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# Decision Making and Creativity

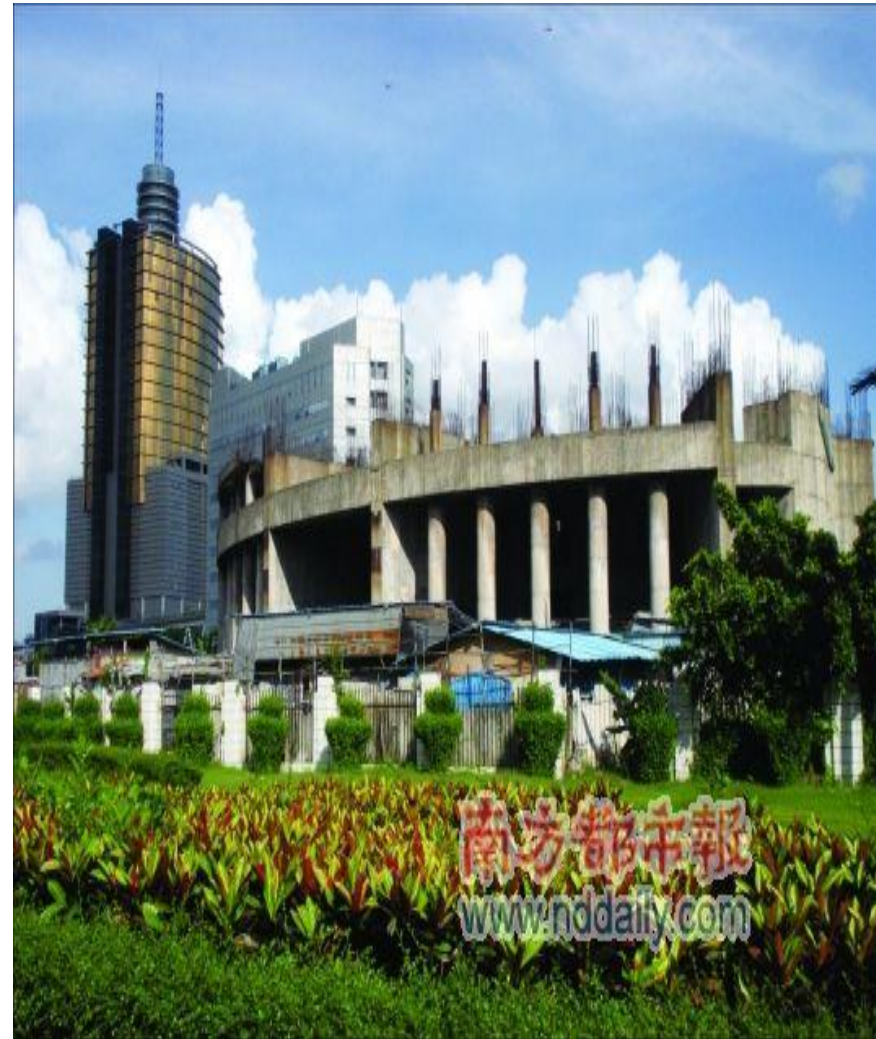
# Decision Making of Giant Building



Shi Yuzhu, famous for his invention of health care products "naobaijin", decided to build a giant building in Zhuhai, Guangdong Province.

At first, the company just planned to build an 18 storey office building for self use, and then increased the size from 38th floor to 54th floor and then to 64th floor.

At the ceremony of giant building in early 1994, Shi Yuzhu announced that the giant building would be built with 78 floors, the tallest building in China. According to the preliminary calculation, 1.2 billion RMB is needed to complete the project.



# Decision Making of Giant Building (con't)

At that time, Shi Yuzhu raised 120 million RMB by selling real estate in Hong Kong in order to raise start-up funds, but he still could not meet the huge demand for funds.

In 1996, the giant building fund was in short supply, and Shi Yuzhu transferred all the funds of health products to giant building. At the beginning of 1997, the giant building was not completed on schedule due to the rupture of the capital chain. Finally, the building was stopped when it was built to the third floor, and it is still unfinished.



