

Fundamentals of Management

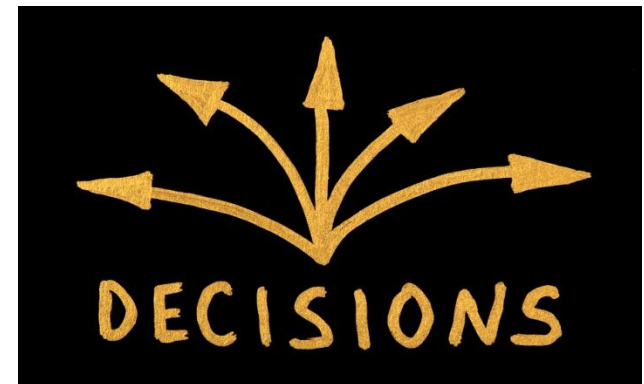
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Part Two: Planning

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- Chapter Four: Foundations of Decision Making
 - Describe the decision-making process.
 - Explain the three approaches managers can use to make decisions.
 - Describe types of decisions and decision-making conditions.
 - Discuss group decision making.
 - Discuss contemporary issues in managerial decision making.



Decision Making

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- Managers at all organizational levels and in all areas make a lot of decisions – routine and non-routine; major and minor. The overall quality of those decisions goes a long way in determining an organization’s success or failure.
 - To be a successful manager – and to be a valued employee – you need to know about decision making.



Decision Making

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- A good decision should be judged by the process used, not the results achieved.
 - In some cases, a good decision results in an undesirable outcome.
 - ✦ As the decision maker, you can control the process. But in the real world, factors outside your control can adversely affect the outcome.
 - ✦ Using the right process may not always result in a desirable outcome, but it increases the probability!



Decision Making

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- How Do Managers Make Decisions?
 - Decision making is a process, not a simple act of choosing among alternatives.
 - ✦ The decision making process is a set of eight steps that begins with identifying a problem; it moves through selecting an alternative that can alleviate the problem, and concludes with evaluating the decision's effectiveness.



Decision Making

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- The 8 Steps of 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



1. Identification of a Problem

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- The decision-making process begins with the identification of a problem, or more specifically, a discrepancy between an existing and desired state of affairs.
 - A manager who mistakenly solves the wrong problem perfectly is just as likely to perform as the manager who fails to identify the right problem and does nothing. So, how do managers become aware they have a problem?
 - ✦ Make a comparison between current reality and some standard:
 - Past Performance and/or Previously Set Goals
 - Comparison of the Performance of Another Unit/Department or Organization



2. Identification of Decision Criteria

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- Once a manager has identified a problem that needs attention, the decision criteria that will be important in solving the problem must be identified.
 - Every decision maker has criteria – whether explicitly stated or not – that guide his or her decision making.
 - ✦ Note that in this step of the decision-making process, what's not identified can be as important as what is because it's still guiding the decision.
 - The decision maker made a choice not to identify or include.



3. Allocation of Weights to Criteria

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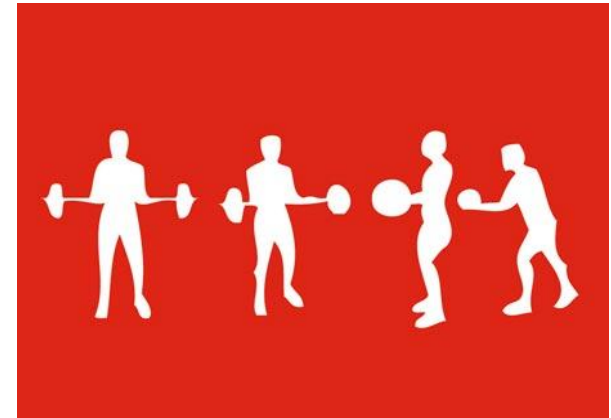
- In many decision-making situations, the criteria are not all equally important, so the decision maker has to allocate weights to the decision criteria.
 - A simple approach is to give the most important criteria a weight of 10 and then to assign weights to the rest against that standard.
 - Thus, in contrast to a criteria that you gave a 5, the highest-rated factor is twice as important.
 - ✦ Use your personal preference to assign priorities to the relevant criteria in your decision and indicate their importance by assigning weight to each.



