Organizational Behavior and Organizational Change Decisions

Roger N. Nagel
Senior Fellow & Wagner Professor
Lehigh University
Topics This Presentation

- Decision making in OB
  - Steps in the Decision-Making Model
  - Common Biases and Errors
  - Intuitive Decision Making
  - Organizational Constraints on Decision Makers
  - Potential Cultural Differences in Decision Making
  - Ethics in Decision Making

- Ways to Improve Decision Making
  - Reducing Bias and Errors
How Are Decisions Actually Made in Organizations

Simplifying

Individuals make decisions by constructing simplified models that extract the essential features from problems without capturing all their complexity.
How Are Decisions Actually Made in Organizations

- How/Why problems are identified
  - Visibility over importance of problem
    - Attention-catching, high profile problems
    - Desire to “solve problems”
  - Self-interest (if problem concerns decision maker)

- Alternative Development
  - Satisfying: seeking the first alternative that solves problem.
  - Engaging in incremental rather than unique problem solving through successive limited comparison of alternatives to the current alternative in effect.
What should we do?

- Identify Problems Opportunities
- Develop Alternative approaches
Steps in the Decision-Making Model

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

Assumptions
- Problem clarity
- Known options
- Clear preferences
- Constant preferences
- No time or cost constraints
- Maximum payoff
Discussion of steps and assumptions

- What left out?
- What should be added?

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

Assumptions
- Problem clarity
- Known options
- Clear preferences
- Constant preferences
- No time or cost constraints
- Maximum payoff
The Three Components of Creativity

Creativity
The ability to produce novel and useful ideas.

Three-Component Model of Creativity
Proposition that individual creativity requires expertise, creative-thinking skills, and intrinsic task motivation.

Common Decision Biases and Errors

1. Overconfidence Bias
   - Believing too much in our own decision competencies.

2. Anchoring Bias
   - Fixating on early, first received information.

3. Confirmation Bias
   - Using only the facts that support our decision.

4. Availability Bias
   - Using information that is most readily at hand.

5. Representative Bias
   - Assessing the likelihood of an occurrence by trying to match it with a preexisting category.
Common Decision Biases and Errors

6. Escalation of Commitment
   - Increasing commitment to a previous decision in spite of negative information.

7. Randomness Error
   - Trying to create meaning out of random events by falling victim to a false sense of control or superstitions.

8. Hindsight Bias
   - Falsely believing to have accurately predicted the outcome of an event, after that outcome is actually known.
Rate the decision making of your subordinates. How often do they make each type of error?

1. Overconfidence Bias _______ (Never, occasionally, often)
   - Believing too much in our own decision competencies.

2. Anchoring Bias _______ (Never, occasionally, often)
   - Fixating on early, first received information.

3. Confirmation Bias _______ (Never, occasionally, often)
   - Using only the facts that support our decision.

4. Availability Bias _______ (Never, occasionally, often)
   - Using information that is most readily at hand.

5. Representative Bias _______ (Never, occasionally, often)
   - Assessing the likelihood of an occurrence by trying to match it with a preexisting category.

6. Escalation of Commitment _______ (Never, occasionally, often)
   - Increasing commitment to a previous decision in spite of negative information.

7. Randomness Error _______ (Never, occasionally, often)
   - Trying to create meaning out of random events by falling victim to a false sense of control or superstitions.

8. Hindsight Bias _______ (Never, occasionally, often)
   - Falsely believing to have accurately predicted the outcome of an event, after that outcome is actually known.
Intuition

- Intuitive Decision Making
  - An unconscious process created out of distilled experience.

- Conditions Favoring Intuitive Decision Making
  1. A high level of uncertainty exists
  2. There is little precedent to draw on
  3. Variables are less scientifically predictable
  4. “Facts” are limited
  5. Facts don’t clearly point the way
  6. Analytical data are of little use
  7. Several plausible alternative solutions exist
  8. Time is limited and pressing for the right decision
People differ along two dimensions

1. The first is their way of thinking.
   a. Some people are logical and rational. They process information serially.
   b. Some people are intuitive and creative. They perceive things as a whole.

2. The second is a person’s tolerance for ambiguity
   c. Some people have a high need to minimize ambiguity.
   d. Others are able to process many thoughts at the same time.
Decision-Style Model

Tolerance for ambiguity

High

Low

Way of thinking

Rational

Intuitive

Analytical

Conceptual

Directive

Behavioral

Decision-Style Model: 4 Styles Of Decision Making

1. Directive
- Low tolerance for ambiguity and seek rationality
- Efficient and logical
- Decisions are made with minimal information and with few alternatives assessed.
- Make decisions fast and focus on the short-run.

