



ROTTERDAM SCHOOL OF MANAGEMENT, ERASMUS UNIVERSITY

- ▶ Finding the tipping point between financial and social incentives
By Frank Hartmann
- ▶ The forces and factors influencing company longevity
Chris Murray talks with Hugo van Driel
- ▶ Managing the supply and demand of creativity
By Berend Wierenga, Niek Althuisen and Bo Chen
- ▶ Selling flowers with analytics
By Eric van Heck
- ▶ Decision-making: are managers biased by their characters?
By Saeedeh Ahmadi
- ▶ Individual creative ability versus group collaboration
By Yingjie Yuan



Decision-making: are managers biased by their characters?

By **Saeedeh Ahmadi**

Many studies have shown that psychology affects consumers' economic decisions. Indeed, almost everyone occasionally makes economic choices that don't quite make logical sense. It's tempting to think professional managers working for a business aren't as susceptible to this kind of weakness. Faced with technological opportunities, for instance, hyper-logical and highly experienced executives should base all their decisions strictly on the merits of each case.

While their decisions might look that way when outlined on a PowerPoint deck, in a recent study, my colleagues and I have found that middle managers are as susceptible as the rest of us to making decisions that are influenced by personal predisposition and organisational context. In two experiments, my colleagues Luca Berchicci, Justin Jansen, Saeed Khanagha, and I found that experienced managers make decisions about adopting a new technology at their company in the same way most of us buy cars: partly on the merits, partly on their own gut instincts (which in turn depend to an extent on the motivation systems that guide their decisions), and partly through social pressure.

Before these experiments, little was known about how managers' internal motivation systems guide their decisions to explore new technological opportunities. Our research suggests that managers who are more promotion-focused (ie, concerned about positive outcomes such as growth and advancement) than prevention-focused (ie, concerned with negative outcomes such as failure and loss) tend to be more open to deviate from cur-

rent practices, and start experimentation with a wider range of alternatives. By contrast, the prevention-focused managers are highly biased toward their current products and not willing to tap new knowledge or change current routines. The prevention-focused were also affected by their organisation's opinion if it was also more sensitive to losses than gains.

