Individual and Ethical Decision Making

by Ethan Burris
Associate Professor, Department of Management
Agenda

- Decision-making as optical illusions
- Common decision-making pitfalls
  - Cognitive heuristics
  - Heuristics about intuition and rationalization
  - Moral heuristics
Decision-making as Optical Illusions
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Decision-making as Optical Illusions
Prescriptive Model of the Decision-Making Process

1. Identify the Problem
   (e.g., insufficient funds to meet payroll obligations)

2. Define Objectives
   (e.g., increase cash flow)

3. Identify and Weight Criteria
   (e.g., customer demand, worker satisfaction, production capacity)

4. Generate alternatives
   (e.g., raise prices, lay off workers, liquidate equipment, etc.)

5. Evaluate alternatives
   (e.g., higher prices may lower sales, laying off workers will slow production)

6. Make a choice
   (e.g., decide to raise prices slightly and sell excess inventory)

7. Implement the choice
   (e.g., raise prices slightly and sell excess inventory)

8. Follow up
   (e.g., do I now have sufficient funds?)

Problem Solved
If solution is not found
(e.g., funds still not available)

If solution is found
(funds available)
Assumptions of Prescriptive Model

- All relevant information present
  - Problem
  - Options
- Clear, constant preferences
- No time constraints
- Unlimited information processing
Characteristics of Decisions in Organizations

- Decision contain elements of chance and risk
- Decision makers are sensitive to political, “face-saving” pressure.
- Decisions are unable to be completely rational
  - Bounded Rationality
  - Satisficing
  - We use “heuristics” or shortcuts
Examples of Heuristics
Types of Heuristics – Short-cuts in Decision-making

- Cognitive heuristics
- Heuristics about intuition and rationalization
- Moral heuristics
What is the probability that object A belongs to class B?

A

• Very shy
• Withdrawn
• Helpful
• Has little interest in people or in the world of reality
• Meek and tidy
• Need for order & structure
• Passion for detail

B

Farmer
Salesman
Airline pilot
Librarian
Physician
Which is more likely?

a. A flood somewhere in the USA in 2004 in which 100 people will drown?

b. An earthquake in California sometime in 2004, causing a flood in which 100 people will drown?

b) Cannot be more likely than a) because there is some probability of a flood not being caused by an earthquake. Most choose b)
Heuristic: Representative Heuristic

- Tendency to assess the likelihood of an event occurring based on similarity of that occurrence to our stereotypes of similar occurrences.

- Problem when information is insufficient and better information exists on which to make an accurate judgment. Can cause inaccurate estimations of probabilities.

- Organizational (or other life) examples:
  - “the last person we hired from UT was good, so let’s hire another”
Framing in Decision-making

Imagine that you are about to buy a ring for $2,000 and a watch for $50. The salesperson informs you that the same watch is on sale for $25 at the other branch of the store, which is fifteen minutes away by car. Would you make the trip to the other store?

Yes  45
No   55

Imagine that you are about to buy a watch for $2,000 and a ring for $50. The salesperson informs you that the same watch is on sale for $1975 at the other branch of the store, which is fifteen minutes away by car. Would you make the trip to the other store?

Yes  11
No   89
Framing in Decision-making II

- Gain → Risk Averse
- Loss → Risk Seeking

The U.S. is preparing for the outbreak of an unusual Asian disease that is expected to kill 600 people. Two alternative programs are considered:

**Group 1 (Gain):**

A) If Program A is adopted, 200 people will be saved

B) If Program B is adopted, there is a 1/3 probability that all will be saved and a two-thirds probability that none will be saved

**Group 2 (Loss):**

A) If Program A is adopted, 400 people will die

B) If Program B is adopted, there is a 1/3 probability that no one will die and a two-thirds probability that all will die
Framing in Decision-Making III

- **Condition 1:**
  \[1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8 = ?\]

- **Condition 2:**
  \[8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1 = ?\]
Framing in Decision-Making III

- **Condition 1:**
  \[1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8\]
  - Mean answer: 512

- **Condition 2:**
  \[8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1\]
  - Mean answer: 2250

- Anchoring and (insufficiently) adjustment
Framing in Decision-Making III

- Correct answer: $8! = 1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8 = 8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1 = 40,320$

