CHAPTER 14

Transaction Traps: How Managers Get Stuck in Faulty Decision-Making Processes

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ABSTRACT

The quality of the decisions taken in everyday organisational transactions is a principal determinant of managerial effectiveness. Managers are nevertheless prone to becoming caught in patterns of poor decision-making regardless of their experience, ability or access to information. This article describes such patterns as transaction traps: predictable psychological biases and procedural flaws that distort judgement and, through repetition, entrench themselves in managerial routine. Drawing principally on the work of Russo and Schoemaker in Decision Traps: The Ten Barriers to Brilliant Decision-Making, the article examines why managers become caught in these traps and how the traps spread through an organisation. It sets out the conceptual foundations of transaction traps, identifies the major decision traps responsible for managerial stagnation — framing, overconfidence, confirmation bias, anchoring, sunk cost, status quo and defective learning — and considers the cognitive, emotional and organisational mechanisms that sustain them. It then discusses the practical implications for managers seeking to raise the quality of their decisions and to break out of unproductive transactional patterns. The article contributes to the understanding of managerial decision-making by arguing that poor decisions are rarely incidental: they are the outcome of systematic and, in principle, avoidable traps embedded in the ordinary transactions of managerial life.

Keywords: Transaction traps; Decision-making biases; Cognitive bias; Managerial judgement; Bounded rationality.

1.0 Introduction

Modern managers are forever making judgements in business such as approving budgets, negotiating contracts, appraising performance, allocating resources, prioritizing strategic goals and reacting to uncertainty.

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DOI: 10.17492/JPI/CHARUSAT/2614

Every decision made in every transaction can have a significant impact on organisational performance. Classical management theory assumed that managers process information thoroughly, and make optimal decisions, but real-world experience has shown that managerial decisions are not nearly as rational as this presumes (Simon, 1997).

Russo and Schoemaker (1989) describe these patterns as decision traps: predictable errors that may occur at any point in the decision process. When such errors become embedded in continuous managerial dealings and organisational practice, they harden into what may be termed transaction traps — perpetuated decision failures that recur across repetitive managerial transactions and hold managers to unproductive courses of action.

This article examines transaction traps through the lens of decision traps. It considers how managers become caught, why the traps are difficult to escape, and how organisations unintentionally reinforce them. By examining the cognitive and organisational sources of transaction traps, it offers a reflective account of managerial decision failure and practical guidance on how the quality of decisions may be improved.

2.0 Concept Explanation: Transaction Traps

2.1 Defining transaction traps

Transaction traps are recurrent errors of decision-making that arise within managerial transactions and processes. They are not isolated lapses: they are self-sustaining and self-reinforcing. They occur where flawed assumptions, prejudices and habits of judgement are applied repeatedly over time, so that managers rarely recognise either that their decisions are distorted or that they are stuck.

Russo and Schoemaker (1989) observe that decision-making is a process rather than an event, extending from problem identification and framing through information search, analysis, choice, implementation and learning. Managers are vulnerable to particular traps at each stage, and a trap that passes unnoticed at one stage shapes the decisions that follow, producing a cycle of poor judgement. Transaction traps are especially dangerous because they operate subtly. Even when their decisions are biased, managers generally believe themselves to be acting logically and responsibly. This illusion of rationality is what makes the traps so difficult to detect and correct.

2.2 The theory of decision traps

The decision traps that give rise to transaction traps are cognitive and procedural errors alike. In Russo and Schoemaker's account they are systematic rather than accidental, arising from the limits of human cognition, from emotion, and from pressures exerted by the organisation. When decision traps recur across managerial transactions — in successive project reviews, negotiations or performance appraisals — they become transaction traps.

Over time such traps shape organisational culture, reinforce defensive behaviour and inhibit learning.

3.0 The Managerial Decision-Making Context

3.1 Complexity and uncertainty

Managers work under uncertainty, in limited time and under pressure. Information is never complete, and judgement must be exercised on the basis of what is available. In these circumstances managers rely on intuition, heuristics and experience to simplify matters (Tversky & Kahneman, 1974).

