

University of Notre Dame

**EMBA 60616**

Leadership and Decision-Making

Timothy A. Judge

South Bend – Cincinnati EMBA Program

July 26, 2012 (8<sup>00</sup> AM – 10<sup>30</sup> AM)

University of Notre Dame

**EMBA 60616**

Leadership and Decision-Making

Please turn in your  
Readings Summary for today

# CLASS #2

- 1. Case Discussion: “Alex Sander”**
- 2. Exercise Discussion: Retirement Party**
- 3. Individual Decision-Making**
- 4. Exercise: Used Car**
- 5. Meet with your team and discuss pre-approval of ARP outline with me TODAY in person after class or through email**

Note--Course materials are posted on website:

<http://www.timothy-judge.com/>

- 1. July 25**                      ***Understanding Yourself and Others***
- 2. July 26**                      ***Individual Decision-Making***
- 3. July 27 AM**                ***Group Decision-Making***
- 3. July 27 PM**                ***Group Decision-Making (cont.)***
- 4. August 16 AM**              ***Making Decisions About People...***
- 4. August 16 PM**              ***And Motivating Them***
- 5. August 17 AM**              ***Leadership***
- 6. August 17 PM**              ***Leading the Dark Side***
- 7. Sept 12**                      ***In-Class Essay***

# Course Requirements

## Significant Dates This Week

**July 25**      **Due:** Readings Summaries

**July 26**      **Due:** Readings Summaries

**July 27**      **Due:** Outline – Action Research Project

Readings Summaries

- For additional significant dates, see website or syllabus

# Today's Schedule

8<sup>00</sup>-8<sup>20</sup> Discussion on Alex Sander Case

8<sup>20</sup>-8<sup>40</sup> Learning Objectives

8<sup>40</sup>-9<sup>10</sup> Individual Decision-Making

9<sup>10</sup>-9<sup>40</sup> Exercise: Used Car

9<sup>40</sup>-9<sup>45</sup> Discussion on Retirement Party

9<sup>45</sup>-10<sup>25</sup> Attitude Feedback Reports

10<sup>25</sup>-10<sup>30</sup> Q&A on ARP Outline

*Timing is flexible—we will often run behind!*

# Review

- Two points to remember
  1. The most under-appreciated skill in effective managers is analysis
    - *Use metrics and rigorous analysis – this applies as much to managing and leading others as any other decision*
  2. We are hard-wired in many ways; the forces us to reconsider theories and practice of leadership and management
    - *We also need to pay more attention to personality – ours and others*

# Analysis

## Metric-Oriented Approach to Decision-Making

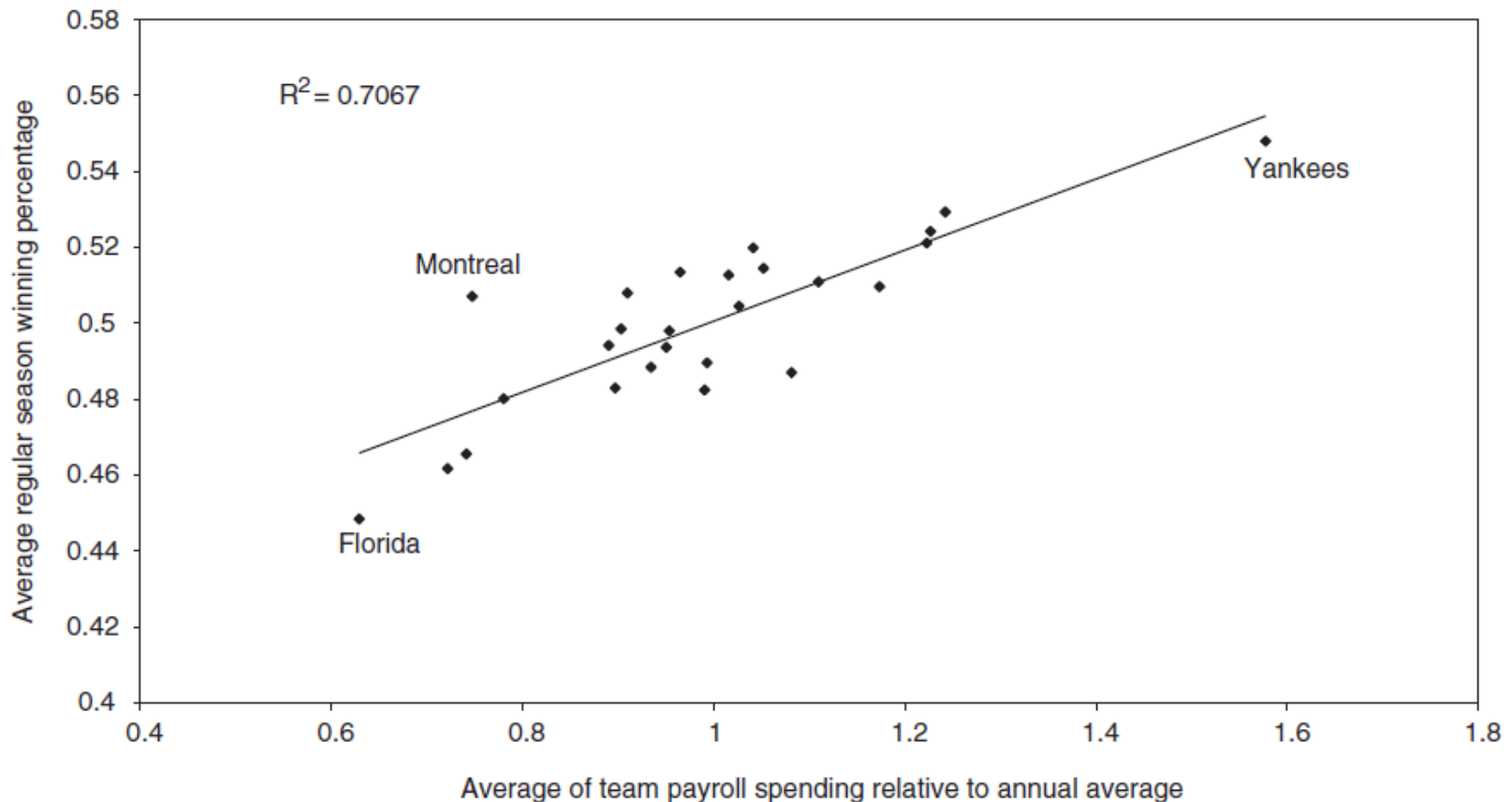
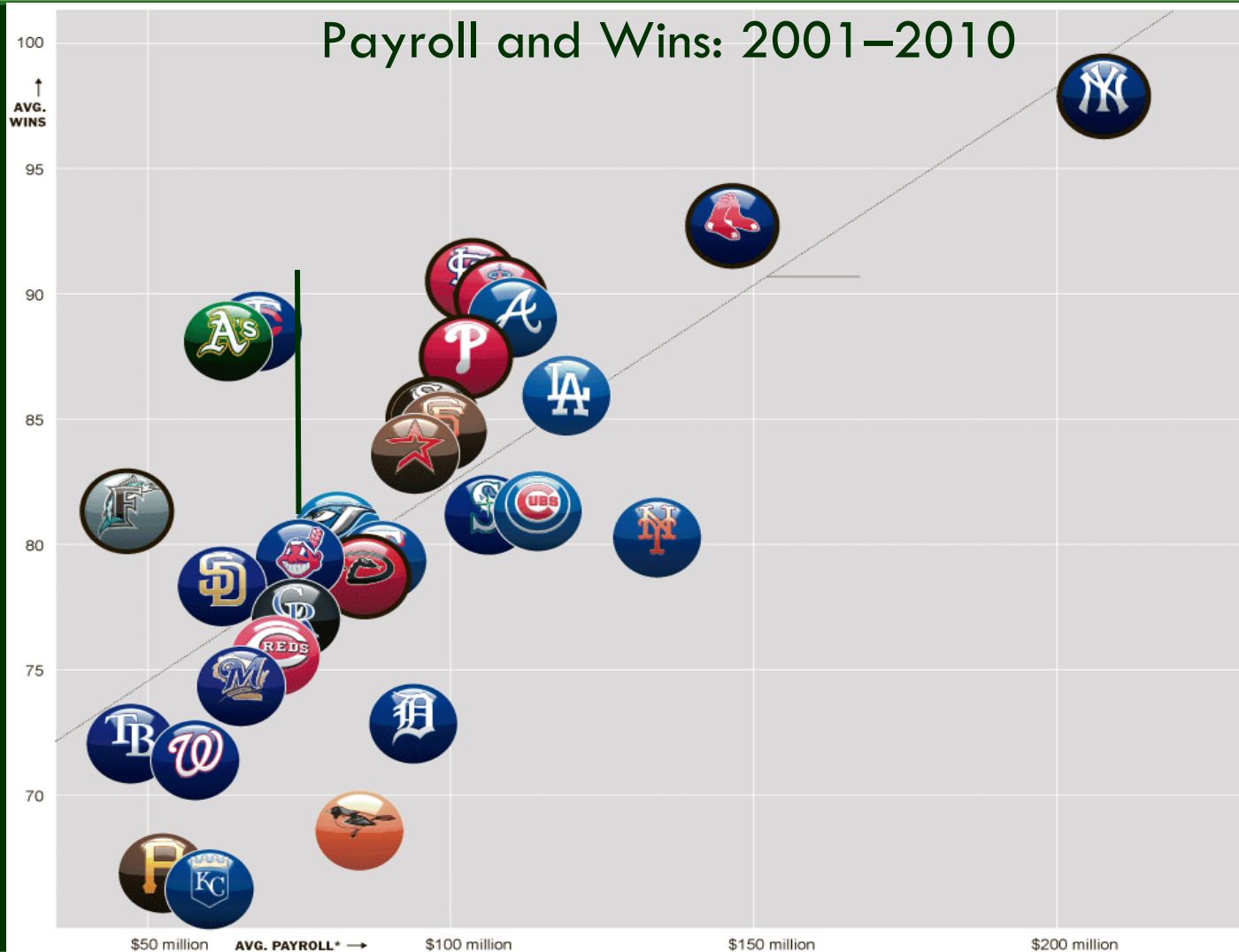


Figure 2: Average Payroll and Average Winning Percentage: 1980-2000



# Analysis

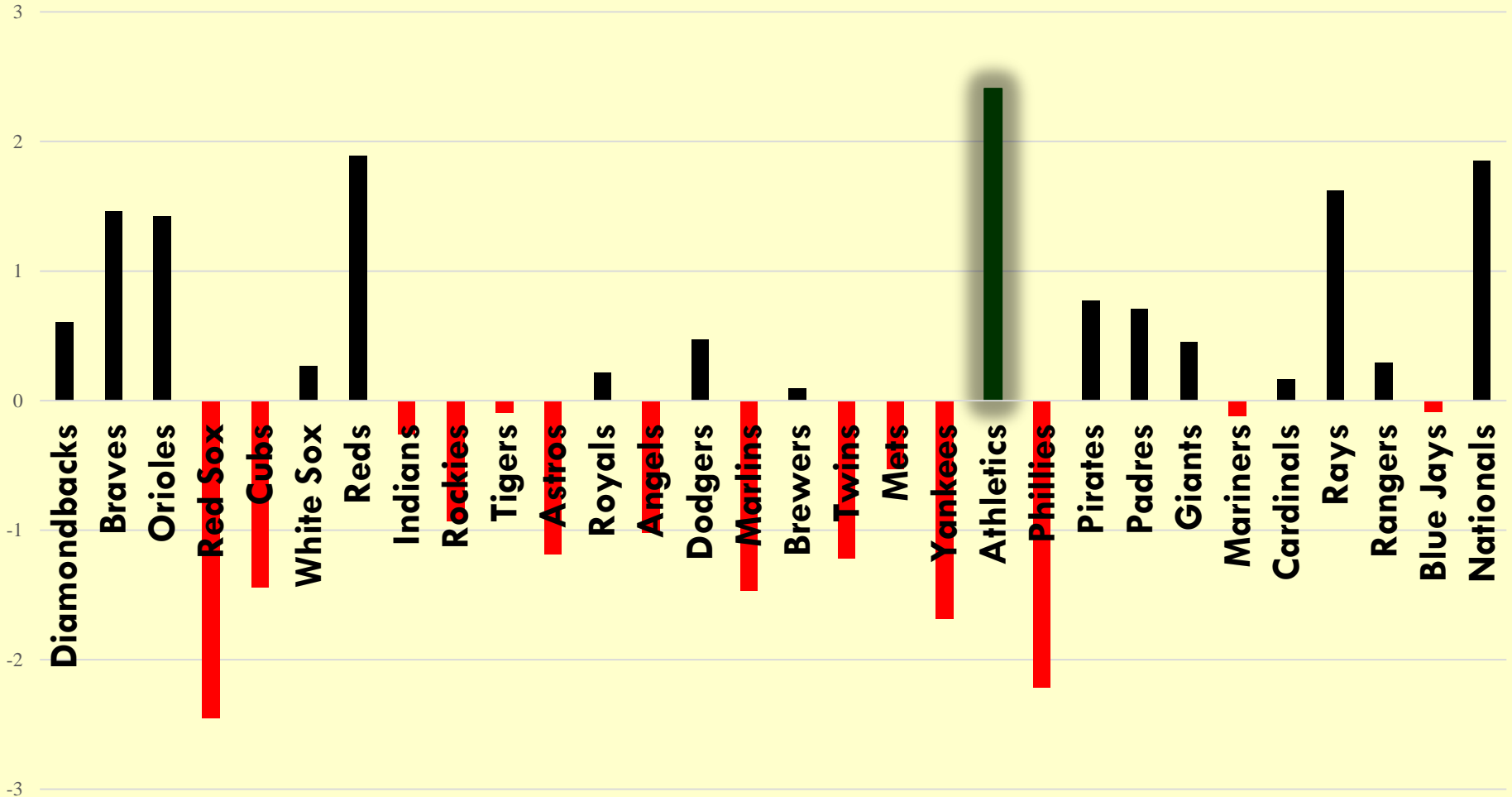
## Metric-Oriented Approach to Decision-Making