- People make estimates by starting from an initial value that is adjusted. Adjustments are typically insufficient. That is different starting points yield different estimates.
- e.g. Low-balling in negotiations
Utilizing and Overcoming Cognitive Heuristics
# The Decoy

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| 68 | 32 |
Save More Tomorrow

Manufacturing employees meet with financial consultant about current retirement savings

- Recommend increase of 5% immediately
- 25% participated
- Average savings rate jumped from 4% to 9% and held steady for 4 years

- Recommend savings rate increase of 3% at raise time
- 78% participated
- Average savings rate jumped from 3.5% to 13.5% over 4 years (and 4 raises)
Types of Heuristics – Short-cuts in Decision-making

- Cognitive heuristics
- Heuristics about intuition and rationalization
- Moral heuristics
The intuitive dog and its rational tail

- People have intuitive, gut reactions and then rationalize ways to justify those decisions
  - We seek out information to confirm our intuitions
  - Especially if we are incentivized
  - Especially if that information is critical of us
Information search confirms our intuitions

- “If a card has a vowel on one side, then it has an even number on the other side”

- Look for evidence consistent with a proposition
  - Was your guess designed to get a “yes” because it confirmed the proposition?
- But, fail to look for disconfirming evidence
Especially if we are incentivized
Especially if we are challenged

Low intelligence test score
Problems with Intuition?

Malcolm Gladwell

Blink
The Power of Thinking Without Thinking
Leaders perceive inner-circle members

- Greater contribution
- More knowledgeable
- Rewarded them more
- Irrespective of actual expertise or strength of argument
- Driven by “liking”

Two organizational examples

Inner-circle experts

Outer-circle experts
Two organizational examples (II)

COO

- Retail Store Mgr
  - Preferred Strategy: Just-in-Time System
    - Minimizes holding costs
- Warehouse Mgr
- Delivery Ops Mgr
  - Preferred Strategy: Bulk Order System
    - Minimizes order costs
Two organizational examples (II)
Two organizational examples (II)
Effective decision-making process I

- People often try harder to *look* right than *be* right

- Accountability
  - Decision-makers learn *before* forming any opinion that they will be accountable to an audience
  - Audience’s views are *unknown*
  - Audience is *well informed* and interested in *accuracy*
Effective decision-making process II

- How does the leader manage intuitions in the decision-making process?
  - How does the team share information with one another?
  - What are the mechanisms to manage conflict?
  - What methods are present to choose among many alternatives?
  - Are these implicit or explicit norms?
Types of Heuristics – Short-cuts in Decision-making

- Cognitive heuristics
- Heuristics about intuition and rationalization
- Moral heuristics
Outline

- Business ethics – the traditional views
  - Bad apples and bad barrels
  - Moral reasoning

- Behavioral ethics –
  - Application of heuristics to moral problems
Bad Apples...
... and bad barrels
Bad apples and bad barrels

Tasks:

- Find the bad apples:
  - Machiavellians, psychopathy, narcissism
- Find the bad barrels:
  - Problematic executives, board members
  - Poor control systems
  - Comply and evade cultures
Moral reasoning / moral development

- **Tasks:**
  - Learn the principles and frameworks
    - Utilitarianism – choose overall “greatest good”
    - Rights – respect and protect basic rights of others
    - Justice – distribute benefits and burdens equitably
    - Virtue – strive for virtuousness (if my mom knew of my actions…)
  - Improve “moral reasoning” and, hence, moral decision making, by repetitively applying concepts to situations
Bad apples and bad barrels

Problems with this approach:

- Dismissiveness
  - Makes it very easy to say “this doesn’t involve me”
  - “I’m not a psychopath and I don’t work at Enron”

- Defensiveness
  - “How dare you compare me to …”; “I would never act like …”

- Doesn’t fit my reality!
## A different approach: Behavioral ethics

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<tr>
<th></th>
<th>Traditional approaches</th>
<th>Newer approaches</th>
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<tbody>
<tr>
<td><strong>Lens:</strong></td>
<td>Normative, theoretical</td>
<td>Descriptive, empirical</td>
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<tr>
<td><strong>Fields:</strong></td>
<td>Philosophy, psychology, human development, education</td>
<td>Evolutionary and social psychology, primatology, neuroscience, economics</td>
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<td><strong>Focal parts of brain</strong></td>
<td>“Cool” and “deliberative” reasoning systems</td>
<td>“Hot” and “automatic” reasoning systems</td>
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<td><strong>Core premise:</strong></td>
<td>Think first, decide/act second</td>
<td>Decide/act first, rationalize/explain second</td>
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<td><strong>Who is at risk?</strong></td>
<td>“Less developed” and “disturbed” individuals</td>
<td>Everyone</td>
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Effects of Omission bias:

