

Risk taking
behaviour: perception
and management
essay sample



**ASSIGN
BUSTER**

Our judgments and decisions are largely influenced by the way we see and interpret this world. We are all insightful observers of other human beings. When we meet someone for the first time a professor giving a lecture, a stranger standing beside us in line, a newly hired employee at work, or a potential romantic interest at a party we effortlessly glean subtle clues from their appearance, gestures, words, and behaviours. When talking to acquaintances, we look beyond their words and actions to discover their hidden qualities and characteristics (Denelson, 1987).

In real world and especially when a person is head of the organisation its really difficult to go through all the steps that are needed to complete a successful decision (Zsambok and Klein, 1997). Therefore situational awareness and environment effects ones decision making ability (Bernstein, 2003). Naturalistic decision making is effective model for a person comes across similar problems and utilizes his previous experience to make a decision every time.(Klein, 1997). The environment also affects judgement making where a person is working therefore, there are many factors, which influences ones judgments, and decisions some of them are discussed as:

Cognitive dissonance is the perception of incompatibility between two cognitions, which can be defined as any element of knowledge, including attitude, emotion, belief, or behavior. The theory of cognitive dissonance holds that contradicting cognitions serve as a driving force that compels the mind to acquire or invent new thoughts or beliefs, or to modify existing beliefs, so as to reduce the amount of dissonance (conflict) between cognitions.

Experiments have attempted to quantify this hypothetical drive. The theory of cognitive dissonance was first proposed by the psychologist Leon Festinger in 1956 (Glecker, 2001) according to which cognitions are “dissonant” if the obverse of one follows from other, thus neglecting to bring an umbrella is dissonant with the knowledge that it is likely to rain. The magnitude of dissonance is related to the importance of the dissonant elements and the proportion of dissonant elements to cognitive elements.

Experiment

In Festinger and Carlsmith’s classic 1959 experiment, students were made to perform tedious and meaningless tasks, consisting of turning pegs quarter-turns, then removing them from a board, then putting them back in, and so forth. Participants rated these tasks very negatively. After a long period of doing this, students were told the experiment was over and they could leave.

This is an example of an induced compliance study. However, the experimenter then asked the subject for a small favor. They were told that a needed research assistant was not able to make it to the experiment, and the participant was asked to fill in and try to persuade another subject (who was actually a confederate) that the dull, boring tasks the subject had just completed were actually interesting and engaging. Some participants were paid \$20 for the favor, another group was paid \$1, and a control group was not requested to perform the favor.

When asked to rate the peg-turning tasks later, those in the \$1 group rated them more positively than those in the \$20 group and control group. This

was explained by Festinger and Carlsmith as evidence for cognitive
<https://assignbuster.com/risk-taking-behaviour-perception-and-management-essay-sample/>

dissonance. Experimenters theorized that people experienced dissonance between the conflicting cognitions “ I told some one that task was interesting”, and “ I actually found it boring”. When paid only \$1, students were forced to internalize the attitude they were induced to express, because they had no other justification.

Those in the \$20 condition, it is argued, had an obvious external justification for their behavior. The researchers further speculated that with only \$1, subjects faced insufficient justification and therefore “ cognitive dissonance”, so when they were asked to lie about the tasks, they sought to relieve this hypothetical stress by changing their attitude. This process allows the subject to genuinely believe that the tasks were enjoyable. Put simply, the experimenters concluded that human beings, when asked to lie without being given sufficient justification, will convince themselves that the lie they are asked to tell is the truth.

Pre dissonance and post dissonance

Pre dissonance effects the decisions of the people while post dissonance effects the already made decisions and its reduction affects the decision maker's behaviour. When a test showed that subjects had latent sexist attitudes, they later awarded a female, a larger reward than a male in what they were told was a different study. Researchers hypothesized that the larger reward reduced dissonance by attempting to show that they were not sexist in the later decision, not considering the possibility that the subjects were trying to influence the attitudes of the testers instead of performing mysterious internal mental gymnastics to relieve hypothetical stress.