# Analysis

## Metric-Oriented Approach to Decision-Making

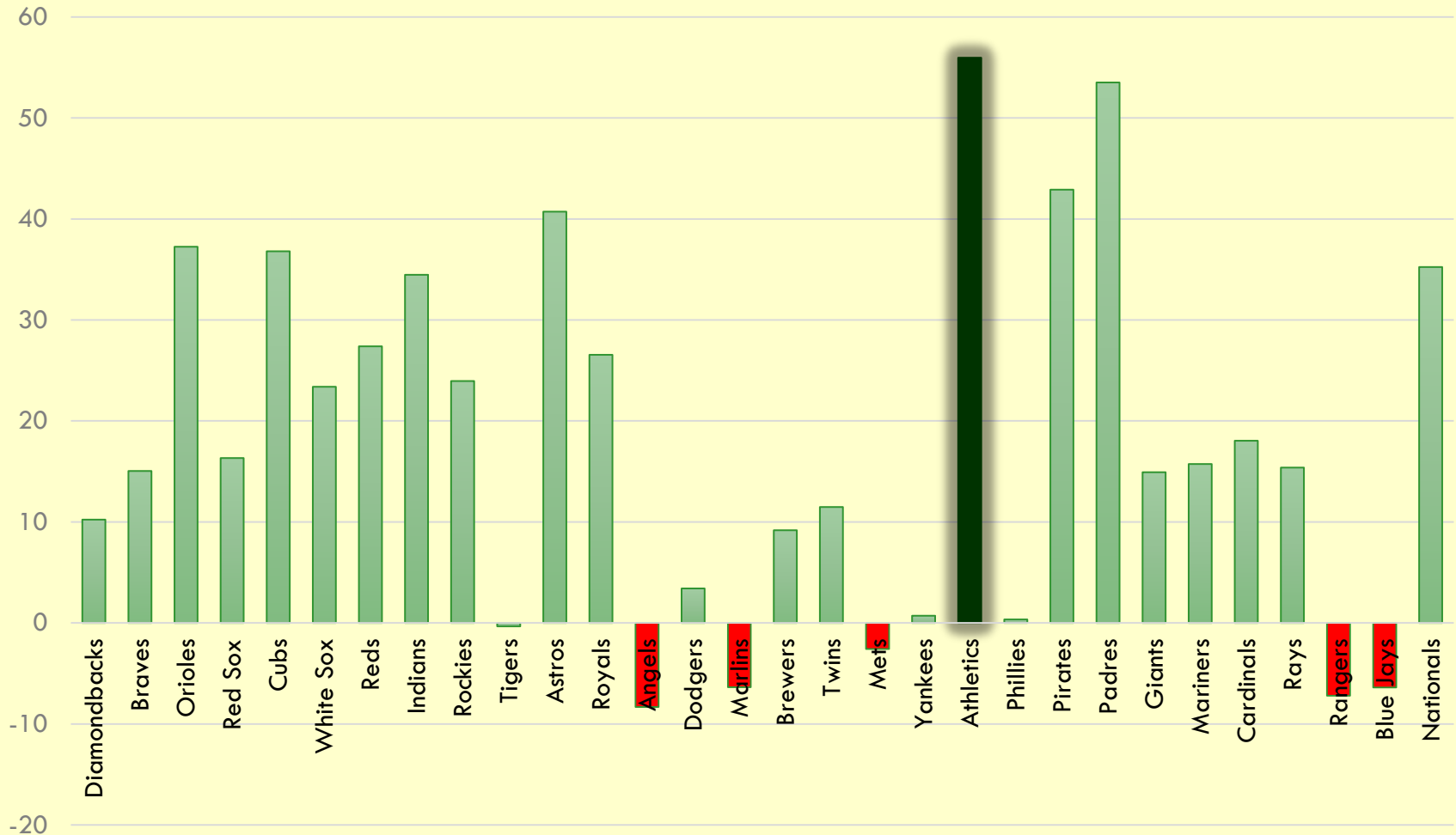
Wins/Payroll (ZW-ZP): 2012



# Analysis

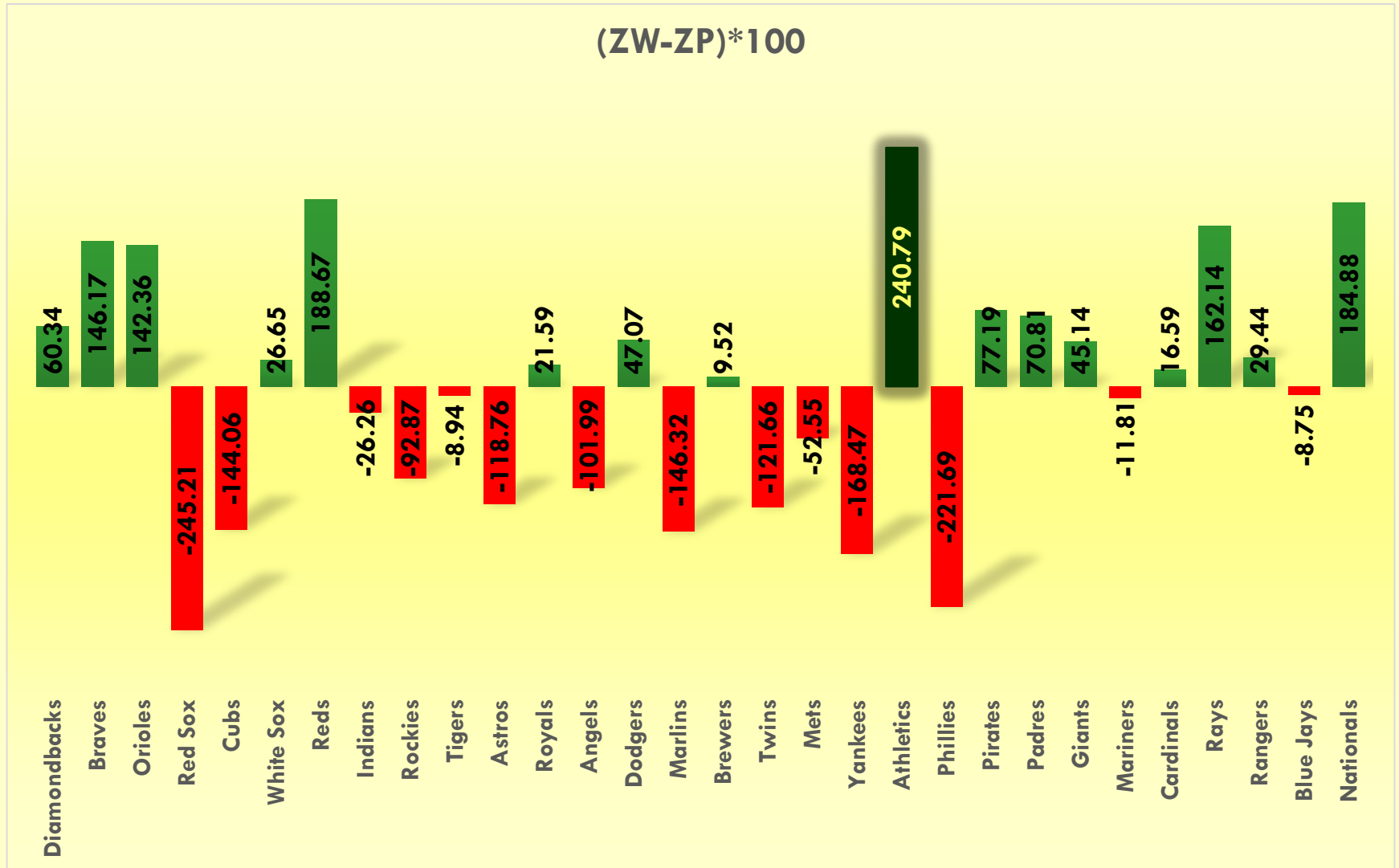
## Metric-Oriented Approach to Decision-Making

Income/Payroll (ROI): 2012



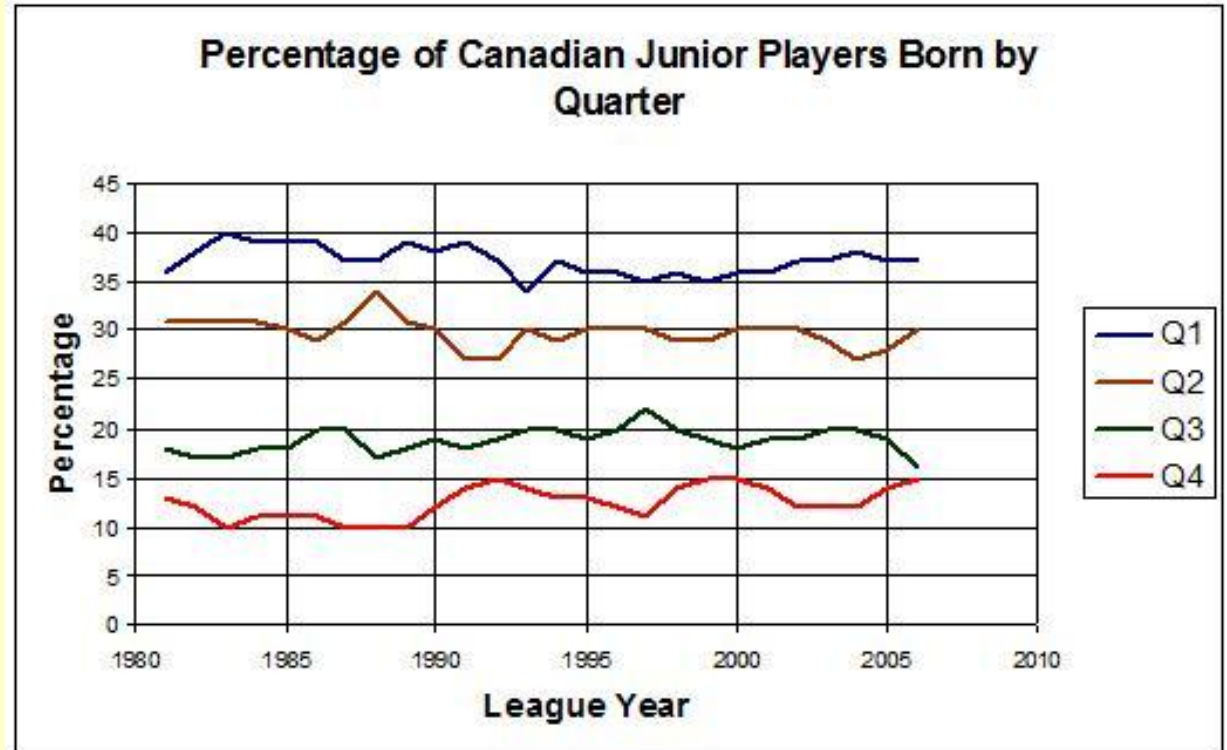
# Analysis

## Metric-Oriented Approach to Decision-Making



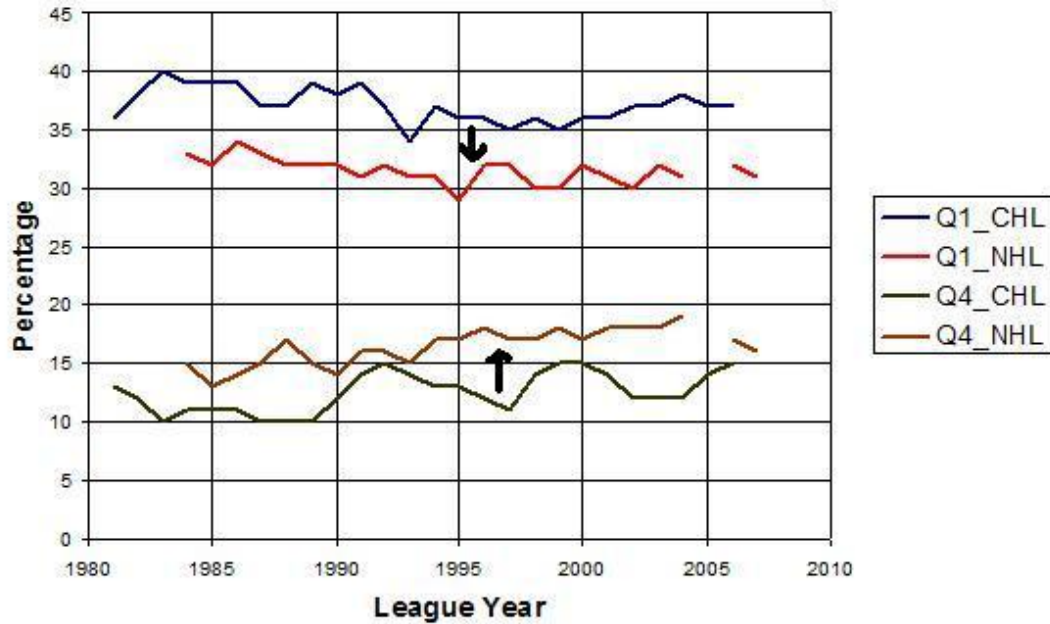
# Birth Month Issue

While August and September are the most common birth month in most countries, for NHL players, February is the most common birth month.

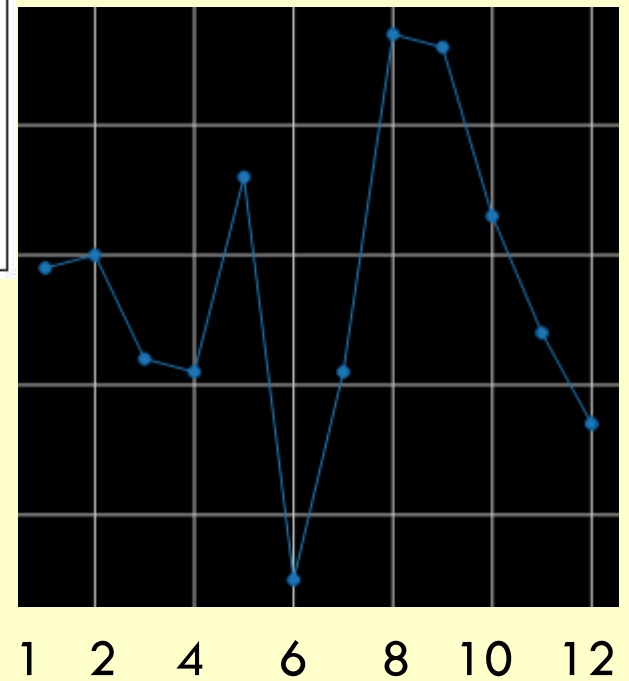


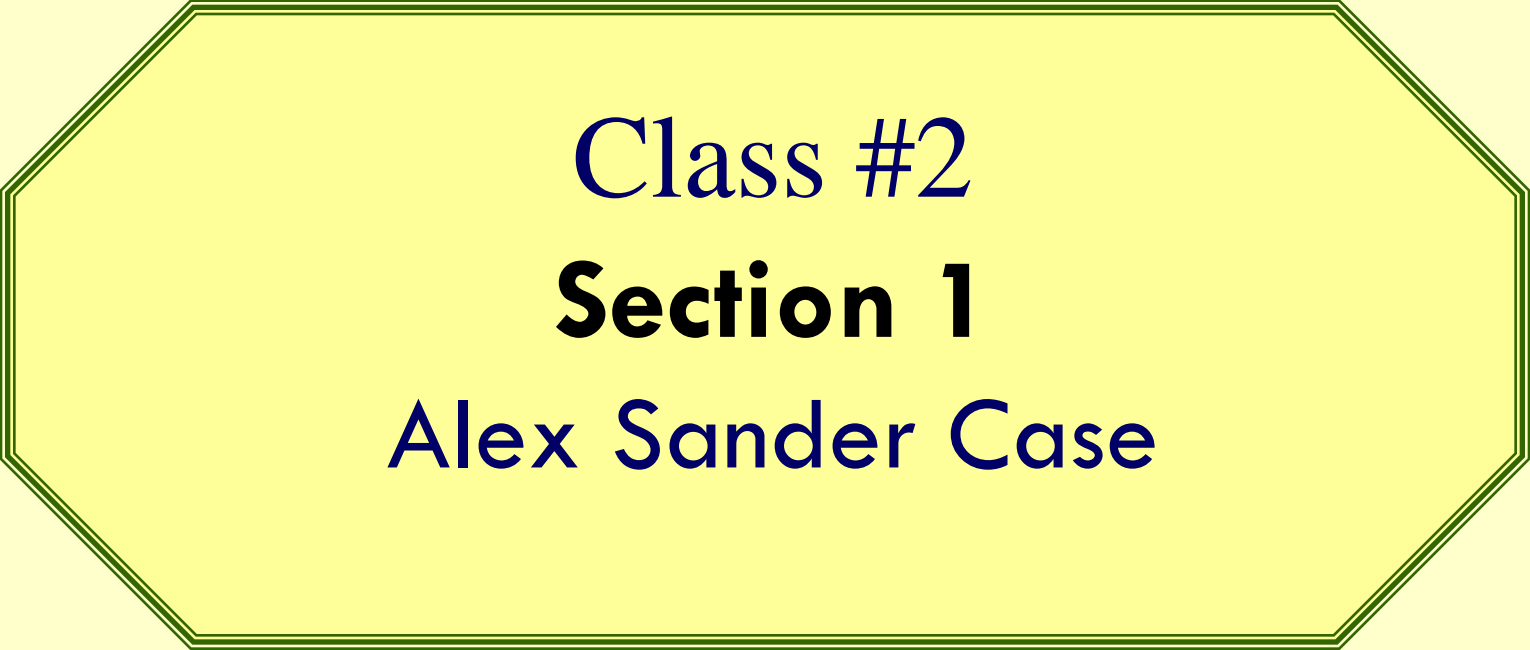
Source: Malcolm Gladwell, *Outliers*.