Trade-offs

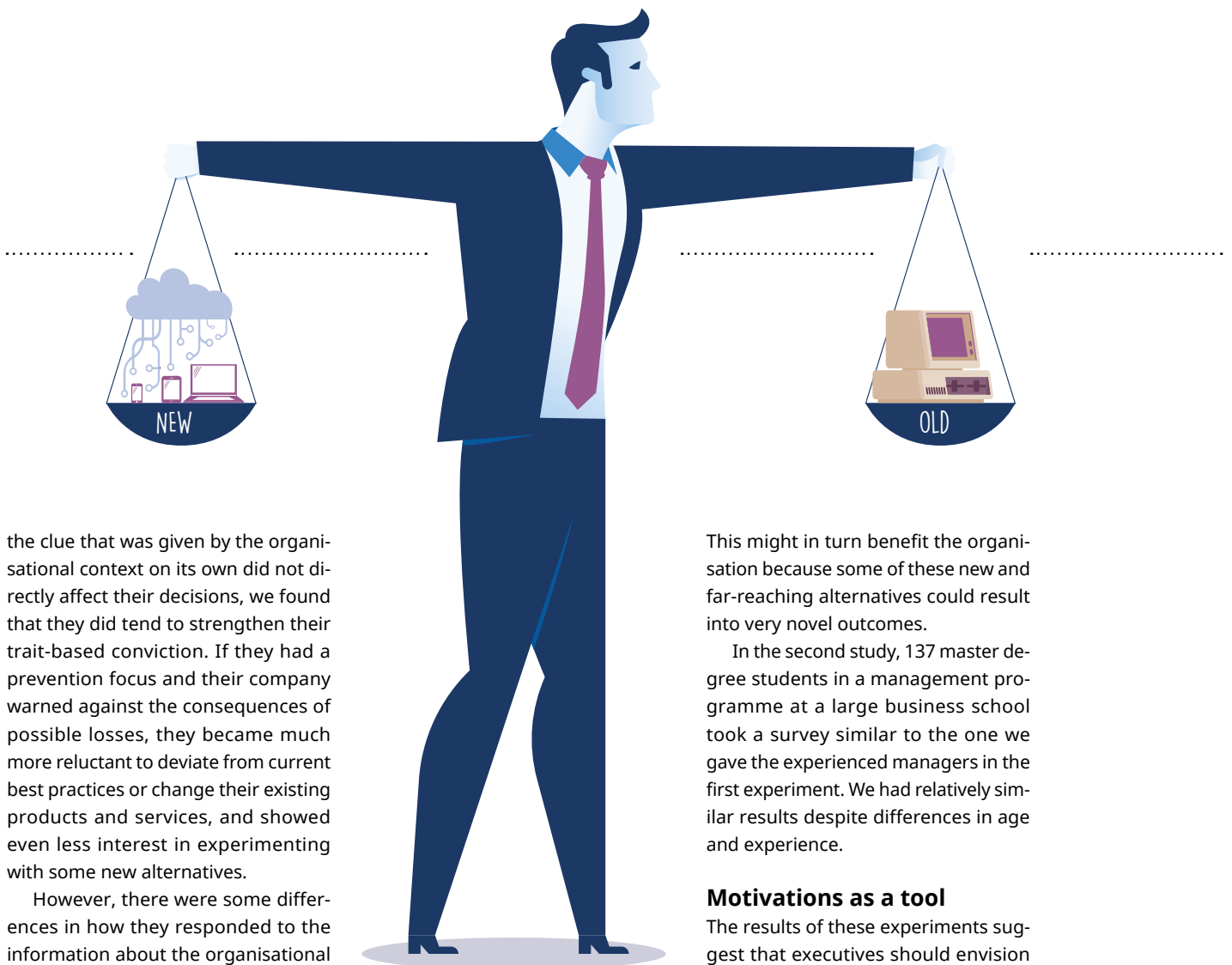
Our research consisted of two experiments that study the trade-offs managers encounter when they face a new technology. We asked managers and management students to simulate decisions about how their company should pursue cloud computing technology.

In the first experiment, we asked 142 experienced product managers at a large multinational telecom company to evaluate a highly complex project with many interrelating factors and uncertainties and a simpler project, both of which involved shifting some IT operations to the cloud.

First, we measured the promotion and prevention-focus of participants with a questionnaire. Next, we put them in two different organisational contexts. They were told either that they worked for a hypothetical organisation that emphasised the consequences of success and possibility of achievements and growth (promotion-focused context) or an organisation that often warned against possible losses and emphasised consequences of failure (prevention-focused context). We then asked them to make some decisions about how they would approach the new technology.

Managers with a stronger prevention focus were biased toward sticking to current processes, products and services. They were more hesitant to experiment with new technology and try new alternatives than managers with a stronger promotion focus. Although

"If executives think it is time to explore a new technology and experiment with different alternatives, they might want to assign a promotion-focused optimist..."



the clue that was given by the organisational context on its own did not directly affect their decisions, we found that they did tend to strengthen their trait-based conviction. If they had a prevention focus and their company warned against the consequences of possible losses, they became much more reluctant to deviate from current best practices or change their existing products and services, and showed even less interest in experimenting with some new alternatives.

However, there were some differences in how they responded to the information about the organisational focus. A strong prevention focus in the organisation extended prevention-focused individuals' bias against exploratory activities. However, the complexity of the task did not seem to intensify the lack of interest of highly prevention-focused managers. The prevention motivation system guided the behaviour in both complex and non-complex projects in the same way. When we looked at the effect of the promotion system, we found out when the project was very complex, the context played a more vivid role in motivating the promotion-focused managers to embrace risk-taking and experimentation.

