IRRATIONAL BEHAVIOR LEADING TO MANAGEMENT STRATEGIES: A CASE STUDY IN JAKARTA, INDONESIA

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Are people logical in general? General wisdom believes that males are more logical than females. Males use their brain and process decision making more effectively than female. Adults are more rational than juveniles. Adults are able to logically process information generating rational decisions.

This study attempts to challenge the general belief above. It is based on the premise that basically people act irrationally. Male and female, adults and kids, rich and poor, they all act based on their basic instincts, their intuition. People may act rationally when they consciously make the decisions based on thorough thinking, putting aside all emotional considerations. Automatically, people behave irrationally.

Taleb(2007) describes, most of us see only white swans around, without realizing that actually some black swans do exist in the world. Hence, our decisions are based on the 'white swans' alone. The human minds tend to simplify existing data. Simplification is not a sign of defect in cognitive system, it is rather functioning as a useful feature allowing human mind to focus on the task at hand and not get overwhelmed by the current limitless data which now we can get mainly through the internet.

Levitt (2005) states five principles of what he calls 'freakonomics' that show irrationality of people. Incentives are the cornerstone of modern life, people may act based on that. The conventional wosdom is often wrong. Drmamatic events often have distant subtle causes. Experts use their informational advantage to serve their own agenda. Knowing to measure and how to measure it makes a complicated world much less so.

Rolf Dobelli (2013) lists 99 biases and fallacies that might affect even the most intelligent people. For this study, the biases discussed would be limited to just 10 main biases with all their connections to other biases.

Social proof. When majority of the people say something stupid, it is still stupid. People tend to think when majority believes in something, then the belief must be true. It is not necessarily true. When we trace back why we act like this, this actually originates from a good survival strategy. In the past when our ancestors were still hunters, they reacted based on the majority acts. When all people ran, then you they to run as well, because it was possible there would be a great danger chasing them.

Sunk cost fallacy.Costs occurred in the past cannot be undone. When calculating future projects, people tend to include all costs paid. This is the same in the case of relationship. The thinking "having invested so much energy in this" is the reason people stick to bad decisions. This irrational behavior is driven by a need of consistency and credibility. Carrying on a loosing project may be seen as being consistent and credible, even though rationally it is not the wisest decision.

Authority bias. Authority is problematic to clear thinking; they are not always right and they cannot predict the future exactly. Authorities usually need to stabilize recognition and constantly find ways to emphasize their status.

Story bias. People tend to create explanations on every affair occurred. They simplify and twist reality to fit their 'story' and filter things that do not fit the explanation. Stories attract us as they have an entertaining side. Even though they are not necessarily true, they are still appealing to think and tell

Chauffeur knowledge. According to Munger (Parrish, 2016) there are two kinds of knowledge; the real knowledge from people actually committed a large amount of time studying it, and the chauffeur knowledge from people who have acquired it to set on a performance (people like news anchors). People sometimes cannot distinguish between those two knowledge and fall in believing the chauffeur knowledge only without checking the real knowledge.

Illusion of control. People control less than they think. The world economy is fundamentally uncontrollable. We do not have the power to control it no matter how smart we are. It is just when we think we are in control, we feel good and confident in doing something.

Contagion bias. Would you wear Hitler's sweater? Most of us would not! We are afraid that Hitler's wickedness might be contagious.

Primacy and recency effects. First and last impressions are the things people remember about something and may be leading to ineffective decisions.
First impression (primacy effect) plays an important role in decision making process, even though it may be deceptive. The most recent information (recency effect) may also mislead us.

Default effect. People incline to stay with the status quo because it feels more comfortable that way, even if this put them at a drawback.

Personification. People prefer novel to statistics. Photos speak louder than numbers. Pictures trigger emotional reactions. Numbers do not. For centuries, groups have been important to human survival. Pictures of human suffering in the war are more appealing than the statistics of casualties.

Questionnaires are designed to inquire people's perceptions on those biases and fallacies. 60 Indonesian respondents were asked to fill out the questionnaires.

RESULTS OF QUESTIONNAIRES

5 = strongly agree
4 = agree
3 = not sure
2 = not agree
1 = strongly not agree

No	*Statement*	*Average results*
1	Democracy is where majority voting is always right	2.79
2	We have to stay consistently in a bad relationship because we have invested so much in it	2.31
3	Leaders are always right	2.06
4	Every historical events must have a connection between them	3.90
5	Everything we read or watch in credible media must be right	2.63
6	We can control our life	3.96
7	Wearing Hitler's sweater is horrible	2.60
8	First and last impressions are the things people remember about something	3.73
9	We incline to stay with the status quo because it feels more comfortable that way	2.5
10	Pictures of human suffering in the war are more appealing than the statistics of casualties	3.61

Results of respondents' biases and fallacies are as follows.

1. Social proof. The average score of this questionnaire is 2.79. In a democracy environment, most respondents are not sure that majority belief is true.