# Decision Making of Giant Building (con't)

- “ I didn't want to see this place again!” Said ShiYuzhu, “This is the biggest mistake of my life, and it is also my sad place. The giant building runs from the 18th floor to the 78th floor. What a great success! I'm really out of my head.”
- Giant group has done well in the health care products market, but in order to build the "highest building in China", the company's main field of health care products business lost blood too much, the financial crisis broke out, and giant building was shelved with the group's bankruptcy.



# Decision Making

- Decision making is the process of making choices among alternatives with the intention of moving toward some desired states of affairs.
- Research shows that 85% of every 1000 closed large enterprises in the world are caused by careless decision-making.



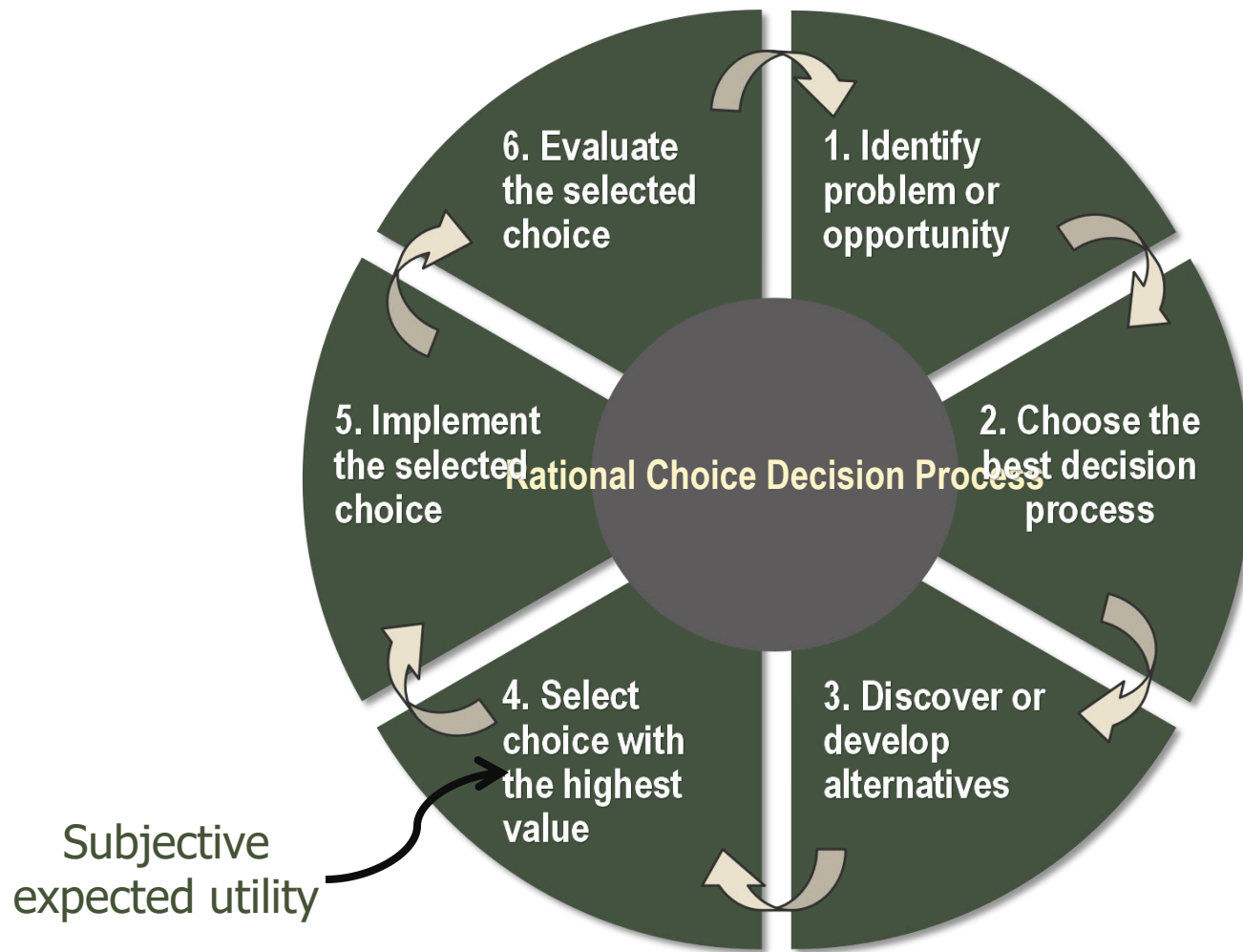


# Rational Choice Paradigm

- View that effective decision makers identify, select, and apply the best possible alternative
- Two main elements of rational choice
  1. Subjective expected utility –determines choice with highest value (maximization)
  2. Decision making process – systematic stages of decision making



