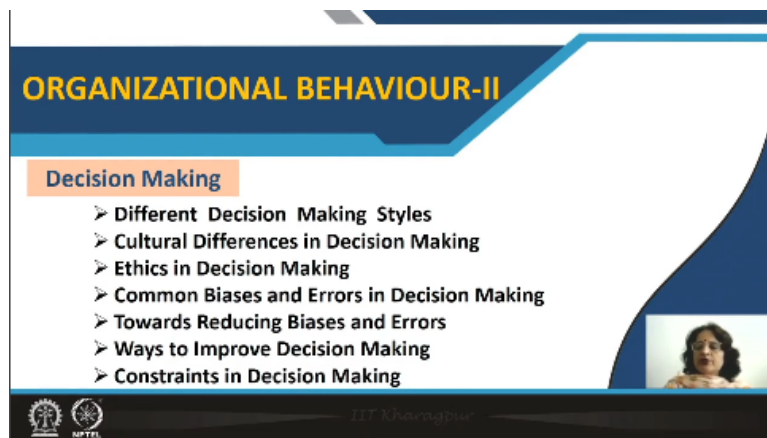


Organizational Behaviour - II
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology – Kharagpur

Lecture – 35
Decision Making (cont.)

Welcome to this last session on our topic, “Decision Making” for the subject “Organizational Behaviour II”. So, this is Week VII or Module VII, Lecture V. Topic is ‘Decision Making’. In the previous lecture, we have discussed Decision Making - the Concept, the Definition, the Types of Decisions. We have spoken about Organizational Decision Making, Employee Involvement. We discussed Greenberg’s Analytical Model for Decision Making. We had a session on Individual Decision Making and then, in the previous session, we spoke about Group Decision Making, Individual Decision Making versus Group Decision Making. We spoke about Organizational Decision Making Processes. where I spoke about Management Science Approach, the Carnegie Model, the Incremental Decision Process Model, and the Garbage Can Model, and then we concluded with the Contingency Decision Making Framework.

(Refer Slide Time: 01:30)



ORGANIZATIONAL BEHAVIOUR-II

Decision Making

- Different Decision Making Styles
- Cultural Differences in Decision Making
- Ethics in Decision Making
- Common Biases and Errors in Decision Making
- Towards Reducing Biases and Errors
- Ways to Improve Decision Making
- Constraints in Decision Making

IIT Kharagpur

So, going forward today, we will be discussing a couple of other things. So, today, we will be discussing the Different Decision Making Styles, Cultural Differences in Decision Making, Ethics in Decision Making, Common Biases and Errors in Decision Making. How do you go about Reducing Biases and Errors? What are ways to improve decision making? And the Constraints in decision making? So, this is all that we will be discussing in today’s lecture.

(Refer Slide Time: 01:51)

Different Decision Making Styles

- Every individual has his/her own style of decision making, which he/she brings to the organization.
- People differ with respect to the way of thinking and tolerance for ambiguity.

Dr. Khanna

Now, every individual has his or her own style of decision making, which he or she brings to the organization. We have discussed earlier that individuals differ with respect to a large number of factors in terms of age, gender, socio-economic class, cultural backgrounds, as well as educational levels, literacy levels; people have different experiences, and all of this results in different values, beliefs, thoughts, you know, attitudes, perceptions, you know, learnings, etc. And so, every individual has his or her own style of decision making, which he or she brings to the organization. Every individual is different with respect to their perceptions, with respect to their attitudes, with respect to how they, you know, analyse problems, how they look for solutions, how they arrive at a, you know, at a decision. So, every individual differs with respect to his or her own style of decision making.

And people differ with respect to the way of thinking, as well as their tolerance for ambiguity. Some people are able to handle vague unclear problems. Some people are not able to do it. Some people are able to handle situations of uncertainty. Some people are not able to handle it. Some people are able to take risks. Others are not able to take risks. So, people differ with respect to their way of thinking and their tolerance for ambiguity.

(Refer Slide Time: 03:19)

According to Luthans, a 2x2 behavioral decision making style matrix can be presented based on 2 dimensions: Value orientation and Tolerance for ambiguity.

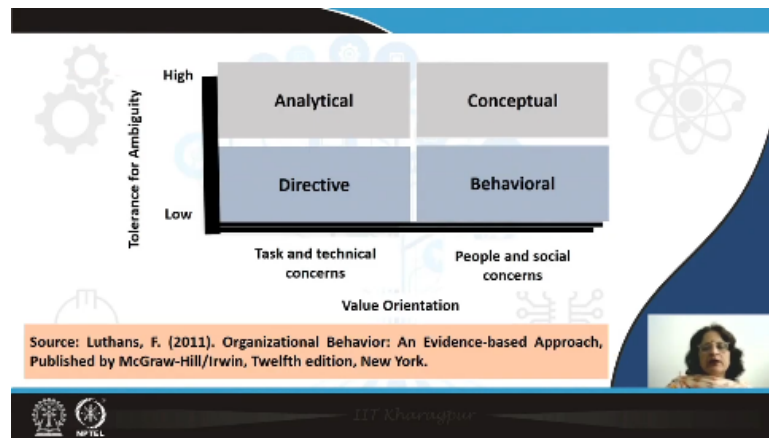
- Value orientation: The dimension lays emphasis on (i) Concern for task and technical matters; (ii) People and social concerns.
- Tolerance for ambiguity orientation: The dimensions assesses the extent of a person's need for structure and control (low ambiguity) as opposed to his ability to thrive in uncertain situations (high ambiguity).

Based on the low and high dimensions, 4 styles of decision making are proposed: directive, analytical, conceptual and behavioral.

Dr. Khanna

Now, according to Fred Luthans, a 2 by 2 Behavioural Decision Making Style Matrix can be presented on two dimensions. And I am presenting this to you here in the next slide.

