



Social Learning Micro Strategies for Good Decision Making

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ABSTRACT

The rap on decision making is that it's hard. There may be a few super bright people with an almost magical ability to consistently do it well, but the rest just get by. It was seen in many researches that almost anyone can learn to be a good decision maker—and that the key to it is carefully and continually engaging in something we call social exploration.

Social explorers spend enormous amounts of time searching for new people and ideas—but not necessarily the best people or ideas. Instead, they seek to form connections with many different kinds of people and to gain exposure to a broad variety of thinking.

Explorers winnow down the ideas they've gathered by bouncing them off other people to see which ones resonate. Generally, those ideas are micro strategies—examples of actions that might be taken, circumstances conducive to the action, and possible outcomes. Then, by assembling a great set of micro strategies, social explorers make good decisions.

But how exactly does the exploration process generate ideas that lead to the right decisions? And are certain techniques critical to successful exploration? In this article, we'll attempt to answer those two questions.

KEYWORDS : social exploration, good decisions, micro strategies.

Introduction

Social learning is a process **in which individuals observe the behaviour of others and its consequences, and modify their own behaviour accordingly.**

Individual investors learn, perceive, organise a lot of data from the environment which includes family, friends, colleagues, media, clubs, work place, financial advisor, internet, acquaintances and workshops.

In many cases, peer effects—the result of comparing oneself with friends, family members, or other peers, on an individual's choices may drive financial decisions, rather than careful consideration of the financial products being offered. The surveys revealed that there were large and significant effects for social learning whether Investor was financially sophisticated or unsophisticated. Investor decision to purchase an asset and was also able to purchase it had a significant effect on his peer's decision to purchase the new asset. (Leonardo Burszty, 2012)

Many investors learn from other individuals through social interaction, which is another channel for spreading stock market information. Social interaction indeed increases the probability that individuals become financially aware. The education level of peers does matter for stock ownership. Newspaper readership and media has a positive impact on awareness, and its coefficient is always highly significant.

East found that the influence of friends and relatives and importance of easy access to funds, profitability and security of the investment were influential in intentions to invest. (East, 1993)

Patterns of Social Learning

Studies of primitive peoples reinforce the idea that social interactions are central to how humans gather information and make decisions. Ethnologists have found that almost all decisions affecting groups as a whole are made in social situations. This tendency evolved in humans because pooling ideas from many different people have an advantage: We have got a "wisdom of the crowd" take on things that was better than individual judgment. Indeed, one key to good decision making is learning from the successes and failures of others—frequently and in a range of situations.

The following are the micro strategies which will help any decision maker to make right decisions.

Wisdom of the crowd

In a research project involving eToro, an online trading platform, eToro allowed individual day traders to observe and copy one another's moves, portfolios, and past performance. Information on the

site is extremely transparent, so it's easy to see and precisely measure how interactions affect decisions and results. On eToro, investors could do two main types of trades. A "single trade" was a normal stock purchase a user makes on his own. A "social trade" was when a user places a trade that exactly copies another user's single trade. Users can also "follow" all of another user's trades automatically and review all real-time trades and choose which ones to copy.

The traders who had the right balance and diversity of ideas in their network had a return that was 30% higher. The traders who had the right balance and diversity of ideas in their network—meaning that their social learning was neither too sparse nor too dense—had a return on investment that was 30% higher than the returns of both the isolated traders and those in the herd. In this digital trading environment, the sweet spot resides between the two extremes. All users have to open up their trading decisions, share their strategies and ideas, and let other people follow them. Most users select several other traders to follow. Each time someone decides to copy another trader, that trader gets paid a small amount. Traders with a lot of imitators can make quite a bit of money.

Idea Flow and Decision Making

Idea flow has two essential components—engagement *within* a group and exploration *outside* the group—and that it can predict both productivity and creative output.

A 1985 study that Robert Kelley of Carnegie Mellon University did at Bell Laboratories offers some insights. AT&T's famous research lab wanted to understand what separated a star performer from an average performer. Bell Labs already hired the best and the brightest, but only a few lived up to their apparent potential for brilliance. Most hires developed into solid performers but did not contribute substantially to AT&T's competitive advantage in the marketplace.

Kelley found that the best researchers engaged in "preparatory exploration"—that is, they proactively developed relationships and connections with other experts and later tapped them for help with completing critical tasks. Moreover, the social networks of the star performers were more diverse than the networks of the middling performers. Middling performers saw the world only from the viewpoint of their jobs and limited their social learning to people in similar roles—say, engineers. Stars, on the other hand, reached out to people from a broader set of work roles, so they understood the perspectives of customers, competitors, and managers. Because the stars could see the situation from a variety of viewpoints, they could develop better solutions to problems.

Organizations have ways of increasing idea flow, too. In studies of dozens of organizations, it was found that the number of opportu-

nities for social learning (which usually involve informal face-to-face interactions among employees) is often the largest single factor in company productivity.

Idea flow is also affected by the way social learning interacts with individual learning. Decisions are a blend of personal and social information, and when personal information is weak, people tend to rely more on social information. When investors are uncertain about the market's direction, for instance, the effects of social learning become larger. Investors spend more time looking at what others are doing. And when people see others adopt trading strategies similar to their own, they often become more confident and are then likely to increase the amount they invest in those particular strategies.

This effect has a downside, however: It can lead to overconfidence and groupthink. Social learning improves decision making only when individuals each have different information. When the information from outside sources (such as magazines, TV, and radio) became too similar, it was observed, social trading became reliably *unprofitable*. In such circumstances, not only does groupthink not pay, but betting against groupthink becomes a great trading strategy.

Similarly, when engagement is high and intensely concentrated within a group, the same ideas often circle around. But because ideas usually change slightly as they go from person to person, investor may assume that everyone has independently arrived at a similar strategy, which might make more sure of those ideas than you should be. This "echo chamber" effect often leads to financial bubbles. Being aware of the echo chamber can avoid falling victim to it.

Fine-Tuning a Network

A social network's structure, the degree of influence people have on one another, and individuals' susceptibility to new ideas all affect idea flow and thus the performance of the people in the network. Adjusting any of these variables can fine-tune social networks to produce better decisions and better results.

What can be done when, for example, the flow of ideas becomes either too sparse and slow, or too dense and fast? Encouraging isolated decision makers to engage more with others, or decision makers who are too interconnected to engage less with the same group and explore outside their current contacts can fine tune their network. By managing idea flows, average decision makers become successful decision makers.

This tuning concept is applicable to all kinds of networks. Getting the right idea flow is critical in journalism (so reporters talk to enough sources to get all sides of a story), financial controls (to ensure that all sources of fraud have been considered), and ad campaigns (so companies sample a sufficiently diverse set of customer opinions).

Conclusion

Social learning plays a key role in a wide variety of other managerial decisions. Decisions don't happen in a vacuum; the best ones rarely come from deep pondering in isolation. They happen when people learn from and draw on the experiences of others. In this process, success depends greatly on the quality of social exploration—and on whether your information and sources of ideas are diverse and independent.

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