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## ORGANIZATIONAL BEHAVIOUR

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# ORGANIZATIONAL BEHAVIOUR

## Perception and Decision making

Perception is a **psychological process** by which individuals select, organise and interpret their **sensory impressions to give meaning to their environment**. Perception is important as an individual's behaviour is dependent upon perception of reality and not the reality itself. It is defined as a **person's view of reality**.

The world as we see is not necessarily the same as it really is. **We perceive things according to our comfort and priorities and take them as reality.**



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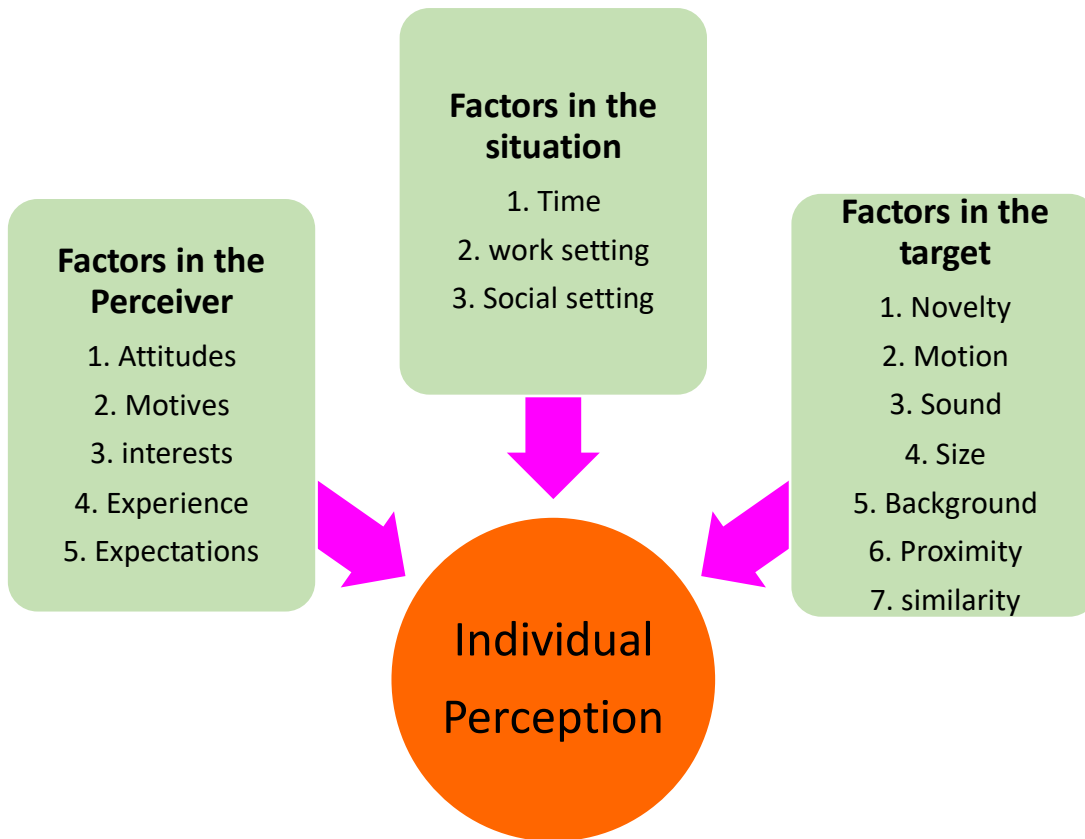
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## Factors that influence perception



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## Factors in the perceiver

- Attitude, motives, interests, expectations etc of the perceiver have an impact on her view of reality. For example, if you perceive policemen to be authoritative, you will perceive them as such, no matter how helpful they are

## Factors in the target

- characteristics of the target we observe can affect how we perceive. Loud people are more likely to be noticed in a group than quiet ones. Extremely attractive or unattractive people are also noticed faster. Similarly, relationship of the target to its background also influences our perception.

## Factors in the situation

- The time at which we see an object or event can influence our attention, as can location, lighting, heat etc.

## Attribution theory on application of perception

When we observe people, we attempt to explain to ourselves why they behave in certain ways.

**Attribution theory states that we perceive others based on the meaning we attribute and assumptions we make about that person's internal state.** As we observe a person's behaviour, we tend to determine whether it was internally or externally caused. Our determination of that person's behaviour frames our perception about him or her.

