

## CHAPTER 2. SIMPLE IDEAS, COMPLEX ORGANIZATIONS

### CHAPTER 2 OVERVIEW

#### Chapter 2 Summary

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In Chapter 2, the authors explore how properties of modern organizations and of human nature interact to create problems and pressures in everyday managerial life. The authors see organizations as:

1. *Complex*—People are hard to understand and predict. Interactions among individuals and groups within organizations multiply human complexities, and connections among different organizations add still another level of complexity.
2. *Surprising*—Human nature is unpredictable, making it impossible to anticipate all the ramifications of any decision, and many of today's solutions create tomorrow's problems.
3. *Deceptive*—Organizations defy expectations and often cover up mistakes. Individuals feel unable to confront others, especially superiors, and see camouflage as their only option.
4. *Ambiguous*—information is incomplete or vague and can be interpreted in different ways. Camouflage magnifies the uncertainty. Complexity and organizational size make it hard for anyone to fully understand what is happening, what it means, or what really needs to be done.

Learning becomes both more important and more problematic in complex, surprising, deceptive, and ambiguous environments. Bolman and Deal discuss several perspectives on organizational learning. One perspective, represented in the work of Senge and Oshry, emphasizes that the mental models people use to understand systems are incomplete or misleading. Consequently, people misinterpret what is happening and learn the wrong lessons. Senge's learning paradox is that we don't learn from experience because we don't see the consequences of our actions. He recommends systems maps as a way to enhance understanding. Argyris and Schön offer another perspective on organizational learning. They emphasize a different paradox: things we do to promote learning actually make it more difficult for organizations to learn about the things that are really important.

Characteristics of human thinking and perception magnify organizational difficulties because:

1. Human fallibility is a reality and human error always a possibility.

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2. Miscommunication is a constant risk
3. People are routinely satisfied with limited understandings of a situation, convinced that there are few options.
4. Faced with ambiguity, people will fit the world to their internal maps and assume that they understand what is happening.
5. People develop theories and patterns to help make sense of their worlds and find it difficult to question or revise those patterns.

Bolman and Deal discuss three commonsense “theories,” or limited mental models, that people often use to interpret organizational life: blame individuals, blame the bureaucracy, and attribute problems to a thirst for power. Each is based on a partial truth, but all are incomplete and misleading.

Given these realities, the authors propose a critical first step in managerial wisdom and artistry: understand the dominant features of the situation—digging deeply and systematically to figure out just what is *really* going on. To do this, managers need more comprehensive theories, broader and richer understanding of human organizations, and well-honed abilities to apply theory and understanding with skill and grace. The authors offer the four frames as one way to accomplish this.

### **Key Terms for Chapter 2**

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**System map:** A visual map of the causal relationships in a complex system.

**Framing effect:** An effect through which relatively small changes in how a problem or decision is framed produce significant differences in how people respond.

### **Major Case Examples in Chapter 2**

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- Korean Airlines Flight 007
- Jeffrey Skilling and Rebecca Mark of Enron
- Helen Demarco and the Osborne Plan
- “Chainsaw” Al Dunlap of Scott Paper
- U.S. F-15C fighter jets in Iraq

## **SUGGESTIONS FOR TEACHING CHAPTER 2**

The central ideas in Chapter 2 revolve around the well-documented reality that individuals have theories, need theories to make sense of things, and must be sure that their theories are comprehensive, flexible, and accurate for the situation. There are a number of ways to teach these central ideas. Instructors can focus on:

1. Exploring private theories and personal judgments.

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2. Exploring the ethical dilemmas in organizational choices.
3. Seeing systems.
4. Understanding human theory-building processes.
5. Developing diagnostic skills and abilities to see “what’s really going on.”

Teaching methods appropriate for each approach are described in the sections that follow. Student exercises keyed to the approaches appear in “Student Exercises for Chapter 2,” beginning on page 9.

## **Chapter 2: A Focus on Private Theories and Personal Judgments** \_\_\_\_\_

### **Chapter 2: Cases Focusing on Private Theories and Personal Judgments**

The cases in Chapter 2 are a rich source of discussion about how private theories and personal judgments affect organizational outcomes and individual effectiveness.

- The Helen Demarco case is perfect for students to use in exploring the consequences of Helen’s beliefs and choices. Many individuals easily identify with Helen’s dilemmas. Some may disagree with the authors, believing that Helen had no real options. Others recall their own experiences in similar situations. Investigating different perspectives can lead to passionate exchanges about what is right, what is correct, and what is realistically possible in organizations. Instructors may want a freewheeling discussion of the Demarco situation, or they may want a more structured debate between those who agree and those who disagree with Helen’s decisions.

