

An aerial photograph of a large, colorful geometric plaza. The plaza is composed of various colored rectangular sections in shades of light blue, dark blue, red, and green. A large green square is the central feature. Several people are walking across the plaza, their shadows cast on the ground. The overall design is reminiscent of Piet Mondrian's abstract art style.

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MANAGEMENT

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Managerial decision making

CHAPTER 9



CHAPTER 09

Managerial decision making

1

Explain why decision making is an important component of good management, discussing the difference between programmed and non-programmed decisions and the decision characteristics of certainty and uncertainty

2

Compare the ideal, rational model of decision making to the political model of decision making

3

Explain the process by which managers actually make decisions in the real world, identifying and summarising the six steps used in managerial decision making and the four personal decision styles used by managers

4

Identify and explain innovative techniques for decision making, including brainstorming, evidence-based management and after-action reviews, and identify the biases that frequently result in poor judgement when managers make decisions



How do you make decisions? _____

| | Mostly true | Mostly false |
|---|-------------|--------------|
| 1 I like to decide quickly and move on to the next thing. | | |
| 2 I would use my authority to make the decision if certain I was right. | | |
| 3 I appreciate decisiveness. | | |
| 4 There is usually one correct solution to a problem. | | |
| 5 I identify everyone who needs to be involved in the decision. | | |
| 6 I explicitly seek conflicting perspectives. | | |
| 7 I use discussion strategies to reach a solution. | | |
| 8 I look for different meanings when faced with a great deal of data. | | |
| 9 I take time to reason things through and use systematic logic. | | |



TYPES OF DECISIONS AND PROBLEMS

- Business world is full of evidence of both good and bad decisions
- Managers frequently make decisions amid constantly changing factors, unclear and incomplete information, and conflicting interests and points of view
- Managers can sometimes make the wrong decision, even when their intentions are right

| decision |
|---|
| <ul style="list-style-type: none">• A choice made from available alternatives |

| decision making |
|---|
| <ul style="list-style-type: none">• The process of identifying problems and opportunities and then resolving them |



PROGRAMMED AND NON-PROGRAMMED DECISIONS

Programmed

- Situations that have occurred enough times to warrant rules to be developed for future use
- Once rules are made, employees can apply them **without** needing to refer to management
 - Reorder office supplies or inventories
 - Exception reporting

Non-Programmed

- Situations that are unique, poorly defined or mostly unstructured
- Involve strategic planning in response to uncertain and complex environment
- Examples:
 - New product development
 - New geographical market



FACING UNCERTAINTY AND AMBIGUITY

- Primary difference between programmed and non-programmed decisions relates to the degree of uncertainty, risk, or ambiguity
- Decision situation can be organised on a scale according to the availability of information and the possibility of failure
- The four positions on the scale are **certainty**, **risk**, **uncertainty** and **ambiguity**



CONDITIONS THAT AFFECT THE POSSIBILITY OF DECISION FAILURE

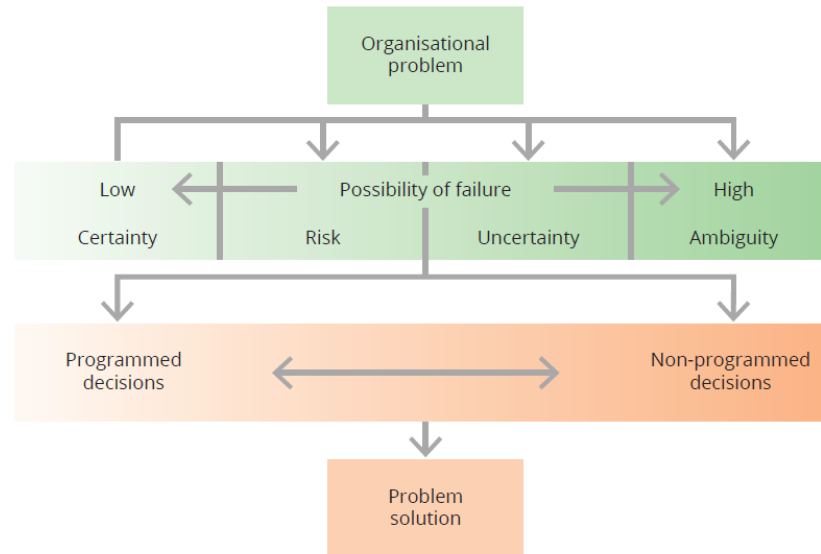


Exhibit 9.1 Conditions that affect the possibility of decision failure



FOUR POSITIONS

Certainty

- All the information the decision maker needs is fully available.

Risk

- A decision has clear-cut goals, and good information is available, but the future outcomes associated with each alternative are subject to change.

