

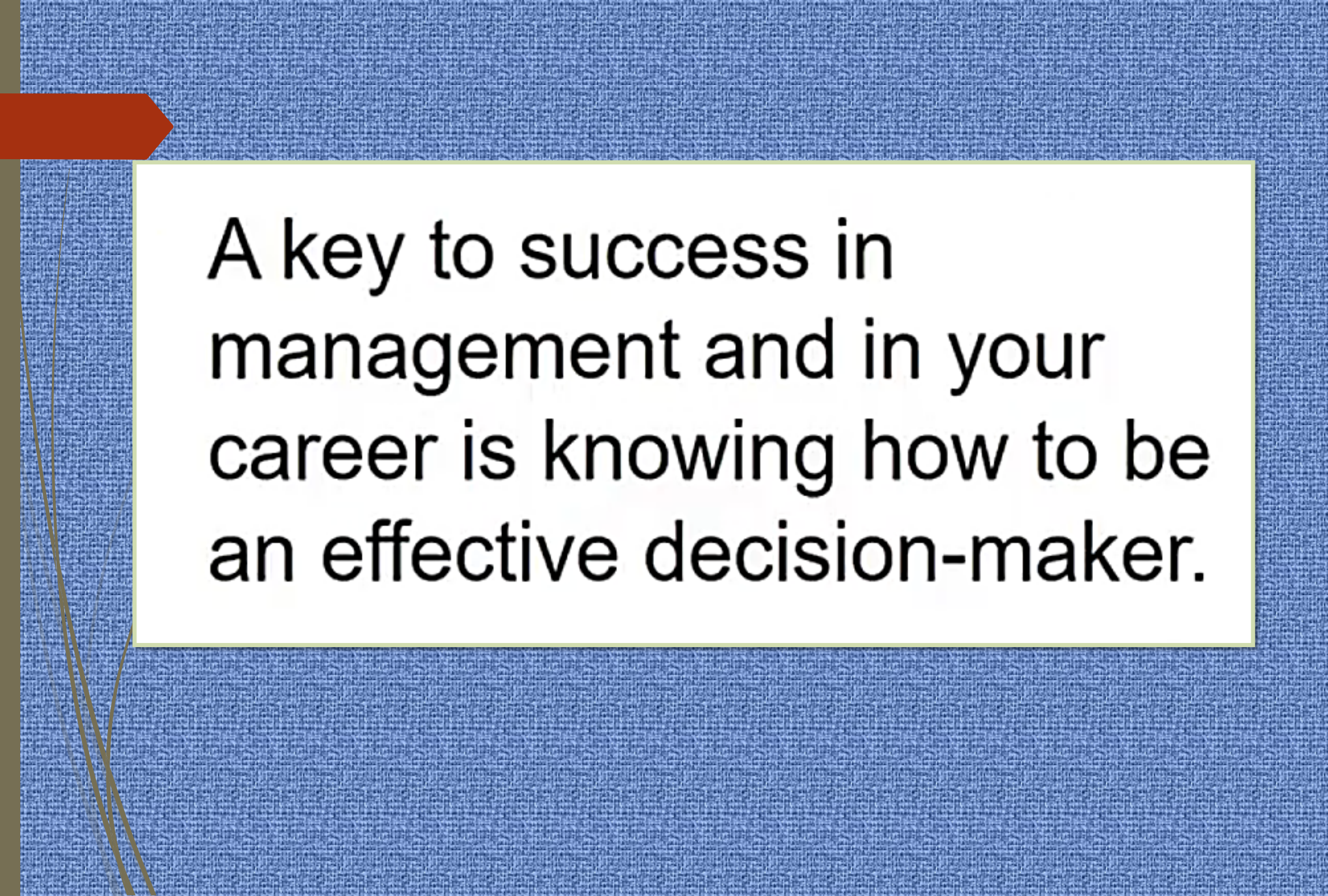
Making Decisions

Chapter 2



LEARNING OBJECTIVES

- 1. Describe** the eight steps in the decision-making process.
Develop your skill at being creative.
- 2. Explain** the four ways managers make decisions.
- 3. Classify** decisions and decision-making conditions.
- 4. Describe** different decision-making styles and discuss how biases affect decision-making.
Know how to recognize when you're using decision-making errors and biases and what to do about it.
- 5. Identify** effective decision-making techniques.



