Management

Eleventh Edition

Chapter 7
Making Decisions

Learning Objectives

7.1 **Describe** the eight steps in the decision-making process. **Develop your skill** at being creative.

7.2 **Explain** the four ways managers make decisions.

7.3 **Classify** decisions and decision-making conditions.

7.4 **Describe** how biases affect decision making. **Know how to** recognize when you're using decision-making errors and biases and what to do about it

7.5 **Identify** effective decision-making techniques.

Be A Better Decision-Maker

A key to success in management and in your career is knowing how to be an effective decision-maker.

What is a Decision?

Decision—a choice among two or more alternatives

Exhibit 7-1 Decision-Making Process

Identifying a Problem	"My sales reps need new computers!"
Identifying Decision Criteria	• Memory and storage • Display quality • Battery life • Warranty • Carrying weight
Allocating Weights to the Criteria	Memory and storage ....10 Battery life...8 Carrying weight.................................... 6 Warranty.. 4 Display quality...................................... 3
Developing Alternatives	HP ProBook Toshiba Satellite Sony VAIO Sony NW Lenovo IdeaPad Dell Inspiron Apple Macbook HP Pavilion
Analyzing Alternatives	HP ProBook Toshiba Satellite Sony VAIO Sony NW Lenovo IdeaPad Dell Inspiron Apple Macbook HP Pavilion
Selecting an Alternative	HP ProBook Toshiba Satellite Sony VAIO Sony NW Lenovo IdeaPad ✓ Dell Inspiron Apple Macbook HP Pavilion
Implementing the Alternative	Dell Inspiron

