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www.elsevier.com/locate/ijpe

PII: S0925-5273(16)30327-9
DOI: <http://dx.doi.org/10.1016/j.ijpe.2016.11.006>
Reference: PROECO6579

To appear in: *Intern. Journal of Production Economics*

Received date: 5 February 2016
Revised date: 6 October 2016
Accepted date: 6 November 2016

Cite this article as: Russell Haines, Jill Hough and Douglas Haines, / Metacognitive Perspective on Decision Making in Supply Chains: Revisiting the Behavioral Causes of the Bullwhip Effect, *Intern. Journal of Production Economics*, <http://dx.doi.org/10.1016/j.ijpe.2016.11.006>

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A Metacognitive Perspective on Decision Making in Supply Chains: Revisiting the Behavioral Causes of the Bullwhip Effect

Russell Haines^{a*}, Jill Hough^{b1}, Douglas Haines^{c2}

^aDepartment of Information Technology and Decision Sciences, College of Business and Public Administration, Old Dominion University

^bDepartment of Management and Marketing, College of Business Administration, University of Tulsa

^cDepartment of Business; College of Business and Economics, University of Idaho
rhaines@odu.edu

jill-hough@utulsa.edu

dhaines1117@yahoo.com

*Corresponding Author. (757) 683-5841; Fax: (757) 683-5639

Abstract

Because supply chains are complex systems of interdependent subsystems, decisions by one partner can cause large and unpredictable system-wide effects, including the so-called “bullwhip” effect. The predominant approach to mitigating the bullwhip effect has been to provide additional information to supply chain members. However, recent research suggests that even the most information rich conditions lead decision makers to create the bullwhip effect. We propose an adaptive, learning perspective on supply chain decision making. Our model recognizes the key role of meta-decisions whereby decision makers decide whether or not to incorporate additional information into their decision making process based on the extent to which they understand cause and effect relationships. An experiment in which participants made orders in a simulated supply chain confirms that decision makers that felt they understood cause and effect relationships were more likely to incorporate relevant information into their decision processes, and thereby made better ordering decisions.

Keywords: Supply Chain Coordination, Information Use, Inventory Management, Cognition and Reasoning

¹ (918) 631-3221; Fax: (918) 631-2083

² (208) 462-2571

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