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

- **Decision** – making a choice from two or more alternatives.



EXHIBIT 2-1

Decision-Making Process



THE DECISION-MAKING PROCESS (CONT.)

- **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.

THE DECISION-MAKING PROCESS (CONT.)

- **Step 2: Identify Decision Criteria**

- Decision criteria are factors that are important (relevant) 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.

THE DECISION-MAKING PROCESS (CONT.)

- **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.
 - The weighted criteria for our example is shown in Exhibit 2-2.



EXHIBIT 2-2

Important Decision Criteria

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

THE DECISION-MAKING PROCESS (CONT.)

- **Step 4: Develop Alternatives**
 - List viable alternatives that could resolve the problem
 - Example – Amanda, identifies eight laptops as possible choices. (See Exhibit 2-3.)

EXHIBIT 2-3**Possible Alternatives**

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
HP ProBook	10	3	10	8	5
Sony VAIO	8	7	7	8	7
Lenovo IdeaPad	8	5	7	10	10
Apple Macbook	8	7	7	8	7
Toshiba Satellite	7	8	7	8	7
Sony NW	8	3	6	10	8
Dell Inspiron	10	7	8	6	7
HP Pavilion	4	10	4	8	10

THE DECISION-MAKING PROCESS (CONT.)

- **Step 5: Analyze Alternatives**
 - Appraising each alternative's strengths and weaknesses.
 - An alternative's appraisal is based on its ability to resolve the issues related to the criteria and criteria weight.

THE DECISION-MAKING PROCESS (CONT.)

- **Step 6: Select an Alternative**
- Choosing the best alternative
 - The alternative with the highest total weight is chosen.

EXHIBIT 2-4**Evaluation of Alternatives**

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
HP ProBook	100	24	60	32	15	231
Sony VAIO	80	56	42	32	21	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
Sony NW	80	24	36	40	24	204
Dell Inspiron	100	56	48	24	21	249
HP Pavilion	40	80	24	32	30	206



THE DECISION-MAKING PROCESS (CONT.)

- **Step 7: Implement the Alternative**
 - Putting the chosen alternative into action
 - Conveying the decision to and gaining commitment from those who will carry out the alternative

THE DECISION-MAKING PROCESS (CONT.)

- **Step 8: Evaluate Decision Effectiveness**
 - The soundness of the decision is judged by its outcomes.
 - How effectively was the problem resolved by outcomes resulting from the chosen alternatives?
 - If the problem was not resolved, what went wrong?

Decisions Managers May Make

Planning

- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

Organizing

- How many employees should I have report directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Leading

- How do I handle employees who appear to be unmotivated?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