(Refer Slide Time: 03:34)



So, according to Luthans, you know, a Behavioural Decision Making Style Matrix can be presented, based on these two dimensions – the Value orientation and Tolerance for ambiguity. So, value orientation here, as a dimension lays emphasis on the concern for task and technical matters, and people and social concerns. So, on the x axis, you have Value orientation, and the dimension lays emphasis on tasks and technical concerns, and people and social concerns. On the y axis, we have Tolerance for ambiguity orientation, and the dimension, assesses the extent of a persons need for structure and control, which means low ambiguity as opposed to his ability to live and survive in conditions of high uncertainty, which is high ambiguity. So, we have this 2 by 2 Behavioural Decision Making Style Matrix; two dimensions are there, the Value orientation, and the Tolerance for ambiguity. The Value orientation dimension lays emphasis on the concern for tasks and technical matters and for people and social concerns, and the tolerance for ambiguity orientation as a dimension assesses a persons need for structure and control, which is low ambiguity as opposed to his ability to deal with uncertain situations which is high on ambiguity. So, based on the low and high dimensions, four styles of Decision Making are proposed - the Directive style, the Analytical style, the Conceptual style and the Behavioural style. So, you have, you know, when a value orientation is towards task and technical concerns and the tolerance for ambiguity is low, the style is Directive. When the value orientation is task and technical concerns, and the tolerance for ambiguity is high, it is Analytical. When Value orientation is people and social concerns, and Tolerance for ambiguity is low, it is Behavioural; and when value orientation is people and social concerns and the tolerance for ambiguity is high, it is Conceptual. So, based on the low and high dimensions, as well as, you know, task concerns

and technical concerns, and people and social concerns, we have these four styles. When task and technical concerns with low tolerance for ambiguity, the style is Directive. When it is task and technical concerns, with high tolerance for ambiguity, it is Analytical. When it is people and social concerns, and low tolerance for ambiguity, it is Behavioural; and when these people in social concerns, and a high tolerance for ambiguity, it is Conceptual. So, let us discuss each of these styles now.

So, let us first start with the Directive style. Now, people who use this style of decision making, have a lower tolerance for ambiguity, and they focus upon task and technical concerns; So, they focus on facts and tend to be very logical, very rational, very systematic in their approach; and they take quick decisions, fast decisions; they are very action- oriented with a focus on the short term. And they display an autocratic style of leader. So people who use this style of decision making, Directive style of decision making are those who have a lower tolerance for ambiguity and they focus on the task and technical concerns. They focus on facts; they are very logical and systematic in their approach; they take quick decisions; they make fast decisions; they are action oriented; and the focus is short term. They display an Autocratic style of leadership.

The second style is Analytical style. Now, people who use this style of decision making, have a high tolerance for ambiguity, and a strong task and technical orientation. If you see, they have a task and technical concern, but their tolerance for ambiguity is high. Now, they like to analyse things; they go for a very careful analysis of the problem, and they will evaluate more information and alternatives as compared to those who follow the directive style. And people who follow the Analytical style, the approach would mean that the decision maker takes a longer time to make decisions, and he can handle new or uncertain situations in a better manner. And such people who follow an analytical style are also generally follow an autocratic style of leadership. So, you know, people who follow, who use this style will like to analyse things; they will go in for a careful analysis of the problem; evaluate more information and more alternatives as compared to the directive style; and they take a longer time in decision making, but they will be very, you know, capable in handling new or uncertain situations in a better manner, and they also follow an autocratic style of leadership.

The third is a Conceptual style. People who use this style of decision making have a high tolerance for ambiguity, and they have a strong people and social concern. So, the value orientation is towards people and social concerns, and they have a high tolerance for ambiguity. People who use a Conceptual style tend to have a very, very broad perspective,

while solving problems. They have wide ranging points of view and they are generally very good at generating alternatives, generating options, and taking a very creative or a novel or an intuitive and/or an intuitive decision. So, such people tend to have a very wide and broad perspective for problem solving. They have wide ranging points of view. They are good at generating alternatives, and taking creative and/or intuitive decision. And so, this pertains to creative solutions which are aimed more towards the long run. So, there is a focus in the long range.

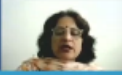

And finally, we have the Behavioural style. So, people who use this style of decision making have a lower tolerance for ambiguity, and strong people and social concerns. This style relates to team working with an objective of avoiding conflicts at all costs. So, the style relates to team working with the objective of conflict avoidance. People who use a behavioural style work in groups well with others; openly exchange opinions and accept each other's suggestions to arrive at a consensus; and to avoid conflict at all costs. So, such decision makers do not like to take tough stands or tough decisions, as it could upset other people around them. So, people who follow a behavioural style or those who have a lower tolerance for ambiguity and strong people and social concerns; they like to work in teams; they work very well with others in teams; they openly exchange ideas, opinions. They accept each other's suggestions, and they try to arrive at a consensus, and they want to avoid conflict at all costs. And they also do not like to take very tough decisions because it could mean upsetting other people around them.

Now, according to Fred Luthans, research has revealed that decision makers tend to practice, you know, tend to practice, more than one dominant style. Generally, they use 2 or 3 decision styles, which varies according to occupation or job level and culture. So, I will now, you know, run you through those through some slides, through the next 4 or 5 slides which actually explain the model. This has been proposed by Fred Luthans and this figure has been borrowed from his book "Organizational Behaviour: An Evidence-Based Approach", published in 2011, by McGraw Hill, Irwin, and it is a 12th edition of his book.

(Refer Slide Time: 11:36)

Directive Style

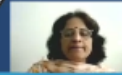

- People who use this style of decision making, have a lower tolerance for ambiguity, and focus upon the task and the technical concerns.
- They focus on facts and tend to be logical, rational and systematic in their approach.
- They take fast decisions, are action oriented, with a focus on the short-term.
- They also display an autocratic style of leadership.

(Refer Slide Time: 11:46)

Analytical Style




- People who use this style of decision making, have a high tolerance for ambiguity and a strong task and technical orientation.
- They like to analyze things.
- They go in for a careful analysis of the problems, and evaluate more information and alternatives as compared to those who follow a directive style.
- They take a longer time to make decisions, and can handle new or uncertain situations in a better manner.
- They also generally follow an autocratic style of leadership.

(Refer Slide Time: 11:50)

Conceptual Style

- People who use this style of decision making, have a high tolerance for ambiguity and strong people and social concerns.
- People who use a conceptual style tend to have broad perspective while solving problems, have wide-ranging points of view, and are generally good at generating several options/alternatives, and taking a creative and/or intuitive decision.
- This pertains to creative solutions, with a focus on the long range.

(Refer Slide Time: 11:53)

Behavioral Style

- People who use this style of decision making, have a low tolerance for ambiguity and strong people and social concerns.
- This style relates to team working, with an objective of conflict avoidance.
- People who use a behavioral style work in groups work well with others, openly exchange opinions, and accept each other's suggestions to arrive at a consensus and avoid conflict.
- Such decision makers do not like to take tough stands and decisions, as it could upset people who are around.