4. Development of Alternatives

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- After assigning weight to the decision criteria, the decision maker lists the alternatives that could successfully resolve the problem.
 - No attempt is made to evaluate these alternatives, only to list them.



5. Analysis of Alternatives

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- Once the alternatives have been identified, the decision maker critically needs to analyze each one, by evaluating it against the criteria.
 - The strengths and weaknesses of each alternative become evident as they're compared with the criteria and weights established earlier.
 - ✦ Some assessments can be achieved in a relatively objective fashion, while others are clearly personal judgments.



Personal Judgments

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- Personal judgments are reflected in (1) the decision criteria, (2) weight allocation, and (3) evaluation of alternatives.
 - The influence of personal judgment explains why two persons making a similar decision (i.e. purchasing a new car) may look at two totally distinct sets of alternatives, or even look at the same alternatives and rate them differently.



6. Selection of an Alternative

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- After the decision maker (1) determines all the pertinent factors in the decision, (2) weights them appropriately, and (3) identifies and assesses all the viable alternatives, it should be quite simple to select the best alternative.
 - Choose the alternative that generates the highest score.



7. Implementation of the Alternative

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- Implementation involves putting the decision into action.
 - Implementation includes conveying the decision to all those affected, and getting their commitment to it.
 - ✦ If you want people to be committed to a decision...let them participate in the decision-making process.

Participate!



8. Evaluation of Decision Effectiveness

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- In the last step of the decision-making process, you should appraise the outcome of the decision to see whether the problem was resolved.
 - Did the alternative accomplish the desired result?



Common Errors

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- What common errors are committed in the Decision-Making process?
 - Managers may use their own heuristics (rules of thumb) to simplify their decision making.
 - ✦ These rules of thumb may lead to errors and biases in processing and evaluating information.



Common Errors and Biases

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- Common Decision-Making Errors and Biases:
 - Overconfidence
 - ✦ A tendency to think you know more than you do, or hold unrealistically positive views of yourself and your performance.
 - Immediate Gratification
 - ✦ A tendency to want immediate rewards and to avoid immediate costs.
 - Anchoring Effect
 - ✦ When you fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information.
 - Selective Perception
 - ✦ When you selectively organize and interpret events based on your biased perceptions.
 - Confirmation
 - ✦ When you seek out information that reaffirms past choices and discount information that contradicts past judgments.
 - Framing
 - ✦ When you select and highlight certain aspects of a situation while excluding others.

Common Errors and Biases

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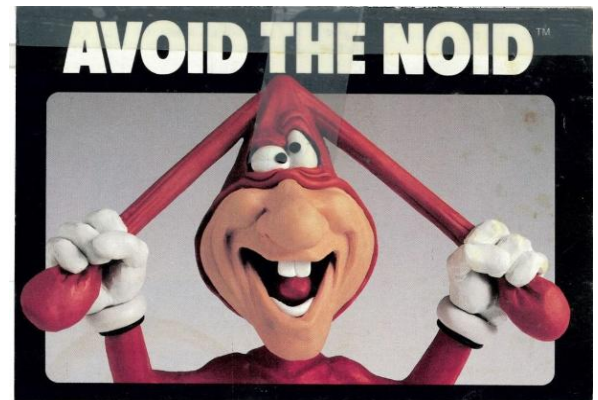


- Common Decision-Making Errors and Biases:
 - Availability
 - ✦ When you tend to remember events that are most recent and vivid in your memory.
 - Representation
 - ✦ When you assess the likelihood of an event based on how closely it resembles other events or sets of events.
 - Randomness
 - ✦ When you try to create meaning out of random events.
 - Sunk Costs
 - ✦ When you forget that current choices can't correct the past.
 - Self-Serving
 - ✦ When you are quick to take credit for successes and blame failure on outside factors.
 - Hindsight
 - ✦ When you falsely believe that you would have accurately predicted the outcome of an event once the outcome is actually known.

Avoid Negative Effects

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- How can managers avoid the negative effects of common errors and biases in decision-making?
 - Be aware of them and don't use them.
 - Pay attention to “how” decisions are made, try to identify heuristics being used, and critically evaluate how appropriate they are.
 - Ask colleagues to help identify weaknesses in decision-making style and then work on improving those weaknesses.