Uncertainty

- Managers know what goal they wish to achieve, but information about alternatives and future events is incomplete.

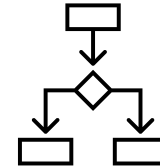
Ambiguity

- The goals to be achieved or the problems to be solved are unclear, alternatives are difficult to define, and information about outcomes is unavailable.



DECISION-MAKING MODELS

- Three key approaches:
 - the classical model
 - the administrative model
 - the political model
- Choice of model depends on
 - personal preference
 - whether the decision is programmed or non-programmed
 - degree of uncertainty associated with the decision



THE CLASSICAL MODEL: RATIONAL DECISION MAKING

- Assumes that managers should make logical decisions that will be in the organisation's best economic interests
- Based on four **economic assumptions**:
 1. Goals are known and agreed on; problems are clearly defined and formulated
 2. The decision maker strives for certainty
 3. Criteria for evaluating alternatives are known
 4. Decision-maker is a rational and logical being



HOW MANAGERS ACTUALLY MAKE DECISIONS

- Administrative model is **descriptive**, meaning that it describes how managers actually make decisions in complex situations
- Does not dictate how they should make decisions
- Recognises limitations of decision maker and environment
- **Bounded rationality**
 - means that people have limits, or boundaries, on how rational they can be
- **Satisficing**
 - decision makers choose the first solution alternative that satisfies minimal decision criteria



INTUITION AND QUASIRATIONALITY

- **Administrative decision making** is intuition
- **Intuition** represents quick comprehension of a decision situation based on past experience, but without conscious thought
- Good intuitive decision making is based on an ability to recognise patterns very fast
- **Quasirationality**
 - new trend in decision making
 - combining intuitive and analytical thought



THE POLITICAL MODEL

- Is useful for making non-programmed decisions when:
 - Conditions are uncertain
 - Information is limited
 - There is disagreement among managers
- Build **coalition** with other managers who support a specific goal
- **Coalition** is an informal alliance among managers who support a specific goal



POLITICAL MODEL – BASIC ASSUMPTIONS

Organisations are made up of groups with diverse interests, goals and values. Managers disagree about problem priorities and may not understand or share the goals and interests of other managers.

Information is ambiguous and incomplete. The attempt to be rational is limited by the complexity of many problems as well as personal and organisational constraints.

Managers do not have the time, resources or mental capacity to identify all dimensions of the problem and process all relevant information. Managers talk to each other and exchange viewpoints to gather information and reduce ambiguity.

Managers engage in the push and pull of debate to decide goals and discuss alternatives. Decisions are the result of bargaining and discussion among coalition members.



DECISION-MAKING MODELS

| Classical model | Administrative model | Political model |
|--|---|---|
| Clear-cut problem and goals | Vague problem and goals | Pluralistic; conflicting goals |
| Condition of certainty | Condition of uncertainty | Condition of uncertainty/ambiguity |
| Full information about alternatives and their outcomes | Limited information about alternatives and their outcomes | Inconsistent viewpoints; ambiguous information |
| Rational choice by individual for maximising outcomes | Satisficing choice for resolving problem using intuition | Bargaining and discussion among coalition members |

Exhibit 9.2 Characteristics of classical, administrative and political decision-making models



DECISION-MAKING STEPS

- 1 Recognition of decision requirement
- 2 Diagnosis and analysis of causes
- 3 Development of alternatives
- 4 Selection of desired alternative
- 5 Implementation of chosen alternative
- 6 Evaluation and feedback



