PART 2
Planning

CHAPTER 4
Managing Decision Making

Fundamentals of MANAGEMENT

© 2016 Cengage Learning. All rights reserved. May not be copied, scanned, or duplicated, in whole or in part, except as permitted in a license distributed with a certain product or service or otherwise on a password-protected website for classroom use.
1. Define decision making and discuss types of decisions and decision-making conditions.

2. Discuss rational perspectives on decision making, including the steps involved.

3. Describe the behavioral aspects of decision making.

4. Discuss group and team decision making, including its advantages and disadvantages and how it can be more effectively managed.
• Decision Making
  – The act of choosing one (the best) alternative from among a set of alternatives.

• Decision-Making Process:

  Recognizing and defining the decision situation
  → Identifying alternatives
  → Choosing the “best” alternative
  → Putting the alternative into practice
• Decision-Making Process (cont’d)

– An effective decision optimizes some set of factors such as profits, sales, employee welfare, and market share.

– Managers make decisions about both problems and opportunities.
Types of Decisions

• Programmed Decision
  – A decision that is relatively structured or recurs with some frequency (or both).
  – Example: Starting your car in the morning.

• Nonprogrammed Decision
  – A decision that is relatively unstructured and occurs much less often than a programmed decision.
  – Example: Choosing a vacation destination.
Decision-Making Conditions

- Decision Making Under Certainty
- Decision Making Under Risk
- Decision Making Under Uncertainty
The decision maker faces conditions of...

- Certainty
- Risk
- Uncertainty

Level of ambiguity and chances of making a bad decision:

- Lower
- Moderate
- Higher
• Your are captain of a container ship caught in a typhoon. Water is leaking into the cargo hold and you are unsure of whether or not you should abandon ship.

– What state of uncertainty is described in this scenario?

– How does the state of uncertainty affect the likelihood that you will make the correct decision?
Distinguishing Between Decision Making Conditions

- Are there multiple possible outcomes?
  - Yes → Are the probabilities of the outcomes known?
    - Yes → Decision is risky.
    - No → Decision is uncertain.
  - No → Decision is certain.
Decision-Making Conditions

- **Decision Making Under Certainty**
  - The decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative.

- **Decision Making Under Risk**
  - The availability of each alternative and its potential payoffs and costs are all associated with risks.

- **Decision Making Under Uncertainty**
  - The decision maker does not know all the alternatives, the risks associated with each, or the consequences of each alternative.
FIGURE 4.2 The Classical Model of Decision Making

When faced with a decision situation, managers should...

• obtain complete and perfect information
• eliminate uncertainty
• evaluate everything logically and rationally

...and end up with a decision that best serves the interests of the organization.
<table>
<thead>
<tr>
<th>Step</th>
<th>Detail</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Recognizing and defining the</td>
<td>Some stimulus indicates that a decision must be made. The stimulus may</td>
<td>A plant manager sees that employee turnover has increased by 5 percent.</td>
</tr>
<tr>
<td>decision situation</td>
<td>be positive or negative.</td>
<td></td>
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<tr>
<td>2. Identifying alternatives</td>
<td>Both obvious and creative alternatives are desired. In general, the</td>
<td>The plant manager can increase wages, increase benefits, or change hiring</td>
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<tr>
<td></td>
<td>more important the decision, the more alternatives should be</td>
<td>standards.</td>
</tr>
<tr>
<td></td>
<td>generated.</td>
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<tr>
<td>3. Evaluating alternatives</td>
<td>Each alternative is evaluated to determine its feasibility, its</td>
<td>Increasing benefits may not be feasible. Increasing wages and changing</td>
</tr>
<tr>
<td></td>
<td>satisfactoriness, and its consequences.</td>
<td>hiring standards may satisfy all conditions.</td>
</tr>
<tr>
<td>4. Selecting the best alternative</td>
<td>Consider all situational factors, and choose the alternative that best</td>
<td>Changing hiring standards will take an extended period of time to cut</td>
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<tr>
<td></td>
<td>fits the manager’s situation.</td>
<td>turnover, so increase wages.</td>
</tr>
<tr>
<td>5. Implementing the chosen</td>
<td>The chosen alternative is implemented into the organizational system.</td>
<td>The plant manager may need permission from corporate headquarters. The</td>
</tr>
<tr>
<td>alternative</td>
<td></td>
<td>human resources department establishes a new wage structure.</td>
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<tr>
<td>6. Following up and evaluating</td>
<td>At some time in the future, the manager should ascertain the extent to</td>
<td>The plant manager notes that, six months later, turnover dropped to its</td>
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<tr>
<td>the results</td>
<td>which the alternative chosen in step 4 and implemented in step 5 has</td>
<td>previous level.</td>
</tr>
<tr>
<td></td>
<td>worked.</td>
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</tbody>
</table>
Optimization—selecting the alternative that offers the best combination (balance) of feasibility, satisfactoriness, and affordability suited to the situation.
When faced with a decision situation, managers *actually*...

