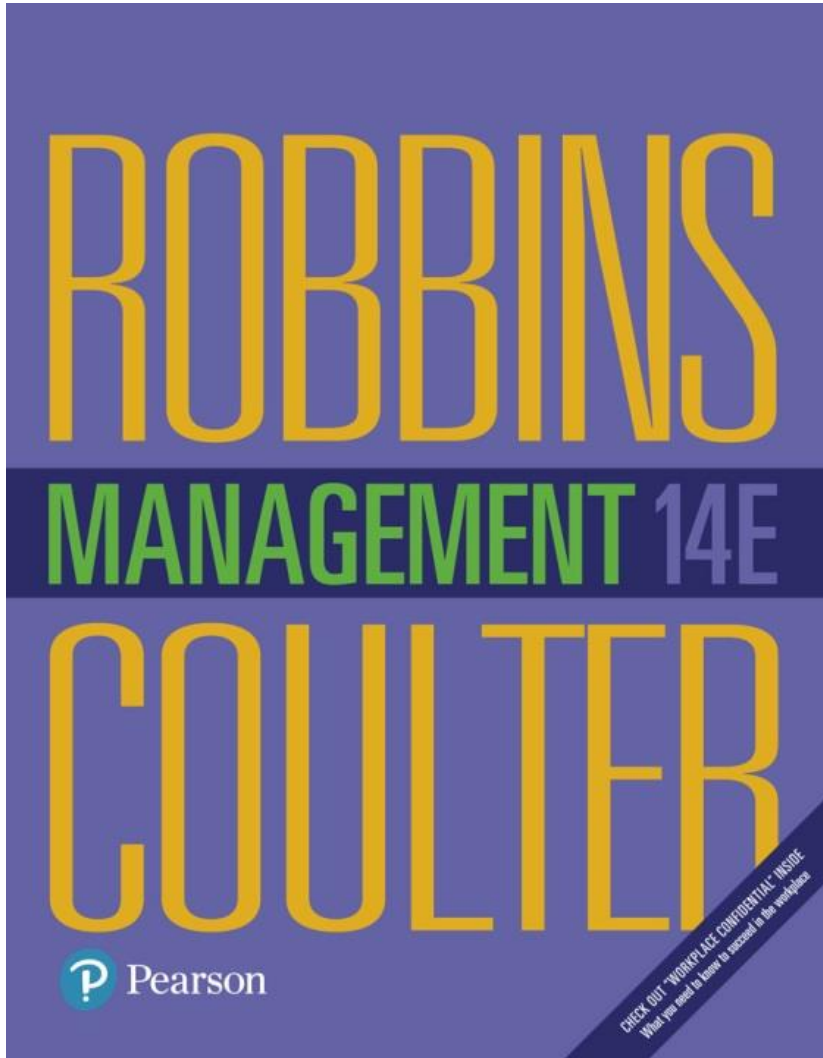


Management

Fourteenth Edition



Chapter 2

Making Decisions

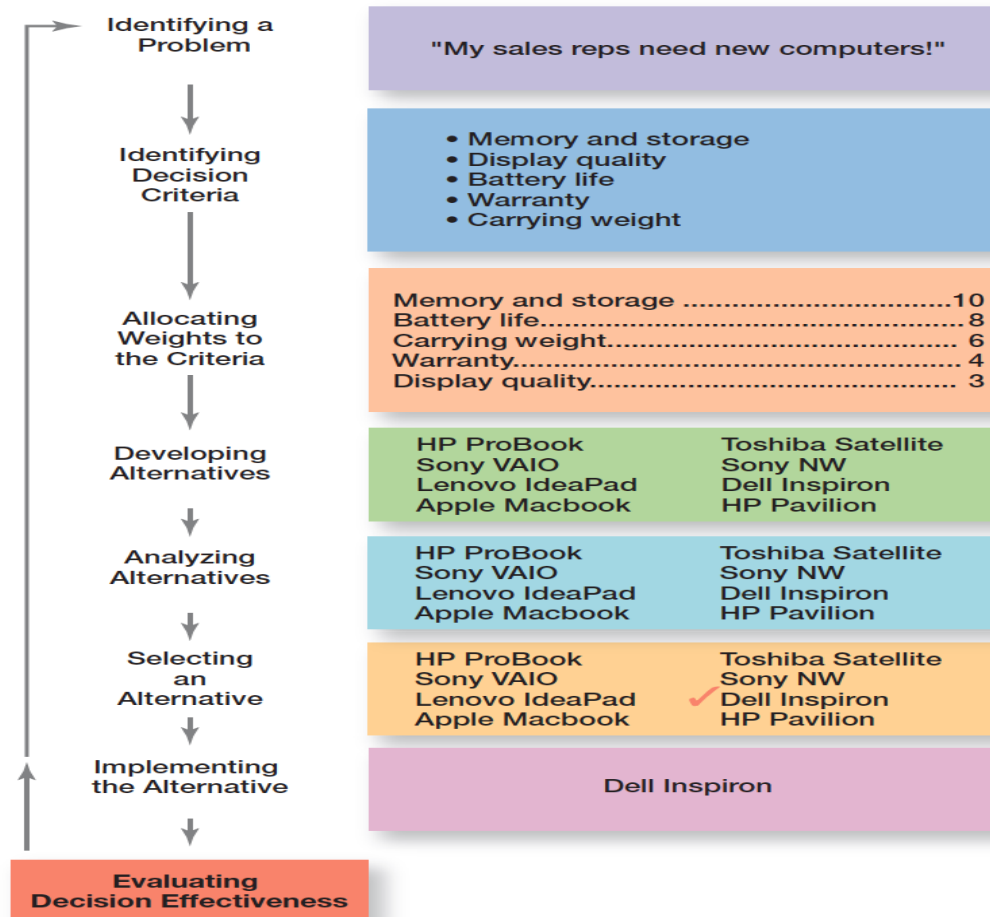
Be A Better Decision-Maker

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

Decision—a choice among two or more alternatives

Exhibit 2-1

Decision-Making Process



<https://www.youtube.com/watch?v= Mi84r1LK80>

Exhibit 2-1 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 2-2.

Exhibit 2-2

Important Decision Criteria

Criterion	Weight
Memory and storage	10
Battery life	8
Carrying weight	6
Warranty	4
Display quality	3

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).

Exhibit 2-3

Possible Alternatives

Laptop	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
HP ProBook	10	3	10	8	5
Lenovo IdeaPad	8	5	7	10	10
Apple MacBook	8	7	7	8	7
Toshiba Satellite	7	8	7	8	7
Apple MacBook Air	8	3	6	10	8
Dell Inspiron	10	7	8	6	7
HP Pavilion	4	10	4	8	10

Decision-Making Process

Step 6: Select an Alternative

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

Exhibit 2-4

Evaluation of Alternatives

Laptop	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
HP ProBook	100	24	60	32	15	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
Apple MacBook Air	80	24	36	40	24	204
Dell Inspiron	100	56	48	24	21	249
HP Pavilion	40	80	24	32	30	206

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.

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?

