MGT 200: Organizational Behavior and Theory

Cognitive Biases

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Overview

- Framing
- Heuristics
  - Availability
  - Representativeness
  - Anchoring and adjustment

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Framing: Attribute framing

Heuristics and bias

Heuristics	Potential bias	Examples
Availability	Overestimating the frequency of vivid, extreme or recent events and causes	Going beyond statistics: World Vision photo of the day
Representativeness	Failure to take into account base rates and overestimating the likelihood of rare events	Francis- MBA grad. What kind of job does he hold now?
Anchoring and adjustment	Inappropriate decisions when initial amounts are too high or low	Salary negotiations

Availability- Ease of Recall

Save the Children: Donation Request

- Food Shortages in Malawi are affecting 3 Million children
- More than 11 Million in Ethiopia need immediate assistance
- One-third of Angolans have been forced to flee their homes

Any money you donate will go to Roika, a seven year old girl from Mali, Africa. Roika is desperately poor and faces the threat of starvation. Her life will be transformed as a result of your contribution.

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Availability- Retrievability

- In four pages of a novel (about 2,000 words), how many words would you expect to find that have the form…
  - _ _ _ _ i n g
  - _ _ _ _ _ n _
- 11+ words ending in_ _ _ _ i n g:
- 11+ words ending in n _ :

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Availability- Better-than-average effect

- Rate yourself in comparison to others in terms of:
  - Decision making ability:
  - Bargaining ability:
  - Intelligence:
  - Driving ability:
  - Health:
  - Contribution to charitable causes:
  - Physical attractiveness:
  - Number of good friends you have:

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Representativeness- Ignoring base rates

- Francis is finishing his MBA at a prestigious university. He is very interested in the arts and at one time considered a career as a musician. Is Francis more likely to take a job…
  - in the management of the arts?
  - with a management consulting firm?

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Anchoring and adjustment

- A newly hired engineer for a computer firm in the Boston metropolitan area has four years of experience and good all-around qualifications. When asked to estimate the starting salary of this employee, my secretary (who knows very little about the profession or the industry) guesses an annual salary of:
  - $43,000
  - $90,000
- What is your estimate:
  - Secretary: $43,000
  - Secretary: $90,000

Remedies

- Set clear goals
- Use nominal groups
  - Reduces production blocking, evaluation apprehension, free riding
- Develop norms that require disagreement
  - Awareness of biases is key!
- Encourage minority influence
  - E.g. devil's advocates

Take-aways

- Decision-makers (bosses, coworkers, and you) deviate systematically from rationality because they use heuristics to simplify the world and to save time.
- Because the application of heuristics can give rise to certain cognitive biases:
  - Heuristics can *boost* or *undermine* decision making effectiveness
  - Heuristics can be used against you to *manipulate* your decisions
  - Heuristics can be used to *influence* others' decisions

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