CHAPTER 6

Learning Objectives

1. Describe the nature of the decision-making process and explain each of its seven steps.
2. Describe the rational-economic model of decision making.
3. Discuss the behavioral decision model and its related concepts of bounded rationality, intuition, satisficing, and escalation of commitment.

Learning Objectives

4. Describe the participative approach to decision making.
5. Discuss the advantages and disadvantages of group decision making.
6. Explain the various techniques used to improve group decision making.

Decision Making Defined

- The process through which managers identify and resolve problems and capitalize on opportunities.

Seven Steps in the Decision-Making Process

Step 1: Identifying Opportunities & Diagnosing Problems
- The first step in the decision making process is the clear identification of opportunities or the diagnosis of problems that require a decision.
- An assessment of opportunities and problems will only be as accurate as the information on which it is based.

Step 2: Identifying Objectives
- Objectives reflect the results the organization wants to attain. Also called targets, standards or ends.
- The quantity and quality of the desired results should be specified, for these aspects will ultimately guide the decision maker in selecting the appropriate course of action.
- Objectives can be measured on a variety of dimensions (monetary units, output per hour, % of defects, etc.) and whether the objectives are long-term versus short-term.

Step 3: Generating Alternatives
- Once an opportunity has been identified or a problem diagnosed correctly, a manager develops various ways to solve the problem and achieve objectives.
- The alternatives can be standard and obvious as well as innovative and unique.

Step 4: Evaluating Alternatives
- Determining the value or adequacy of the alternatives generated.
- Predetermined decision criteria may be used in the evaluation process.
  - Quality desired
  - Anticipated costs
  - Benefits
Step 5: Reaching Decisions

- Uncertainties
- Risks

Step 6: Choosing Implementation Strategies

- The bridge between reaching a decision and evaluating the results.
- The keys to effective implementation are:
  - Sensitivity to those who will be affected by the decision.
  - Proper planning and consideration of the resources necessary to carry out the decision.

Planning for Implementation

- Determine how things will look when the decision is fully operational.
- Draw up a chronological schedule of the activities and tasks that must be carried out to make the decision fully operational.
- List the resources and activities required to implement each activity or task.
- Estimate the time needed for each activity or task.
- Assign responsibility for each activity or task to specific individuals.

Step 7: Monitoring and Evaluating

- No decision-making process is complete until the impact of the decision has been evaluated.
- Managers must observe the impact of the decision as objectively as possible and take further corrective action if it becomes necessary.

Models of Decision Making

- Rational-Economic Model

Rational-Economic Model

- A prescriptive framework of how a decision should be made that assumes managers have completely accurate information.
- Concentrates on how decisions should be made, not on how they actually are made.

Assumptions of Rational-Economic Model

- Managers have "perfect information."
- Managers attempt to accomplish objectives that are known and agreed upon and have an extensive list of alternatives to choose from.
- Managers are rational, systematic, and logical in assessing alternatives and their associated probabilities.
- Managers work in the best interests of their organizations.
- Ethical decisions do not arise in the decision-making process.

Drawbacks of the Rational-Economic Model

- In practice, the model may not always be a realistic depiction of decision environments and managerial behavior.
– Leaders rarely have access to perfect information.
– Even if perfect information was available, decision makers are limited in their ability to comprehend and process vast amounts of information.

18 **Drawbacks of the Rational-Economic Model**

– Decision makers seldom have adequate knowledge about future consequences of alternatives.
– Personal factors such as fatigue, emotions, attitudes, motives of behaviors intervene to prevent a decision maker from always acting in a completely rational manner.
– Individual culture and ethical values will influence the decision process.

19 **Models of Decision Making**

• Rational-Economic Model

20 **Behavioral Decision Model**

• Unlike the rational-economic model, the behavioral decision-making model acknowledges human limitations that make rational decisions difficult to achieve.
• The behavioral decision model suggests that a person’s cognitive ability to process information is limited.

21 **Behavioral Decision Model**

• The model suggests that managers usually attempt to behave rationally within their limited perception of a situation.
• However, most organizational situations are so complex that managers are forced to view problems within sharply restricted bounds.
• Thus, the manager’s behavior can be considered rational, but only in terms of their simplified view of the problem.

22 **Concepts Important to the Decision Model**

• Bounded Rationality
  – Recognizes that people are limited by organizational constraints such as time, information, resources, and their own mental capabilities.
• Intuition
  – An unconscious analysis based on past experience.

23 **Concepts Important to the Decision Model**

• Satisficing
  – The search and acceptance of something that is satisfactory rather than perfect or optimal.
• Escalation of Commitment
  – The tendency to increase commitment to a previously selected course of action beyond the level that would be expected if the manager followed an effective decision-making process.

24 **Quality Decision Making**

• Vigilance can make a good decision more likely.
• Vigilance means being concerned for and attentive to the correct decision-making procedures.