The Demarco case also provides opportunities for students to examine their personal beliefs and assumptions about good leadership and organizations and to share their leanings and private theories—for example, using Exercise 2.1. Helping students recognize connections between their own behavior in the classroom and the central ideas in the chapter aids those who need to ground abstract ideas in personal experience. It is also a powerful reminder of how easy it is to engage in discussions about what others could or should do without going the next step and asking “how does all this apply to me, my beliefs, and my own effectiveness?”

- There are also a number of cases in which individuals talk about themselves and how they make sense of their worlds. Cases such as James Edwards ([A] [HBS 9-474-221]), John Martin (HBS 9-470-013), Thom Sailer (HBS 9-475-098), Jack Fitzpatrick (HBS 9-482-065), John Adams (HBS 9-373-157), and Kirk Stone ([A] [HBS 9-482-067]) offer opportunities to diagnose and explore private theories. James Edwards

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([B] [HBS 9-474-222]) enables students to go beyond their analysis of Edwards's private theories to determine whether Edwards should accept a tempting job offer.

Instructors may want to assign one of these cases with one of the cases from S. Ruddick and P. Daniels's *Working It Out: Twenty-three Women Writers, Artists, Scientists, and Scholars Talk About Their Lives and Work* (New York: Pantheon, 1977) to explore gender differences in personal theories.

## **Chapter 2: Films or Videos Focusing on Private Theories and Personal Judgments**

- The training film *Making It in the Organization* (Salenger) is useful for introducing ideas about attitudes and the impact of personal perceptions on performance and satisfaction.
- The teaching notes for Chapter 1 provide suggestions for films that look at personal perspectives on social events (see "Chapter 1: Films or Videos Focusing on Reframing"). These suggestions offer additional options for working with student-held, private theories.

## **Chapter 2: A Focus on Ethical Dilemmas in Organizational Choices** \_\_\_\_\_

### **Chapter 2: Cases Focusing on Ethical Dilemmas**

Clear ethical questions are raised by the main cases presented in Chapter 2. (*Reframing* also contains discussions of ethical issues in Chapter 10 in the context of bargaining and negotiation and provides a four-frame view of ethics in Chapter 19.) Who is morally responsible for the lives of the KAL passengers? For the lives of those on board the Black Hawk helicopters? Were Helen Demarco and her co-workers morally justified in their actions? Were they immoral? Amoral? What about Jeffrey Skilling and Rebecca Mark at Enron? Instructors may want to explore such issues using the cases in Chapter 2 and work with students to understand the connections among values, moral judgments, private theories, and the ethical dimensions of organizational choices.

Another option is to use a case that deals more specifically with an ethical dilemma.

- Merck & Co., Inc.: Addressing Third-World Needs ([A] [HBS 9-991-021], [B] [HBS 9-991-022], [C] [HBS 9-991-023], [D] [HBS 9-991-024], and a video [HBS 9-991-526]) documents a famous dilemma: Merck scientists believed that a drug might be effective against river blindness, an affliction of hundreds of thousands of people in the third world. The trouble was that even if it worked, there was little chance of making money, because the victims were poor people in poor countries.
- In Levi Strauss & Co.: Global Sourcing ([A] [HBS 9-395-127], [B] [HBS, 9-395-128], and teaching note [HBS 5-395-213]), Levi Strauss wrestles with whether to

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manufacture in China. The economics look favorable, but there are serious ethical questions.