# Rational Choice Decision-making Process



# Problem Identification Challenges

- Problems/opportunities are constructed from ambiguous information, not “given” to us
- Influenced by cognitive and emotional biases
- Five problem identification challenges
  - Stakeholder framing
  - Decisive leadership
  - Solution-focused problems
  - Perceptual defense
  - Mental models



# Identifying Problems Effectively



- Be aware of perceptual and diagnostic limitations
- Fight against pressure to look decisive
- Maintain “divine discontent” (aversion to complacency)
- Discuss the situation with colleagues -- see different perspectives

# Making Choices: Rational vs OB Observations



## Rational Choice Paradigm Assumptions

Goals are clear, compatible, and agreed upon

People are able to calculate all alternatives and their outcomes

People evaluate all alternatives simultaneously

## Observations from Organizational Behavior

Goals are ambiguous, conflicting, and lack agreement

People have limited information processing abilities

People evaluate alternatives sequentially

more 

# Making Choices: Rational vs OB Observations (con't)

## Rational Choice Paradigm Assumptions

People use absolute standards to evaluate alternatives

People make choices using factual information

People choose the alternative with the highest payoff (SEU)

## Observations from Organizational Behavior

People evaluate alternatives against an implicit favorite

People make choices using perceptually distorted information

People choose the alternative that is good enough (satisfice)

# Biased Decision Heuristics



- Anchoring and adjustment
  - We are anchored by and don't move far from an initial anchor point (e.g. opening bid)
- Availability heuristic
  - we estimate probabilities by how easy we can recall the event, even though other factors influence ease of recall
- Representativeness heuristic
  - we estimate probability of something by its similarity to something known rather than by more precise statistics

# Problems with Maximization



- People don't try to select choice with highest value (maximization) because:
  - Alternatives appear sequentially, not all at once
  - People lack motivation/ability to process volumes of information
- How decision makers respond to maximization problems
  - Satisficing – choose first “good enough” alternative
  - Oversimplifying decision calculations (e.g. few evaluation criteria)
  - Avoiding the decision

# Emotions and Making Choices



- Emotions form preferences before we consciously evaluate those choices
- Moods and emotions influence how well we follow the decision process
- We ‘listen in’ on our emotions and use that information to make choices



# Intuitive Decision Making



- Ability to know when a problem or opportunity exists and select the best course of action without conscious reasoning
- Intuition as emotional experience
  - Gut feelings are emotional signals
  - Not all emotional signals are intuition
- Intuition as rapid nonconscious analysis
  - Uses action scripts

# Choosing Alternatives Better



1. Systematically evaluate alternatives against relevant factors
2. Be aware of effects of emotions on decision preferences and evaluation process
3. Scenario planning