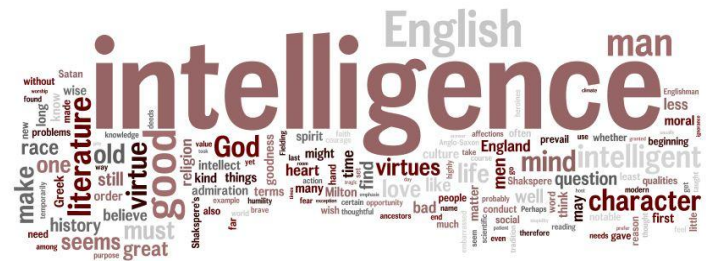
Decision-Making

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- Decision-Making is the Essence of Management

- Everyone in an organization makes decisions, but it's particularly important to managers. Managers make decisions as they:
Plan – Organize – Lead – Control
- Managers want to be good decision makers and exhibit good decision-making behaviors, so they appear competent and intelligent to their bosses, employees, and co-workers.

COMPETENCE



Decision-Making

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- 1. 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?



Decision-Making

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- 2. Leading

- How do I handle unmotivated employees?
- 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?



Decision-Making

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- 3. Organizing

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



Decision-Making

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- 4. 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?



3 Approaches to Make Decisions

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- 1. Rational Model

- This approach assumes: Decision Makers MUST ACT RATIONALLY.
- That is, make logical and consistent choices to maximize value.
- A “Rational” Decision Maker...Should Be, but May Never Fully Be:
 - ✦ Objective and Logical
 - ✦ Clear and Focused on Problem
 - ✦ Clear and Specific on Goals Regarding Decision
 - ✦ Aware of All Possible Alternatives and Consequences
 - ✦ Effective in Choosing Alternative that Maximizes Achievement of Goal
 - ✦ Considerate of Organization’s Best Interests

- Therefore, Rationality is Not a Very Realistic Approach



3 Approaches to Make Decisions

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- 2. Bounded Rationality

- Making decisions that are rational within the limits of a manager's ability to process information.
 - ✦ Most decisions don't fit the assumption of perfect rationality.
 - ✦ People are limited in their ability to grasp the present and anticipate the future, which makes it difficult to achieve the best possible decisions.
 - No one can possibly analyze all information on all alternatives so they SATISFICE – that is, accept solutions that are “good enough,” rather than spend time and other resources trying to maximize.



3 Approaches to Make Decisions

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- 3. Intuition and Managerial Decision Making
 - Making decisions on the basis of experience, feelings, and accumulated judgment.
 - ✦ Described as “Unconscious Reasoning”
 - Almost half of managers rely on intuition more often than formal analysis to make decisions about their companies.



Intuition

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- What is Intuition?

- Experienced-Based Decisions

- ✦ Managers make decisions based on their past experiences.

- Affect-Initiated Decisions

- ✦ Managers make decisions based on feelings or emotions.

- Cognitive-Based Decisions

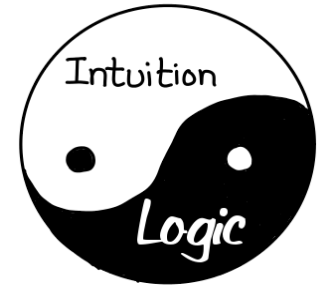
- ✦ Managers make decisions based on skills, knowledge, and training.

- Subconscious Mental Processing

- ✦ Managers use data from subconscious mind to help them make decisions.

- Values or Ethics-Based Decisions

- ✦ Managers make decisions based on ethical values or culture.



Intuition

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- Suggestions for using Intuitive Decision Making:
 - Use it to complement, not replace, decision-making approaches.
 - Look to act quickly with limited information because of past experience with a similar problem.
 - Pay attention to the intense feelings and emotions experienced when making decisions
 - ✦ The payoff = better decisions!



Decisions and Decision Making Conditions

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- How Do Problems Differ?

- Structured Problems

- ✦ A straightforward, familiar, and easily defined problem.

- Unstructured Problems

- ✦ A problem that is new or unusual for which information is ambiguous or incomplete.