DT Khanna

(Refer Slide Time: 11:57)

▪ According to Luthans, research reveals that decision makers tend to practise more than one dominant style. Generally, they use two or three decision styles which vary by occupation, job level, and culture.

DT Khanna

(Refer Slide Time: 12:02)

Cultural Differences in Decision Making

- People across cultures have different values, beliefs, customs, traditions etc., and this affects their decision making as well.
- Cultural differences impact leadership styles, group norms and dynamics, status and role orientations, people's preference for adopting a rational or an intuitive approach, time orientation, self-efficacy and belief in people about their abilities to solve problems, etc.
- People employed in MNCs must be sensitive to such cultural differences.

DT Khanna

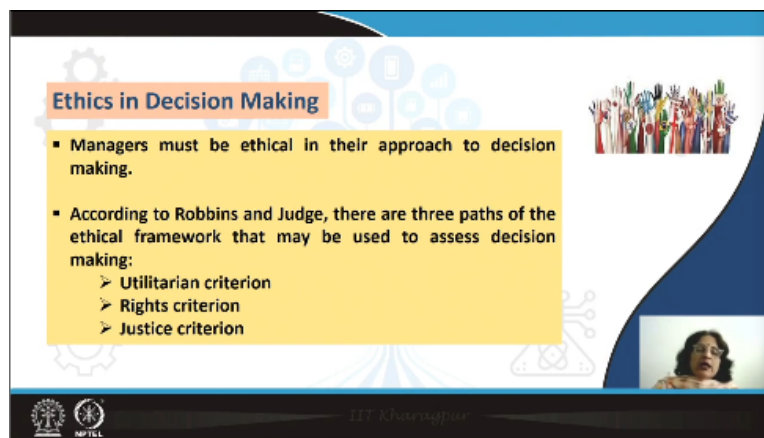
So, these are the slides. I will slowly go through them; I mean, I will, slowly skip through them so that you can just have a glance.

Next, we come to is Cultural differences in decision making. So, people across cultures have different values, beliefs, customs, traditions, you know, religions and languages, and entirely, people are different across cultures. They have different values, beliefs, customs, traditions, religions, languages - and all this affects their working relationships; all this affects

their decision making as well. So, cultural differences impact leadership styles, group norms and dynamics, status and role orientations, people's preference for adopting a rational or an intuitive approach, time orientation, self-efficacy and belief in people about their abilities to solve problems, etc. In other words, you know, the kind of culture, kind of national culture has an impact on the kind of leadership styles that organizations follow or the kinds of decision making they are into – is it participative or is it autocratic culture.

Culture also has an impact on group norms and group dynamics, status and role orientations, which means, certain societies are very male-dominated; certain cultures are female dominated. So, cultural differences impact the status and role orientations, and that has an impact on the behaviours of men and women working in organizations. Culture also affects people preferences for adopting a rational approach to decision making or an intuitive approach to decision making. The importance of time in terms of time orientation or, you know, the feeling of self-efficacy and belief in people about their capabilities or about their abilities to solve problems, also gets affected by culture. So, cultural differences in decision making are absolutely normal, and people employed in multinational organizations, in multinational corporations, must be very sensitive to such cultural differences. Managers and leaders of multinationals must also be very sensitive to such cultural differences.

(Refer Slide Time: 14:12)

The slide is titled "Ethics in Decision Making" in a blue box. It contains two main bullet points. The first states that managers must be ethical in their approach to decision making. The second states that according to Robbins and Judge, there are three paths of the ethical framework that may be used to assess decision making: Utilitarian criterion, Rights criterion, and Justice criterion. There is a small video inset in the bottom right corner showing a woman speaking. The slide also features decorative elements like gears and a group of hands holding a globe.

Now, the next thing that we come to is Ethics and decision making. Managers must be very ethical in their approach to decision making, and our ethics, our values, our morals are something which we should not, and cannot disregard or disrespect. So, managers must be very ethical in their approach. According to Robbins and Judge, there are 3 parts of the ethical framework that we use to assess decision making - the utilitarian criteria, the rights criterion and the justice criterion. So, the 3 parts of ethical framework that may be used to

assess decision making are the utilitarian criterion, the justice criterion and the rights criterion.

(Refer Slide Time: 14:51)

A presentation slide with a blue and white background. The title 'Utilitarian criterion' is in a green box. A yellow box contains three bullet points. There is an icon of many hands raised in the top right and a small video inset of a woman in the bottom right. Logos for IIT Madras and NPTEL are at the bottom left.

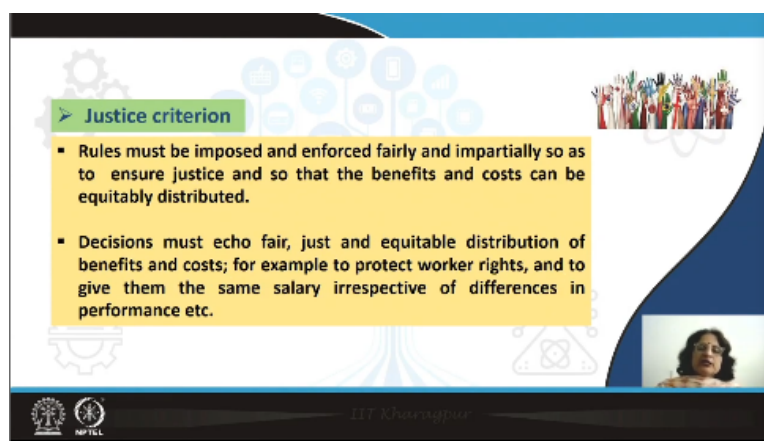
So, what is the utilitarian criterion? Now, according to the utilitarian criterion, decisions must be made solely on the basis of the consequences that they have on the people, and on the organization. So, decisions must be such that they lead to the greatest good for the greatest number. So, it is a typical, you know, Management Science approach which is typical, you know, Management Decision approach where we say that decisions must be such that they lead to the greatest good for the greatest number. So, this is in line with goals of profits, productivity, performance, efficiency, etc. So, any and every decision which the managers take, any and every decision which is taken in organizations by anybody, be it the leader; be it the managers, be it people in the higher level or in the lower levels of the organization, be people in the top management, middle management or the lower level - any and every kind of decision that is taken must be solely on the basis of the consequences of the decision on the people, and on the organization. And decision must be such that it leads to greatest good for the greatest number. So, this is the utilitarian criterion.