# Decision Evaluation Problems

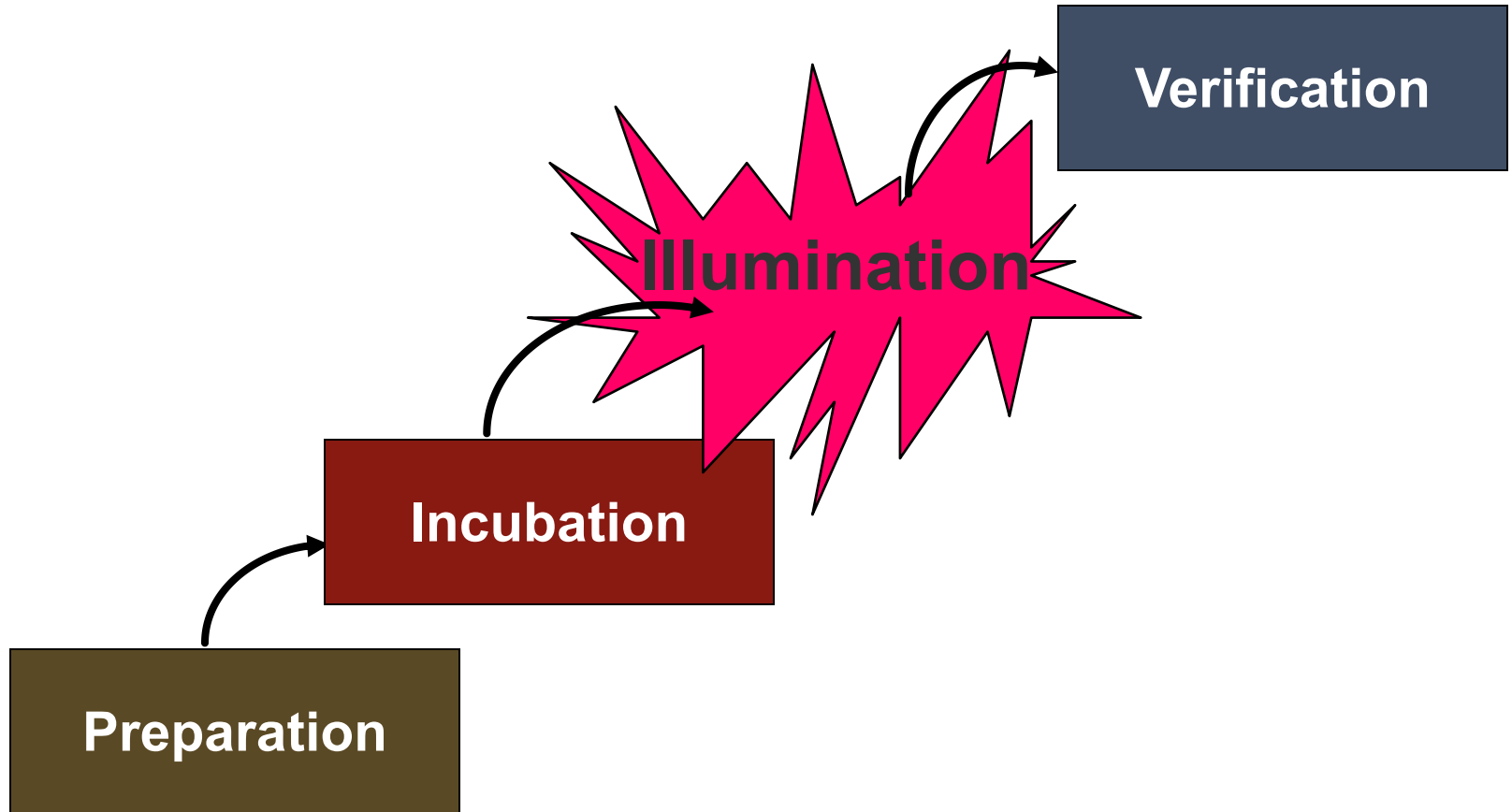
- Confirmation bias
  - Inflate quality of the selected option; forget or downplay rejected alternatives
- Escalation of commitment -- repeating or further investing in an apparently bad decision
  - Caused by
    - self-justification effect
    - self-enhancement effect
    - prospect theory effect
    - sunk costs effect

# Evaluating Decisions Better



1. Separate decision choosers from evaluators
2. Establish a preset level to abandon the project
3. Find sources of systematic and clear feedback
4. Involve several people in the evaluation process

