

UCS1704 – Management and Ethical Practices

UNIT – I

Decision Making Process, Types and Styles

Semester – VII



Outline

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.

Outline (Cont'd)

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.

Outline (Cont'd)

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.

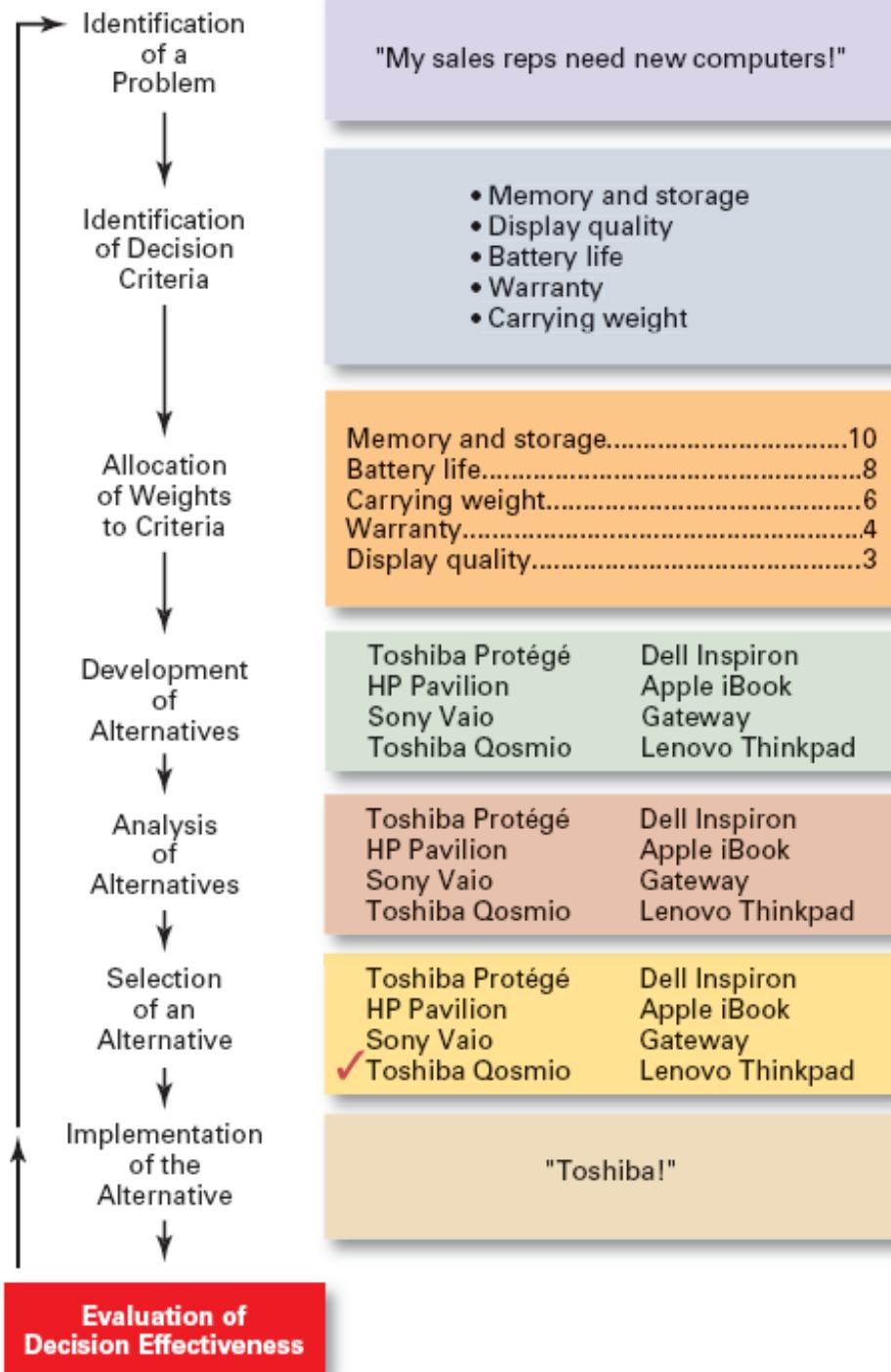
Decision Making



Decision Making

- **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.

The Decision-Making Process



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.

Criteria and Weights for Computer Replacement Decision

Criterion	Weight
Memory and Storage	10
Battery life	8
Carrying Weight	6
Warranty	4
Display Quality	3

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.