(Refer Slide Time: 16:04)

A presentation slide with a blue and white background. The title 'Rights criterion' is in a green box. A yellow box contains two bullet points. There is an icon of many hands raised in the top right and a small video inset of a woman in the bottom right. Logos for IIT Madras and NPTEL are at the bottom left.

Second is the rights criterion. Now, according to the rights criterion, decisions must be consistent with the fundamental rights, privileges and liberties as per the constitution, and the laws of the land. So, any and every decision which is taken must be such that it is in line with the constitution. It is as per rules, regulations, as per laws of the land, and it safeguards the fundamental rights, fundamental liberties and privileges of the people, or of the citizens, or of the employees. So, decisions must be such that they protect the fundamental rights of the people as provided by the laws of the land. So, such an approach actually protects the whistle-blowers and protects any and everybody, who is different in thinking, or who has a novel approach to thinking and may like to suggest solutions, or changes which may not be liked by the majority in the organization. So, it is very, very important that decisions are taken such that they are consistent with the fundamental liberties, the rights and the privileges, as per the constitution, and as per the laws of the land.

(Refer Slide Time: 17:18)



Justice criterion

- Rules must be imposed and enforced fairly and impartially so as to ensure justice and so that the benefits and costs can be equitably distributed.
- Decisions must echo fair, just and equitable distribution of benefits and costs; for example to protect worker rights, and to give them the same salary irrespective of differences in performance etc.

The third is justice criterion. Now, rules must be imposed and enforced fairly and impartially so that justice is ensured, and so that the benefits and costs can be equally distributed. So, decisions which are taken must echo fair, just and equitable distribution of benefits and costs. So, according to the justice criterion, any and every decision which is taken by the management, whether top, middle or lower levels, must be fair, must be just, and, you know, ensure equitable distribution of benefits and costs. For example, to protect worker rights, and to give them the same salary irrespective of differences in their performance could be taken as something which is a decision based on the justice criterion. So, these are different criterion, which are taken as, you know, pathways and which can affect, you know, which can be used to assess decision making.

(Refer Slide Time: 18:21)

The slide features a title 'Behavioural Ethics' in a green box. Below it, a yellow box contains two bullet points. The first bullet point states: 'Behavioural ethics is an area of study that focuses upon the manner in which people behave when confronted with ethical issues and problems.' The second bullet point states: 'Research studies reveal that in spite of the fact that societies and organizations have ethical standards and people have their own personal ethics, yet people may not always be able to follow ethical standards and practices, and may violate the same.' In the bottom right corner of the slide, there is a small video inset showing a woman speaking. The slide background includes decorative icons like a gear, a lightbulb, and a brain, and logos for 'UNIVERSITY OF WYOMING' and 'WYOMING STATE UNIVERSITY' at the bottom left.

Now, we come to another topic, which is Behavioural Ethics. Now, Behavioural Ethics is an area of study which lays emphasis upon the manner in which people behave when they are confronted with ethical issues and problems. There are some people in the organization and in the society, who are able to deal with ethical issues and problems in a very stable, rational manner. There are some people who are not able to do so. So, research reveals that in spite of the fact that societies and organizations have ethical standards, and people have their own personal ethics, yet people may not always be able to follow these ethical standards and practices, and they may violate the same. So, this particular area of study focuses about the manner in which people behave when they are confronted with ethical issues and problems.

As I said, some people are able to deal with ethical issues and problems, and they are able to do it in a very moral manner. If confronted with an ethical issue, they will be able to deal with the issue very rationally, very morally, and in a manner which is very value-based. On the other hand, there are people who are not able to deal with such ethical issues and problems in a moral manner.

So, research studies show that in spite of the fact that organizations have ethical standards and people have their own ethical values, they have their own personal ethics, yet people may not always be able to follow these ethical standards and practices, and they may violate them.

(Refer Slide Time: 19:59)

- Certain ways to increase ethical decision making:
 - Consider cultural differences and be sensitive to such differences.
 - Conversations and discussions about moral issues must be encouraged. This would sensitize ethical issues, act as reminders and increase ethical decision making.
- In the context of multinational operations, it is to be noted that:
 - Global ethical standards do not exist.
 - Ethical principles based on local cultural norms must be accepted and adhered too.
- With an increased concern for individual rights and social justice, it is important that managers develop standards based on these.

So, certain means and certain ways by which you can increase ethical decision making is – one, consider cultural differences and be very sensitive to such differences. We have to understand that organizations today operate on a global platform with a large number of multinational organizations, which have diverse stakeholders; - diverse stakeholders here meaning, stakeholders with diverse cultural backgrounds. So, multinational organizations today have stakeholders all across the world, with different cultural backgrounds and distinct cultural backgrounds. So, culturally, people are very different, you know; companies deal with stakeholders who are very different with respect to their cultural backgrounds; and companies deal with stakeholders with very diverse cultural backgrounds; these stakeholders could be their customers; these stakeholders could be their partners, and vendors and suppliers, and dealers and distributors; these stakeholders could also be the employees working in the organization. So, there is huge amount of diversity and to ensure ethical decision making, it is very important that cultural differences are considered, and managers, leaders, and even employees; I mean, middle and lower management workers, are sensitive to such differences.

Conversation and discussions about moral issues, about ethics and values must be encouraged. This would sensitize ethical issues. It would act as reminders, you know, and increase ethical decision making. So, conversations and discussions regarding ethics, values, morals should be encouraged, and this would help sensitize ethical issues. It would help act as reminders. It would be always there in the backdrop of people’s minds, and this will increase ethical decision making. In the context of multinational operations, it is to be noted that global ethical standards do not exist. Why? Because when multinationals deal with different cultures or deal with different countries and different cultures, every country and every culture has their own definition of ethics, morals and values. What is ethical and moral in one country, and one culture may not be moral in another country and the culture. So, there

is huge amount of diversity with respect to culture, and this also means diversity with respect to values, beliefs, ethics, morals, etc. So, in the context of multinational operations, global ethical standards do not exist, and ethical principles based on local customs, local traditions, local cultural norms, must be accepted and adhered to.