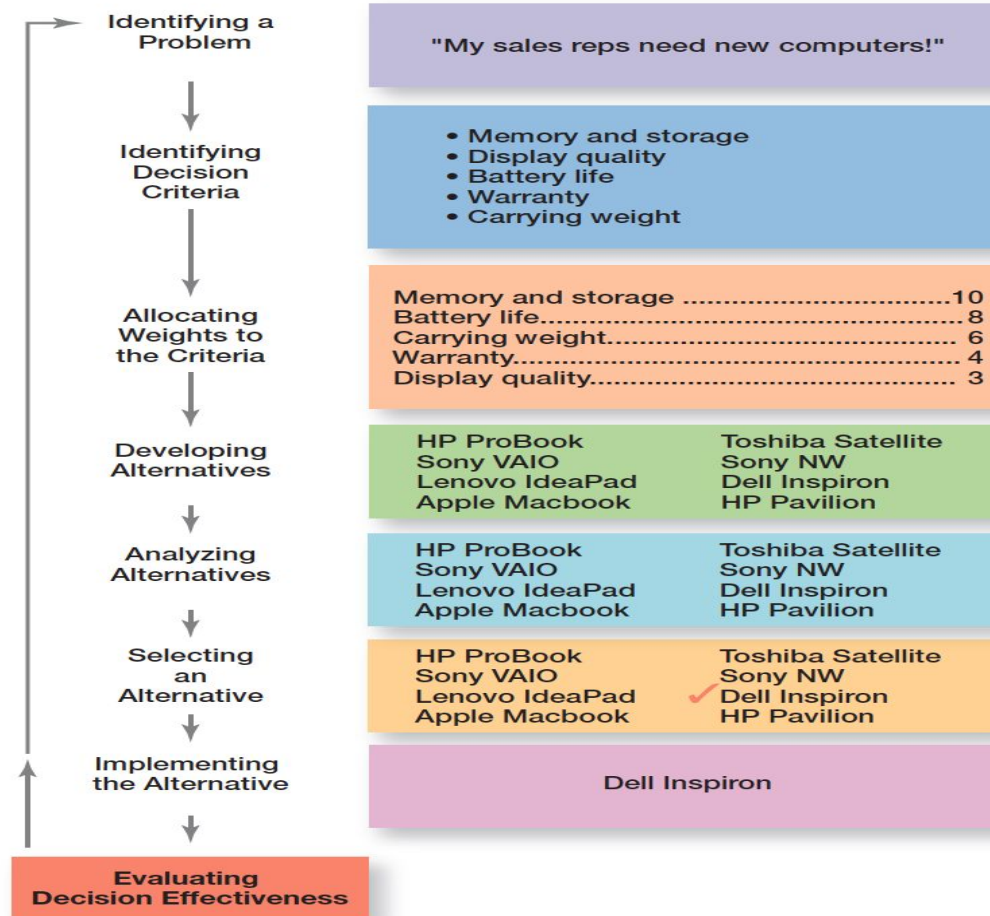**Evaluating Decision Effectiveness**

Exhibit 7-1 shows the eight steps in the decision-making process. This process is as relevant to personal decisions as it is to corporate decisions.

Decision-Making Process
Step 1: Identify a Problem

- **Problem**: an obstacle that makes it difficult to achieve a desired goal or purpose.

- Every decision starts with a **problem**, a discrepancy between an existing and a desired condition.

- Example: Amanda is a sales manager whose reps need new laptops.

Decision-Making Process
Step 2: Identify the Decision Criteria

- Decision criteria are factors that are important to resolving the problem.

- Example: Amanda decides that memory and storage capabilities, display quality, battery life, warranty, and carrying weight are the relevant criteria in her decision

Decision-Making Process
Step 3: Allocate Weights to the Criteria

- If the relevant criteria aren't equally important, the decision maker must weight the items in order to give them the correct priority in the decision.

- Example: The weighted criteria for Amanda's computer purchase are shown in Exhibit 7-2.

Decision-Making Process
Step 4: Develop Alternatives

- List viable alternatives that could solve the problem.

- Example: Amanda identifies eight laptops as possible choices (shown in Exhibit 2-3).

Decision-Making Process
Step 6: Select an Alternative

- Choose the alternative that generates the highest total in Step 5.

Decision-Making Process
Step 7: Implement the Alternative

- Put the chosen alternative into action.

- Convey the decision to those affected and get their commitment to it.

Pearson

Decision-Making Process
Step 8: Evaluate Decision Effectiveness

- Evaluate the result or outcome of the decision to see if the problem was resolved.

- If it wasn't resolved, what went wrong?

Exhibit 7-5
Decisions Managers May Make: Planning and Organizing

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 an organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Managing Risk

- Managers can use historical data or secondary information to assign probabilities to different alternatives

- This is used to calculate expected value—the expected return from each possible outcome—by multiplying expected revenue by the probability of each alternative

Decision Making Biases and Errors: Heuristics

- Heuristics or "rules of thumb" can help make sense of complex, uncertain, or ambiguous information.

- However, they can also lead to errors and biases in processing and evaluating information.

- twelve common decision errors and biases that managers make. Let's look at each

Exhibit 7-11
Common Decision-Making Biases

Exhibit 7-11 identifies 12 common decision errors of managers and biases they may have.

Decision-Making Biases and Errors

- **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

- **Anchoring Effect**: fixating on initial information and ignoring subsequent information

Decision-Making Biases and Errors

- **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

- **Framing Bias**: selecting and highlighting certain aspects of a situation while ignoring other aspects

Decision-Making Biases and Errors

- **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)