Assessed Values of Laptop Computers Using Decision Criteria

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
Toshiba Protégé S100	10	3	10	8	5
Dell Inspiron 700m	8	7	7	8	7
HP Pavilion zd8000	8	5	7	10	10
Apple iBook	8	7	7	8	7
Sony Vaio VGN-FS790	7	8	7	8	7
Gateway NX850X	8	3	6	10	8
Toshiba QosmioG15-AV501	10	7	8	6	7
Lenovo Thinkpad R52	4	10	4	8	10

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.

Evaluation of Laptop Alternatives Against Weighted Criteria

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
Toshiba Protégé S100	100	24	60	32	15	231
Dell Inspiron 700m	80	56	42	32	21	231
HP Pavilion zd8000	80	40	42	40	30	232
Apple iBook	80	56	42	32	21	231
Sony Vaio VGN-FS790	70	64	42	32	21	229
Gateway NX850X	80	24	36	40	24	204
Toshiba QosmioG15-AV501	100	56	48	24	21	249
Lenovo Thinkpad R52	40	80	24	32	30	206

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?

Decisions in the Management Functions

Planning

- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

Leading

- How do I handle employees who appear to be low in motivation?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

Organizing

- How many employees should I have report directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Controlling

- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

Making Decisions

- Managers make dozens of these routine decisions every day
 - which employee will work what shift next week,
 - what information should be included in a report, or
 - how to resolve a customer's complaint.

Case Study:

- When Hewlett-Packard (HP) acquired Compaq, the company did no research on how customers viewed Compaq products until months after then-CEO Carly Fiorina publicly announced the deal.
dissent- disagreement/ conflict*
- Privately warned her top management team that she didn't want to hear any dissent* pertaining to the acquisition.

dissent- disagreement/ conflict*

Case Study:

- By the time they discovered that customers perceived Compaq products as inferior—just the opposite of what customers felt about HP products—it was too late.
- HP's performance suffered and Fiorina lost her job.
- Why?

Case Study:

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Solution

- Rational Decision Making

Making Decisions

- **Rationality**

- Managers make consistent, value-maximizing choices with specified constraints.
- Assumptions are that decision makers:
 - ❖ Are perfectly rational (well reasoned/ sensible), fully objective, and logical.
 - ❖ Have carefully defined the problem and identified all viable alternatives.
 - ❖ Have a clear and specific goal.
 - ❖ Will select the alternative that maximizes outcomes in the organization's interests rather than in their personal interests.

Making Decisions (cont'd)