NHL and Junior Player Dates of Birth by Quarter



MLB



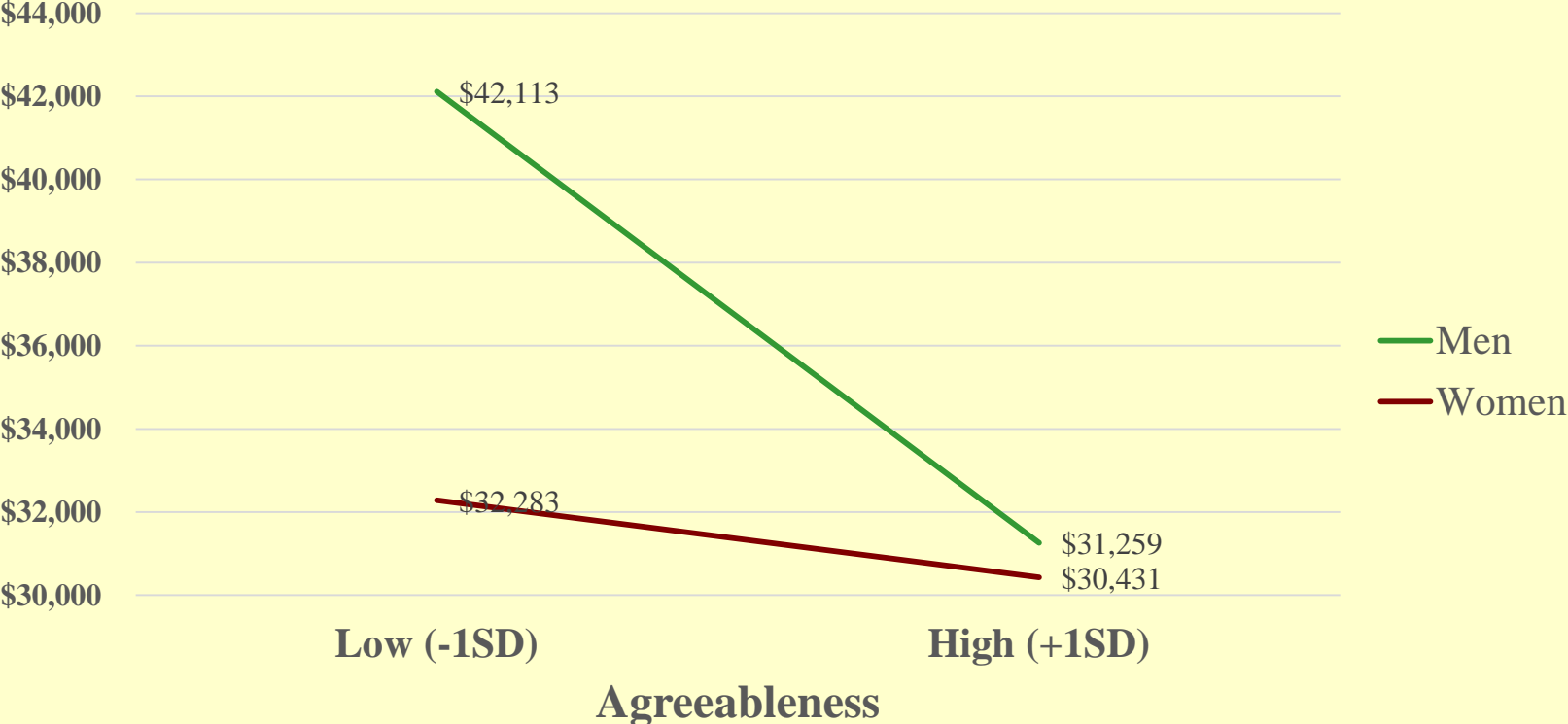


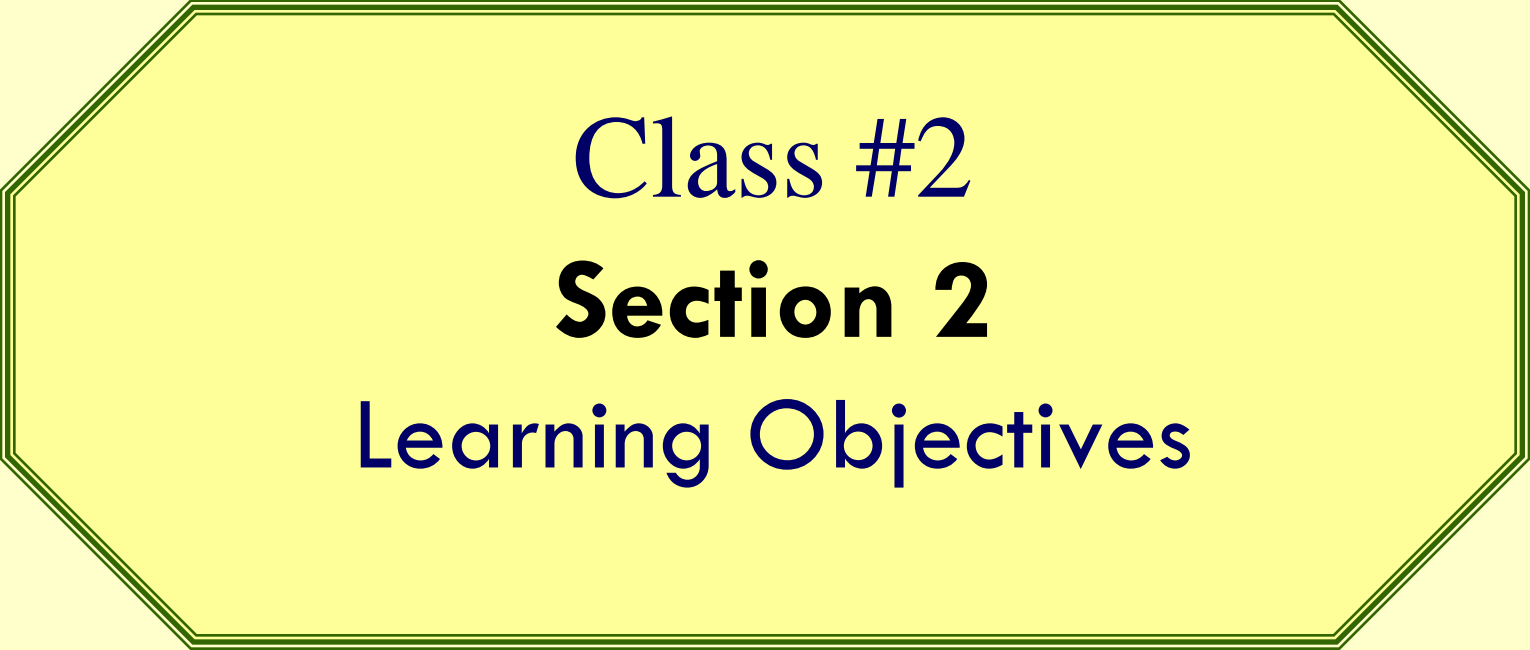
Class #2  
**Section 1**  
Alex Sander Case

- How would you characterize Alex's personality traits (use quotes from the case) in line with the Big Five as best as is possible? In what ways do your conclusions confirm or support Alex's previous career and educational pursuits, and/or in what ways does the fuller picture of Alex's personality show inconsistencies and opportunities?
- From what you've learned in the textbook chapters, what other personality traits (in addition to the Big Five) can you support as most likely for Alex?
- What do you see as Alex's stated terminal and instrumental values, from the case study – and do you see them as consistent or inconsistent with his actions?
- Evaluate Alex's personality- and values-fit with his role, company, and industry.
- On page 5, Alex says he feels his choices are to “mentor my staff and build a productive team that fits with the company culture, or my other choice is to become owner in a small start-up, where I can really have some say” – would either be a good choice for Alex? What other choices do you see for Alex as viable?
- Will Alex be successful in this role? Why or why not? Support your answer and stipulate any changes needed (if needed) personally and/or organizationally for his success.
- Was this 360 process – new to this company – administered effectively? Why or why not, and what are the implications? Support your answer from the case.
- Alex is a fast learner by all accounts – but not every smart person is adaptable. Drawing from what you have learned in class and in the readings, how likely is it that Alex will change as a result of the 360 process?
- If you position Alex as favoring an aggressive, outcome-based approach to management and Sam as favoring a more process-oriented perspective, what are the advantages and disadvantages of each perspective?



# Agreeableness, Gender, and Earnings: Study 1





Class #2  
**Section 2**  
Learning Objectives

# MODEL 1: Model of Effectiveness We Will Follow Throughout Course

INNER  
PRIVATE  
SELF  
*Animus*

## Understanding YOURSELF

- Do you know yourself? Do others know you?
- Personality
  - Values
  - Attitudes

## Deciding/Solving YOURSELF

- What decisions do you make? How do you analyze and solve problems? How can you better understand:
- Analytical tools to objectively evaluate decisions?
  - Limits of rational decision-making?
  - Cognitive biases so as to avoid "blind spots"?

## Managing/Leading OTHERS

- How do you lead and follow?
- Are there effective methods and models of leadership from which you can learn?
- How well do you understand the dark side of power and influence?

## Living Well YOURSELF

- Can you formulate a plan to improve your ability to live a happy and productive life?

OUTER  
PUBLIC  
SELF  
*Persona*

## Understanding OTHERS

- Do you understand others? Do others understand you?
- Personality
  - Values
  - Attitudes

## Deciding/Solving WITH OTHERS

- How can you better understand -- and thus resist where appropriate -- group pressure for conformity?
- How do you decide in group?
- How do you make the most of your group's resources? Do you achieve synergy?

## Making Decisions ABOUT OTHERS

- How can you make more effective hiring decisions?
- How can you evaluating those decisions more effectively?

## Contributing to ORGANIZATION

- Do you leverage your skills effectively?
- How do you cooperate and conflict with others?

## Motivating OTHERS

- Do you use the most effective means of motivating others?
- Are there ways to improve your motivations?

FUNDAMENTAL

APPLIED

# Learning Objectives

## The 16 Takeaways: 1–4

1. Leading and managing is art and science
  - *There are principles and methods by which we can lead, manage, and make decisions more effectively*
2. The most under-appreciated skill in effective managers is analysis
  - *Use metrics and rigorous analysis*
3. Personality matters and yet has paradox
  - *Understand yourself and others through knowing your personality; every bright(dark) side casts a shadow(light)*
4. Biases dominate every decision
  - *Learn the biases and how to recognize them in yourself and in others*

# Learning Objectives

## The 16 Takeaways: 5–8

5. Individuals often make decisions based on needlessly limited information
  - *Ensure that you have as full a picture of the ‘conceptual field’ as possible (it’s the foundation of the house)*
6. The average group is not effective
  - *Be a facilitator to get the most out of your group*
7. Cooperation is a poor negotiation strategy
  - *The best negotiators hold true to their interests*
8. To negotiate effectively, one must first focus on interests rather than positions (yours and others)
  - *First share information on your interests, and try to find out others’ interests—expand the pie before dividing it*

# Learning Objectives

## The 16 Takeaways: 9–12

9. The most important people decisions (e.g., hiring) are poorly evaluated, if at all
  - *Evaluate decisions using validity and utility*
10. The best predictor of performance is IQ
  - *Hire/promote employees using intelligence tests*
11. Good motivators and decision-makers know the power of framing
  - *In negotiating, motivating, and leading, use framing*
12. The most effective leaders are seen as charismatic and transformational
  - *Learn to be a visionary leader*

# Learning Objectives

## The 16 Takeaways: 13–16

13. The best motivator is setting very difficult goals
  - *Set hard and specific goals for yourself and others*
14. The two best influence tactics are the least used
  - *Gain commitment through consultation, inspirational appeal*
15. Far and away, the most important predictor of job satisfaction is...*the work itself*
  - *Increase your – and others' – job satisfaction by focusing on the intrinsic nature of the work itself*
16. We spend too much of our time – and money – on things that don't make us happy
  - *Spend your time and resources on what matters most*

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- *Use metrics and rigorous analysis*

OUTER  
PUBLIC  
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- Attitudes

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  - C...

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### 3. Personality matters and yet has paradox

- *Understand yourself and others through knowing your personality; every bright(dark) side casts a shadow(light)*

FUNDAMENTAL

APPLIED

Class #2

**Section 3**

Individual Decision-Making

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*Animus*

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OUTER  
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### 4. Biases dominate every decision

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### 5. Individuals often make decisions based on needlessly limited information

- Ensure that you have as full a picture of the 'conceptual field' as possible (it's the foundation of the house)

FUNDAMENTAL

APPLIED

# Individual Decision-Making

## Learning Objectives

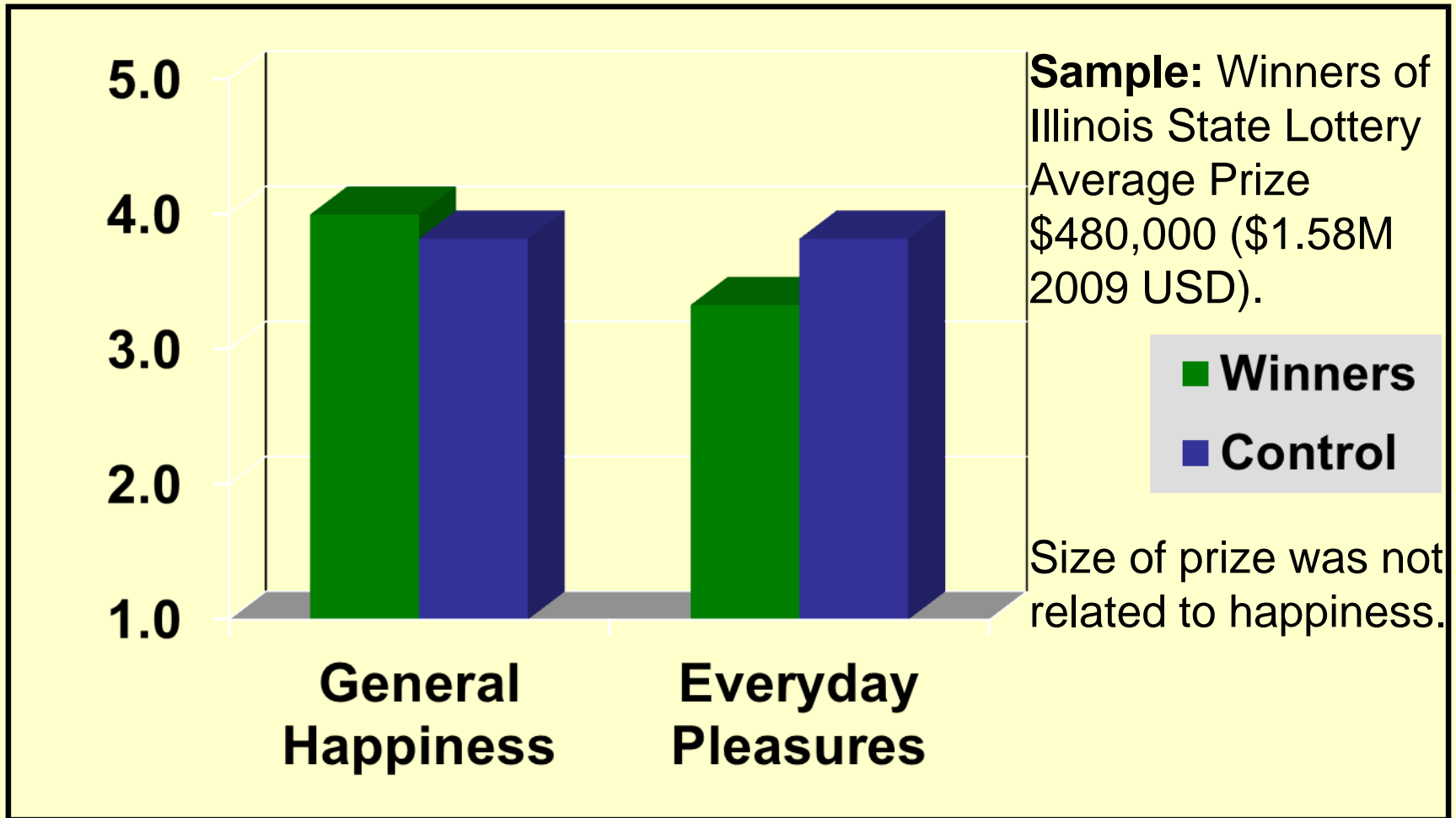
- Recognizing decision-making errors/biases
  - Situational fallacy
  - Inert knowledge problem
  - Availability heuristic
  - Representativeness bias (gambler's fallacy)
  - Illusory correlation
  - Spurious correlation
  - Escalation of commitment
  - Anchoring and adjustment

