Management

**Managers
as
Decision Makers**

Learning Outcomes

The Decision-Making Process.

- Define decision.

- Describe the eight steps in the decision-making process.

Managers Making Decisions.

- Discuss the assumptions of rational decision making.

- Describe the concepts of bounded rationality, satisficing, and escalation of commitment.

- Explain intuitive decision making.

Learning Outcomes

Types Of Decisions and Decision-Making Conditions.

- Explain the two types of problems and decisions.

- Contrast the three decision making conditions.

- Explain maximax, maximin, and minimax decision choice approaches.

Decision-Making Styles

- Describe two decision-making styles.

- Discuss the twelve decision-making biases.

- Explain the managerial decision-making model.

Learning Outcomes

Effective Decision Making In Today's World.

- Explain how managers can make effective decisions in today's world.

- List the six characteristics of an effective decision making process.

- List the five habits of highly reliable organizations.

Decision Making

- Decision

  ☐ Making a choice from two or more alternatives.

- The Decision-Making Process

  ☐ Identifying a problem and decision criteria and allocating weights to the criteria.

  ☐ Developing, analyzing, and selecting an alternative that can resolve the problem.

  ☐ Implementing the selected alternative.

  ☐ Evaluating the decision's effectiveness.

Step 1: Identifying the Problem

- **Problem**
  - ☐ A discrepancy between an existing and desired state of affairs.
- **Characteristics of Problems**
  - ☐ A problem becomes a problem when a manager becomes aware of it.
  - ☐ There is pressure to solve the problem.
  - ☐ The manager must have the authority, information, or resources needed to solve the problem.

Step 2: Identifying Decision Criteria

- Decision criteria are factors that are important (relevant) to resolving the problem such as:

  - Costs that will be incurred (investments required)

  - Risks likely to be encountered (chance of failure)

  - Outcomes that are desired (growth of the firm)

Step 3: Allocating Weights to the Criteria

- Decision criteria are not of equal importance:

  Assigning a weight to each item places the items in the correct priority order of their importance in the decision-making process.

Step 4: Developing Alternatives

- Identifying viable alternatives

  Alternatives are listed (without evaluation) that can resolve the problem.

Step 5: Analyzing Alternatives

- Appraising each alternative's strengths and weaknesses

  An alternative's appraisal is based on its ability to resolve the issues identified in steps 2 and 3.

Step 6: Selecting an Alternative

- Choosing the best alternative

  The alternative with the highest total weight is chosen.

Step 7: Implementing the Alternative

- Putting the chosen alternative into action.

  Conveying the decision to and gaining commitment from those who will carry out the decision.

Step 8: Evaluating the Decision's Effectiveness

- The soundness of the decision is judged by its outcomes.

  How effectively was the problem resolved by outcomes resulting from the chosen alternatives?

  If the problem was not resolved, what went wrong?

Making Decisions (cont'd)

- Bounded Rationality

  Managers make decisions rationally, but are limited (bounded) by their ability to process information.

  Assumptions are that decision makers:

  - Will not seek out or have knowledge of all alternatives

  - Will *satisfice*—choose the first alternative encountered that satisfactorily solves the problem—rather than maximize the outcome of their decision by considering all alternatives and choosing the best.

  Influence on decision making

  - Escalation of commitment: an increased commitment to a previous decision despite evidence that it may have been wrong.

The Role of Intuition

- Intuitive decision making

  Making decisions on the basis of experience, feelings, and accumulated judgment.

Types of Problems and Decisions

- Structured Problems

  Involve goals that are clear.

  Are familiar (have occurred before).

  Are easily and completely defined—information about the problem is available and complete.

- Programmed Decision

  A repetitive decision that can be handled by a routine approach.

Types of Programmed Decisions

- **Procedure**

  - A series of interrelated steps that a manager can use to respond (applying a policy) to a structured problem.

- **Rule**

  - An explicit statement that limits what a manager or employee can or cannot do.

- **Policy**

  - A general guideline for making a decision about a structured problem.

Policy, Procedure, and Rule Examples

- Policy

  Accept all customer-returned merchandise.

- Procedure

  Follow all steps for completing merchandise return documentation.

- Rules

  - Managers must approve all refunds over $50.00.

  - No credit purchases are refunded for cash.

Problems and Decisions (cont'd)

- Unstructured Problems

    Problems that are new or unusual and for which information is ambiguous or incomplete.

    ▢ Problems that will require custom-made solutions.

- Nonprogrammed Decisions

    Decisions that are unique and nonrecurring.

    Decisions that generate unique responses.

Decision-Making Conditions

- Certainty

  A situation in which a manager can make an accurate decision because the outcome of every alternative choice is known.

- Risk

  A situation in which the manager is able to estimate the likelihood (probability) of outcomes that result from the choice of particular alternatives.

Decision Making Conditions

- Uncertainty

  Limited information prevents estimation of outcome probabilities for alternatives associated with the problem and may force managers to rely on intuition, hunches, and "gut feelings."

  - **Maximax:** the optimistic manager's choice to maximize the maximum payoff

  - **Maximin:** the pessimistic manager's choice to maximize the minimum payoff

  - **Minimax:** the manager's choice to minimize maximum regret.

Decision-Making Styles

- Linear thinking style

  A person's preference for using external data and facts and processing this information through rational, logical thinking

- Nonlinear thinking style

  A person's preference for internal sources of information and processing this information with internal insights, feelings, and hunches

Decision-Making Biases and Errors

- Heuristics

  Using "rules of thumb" to simplify decision making.

- Overconfidence Bias

  Holding unrealistically positive views of oneself and one's performance.

- Immediate Gratification Bias

  Choosing alternatives that offer immediate rewards and that to avoid immediate costs.

Decision-Making Biases and Errors

- Anchoring Effect

  Fixating on initial information and ignoring subsequent information.

- Selective Perception Bias

  Selecting organizing and interpreting events based on the decision maker's biased perceptions.

- Confirmation Bias

  Seeking out information that reaffirms past choices and discounting contradictory information.

Decision-Making Biases and Errors (cont'd)

- **Framing Bias**

  Selecting and highlighting certain aspects of a situation while ignoring other aspects.

- **Availability Bias**

  Losing decision making objectivity by focusing on the most recent events.

- **Representation Bias**

  Drawing analogies and seeing identical situations when none exist.

- **Randomness Bias**

  Creating unfounded meaning out of random events.

Decision-Making Biases and Errors

- Sunk Costs Errors

   - Forgetting that current actions cannot influence past events and relate only to future consequences.

- Self-Serving Bias

   - Taking quick credit for successes and blaming outside factors for failures.

- Hindsight Bias

   - Mistakenly believing that an event could have been predicted once the actual outcome is known (after-the-fact).

Terms to Know

- decision
- Decision-making process
- problem
- decision criteria
- rational decision making
- bounded rationality
- satisficing
- escalation of commitment
- intuitive decision making
- structured problems
- programmed decision
- procedure
- rule

- policy
- unstructured problems
- nonprogrammed decisions
- certainty
- risk
- uncertainty
- directive style
- analytic style
- conceptual style
- behavioral style
- heuristics
- business performance management (BPM) software