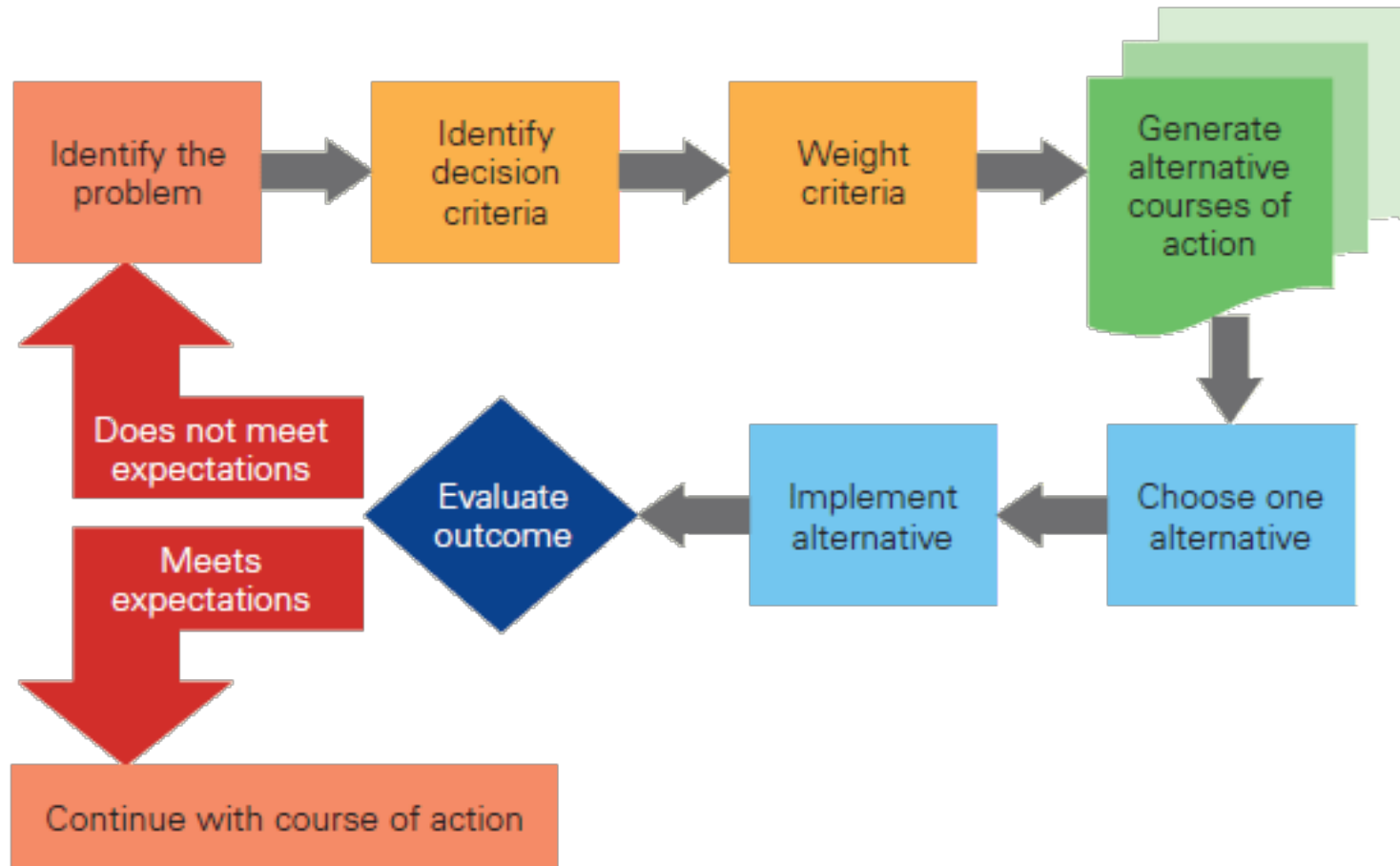
Attributions and Bias

- **Contrast effects**
 - Evaluating someone based on our exposure to other people
- **Stereotyping**
 - Evaluating someone based on our perception of the group to which that person belongs
 - Advantages – Simplify, quick, consistent
 - Disadvantages – Inaccurate, illegal, limiting

Decision Making

- **Decisions** are choices made about two or more options.
 - Throughout the decision-making process, perceptual distortions can surface and impede success.
- **Rational decision-making model**
 - Assumes we are unbiased, have complete information, and will choose the best option
 - Most decisions in the real world don't follow these assumptions!