Such mental shortcuts are efficient, but they also increase susceptibility to bias. As Russo and Schoemaker argue, intuition is not in itself objectionable; it is unexamined intuition that produces systematic error.

3.2 Accountability and social pressure

Managers tend to make similar errors again after they experience the consequences. Projects which should have been stopped are still funded, even when they fail, and warnings are ignored. The question that looms large with such recurrence is why good managers end up making wrong decisions? Incompetence or inattention is not to blame: the problem is a sequence of faulty thinking and procedure that occurs regularly.

4.0 Common Transaction Traps

Russo and Schoemaker list 10 big decision traps. Some of these play a key role in the creation and maintenance of transaction traps in managerial contexts and each is examined in turn below.

4.1 The framing trap

Framing trap occurs when a manager states a problem in a limited or incorrect fashion. The way a decision is presented shapes the options that are presented and relevant information that is presented. For example, a manager might view a struggling business unit as having a problem with cost control, not strategic repositioning. Such an approach narrows the focus on budget cutting, and ignores any strategic alternatives. A bad frame can become institutionalized in transactional situations like periodic budget reviews or operation evaluations. This same tunnel vision is repeated over and over, further deepening the transaction trap, and stifling innovation.

4.2 The overconfidence trap

One of the most prevalent managerial biases is overconfidence, which is commonly observed in seasoned managers. When managers are successful, they gain confidence in their own ability of making successful predictions, and of managing risk.

Undue dependence on intuition and understatement of uncertainty are traits of overconfidence that managers suffer from, as Russo and Schoemaker point out. For example, a manager may continue to negotiate even though the evidence shows that the negotiation was not going well, because they think they will be able to get the better deal later on, when the evidence has proven wrong.

4.3 The confirmation bias trap

Confirmation bias involves managers selectively searching for information that confirms their beliefs and ignoring information that contradicts their beliefs (Nickerson, 1998). The trap is especially strong because managers are often the ones with control over information reaching them.

Confirmation bias can bias discussion in organisational interactions like performance reviews or strategy discussions, with information that challenges an assumption reduced or dismissed, and information that supports the assumption highlighted. This creates an echo chamber over time with managers hearing what they want to hear and the transaction trap is intensified.

4.4 The anchoring trap

Anchoring is the tendency of managers to attach too much importance to the information they get at the beginning of the process, e.g. a first impression or an initial estimate. The previous anchor may still have an impact even when there is updated information. Anchoring can taint managers' judgement in budgeting situations, in negotiating situations, and in situations where they are judging someone's performance. With the anchor in place, it is hard for managers to change their assessment even if there is a clear need to do so and decision processes remain based on assumptions that are no longer valid.

4.5 The sunk cost trap

The sunk cost trap occurs when managers invest time, money or reputation in a program that is not succeeding. They do not consider the value of a decision in the future, but expenditure that can't be recovered. They see this as one of the most harmful organizational decision-making mistakes and the escalating commitment syndrome in response to negative feedback is widely documented (Staw, 1976). Managers who don't want to be seen as failing increase their dedication to prevent the failure from being acknowledged. From a transactional perspective, sunk costs create new cycles of approval, funding and justification that further locks the organisation into the trap and continue to eat into organisational resources.

4.6 The status quo trap

Even when the benefits of an alternative are clear, managers often are reluctant to make an adjustment to the status quo. The status quo bias is attributed to loss aversion, uncertainty and personal liability that is a part of any decision to change or do something different (Samuelson & Zeckhauser, 1988). In organisational transactions it is safer to stick to what is, rather than to change, and because of this, managers will make the same decisions over and over again, thereby reinforcing current practices and precluding adaptation. The trap is an active ingredient in organisational stagnation.

4.7 The learning and hindsight traps

Managers, in general, believe they learn from experience, but Russo and Schoemaker argue that this learning rarely is perfect. The tendency to see outcomes as more predictable after than before they happen, due to the effect of hindsight bias, reduces the ability to objectively reflect upon the event (Fischhoff, 1975).