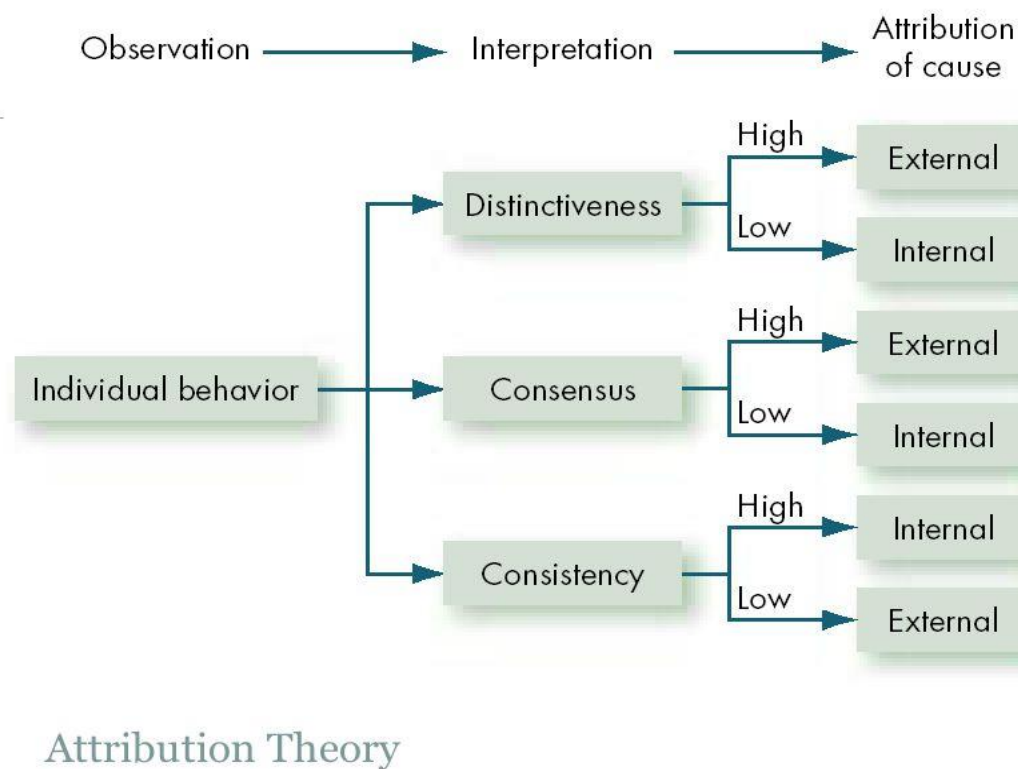
There is also a tendency to attribute success of oneself to internal factors and put blame for failure on external factors. This is called as **self-serving bias**.

**3 factors** help us in determining whether behaviour was internally or externally caused:



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1.	<b>Distinctiveness</b>	<p>Under distinctiveness, we make a comparison with other actions of the same individual in different situations. This is done to determine whether the behaviour of the individual is usual or unusual.</p> <p><b>Low distinctiveness</b> (which means that other actions of the same individual are not distinct but similar) means that it is internally caused.</p> <p><b>High distinctiveness</b> means that this particular behaviour is distinct and thus caused due to some external factor.</p> <p><b>For example</b>, determining, whether an employee who is late for work is also the one who blows off commitments. If yes, it is a case of low distinctiveness and thus internally caused.</p>
2.	<b>Consensus-</b>	<p>We try to determine whether everyone facing the same situation reacted in the same way. Low consensus means that other individuals did not react in the same way and thus the behaviour was internally caused by the one individual being examined.</p> <p><b>For example</b>, if everyone following the same route is late for work today, then there is high consensus and thus external causality.</p>
3.	<b>Consistency-</b>	<p>Comparison of a person's reaction with respect to time determines consistency. If a person reacts in a similar manner all the time (high consistency), then it's internally caused.</p> <p><b>For example</b>, determining, whether an employee is always late for work or is today an exception? If today's late arrival is an exception, external factors are held responsible, and otherwise we perceive late arrival to be an internal behaviour of the individual.</p>

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## Perceptual process

### 1 Selection of required information-

Many things are happening in the environment simultaneously around us. We can't pay attention to all these things. One of the most relevant things will be selected and given attention. This process of selecting some aspects from the environment depending upon interests, attitude, experience etc. is called selection.

