CHAPTER SEVEN

The Decision-Making Process

DETAILED LECTURE OUTLINE

I. Introduction to decision making
   A. Decision = a choice that is made among a number of available alternatives
   B. Four-step decision-making model
      1. Identify the need for a decision
      2. Develop alternative responses
      3. Choose the appropriate alternative
      4. Implement the choice

II. Mainstream approach to the four-step decision-making process
   A. Step 1: Identify the need for a decision
      1. Managers use scripts to determine which ones require a decision immediately and which ones can be delayed or ignored
         a) Scripts = learned guidelines or procedures that help people interpret and respond to what is happening around them
   B. Step 2: Develop alternative responses
      1. Managers can develop three basic alternative responses
         a) Do nothing
            (1) This is the appropriate response when the cost of the effort of doing “something” exceeds the benefits
         b) Programmed decisions
            (1) Definition: Routine decisions where standard alternatives are chosen in response to recurring organizational issues
            (2) Programmed decisions are scripts or shortcuts that help managers avoid the entire detailed decision-making process
            (3) Potential problem is being overly reliant on programmed decisions when standard procedures are not appropriate for the situation
         c) Nonprogrammed decisions
            (1) Definition: developing and choosing new alternatives in situations where programmed decisions have not yet been developed or are not appropriate
            (2) The amount of time and resources invested in creating nonprogrammed alternatives is influenced by three considerations
               (a) The perceived importance of the decision
               (b) The newness of the situation
               (c) The urgency of decision making (managers sometimes develop alternatives or “contingency plans” to prevent having to make urgent decisions)
   C. Step 3: Choose appropriate alternative
      1. Two basic dimensions that influence how a decision is made
         a) Goal consensus: The level of agreement among members about which goals the organization should pursue
         b) Available knowledge: The amount of information available about how to achieve goals
(1) Uncertainty: Evident when decision makers do not know what outcomes to expect when choosing a particular alternative
(2) Risk: The likelihood that a chosen alternative will result in a negative outcome for a larger goal
c) Framing: The way in which a problem and alternatives are presented influences the decisions people make

2. Five basic decision-making approaches based on the two dimensions of consensus and knowledge
   a) Classical rational (high consensus, high knowledge)
      (1) Includes rational methods such as decision trees, break-even analysis, inventory and supply chain models
      (2) Rarely used because having time and complete information is unusual
      (3) Cautionary note: Even when a “rational” approach is used, people still can make bad decisions
   b) Political (low consensus, high knowledge)
      (1) Includes bargaining, debates, blaming, compromise, and coalition formation
      (2) Can have the negative effects of increasing anxiety, reducing job satisfaction, and reducing confidence in management
   c) Incremental trial and error (high consensus, low knowledge)
      (1) Can include continuous improvement approaches or intuition
         (a) Continuous improvement = making many small, incremental improvements on an ongoing basis
         (b) Intuition = making decisions based on tacit knowledge derived from experience, insight, hunches, or “gut” feelings that are difficult to articulate
   d) Random (low consensus, low knowledge)
      (1) Includes chaos, copying other organizations, or relying on luck
      (2) Often results in poor decisions but can lead to “breakthrough” decisions
   e) Administrative model (medium consensus, medium knowledge)
      (1) Probably the most common type of decision actually made in practice because of bounded rationality
         (a) Bounded rationality = Herbert Simon’s notion that managers rarely have complete information and time to make decision
         (b) Factors that can contribute to bounded rationality include the tendency to overweight early pieces of information and information obtained firsthand
      (2) Often results in satisficing, which occurs when managers are content with an adequate response rather than attempting an optimal response

D. Step 4: Implement the choice
1. Some decisions are more difficult to implement than others, particularly those that are nonprogrammed and challenge the organization’s basic way of operating
2. Key challenge is to overcome resistance to implementation
   a) Helps to involve members in earlier steps (although Mainstream might see this as overly costly and time-consuming in many cases)
   b) Researchers have developed a model to indicate the appropriate level of employee involvement in various decision-making situations
3. Once a decision is implemented, the process returns to Step 1 for evaluation and addresses potential failures
   a) About half of decisions fail
b) Escalation of commitment: occurs when managers persevere with implementation of a poor decision in spite of evidence that it is not working
   (1) Factors contributing to escalation of commitment
      (a) Praising or valuing persistence
      (b) Using same decision-making process as had been used in a previous successful decision
      (c) Information distortion: the tendency to overlook or downplay negative feedback about a decision and instead to focus on positive feedback about a decision
      (d) Administrative inertia: existing structures and systems persist simply because they are already in place (i.e., bodies in motion stay in motion; bodies at rest stay at rest)

III. Multistream approach to the four-step decision-making process
   A. Step 1: Identify the need for a decision
      1. Differs from Mainstream process in two ways
         a) Goes beyond maximizing material gain and begins when an opportunity is recognized for an improvement in various forms of well-being
         b) Often prompted by stakeholders other than just managers

   B. Step 2: Develop alternative responses
      1. Differences from Mainstream
         a) Typically have larger range of alternatives to develop because they are not limited to the sole goal of maximizing financial outcomes of owners
         b) Consider alternatives that are financially viable but potentially less profitable than others
         c) Likely to include stakeholders in developing alternatives

   C. Step 3: Choose appropriate alternative
      1. Multistream managers do not necessarily strive for classical/rational decision-making with high knowledge and high consensus
      2. Multistream managers do not expect goal consensus but rather respect differences
      3. More likely to emphasize tacit knowledge in addition to Mainstream emphasis on explicit knowledge

   D. Step 4: Implement the choice
      1. Because of stakeholder input into the decision, Multistream decisions are less likely to be resisted than Mainstream decisions
      2. Multistream tendency to view decisions as “experiments” that can be improved rather than something that must be rigid and defended