So, with an increased concern for individual rights and for social justice, it is very important that managers develop standards based on these, and as and when they operate in a particular country and in a particular culture, they have to be very sensitive to cultural differences, and they have to be very sensitive to cultural elements, and take into consideration the cultural differences across people, across cultures.

So, it is very important that conversations and discussions about moral issues are encouraged because this would help sensitize people on ethical issues, and it would increase ethical decision making.

(Refer Slide Time: 23:38)

The slide is titled "Common Biases and Errors in Decision Making" and features a blue and yellow color scheme. It contains two main bullet points at the top, followed by two columns of specific biases and errors. A small video inset of a woman is visible in the bottom right corner of the slide area.

- Decision making involves collection of information, collation of facts, and interpretation and evaluation of data and information to arrive at a choice.
- Perceptions of the decision maker(s) affect the processes involved in the evaluation and interpretation of data and information.

○ Overconfidence Bias	○ Hindsight Bias
○ Anchoring Bias	○ Halo Effect
○ Confirmation Bias	○ Projection
○ Availability Bias	○ Stereotyping
○ Representative Bias	○ Risk Aversion
○ Escalation of Commitment	○ Unconflicted Adherence
○ Randomness Error	○ Framing

Now, we come to Common Biases and Errors in decision making. Now, decision making involves collecting information, collating facts, figures, interpretation and evaluation of information, or interpretation and evaluation of data and information to arrive at a choice. Now, perceptions of the decision maker, or of the decision makers, affects the processes involved in evaluation and interpretation of data and information. And because people perceive things differently, they may often, you know, suffer, you know, from perceptual distortions and biases. So, there are certain errors and biases in decision making, some of which are the Overconfidence bias, Anchoring bias, the Confirmation bias, Availability bias, Representative bias, Escalation of commitment, Randomness error, Hindsight bias, Halo effect, Projection, Stereotyping, Risk aversion and Unconflicted adherence and Framing. So, these are common biases and errors in decision making, and we will be discussing each of these now. But before I move on, I would just like to state here that as individuals, we are all

different, and we join a company, we join a business organization, with different backgrounds, age, gender, socio-economic, cultural backgrounds, literacy levels, educational qualifications, experience, etc. And this means that there are huge amount of differences in people with respect to their thoughts, their values, their beliefs, their customs, their traditions, their attitudes, their personalities, their learning patterns, their needs, their motivations and their perceptions. So, we tend to perceive things very, very differently because of the different backgrounds that we have. And while we are understanding a problem, while we are trying to collect information and collate facts, and interpret the information, and arrive at a decision, we are undergoing different kinds of perceptual processes. People will perceive things differently. The manner in which I, you know, evaluate alternatives and I arrive at a solution, will be very different than what you would do.

So, people differ with respect to how they would analyse a problem, how they would evaluate the alternatives, and how they would reach a solution, or suggest a solution because we all differ in our perceptual processes, and we all differ in our perceptions. So, because we differ in our perceptions, the approach which we follow while analysing a problem or while evaluating alternatives, and while choosing one of the alternatives will be very, very different, and while we tend to defer and disagree, an attempt is always made to arrive at a consensus so that things can work in an organization; so that decisions can be taken, and implemented in organizations, but as and when we take decisions, we often suffer perceptual biases and errors, and these are the different biases and errors which we suffer, some of which I mentioned here and we will be discussing these now.

(Refer Slide Time: 26:49)

○ **Overconfidence Bias:**
An overconfidence bias occurs when a person tends to have a lot of belief and confidence on their decision competencies. When individuals are weak on intellectual and interpersonal abilities, they often overestimate their knowledge, performance and abilities.

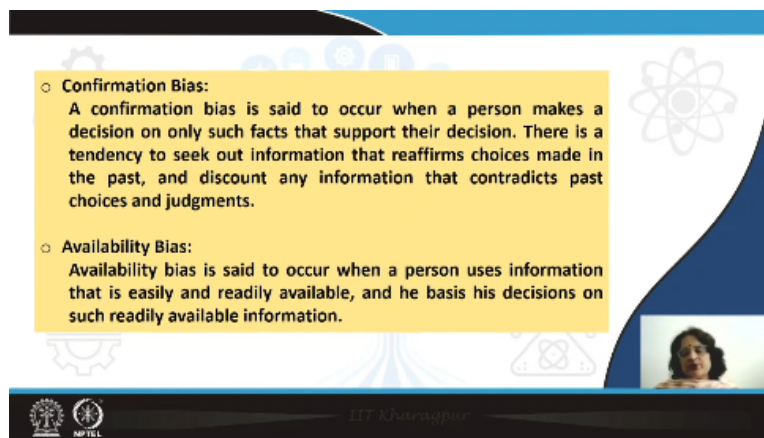
○ **Anchoring Bias:**
When a person bases a decision on information received first and stored in their memory, it is known as an anchoring bias. In other words, the person fixates on initial information as a start point and does not consider and adjust/modify with subsequent information.

So, the first is Overconfidence bias. Now, Overconfidence bias occurs when a person tends to have a lot of confidence on his or her decision competencies. So, person has a lot of belief, a lot of confidence on his or her decision competencies and so, this leads to

Overconfidence bias. Now, when individuals are weak on their intellectual abilities or on their interpersonal abilities, they generally tend to overestimate their knowledge, their skills, their abilities, you know, and that is what leads to Overconfidence bias.

The second bias is Anchoring bias. So, when a person bases a decision on information received first and stored in his memory, it is known as an Anchoring bias. In other words, he is fixated on it. He read something or he heard something, and whatever he heard or read, has got stored in his memory. Now, if there is any kind of a decision that needs to be taken and this particular information which he has stored in his memory is useful in taking a decision, he would just rely on that information only. He gets fixated on it to that information which he has stored in his memory. So, when a person bases a decision on the information which he has received first and stored in the memory, it is called an Anchoring bias. So, the person fixates on the information as a start point, and does not consider subsequent information or does not consider adapting to, or adjusting with, or modifying with the subsequent information, or with information which is more updated, or which he has got later. So, he gets fixated on what he heard or what he read in the first place. And so, in other words, he fixates on the initial information as a start point, and he does not consider and adjust or modify to the latest or to updated or to subsequent information.

(Refer Slide Time: 28:51)



The slide features a yellow text box with two bullet points. The first bullet point is titled 'Confirmation Bias:' and describes it as a bias where a person makes a decision based only on facts that support their decision, tending to seek out information that reaffirms past choices and discounting contradictory information. The second bullet point is titled 'Availability Bias:' and describes it as a bias where a person uses easily and readily available information as the basis for their decisions. The slide also includes a small video inset of a woman in the bottom right corner and logos for IIT Bombay and NPTEL at the bottom left.