# Situational Fallacy

- **Managers often overestimate effect of situation on individual behavior in organizations**
- **Implications?**
- **Two examples**
  1. **Winning lottery**
  2. **Marriage (and divorce, widowhood)**

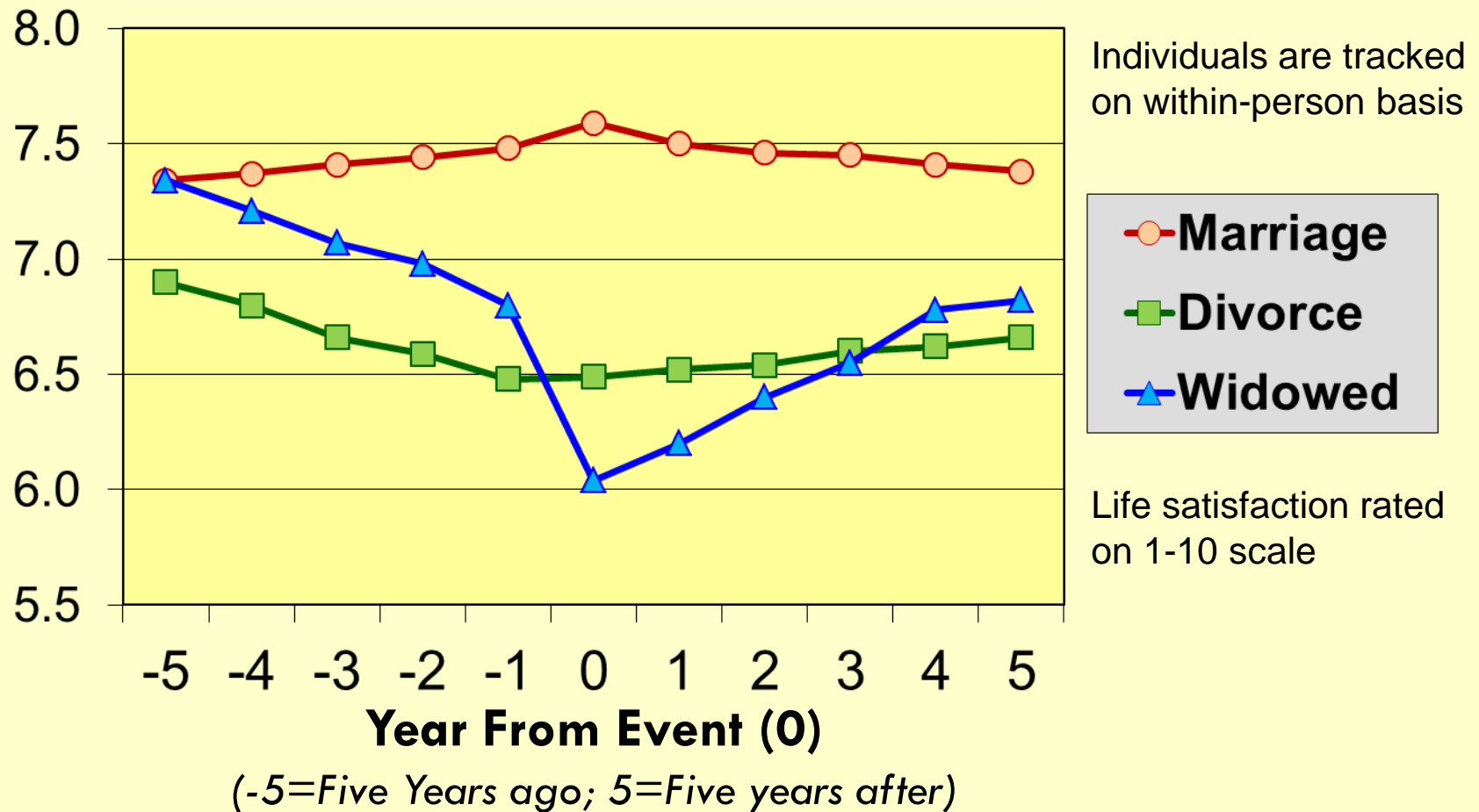
# Situational Fallacy

## Winning the Lottery



# Situational Fallacy

## Marital Status and Happiness



# Inert Knowledge Problem

- It is difficult to transfer knowledge from one area to another; the ability to use prior knowledge to solve current problems depends on the accessibility of relevant knowledge (Gillespie et al., 1999)
  - This is a problem: solving one problem barely improves the likelihood that one will solve related other problem
  - We often fail to recall what is ultimately most useful
- What problems does this pose for decisions?
  - The key: analogical encoding—comparing and contrasting cases to abstract a common principle that can be used in prospective cases



# Availability Heuristic

- People estimate the frequency of an event, or the likelihood of its occurrence, “by the ease with which instances or associations come to mind” (Tversky & Kahneman, 1973)
  - When presented with lists of famous and non-famous names, individuals recall 50% more famous names
  - Individuals overestimate how many words begin with “r” and underestimate how many words have “r” as the third letter

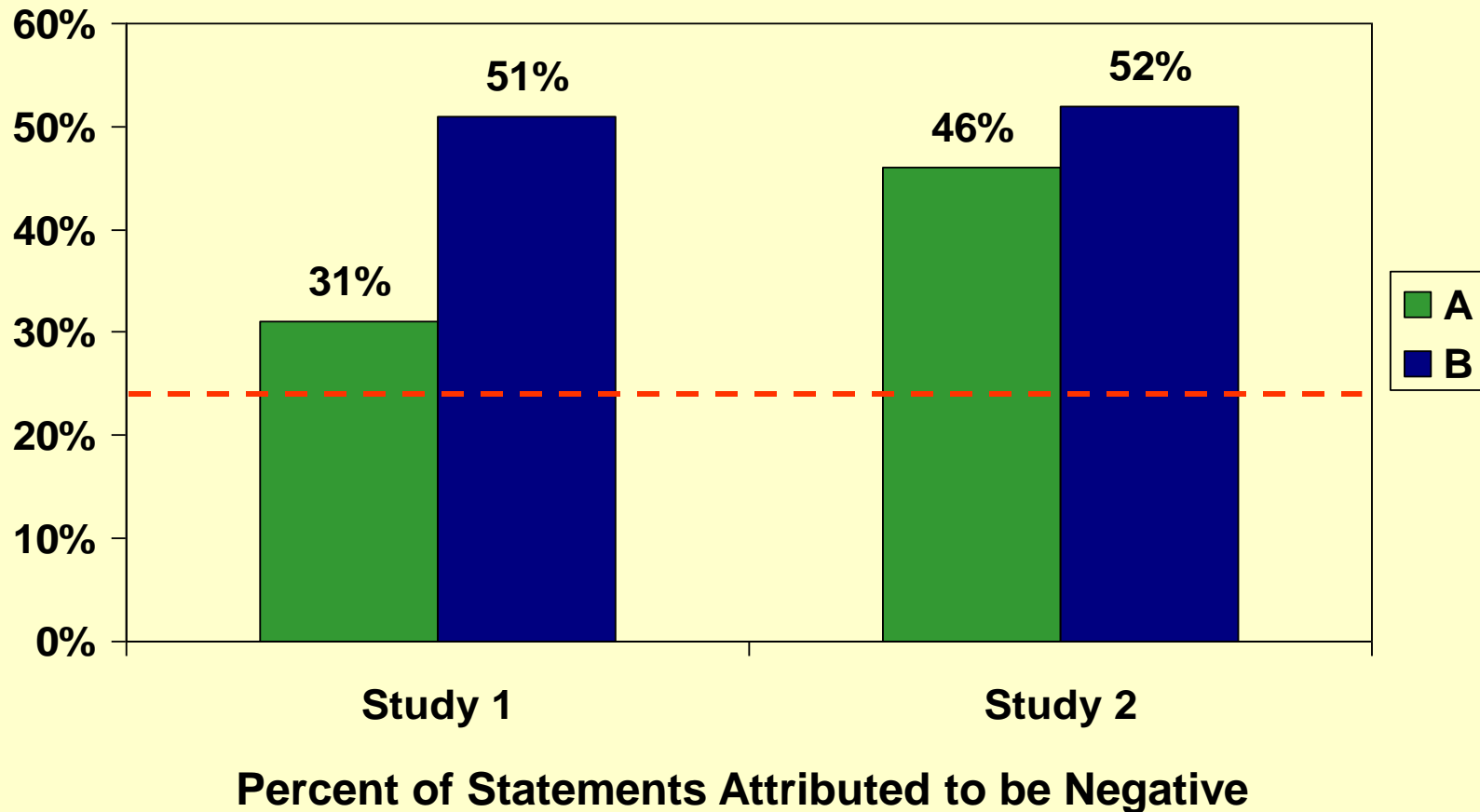
# Representativeness Bias (Gambler's Fallacy)

- A misconception that chance is a “self-correcting process in which a deviation in one direction induces a deviation in the opposite direction to restore equilibrium” (Kahneman et al., 1982)
  - If red has come up 4 straight times, it must be time for black to come next
  - Throughout the semester, you discover that you have a 50/50 chance of correctly picking football games with the point spread. During your vacation in Las Vegas you decide to wager on football. Unfortunately, you lost the first three games on which you bet. Approximately what percentage chance do you have to correctly pick the next game?
    - **35% of University of Maryland students estimated the odds different from 50/50**

# Illusory Correlation

- People tend to associate rare events when they co-occur
  - Rain on weekends
  - Crime rates of minority groups (e.g., mafia)
- Study (Jackson, 2001)
  - Individuals read about behaviors of 2 groups
    - **Group A:** 26 positive, 8 negative behaviors
    - **Group B:** 13 positive, 4 negative behaviors
    - So, both positive and negative behaviors rarer in Group B than in Group A (same proportions)

# Illusory Correlation



# Spurious Correlation

- Examples
  - Children with longer feet know more vocabulary words
  - Students who use tutors have lower test scores
  - The correlation between the number of churches and the number of violent crimes is  $r \cong +.85$
  - There is a strong correlation between the total amount of losses in a fire and the number of firefighters putting out the fire
- Solution? Search for alternative explanations or you may make unwarranted inferences in making decisions

# Spurious Correlation

## Example

1. *Teenage girls eat lots of chocolate.*
2. *Teenage girls have acne.*
3. *Therefore, chocolate causes acne.*

### SUMMARY

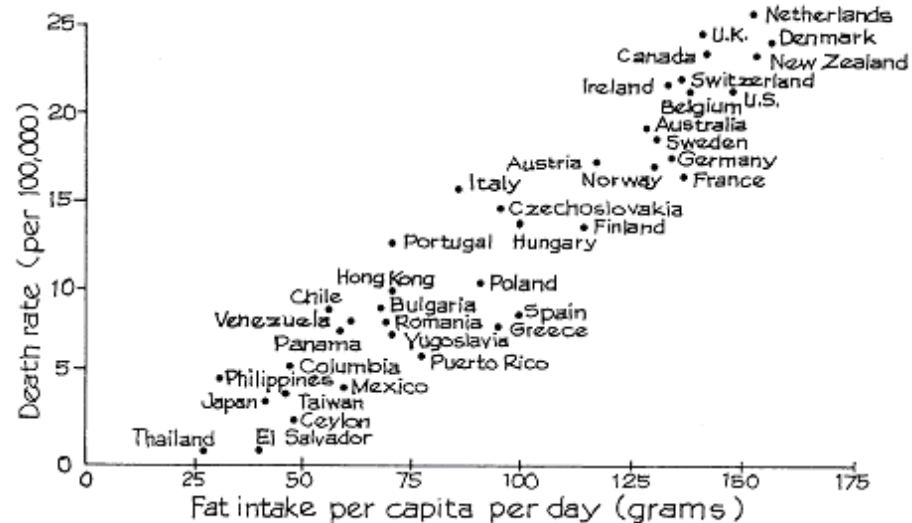
Misconceptions exist in the community regarding factors that exacerbate acne vulgaris. In particular stress, diet, lifestyle and personal hygiene are often erroneously claimed to be important factors. In order to

# Spurious Correlation

## Another Possible Example

- High fat diet *may* cause cancer, but correlation also may be spurious

Figure 8. Cancer rates plotted against fat in the diet, for a sample of countries.



Source: K. Carroll, "Experimental evidence of dietary factors and hormone-dependent cancers," *Cancer Research* vol. 35 (1975) p. 3379. Copyright by *Cancer Research*. Reproduced by permission.

# Individual Decision-Making

## The Upshot

- We overestimate the degree to which we make decisions that are:
  - Rational
  - Unbiased
  - Based on accurate perceptions
    - Indeed, we often use rationality to justify prior decisions, based on a biased perception of data
- So what are the implications?