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2	<b>Organisation of information-</b>	
	After information is selected, it is organized to extract meaning out of it. Organizing is a cognitive process. Incoming information is organized into a meaningful whole according to the following principle	
	A.	Figure ground principle- This principle implies that the perceived object, event or person stands out distinct from its background and gets the cognitive attention of the individual. In perception, certain factors are considered significant which give a meaning to a person, while others are considered insignificant. Meaningful and significant portions are called "figure" and insignificant or meaningless portions are called "ground". Under perception organizing process, only significant information is filtered in and given importance for further processing.
	B.	Perceptual grouping- The tendency to group or club information into meaningful patterns is called perceptual grouping. When we see people, we tend to group them according to similarities and differences. The tendency to group them together is what is termed as perceptual grouping.
3.	<b>Interpretation-</b>	
	The last step in perception process is Interpretation. Under interpretation, meaning is finally assigned to all gathered information. It is the process of judging others or situations and arriving at a definitive conclusion.	



## Perceptual Distortions/errors (Important)

1.	<b>Selective perception-</b>	<p>People perceive what is in accordance with their needs, motives and interests. Sometimes they distort meanings to fulfil their objective.</p> <p><b>For example</b>, a doctor, a mechanic and a policeman who witness an accident will see different things in the accident. The doctor will focus on condition of passengers, the mechanic will notice condition of vehicle and the policeman will notice violation of traffic rules. Thus, we selectively choose and perceive according to our interests and thoughts.</p>
2.	<b>Projection</b>	<p>The act of attributing one's own traits to the people being judged is called projection. It can distort perceptual judgement about others.</p> <p><b>For example</b>, an individual who is himself lazy may see others also as lazy and explain their lack of achievement as resulting from lack of hard work.</p>
3.	<b>Stereotyping-</b>	<p>Judging people based on characteristics of the group to which they belong is called stereotyping.</p> <p><b>For example</b>, Santa Banta Jokes on Sikhs are a form of stereotyping as they generalize Sikhs as having certain characteristics.</p>
4.	<b>Halo effect-</b>	<p>It refers to the tendency to draw a general impression about an individual based on a single characteristic. Halo effect creeps in when a manager or rater allows one aspect of a man's character or performance to influence his entire evaluation.</p> <p><b>For example</b>, an employee may get promoted because of his extremely attractive physical looks and his performance may be ignored by halo effect of physical features. Similarly, a teacher might give more marks to students who are always taking guidance and are more social.</p>



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5.

**Impression-**

People often form impression of others on first sight. Even before knowing any of their personality traits, they start having impression and making assessment of individuals they meet for the first time. First impression may not be correct and thus this leads to perceptual distortion.

## Principle of Bounded Rationality by Herbert Simon

Effective decision-making requires a rational choice of a course of action. Rationality is the ability to follow a systematic, logical and thorough approach in decision-making. Thus, if a decision is taken after thorough analysis and reasoning, such a decision will be called an objective or rational decision.

In reality, people take decisions which involve a combination of intuition and rational thinking. **A person who depends much upon intuition is more subjective and a person who depends much upon logic is more objective.** This principle is called **Principle of Bounded Rationality**. Simon said that people don't take decision purely based on logic and rational thinking but also based on intuition and value systems. **Therefore, instead of taking optimal decisions, people take satisfactory decisions.**

## Perceptual Defence

When confronted with some conflicting or unacceptable stimuli or information, **a person would put up perceptual defence in order to safeguard his existing perception about that particular stimuli or information or thing.** The screening out of those elements that create conflict and threatening situation for people is called perceptual defence.

There are many forms that defence may take- outright denial, modification of the data received, change in perception but refusal to change, and finally change in perception itself

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**1. Outright denial** - when the perceiver refuses the stimuli or information and sticks to his perception.

**2. Modification of data received** - when the perceiver attaches another information to the existing stimuli in order to give meaning to his existing perception or to justify his perception, it is termed as modification

**3. Change in perception but refusal to change** - when the perceiver feels that the stimuli or information is in conflict with his perception but he refuses to change his perception.

**4. Recognition/ change in perception itself** - when the perceiver gives away his perception and accepts the stimuli or information as correct.

## Decision Making

Decision making can be defined as the **process of selection of a course of action from a choice of alternatives**

It deals with the decision of allocation of resources for implementing the plan that has been created.

**Plan does not become a plan until decision making takes place** i.e. until commitment of resources has been made for it. Before decision making, plan is just a study or research project.