Controlling

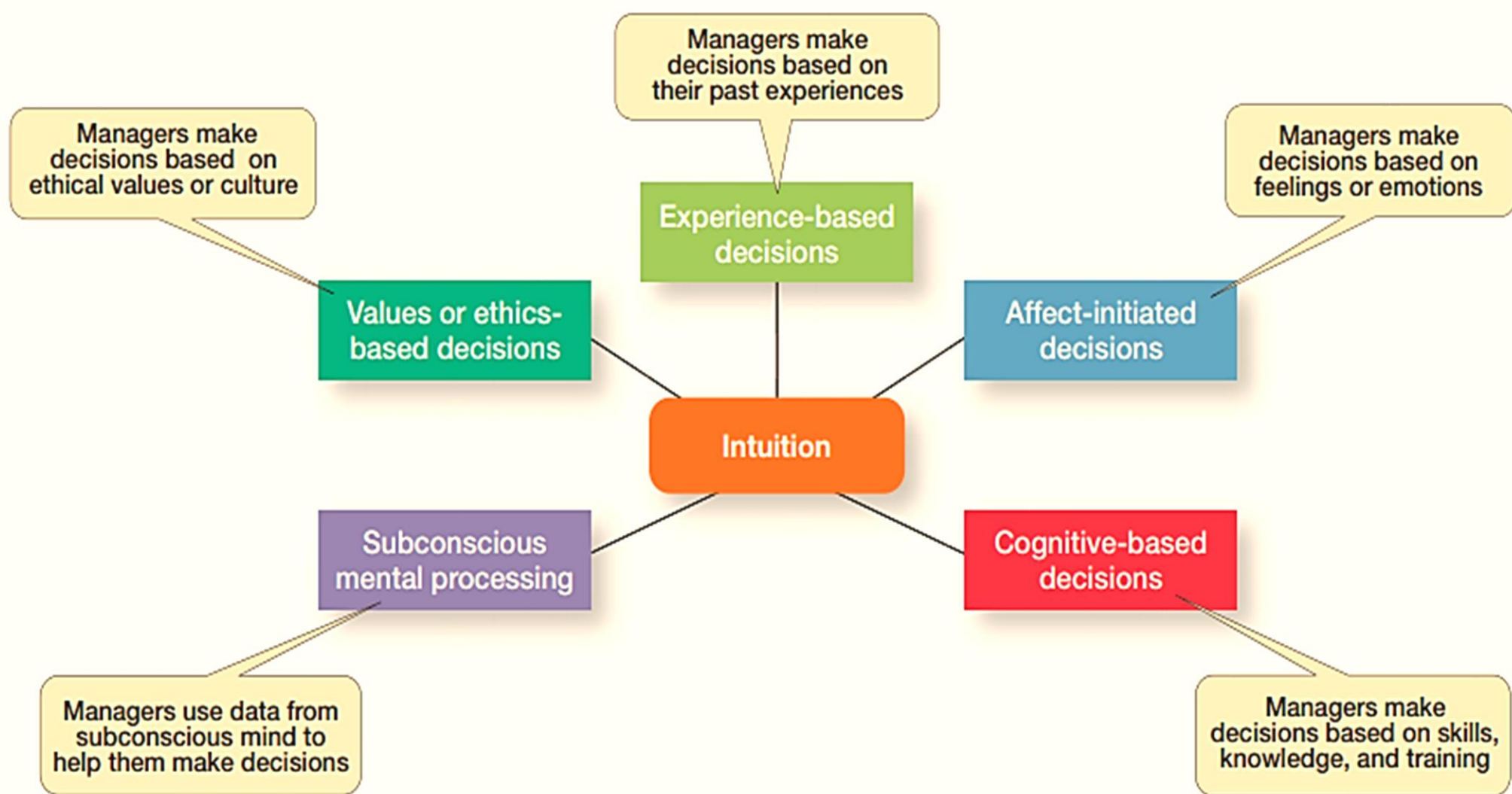
- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

APPROACHES TO DECISION MAKING

- **Rational Decision-Making** – describes choices that are logical and consistent while maximizing value.
- **Bounded Rationality** – decision-making that's rational, but limited (bounded) 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.
- **Intuitive decision-making** – Making decisions on the basis of experience, feelings, and accumulated judgment.

EXHIBIT 2-6

What Is Intuition?