2. Analytic
- Greater tolerance for ambiguity
- Desire for more information and consideration of more alternatives
- Best characterized as careful decision makers with the ability to adapt
3. Conceptual
- Tend to be very broad in their outlook and consider many alternatives
- Their focus is long range, and they are very good at finding creative solutions to problems.

4. Behavioral
- Characterizes decision makers who work well with others
- Concerned with the achievement of peers and subordinates and are receptive to suggestions from others, relying heavily on meetings for communicating
- Tries to avoid conflict and seeks acceptance
What Style do You Prefer? Why?

Organizational Constraints on Decision Makers

- **Performance Evaluation**
  - Evaluation criteria influence the choice of decisions.

- **Reward Systems**
  - Decision makers make 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.
We see the same thing but we see it differently!

How we see problems and or opportunities and make decisions is shaped by our culture
Potential Cultural Differences in Decision Making

- Time orientation
- Importance of logic and rationality
- Belief in the ability of people to solve problems
- Preference for collective decision making
- Prefer decision makers from own country
- Distributed authority to components of organization
- Global perspective in decision making
<table>
<thead>
<tr>
<th>USA Self evaluation</th>
<th>Cultural Decision Making</th>
<th>China Fill in for China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short</td>
<td>Time orientation</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Importance of logic and rationality</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Belief in the ability of people to solve problems</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Preference for collective decision making</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>Prefer decision makers from own country</td>
<td></td>
</tr>
<tr>
<td>Increasing</td>
<td>Distributed authority to components of organization</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>Global perspective in decision making</td>
<td></td>
</tr>
</tbody>
</table>
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.

- **Intellectual property**
  - Making strong efforts to protect the IP rights of others.
<table>
<thead>
<tr>
<th>USA Self evaluation</th>
<th>Ethics in Decision Making</th>
<th>China Fill in for China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Medium</strong></td>
<td>Utilitarianism: Seeking the greatest good for the greatest number</td>
<td></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Rights: Respecting and protecting basic rights of individuals</td>
<td></td>
</tr>
<tr>
<td><strong>Medium</strong></td>
<td>Justice: Imposing and enforcing rules fairly and impartially</td>
<td></td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Intellectual property respect: Making strong efforts to protect the IP rights of others</td>
<td></td>
</tr>
</tbody>
</table>

Do you agree with USA opinion? Fill in what you think!
Ethics and National Culture

- There are no global ethical standards.
- The ethical principles of global organizations that reflect and respect local cultural norms are necessary for high standards and consistent practices.
Ways to Improve Decision Making

1. Analyze the situation and adjust your decision making style to fit the situation.

2. Be aware of biases and try to limit their impact.

3. Combine rational analysis with intuition to increase decision-making effectiveness.

4. Don’t assume that your specific decision style is appropriate to every situation.

5. Enhance personal creativity by looking for novel solutions or seeing problems in new ways, and using analogies.
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.

Group Exercise

- Each group should choose Exercise A or Exercise B
- First work as an individual and then share answers with your group
- Groups then pick one to further develop and present to the class
How could you improve decision making in your organization?

1. Identify a goal for the improvement
2. Make a plan to achieve the improvement
3. Define the benefits, metrics, and obstacles you face in carrying out your plan
4. Share your answers with your group and pick one person's plan for the group to develop and present
Intuitive Decision Making

1. Is intuitive decision making important in your organization?

2. If yes, provide an example and identify which factors are most important
   a. A high level of uncertainty exists
   b. There is little precedent to draw on
   c. Variables are less scientifically predictable
   d. “Facts” are limited
   e. Facts don’t clearly point the way
   f. Analytical data are of little use
   g. Several plausible alternative solutions exist
   h. Time is limited and pressing for the right decision

3. What should you be doing to improve?
   - Provide a plan identifying steps you will take to improve.
   - Identify benefits and obstacles to achieving your plan
Groups present answers to the class
XIE XIE

Roger N. Nagel
Wagner Professor and Senior Fellow
CSE Department &
The Enterprise Systems Center at Lehigh University
200 West Packer Avenue
Bethlehem, Pennsylvania, 18015
(610) 758-4086, (610) 868-0402 [fax]
Rnagel@lehigh.edu