- **Confirmation Bias:**
A confirmation bias is said to occur when a person makes a decision on only such facts that support their decision. There is a tendency to seek out information that reaffirms choices made in the past, and discount any information that contradicts past choices and judgments.
- **Availability Bias:**
Availability bias is said to occur when a person uses information that is easily and readily available, and he basis his decisions on such readily available information.

The third is a Confirmation bias. The Confirmation bias happens when a person makes a decision on only such facts that support his decision, you know, there is a tendency to seek out information that reaffirms choices made in the past, and this person would discount any information that contradicts past judgment or past choices. So, he will make a decision on such facts that support his decision of the past. There is a tendency to seek out information that reaffirms the choices that have been in the past and discounts or discredits

any kind of information that contradicts this past judgment or this past choice that he has made.

The fourth is an Availability bias. Now, Availability bias is said to happen when a person uses information that is readily available, easily available. And he bases his decision on such kind of an information which is readily available. So, that is what is an availability bias.

(Refer Slide Time: 29:49)

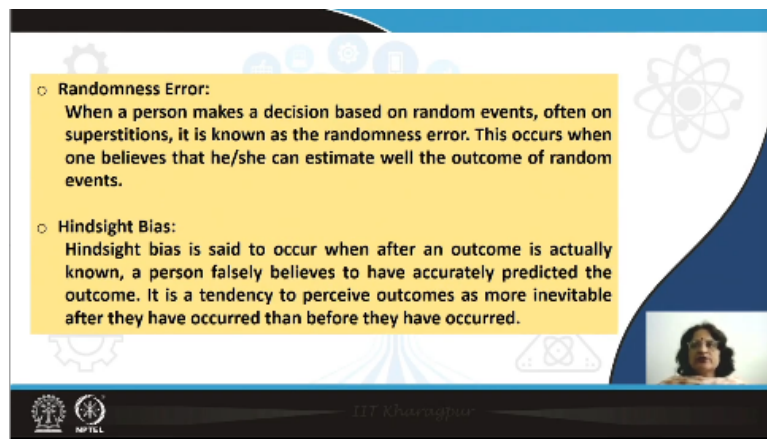
- **Representative Bias:**
When one assesses the likelihood of an occurrence by matching it with a pre-existing category, it is known as a representative bias.
- **Escalation of Commitment:**
In cases wherein, in spite of negative information being present, a person increases one's commitment to a previous decision, and wants to base his next decision on the previous one, it is known as escalation of commitment. This implies supporting a decision, and using it as a basis of other decisions, even while knowing that it was wrong.

Next is Representative bias. When a person tries to, you know, take a decision based on something similar which was there in the past, he is said to suffer a Representative bias. In other words, there was a problem which happened in the past, a similar problem has happened now. Now, in order to solve today's problem, the person relies on a decision taken in the past; a similar decision taken, or a similar problem of the past. In other words, two problems; one in the past and one today, similar to each other. So, the person relies on a decision which was taken in a similar problem earlier, and whatever decision was taken for a similar problem earlier is taken today. So, that becomes a Representative bias. So, when one assesses the likelihood of an occurrence by matching it with a pre-existing category; in other words, the previous problem becomes, you know, a stereotype and based on that, you know, based on the decision taken then, today's decision is being taken. So, whatever decision was taken in the past for a similar problem. is going to be taken today. So, that is what is a Representative bias.

The next is Escalation of commitment. Now, in spite of the fact that negative information is available, in spite of the fact that some negative information is present, a person increases his or her commitment to a previous decision, and wants to base the next decision also on the previous one. So, it means that again, 2 problems; one which happened in the past, one which happened today; so, they are similar problems; the decision of the past

has not been very successful; while implementation it was realized that there were a lot of problems; yet the person wants to take a similar decision. So, that is what is an escalation. In spite of negative information being present, a person increases his or her commitment to a previous decision and wants to base the next decision also on the previous one. So, it means supporting a decision, and using it as a bases for further decision, very well knowing, that it was a wrong decision, or it was a decision with very negative consequences. So, that is what is Escalation of commitment.

(Refer Slide Time: 32:18)



Then we have Randomness error. When a person makes a decision based on random events, based on superstitions, so it is called a randomness error. And it generally occurs when one believes that he or she can very well, you know, estimate and forecast the outcome of random events. So, that is when a person bases his decision on randomness, on random events and on superstitions.

Hindsight bias is again an error which is made during decision making. So, hindsight bias is said to occur when after an outcome is actually known, a person falsely believes to have predicted the outcome. So, it is a tendency to perceive outcomes as more inevitable after they have occurred than before they have occurred. So, person would say, 'Oh, well, I knew this was going to happen, I was expecting this to happen. And so, I took that particular decision, which will help us in today's scenario'. So, Hindsight bias is said to occur when after an outcome is actually known, a person falsely believes to have accurately predicted the outcome. So, he says, 'Ya, I know; I knew this was going to happen; I was very well aware that this is going to happen'. So, this is how people react.

(Refer Slide Time: 33:31)

○ **Halo Effect:**
 Taking a decision on the basis of a single characteristic is known as a Halo effect.

○ **Projection:**
 Projection occurs when a person attributes one's own characteristics on his decision making.

Halo effect. Taking a decision on the basis of a single characteristic is a halo effect, which means you are taking a decision based on one positive point while the other points may be negative. So, the one positive point, you know, outweighs all the negative points, and so, you take a decision based on one single positive point, a one single characteristic.

Projection. Projection happens when a person attributes his or her characteristics on decision making. Just because a person is, you know, successful because of a particular characteristic, he expects others also to be successful because they possess the same characteristic. So, it is like, you know, saying that, if I did not do my MBA and I am so successful, there is no need for you to do your MBA, because MBA does not mean that it leads to success. So, I never did my MBA, so you should also not do your MBA. I am so successful. I never did my MBA and I am successful. So, MBA does not mean that you would be successful. So, what is the need for you to do your MBA. So, in a way, what this person is doing is, he is attributing his own characteristic of not doing MBA, and being successful to another person. What is the need for you to do your MBA as well? It does not mean that you will be successful. So, a person attributes his or her own characteristics on his decision making, and that is projection.

