Decision Making in the World of HR

Jim Sherman (sherman@Indiana.edu)

Two Systems

FAST
S1

S1 is effortless, automatic, no logic, affect/emotion, can't prevent it or turn it off, works by associations, has high certainty

SLOW
S2

S2 is controlled, effortful, has rules, conscious, is lazy, has doubts

Examples of the Two Systems

EXAMPLE 1

A bat & ball cost $1.10

The bat costs $1.00 more than the ball.

How much does the ball cost?

EXAMPLE 2

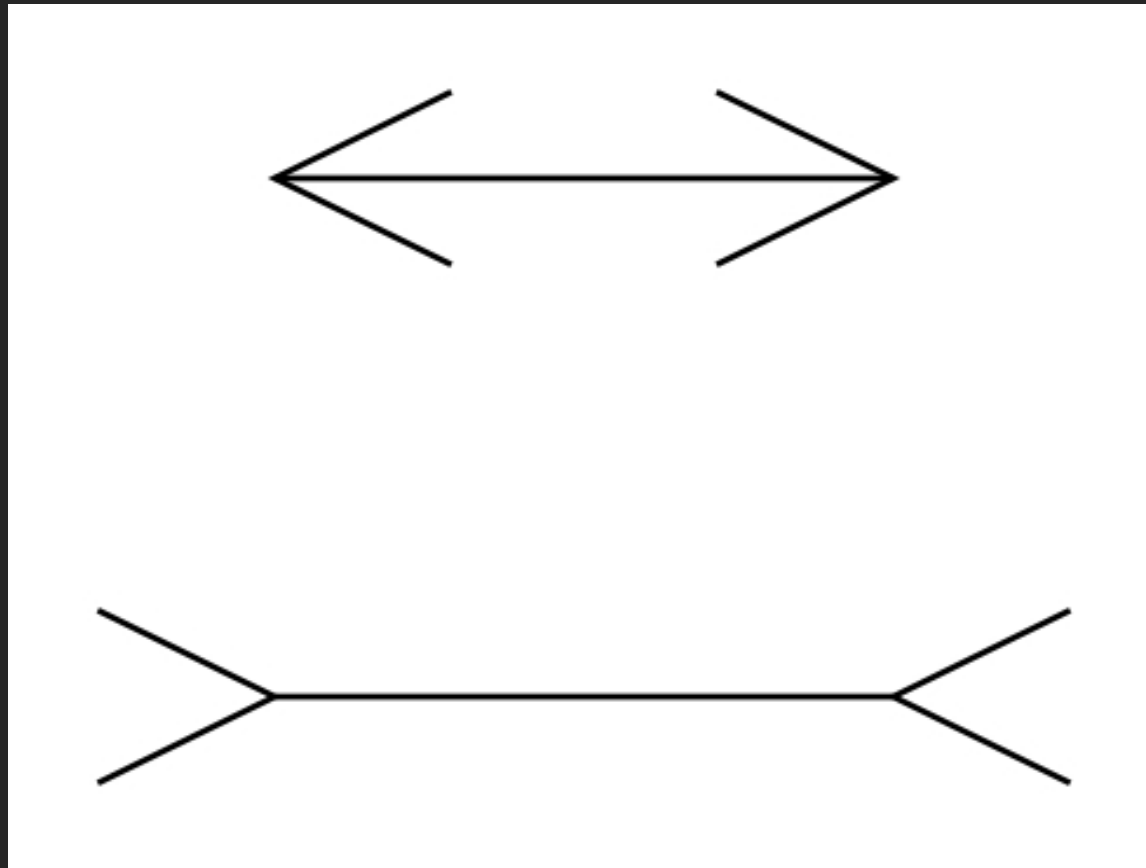There are 2 urns. Urn A has 1 red ball & 9 white balls.

Urn B has 7 red balls & 93 white balls.

If you pick a red ball (blindfolded), you win $100.

From which urn do you want to pick?

Muller-Lyer Illusion

Aspects of S1 and S2

- S1 goes first and may or may not be corrected by S2.

- If cognitively busy (mentally depleted), S2 does not work and S1 "wins".

- Sometimes S1 is correct and is better than S2.

- Often, S1 is wrong and may lead us astray.

Heuristic Biases

Heuristics are quick rules of thumb—right most of the time, but prone to biases.

Anchoring: where you start affects where you end up (e.g., bargaining).