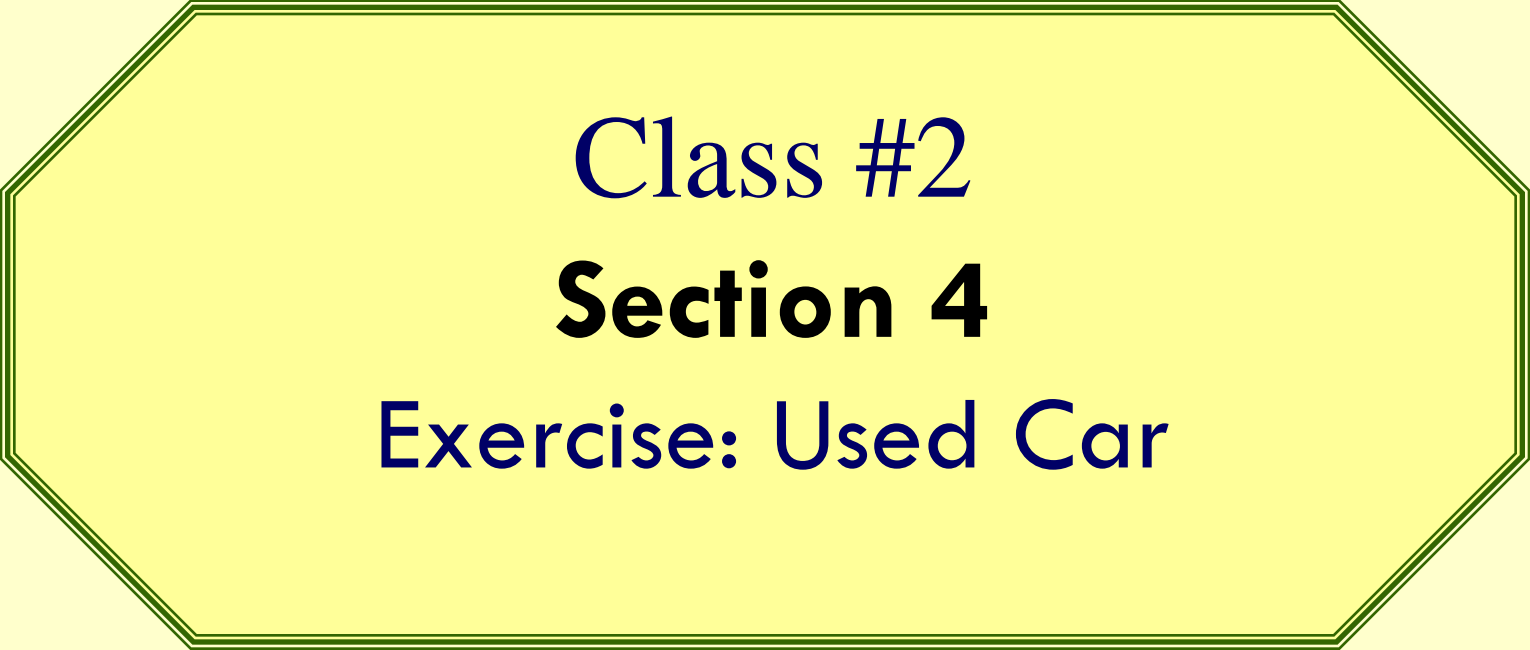
# Escalation of Commitment

- Escalation of commitment is persistence with a losing course of action
- Why is this bad in decision-making?
- Example: NBA draft choices (Staw & Hoang, 1995)
  - First-round picks played in the NBA **3.3 years longer** than second-round picks, controlling for all aspects of performance and position
  - First-round picks were **72% less likely** to be traded than second-round picks

# Escalation of Commitment

## Can It Be Avoided?

- Like many errors, easy to see in hindsight
- But, some actions that may help
  - **Set limits/goals** (Simonson & Staw, 1992)
    - Accept offer no worse than BATNA
  - **Reduce the ego threat** (Simonson & Staw, 1992)
    - Assure decision-maker that results are not reflection of true abilities (lowers justification)
  - **Recognize sunk costs for what they are**
    - This is key: Water under bridge is valueless!



Class #2  
**Section 4**  
Exercise: Used Car

# Exercise

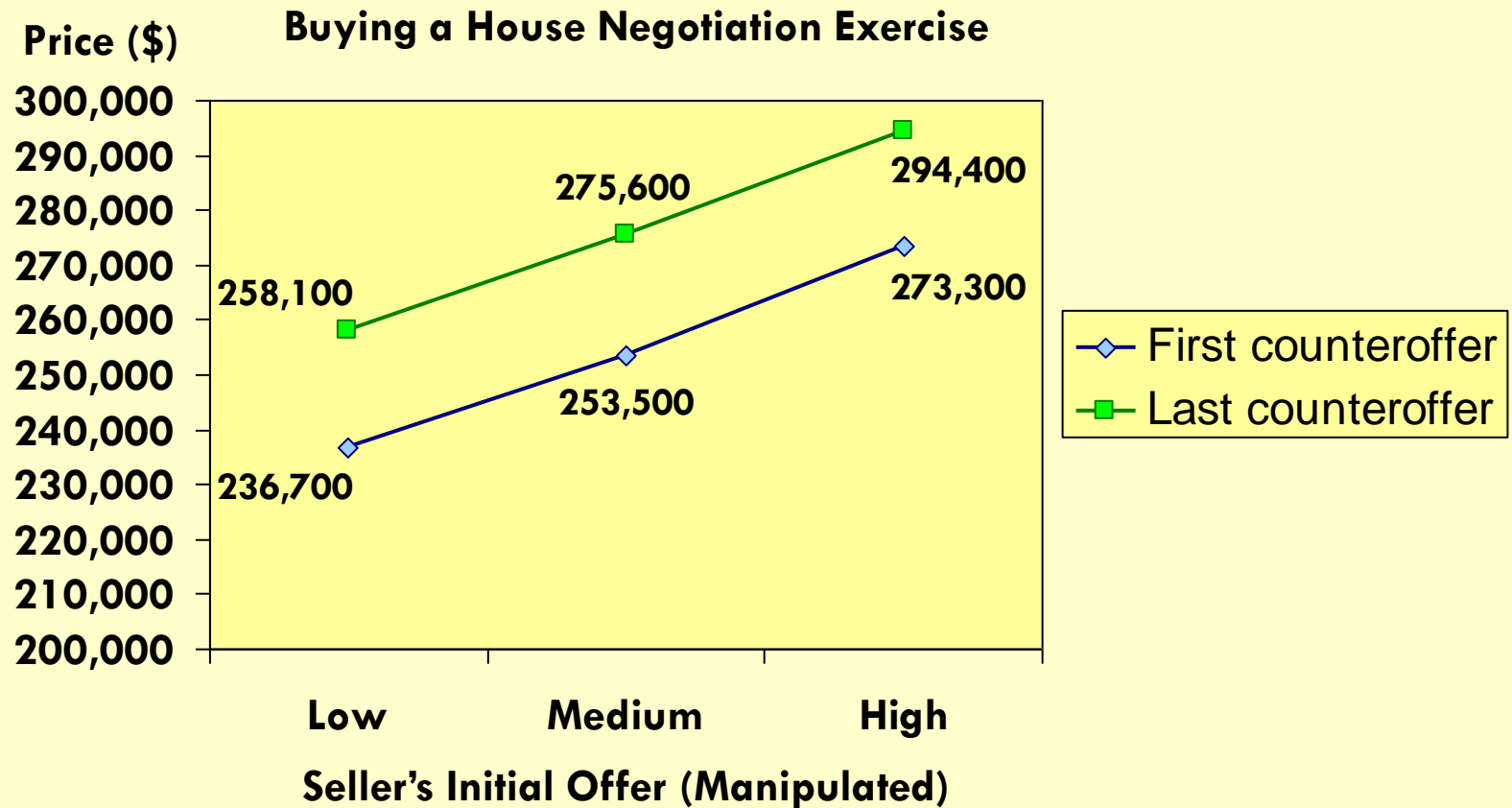
## Used Car

- Everyone reads white INTRODUCTION AND BACKGROUND INFORMATION form
- Form a dyad based on the person near you
- With each dyad, one person must decide be either a **seller (pink)** or a **buyer (green)**
- Follow instructions on your **pink** or **green** handout—do not read the other handout
- You have 15 minutes to reach a settlement
  - Turn in the white form when finished

# Anchoring (and Adjustment)

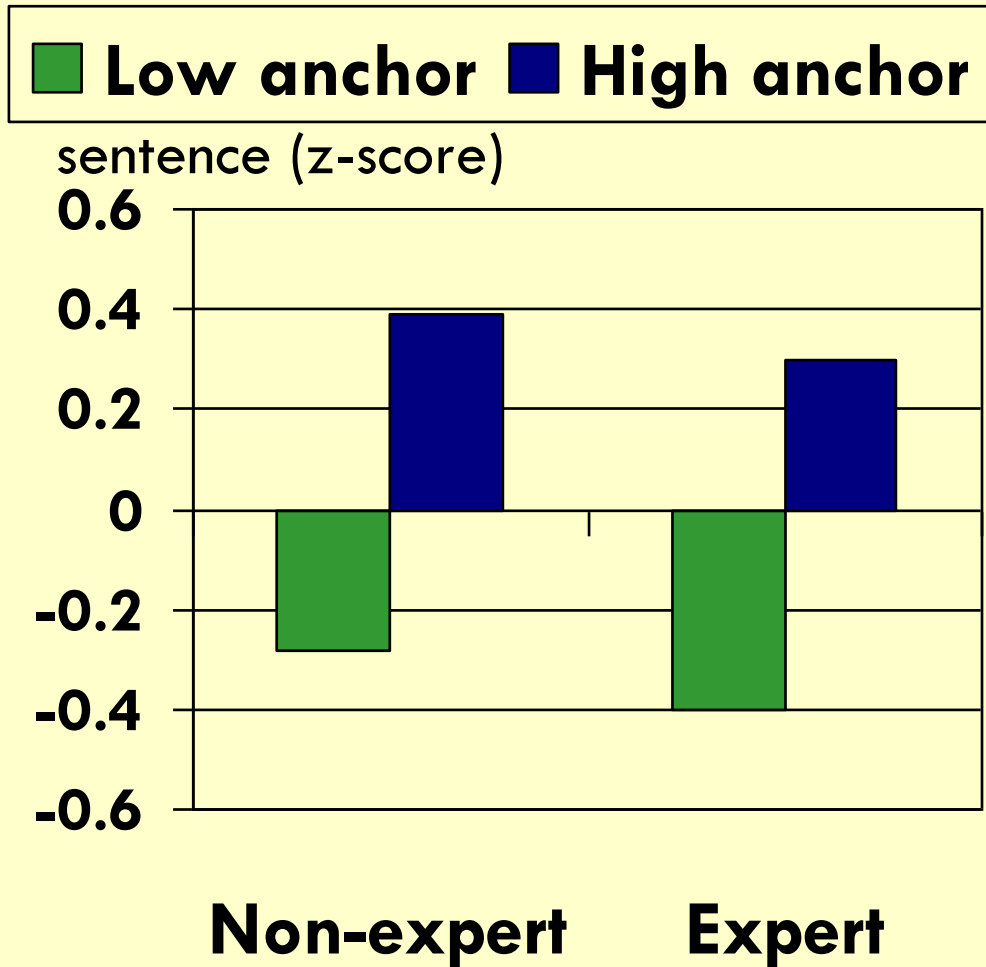
- Used when one needs to estimate an unknown value—one begins by anchoring on a salient available point and continues by making adjustments away from the anchor
  - Example: If people estimate population of Chicago after answering question: “Is the population of Chicago more or less than 200,000?” their absolute estimates are far lower
- Adjustment is typically insufficient, thus yielding a final estimate that is overly affected by the anchor
  - Negotiators with specific difficult goals generally more profitable
  - First offers have disproportionate impact
    - **Initiators negotiate better agreements (Ritov, 1996)**
    - **Simple experience does not appear to reduce effect of anchoring**

# Anchoring



# Anchoring

Study shows that criminal sentences are longer when a high anchor is used and lower when a low anchor is used (anchor was sentence demanded by prosecutor) – experts were sitting judges or those with judicial experience.



# Anchoring

- Not just hypothetical
  - Other research shows that actual defense attorneys anchor their sentence recommendations based on prosecutors' anchor (Englich et al., 2005)
    - In most Westernized countries, prosecutors present their recommendations first, with the idea that the defense has the “last word” – but the effect appears to operate in a manner opposite to that intended

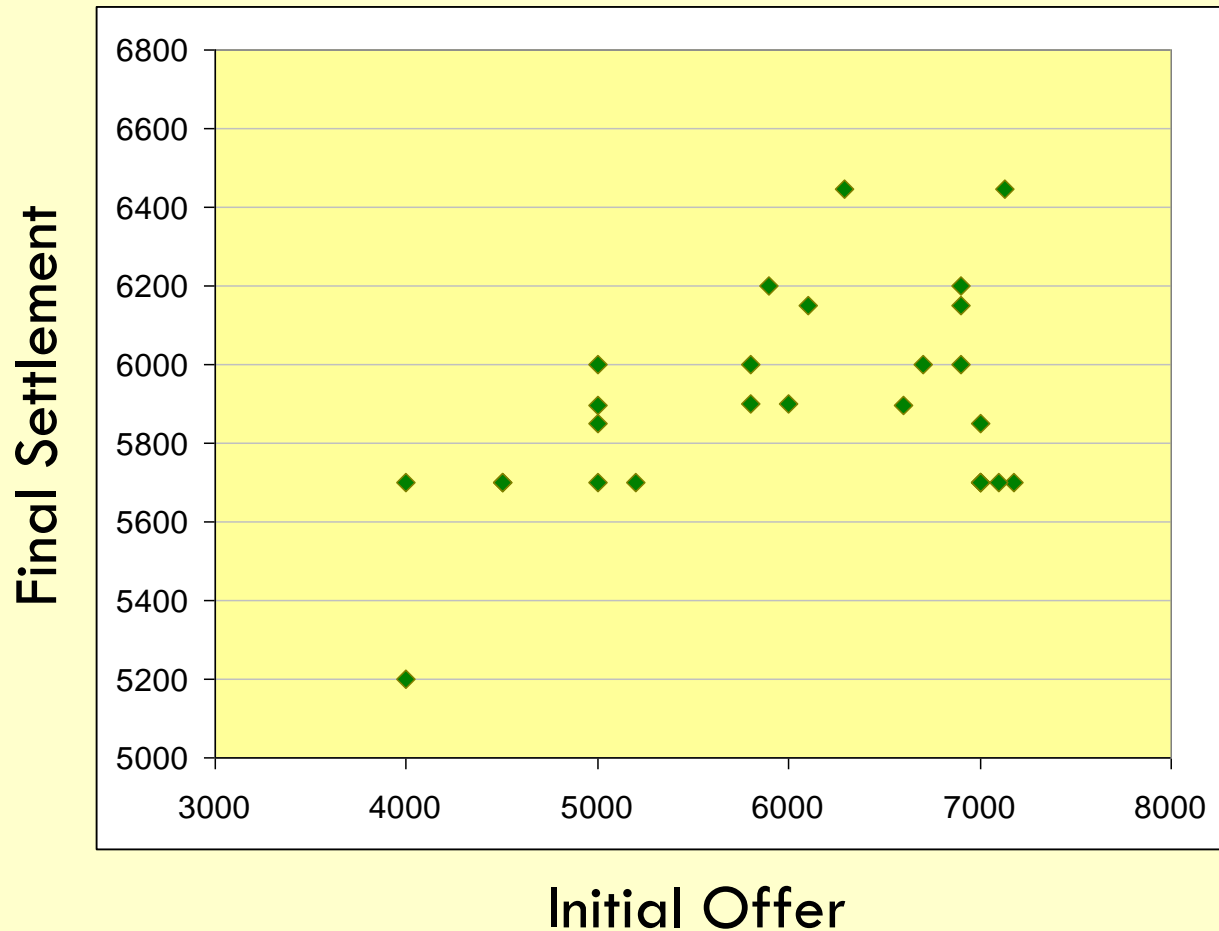


# Anchoring

## Data From Recent EMBA Class

Note: Each negotiating pair had same set of figures

**In general, higher initial offers  
resulted in higher final settlements  
(buyer and seller data pooled)**



# Anchoring

## Implications

- Why is adjustment insufficient?
  - Because adjustment process terminates once plausible value is reached
  - Example: Is the gestation period of elephants more than that for humans (9 months)?
- So, this is an example of irrationality that can be used to your advantage

# Conclusion

- We make lots of mistakes in decision-making!
- Be aware of these tendencies
  - In yourself
  - In the other party
- Combat them
  - Awareness is the first step
  - Realize these errors are for a reason
    - Serve to limit the scope of possibilities
  - Bring in additional information

Class #2

**Section 5**

Discussion on Retirement Party

Class #2

**Section 6**

Attitude Feedback Reports

**EMBA 60616:**  
**Leadership and Decision-Making**  
Fall 2013

**Attitudes Feedback Report**  
**Life and Job Attitudes**

**Ire Land**



Professor Timothy A. Judge

July 26, 2013

# Job/Life Attitudes

## Life Attitudes

- Life satisfaction
  - Tends to be more of a cognitive evaluation
  - Past and present focused (older higher)
- Happiness
  - Tends to be more of an intuitive feeling
  - Present and future focused (younger higher)
- Life satisfaction and happiness are positively correlated

# Job/Life Attitudes

## Life Satisfaction

- What predicts life satisfaction?
  - Personality (conscientiousness, neuroticism)
  - Health
  - Wealth (only at national level)
- Does life satisfaction matter?
  - List here things life satisfaction predicts