Process leading to decision making in Systems management approach:



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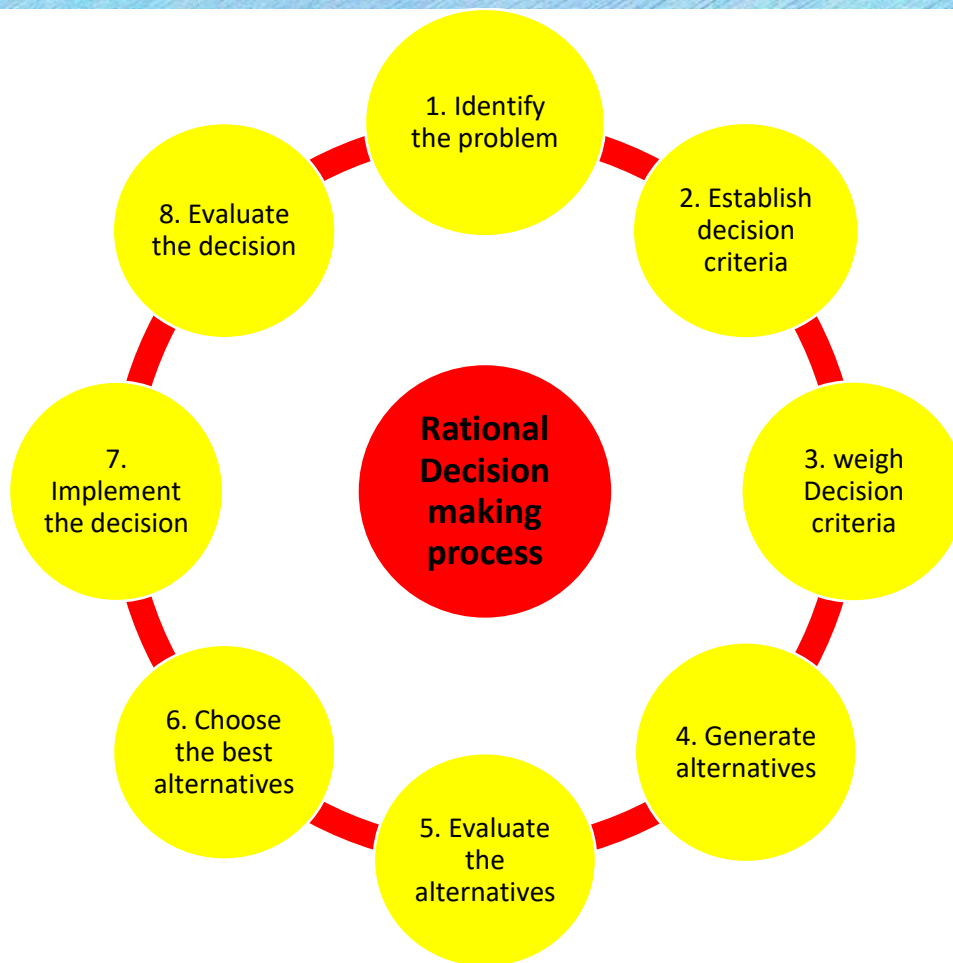
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**Choice vs. Decision** → step of selection of alternative is choice.

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## Rational Decision making

The problem is clear and unambiguous

A single well defined goal is to be achieved

All alternatives and consequences are known

Preferences are clear

No time or cost constraint exist

Preferences and constants are stable

Final choice will maximise economic payoff

Leads to



Rational Decision Making

Limited or "Bounded rationality"

Limitation of time, resources like information, HR, leads managers to compromise rationality even though they may try their best to be rational. Since they cannot be completely rational owing to the unpredictable nature of their decisions, managers usually take the "safe route" or play it safe. Herbert Simon called this "satisficing" - picking a course that is satisfying or good enough.





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### COMPLEX PROBLEMS



1.	Finding Alternatives: Development of Alternatives and The Limiting Factor.
	Limiting factors exist in accomplishing a set of goals or objectives. In such cases alternatives have to be developed to continue the plan and execute upon decisions made by the firms. Hence, the principle of limiting factor states that by recognizing different factors that stand critically in the way of a goal, the best alternative course of action can be selected.
2.	Evaluation of alternatives.
	Quantitative and Qualitative Factors • Marginal Analysis – Means Additional revenue and additional cost from increasing production • Cost-effectiveness analysis- Finding Best ratio of the benefit and the cost.
3.	Selecting an alternative.
	Three main approaches of selecting an alternative. <ul style="list-style-type: none"> <li>◦ Experience</li> <li>◦ Experimentation</li> <li>◦ Research and Analysis</li> </ul>

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## Programmed and Unprogrammed Decisions

### Programmed Decision

- Used for routine or structured work
- **Example:** Inventory management work across most companies is programmed.

