

Perceptual biases (business administration)

Business



1. Despite the difficulties of making predictions, many people confidently make assertions about what will happen in the future because of various types of biases, constraints, perceptions, and expectations. Each person has their own experiences, influences, tastes, personalities, attitudes, and much more, creating unique perspectives that influence perception, objectivity, and rationality. As such, perceptions are controlled by three factors: the perceiver, the object being perceived, and the context in which people perceive.

People align these factors to their own standards and consequentially, they always think they are “right.” This results in an above-average affect, where people almost always believe they are above average. This affect causes people to confidently make assertions despite the level of objective difficulty. 2. There are various perceptual and decision-making errors that cloud the judgments of many intelligent and powerful people. For example, when Rick Wagoner predicted that bankruptcy would result in the “... liquidation of the company” (195), he may have used general impressions of bankruptcy to contaminate factual information.

As such, he was a victim of the Halo Effect. His negative perceptions of bankruptcy clouded any positive indicators of its factual effectiveness. When investment analyst Marc Farber incorrectly predicted a slowdown in the Chinese market, he was perhaps affected by a hindsight bias. Having experienced so many market slowdowns in the past, such as the various recessions in the United States in addition to international examples like Japan, he likely thought he was a better analyst than he actually was.

The hindsight bias prevented him from learning from the past; he was likely less skeptical about his own predictive skills than he should have been. When Vice President Joe Biden incorrectly predicted, " More people are going to be put to work this summer" (195), he was possibly a victim of an overconfidence bias. This confidence may have prevented him from understanding the facts on employment, jumping to an optimistic conclusion prematurely. In addition, he may have been under substantial pressure to inspire the American public in light of the ongoing recession.

When Robert Prechter incorrectly predicted, "...stock prices will go a lot lower" (195), he may have looked at initial market conditions without considering the macro perspective of market durability. As such, he was a victim of an anchoring bias, where he used only an initial assessment for his prediction without considering long-term data. Other types of biases include selective perception, contrast effects, stereotyping, and risk aversion, amongst others. 3.

It is difficult to make accurate predictions because the only way we view the world is through our perceptions; what is to one person may not be to another. The key in many situations is to objectively understand how and why people have certain perceptions. This understanding will allow for more accurate assessments, leading to better choices in life. It is also difficult to make predictions because of the complexity of communication. This complexity can sometimes cause people to overthink, such as when two people are dating, always second guessing their actions and their thoughts.

It is often unadvisable to " overthink" situations where there may not be a clear explanation. Further, overthinking in one direction can harbor

unwarranted negativity or inaccurate optimism. Lastly, there are many factors that people have no control over, such as plane crashes, sudden sickness, and forces of nature. These factors can cause even the most well thought out predictions to be inaccurate. As a result, people must always be prudent about what they assert. There must be evidence coupled with intrapersonal skills that can assure its objectivity.