Decision Making



Decision Making and Bias

- **Overconfidence bias**
 - Overestimating our capabilities or performance
- **Anchoring bias**
 - Fixating on initial information as a starting point and failing to adequately adjust for subsequent information



How long is the
Mississippi
River? Is it more
or less than
5,000 miles?



Decision Making and Bias

- **Escalation of commitment**
 - Sticking with a decision even when there is clear evidence that it's wrong
- **Confirmation bias**
 - Seeking out information that reaffirms our beliefs and discount information that contradicts beliefs

Decision Making and Bias

- **Availability bias**
 - Basing judgments on information that is readily available to us
- **Hindsight bias**
 - Believing we accurately predicted the outcome of an event (after the outcome is already known)

Decision Making and OB

- **Organizational Constraints**
 - Performance evaluation criteria
 - Reward systems may lead some to make decisions with the greatest personal payoff
 - Formal regulations limit the ability to generate alternative choices
 - Time constraints limit restrict the ability to gather and evaluate additional information
 - Historical precedents

Just Decisions

Distributive Justice

Definition: perceived fairness of outcome

Example: I got the pay raise I deserved.

Procedural Justice

Definition: perceived fairness of process used to determine outcome

Example: I had input into the process used to give raises and was given a good explanation of why I received the raise I did.

Interactional Justice

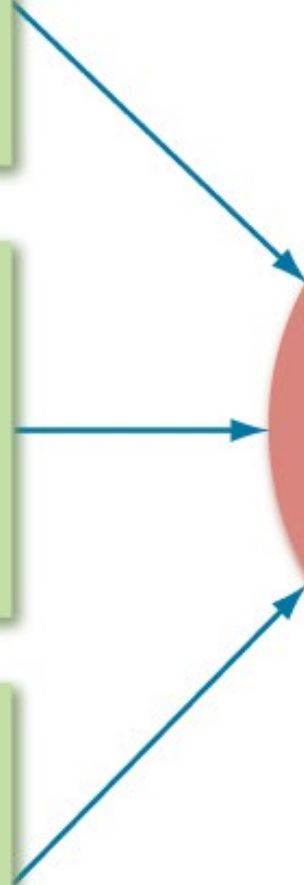
Definition: sensitivity to the quality of interpersonal treatment

Example: When telling me about my raise, my supervisor was very nice and complimentary.

Organizational Justice

Definition: overall perception of what is fair in the workplace

Example: I think this is a fair place to work.



Ethical Decisions

- **Utilitarianism**
 - Decisions made based on their outcomes; provide the greatest good for the greatest number of people
- **Focus on rights**
 - Decisions made based on fundamental liberties and privileges
- **Justice**
 - Decisions made based on rules and equitable distribution of benefits and costs

Ethical Decisions

- Unethical decisions undermine the quality of decisions.
- **Ways to Improve Ethical Decision Making**
 - Establish a culture of fairness
 - Consider the impact of the physical work environment
 - Encourage dialogue about ethical dilemmas
 - Recognize moral blind spots
 - Consider cultural differences

Implications for Managers

- To influence behavior, assess people's perceptions of their work.
- Make better decisions by recognizing perceptual biases and decision-making errors we tend to commit.
- Adjust your decision-making approach to align with the organization's values.
- Combine rational analysis with intuition.
- Consider the fairness of how resources are distributed, people are treated, and information is shared.