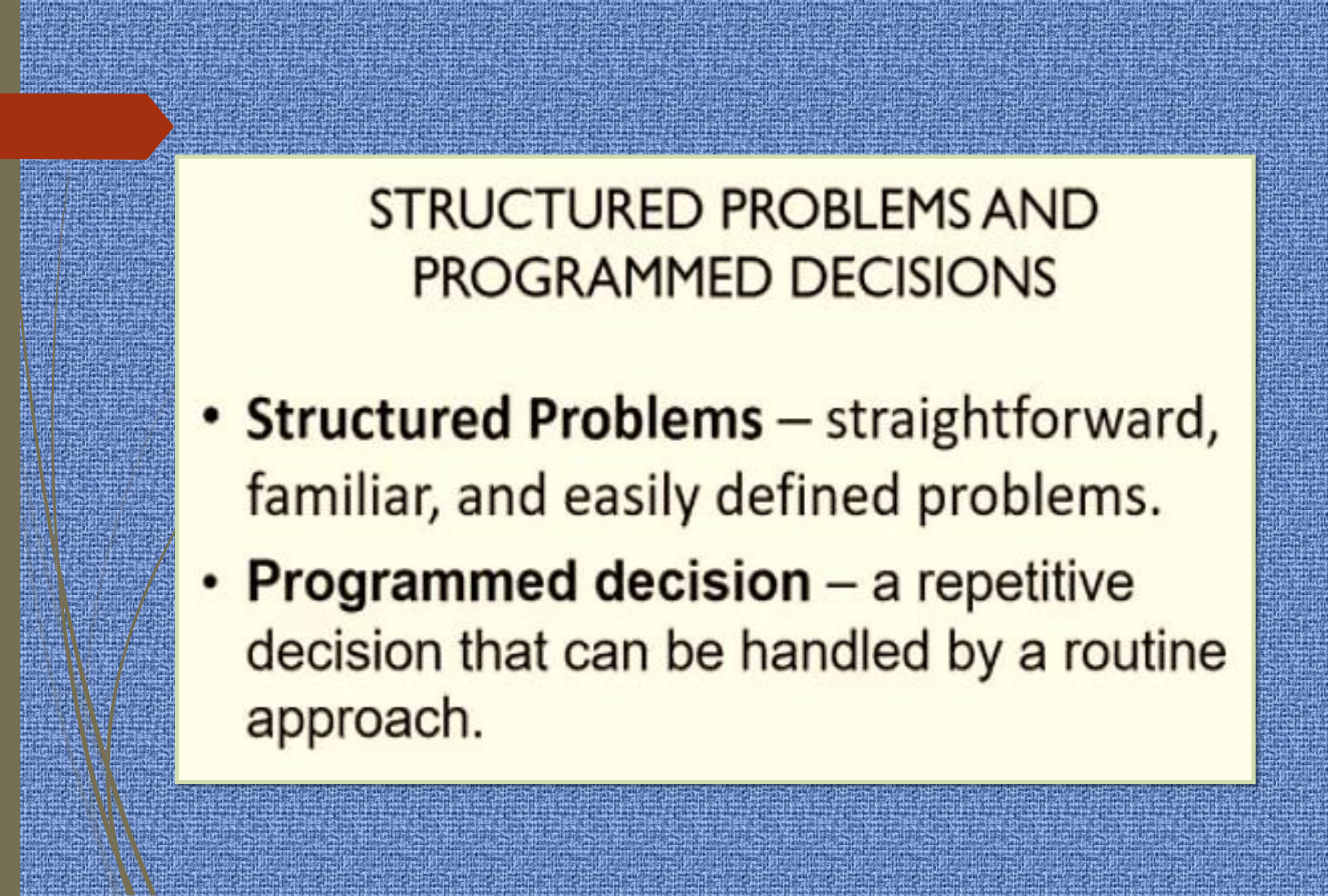


Source: Based on L. A. Burke and M. K. Miller, "Taking the Mystery Out of Intuitive Decision Making," *Academy of Management Executive*, October 1999, pp. 91-99.




MAKING DECISIONS: THE ROLE OF EVIDENCE-BASED MANAGEMENT

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

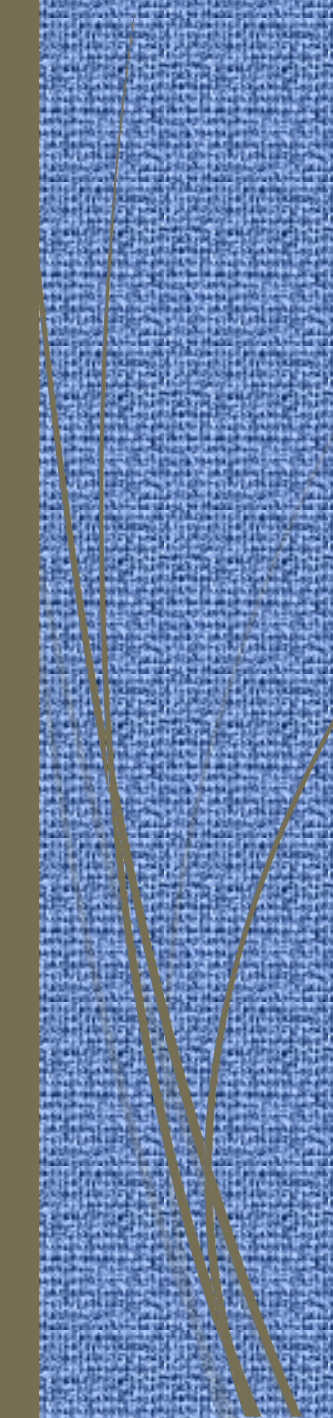


STRUCTURED PROBLEMS AND PROGRAMMED DECISIONS

- **Structured Problems** – straightforward, familiar, and easily defined problems.
- **Programmed decision** – a repetitive decision that can be handled by a routine approach.