# Job/Life Attitudes

## Job Attitudes

- Overall job satisfaction
  - Responses to a 5-item scale assessing satisfaction with job as a whole
- Composite job satisfaction
  - Average of nine facet satisfactions
- Career satisfaction
  - Responses to a 5-item scale assessing satisfaction with job as a whole

# Job Life/Satisfaction

## Measures

- Life satisfaction: Satisfaction With Life Scale
  - SWLS is “gold standard” measure
  - Range: 1-5
- Happiness: Underwood and Froming
  - Range: 1-5
- Scores are normed for class and population
  - Your score is standardized meaning that:
    - 0 = average relative to norm
    - +100 = one standard deviation above norm
    - 100 = one standard deviation below norm

# Job/Life Attitudes

	<b>Raw Score</b>	<b>Popul- ation Norm</b>	<b>This Year's EMBA Class Norm</b>	<b>Last Year's EMBA Class Norm</b>
Life satisfaction	<b>3.80</b>	<b>31.68</b>	<b>-0.45</b>	<b>-7.04</b>
Happiness	<b>4.33</b>	<b>100.52</b>	<b>63.76</b>	<b>86.46</b>
Overall Job Satisfaction	<b>4.40</b>	<b>76.47</b>	<b>79.98</b>	<b>75.84</b>
Composite Job Satisfaction	<b>4.08</b>	<b>38.85</b>	<b>62.55</b>	<b>58.25</b>
Career Satisfaction	<b>4.20</b>	<b>72.49</b>	<b>71.31</b>	<b>64.34</b>

# Facet Satisfaction

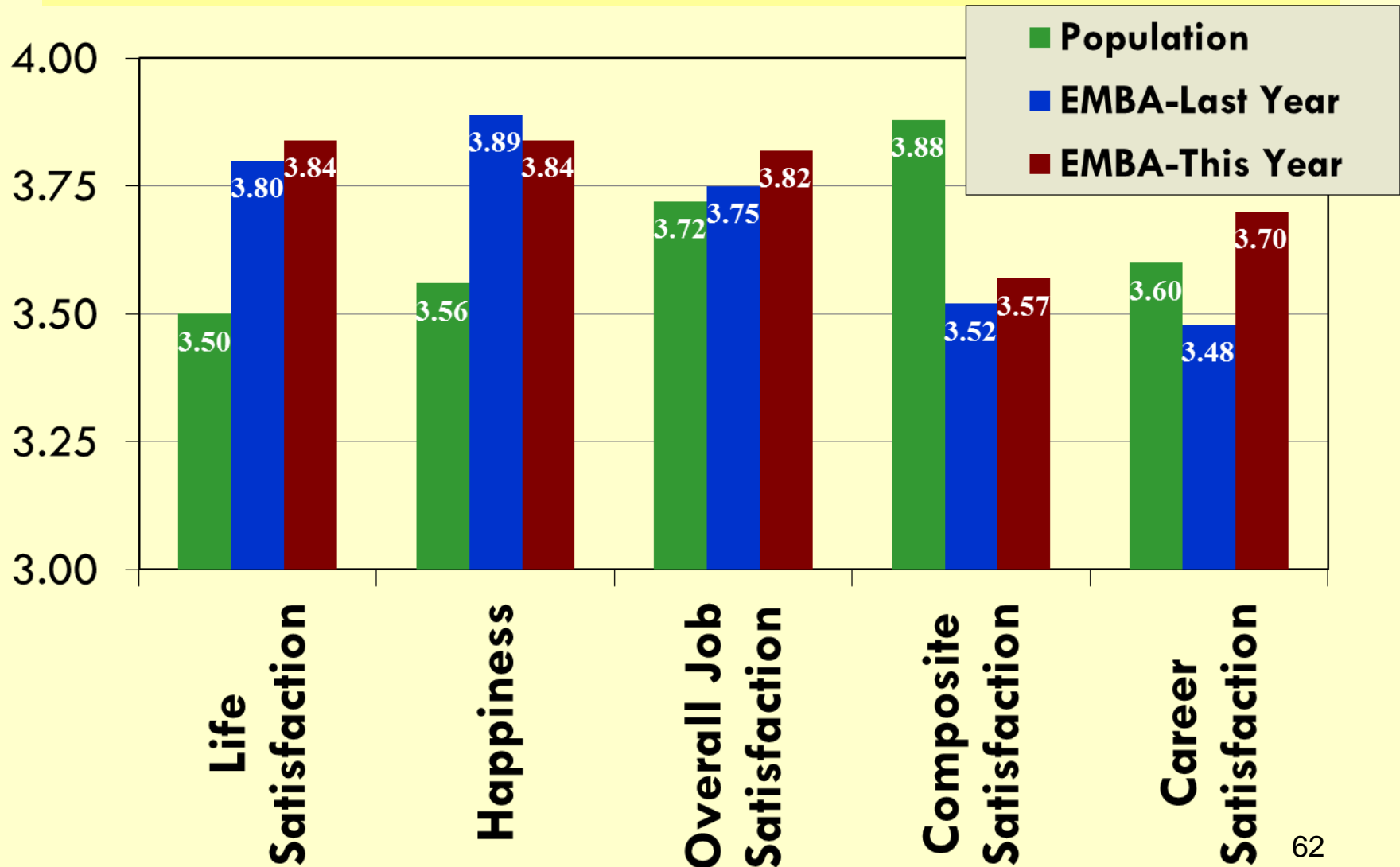
	<b>Raw Score</b>	<b>Population Norm</b>	<b>Last Year's EMBA Class Norm</b>	<b>This Year's EMBA Class Norm</b>
<b>Advancement</b>	3.75	50.79	58.62	51.27
<b>Compensation</b>	4.25	95.81	93.83	90.25
<b>Co-workers</b>	4.00	-3.19	45.82	33.07
<b>Moral values</b>	4.00	-34.48	-18.57	-13.98
<b>Security</b>	4.50	77.18	113.98	108.69
<b>Social service</b>	4.50	64.29	81.77	72.44
<b>Social status</b>	4.00	68.03	54.00	48.93

# Organizational Commitment

	Raw Score	Population Norm	Last Year's EMBA Class Norm	This Year's EMBA Class Norm
<b>Affective Commitment</b>	2.67	-86.65	-65.33	-92.03
<b>Normative Commitment</b>	2.17	-88.80	-67.93	-96.42
<b>Continuance Commitment</b>	2.67	-29.06	14.82	17.89