### Unprogrammed Decision

- Used for non-routine, fragmented, unstructured, novel and ill-defined situations of non-recurring nature.
- **Example:** Introduction of Macintosh by Apple computers

## Creativity and Innovation

**Creativity:** The ability and power to develop new ideas

**Conditions necessary:**

- Expertise
- Creative
- Thinking Skills
- Internal Motivation



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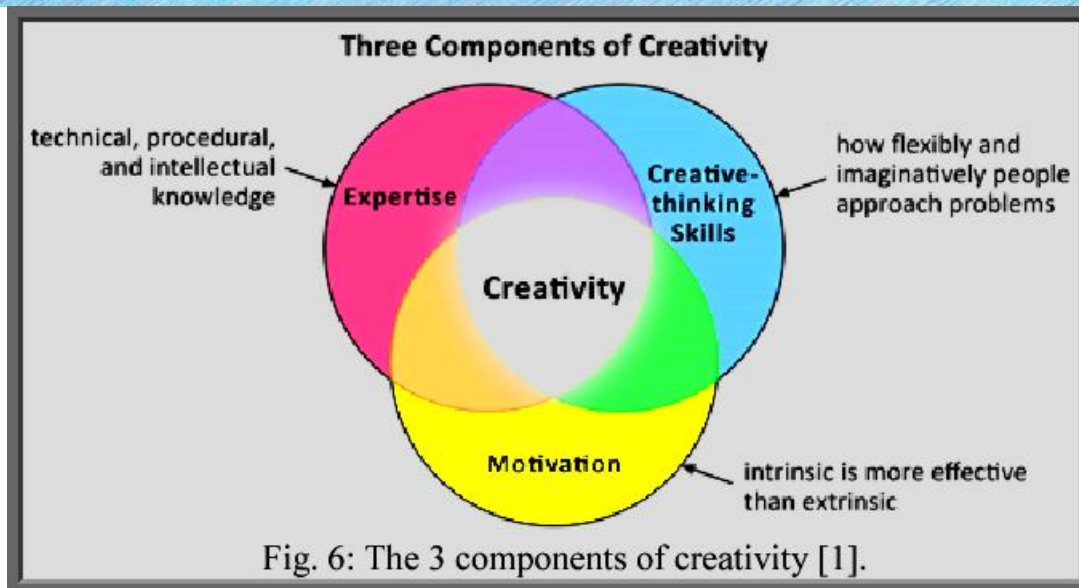
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## Invention

involves creativity - invention pertains to new ideas and processes that have not be used or developed before.

## Innovation

The application of creative ideas or inventions (products, services) or the use of new ideas.

### Situations Leading to innovation

1.	An unexpected event, failure or success
2.	A desire to change the course of established practices to make them more efficient
3.	Changing demographics
4.	Changing customer preferences

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5.	Changing market and competitive landscape
6.	Newly acquired knowledge

## The Creative Process

- The Unconscious Scanning
- Intuition (includes Brainstorming as a process of intuition and takes time and experience)
- Insight
- Logical Formulation

### Vertical Thinking

- **Vertical thinking** can be thought of as a sequence of direct and logical steps that are used to come to a conclusion.

### Lateral Thinking

- **Lateral thinking**, on the other hand, is more about using an indirect and creative approach to come to a conclusion.

**Example** Suppose that someone needs to get to a treasure chest buried deep underground. A person using vertical thinking will dig a hole and keep digging that same hole deeper and deeper until they (hopefully) get to the treasure chest. A person with lateral thinking may dig a hole for a while and realize it may not be the best spot to dig, so why not try digging a hole somewhere else instead, why be stubborn about it?

Just from this example alone, you can see that vertical thinking is a rigid way of thinking. It's about sticking to the approach you have taken from the beginning and excluding any other approach. Lateral thinking is flexible. It's all about thinking about a problem from different angles, even if they're a bit controversial, and generating new approaches to the same old thing.



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## Brainstorming

The **Brainstorming** is a technique to stimulate creative ideas and solutions through a group discussion. Simply, a process wherein a group attempts to find a solution for the specific problem by aggregating all the spontaneous opinions or suggestions given by each group member individually is called as brainstorming.