Why might this be so? We believe our finding may be related to the fact

that a promotion focus and concentration on a complex situation both involve analytical left-brain activities, and as a result, these effects reinforce each other. In a complex situation, the promotion-focused manager whose left brain is already very involved may look for more information from the environment to make sure that they are making the correct decision. If they find the organisation's motivational context matches the desires of their own growth-oriented personality, this will further encourage them to engage in a broad search for new alternatives.

This might in turn benefit the organisation because some of these new and far-reaching alternatives could result into very novel outcomes.

In the second study, 137 master degree students in a management programme at a large business school took a survey similar to the one we gave the experienced managers in the first experiment. We had relatively similar results despite differences in age and experience.

Motivations as a tool

The results of these experiments suggest that executives should envision the desired outcome when assigning managers to a project. If executives think it is time to explore a new technology and experiment with different alternatives, they might want to assign a promotion-focused optimist to survey the terrain. On the other hand, if the company is concerned with the reliability of a process, they may want to look for someone with a stronger prevention orientation, a manager more sensitive to failure and more focused on fulfilling the obligations. They should also be mindful of how different sets of motivations might function under different circumstances. For instance, a prevention-focused manager who is highly sensitive to failure may be too ▶

“Managers with a stronger prevention focus were *biased toward sticking to current processes, products and services.*”

reluctant to make necessary changes if the organisation is also sensitive to losses. Similarly, a promotion-focused individual may respond quite differently depending on the level of complexity of a given task.

Thinking about your own motivational system is also a good task to set yourself before you apply for a job, take responsibility for a project or pursue any goal. All of us have both prevention and promotion tendencies, but some of us lean more toward one of the two motivational systems. Exactly which one takes the lead in a specific situation depends on factors such as how strong that trait is in our personality or which context we are in at the time of action, etc.

In fact, we are not bound by our traits, and traits can be encouraged or discouraged by the larger cultural tone of the organisation. However, choosing an organisation where the dominant tone matches our own motivational predisposition may make it easier to serve the company usefully even as we achieve our own goals.

A source of strength

None of this should be interpreted to mean that all cautious managers ought to be rooted out. There is no “right”

temperament in business. Instead, a combination of personality, task nature, and organisational context shape our decisions and behaviour. Sceptical managers often perform extremely useful roles.

Further, I hope managers draw from this research not just that they are as susceptible to biases at work as they are at home – although they are – but also the fact that if we understand our own and our subordinates’ biases and don’t run away from them, we can make them a source of strength, not weakness. Understood and deployed correctly, our innate preference for promotion or prevention can be used to help us achieve more rather than less.

Of course, there is still a lot we don’t know. What impact does organisational structure and authority have on the choices we make? How do prevention and promotional foci interact within individuals? Although we have designed the experiment to suggest that these foci operate independently in a group, people sometimes have both a high prevention and a high promotion focus, or neither focus. Do individuals who are high on both scales employ different strategies at different points of time? How do they confront a trade-

off between two sets of motivations? Fortunately, I tend to be somewhat promotion-focused, so I’m hoping to find answers to these questions. ■

This article draws its inspiration from the paper *Are Managers Motivated to Explore in the Face of a New Technological Change? The Role of Regulatory Focus, Fit, and Complexity of Decision-Making*, written by Saeedeh Ahmadi, Saeed Khanagha, Luca Berchicci, and Justin J.P. Jansen, and published in the *Journal of Management Studies*, 54: 209–237. DOI: <http://dx.doi.org/10.1111/joms.12257>

Saeedeh Ahmadi is a doctoral student, Department of Strategic Management and Entrepreneurship, Rotterdam School of Management, Erasmus University.

EMAIL ahmadi@rsm.nl

► RSM Expertise

The Department of Strategic Management & Entrepreneurship at RSM offers unparalleled expertise in a wide range of areas of importance to managers and scholars. These areas are grouped under the themes of strategic management, strategic entrepreneurship, and global strategy.

More information about the department and its work can be found at:

WEB www.rsm.nl/sme