<https://assignbuster.com/risk-taking-behaviour-perception-and-management-essay-sample/>

The more well-known form of dissonance, however, is post-decisional dissonance. Many studies have shown that people with compulsive disorders like gambling will subjectively reinforce decisions or commitments they have already made. In one simple experiment, experimenters found that bettors at a horse track believed bets were more likely to succeed immediately after being placed. According to the hypothesis, the possibility of being wrong is dissonance arousing, so people will change their perceptions to make their decisions seem better.

This ignores the fundamental principle in decision-making that a decision is to be made if it will produce a better outcome than the alternatives. It also ignores the known potential of afterthought to produce novel thinking that dispels impulse behaviour. This is the basis of the foot-in-the-door technique in sales and possibly confirmation bias.

Brehm's (1956) famous experiment looked at how housewives, after making a decision, favoured the alternatives which they had selected more strongly. This can be explained in dissonance terms, to go on wishing for rejected alternatives would arouse dissonance between the cognitions "I chose something else" and "I preferred that option"

Self Perception Theory

Bem (1972) has proposed self-perception theory as an alternative to cognitive dissonance theory. This states that people do not have inner access to their own attitudes are let alone whether they are in conflict. Bem interpreted people in the Festinger and Carlsmith study as inferring their attitudes from their behaviour. Thus, when asked "Did you find that task
<https://assignbuster.com/risk-taking-behaviour-perception-and-management-essay-sample/>

interesting?" they would judge that, as they told some one they did, they must have done.

Hindsight bias

It can be embarrassing when things happen unexpectedly. To cover up this embarrassment we will tend to view things, which have already happened as being relatively inevitable, and predictable. This can be caused by the reconstructive nature of memory. When we look back, we do not have perfect memory and tend to 'fill in the gaps'. This is also known as the 'I-knew-it-all-along' effect, reflecting a common response to surprise (Fischhoff and Beyth, 1975).

The reason for overconfidence may also have to do with hindsight bias, a tendency to think that one would have known actual events were coming before they happened, had one been present then or had reason to pay attention. Hindsight bias encourages a view of the world as more predictable than it really is."

Hindsight bias can be reduced when people stop to think carefully about the causes of the surprise. It is also important to consider how other things might have happened. Hindsight bias can occur when people make a judgment or choice and are later asked to recall their judgment. If, in the interim, they are told what the correct judgment would have been, their memory of their own judgment may become biased toward the new information (Cambell and Tesser, 1983).

For instance, suppose a person was asked to estimate how many votes John McCain would get in the Michigan primaries. If before the election, he estimated 30%, and then learned that the actual figure was 50%, he may later recall that his answer was 40%. Hindsight bias reduces when people stops thinking to give importance to the reasons which turns out the results different.(Fischhoff and Solvic, 1977). They also tried to inform people that it is not enough to ovoid Hindsight bias but they should think about the alternative outcome Hunter (1964) emphasised on the importance of accurate record keeping which can reduce bias. The perfect decision makers can also come across bias so one should keep the notes and record of the events, which can result in bias.

RAFT Model (Reconstruction After Feedback with Take the Best)

It is very important to mention the work of Dr Hoffrage et. al. (2000)who answered the question by using a model. What mechanisms underlie the original judgment and the reconstruction process? The RAFT model assumes that, in both cases, the brain uses the same “ fast and frugal” strategy what the researchers call “ take the best,” which assumes that people base their judgments on one critical cue and ignore the rest. For example, a woman trying to decide whether to take preventive action against breast cancer whose is informed that family history, age and diet are predictors of breast-cancer risk.