SIX STEPS IN THE MANAGERIAL DECISION- MAKING PROCESS

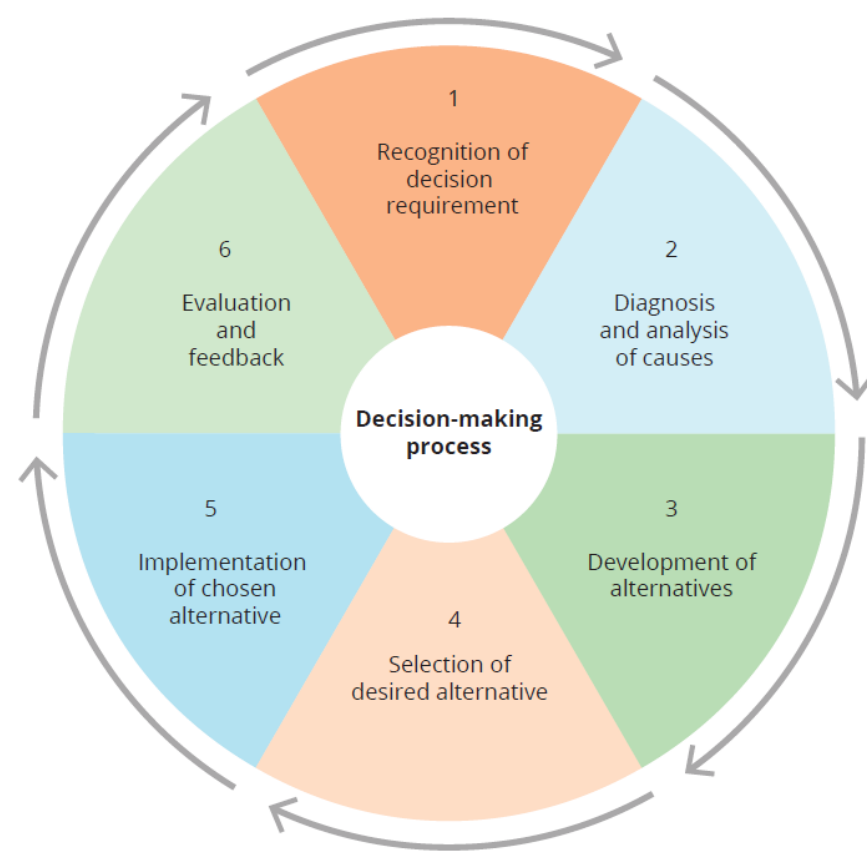


Exhibit 9.3 Six steps in the managerial decision-making process



RECOGNITION OF DECISION REQUIREMENT

- Awareness of a problem or opportunity is the first step in the decision-making sequence
- Requires surveillance of the internal and external environments for issues that merit executive attention
- Also take advantage of informal sources
- Talk to other managers, gather opinions on how things are going
- Seek advice on which problems should be tackled or which opportunities embraced



DIAGNOSIS AND ANALYSIS OF CAUSES

- **Diagnosis** is the step in the decision-making process
- Analyse underlying causal factors associated with the decision situation
- Mistakes made if generating alternatives without first exploring the cause of the problem
- Real problem often lies hidden behind the problems that managers think exist
- Looking at a situation from different perspectives, identify if the situation is the true problem

When did it occur?

Where did it occur?

How did it occur?

To whom did it occur?

What is the urgency of the problem?

What is the interconnectedness of events?

What result came from which activity?



DEVELOPMENT OF ALTERNATIVES

- For a programmed decision, feasible alternatives are easy to identify and usually already available within the organisation's rules and procedures
- Non-programmed decisions require developing new courses of action that will meet the organisation's needs
- Decisions made under high uncertainty, may develop only one or two custom solutions that will satisfice for handling the problem
- Studies find that limiting the search for alternatives is a primary cause of decision failure in organisations



SELECTION OF DESIRED ALTERNATIVE

- Best alternative is one in which the solution best fits the overall goals and values of the organisation
- Achieves the desired results using the fewest resources
- Risk propensity (or risk appetite)
 - willingness to undertake risk with the opportunity of gaining an increased pay-off
- Choosing among alternatives also depends on managers' personality factors and willingness to accept risk and uncertainty



IMPLEMENTATION OF CHOSEN ALTERNATIVE

- Use of managerial, administrative and persuasive abilities to ensure that the chosen alternative is carried out
- Success depends on whether it can be translated into action
- May require discussion, trust building, and active engagement with people affected by the decision
- Communication, motivation and leadership skills must be used to see that the decision is carried out



EVALUATION AND FEEDBACK

- Gather information telling how well the decision was implemented and how effective
- Feedback also helps make better decisions
- Decision making is an ongoing process
- Decision may fail, thus generating a new analysis of the problem, evaluation of alternatives, and selection of a new alternative



PERSONAL DECISION FRAMEWORK

- Differences among people with respect to how they perceive problems and make decisions
- Research suggests four major decision styles:
 - Directive style
 - Analytical style
 - Conceptual style
 - Behavioural style

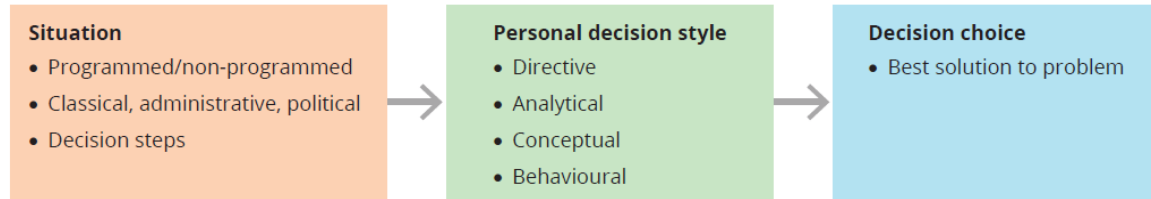


Exhibit 9.5 Personal decision framework



INNOVATIVE DECISION MAKING

- Increase the percentage of good decisions by understanding factors that cause bad ones
- Most bad decisions are errors in judgement
- The human mind's limited capacity
- Natural biases displayed during decision making



SIX BIASES – MAKE MORE ENLIGHTENED CHOICES

Being influenced by initial impressions.