2. Sunk cost fallacy. The average score of this statement is 2.31. Averagely they do not agree that they should stick to broken relationships or investments just because they have invested so much energy in this.

3. Authority bias. Averagely the respondents do not agree (score 2.06) that the authority is always right. They clearly think that the authority might be less accurate in leading and predicting things.

4. Story bias. With an average score of 3.9 (nearly 4), the respondents fell into the story bias. Usually people tend to create explanations on every affair occurred. They simplify and eventwist reality a bit to fit their 'story' and filter things that do not fit the explanation.

5. Chauffeur knowledge. The respondents are not sure whether they should believe information from credible media or not. The average score is 2.63. It is true that people sometimes cannot distinguish between the real knowledge from people actually committed a large amount of time studying it, and the chauffeur knowledge from news anchors. When they are not sure, they would tend to fall in believing the chauffeur knowledge only without checking the real knowledge.

6. Illusion of control. Most of the respondents believe that they could control their own life to a great extend. The average score is 3.96 (nearly 4). Actually, people control less than they think. Life is fundamentally uncontrollable. We do not have the power to control it no matter how smart we are.

7. Contagion bias. It is interesting that most of the respondents are not sure (average score 2.6) whether wickedness is contagious or not. By wearing Hitler's sweater they are not sure if Hitler's evil thoughts would be transferred to them. They cannot avoid thinking that there is a deep meaning of metaphor in wearing Hitler's sweater (Glucksberg et al, 1982)

8. Primacy and recency effects. The respondents somewhat believe (average score 3.73) that first and last impressions are the things they remember about something. First impression (primacy effect) and the most recent information (recency effect) may mislead us to ineffective decisions (Begg et al, 1985)

9. Default effect. The respondents are not sure whether they prefer to stay with the status quo. The average score is 2.5

10. Personification. The respondents somewhat agree (average score 3.61) that they prefer pictures to statistics.

It is interesting that the highest average result is the illusion of control. Most of the respondents believe that they could actually determine their own destiny. This might relate to the belief of karma; you reap what you sow. The fact that they are religious and believe in the sovereignty of God Almighty is somewhat balanced with the belief that good deeds would not wither in vain.

The least score is the authority bias. Most of the respondents do not believe that leaders are always right. They are more logical to see clearly that some leaders are not right. Some are even abusing their power.

Most of the results (around 3 = unsure) show the vague position when dealing with biases and fallacies. They are not sure whether to believe the fallacies or not. This would mean that the respondents are to some degree aware of the fallacies and biases but not sure how to react. This is a better state than believing completely in all those fallacies and biases.

When we are aware of these fallacies and biases in designing management strategies, the design would be more effective.

DESIGN OF EFFECTIVE MANAGEMENT STRATEGIES

Many of us make decisions based on automated thinking without the awareness of voluntary control. However, when people denunciate us of being irrational, we usually retaliate. We refuse to admit that most of our "thinking processes" are actually automated. When we think automatically, we seldom use our ratio, thus we may say that we are irrational.

Kahneman (2012) argues that decision making processes involve impressions, intuitions, and beliefs, silently processed inside our minds. Biases occurred does not understate human intelligence, but they are just embedded in human nature. Kahneman suggests two systems operating in human mind. System 1 operates automatically and quickly, with little or no effort of voluntary control. System 2 allocates attention to the effortful mental activities that demand it. When human mind operates in System 2, it is expected that all fallacies and biases might be eliminated, resulting in more effective decisions. Slow thinking in system 2 is far slower than automated thinking. It goes through a sequence of steps. The first step would be the retrieval of cognitive systems pertaining to the particular subject. Then the second step would be to compare each cognitive system. The next step might involve emotion and feelings. The whole process of slow thinking would need a lot of mental work. It should be deliberate, effortful, and orderly.

System Design for effective management strategies

1. Lesson from Kahneman (2012). For effective management strategies, a system should be built so that people are forced to exercise voluntary control to think slowly before any important decision is made. Common Standard Operating Procedures usually do not include the retrieval of cognitive thinking. When irregular events happen, there should be a discretional procedures involving slower thinking to step in.
2. Lesson from Tversky and Kahneman (1974). A system should provide all representativeness of all data needed, availability of data for anchoring, and rooms for adjustments. Web based system would suit the needs of these, as long as the security issue is solved well.
3. Lesson from Taleb (2007). A system should allow all the decision makers to keep their eyes open for black swans, for the unexpected, assymetries, and the non-obvious. Before making important strategic decisions, the management should conduct some focus groups of independent people (or even better; "enemies" of the firm) to gain different views from the other sides and to find hidden black swans.
4. Practical thinking strategies from Taleb (2007)

- Do not get glued to beliefs. Winning products might not win the whole time. Excellent CEOs might not perform well all their careers
- Think outside the box.
- Eliminate wrong alternatives
- Suspend judgments where evidence is lacking
- Be wary of overly precise predictions
- Expose yourself to positive black swans and at the same time, hedge against negative ones

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