Managers also tend to judge decisions by their results rather than by their quality. Favourable outcomes are attributed to sound judgement and unfavourable ones to circumstance, and confidence rises regardless. The result is a distorted learning process that perpetuates transaction traps by preventing candid evaluation.

5.0 Underlying Causes of Transaction Traps

5.1 Cognitive limitations

Human cognition is limited in its capacity to process complex information. Heuristics simplify decision-making but introduce bias, and Russo and Schoemaker argue that the principal danger lies in the failure to recognise these constraints at all.

Managers are inclined to mistake confidence for accuracy, intuition for insight and experience for expertise. Such misperceptions sustain transaction traps by concealing the biases at work (Bazerman & Moore, 2013).

5.2 Emotional influences

Fear, pride and attachment all shape managerial decisions. Fear of failure, the wish to appear consistent and concern for reputation each contribute to escalating commitment and to resistance against change. Emotional attachment to a decision is among the surest ways in which managers become fixed to a failing course of action.

5.3 Organisational reinforcement

Organisational structures and cultures tend to reinforce transaction traps. Performance evaluation systems concentrate on outcomes rather than on the quality of decisions. Reward systems discourage prudent risk-taking while penalising visible failure, so that concealment becomes rational. Meetings and reporting systems may likewise favour consensus and speed over critical analysis. Dissenting voices are muted and alternative perspectives go unheard. In time, transaction traps become part of organisational routine and correspondingly difficult to question.

6.0 Breaking Transaction Traps: Managerial Strategies

Russo and Schoemaker contend that better decision-making requires discipline of process rather than intelligence alone. Managers seeking to reduce transaction traps may adopt several practices:

- Reframing choices deliberately, so that more than one construction of the problem is examined.
- Searching actively for disconfirming evidence rather than for support.
- Separating the evaluation of a decision from the evaluation of its outcome.
- Encouraging constructive challenge and protecting those who offer it.
- Conducting structured post-decision reviews directed at learning rather than at attributing blame.

By institutionalising reflective practices of this kind, managers improve their judgement over time and reduce the likelihood of repeating the same traps (Milkman et al., 2009).

7.0 Transaction Traps in Contemporary Managerial Practice

Transaction traps are more prevalent in present-day organisations than ever, and are amplified by the pace of technological change, by information overload and by pressure to perform. Managers are now required to decide more quickly, on the basis of far larger volumes of information, and often within dispersed, cross-border and online teams. Access to information has increased markedly without any corresponding improvement in the quality of decisions. Russo and Schoemaker's argument is therefore strikingly timely: the central difficulty is not the scarcity of information but the manner in which managers regard and use it.

The proliferation of dashboards, metrics and key performance indicators offers a contemporary illustration. Although evidence-based decision-making is rightly encouraged, managers may come to rely on selective measures that validate strategies already in place.

The effect is confirmation bias operating at a systemic level, since figures appear objective while being selected and interpreted subjectively. Managers may accordingly persist with ineffective strategies because the indicators before them privilege short-term success over longer-term risk.

Managers also lack the time for the reflection and deliberate pause that Russo and Schoemaker regard as necessary to sound judgement. Speed substitutes for scrutiny, and transaction traps are strengthened as a result.

8.0 Conclusion

Transaction traps explain why managers make poor decisions repeatedly despite experience and ability. Drawing on Russo and Schoemaker's Decision Traps, this article has argued that managerial failure is founded largely on predictable cognitive and procedural biases rather than on incompetence. Transaction traps are decision traps that have become recurrent through repeated managerial interaction and organisational routine. They distort judgement, inhibit learning and hold managers to unproductive patterns of action. Recognition is the first step towards improvement. By redesigning decision processes and creating room for genuine reflection, managers can raise both the quality of their decisions and the performance of their organisations. Escaping transaction traps ultimately calls for humility, discipline and a continuing willingness to learn.

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