Rather than trying to weigh and combine all these and myriad other predictors, she may just focus on what she believes is the most important one family history. If it provides an obvious choice between prevention or

not, she will make a decision based solely on that cue. People will reconstruct their original judgment using the updated knowledge rather than the knowledge they originally had. Therefore, while feedback does not directly affect a person's memory for the original response, it indirectly affects the memory by updating the knowledge used to reconstruct the response. The RAFT model predicts that hindsight bias should be stronger in hypothetical situations because people must always reconstruct the outcome.

Context Dependence

The phenomenon of context dependence also effects the decision and judgment it has four effects the context effect, the primary effect, the recency effect, the Halo effect.

i. Contrast effect: When we make decisions, we tend to do it by contrasting between the decision item and reference items. When two things appear close to one another, we will tend to evaluate them against one another more than against a fixed standard. A simple physical way of illustrating perceptual contrast is to put one hand into hot water and other into cold water, then move them both to lukewarm water. The cold hand will feel hot and the hot hand will feel cold.

Sherif, Taub and Hovland (1958) found that when subjects first lifted a heavy weight, they underestimated the weight of lighter weights they were subsequently asked to lift. .

ii. Halo Effect: When we consider a person good (or bad) in one category, we are likely to make a similar evaluation in other categories. It is as if we cannot easily separate categories. It may also be connected with dissonance avoidance, as making them good at one thing and bad at another would make an overall evaluation (which we do anyway) difficult. Thorndike (1920) found, that when army officers were asked to rate their charges in terms of intelligence, physique, leadership and character, there was a high cross-correlation.

iii. Primacy effect: A given list of items to remember, we will tend to remember the first few things more than those things in the middle. The primacy effect has most effect during repeated message when there is little or no delay between the messages. One reason that the Primacy effect works is that the listener is more likely to start off paying attention, then drifting off when the subject gets boring or the listener is internally processing data you have given them. The limitations of memory also have an effect, and we can miss middle items as we continue to rehearse and process the initial items (Plous, 1993).

Asch (1946) asked some people about a person described as envious, stubborn, critical, impulsive, industrious and intelligent. He then asked other people about a person described as intelligent, industrious, impulsive, critical, stubborn and envious. The second group rated the person more highly than the first group. He also found that the second and third items on the list had reduced primacy effects. Another example is a TV game shows where people can win everything in a list of items they see, they usually at least remember the first few items..

<https://assignbuster.com/risk-taking-behaviour-perception-and-management-essay-sample/>

iv. Recency effect: If a list of items is given to remember, we will tend to remember the last few things more than those things in the middle. The recency effect has most effect in repeated persuasion messages when there is a delay between the messages. Miller and Campbell (1959) recorded proceedings from a trial with a combination of sequences of arguments for and against the plaintiff, sometimes with delays of a week between parts and the judgment that they sought from experimental participants.

Framing:

It is factor, which influence ones response to a particular problem. The decision taken by the person is controlled by his situation, habits and his culture (Tversky and Kahneman, 1981). Framing examples are common in medical or health related field(McNeil, 1982). Framing effect on the investment decision is explained by Roszkowski and Snelbecker (1990). The response of the owners to wards investment risk was different when they had to deal with their own money and when its clients money their response was different. Gender contributes towards decision for example men are more concerned with Justice issues while women are interested in care issues (Gilligan, 1982).

Conclusion: from the discussion and the situational examples discussed above its clear, that the environment and the situation through which a person comes across influences his decisions and judgements. The perception of a person if it is correct or wrong contributes for judgement and decision making of a person. Similarly a person decision can be biased which depends on the way he conceive a situations.

Additionally stress, psychological condition, liking disliking of a person also affects his judgment and decisions. There are many factors discussed in this report, which influences ones decision, which includes the Cognition, Perception, Framing, and Hindsight Bias. The factors like culture, present circumstances, gender, mental situation, environmental also directly effects ones judgement and decision. Therefore it is now clear that ones decisions and judgments are influenced to a great extent what a person see the world and circumstances he is facing.