25 **Procedures for**
Vigilant Decision Makers slide 1 of 3

- Survey the full range of objectives to be fulfilled and identify the values and qualities implicated by the choices.
- Thoroughly canvass a wide range of alternative courses of action. This in the idea-gathering process, which should be separate from idea evaluation.
- Carefully weigh whatever they know about the costs and risks of both the negative and positive consequences that could flow from each alternative.

Procedures for Vigilant Decision Makers slide 2 of 3

- Intensively search for new high-quality information relevant to further evaluation of the alternatives.
- Assimilate and take into account any new advice of information to which they are exposed even when the information or advice does not support the course of action initially preferred.
- Reexamine all the possible consequences of all known alternatives before making a final choice, including those originally regarded as unacceptable.

Procedures for Vigilant Decision Makers slide 3 of 3

- Making detailed provisions for implementing or executing the chosen course of action.
- Give special attention to contingency plans that might be required if various known risks materialize.

Group Considerations in Decision Making

- Group decision making is becoming more common as organizations focus on improving customer service and push decision making to lower levels.

Participative Models:

Vroom and Yetton Model

- Helps managers determine when group decision making is appropriate.
- The model postulates that there are five decision-making styles arranged along a continuum.
- The decision methods become progressively more participative as one moves from the highly autocratic style (AI) to the group style (GII), where the manager allows the group to decide.

Vroom and Yetton Decision Styles

- The nature of the decision itself determines the appropriate degree of participation and they provide diagnostic questions to help managers select the appropriate level.
- A participative decision style is desirable:
  - When subordinates have useful information and share the organization’s goals.
– When subordinates commitment to the decision is essential.
– When timeliness is not crucial.
– When conflict is unlikely.

37  Impact of Group Size
    on Participative Decision Making
    • In general, as group size increases:
      – The leader becomes more psychologically distant from the other members.
      – The demands on the leader’s time and attention are greater
      – The group’s tolerance of direction from the leader is greater, and the team’s decision making
        becomes more centralized.
      – The atmosphere is less friendly, less personal and, in general, less satisfying.
      – Rules and procedures become more formalized.

38  Advantages of Group Decision Making
    • Experience and expertise of several individuals available.
    • More information, data, and facts accumulated.
    • Problems viewed from several perspectives.
    • Higher member satisfaction.
    • Greater acceptance and commitment to decisions.

39  Disadvantages of Group Decision Making
    • Greater time requirement
    • Minority domination
    • Compromise
    • Concern for individual rather than group goals
    • Social pressure to conform
    • Groupthink

40  What is Groupthink?
    • An agreement-at-any-cost mentality that results in ineffective group decision making.

41  Characteristics of Groupthink
    • Illusions of invulnerability
    • Collective rationalization
    • Belief in the morality of group decisions
    • Self-censorship
    • Illusion of unanimity in decision making
    • Pressure on members who express arguments

42  Types of Defective Groupthink Decisions
    • Incomplete survey of alternatives
    • Incomplete survey of goals
    • Failure to examine risks of preferred decisions
    • Poor information search
• Failure to reappraise alternatives
• Failure to develop contingency plans

43  ❙ Techniques for Quality in Group Decision Making

• Brainstorming
• Nominal Group Technique
• Delphi Technique
• Devil’s Advocacy Approach
• Dialectical Inquiry

44  ❙ Brainstorming

• A technique used to enhance creativity that encourages group members to generate as many novel ideas as possible on a given topic without evaluating them.

45  ❙ Rules of Brainstorming

• Freewheeling is encouraged.
• Group members will not criticize ideas as they are being generated.
• Quality is encouraged.
• The wilder the ideas the better.
• Piggyback on previously stated ideas.
• No ideas are evaluated until after all alternatives are generated.

46  ❙ Nominal Group Technique (NGT)

• A structured process designed to stimulate creative group decision making where agreement is lacking or the members have incomplete knowledge concerning the nature of the problem.

47  ❙ Delphi Technique

• Uses experts to make predictions and forecasts about future events without meeting face-to-face.

48  ❙ Devil’s Advocacy & Dialectical Inquiry

• Devil’s Advocacy
  – An individual or subgroup appointed to critique a proposed course of action and identify problems to consider before the decision is final.
• Dialectical Inquiry
  – Approaches a decision from two opposite points and structures a debate between conflicting views.

49  ❙ Implications for Leaders:

Decision Making

• Be committed to the decision-making process; use it, and let data, not emotions, drive decisions.
• Seek employees’ input before you make key decisions.
• Believe in, foster, and support group decision making in the organization.
• Believe that the best way to improve the quality of decisions is to ask and listen to
employees who are doing the work.

50  Implications for Leaders: Decision Making

- Seek and use high-quality information.
- Avoid “top-down” power-oriented decision making wherever possible.
- Encourage decision-making creativity through risk taking, and be tolerant of honest mistakes.
- Develop an open atmosphere that encourages organizational members to offer and accept feedback.