Weeks 3 & 4

Decision Making

Topic outline:

1. The Decision Making Process
2. The Pervasiveness of Decision Making
3. The Manager as Decision Maker
4. Types of Problems and Decisions
5. Decisions-Making Conditions/Styles

Decision Making

The process by which managers respond to opportunities and threats by analyzing options and making determinations about specific organizational goals and courses of actions.

Decision making process – A set of eight steps that include identifying a problem, selecting an alternative, and evaluating the decision’s effectiveness.

The Decision Making Process

1. Identification of a Problem
2. Identification of Decision Criteria
3. Allocation of Weights to Criteria
4. Development of Alternatives
5. Analysis of Alternatives
6. Selection of an Alternative
7. Implementation of the Alternative
8. Evaluation of Decision Effectiveness

The Manager As Decision Maker

How managers make decisions?

Managers can make decisions on the basis of:

1. rationality
2. bounded rationality
3. intuition.

Assumption of rationality

Rational managerial decision making assumes that decisions are made in the best interests of the organizations.

Managerial decision making can be rational if the following conditions are met:

Assumptions of Rationality

1. The problem is clear and unambiguous
2. A single, well-defined goal is to be achieved
3. All alternatives and consequences are known
4. Preferences are clear
5. Preferences are constant and stable
6. No time or cost constraints exist
7. Final choice will maximize payoff

Bounded Rationality

Decision making behaviour that is rational, but limited (bounded) by an individual's ability to process information.

Because they cannot possibly analyze all information on all alternatives, managers satisfice (accepting solutions that are "good enough"), rather than maximize.

Intuitive decision making

Making decisions on the basis of experience, feelings, and accumulated judgment.

What is intuition?

1. Values ethics based decisions – Managers make decisions based on ethical values or culture.
2. Experienced based decisions – Managers make decisions based on their past experience.
3. Affect – initiated decisions – Managers make decisions based on feelings or emotions.
4. Cognitive based decisions – Managers make decisions based on skills, knowledge and training.
5. Subconscious – Managers use data from subconscious mind to help them make decisions

Types of Problems and Decisions

1. Structured problems – are straightforward, familiar and easily defined. In handling the situation, a manager can use a programmed decision, which is repetitive decision that can be handled by a routine approach.

2. There are 3 possible programmed decision:

   a) Procedure

   b) Rule

   c) Policy

Programmed Decision

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a) A Procedure is a series of interrelated sequential steps that can be used to respond to a structured problem.

b) A rule is an explicit statement that tells managers what they ought or ought not to do.

c) A policy is a guide that establishes parameters for making decisions rather than specifically stating what should or should not be done.

Types of Problems Decisions

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2. Unstructured problems are new or unusual problems in which information is incomplete. These problems are best handled by a non programmed decision that requires a custom-made solution.