Exhibit 7-12
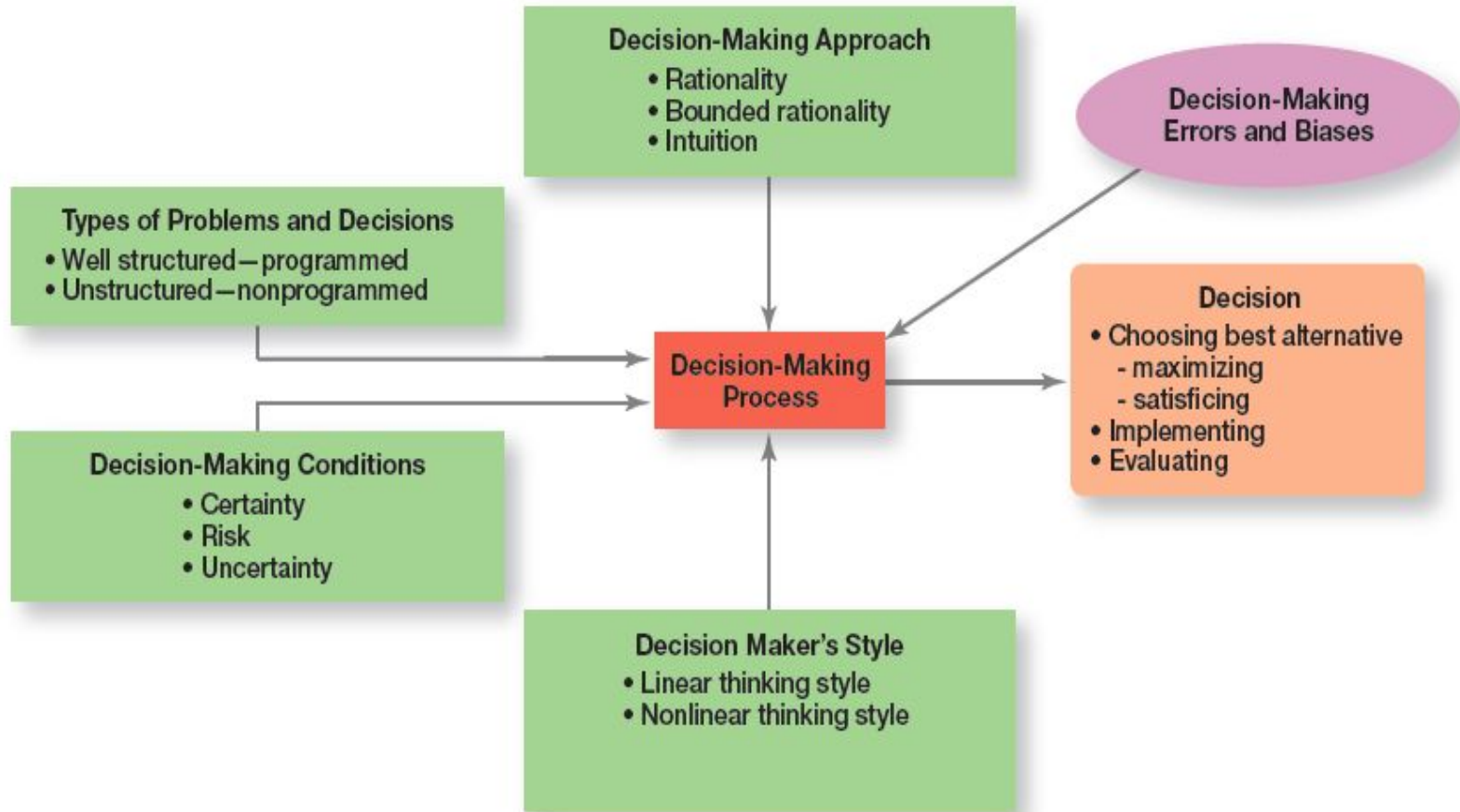# Overview of Managerial Decision Making

Exhibit 7-12 provides an overview of managerial decision making.

Guidelines for Making Effective Decisions

- Understand cultural differences

- Create standards for good decision making

- Know when it's time to call it quits

- Use an effective decision-making process

- Develop your ability to think clearly

Characteristics of an Effective Decision-Making Process

- Focuses on what's important

- Is logical and consistent

- Acknowledges subjective and analytical thinking, blends analytical with intuitive thinking

- Requires only as much information as is needed to resolve particular dilemma

- Encourages the gathering of relevant information

- Is straightforward, reliable, easy-to-use, flexible