- the mind often gives disproportionate weight to the first information that it receives.
- we allow initial impressions, statistics, and estimates to act as an anchor to our subsequent thoughts and judgements.

Justifying past decisions.

- the trap of making choices that justify their past decisions, even if those decisions no longer seem valid.
- common example is when a manager continues to pour money into a failing project.

Seeing what you want to see.

- look for information that supports existing instinct or point of view.
- Confirmation bias occurs when too much value on evidence that is consistent with a favoured belief or viewpoint.
- Ignores evidence that contradicts it.

Perpetuating the status quo.

- base decisions on what has worked in the past.
- fail to explore new options.

Being influenced by emotions.

- a decision made when you are angry, upset, or even ecstatic.
- make better decisions when emotions are taken out of the decision-making process.

Overconfidence.

- most people overestimate their ability to predict uncertain outcomes.
- can be particularly dangerous when making risky decisions in the process.



INNOVATIVE DECISION MAKING

- Innovative techniques can help managers watch out for and avoid mistakes caused by cognitive biases
- **Brainstorming** uses a face-to-face group to spontaneously suggest a broad range of alternatives for decision making
- **Electronic brainstorming** brings people together in an interactive group over a computer network
- **Evidence-based decision making** makes more informed decisions based on the best available facts and evidence



USE HARD EVIDENCE

- Evidence-based decision making means a commitment to make more informed and intelligent decisions
- Based on the best available facts and evidence
- Being alert to potential biases and seeking and examining the evidence with rigour
- Practise evidence-based decision making by being careful and thoughtful rather than carelessly relying on assumptions, past experience, rules of thumb, or intuition



ENGAGE IN RIGOROUS DEBATE

- Constructive conflict based on divergent points of view can improve decision quality:
 - bring a problem into focus
 - clarify people’s ideas
 - stimulate creative thinking
 - limit the role of bias
 - create a broader understanding of issues and alternatives

| devil’s advocate |
|---|
| <ul style="list-style-type: none">• A person who is assigned the role of challenging the assumptions and assertions made by the group to prevent premature consensus. |

| point-counterpoint |
|---|
| <ul style="list-style-type: none">• A decision-making technique in which people are assigned to express competing points of view. |



AVOID GROUPTHINK

- Some disagreement and conflict is much healthier than blind agreement
- Pressures for conformity exist in almost any group
- When people in a group like one another they tend to avoid anything that might create disharmony
- **Groupthink** refers to the tendency of people in groups to suppress contrary opinions
- When people slip into groupthink, the desire for harmony outweighs concerns over decision quality



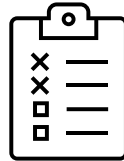
KNOW WHEN TO PULL THE PLUG

- Good managers don't hesitate to pull the plug (cancel) on something that isn't working
- Organisations often continue to invest time and money in a solution despite strong evidence that it is not appropriate
- This tendency is referred to as **escalating commitment**
 - managers might block or distort negative information because they don't want to be responsible for a bad decision
 - they might simply refuse to accept that their solution is wrong



DO A POST-MORTEM

- Managers need to reflect and learn from every decision they made
- Learn valuable lessons for how to do things better in the future
- Sometimes called an **after-action review**
 - a disciplined procedure in which managers invest time in reviewing the results of decisions on a regular basis and learn from them
- Managers meet to evaluate what worked, what didn't, and how to do things better



SUSTAINABLE DEVELOPMENT DECISIONS

- Complex decisions can present opportunities
- Decisions could include:
 - Being proactive
 - Being clear in regard to issues of ambiguity
 - How to infuse a culture of sustainability into workforce
 - Setting criteria and prioritising activities



CHAPTER 9 – BRIEF SUMMARY

9.1 Decisions differ according to the amount of certainty, risk, uncertainty or ambiguity in the situation.

9.2 Decision making models vary widely with respect to their assumptions for what managers should take into account, how predictable or consistent people and organisations are, and whether there is such a thing as an ideal process or outcome.

9.3 The decision-making process typically involves six steps: recognising the need, diagnosing causes, developing alternatives, selecting an alternative, implementing the alternative and evaluating decision effectiveness.

9.4 Most decisions within organisations are made as part of a group, and while managers can't always see their own biases, they can build in mechanisms and draw upon evidence to prevent bias from influencing major decisions at the organisational level.