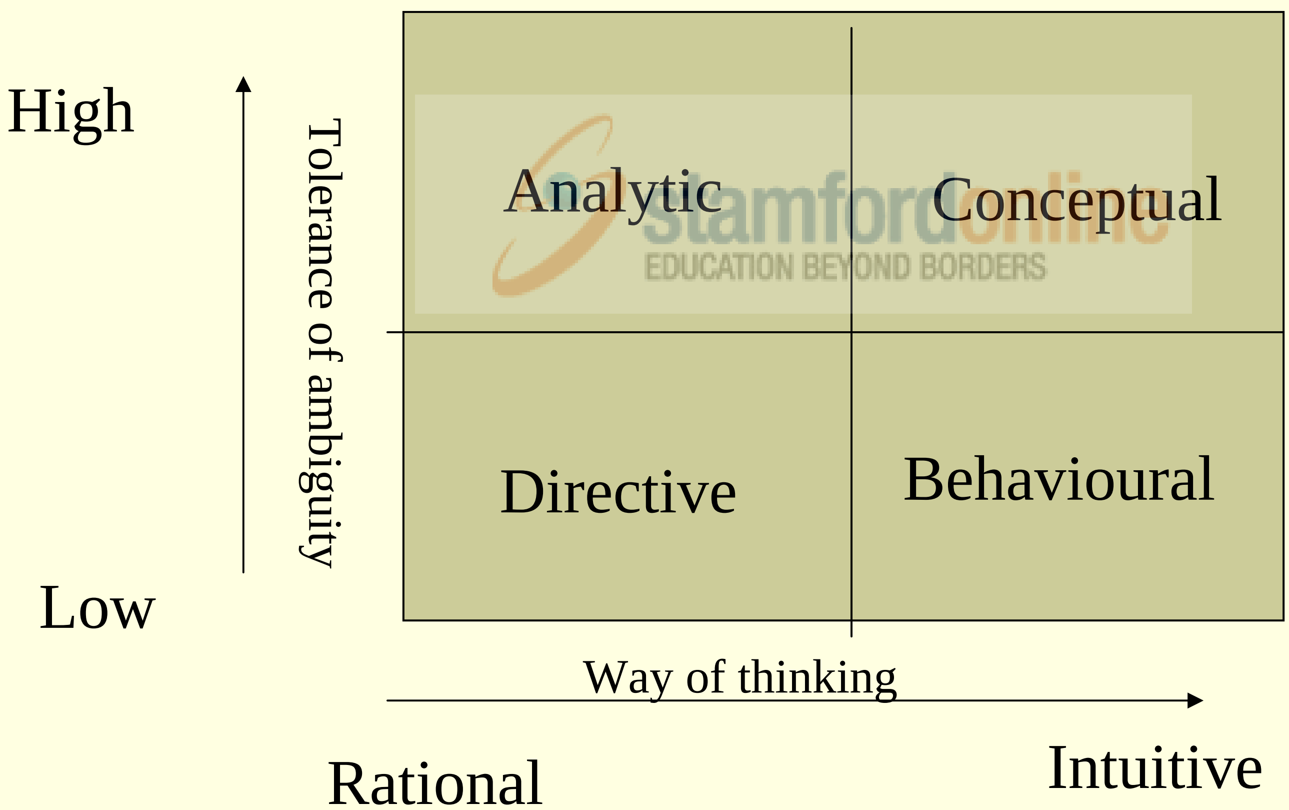
Decision Making Conditions

1. Certainty is a situation which a manager can make accurate decisions because the outcome of every alternative is known.
2. Uncertainty is a situation in which the decision maker has neither certainty nor reason to the decision available.

Decision Making Styles

1. The directive style is one that is characterized by low tolerance for ambiguity and a rational way of thinking.
2. The analytic style is one characterized by a high tolerance for ambiguity and rational way of thinking.
3. The conceptual style is one characterized by an intuitive way of thinking and a high tolerance for ambiguity.
4. The behavioural style is one characterized by a low tolerance for ambiguity and an intuitive way of thinking.

Decision Making Style



Decision – Making Biases and Errors

Managers use different styles to simplify their decision-making:

1. Overconfidence bias – when decision makers tend to think that they know more than they do.
2. Immediate gratification bias – when decision makers tend to want immediate rewards and avoid immediate costs.
3. Anchoring effect – when decision makers fixate on initial information and fail to adequately adjust subsequent information.

Decision – Making Biases and Errors

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4. Selective perception bias – when decision makers interpret events based on their biased perceptions.
5. Confirmation bias - when decision makers seek out information from their past choices and avoid information that is contradictory.
6. Framing bias – when decision makers select certain aspects of situation while exclude others.
7. Availability – when decision makers remember events that are the most recent.

Decision – Making Biases and Errors

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8. Representation bias – when decision makers assess an event based on how closely it resembles other events.
9. Randomness bias – when decision makers try to create meaning out of random events.
10. Sunk costs error – when decision makers forget that current choices cannot correct the past.
11. Self-serving bias – when decision makers are quick to take credit for their success and blame failure from outside factors.

Overview of Managerial Decision Making