Decisions and Decision Making Conditions

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- How Does a Manager Make Programmed Decisions?
 - Programmed, or Routine Decisions are the most efficient way to handle structured problems.
 - Decisions are programmed to the extent that:
 - ✦ They are repetitive and routine.
 - ✦ A specific approach has been worked out for handling them.
 - Programmed decision making is relatively simple and tends to rely heavily on previous solutions – decision making by precedent.



Decisions and Decision Making Conditions

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- For Structured Problems, Use Programmed Decisions:
 - Procedures
 - ✦ A procedure is a series of interrelated sequential steps that a manager can use when responding to well-structured problems.
 - Rules
 - ✦ A rule is an explicit statement that tells a manager what he or she must – or must not – do when encountering structure problems.
 - Policies
 - ✦ Policies provide guidelines to channel a manager's thinking in a specific direction. They establish parameters for the decision maker rather than specifically stating what should or should not be done.



Decisions and Decision-Making Conditions

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- How do non-programmed decisions differ from programmed decisions?
 - When problems are unstructured, managers must rely on non-programmed decisions in order to develop unique solutions.
 - ✦ There are no policies, rules, or procedures to guide decision-making.



Managerial Decisions

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- Real World – Real Advice
 - Few managerial decisions are either fully programmed or fully non-programmed. Most fall somewhere in between.
 - At the top-level, most problems that managers face are unique.

THE
REAL
WORLD

Decisions and Decision Making Conditions

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- When making decisions, managers face three different conditions:
 - Certainty
 - ✦ Conditions in which a manager can make accurate decisions because the outcome of every alternative is known.
 - Risk
 - ✦ Conditions in which the decision maker is able to estimate the likelihood of certain outcomes.
 - Uncertainty
 - ✦ Conditions in which the choice of alternative is influenced by the limited amount of available information and by the psychological orientation of the decision maker.



Group Decision Making

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- How do groups make decisions?
 - Many decisions in organizations, especially important decisions that have far-reaching effects on organizational activities and people, are typically made in groups.
 - ✦ In many cases, these groups represent the people who will be most affected by the decisions being made.
 - ✦ And, because of their expertise, these people are often the best qualified to make decisions that affect them.



Group Decision Making

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- Advantages of Group Decisions:

- More complete information.
- Diversity of experience and perspectives.
- More alternatives generated.
- Increased acceptance of a solution.
- Increased legitimacy.



- Disadvantages of Group Decisions:

- Time-consuming.
- Minority domination.
- Ambiguous responsibility.
- Pressures to conform.



Groupthink

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- Groupthink is a psychological phenomenon that occurs within a group of people in which the desire for harmony or conformity results in an irrational/dysfunctional decision-making outcome.
 - What it Does
 - ✦ Hinders decision making, and jeopardizes the quality of a decision by:
 - Undermining critical thinking in the group.
 - Affecting a group's ability to objectively appraise alternatives.
 - Deterring individuals from appraising unusual, minority, or unpopular views.



Groupthink

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- How Does it Occur?
 - Group members rationalize resistance to assumptions.
 - Members directly pressure those who express doubts or question the majority's views and arguments.
 - Members who have doubts or differing points of view avoid deviating from what appears to be group consensus.
 - Illusion of unanimity prevails if agreement is assumed and no one speaks up.
- What Can be Done to Minimize Groupthink?
 - Encourage cohesiveness.
 - Foster open discussion.
 - Have an impartial leader who seeks input from all members.



Group Effectiveness

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- Groups tend to make better decisions than individuals.
 - Group decisions take longer to formulate, but they tend to be more Accurate, Creative, and Accepted.
 - ✦ Groups should be a minimum of 5 and maximum of 15 members to be most efficient and effective.
- You can improve group decision making by:
 - Brainstorming
 - The Nominal Group Technique
 - Electronic Meetings



Brainstorming

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- Brainstorming is a relatively simple idea-generating process that specifically encourages any and all alternatives while withholding criticism of those alternatives.
 - The group leader clearly states the problem.
 - Members then “freewheel” as many alternatives as they can in a given timeframe.
 - No criticism is allowed, and all alternatives are recorded for later discussion and analysis.



Nominal Group Technique

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- The Nominal Group Technique helps groups arrive at a preferred solution by restricting discussion during the decision-making process.
 - Group members must be present at the meeting, but they are required to operate independently.
 - Members secretly write a list of general problem areas or potential solutions to a problem.
 - ✦ The chief advantage is that it permits the group to meet formally, but does not restrict independent thinking.