- In RU 486 ([A] [HBS 9-391-050], [B] [HBS, 9-391-051], and teaching note [HBS 5-392-147]), Roussel UCLAF, a French drug company, must decide whether and how to market a controversial drug, RU 486, often called “the French abortion pill.” Roussel faces conflicting pressures from its German parent company, the French government, supporters and opponents of abortion rights in France and the United States, and the research community.
- The Hartwick Institute has developed a series of cases from novels and films that deal with ethical issues, including *All My Sons*, *All the King’s Men*, *Billy Budd*, *Glengarry Glen Ross*, and *Heart of Darkness*.
- Kenneth E. Goodpaster has assembled a set of readings and cases for a course module aimed at examining ethical issues in managerial decision making. These materials are available in book form, *Ethics in Management* (1984), from HBS Case Services, and offer a ready source of ethics cases in business settings. The cases in the Goodpaster book are also available for individual purchase from HBS Case Services. A selection of these, with areas in which they are useful, is as follows:
  - Managing Product Safety: The Ford Pinto (HBS 9-383-129) and Note on Product Safety (HBS 9-383-127)—exploring managerial responsibilities for product safety.
  - The Beliefs at Borg-Warner (HBS 9-383-091)—examining the ways in which ethical thinking is translated into organizational policy and practice.
  - Jim Sawyer ([A] [HBS 9-383-029]) and To Employers (HBS 9-383-074)—dealing with alcoholism in the workplace, employee responsibilities, and managerial rights.
  - Consolidated Food Corporation ([A] [HBS 9-382-158]) and Note on the TV Advertising and Programming Controversy, 1981 (HBS 9-382-160)—investigating the moral dimensions of product advertising.
  - H. J. Heinz Company: The Administration of Policy ([A] [HBS 9-382-034])—developing management incentive systems from an ethical perspective.
  - Duke Power Company: Affirmative Action ([A] [HBS 9-384-112])—examining the morality of layoff and affirmative action decisions.
  - Braniff International: The Ethics of Bankruptcy ([A] [HBS 9-385-001])—confronting the moral dimensions of financial decisions. (*Tail Spin*, from Learning Corporation of America, is a powerful portrait of Braniff’s former president trying unsuccessfully to restructure the failing airline and complements this case well.)
  - Note on the Export of Pesticides from the United States to Developing Countries (HBS 9-384-097)—facing issues of international responsibility.

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- Instructors working with students new to explorations of ethical issues and concerns may want to assign Basic Frameworks in Normative Ethics (HBS 9-381-080) and/or Relativism in Ethics (HBS 9-381-097) in preparation for either case discussions or diagnoses of personal value positions.

## Chapter 2: Films or Videos Focusing on Ethical Dilemmas

- Woody Allen's *Crimes and Misdemeanors* is filled with characters struggling with and talking about the moral dilemmas that they face and the implications of their choices. Since issues explored run the gamut from careers and work to relationships and infidelity to religion, politics, and even murder, there is potential for powerful discussions with all audiences. If time prohibits viewing the entire film, it is possible to find segments in which the main characters poignantly discuss their ethical reasoning. One such scene is a flashback in which a wealthy philanthropist, Judah Rosenthal, sees himself as a teenager at a family seder in his childhood home. Rosenthal watches himself as a young man and now as the observing adult; he also engages his father in a discussion about good and evil.
- Malle's *My Dinner with Andre* offers possibilities to contrast Andre's explorations of the deeper meaning of life with Wally's more immediate preoccupations with money and his next meal.
- *The Fountainhead* explores an idealistic architect's clash with the expected compromises of big business.
- *Born on the Fourth of July* and *Casualties of War* probe the ethical implications of the Vietnam War and postwar policies and treatment of those who fought.
- In volume 1 of Bill Moyers's *World of Ideas* series, *The National Soul*, Moyers examines morality and ethics in the American consciousness.
- The CBS documentary *The Corporation* (Carousel) explores Phillips Petroleum and its ethics, values, and goals.

## Chapter 2: A Focus on Seeing Systems

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A major emphasis of the chapter is that the lenses or mental models that we bring to organizations influence what we see and how well we understand what is going on. One way to focus on seeing systems is to take students through a systems-mapping activity such as the one described in Exercise 2.2. Students develop a command of systems mapping, and understand its power, only by expending time and energy on the process.

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## Chapter 2: A Focus on Understanding Theory-Building Processes \_\_\_\_\_

Another focus for this chapter is private theory building, providing opportunities for students to experience and appreciate the complexity of human information processing and synthesizing. Many students, particularly young undergraduates, have difficulty grasping the inevitability of private theory building. For them, private theories are synonymous with biases, stereotypes, or too-narrow perspectives on situations. Interjecting this evaluative dimension into the theory-building process can leave students focusing on the rightness or wrongness of personal theories, convinced that private theory building is somehow bad.

Recognizing that we all build private theories, that we all screen and interpret data, and that private theories are therefore always limited can be revealing and freeing. The critical issue is not to fight the formation of private theories or to feel “bad” about them. Students need to recognize the content of their theories, acknowledge their limits, and explore their relevance for the situation at hand. A number of simple experiential activities, such as those in Exercise 2.3, can help students explore how people naturally deal with information.

One issue that instructors can work on in connection with ideas in Chapter 2 is the distinction between inference and observation—helping students to discriminate between personal interpretations and those “unshakable facts,” in Harold Geneen’s terms. Students intellectually understand this distinction yet still have trouble separating their own judgments and conclusions from the “real facts.”

Instructors can ask students to take the simple test in Exercise 2.4 as a way of exploring how automatic and unconscious inference-making processes really are.

