Influence of Rationality and Perceptual Processes on Managerial Decision-Making

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Managerial decision-making and rationality are impacted and influenced by perceptual processes. This essay seeks to critically analyse and discuss perceptual processes as pivotal in any decision-making endeavour. Its importance is briefly discussed with particular emphasis placed on ways in which certain differences or biases in perception may have on individuals’ understanding of reality as well as how it impinges on the decision-making process within a business environment where there are numerous variables. Furthermore, this essay looks at what happens when there are perceptual errors in decision-making within the business sphere. It also addresses the notion of rationality and its conflicting attainability with its application in a modern setting.

Perceptual processes are fundamental in understanding the impact perception has on decision-making. Managers make decisions every day, hour and minute based on the perceptions they interpret. As with management, the importance of understanding the influence of perceptual errors and improving perceptual accuracy are also addressed in the study of social psychology. Perception causes people to make wrong choices based on false information. In an organisation, incorrect decisions result in a great deal of negative effects. Hence, it is important to delve deeper into the area of perceptual processes so as to identify and avoid the causes of such errors and biases in the decision-making process.

The characteristics of the decision-maker lay the basic foundation in understanding perceptual processes and biases. Before perceptual process actually begins, the characteristics of the perceiver will shape how he or she responds and selects a course of action. Research has shown that personal characteristics, and especially a person’s self...

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concept, can affect perception of the social world and of others in it. For example, an individual with high self-esteem might be confident in making decisions and perceive himself as superior compared to one with a low self-esteem. Such characteristics are usually expressed when the perceiver forms impressions of others. Few decisions are made void of preconceived impressions or judgments. As such, this may be the spark that leads to distortion in the perceptual process which might in turn affect decision-making.

When it comes to forming judgments and interpreting information, the decision-maker may respond to irrelevant cues to arrive at a judgment. Failure to avoid inaccuracies in forming impressions is influenced by a few important factors, the first of which is stereotyping. Stereotyping is a common process which most of us are guilty of committing at least a few times in our lives. The definition that ‘stereotyping’ is to ‘attribute to that person some characteristics which are seen to be shared by all or most of his or her fellow group members’ was coined by Brown. It can be a powerful tool which influences and impels how a manager makes decisions. An example of stereotyping is the glass ceiling phenomenon in the working world. It is an invisible barrier that prevents women from rising up to the upper echelons of the corporate ladder. In 2008, the OECD found that the median earnings of female full-time workers were 17% lower than the earnings of their male counterparts. From this we might infer that biases and prejudices exist which prevent women from rising to the top, hence the lower pay. It also shows that judgment might be clouded when decisions to promote women to higher positions are made regardless of their experience or qualification.

Another type of perceptual distortion is perceptual defence. It affects decision-making by creating judgment about things which might not be true. Although it is normal for people to want to defend the way they perceive things, it is hard to change once established. Asch states that

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'perceptual defence occurs when a person’s value orientations act as a barrier to stimuli that are threatening'.\(^5\) When this happens, the perceiver might not be able to accept the new fact and rejects it by making inaccurate perceptions. A real life example would be the current situation within the Officer Corps of the Singapore Armed Forces (SAF). There is a line drawn between officers who are granted scholarships and those who do not have a basic degree. Those who are offered scholarships to study at prestigious overseas universities are termed as ‘scholars’ and those who do not have degrees are known as ‘farmers’. This distinction is accentuated as ‘scholars’ have accelerated careers, promoting them faster to senior ranks in comparison with ‘farmers’. As such, the SAF has been criticized for ‘using a promotion system that is based more on education and scholarships than on proven competence’.\(^6\) As the majority of the military’s current top brass are ‘scholars’, there might be perceptual defence when it comes to deciding who gets promoted. ‘Farmers’ might be perceived as less competent in comparison with ‘scholars’ due to their educational qualifications, thus making promotion to senior ranks more difficult and fulfilling the existence of perceptual defence.

The halo effect is the third major distortion of the perceptual process. It is a form of bias which influences how one perceives an individual or object. It is used to describe a process in which a general impression that is favourable or unfavourable is used to evaluate specific traits.\(^7\) The halo effect can be considered omnipresent in the workplace. One such area is during performance appraisals. When a subordinate is highly proficient in some areas, a laid-back manager might perceive him or her to be proficient in all areas and appraise highly as a result. Another area is job tasks. When a person does something well out of his specified job scope, he or she might also be deemed as an expert in that particular task. An interesting ‘feature’ of the halo effect is that it not only


influences decisions within the organisation but outside of it as well, which in turn affects organisational performance. An example would be Apple Inc., whereby the positive perception of its features or services extends to the entire corporation. The iPod halo effect meant that customers who had a great experience with it would buy a Mac computer simply because it is made by Apple Inc., thus boosting its sales figures.