Electronic Meetings

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- The Electronic Meeting blends the Nominal Group Technique with information technology.
 - Numerous people sit around a table with laptops or tablets.
 - They are presented with issues and type their responses onto their personal devices.
 - Individual comments, as well as, aggregate votes are displayed on a projection screen in the room.
 - ✦ The major advantages of E-Meetings are anonymity, honesty, and speed.
 - ✦ E-Meetings are faster and cheaper than traditional meetings.
 - ✦ However, those who are tech savvy may have an advantage.



Decision Making Issues

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- What Contemporary Decision-Making Issues do Managers Face?
 - Important issues managers face, include:
 - ✦ National Culture
 - As managers deal with employees from diverse cultures, they need to recognize common and accepted behavior when asking them to make decisions. Some may not be comfortable being included in the process, or may have difficulty with type of change.



Decision Making Issues

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- What Contemporary Decision-Making Issues do Managers Face?
 - Important issues managers face, include:
 - ✦ Creativity and Design Thinking
 - A decision maker needs creativity, the ability to produce novel and useful ideas. Creativity offers value in identifying viable alternatives.
 - Design thinking in essence, is approaching management problems as designers approach design problems.



Creativity

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- Most people have creative potential, but need to unleash it.
Individual creativity essentially requires:



- Expertise

- ✦ The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies, and similar expertise in their fields of endeavor.

- Creative-Thinking Skills

- ✦ Ability to use analogies to apply an idea from one context to another.
- ✦ The following is linked with creativity:
 - Intelligence, Independence, Self-Confidence, Risk-Taking, Internal Locus of Control, Tolerance for Ambiguity, Perseverance in the Face of Frustration.

- Intrinsic Task Motivation

- ✦ A desire to work on something because it's interesting, involving, exciting, satisfying, or personally challenging. Turns concept into construct.

Creativity

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- Suggestions to help develop your creativity:
 - Think of yourself as creative.
 - Pay attention to your intuition.
 - Move away from your comfort zone.
 - Determine what you want to do.
 - Think outside the box.
 - Look for ways to do things better.
 - Find several right answers.
 - Believe in finding a workable solution.
 - Brainstorm with others.
 - Turn creative ideas into action.



Creativity

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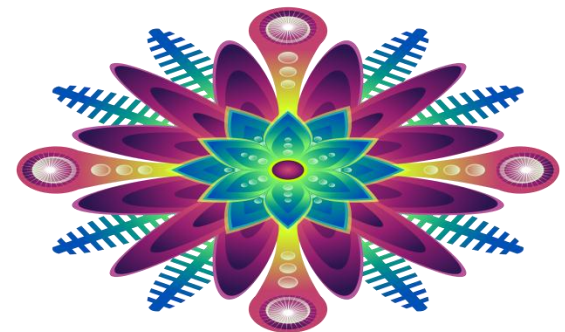
- Five Organizational Factors that Limit Creativity:
 - Expected Evaluation
 - ✦ Focusing on how your work is going to be evaluated.
 - Surveillance
 - ✦ Being watched while you're working.
 - External Motivators
 - ✦ Emphasizing external, tangible rewards.
 - Competition
 - ✦ Facing win-lose situations with your peers.
 - Constrained Choices
 - ✦ Being given limits on how you can do your work.



Design Thinking

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- What can the Design Thinking approach teach managers about making better decisions?
 - Problems should be looked at collaboratively and integratively with the goal of gaining a deeper understanding of the situation.
 - Design thinking influences how managers identify and evaluate alternatives by looking beyond a rational evaluation and considering something completely new that would be great if it existed, but doesn't.
 - Design thinking means opening up your perspective and gaining insights by using observation and inquiry skills, and not relying simply on rational analysis.



Decision Making Issues

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- What Contemporary Decision-Making Issues do Managers Face?
 - Important issues managers face, include:
 - ✦ Big Data
 - Big data is the vast amount of quantifiable information that can be analyzed by highly sophisticated data processing.
 - It can be described as high volume, high velocity, and/or high variety information assets.
 - With this type of data/information at hand, decision makers have very powerful tools to help them make decisions.



The End

...IS JUST A NEW
BEGINNING

