

Getting Out of Embed

The Role of Social Context in Decision Making



by Michael J. Mauboussin

Social psychology... reveals a major lesson: often it is not so much the kind of person a man is as the kind of situation in which he finds himself that determines how he will act. —Stanley Milgram

Let's play a little game: pretend you are a senior executive at Enron or Worldcom in the late 1990s. Your stock is rocking, you and your colleagues adorn magazine covers, and Wall Street loves you. Would you raise your hand, point out the flaws in the company's financials, and precipitate the inevitable fall from grace?

We all like to think of ourselves as good decision makers—we weigh the facts, consider the alternatives, and select the best course of action. Most importantly, we perceive ourselves largely immune to the influence of others as we decide and act. The facts and our experience carry the day, we tell ourselves, not the behavioral vagaries of the crowd.

Unfortunately, our perceptions do not accord with how the world really works. Decision making, whether it's in the board room or on the trading floor, is an inherently social exercise. Our social context, the behaviors and attitudes of those around us, powerfully influences how we decide.

Psychologists call our failure to recognize the situation's importance the fundamental attribution error. When observing the actions of others, we tend to attribute the behavior to their character. Condemning bad-behaving individuals comes naturally. We also slip naturally into bad behavior if everyone else around us behaves badly. (Yes, Mom told you so, and she was right!)

Embedded social context is important for decision makers on a couple of levels. First, the more aware you are of your social surroundings and how the group can affect you, the better decisions you'll make. Seeking and considering diverse viewpoints helps dilute the potentially negative consequences of context.

Second, carefully consider social context when you assess someone else's decisions. In what Warren Buffett dubbed the institutional imperative, executives frequently follow the practices of the crowd, whether in mergers and acquisitions, compensation, or competitive strategy. The issue is not so much judging right and wrong as recognizing the powerful human proclivity to conform.

To demonstrate the importance of social context, let's look at three famous social psychology experiments, each of which provides a slightly different lesson. The experiments show why even intelligent people can behave in very unintelligent ways when put into a specific social situation. If you're sure you would have been a whistle blower at one of the scandal-embroiled companies, read on.

Getting Out of Line

The first experiment, conducted by psychologist Solomon Asch in the 1950s, demonstrates that group decisions—even obviously poor ones—influence our individual decisions.

Asch's experimental group had eight members; seven were in on the experiment and the eighth was the subject. To start, Asch asked the group to solve a very simple problem: determine which of three lines matched the length of a separate, fourth line. Going around the table, each participant named their choice aloud. In the first few trials, all participants chose the right answers.

After the control trials, Asch signaled the seven members to start making obvious mistakes. While many subjects expressed shock at the obvious mistakes of the group, 35 percent of the subjects conformed to the group's incorrect judgments. Think about that for a moment: over a third of the participants conformed to the majority, an especially surprising result for such an unambiguous task.

Asch tested some side issues as well. First, he allowed the majority to air their answers but asked the subject to answer in private. Under these conditions, subjects did not conform to the incorrect responses. Second, by varying the size of the opposing majority, Asch found the tendency of the subject to agree with the majority remained largely independent of the absolute number. Interestingly, if even one of the group members agreed with the subject, the subject was much less likely to provide an incorrect answer. Even a small crack in unanimity led to a sharp reduction in wrong answers.

Asch also noticed “extreme individual differences” among the subjects. For example, one-quarter of the subjects remained completely independent while one-third went with the consensus more often than not. This variation in individual behavior intrigued Asch, and he attempted to categorize the reactions.

Using purely descriptive categorizations based on close observation during the trials, Asch devised three categories to explain the behavior of the subjects who mostly went with the majority:

- **Distortion of perception.** This group is unaware that the majority distorted their estimates.
- **Distortion of judgment.** These subjects conclude their perceptions are inaccurate and the group is right.
- **Distortion of action.** These individuals suppress their own views and knowingly go with the majority.

The results of Asch’s experiments have clear relevance for decision makers. Group choices tempt us all to go with the majority, albeit to varying degrees. But Asch, who died in 1996, never fully understood what went on in the minds of the subjects faced with the majority’s wrong choices.

In a study published last year, brain researchers picked up where Asch left off. The scientists ran a modified version of Asch’s original study, asking subjects to decide whether rotated three-dimensional geometric shapes were the same or different. Like the original experiment, the researchers cued actors to give wrong answers. Consistent with the main result decades earlier, the subjects went with the group’s incorrect answers 41 percent of the time.

However, today's scientists had something Asch could only dream of, a functional magnetic resonance imaging machine, allowing them to map brain activity as the subjects made their choices. For the first time, researchers could directly link social conformity to brain activity.

With newer technology, the scientists could test Asch's descriptive categories. If the subject's distortions were based on judgment or action, the scientists would see activity in the forebrain—an area that deals with monitoring conflict and planning. On the other hand, if the distortions were due to perception—a category to which “very few subjects” belonged, according to Asch—activity would occur in the posterior brain, which includes areas controlling vision and spatial perception.⁶

As it turns out, in conforming subjects the scientists saw activity in the areas that work on mental rotation, suggesting *the majority's choice actually affects perception*. Further, the subjects who remained independent showed activity in the amygdala and caudate nucleus, regions associated with emotional salience.