In a brainstorming session, a group of 10-15 persons is constituted who are directly or closely related to the problem of discussion irrespective of their fields of disciplines. During this session, the group members are just required to share their ideas or speak out the mind in front of other members and need not worry about how realistic or feasible the solution is.

### The rules of brainstorming:

- No ideas are ever criticized
- The More radical the ideas - the better
- The quantity of idea production is stressed
- The improvements of ideas by others are encouraged.

## Errors In Decision Making

### Availability Heuristic



The availability heuristic is a mental shortcut that relies on immediate examples that come to a given person's mind when evaluating a specific topic, concept, method or decision  
Tendency to make judgments on basis of information readily available.

### Representative Heuristic



Tendency to make judgments on things with which people are familiar.  
Kahneman.

### Escalation of commitment



Increased commitment to a previous decision despite negative information. Due to overconfidence.



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## Quantitative techniques in Decision making

Decision Tree

Beak Even  
Analysis

Financial  
control

Economic  
Order  
Quantity

Linear  
Programming



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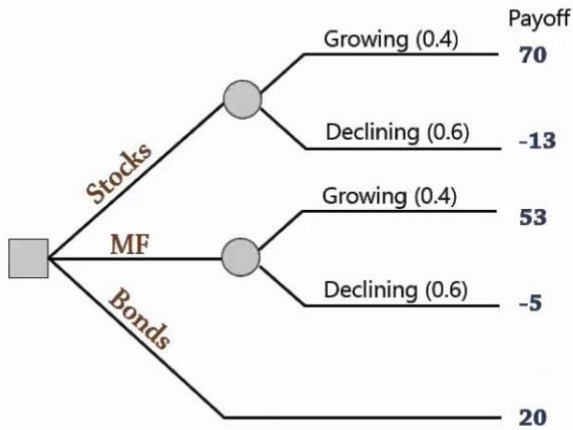


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# Decision Tree

## Decision Tree



Alternatives	Growing	Declining
Stocks	70	-13
Mutual Funds	53	-5
Bonds	20	20
Probability	0.4	0.6



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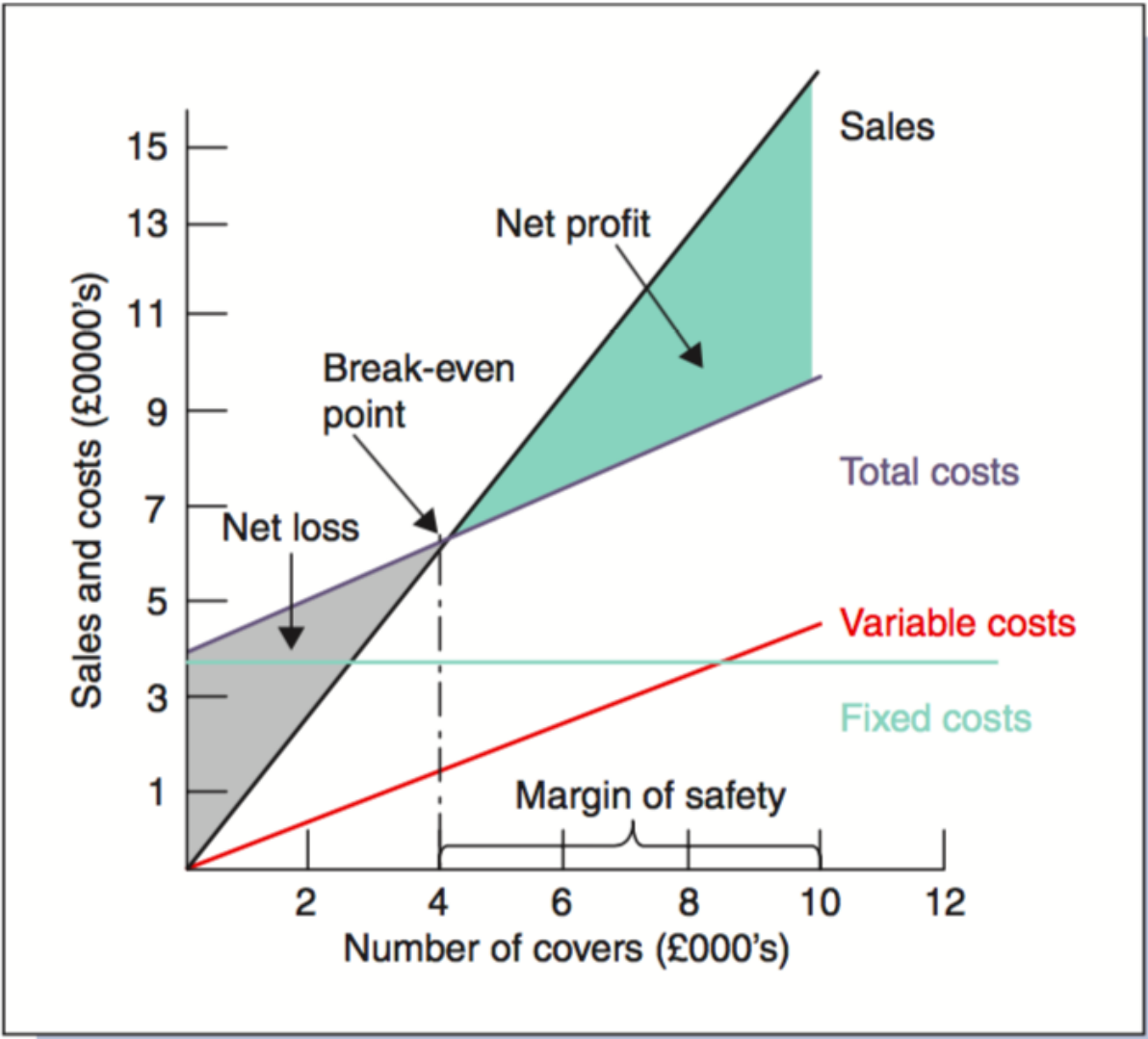
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# Break even analysis





