Principles of Management
Dyck / Neubert

Chapter 7
The Decision-Making Process

Roadmap

Introduction to Decision-Making

- Decision
  - A choice that is made among a number of available alternatives.
- Decision Process
  1. Identify the need for a decision
  2. Develop alternative responses
  3. Choose the appropriate alternative
  4. Implement the chosen alternative
Mainstream Approach to the Four-Step Decision-Making Process

- Step 1: Identify the need for a decision
  - Identifying problems and opportunities to meet or surpass financial goals
  - Using learned scripts:
    - Programmed decisions
    - Non-programmed decisions
  - Mistaking symptoms for the underlying issue
Mainstream Approach to the Four-Step Decision-Making Process

- Step 3: Choose the appropriate alternative
  - Choose an alternative, using a method based on how much goal consensus and knowledge is available for each alternative.
  - Key Factors:
    - Goal consensus about which goals to pursue
    - Available knowledge about:
      - How to achieve goals
      - Uncertainty about outcomes
      - Risk that alternative will result in negative outcome

Decision Making Approaches

- Classical Rational Approach
  - High consensus, high knowledge
- Political Approach
  - Low consensus, high knowledge
- Incremental Trial-and-Error Approach
  - High consensus, low knowledge
  - Continuous improvement
  - Intuition

Decision-Making Approaches (cont’d)

- Random (low consensus, low knowledge)
  - No agreement on goals and lack of knowledge about how to reach goals
- Administrative model (medium consensus, medium knowledge)
  - Bounded rationality
    - Limited cognitive capabilities and personal biases
    - Limited information—anchoring, past practices
    - Limited resources for processing information
  - Satisficing—choosing an adequate response
Figure 7.3: Five Basic Methods for Choosing an Option

Digging Deeper: The Effect of Framing on Decision-Making

- Framing
  - Presenting ideas and alternatives in a way that has an influence on the choices that people make

Mainstream Approach to the Four-Step Decision-Making Process

- Step 4: Implement the chosen alternative
  - Implement the alternative. Use a participative approach to overcome resistance
    - Involving members in earlier steps
  - Factors in implementation
    - Significance of the problem for the organization
    - Competency to analyze the problem and develop alternatives
    - Availability of adequate knowledge
    - Commitment to implementing the alternative
Table 7.1: How Various Aspects of the Four-Step Decision-Making Process Influence the Level of Participation That Managers Are Recommended to Use

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Recommendation Level</th>
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<tbody>
<tr>
<td>Cause of Poor Decisions</td>
<td>Failure to recognize significance of problem</td>
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<td>Lack of participation</td>
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<td>Insufficient information</td>
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<td>Failure to delegate/facilitate decisions</td>
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<td>Administrative inertia</td>
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Poor Decisions

- Causes
  - Failure to recognize significance of problem
  - Lack of participation
  - Insufficient information
  - Failure to delegate/facilitate decisions
  - Lack of commitment and support
- Persistence Errors
  - Escalation of commitment
  - Information distortion
  - Administrative inertia

Figure 7.4: Intuition’s Physiological Basis
Digging Deeper:
Culture and The Decision-making Process

• The Ringi Decision Making Process
  – The need for a decision can be presented by any member of the organization
  – The request has been discussed informally, it is written in a memo and formally circulated.
  – The decision memo is circulated and approved by each member
  – Decision is formally recorded and “stamped” as approved by members.

Multistream Approach to the Four-Step Decision-Making Process

• Step 1: Identify the need for a decision
  – Identify problems and opportunities for the organization that will improve a variety of forms of well-being.
    • Goes beyond simply maximizing material gain (materialist-individualist)
    • A listening posture is more likely to be prompted by stakeholders other than just managers

• Step 2: Develop alternative responses
  – Develop alternative responses to problems or opportunities, with an eye to ensuring that overall well-being is enhanced.
    • Not directed solely towards financial well-being
    • Involves stakeholders other than managers
Multistream Approach to the Four-Step Decision-Making Process

• Step 3: Choose appropriate alternative
  – Choose an alternative that has been developed, appreciating the healthy tension among various goals, and drawing on both explicit and tacit knowledge
    • Goal consensus is not expected because members respect one another’s differing views.
    • Emphasis is on multiple goals, multiple forms of well-being, and using multiple criteria to evaluate decisions.

• Step 4: Implement the chosen alternative
  – Implement the chosen alternative, using a participative approach if necessary to overcome resistance.
  – Key considerations:
    • How to manage resistance
    • Feedback during implementation improves decision-making and reduces problems