

Listen

Module 2 - Case

DECISION-MAKING BIASES AND PITFALLS

Case Assignment

Even the most intelligent manager is prone to personal biases and pitfalls that can lead to bad decisions. We all carry biases based on our personal experiences. And we can all fall into various traps that lead to decisions that seem perfectly logical at the time but in retrospect, we see that we should have known better.

In the background materials, including Bolland and Fletcher (2012); Kourdi (2003); and Hammond, Keeney, and Raiffa (2008); several specific decision-making biases and pitfalls are discussed. Collectively these are known as *cognitive biases*. Some of the common pitfalls and biases discussed in these readings include overconfidence bias, confirmation (self-confirming) bias, sunk-cost bias, framing bias, and hindsight bias.

Carefully review all three of these readings and make sure you understand the different types of biases. Then read through the scenarios below and think about what kind of biases are demonstrated in each scenario. For each scenario, carefully explain which specific bias or biases is demonstrated by the decision and what can be done to avoid this bias in the future. Make sure to pick at least one specific bias that you read about for each scenario, and explain your reasoning. Use references to at least one of the three required readings from the background materials in your discussion of each scenario below. Your paper should be 4–5 pages in length:

1. The Chief Financial Officer (CFO) of a corporation is of the strong belief that marketing is not a good use of the company's money. Someone shows her data from several years ago showing that during a period of high spending on marketing, sales did not go up. She says, "See, I told you marketing is not a good use of our budget!" and cuts the marketing budget to almost zero. Following the cut in the marketing budget, sales also start to drop dramatically. When asked by an employee if the drop in sales is due to the cut in the marketing budget, she says, "No!" and insists there must be a different explanation. What kind of decision-

making bias do you think this represents, and why? What steps would you recommend to this CEO to reduce this kind of bias? Support your answer with references to at least one of the three background readings.

2. A CEO decides that he wants to greatly expand the company's market by purchasing a major rival. This acquisition would double the company's market share. However, several of his top managers warn him that such a purchase would require the company to take out a huge amount of debt to finance this merger, and that many of these large mergers have failed. They also point out that the organizational culture of the other company is very different and that managing this merger would be very difficult. Nonetheless, the CEO insists that he can overcome the odds and plans to go through with the merger. What kind of decision-making bias do you think this represents, and why? What steps should this leader take to avoid this bias? Support your answer with references to at least one of the three background readings.
3. A CEO wants to purchase a new factory. He is currently deciding between two factories. The owner of Factory A brags that 94% of products produced at the factory are free of defects. The owner of Factory B cautions that his factory has a 5% defect rate but management and staff are working very hard to reduce the rate. The CEO decides to purchase Factory A citing its strong 94% rate of success in producing defect-free products even though Factory B actually has a 95% rate of success. What kind of decision-making bias do you think this represents, and why? What steps should this leader take to avoid this bias?
4. A CEO of an automobile company decides to introduce a new hybrid vehicle using cutting-edge technology. A huge amount of money is spent in research and development as well as advertising. But when the car is completed sales are very slow and the price has to be cut so low that the company is losing money on every hybrid vehicle sold. She is advised to simply abandon the car to avoid further losses in profits, and focus her energy on selling profitable vehicles. However, she insists it is unwise to abandon the hybrid vehicle given that so much money has already been put into the project. What kind of decision-making bias do you think this represents, and why? What steps should this leader take to avoid this bias? Support your answer with references to at least one of the three background readings.
5. Conclude the paper with a discussion about which one of the decision-making biases you think is the most dangerous to a leader, and explain your reasoning.

Assignment Expectations

- Follow the assignment instructions closely and follow all steps listed in the instructions.
- Stay focused on the precise assignment questions; don't go off on tangents or devote a lot of space to summarizing general background materials.
- Make sure to cite readings from the background materials page. Rely primarily on the required background readings as your sources of information.

Include both a bibliography and in-text citations. See the [Student Guide to Writing a High-Quality Academic Paper](#), including pages 13 and 14 on in-text citations.

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