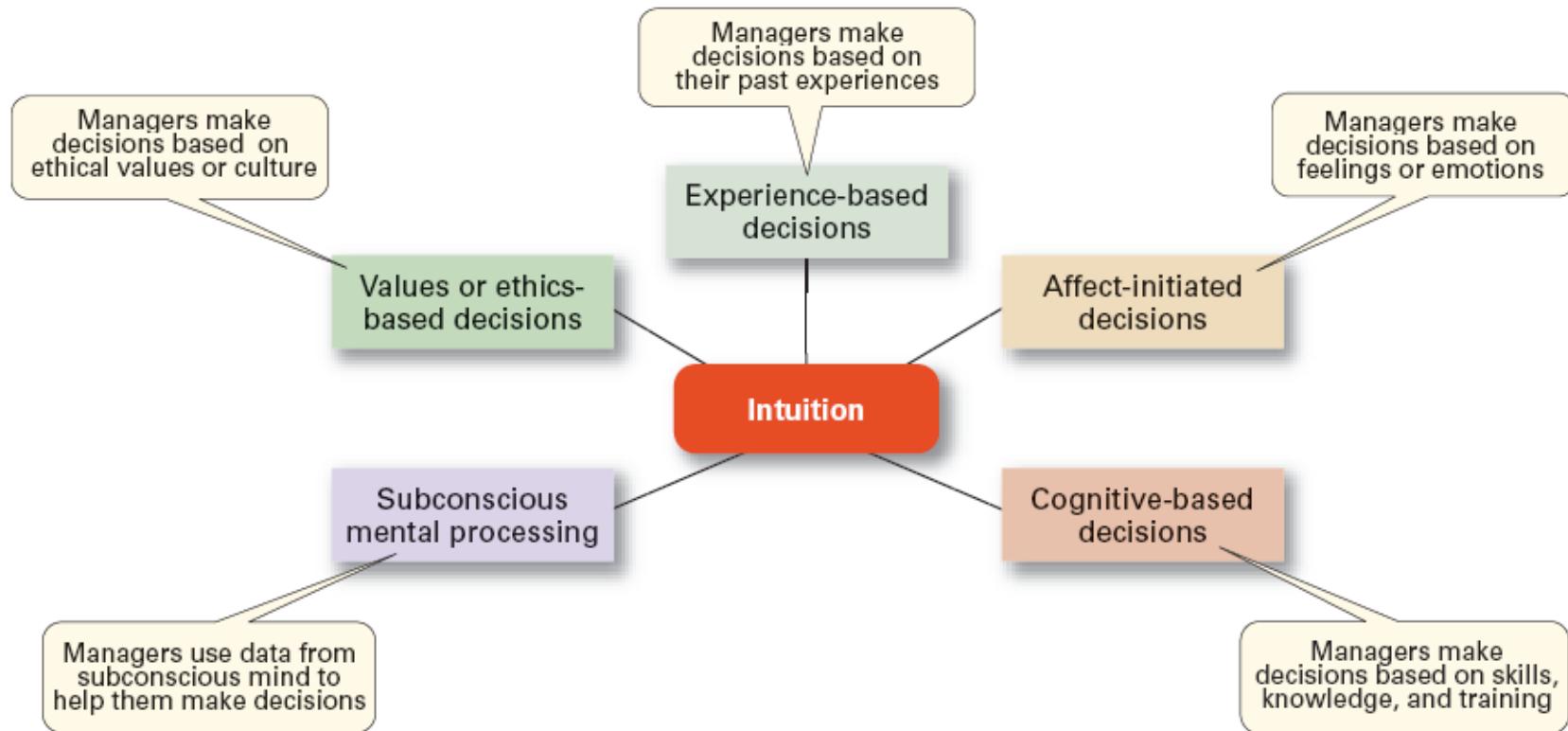
- **Bounded Rationality**

- 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.

What Is Intuition?



Source: Based on L. A. Burke and M. K. Miller, "Taking the Mystery Out of Intuitive Decision Making," *Academy of Management Executive*, October 1999, pp. 91–99.

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.

Programmed Versus Nonprogrammed Decisions

Characteristics	Programmed Decisions	Nonprogrammed Decisions
Type of problem	Structured	Unstructured
Managerial level	Lower levels	Upper levels
Frequency	Repetitive, routine	New, unusual
Information	Readily available	Ambiguous or incomplete
Goals	Clear, specific	Vague
Time frame for solution	Short	Relatively long
Solution relies on	Procedures, rules, policies	Judgment and creativity

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 Conditions

- **Certainty:** There is no doubt as to which outcome will result from a given act
“If I do X, Y happens”
- **Risk:** “If I do X, there is 50% probability Y happens”
- **Uncertainty:** “If I do X, Y may happen. Or maybe not”

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

Common Decision-Making Errors and Biases



Decision-Making Biases and Errors

- Heuristics

- Using “rules of thumb” to simplify decision making.
- Eg: Plane crashes can make people afraid of flying. However, the likelihood of dying in a car accident is far higher than dying as a passenger on an airplane.

- Availability Bias

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

- Overconfidence Bias

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

Decision-Making Biases and Errors (cont'd)

- **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.
 - Eg: A salesperson promoting a product would much rather claim '85% of customers were satisfied with the product' than admit '15% of customers were dissatisfied.'
- **Immediate Gratification Bias**
 - Choosing alternatives that offer immediate rewards and that to avoid immediate costs.