(Refer Slide Time: 35:01)

○ **Stereotyping:** When a person makes a judgment on the basis of his/her perception of the group to which that another belongs, it is known as stereotyping.

○ **Risk Aversion:** When a person decides to go with something that is sure rather than something which is risky, it is termed as risk aversion.

○ **Unconflicted adherence:** Unconflicted adherence is the tendency of a person to adopt the first idea that comes to mind, without evaluating the consequences more deeply.

○ **Framing:** The tendency of people to make decisions based on how a problem is presented to them is known as framing.

Stereotyping. When a person makes a judgment on the basis of his or her perception about a group to which the other person belongs, it is known as Stereotyping. This is an error. It is a perceptual error. Very often, we actually commit this error, where we tend to stereotype. We tend to make a judgment about another person on the basis of the group to which he or she belongs. So, we have our own perceptions about certain groups of people; could be, you know, a generation; could be a community; could be gender; could be, you know, on basis of nationality of a person or any of these things. So, that is when we make a judgement of one person on the basis of the group to which he or she belongs, it is stereotyping.

Risk aversion. When a person decides to go with something that is sure, rather than something which is risky, he or she will tend to look for a solution that is a safer solution, and something which is lesser risky. So, that is what is risk aversion. So, when a person decides to go with something that is sure rather than something risky, we term it as a Risk aversion.

Un-conflicted adherence is the tendency of a person to adopt the first idea that comes to his mind, without evaluating the consequences more deeply. So, the first thing that comes into his mind, he takes a decision on the basis of that without, you know, gathering more information, or without, you know, thinking on the consequences of that idea.

And then we have Framing - the tendency of people to make decisions based on how a problem is presented is framing. In other words, if a problem is presented to the manager in such a way to them that, you know, the manager feels it is too serious a problem, then the manager will, you know, be biased; yeah, the problem is big. So, for example, the workers come running to the supervisor and say, there is a big fire, there is a big fire, there is a big fire and, you know, and there is a short circuit. And the supervisor goes running to the machine and there he sees it is a small spark which is coming in, but by that time, the supervisor had called the Assistant manager. He had called the fire brigade, and he had called, you know, even people from the hospital to take care of that emergency. So, the manner in which the workers went running to the supervisor and showcased to the problem, made the supervisor take big decisions. First perceive that it is a big fire, and then take quick decisions of calling the fire brigade, and the doctors, and the assistant manager to the plant or to the shop floor or to the machine. So, this particular act of the workers, you know, in the way the manner in which they presented the problem to the supervisor made the supervisor perceive the problem in a big way. And so, he took big decisions. So, this is what is Framing. The tendency of people to make decisions based on how a problem is presented to them. So, the problem that was presented to the supervisor by the workers was something which was done in a way that

it was a very, very big emergency issue or a very big, you know, disaster which had happened. So, that is Framing. On the other hand, it could be opposite. The workers come running and say, sir, is not much of a problem; we will handle it and so, the supervisor does not do much, but by the time, the things have gone beyond control. So, it could be, you know, an exaggeration both ways - either making something small look too big, or making something big look too small. So, the tendency of people to make decisions, based on how a problem is affected to them is known as Framing. Here, the supervisor was presented with a situation that it was very critical. So, he took a decision to call others, the other manager, Assistant manager, fire brigade, police and the hospital people, and so forth. So, why did he do that? Because the problem was presented to him such that there was a big crisis. So, this is what is Framing.

(Refer Slide Time: 39:34)

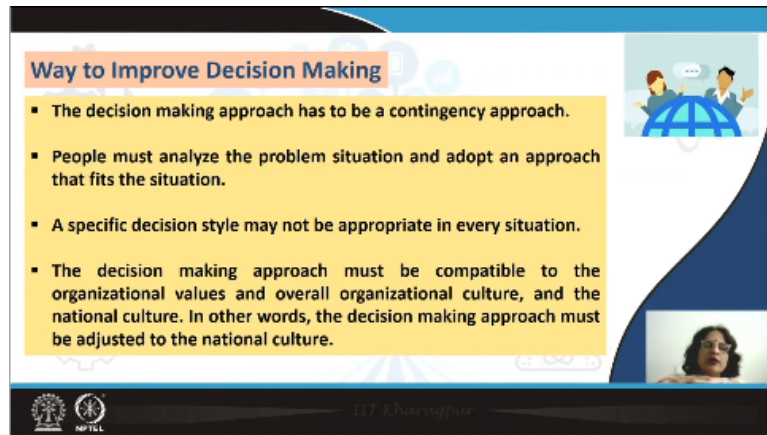
The slide is titled "Towards Reducing Biases and Errors" and features a yellow background with a blue border. It contains three bullet points, each with a sub-explanation. A small video inset in the bottom right corner shows a woman speaking. The slide also includes a logo of a stylized atom in the top right and logos for NPTEL and other institutions in the bottom left.

- **Clarity of goals and focus upon goals.**
This helps in assessing the kind of information required (relevant versus irrelevant), determining alternatives and choosing the alternative that is nearest to achieving the goals.
- **Search information that is new and inconsistent to our pre-existing beliefs and opinions.**
Search for information helps in fighting the overconfidence bias, anchoring bias, confirmation bias, hindsight bias, and escalation of commitment bias. It leads to realistically arrived decisions.
- **Increase efforts towards information search and generation of alternatives.**
As the number and range of options/alternatives increases, the likelihood of selecting the best alternative increases.

Now, how do you go about Reducing biases and errors? First and foremost, there has to be clarity of goals, and a focus on the goals. So, this would help in assessing the kind of information required. It would help in understanding; in determining the alternatives and choosing amongst the alternatives. Second, there has to be search for information that is new, and inconsistent to our pre-existing beliefs and opinions. It is very, very important that, you know, when you, you know, want to have, you know, rational decisions and right decisions, you do not get fixated on your, or anchored to your old information. You do not get fixated to the information that you received in the first place, or you do not get carried away with information and beliefs that you feel are right. So, it is very important that you should search for information, which is new information, updated information and also inconsistent to what you think; inconsistent to your pre-existing beliefs and opinions. So, search for information would mean that you are fighting the Overconfidence bias, Anchoring bias, Confirmation bias, Hindsight bias and Escalation of commitment bias. So, it will lead to more realistically

arrived decisions. And then you should also increase your effort towards information search, and generation of alternatives, because as you increase efforts towards information, you search for more or more information, the range of options or the alternatives will increase, and the likelihood of selecting the best alternative will be very, very high.

