



Management

ELEVENTH EDITION

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Chapter-7

Decision Making

Learning Outcomes

- **Describe** eight steps in decision-making process
- **Explain** the four ways managers make decisions
- **Classify** decisions and decision-making conditions
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- **Identify** effective decision-making techniques

- **Decision** - making a choice from two or more alternatives.
- **Problem** - an obstacle that makes it difficult to achieve a desired goal or purpose.

1. Identifying a problem and decision criteria and allocating weights to the criteria
2. Developing, analyzing, and selecting an alternative that can resolve the problem
3. Implementing the selected alternative
4. Evaluating the decision's effectiveness



Step 1: Identifying a Problem

- 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)

Exhibit 6-2: Important Decision Criteria

| | |
|--------------------|----|
| Memory and storage | 10 |
| Battery life | 8 |
| Carrying weight | 6 |
| Warranty | 4 |
| Display quality | 3 |

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.



Exhibit 6-3: Possible Alternatives

| | Memory and Storage | Battery Life | Carrying Weight | Warranty | Display Quality |
|-------------------|--------------------|--------------|-----------------|----------|-----------------|
| HP ProBook | 10 | 3 | 10 | 8 | 5 |
| Sony VAIO | 8 | 7 | 7 | 8 | 7 |
| Lenovo IdeaPad | 8 | 5 | 7 | 10 | 10 |
| Apple Macbook | 8 | 7 | 7 | 8 | 7 |
| Toshiba Satellite | 7 | 8 | 7 | 8 | 7 |
| Sony NW | 8 | 3 | 6 | 10 | 8 |
| Dell Inspiron | 10 | 7 | 8 | 6 | 7 |
| HP Pavilion | 4 | 10 | 4 | 8 | 10 |



Step 5: Analyzing Alternatives

- Appraising each alternative's strengths and weaknesses
 - An alternative's appraisal is based on its ability to resolve the issues related to the criteria and criteria weight.

Exhibit 6-4: Evaluation of Alternatives

| | Memory and Storage | Battery Life | Carrying Weight | Warranty | Display Quality | Total |
|-------------------|--------------------|--------------|-----------------|----------|-----------------|-------|
| HP ProBook | 100 | 24 | 60 | 32 | 15 | 231 |
| Sony VAIO | 80 | 56 | 42 | 32 | 21 | 231 |
| Lenovo IdeaPad | 80 | 40 | 42 | 40 | 30 | 232 |
| Apple Macbook | 80 | 56 | 42 | 32 | 21 | 231 |
| Toshiba Satellite | 70 | 64 | 42 | 32 | 21 | 229 |
| Sony NW | 80 | 24 | 36 | 40 | 24 | 204 |
| Dell Inspiron | 100 | 56 | 48 | 24 | 21 | 249 |
| HP Pavilion | 40 | 80 | 24 | 32 | 30 | 206 |



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 alternative

Step 8: Evaluating Decision 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?

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?

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?

Leading

- How do I handle employees who appear to be unmotivated?
- 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?

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?

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 avoid immediate costs.



Decision-Making Biases and Errors (cont.)

- **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 while discounting contradictory information.



Decision-Making Biases and Errors (cont.)

- **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 (cont.)

- **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).

Exhibit 6-11: Common Decision-Making Biases