- Was Gandhi more or less than 120 (35) years old when he died?
- How old Gandhi when he died?

Availability: what comes to mind most quickly and easily is judged as most frequent/probable.

- Are there more English words that start with R or have R as the third letter?
- Do more people die in transportation accidents or by pneumonia?

Heuristics Biases

Representativeness: if it looks like a duck, it must be a duck.

- An individual has been described by a neighbor as follows: "Steve is very shy and withdrawn, invariably helpful but with little interest in people or in the world of reality. A meek and tidy soul, he has a need for order and structure, and a passion for detail." *Is Steve more likely to be a librarian or a farmer?*

- On 8 flips of a fair coin, which is more likely:

  HTHTTHTH or HHHHTTTT

Heuristics Biases

Conjunction Fallacy: When two things are seen as more likely than one thing.

- Linda is thirty-one years old, single, outspoken, and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice, and also participated in antinuclear demonstrations.

- Rank order, from most to least likely, the following:
    - Linda is a teacher in elementary school
    - Linda works in a bookstore and takes classes
    - Linda is a psychiatric social worker
    - Linda is a bank teller
    - Linda is an insurance salesperson
    - Linda is a bank teller and is active in the feminist movement

Regression Effects: Pilots and Coaches

Time and Judgement

The Past

- **Hindsight Bias**: "I knew it would happen"

- **Outcome Bias**: If the outcome is good, it was a good decision (Betting on a card, decisions by coaches, and financial decisions)

- **Counterfactual Thinking for any Bad Outcome**: "if only---"

  – The father in Detroit

  – Who is happiest at the Olympics?

  – Mr. Paul owns shares in company A. During the past year he considered switching to stock in company B, but decided against it. He now finds out that he would have been better off by $1,200 if he had switched to the stock of company B. Mr. George owned shares in company B. During the past year he switched to stock in company A. He now finds that he would have been better off by $1,200 if he had kept his stock in company B. Who feels greater regret?

Time and Judgement

The Future

- **Planning Fallacy**: Did you ever commit to a deadline far in advance and fail to meet the deadline?

- **Construal Level Theory**: Short term vs. long term; concrete vs. abstract. We make different choices for the near future and the far future.

- Putting in your orders for ice-cream.

- Imagining and explaining hypothetical future events make them seem more likely.

Beliefs Don't Change

- **Perseverance Effect**: It's hard to get rid of wrong beliefs

- **Hypothesis Confirmation Bias**

  - I have a bunch of cards. On every card, there is a number on one side and a letter on the other. I assert that "every card with a vowel on one side has an even number on the other side." I show you 4 cards (1 side only). You see A B 2 3. Which cards do you want to turn over to help you test my assertion?

Behaviors Don't Change

Status Quo Bias, Sunk Costs, and Loss Aversion: losses loom larger than gains—pens, mugs, stock decisions, wine, putts, poker hands, and marriages.

Other Irrational Biases

- **Overconfidence**: For 100% confidence, only 75% are right!

- **Mental Accounting**: Deal or no deal; a day at the dog track; should I sell my losing stock?

- **Framing**: <u>How</u> you say the same thing makes a difference.

  – Cash or credit card at the gas station?

  – Imagine that the US is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programs to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the programs are as follows:

    - If program A is adopted, 200 people will be saved.
    - If program B is adopted, there is a 1/3 probability that 600 people will be saved and a 2/3 probability that no people will be saved.
    - If program C is adopted, 400 people will die.
    - If program D is adopted, there is a 1/3 probability that nobody will die and a 2/3 probability that 600 people will die.

Cognitive and Motivated Biases

- " A man hears what he wants to hear and disregards the rest."

- Instant replay

- Is it a seal or a horse?

Relevance for Things YOU Do!

- **Multi-tasking**: Reliance on S1

- **Finding Good Applicants, Interviewing Them, and Selection**

  - Clinical vs. actuarial judgment   - Beware of unconscious bias

- **Dispute Resolution**: The hostile media effect

- **Fairness in Salary and Salary Decisions**

  - Framing   - Standards of comparison

- **Dealing with Complaints**

  - Framing   - Loss aversion   - Mental accounting

- **Self-Handicapping**

Best Two Bits of Advice

ALWAYS CONSIDER ALL ALTERNATIVES!

TAKE THE ROLE OF THE OTHER PERSON!

INDIANA UNIVERSITY

Questions?

INDIANA UNIVERSITY
FULFILLING *the* PROMISE