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## Financial Control

### Popular Financial Controls

OBJECTIVE	RATIO	CALCULATION
Liquidity test	Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
	Acid test	$\frac{\text{Current assets level inventories}}{\text{Current liabilities}}$
Leverage test	Debt-to-assets	$\frac{\text{Total debt}}{\text{Total assets}}$
	Times-interest-earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$
Operations test	Inventory turnover	$\frac{\text{Cost of sales}}{\text{Inventory}}$
	Total-assets-turnover	$\frac{\text{Revenues}}{\text{Total assets}}$
Profitability	Profit margin-on-revenues	$\frac{\text{Net profit after taxes}}{\text{Total revenues}}$
	Return-on-investment	$\frac{\text{Net profit after taxes}}{\text{Total assets}}$

EXHIBIT QM-5

4-30



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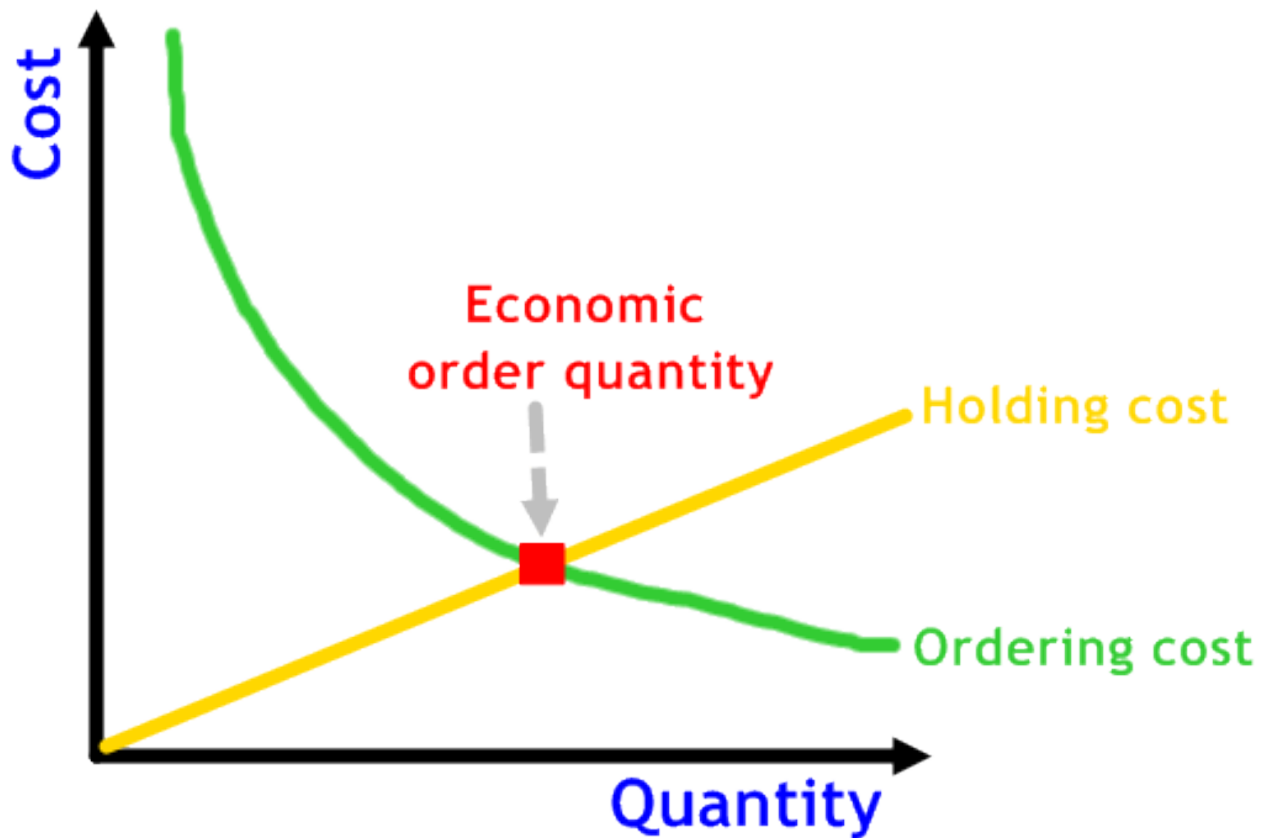
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## Economic Order Quantity