The relevance of the distinction between inference and observation can be expanded beyond the topics in Chapter 2. Instructors can discuss the significance for:

1. *Case preparation and discussion.* Students who are new to cases have a difficult time distinguishing between the facts of the case and their inferences or interpretations.
2. *The writing of personal cases.* Students often blur the boundary between description (what happened) and interpretation (what it meant).
3. *Good paper-writing skills.* Students benefit from reminders that strong analysis means labeling personal conclusions, supporting inferences with facts, and explaining how conclusions were reached.
4. *Learning from conflicts and disagreements.* Students feel empowered when they can say, “Hey, that’s an inference. What are your facts? How did you reach that conclusion?”

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## Chapter 2: Films or Videos Focusing on Theory-Building Processes

- *What Is a Good Observer?* (IVCH) provides a perspective on human interpretive processes that complements discussion of inference-observation distinctions. This classic training film explores the perceptual tendency to look for similarities rather than differences.
- *Perception* (CRM) can be used to examine the importance of recognizing the interpretive tendency in management.
- *Productivity and the Self-fulfilling Prophecy: The Pygmalion Effect* (CRM) carries forward discussion of individual beliefs and interpretations to explorations of self-fulfilling prophecies for one's subordinates.

## Chapter 2: Focus on Developing Diagnostic Skills

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A third possible teaching focus is on diagnostic skills and the issue of “what’s *really* going on here.” (In addition to the cases suggested below, see Exercise 2.5.)

### Chapter 2: Cases Focusing on Developing Diagnostic Skills

Again, the case situations in the chapter are good starting points for exploring the importance of going beyond simple explanations and limited diagnoses. Additional suggestions follow:

- Short cases, such as the classics *Banana Time*, *Bob Knowlton*, and *Dashman Company* (HBS 9-642001), are good for introducing the case method and four-frame diagnostic skills.
- More sophisticated students or executive audiences will enjoy cases such as the following, which focus on the actions and understandings of one individual and connect well with the kinds of pressures and dilemmas that Helen Demarco faced:
  - Frank Mason ([A] [HBS 9-476-019]).
  - Mike Miller ([A] [HBS 9-482-061] and [B] [HBS 9-482-062]).
  - Jody McVay ([A] [HBS 9-482-063] and [B] [HBS 9-482-064]).
  - Susan Mills ([A] [HBS 9-486-063], [B] [HBS 486-064], and [C] [HBS 9-486-065]).

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## STUDENT EXERCISES FOR CHAPTER 2

### EXERCISE 2.1

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#### **Focus:** Private Theories and Personal Judgments

After discussing the content of the Helen Demarco case—Was Helen Demarco a good manager? What grade did she deserve for her handling of the Osborne plan? What do people think about her responses? Her choices? Her options? The power of her beliefs and theories of the situation?—ask students to switch gears and focus not on Helen and her private theories but on what is happening for them in the classroom.

One way to do this is to record on the blackboard all the statements students make about Helen and her handling of this case that imply strong private theories about the characteristics of a good manager. When the board is filled, the instructor can ask students to explore how many see themselves as strong theory builders. Discussion may polarize theory (academic and impractical) with action (what managers do). If students eventually recognize, however, that the board is filled with their theories of management and that the theory-building process was quick and spontaneous, they may develop a new appreciation of Helen Demarco and the power of private theories.

In large or small groups, students can explore in more detail the connections between their private theories and personal judgments about organizations as well as (1) their reactions to the Demarco case and (2) their participation and involvement in the class discussion about Helen.

### EXERCISE 2.2

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#### **Focus:** Seeing Systems

Have students practice mapping systems. First, assign Chapters 1–5 in Senge's *The Fifth Discipline*, cited in the chapter, as background reading. Then ask them to develop a systems map. The essence of systems mapping is thinking in circles rather than in straight lines, and students could be asked to develop a map with feedback loops. Possible systems for mapping include:

- One of the case examples in Chapter 2 (for example, the Korean Airlines Flight 007 case or the Helen Demarco case).
- The systemic issues in some current social issue or challenge (urban poverty, students at risk, alcoholism or drug abuse, ethnic conflict, etc.).

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- An assigned organizational case. Simpler cases are best, because systems mapping is harder than it looks until you try it. An example is Peter Green's First Day (HBS 9-380-186), a short case about a young manager who runs into an ethical dilemma on his first day at work. A systems map can clarify the organizational context for the ethical issues.