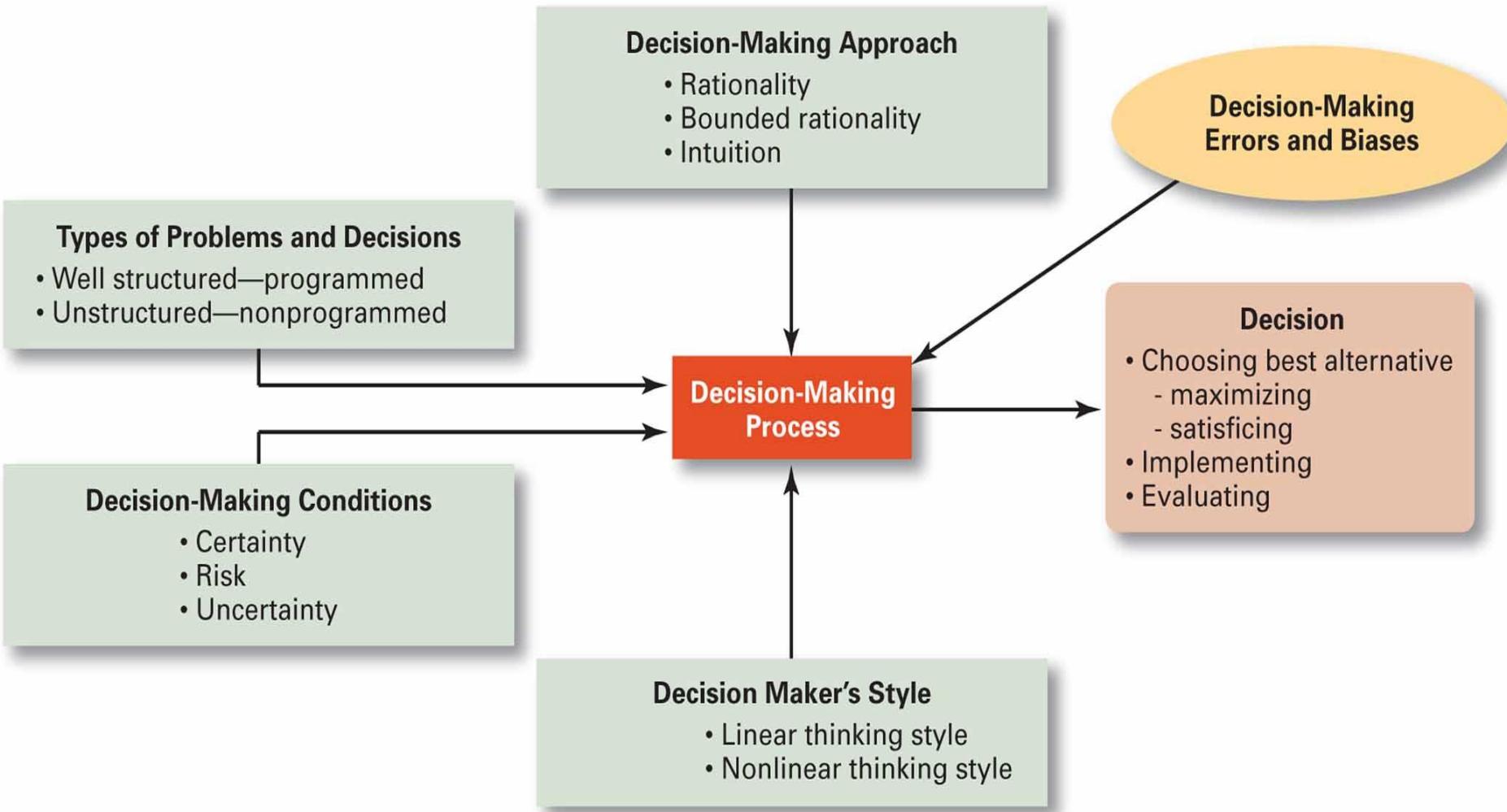
Decision-Making Biases and Errors (cont'd)

- **Representation Bias**
 - Drawing analogies and seeing identical situations when none exist.
 - Eg: Financial markets is where investors naturally think that excellent firms make good investments.
- **Randomness Bias**
 - Creating unfounded meaning out of random events.
- **Sunk Costs Errors**
 - Forgetting that current actions cannot influence past events and relate only to future consequences.
 - Eg: Marketing, research, new software installation or equipment, salaries and benefits, or facilities expenses

Decision-Making Biases and Errors (cont'd)

- **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).

Overview of Managerial Decision Making



Decision Making for Today's World

- Guidelines for making effective decisions:
 - Understand cultural differences.
 - Know when it's time to call it quits.
 - Use an effective decision making process.
- Habits of highly reliable organizations (HROs)
 - Are not tricked by their success.
 - Defer to the experts on the front line.
 - Let unexpected circumstances provide the solution.
 - Embrace complexity.
 - Anticipate, but also anticipate their limits.

Characteristics of an Effective Decision-Making Process

- It focuses on what is important.
- It is logical and consistent.
- It acknowledges both subjective and objective thinking and blends analytical with intuitive thinking.
- It requires only as much information and analysis as is necessary to resolve a particular dilemma.
- It encourages and guides the gathering of relevant information and informed opinion.
- It is straightforward, reliable, easy to use, and flexible.

Discussion

- Current Decision
- Dominance Decision rule
- Empirical Decision
- Interdependent Decision
- Multicriteria Decision
- Prospective Decision
- Search Decision
- Structured Decision
- Tough Decision

Questions?