# Creative Process Model

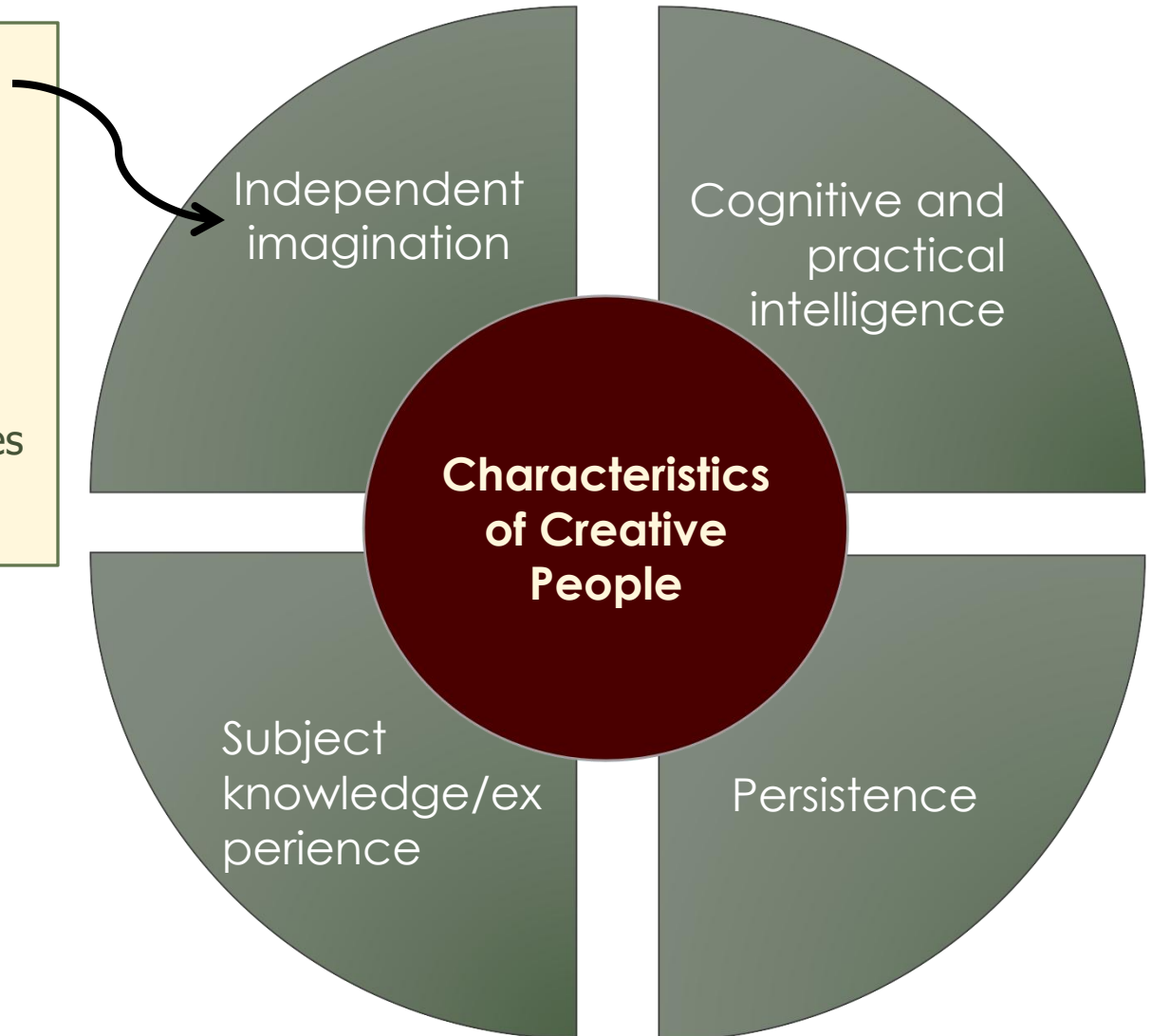


# Characteristics of Creative People



Independent imagination includes:

- Higher openness to experience personality
- Lower need for affiliation motivation
- Higher self-direction/stimulation values



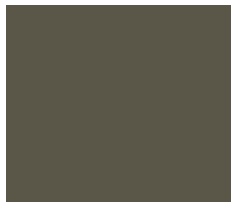


# Creative Work Environments



- Learning orientation
  - Encourage experimentation
  - Tolerate mistakes
- Intrinsically motivating work
  - Task significance, autonomy, feedback
- Open communication and sufficient resources
- Unclear/complex effects of team competition and time pressure on creativity