### EXERCISE 2.3

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#### **Focus:** Understanding Human Theory-Building Processes

To understand the inevitability of private theory building, students need to appreciate the complexity of human information processing and synthesizing. These simple activities can help students explore how people naturally deal with information:

1. Read long and short lists of numbers or objects to explore the limits of long-term and short-term memory.
2. Provide multiple simultaneous sensory inputs (different sounds, smells, sights) to investigate what students attend to and what and how much they screen out.
3. Play communications games, such as the classic party game of whispering a message from person to person and comparing the final message with the one originally sent to explore distortion and interpretation.
4. Explore ambiguous pictures such as those found in the chapter on perception in Leavitt's *Managerial Psychology* (Chicago: University of Chicago Press, 1972) or in the short training film *Zea: A Study of Perception* (Salenger).

### EXERCISE 2.4

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#### **Focus:** Understanding Human Theory-Building Processes

Read the following story, repeating it as many times as people request. Do not, however, answer specific questions about it. When everyone indicates that they are ready to move on, read the ten statements about the story and ask people to record their answers—true, false, or unknown—based only on information from the story.<sup>1</sup>

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<sup>1</sup> The story and the true-false statements are adapted by Joan V. Gallos from a segment of William V. Haney's *Uncritical Inference Test*, available for classroom use from the International Society for General Semantics, P.O. Box 2469, San Francisco, California 94126. Copyright © 2003 by Joan V. Gallos and Jossey-Bass/A Wiley Company, 989 Market St., San Francisco, CA 94103

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## The City

It was hot and sticky in East Harlem. Tempers flared easily in the heat and humidity—it is the roughest time of the year in the city. A businessman had just turned off the lights in the store when a man who spoke with a strong accent appeared and demanded money. The owner hesitated, then opened a cash register. The contents of the cash register were scooped up, and the man sped away. A police officer was given details of the event very soon after it happened.

*About the story (mark true, false, or unknown)*

1. A man appeared after the owner had turned off his store lights.
2. The robber spoke with a strong accent.
3. It was summer when this incident occurred.
4. The man who opened the cash register was the owner.
5. The man who demanded money scooped up the contents of the cash register and ran away.
6. A businessman had just turned off the lights when a man who spoke with a strong accent appeared in the store.
7. Money from the cash register was scooped up by someone.
8. The details of this event were promptly reported to a policeman.
9. The owner scooped up the contents of the cash register and sped away.
10. The following events occurred: someone demanded money; a cash register was opened; its contents were scooped up; and the man dashed out of the store.

Students should have ten “unknowns” on their answer sheets. Each of the statements makes inferences about the facts in the story. Instructors will want students to explore their inferences, which may include some of the following:

1. We do not know for certain that the owner and businessman are the same person. If they are not, the owner might not be a man.

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2. We do not know whether this was a robbery or someone demanding rent or strongly requesting a legitimate payment for services or goods. Or maybe it was an overly aggressive collector for a worthy charity or a shakedown by an illegal “neighborhood protection” group.
3. It can be hot and humid in late spring or early fall.
4. Again, we don’t know whether the owner was a man.
5. The owner could have been the one to scoop up the contents of the cash register. Does “sped away” necessarily mean “ran away”? What if the money was scooped up by our accented man, who was on roller skates or was leaning out of his car at a drive-up window? Or what if this was a sidewalk sale, and the owner scooped up the cash register contents, then jumped in a waiting taxi and sped away.
6. We don’t know whether the man actually appeared in the store. He could have appeared at the door or at a window. It might be that he never entered the store at all.
7. We know that the cash register had contents, but we don’t know whether it was money. What if the cash register contained only food stamps? Vouchers? Coupons? Receipts? A hidden gun?
8. We don’t know whether the police officer was a man. We don’t know whether someone promptly reported this event or happened to mention it casually to a passerby who worked as a police officer.
9. It is possible that the owner did it, but, again, we don’t know for sure.
10. This is fine until we get to “dashed out of the store.”

Students usually have fun with this test, and it is a real eye opener for many. Despite the fact that they know that this is a tricky test designed to reveal hidden inferences, they make lots of assumptions and are unaware that they are doing it. This story leads well into discussion of how stereotypes, emotions, stress, habits, values, culture, expectations, language, memory, education, experiences, and so on affect information processing and the formation of our private theories.

## **EXERCISE 2.5**

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### **Focus:** Developing Diagnostic Skills

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Ask students to think about a situation in which they felt as trapped or dissatisfied with their responses as Helen Demarco did. Have students in small groups explore what was *really* going on in their situation, what options they saw at the time, what options they see now, and how the four frames expand their understanding of the event and their alternatives for action. These discussions can serve as the basis for personal cases that students might later choose to write.

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