There is also a clear nexus between perceptual error and ethical decision-making. When confronted with making ethical choices, managers might make decisions solely on the basis of their outcome or consequence. In this instance, the majority might stand to gain albeit the decision not being most objective. Decisions might also be made based on the manager’s own sense of impartiality. The underlying problem is that not everyone will conform to this standard as they might feel the decision is flawed or biased. T M Jones\textsuperscript{8} and Trevino\textsuperscript{9} affirm by stating that perceptual errors may affect an individual’s ethical judgment by influencing later stages of individual planning and implementation of intentions when responding to ethical dilemmas. From this, it is evident that perceptual errors play a significant role when unethical workplace decisions are made. A classic example would be Enron Corporation’s bankruptcy in 2001. Former CEO Jeffrey Skilling’s objective was profit at all costs. His perception that profits should be the primary objective meant little regard for ethics and this led to the use of a reward system that only retains those who achieved profit targets.\textsuperscript{10} Such unrelenting push for profits ultimately led to the company’s downfall as there were charges of financial fraud and corruption within the organisation. Perceptual errors are not only linked with decision-making; it influences the ethical standards of a decision which in turn may translate into extensive consequences for an organisation.

\textsuperscript{8} Thomas M Jones, ‘Ethical Decision Making by Individuals in Organizations: An Issue-Contingent Model’ (1991) 16(2) \textit{Academy of Management Review} 366.

\textsuperscript{9} Linda Klebe Trevino, ‘Ethical Decision Making in Organizations: A Person-Situation Interactionist Model’ (1986) 11(3) \textit{Academy of Management Review} 601.

Prescriptive and normative models of decision-making assume that managerial decision-makers can process information and form judgment on the basis of rationality. Rationality is defined as a self-conscious process of using explicit reasoned arguments to make and defend knowledge claims.\textsuperscript{11} Although widely used, there have been criticisms regarding the rational model of decision-making. This is because the theory focuses on decisions and the act of choice rather than the whole process of decision-making. Managers most often do not operate under conditions of perfect information. Lindblom supports this by asserting that decision-makers are not faced with concrete, clearly defined problems.\textsuperscript{12} Rather, they first have to identify and formulate the problems on which they make decisions. Simon emphasised that a completely rational decision-making process demands too much of those making the decision.\textsuperscript{13} In a business context, we can consider the rise in the price of goods as an example. When there is an increase in price, it is easy for managers to blame it on inflation. Conversely, there are many causes to inflation such as high demand or low supply. The rational model is therefore hard to achieve as such causes are not clearly defined and are difficult for managers to determine.

The model of bounded rationality also seems to oppose this perfect rationality in decision-making. Bounded rationality happens when decision makers simply avoid the effort to be rational and comprehensive at the same time. According to Simon, the rational manager does not always have complete information, and optimal decisions are not always required.\textsuperscript{14} In other words, as managers do not have the time or ability to process complete information about complex decisions, they must select some alternative that promises to meet the objective. As such, it conflicts with rationality as it would mean that rational decision-making can now be made under risk, uncertainty, and imperfect information.

\textsuperscript{13} Herbert A Simon, \textit{Administrative Behaviour} (Macmillan, 2\textsuperscript{nd} ed, 1957).
\textsuperscript{14} Herbert A Simon, ‘Rational Decision-Making in Business Organisations’ (1979) 69(4) \textit{American Economic Review} 493.
Despite such challenges, the notion of rationality does not dissipate once we have considered the perceptual processes of the decision maker. It must be noted that not all critics of the rational model have the aim of invalidating it. In fact, they largely contribute to the further modification and development of the model. It is extremely challenging to try and achieve rationality in every decision. Therefore, rationality should be archetypal of an ideal benchmark for sound decision-making. The value of the ‘rational’ model is that it prescribes procedures for decision-making that will lead to the choice of the most efficient means of achieving goals and objectives. It should be used as a core concept to evaluate decision-making. It is argued that the use of the term ‘rationality’ in managerial decision-making is extremely useful as it creates a dialogue between philosophical and psychological perspectives of ethics and morality. From this, we can visualise the various theories and models through a simple illustration. If perceptual processes are sources of water, rationality as a concept would be the conduit in which water flows through, resulting in decision-making which would be the water coming through at the end of it. In order to achieve ‘clean water’ (effective decision-making), both the water source (perceptual process) as well as the conduit (rationality) have to function properly. All of these play a part as regards the decision-making process, and it shows that ‘rationality’ as a conceptual entity cannot stand alone or dissolve for that matter. The rational model will always remain a very important tool for management policy and decision-making.

Knowledge of perceptual processes is critical in understanding its relationship with rationality and decision-making. This essay has evaluated the importance of perceptual processes, the notion of rationality as well as how they both affect the outcome of decisions. Examining the characteristics of the decision maker has allowed us to appreciate the formation and presence of prejudgment resulting in distortions in perception. As such, various biases including stereotyping, halo effect and perceptual defence were considered to illustrate how such distortions affect decision-making. In addition, it is

suggested that unethical decisions may be linked to errors in perception. This essay concludes with the discussion on the notion of rationality and the part it plays in linking perceptual processes with decision-making. Despite its detractors, it should subsist as an exemplary model acting as a guide for managers in making sound decisions.

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References


Simon, Herbert A, Administrative Behaviour (Macmillan, 2nd ed, 1957)