Most people try to perceive situations clearly and without bias, but this research flies in the face of that objective. The study's leader, Gregory Berns, summed up the findings: “We like to think that seeing is believing,” but the study suggests “seeing is believing what the group tells you to believe.”

The significance of Asch's experiment shines through: group dynamics tempt decision makers to go with the majority. Yet decision makers can increase their immunity to the group's views by maintaining a high degree of awareness and constantly searching for diverse input.

The Other Meaning of Security Analysis

In 1971, Stanford psychologist Philip Zimbardo staged the now-famous and fascinating prison experiment. Zimbardo chillingly showed how individuals can assume roles given a social context.

To start, Zimbardo advertised for volunteers in a two-week long prison experiment, offering \$15 a day. He ran the 70 applicants through psychological and physical tests and ended up with 24 healthy, mentally-stable, middle class male students from the Stanford area.

By a flip of a coin, Zimbardo assigned half of the volunteers as prisoners and the rest as prison guards. One morning, a Palo Alto police car picked up the prisoners, “charging” them with armed robbery and burglary. The guards were assigned to work one of three eight-hour shifts.

With the help of prison consultants, Zimbardo built a prison in the basement of the building that housed Stanford’s psychology department. Upon arrival to the jail, the guards and warden took steps to humiliate, dehumanize, and oppress the prisoners.

Shortly after the experiment began, Zimbardo noticed that the volunteers (and he himself) started to act out their assigned roles. The prisoners tried various tactics to gain advantage over the guards and tried to escape, while the guards schemed to keep the prisoners in check. Although Zimbardo randomly designated the roles, social context clearly shaped behavior.

Concerned that the guards were heaping too much abuse on the prisoners, Zimbardo questioned the situation’s morality and aborted the study after only five days.

Zimbardo debriefed the participants after the experience. Though the volunteers fully understood the experiment's circumstances, they still struggled to separate their real and assumed personalities. Two months later one of the "prisoners", number 416, had this to say:

I began to feel that I was losing my identity, that the person that I called "Clay," the person who put me in this place, the person who volunteered to go into this prison—because it was a prison to me; it still is a prison to me. I don't regard it as an experiment or a simulation because it was a prison run by psychologists instead of run by the state. I began to feel that that identity, the person that I was that had decided to go to prison was distant from me—was remote until finally I wasn't that, I was 416. I was really my number.

This extreme experiment underscores the importance of an organization's culture and interpersonal relationships. While a company's employees are unlikely to face a social context as intense as the prison experiment, social pressures and expectations shape behavior for better and worse.

Shock Market

In the final set of experiments, carried out in the 1960s, Yale psychologist Stanley Milgram showed subjects obey authority to an almost inconceivable degree. In Milgram's words:

...ordinary people, simply doing their jobs, and without any particular hostility on their part, can become agents in a terrible destructive process.

Here's what Milgram did. He offered volunteers \$4 to participate in a study that was ostensibly about memory and learning. When they got to the lab, the researchers explained the study was about the role of punishment in learning.

The scientists divided the subjects into two groups—learners and teachers. Milgram put the learners in a room, strapped their arms down, and attached an electrode to their wrists. Whenever the learner answered a question incorrectly, the teacher would administer a shock.

The learners in Milgram's experiments were actors and the shocks fake. But the teachers—the real subjects—did not know that. The scientists presented the teachers with a shock generator, complete with a horizontal line of 30 switches ranging from 15 to 450 volts. As instructed by the clipboard-wielding, lab-coated administrator, the teacher should shock the learner for incorrect answers at rising increments. The learner/actor grunted with pain at 75 volts, and by 285 volts was screaming in agony. While the administrator never forced the teacher to continue, he did use authoritarian language, such as “the experiment requires that you go on” or “it is absolutely essential that you continue.”

Before proceeding with his experiments, Milgram sought predictions of how the teachers might act. He offered a basic discussion of the experiment to various groups, including psychiatrists, college students, and middle class adults, asking them to predict the average maximum shock level a teacher would likely administer. The average predicted level was just under nine on the 1-to-30 scale, at the high end of “moderate shock”. The groups also predicted that less than 4 percent of the teachers would shock at the 20 level (intense), less than 1 percent at 25 (danger: severe shock) and about 1/8 of 1 percent at 30 (ominously labeled x x x).

The results were disturbing. Across various trials—where Milgram altered the physical proximity of the learner—roughly half of the subjects administered the maximum shock level. The average shock level was 22.6, in the realm of extreme intensity. Milgram found the willingness to shock declined as he moved the learner physically closer to the subject. But the conclusion was inescapable: normal people would consistently deliver lethal shocks under the guise of authority.

The Bottom Line

So what should you, a senior decision maker, do with the evidence from these experiments? You can start by elevating your awareness. Slow down and ponder how and why you, and others, make decisions. Try to be objective and consider your decision's ingredients: the facts, your opinions, and what you see going on around you.

Second, keep a log of your decisions. Write down your thoughts as you make a decision. What is your rationale? How do you feel about it? What risks and opportunities did you see? Humans notoriously reinterpret their past actions based on what they know now. A decision journal will provide you with a valuable source of concrete feedback.

Finally, work hard to create a favorable decision-making environment in your organization. Essential features include a focus on decision-making process versus short-term outcome, an appropriate long-term focus, a clear-minded focus on facts versus opinions, and a limit on hierarchical pretense.

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