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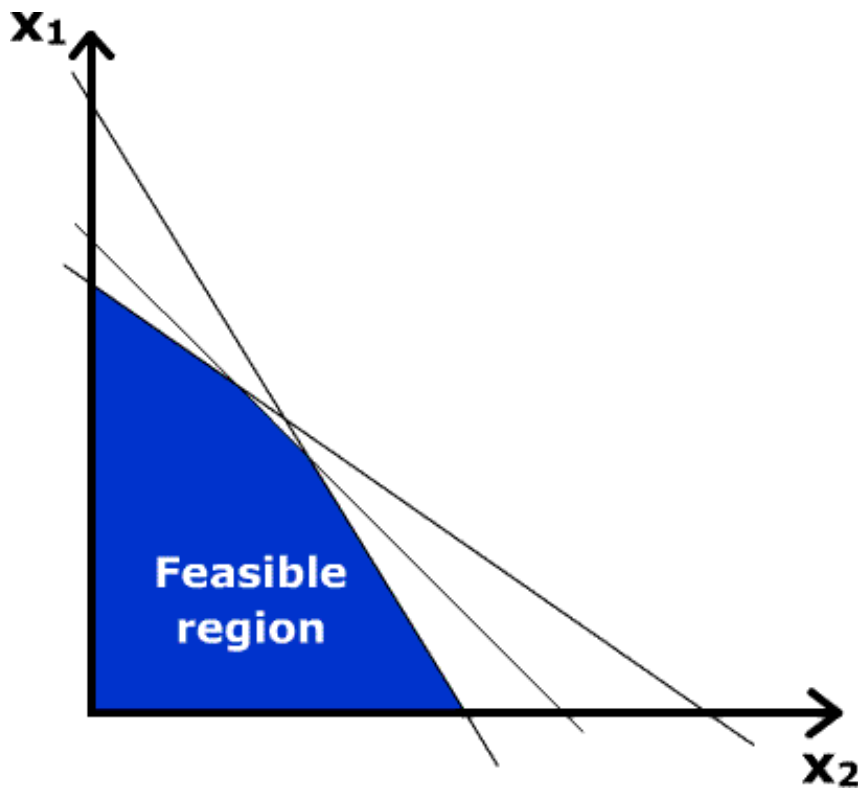
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# Liner Programming





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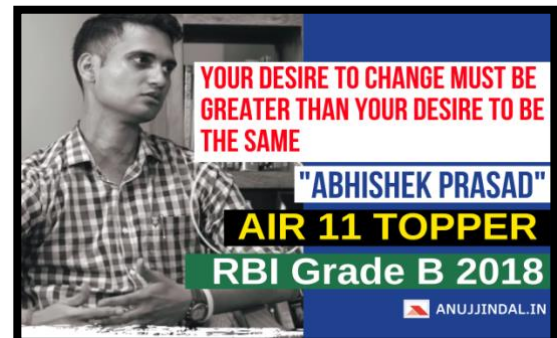
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