

Decision Making – the Carnegie School of Thoughts**Background**

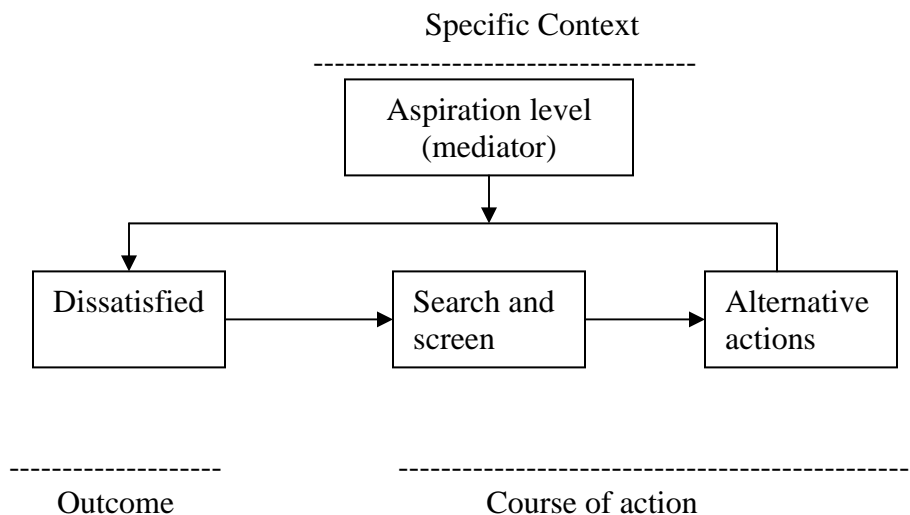
Neoclassical economics believes that an individual's decision making is based on the result of personal calculations of utility and cost. It is assumed that each person knows all the possible alternatives, their costs, and his/her own utility function accurately. In the organization level, firms (as a form of organizations) merged in order to eliminate or reduce the transaction costs using price mechanism, due to information asymmetry.

What determines the size of firm? Using the concept of substitution at the margin, Coase (1937) argues that a firm will cease to grow at the very time when the cost of an additional transaction through market falls below the cost of doing this transaction within the firm. The focuses of Coase's argument are the costs of using price mechanism and the limited entrepreneurial attention (which is a manifestation of bounded rationality). In addition, agency costs in management hierarchies and Williamson's reasoning of control loss can explain why firms stop to grow in size.

However, the Carnegie school of thoughts does not think everyone is like a complicated machine that can calculate utility and cost instantly and make perfect decisions. The behavioral approach to organizations differ from the economists' view of bounded rationality since economists generally assume that bounded rationality means decision-makers do not have perfect information but do have extensive information-processing power and complex understandings.

Claim

Individuals are trying to satisficing in his/her decision making, rather than optimizing the solution. Organization structure results from these characteristics of human problem-solving process and rational human choice based on bounded rationality.



Reasons

From an information processing perspective, when decisions are made in problem-solving situations:

- People cannot analytically solve complex problems and so must rely on simple rules only.
- People generally search for solutions that are good enough rather than the best conceivable solution, thus optimizing is replaced by satisficing.
- Individuals set an aspiration level first, then search for solutions near the problem before searching further away. Alternatives are discovered sequentially (and incrementally) through search processes
- People make decisions based on their beliefs and their implicit models of the world and they can be different from reality.

Evidence

Cognitive psychology reveals that human decision-making systematically differs from optimal rational decision-making.

- Individual can only process information serially.
- Short-term memory has limits and it is impossible to calculate an expected utility

In making decision on personnel selection, for example, a company stops to accept applications when it finds an individual who is good “enough” to fit the job. The company will not wait until all potential applications are received and comprehensively compared.

Qualifiers

- Organizations are treated as the sum of participating individuals. This is social psychology’s view and reflected in today’s two perspectives. In particular, they assume that firm behavior can be fully understood through the study of individual’s decision-making. That is, aggregation of the lower level can represent the higher level model.
- Although individuals can not know her utility function and all possible alternatives, she does have a clear goal, knows how to compare two alternatives. These additions assumptions must be held.

Reservations

- This perspective ignores the roles played by emotions and affective events that individuals encounter in day-to-day interactions in organizations.
- Other issues are neglected such as organizational identification, norms, and societal values.

Organizational Learning

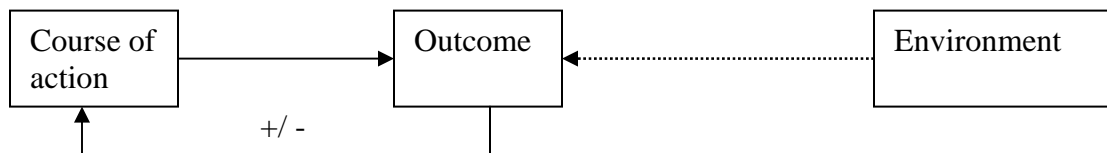
Background

While bounded rationality can help explain why organizations behave in certain suboptimal ways, organizational learning helps to explain the stability and change in organization behaviors.

In terms of stability, why organizations behave in the same way despite the turnover of personnel? In terms of change, how organizations adapt its behaviors from the experience of its own and others' experience?

Claim

Learning is adaptive, trail-and-error, behavioral.



Reasons

- An entity learns if, through its processing of information, the range of its potential behaviors is changed. Learning (intentional or unconscious) occurs by encoding inferences from history into routines that guide behavior.
- Routines can survive turnover in individual actors. Routines are transmitted through socialization, education, imitation, mergers, etc.

Evidence

- Behaviors in an organization are based on routines (Cyert & March, 1963)
- Behaviors are history-dependent (more interpretations of the past than anticipations of the future). For example, labor cost decline as more products produced (experience curve, an example of learning by trial-and-error).
- Competency trap occur when favorable performance with an inferior procedure leads an organization to accumulate more experience with it, and keeping a superior procedure not accessible. E.g., standard keyboard

Qualifiers

- Organizations are assumed to have the ability to search and identify useful information, filter the invalid information, and have resources to encode, store, and distribute the information.
- Outcome in the above model is clear and fixed.

- It is argued that organizational learning is different from individual learning within single organizations, but organizational learning does not occur until at least one individual begin to learn.
- It is assumed that individuals in organizations are willing to share what they learned individually.
- The contents learned are different in different levels of the organization. It is assumed that these different materials can be synthesized and accumulated.

Reservations

The learning model is merely a model of trail-and-error testing, rather than a model of discovery. It does not permit innovation.

In a certain industry, there might be an overwhelmingly large amount of information (own experiences and others' experiences). Given the limited attention of organizations, the choice on which data the organizations should pay attention to is subject to human interpretation bias.

Another form of learning might result from the generic knowledge/innovations created by the organization itself. This is not covered in the knowledge acquisition construct discussed above.