# Creative Activities



## Redefine the Problem

- Revisit abandoned projects
- Explore issue with other people

## Associative Play

- Storytelling
- Artistic activities
- Morphological analysis

## Cross- Pollination

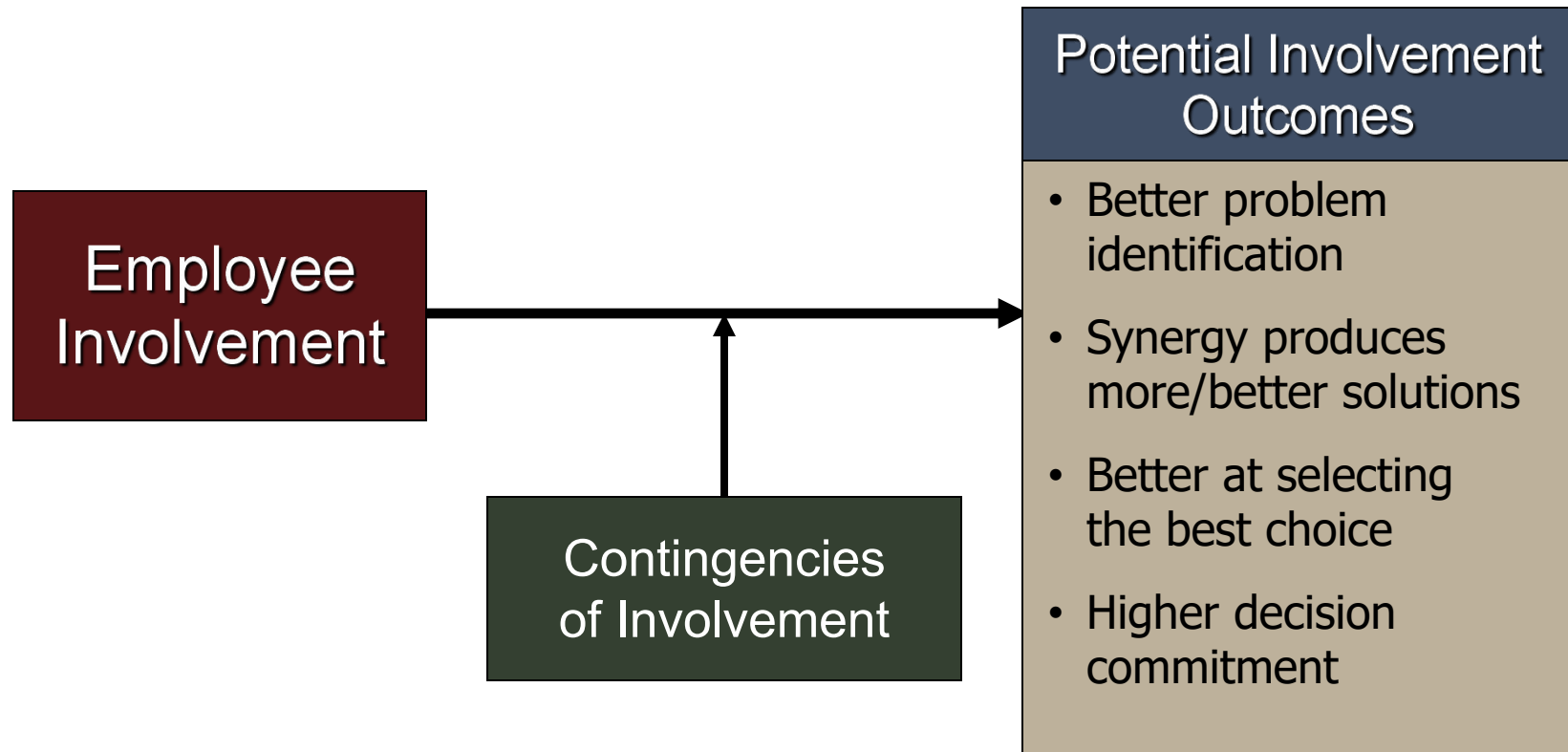
- Diverse teams
- Information sessions
- Internal tradeshows

# Levels of Employee Involvement



- **High:** Employees responsible for entire decision-making process
- **Medium-High:** Employees hear problem, then collectively develop recommendations
- **Medium-Low:** Employees hear problem individually or collectively, then asked for information relating to that problem
- **Low:** Employees individually asked for specific information but the problem is not described to them

# Employee Involvement Model



# Contingencies of Involvement

Higher employee involvement is better when:

Decision Structure	<ul style="list-style-type: none"><li>• Problem is new &amp; complex (i.e nonprogrammed decision)</li></ul>
Knowledge Source	<ul style="list-style-type: none"><li>• Employees have relevant knowledge beyond leader</li></ul>
Decision Commitment	<ul style="list-style-type: none"><li>• Employees would lack commitment unless involved</li></ul>
Risk of Conflict	<ol style="list-style-type: none"><li>1. Norms support firm's goals</li><li>2. Employee agreement likely</li></ol>