(Refer Slide Time: 41:16)



The slide is titled "Way to Improve Decision Making" and features a yellow background for the text. It contains four bullet points: "The decision making approach has to be a contingency approach.", "People must analyze the problem situation and adopt an approach that fits the situation.", "A specific decision style may not be appropriate in every situation.", and "The decision making approach must be compatible to the organizational values and overall organizational culture, and the national culture. In other words, the decision making approach must be adjusted to the national culture." There is an illustration of two people discussing a globe and a small video inset of a woman speaking. Logos for IIT Bombay and NPTEL are visible at the bottom left.

So, how do you improve decision making? So, decision making has to be a Contingency approach. No decision style is perfect. No approach is perfect. All of the approaches - Rational, Bounded Rationality, Heuristics, Creativity or, you know, when we talk of the Management Science Approach or the Carnegie Mellon or the Incremental Decision or the Garbage Can, or you talk of the Decision Making Styles that is Directive, Analytic or it is Conceptual or Behavioural - all of these have their pros and cons; have their advantages and disadvantages, and you have to actually follow a contingency approach. So, people must analyse the problem situation and adopt a style or adopt an approach which fits the situation. Any and every style will not be appropriate in any and every situation. So, a specific decision style may not be appropriate in every situation and so, people must analyse the situation and adopt a solution accordingly; adopt an approach that fits the situation accordingly. So, people must analyse the problem situation. They must analyse the situation, the background of the problem, and then adopt an approach that fits the situation. So, the decision making approach must be congruent to the organizational values, to overall organizational culture, and to the national culture; and so, decision making has to be in tune with the cultural sentiments of the people, and adjusted to the national culture.

(Refer Slide Time: 42:49)

- The decision maker must be conscious about biases and not get carried away by preconceptions and biases.
- Facts and logic, as well as intuition and judgment must be used in conjunction to each other.
- Creativity must be encouraged and novel solutions arrived at; decision makers must look for newer solutions rather than relying on decisions made in the past.
- While standard ethical practices across cultures and countries do not exist, yet decision making must keep in mind ethical concerns. In case of MNCs, managers must be sensitive about ethical practices in cultures where they operate.

A decision maker must be conscious about his biases; he must not get carried away with his preconceptions and biases. Facts and logic, intuitions, judgment - must all be used in conjunction to each other. Creativity must be encouraged. Novel solutions should be arrived at. Decision makers should look for newer and newer ways of thinking, newer solutions, rather than relying on decisions that have been made in the past. And while we said that standard ethical practices across countries or across cultures does not exist, yet decision making must keep in mind ethical concerns, and managers must be sensitive about ethical practices and cultures wherever they operate.

(Refer Slide Time: 43:30)

Constraints In Decision Making

- Individuals differ with respect to their way of thinking and tolerance for ambiguity, and based on this, four decision making styles can be identified, viz., Directive, Analytical, Conceptual and Behavioral.

There are some constraints in decision making. Individuals differ with respect to their way of thinking and tolerance for ambiguity, and based on what we saw in the beginning of the lecture, they have different styles. So, there could be concern for technical, and concern for people, and low on tolerance for ambiguity and high on tolerance for ambiguity and accordingly, we had Directive style, Analytic style, Conceptual and Behavioural styles. So, individuals differ with respect to their way of thinking and their tolerance for ambiguity, and accordingly, there are these different styles of decision making.

(Refer Slide Time: 44:06)

■ Organizations also place constraints on the decision making process. These manifest as:

- Formalization through rules and regulations, policies and procedures.
 - ✓ Companies often stipulate and direct the code of conduct by laying down rules and regulations, policies and procedures with respect to performance appraisal, reward system, leader-follower style of functioning etc.
 - ✓ These remain in the sub-conscious when people make decisions either individually or as a group.
 - ✓ During decision making, people are guided by such rules and regulations, policies and procedures.
- Political pressures and coalitions.
- Time and cost also constrain decision making.
- Organizational culture and historical precedents also affect decision making.

The slide includes a small image of a person in the bottom right corner and a decorative graphic of gears on the right side. The bottom of the slide features the NPTEL logo and the name 'Dr. Manoj Kumar'.

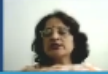
Organizations also place constraints on decision making process. These manifests through point 1: Rules and regulations, policies and procedures. So, companies often direct the code of conduct by laying down, rules, regulations, policies, procedures, with respect to appraisals, with respect to rewards, with respect to, you know, leadership styles, and leader-follower style of functioning, etc. So, these remain in our subconscious; they remain in our unconscious, and when people are making decisions, they are in the backdrop; they remain in the sub-conscious when people are making decisions, either as a group or as an individual. So, whatever rules, regulations, policies, procedures are there, with respect to appraisals, with respect to rewards, with respect to leader-follower style of functioning - all that remains in the subconscious when people make decisions. And during decision making, people are often guided by such regulations and policies and procedures.

Organizational constraints also manifest in the form of coalitions, political pressures. We have discussed power and politics earlier. We have also discussed about coalitions and we have seen that coalitions, you know, are a powerful force, and very often group decision making gets dominated by strong coalitions that exist; strong groups of people that exist, who dominate the decision. Organizational constraints on decision making also get manifest in the form of time and cost constraints, and organizational culture, and historical precedents also affect decision making.


(Refer Slide Time: 45:52)

REFERENCES

- Aswathappa, K. (2014). Organisational Behaviour: Text, Cases, Games. Himalaya Publishing House, Mumbai.
- Greenberg, J. (2013). Behavior in Organizations, Tenth Edition, Prentice Hall of India, Delhi.
- Luthans, F. (2011). Organizational Behavior: An Evidence-based Approach, Published by McGraw-Hill/Irwin, Twelfth edition, New York.
- Prasad, L.M. (2020), Principles and Practice of Management, Sultan Chand & Sons, Delhi.
- Robbins, S.P. and Judge T.A. (2017). Organizational Behavior, Seventeenth edition, Pearson Education UK.
- Robbins, S.P., Judge T.A. and Vohra, N. (2018). Organizational Behavior, Eighteenth edition, Pearson Education India.



DT Khanna



So, with this I come to a conclusion of my lecture on Decision Making and of this topic 'Decision Making'. Thank you.