- use incomplete and imperfect information
- are constrained by bounded rationality
- tend to satisfice

...and end up with a decision that may or may not serve the interests of the organization.
What Influences Decision Making

- Political forces
- Intuition
- Escalation of commitment
- Risk propensity
- Ethics
- Coalitions
- Satisficing
- Bounded rationality

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Behavioral Aspects of Decision Making

• Bounded Rationality
  – The concept that decision makers are limited by their values and unconscious reflexes, skills, and habits.

• Satisficing
  – The tendency to search for alternatives only until one is found that meets some minimum standard of sufficiency to resolve the problem.
  • Personal motives and biases
  • Expediency (degree of impact alternative choice will have)
  • Cost of continuing to search for alternatives
Behavioral Aspects of Decision Making (cont’d)

• Coalition
  – A positive or negative political force in decision making which consists of an informal alliance of individuals or groups formed to achieve a goal.

• Using Coalitions
  – When to use them
  – Assessing their impact
  – Constraining their effects
Behavioral Aspects of Decision Making (cont’d)

- **Intuition**
  - An innate belief about something without conscious consideration.

- **Escalation of Commitment**
  - A decision maker’s staying with a decision even when it appears to be wrong.

- **Risk Propensity**
  - The extent to which a decision maker is willing to gamble when making a decision.
Management Challenge Question

• How could a coalition lead to escalation of commitment?
• What can be done to prevent or avoid the escalation?
• How are escalation of commitment and groupthink related?
Managerial Ethics and Decision Making

Managerial Ethics

Employees

Individual Ethics

Organizational Ethics

Other economic agents
Managerial Ethics

– Individual ethics (personal beliefs about right and wrong behavior) combine with the organization’s ethics to create managerial ethics.

– Components of managerial ethics:
  • Relationships of the firm to employees
  • Employees to the firm
  • The firm to other economic agents
Forms of Group Decision Making

- Interacting groups or teams
- Delphi groups
- Nominal groups
Group and Team Decision Making

• Forms of Group Decision Making
  – Interacting groups or teams
    • Consists of an existing group or newly formed team interacting and then making a decision.
  – Delphi groups
    • Developing a consensus of expert opinion from a panel of experts who individually contribute through a moderator.
  – Nominal groups
    • Generating ideas through the individual contributions of alternatives that are winnowed down to reach a decision.
### Table 4.2 Advantages and Disadvantages of Group and Team Decision Making

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
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</thead>
<tbody>
<tr>
<td>More information and knowledge are available.</td>
<td>The process takes longer than individual decision making, so it is costlier.</td>
</tr>
<tr>
<td>More alternatives are likely to be generated.</td>
<td>Compromise decisions resulting from indecisiveness may emerge.</td>
</tr>
<tr>
<td>More acceptance of the final decision is likely.</td>
<td>One person may dominate the group.</td>
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<tr>
<td>Enhanced communication of the decision may result.</td>
<td>Groupthink may influence a group or team’s desire for consensus and overwhelm its desire to reach the best possible decision.</td>
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<tr>
<td>Better decisions generally emerge.</td>
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</tbody>
</table>
The Group-think Process

Group Characteristics
1. Group Cohesiveness
2. Leader Promotion of Preferred Solution
3. Insulation from Expert Opinion

Symptoms of Groupthink
1. Invulnerability
2. Rationalization
3. Morality
4. Stereotyping
5. Peer Pressure
6. Self-censorship
7. Unanimity
8. Mindguards

Decision-Making Defects
1. Few Alternatives
2. No Reexamination of Preferred Alternative
3. No Reexamination of Rejected Alternative
4. Rejection of Expert Opinions
5. Selective Bias of New Information
6. No Contingency Plans

Outcome Variables
Lower Performance
Lower Decision Quality

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Managing Group and Team Decision-Making Processes

**Promoting the Effectiveness of Group and Team Decision Making:**

- Be aware of the pros and cons of having a group or team make a decision.
- Set deadlines for when decisions must be made.
- Avoid problems with dominance by managing group membership.
- Have each group member individually and critically evaluate all alternatives.
- As a manager, do not make your position known too early.
- Appoint a group member to be a “devil’s advocate.”
- Hold a follow-up meeting to recheck the decision.