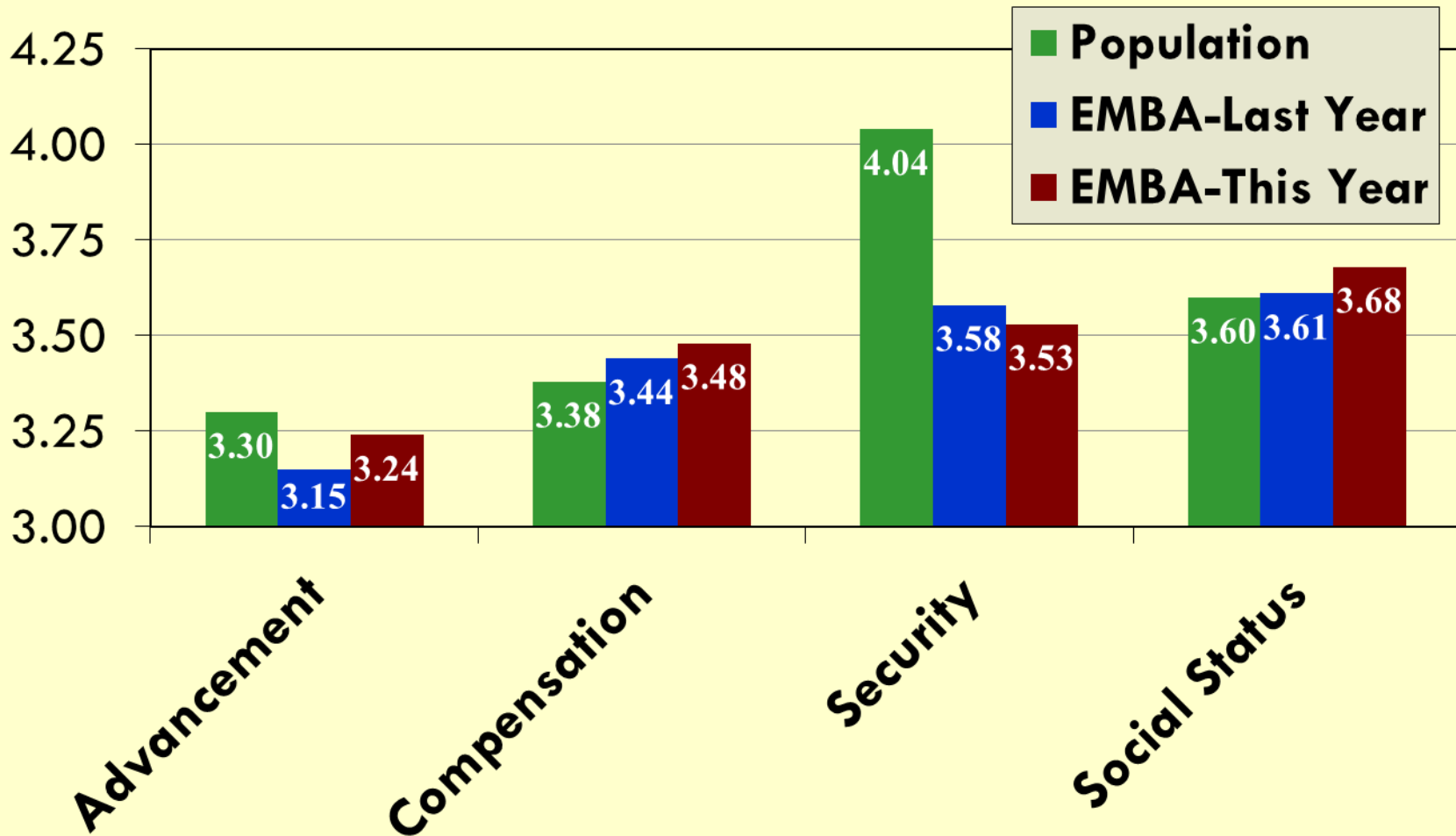
# Job/Life Attitudes

## Class v. Population Averages



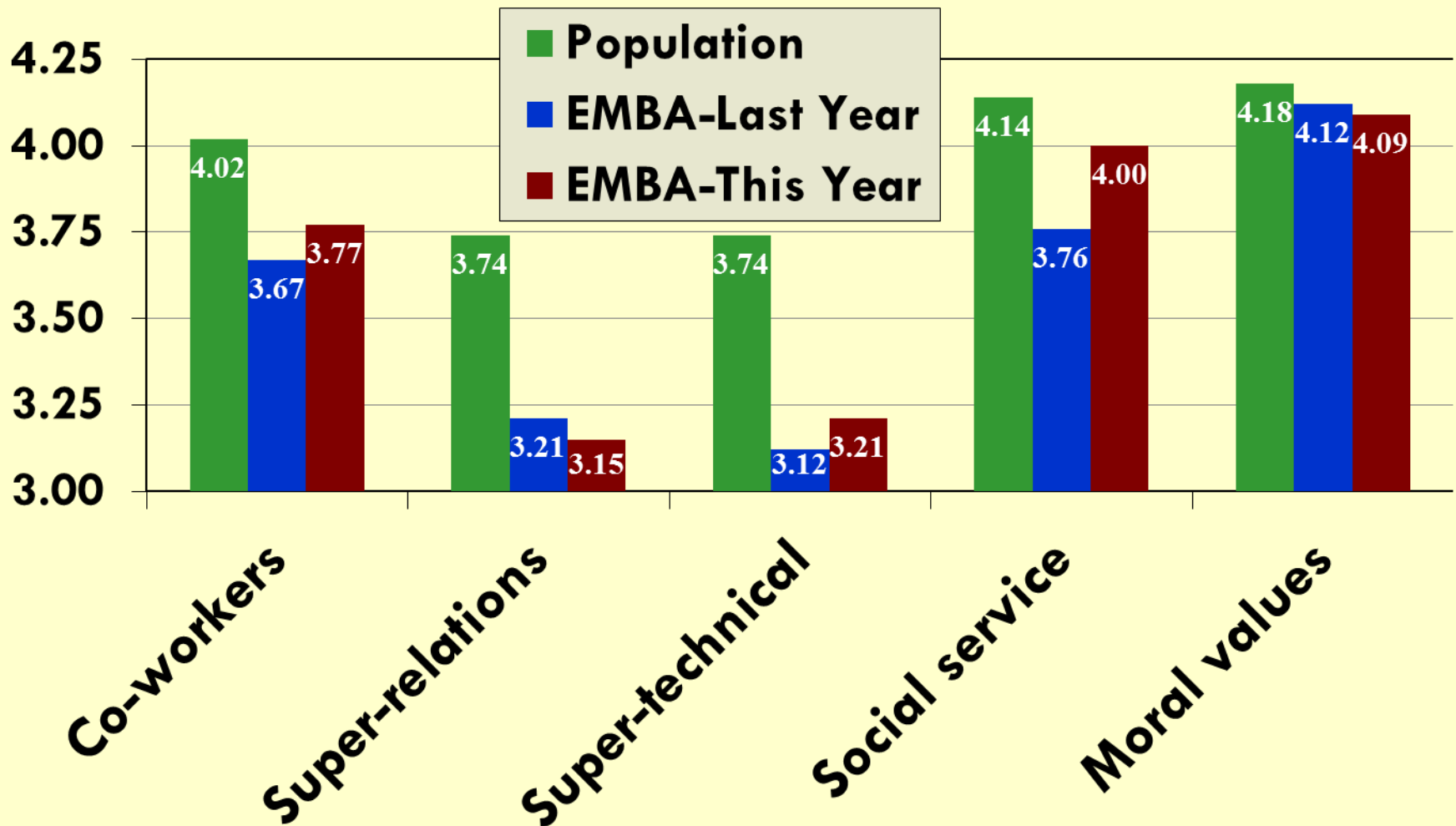
# Facet Satisfaction: Extrinsic

## Class v. Population Averages



# Facet Satisfaction: Intrinsic

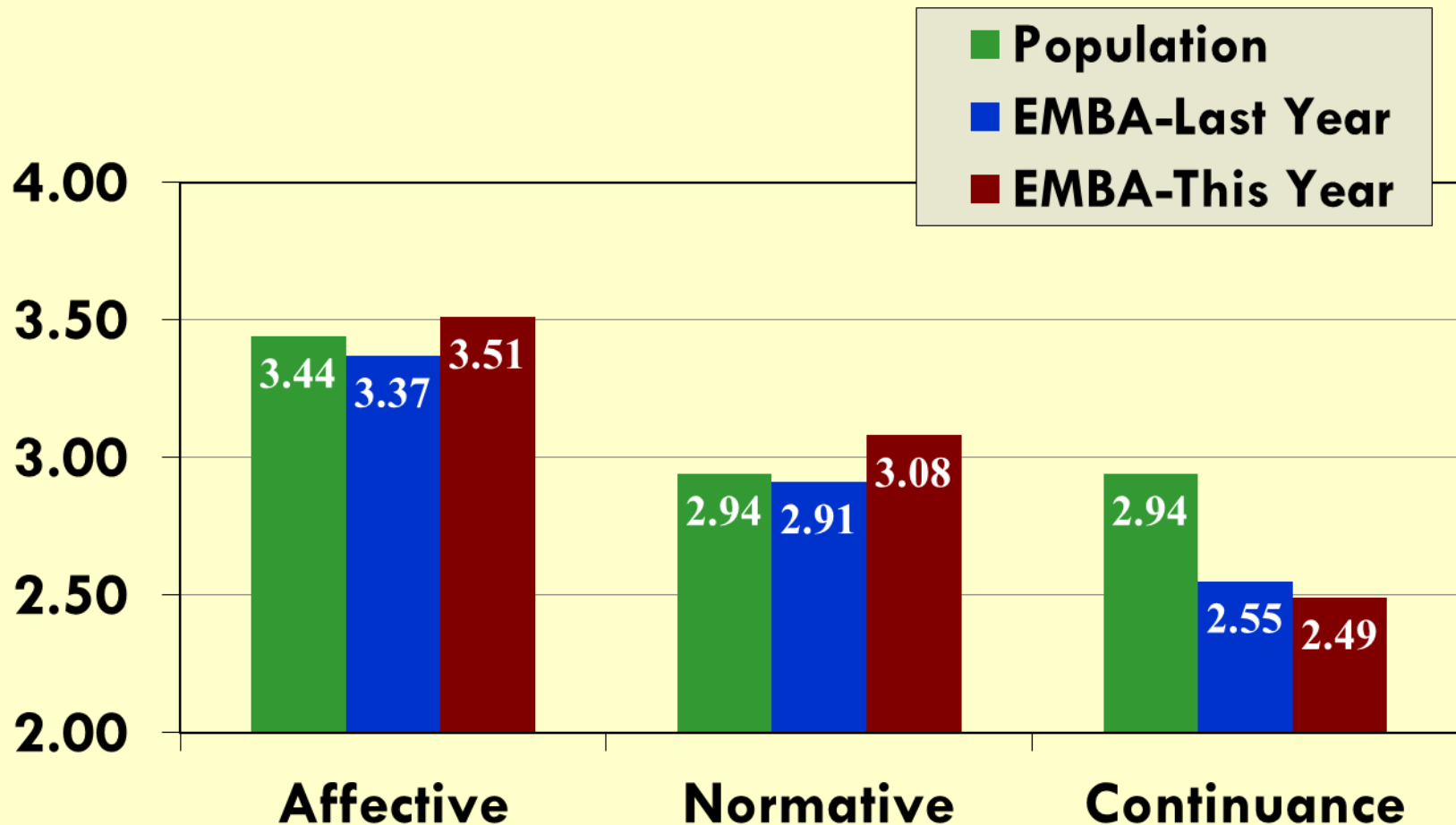
## Class v. Population Averages





# Organizational Commitment

## Class v. Population Averages



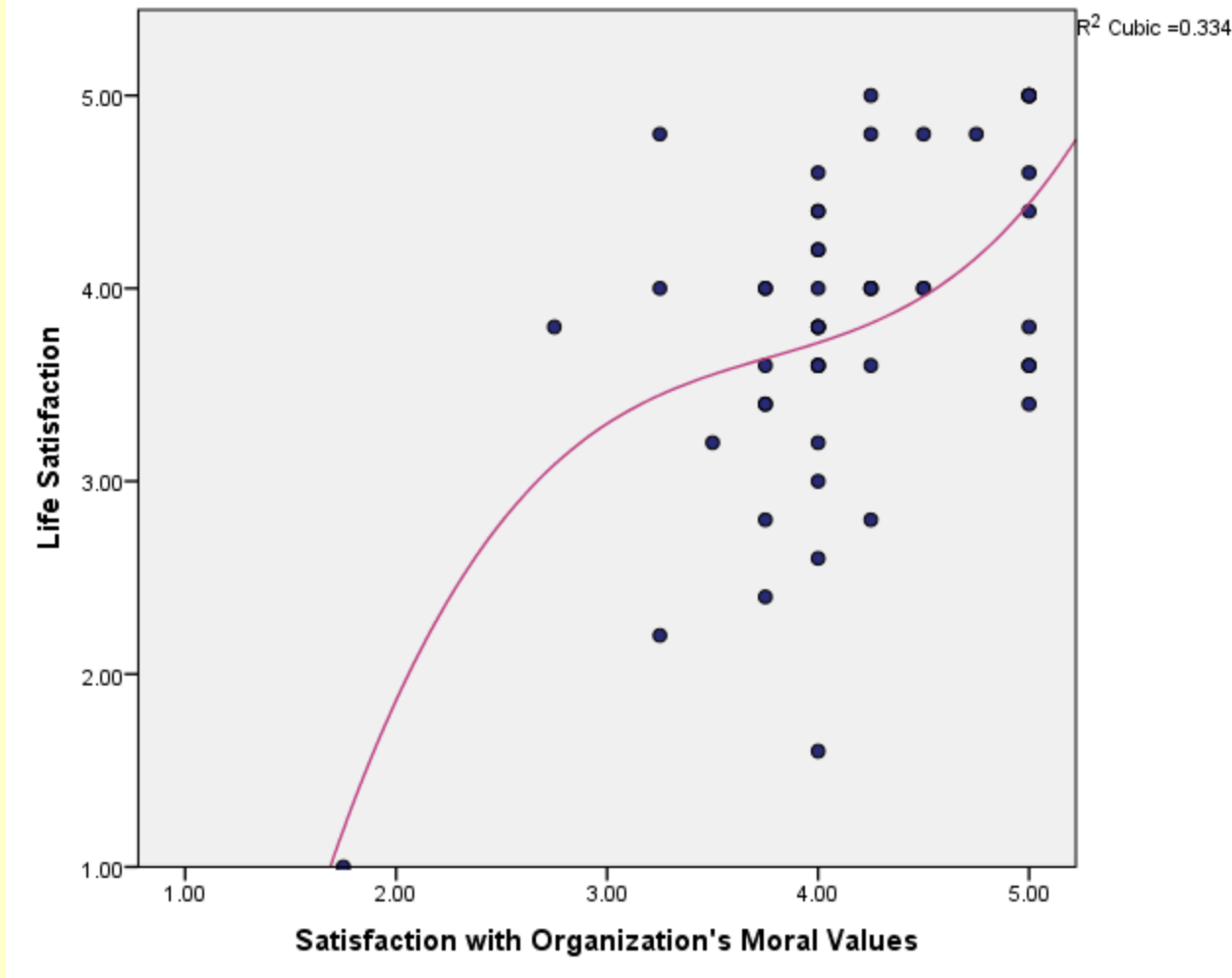
# Interpretations

## Class Correlations: Life Satisfaction

- Strongest predictors of life satisfaction
  - Satisfaction with moral values of org. :  $r=+.55$
  - Career satisfaction :  $r=+.50$
  - Pay satisfaction :  $r=+.47$
  - Supervision satisfaction (technical) :  $r=+.39$
  - Task significance :  $r=+.39$
  
  - Do any of these surprise you?

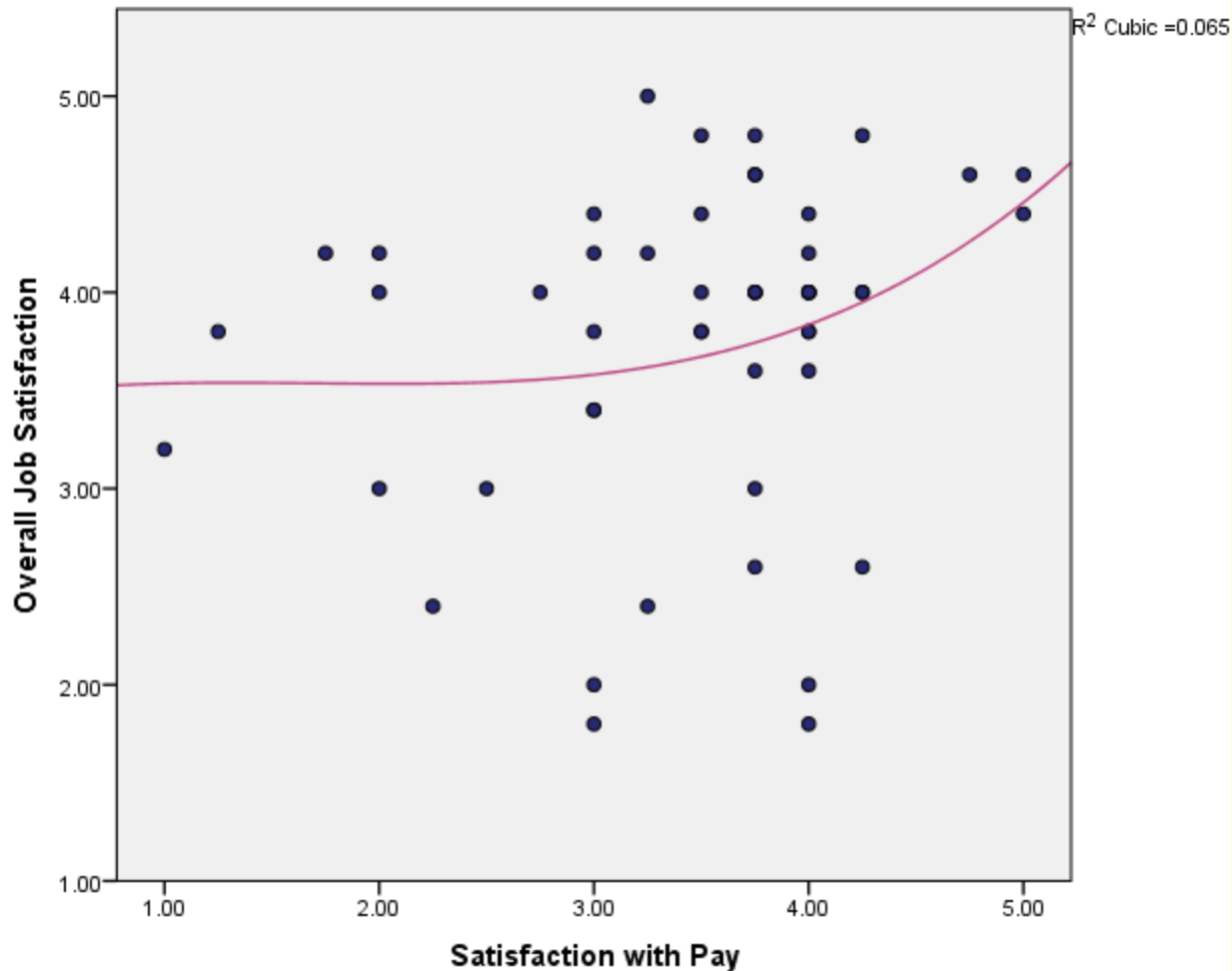
# Interpretations

## Class Correlations: Life Satisfaction



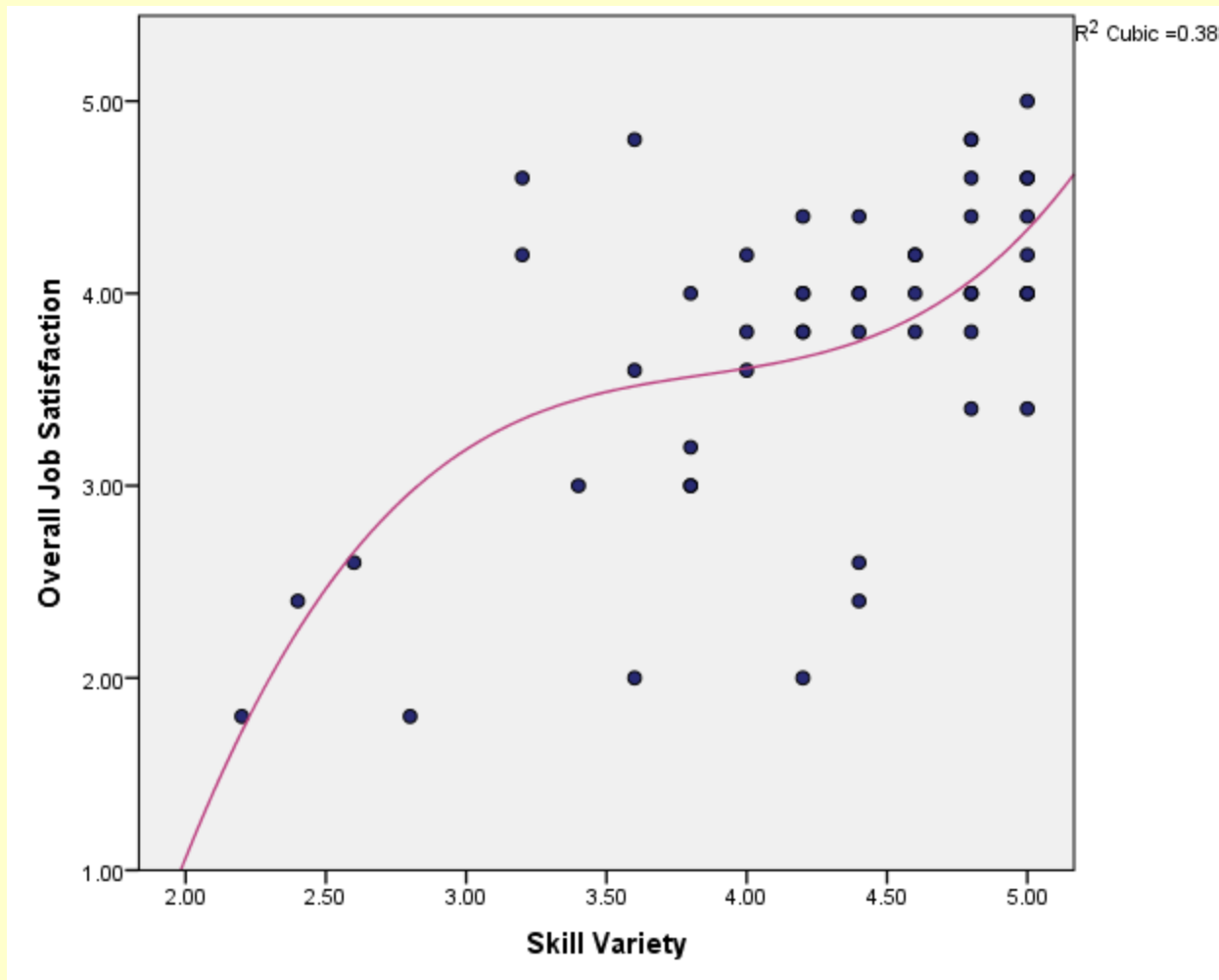
# Interpretations

## Class Correlations: Overall Job Satisfaction



# Interpretations

## Class Correlations: Overall Job Satisfaction



# Interpretations

## Class Correlations: Overall Job Satisfaction

- Strongest predictors of overall job satisfaction
  - Pay satisfaction :  $r=+.63$
  - Security satisfaction :  $r=+.62$
  - Skill variety :  $r=+.60$
  - Advancement satisfaction :  $r=+.57$
  - Supervision satisfaction (technical) :  $r=+.50$
  - Autonomy :  $r=+.46$
  
  - Do any of these surprise you?

# Interpretations

## Mean Comparisons

- Class scores relative to population
  - Above population averages
    - **Life satisfaction and happiness**
    - **Overall job satisfaction and career satisfaction**
  - Below population averages
    - **Satisfaction facets: Advancement, security, and all of the intrinsic satisfaction facets**
  - Why the differences from last year?
- How might these results be relevant?