Trolley scenario (omission)

You are at the wheel of a runaway trolley quickly approaching a fork in the tracks. On the tracks extending to the left is one railway workman. On the tracks extending to the right is a group of five railway workmen.

If you do nothing, the trolley will proceed to the left, causing the death of the one workman. The only way to save this workman is to hit a switch on your dashboard that will cause the trolley to proceed to the right, causing the deaths of the five workmen on the other side.

Not hitting the switch (trolley will to the left) is:
Effects of Omission bias:

Trolley scenario (commission)

You are at the wheel of a runaway trolley quickly approaching a fork in the tracks. On the tracks extending to the left is one railway workman. On the tracks extending to the right is a group of five railway workmen.

If you do nothing, the trolley will proceed to the right, causing the death of the five workmen. The only way to save the five workmen is to hit a switch on your dashboard that will cause the trolley to proceed to the left, causing the death of the one workman on the other side.

Hitting the switch (trolley will go to the left) is:
Trolley

- Morally Wrong
- Omission
- Commission

- 1
- 1.5
- 2
- 2.5
- 3
- 3.5
- 4
What would you do?
Shades of Commission
Shades of Commission

- Some acts (types of commission) feel “more wrong” than others

- The belief that using physical contact to cause harm to a victim is morally worse than causing equivalent harm to a victim without using physical contact
Indirect Agency Bias

- The decrease in perceived severity of harm, immorality, or moral accountability that results from the delegation of acts to / use of agents or intermediaries
Example

- Companies may outsource production and other functions to outside firms that act less ethically than the company would act itself (e.g., by treating workers less generously)

- Nike’s alleged reliance on exploitative labor practices in outsourced plants in developing nations during the 1990’s
  - Nike’s response included outsourcing investigation of these factories to consultants who were allegedly instructed to produce biased and favorable reports (O’Rourke, 1997)
A major pharmaceutical company, X, had a cancer drug that was minimally profitable. The fixed costs were high and the market was limited. But, the patients who used the drug really needed it. The pharmaceutical was making the drug for $2.50/pill (all costs included), and was only selling it for $3/pill.
Results

- **Condition 1**: Pharmaceutical company X triples the price from $3 to $9

- **Condition 2**: Pharmaceutical company X sells the drug to lesser-known company Y, who raises the price from $3 to $15

- How unethical was company X in its actions?
  - (0 to 10 [very unethical] scale)

  - **Condition 1**: 6.85
  - **Condition 2**: 5.05

  Conclusion: 1 [direct] is more unethical than 2 [indirect]
Summary

- We are all a bit wormy, and all of our houses have glass – we all make bad or even unethical decisions.

- The biggest part of an iceberg is below the surface.

- “Trying harder” by yourself isn’t enough.
WHAT TO DO...
Take advantage of heuristics
Goals of Effective Decision-Making

- **Engagement**
  - Involvement in the problem and generation of solution
  - Idea expression

- **Expectation clarity**
  - Everyone should know the standards to which they are accountable
  - Goals and roles within decision-making process

- **Explanation**
  - Everyone should understand underlying logic of why a decision was made
  - Buy-in after decision is made
To ward off intuition and biases in ethical decision-making

- Consider decisions, processes, etc. that activate core human drives/motives and emotions and thus lend themselves to “intuition”:
  - **Self interest triggers**  
    (money, status, power, effort)
  - **Self protective triggers**  
    (physical, psychological, social loss)
  - **Empathic / prosocial triggers**  
    (ingroup, harm to others)
Agenda

- Decision-making as reflexes and illusions
- Common decision-making pitfalls
  - Cognitive heuristics
  - Heuristics about intuition and rationalization
  - Moral heuristics

Thinking systematically about implications of decision-making processes up front, rather than “in the moment” will help generate better decisions.
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