Rationality

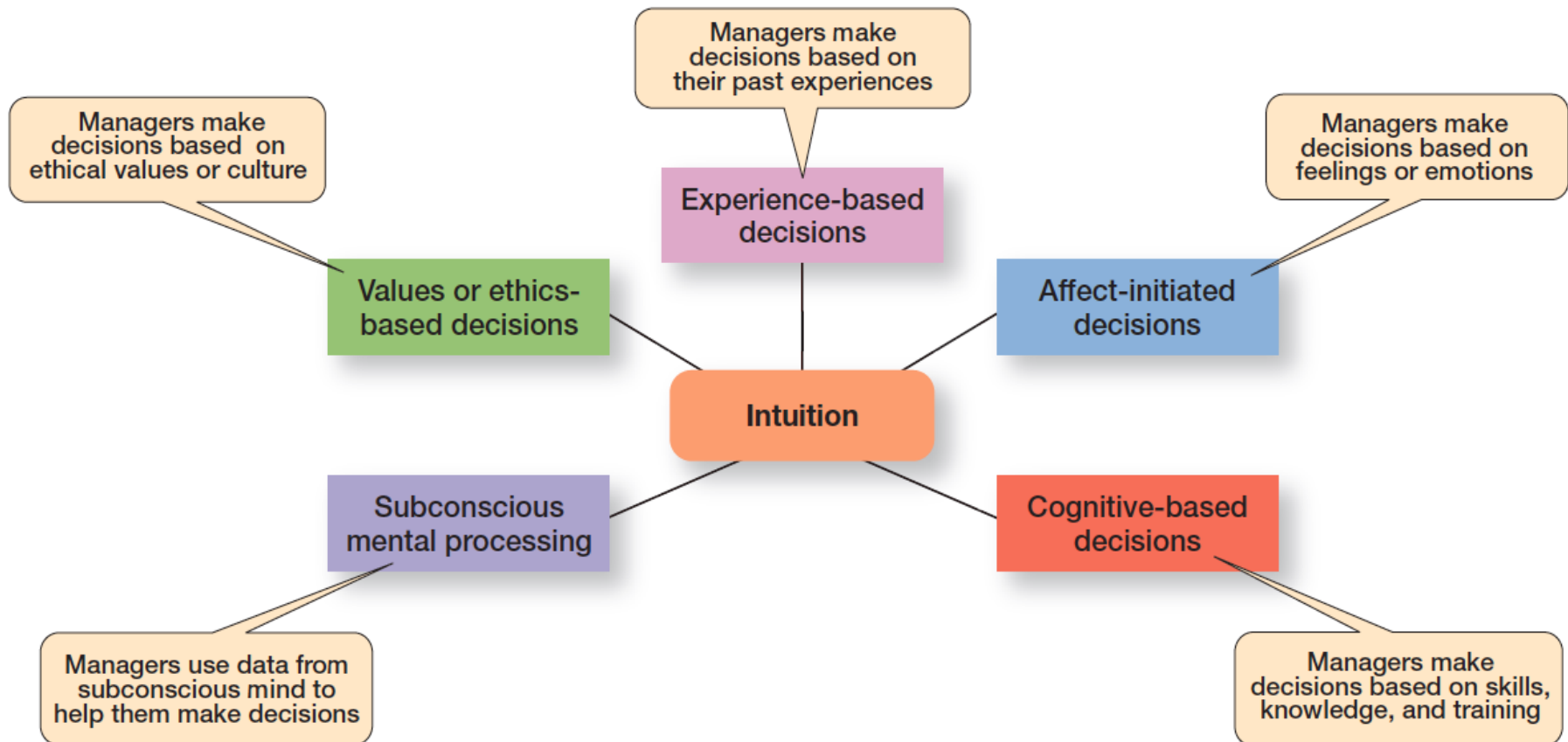
- **Rational Decision-Making:** choices that are logical and consistent and maximize value
- Assumptions of rationality:
 - Rational decision maker is logical and objective
 - Problem faced is clear and unambiguous
 - Decision maker would have clear, specific goal and be aware of all alternatives and consequences
 - The alternative that maximizes achieving this goal will be selected
 - Decisions are made in the best interest of the organization

Bounded Rationality

- **Bounded rationality:** decision making that's rational, but limited by an individual's ability to process information
- **Satisfice:** accepting solutions that are “good enough”
- **Escalation of commitment:** an increased commitment to a previous decision despite evidence it may have been wrong

Exhibit 2-6

What is Intuition?



<https://www.youtube.com/watch?v=fLixyDdRxdS>

Exhibit 2-6 shows the five different aspects of intuition identified by researchers studying managers' use of intuitive decision-making.

Evidence-Based Management

- **Evidence-based management (EBMgt):** the systematic use of the best available evidence to improve management practice.

Types of Decisions

- **Structured problems:** straightforward, familiar, and easily defined problems
- **Programmed decisions:** repetitive decisions that can be handled by a routine approach
- **Unstructured problems:** problems that are new or unusual and for which information is ambiguous or incomplete
- **Nonprogrammed decisions:** unique and nonrecurring and involve custom made solutions

Types of Programmed Decisions

- **Procedure:** a series of sequential steps used to respond to a well-structured problem
- **Rule :** an explicit statement that tells managers what can or cannot be done
- **Policy:** a guideline for making decisions

Decision-Making Conditions

- **Certainty:** a situation in which a manager can make accurate decisions because all outcomes are known
- **Risk:** a situation in which the decision maker is able to estimate the likelihood of certain outcomes
- **Uncertainty:** a situation in which a decision maker has neither certainty nor reasonable probability estimates available

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

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.

Decision-Making Biases and Errors (1 of 4)

- **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 (2 of 4)

- **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 (3 of 4)

- **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 (4 of 4)

- **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)

<https://www.youtube.com/watch?v=PxougM71NP4>

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

Copyright