# Job/Life Attitudes

## Implications

- How to increase life satisfaction/happiness?
  - Spend time in activities that are associated with happiness
    - **Time use research**
  - Happiness is a state of mind
    - **Gratitude research**
  - Job and life satisfaction are correlated

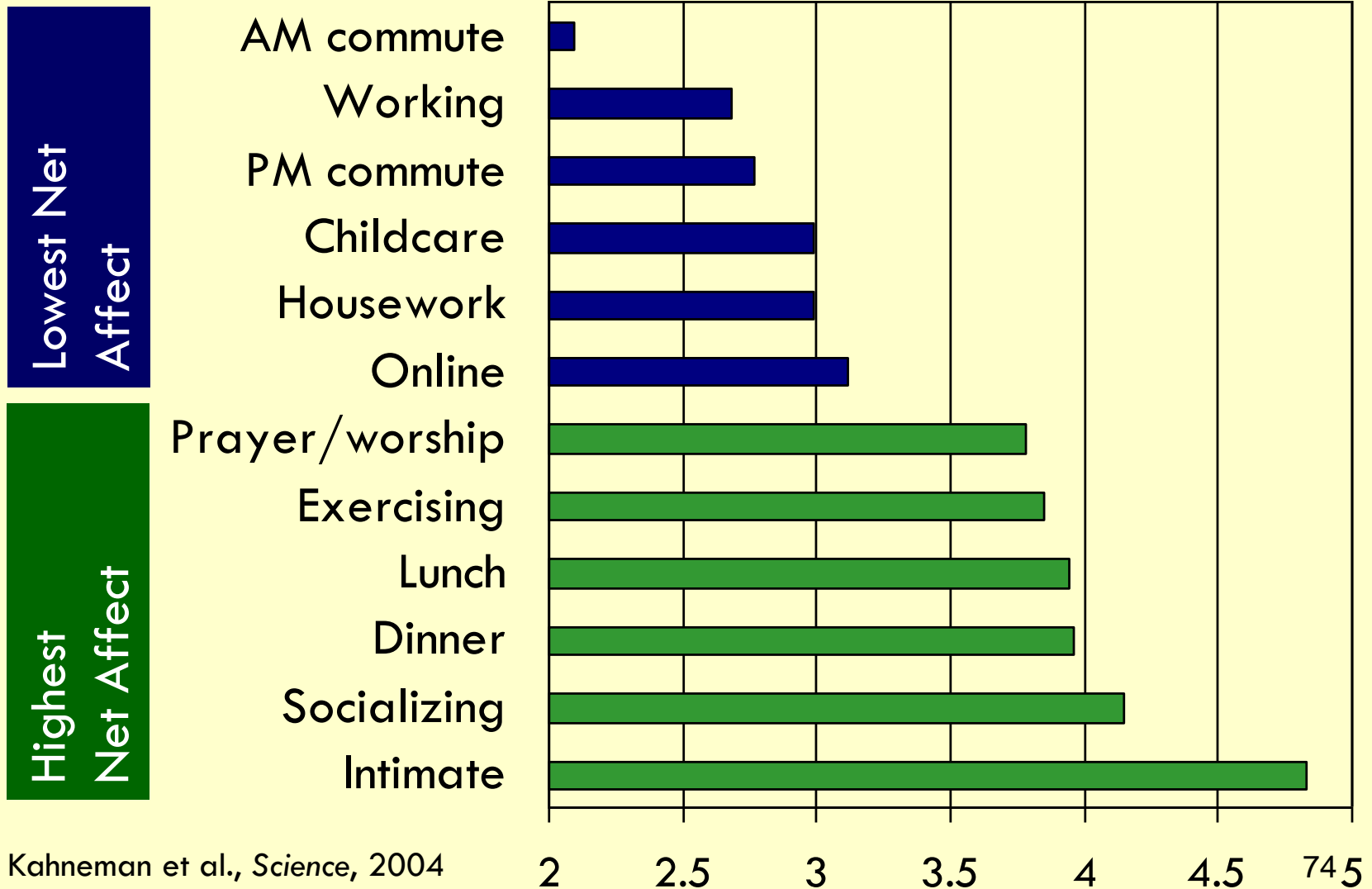


# How to Increase Happiness

1. Spend time on the right things
2. Use \$ for the right reasons
3. Be grateful
4. Do, rather than regret
5. Recognize the strength of “set points”

# What Makes Us Happy?

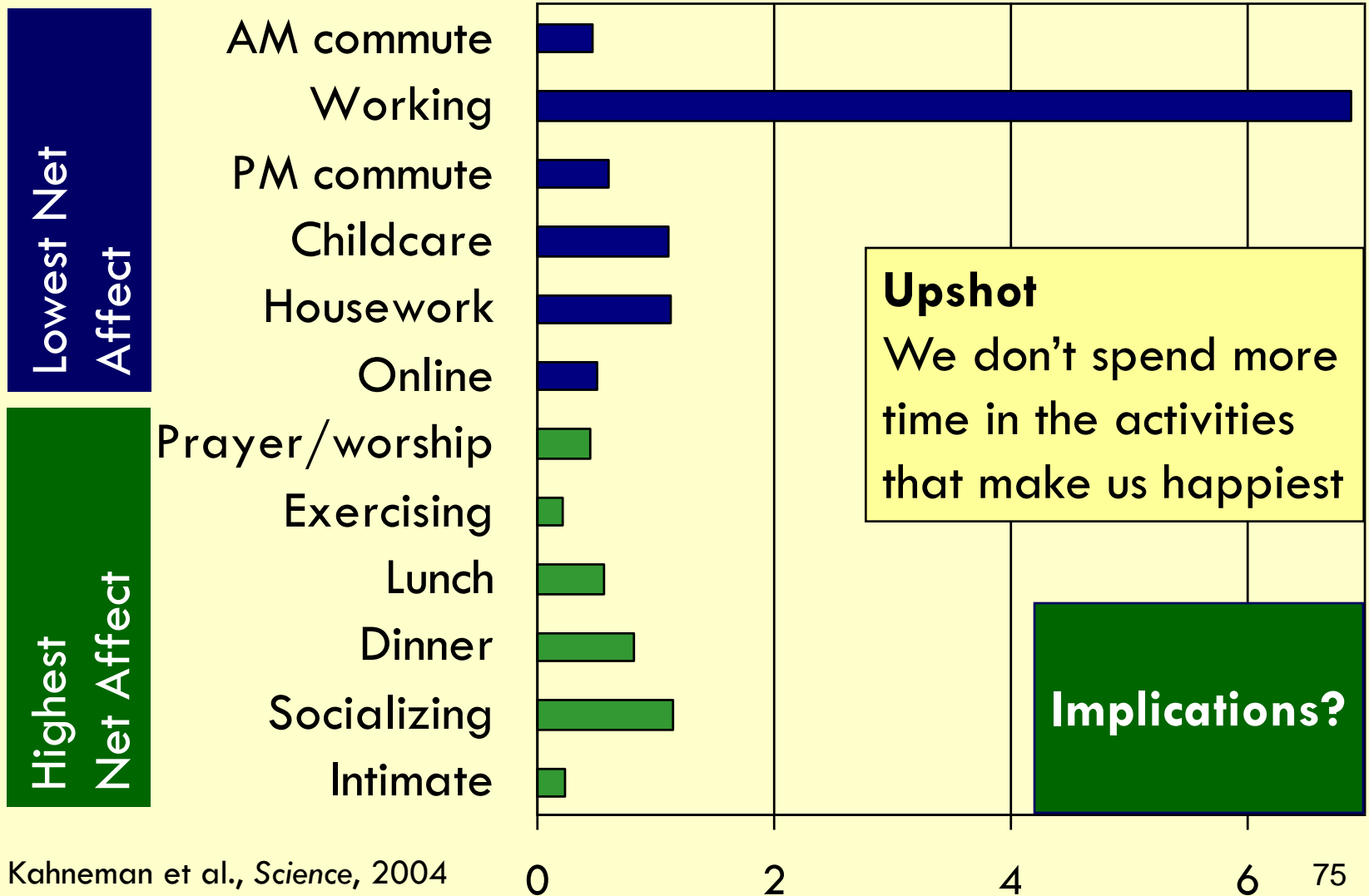
## Time Use Research



Kahneman et al., *Science*, 2004

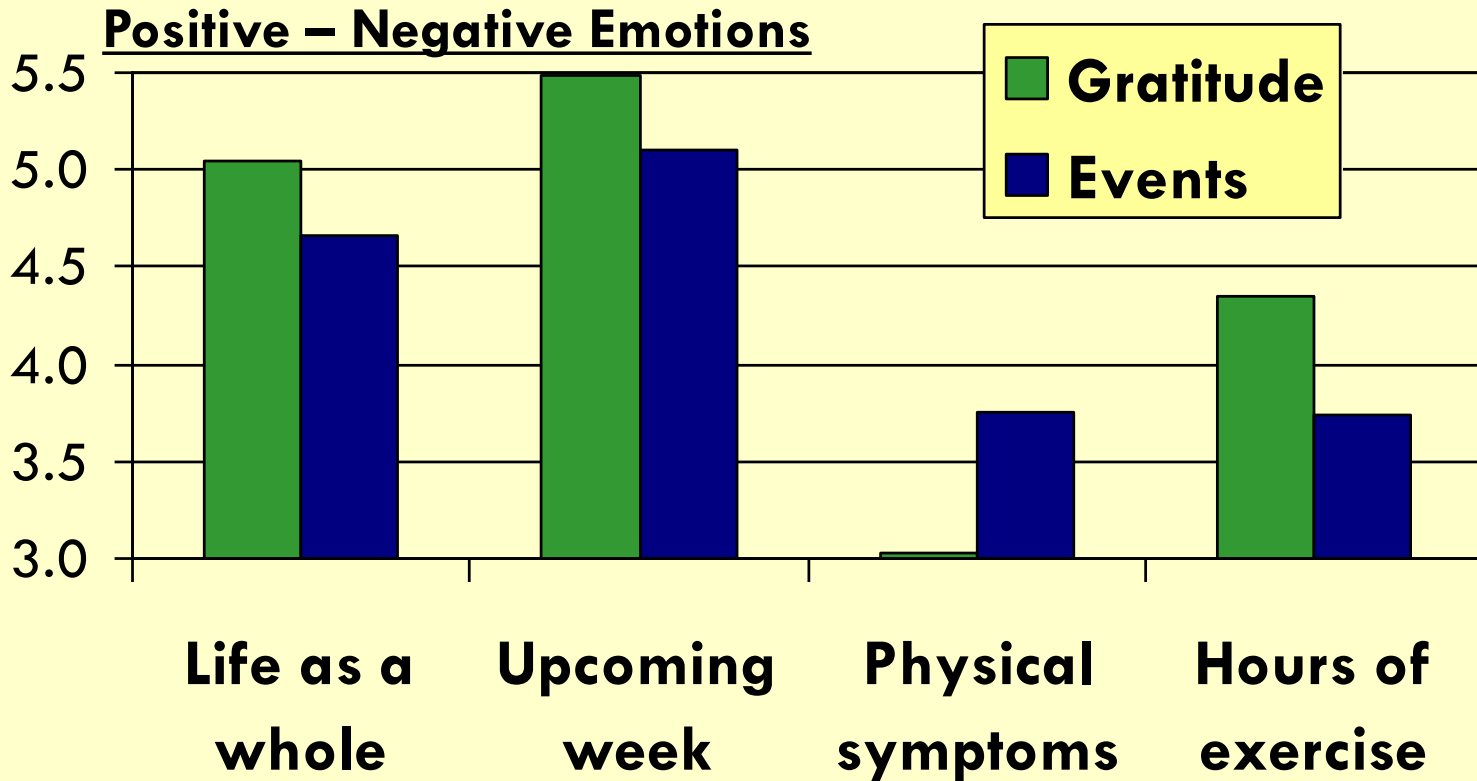
# But How Do We Spend Our Time?

## Time Use Research



# Job/Life Attitudes

## Gratitude



**201 people randomly assigned to one of two groups:**

**Gratitude:** List “up to 5 things in your life you are grateful or thankful for”

**Events:** Write down “5 events that had an impact on you”

Each person completed these once/week for nine weeks

# Job/Life Attitudes

## Gratitude

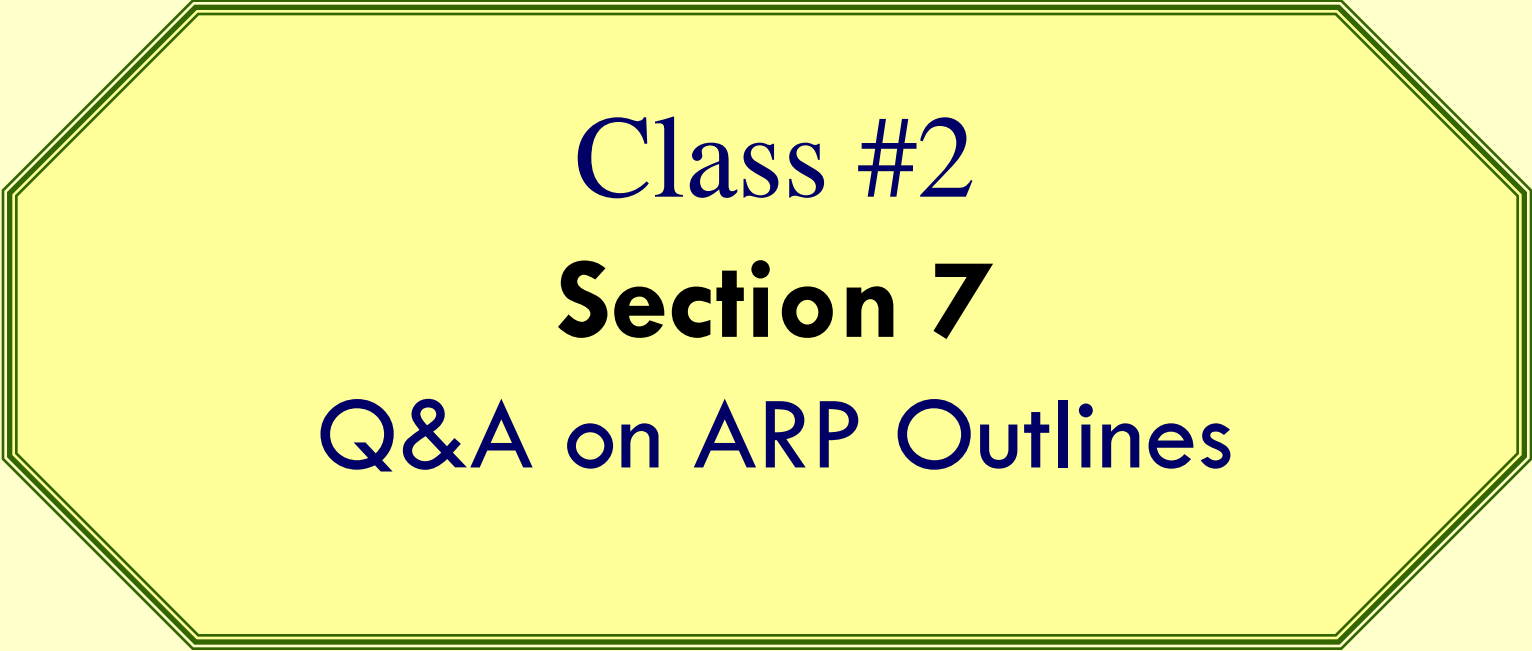
To say we feel grateful is not to say that everything in our lives is necessarily great. It just means we are aware of our blessings. If you only think about your disappointments and unsatisfied wants, you may be prone to unhappiness. If you are fully aware of your disappointments but at the same time thankful for the good that has happened for your chance to live, you are more likely to show higher indices of well-being. — *R. Emmons*



# Job/Life Attitudes

## Implications

- How to increase job satisfaction?
  - Most important job satisfaction facet is work itself
    - **Most individuals prefer challenging work**
  - Next most important factor is social
    - **Coworkers and supervision**
  - Can these be altered?
- Curiously, the data for this class are not wholly consistent with past research



Class #2  
**Section 7**  
Q&A on ARP Outlines

# Next Class

## Group Decision-Making

- Readings summaries for Chapter 9 and Primer due
- Outline for Action Research Project due
- “Martha Rinaldi”, “TerraCog”, and “Jamie Turner” case discussions
- Exercises: Lost & Get Carter
- To Do List before tomorrow
  - Read textbook chapter 9 and Primer and write 1/2 page/each
  - Read cases and prepare answers
  - **Meet with your team and discuss pre-approval of ARP outline with me TODAY in person or through email, prepare outline**