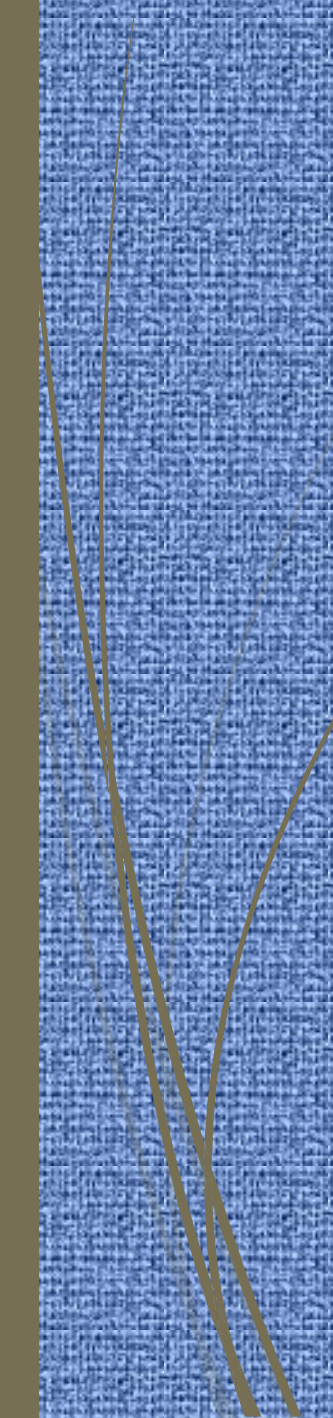


STRUCTURED PROBLEMS AND PROGRAMMED DECISIONS (CONT.)

- **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.
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UNSTRUCTURED PROBLEMS AND NONPROGRAMMED DECISIONS

- **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.
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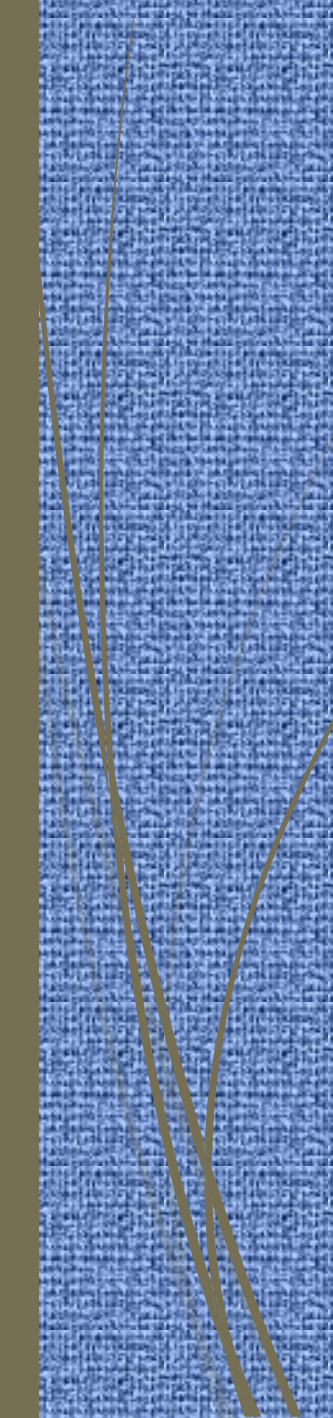
EXHIBIT 2-7

Programmed Versus Nonprogrammed Decisions

Characteristic	Programmed Decisions	Nonprogrammed Decisions
Type of problem	Structured	Unstructured
Managerial level	Lower levels	Upper levels
Frequency	Repetitive, routine	New, unusual
Information	Readily available	Ambiguous or incomplete
Goals	Clear, specific	Vague
Time frame for solution	Short	Relatively long
Solution relies on . . .	Procedures, rules, policies	Judgment and creativity



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.
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Thank You!