

Or consider another increasingly prevalent decision for evaluating and rewarding talent. Pioneered at General Electric by the legendary Jack Welch, the practice of “forced ranking” divides employees into three groups based on performance—the top 20 percent, middle 70 percent, and bottom 10 percent—and terminates those at the bottom. Pfeffer and Sutton found that, according to many HR managers, forced ranking impaired morale and collaboration and ultimately reduced productivity. They also concluded that automatically firing the bottom 10 percent resulted too often in the unnecessary disruption of otherwise effective teamwork. That’s how they found out that 73 percent of the errors committed by commercial airline pilots occur on the first day that reconfigured crews work together.¹⁵

THE BEHAVIORAL APPROACH TO DECISION MAKING

Whereas the rational approach assumes that managers operate logically and rationally, the behavioral approach acknowledges the role and importance of human behavior in the decision-making process. Herbert A. Simon was one of the first experts to recognize that decisions are not always made with rationality and logic.¹⁶ Simon was subsequently awarded the Nobel Prize in economics. Rather than prescribing how decisions should be made, his view of decision making, now called the *administrative model*, describes how decisions often actually are made. (Note that Simon was not advocating that managers use the administrative model but was instead describing how managers actually make decisions.) Our *Understand Yourself* feature will give you some quick insights into how emotion can affect how we make decisions.

administrative model of decision making

Argues that managers use bounded rationality, rules of thumb, suboptimizing, and satisficing in making decisions

The Administrative Model

One crucial assumption of the administrative model is that decision makers operate with bounded rationality rather than with the perfect rationality assumed by the rational approach. *Bounded rationality* is the idea that although individuals may seek the best solution to a problem, the demands of processing all the information bearing on the problem, generating all possible solutions, and choosing the single best solution are beyond the capabilities of most decision makers. Thus, they accept less-than-ideal solutions based on a process that is neither exhaustive nor entirely rational.

For example, one study found that under time pressure, groups usually eliminate all but the two most favorable alternatives and then process the remaining two in great detail.¹⁷ Thus, decision makers operating with bounded rationality limit the inputs to the decision-making process and base decisions on judgment and personal biases as well as on logic.¹⁸

The administrative model is characterized by (1) the use of procedures and rules of thumb, (2) suboptimizing, and (3) satisficing. Uncertainty in decision making can initially be reduced by relying on procedures and rules of thumb. If, for example, increasing print advertising has increased a company’s market share in the past, that linkage may be used by company employees as a rule of thumb in decision making. When the previous month’s market share drops

bounded rationality

Idea that decision makers cannot deal with information about all the aspects and alternatives pertaining to a problem and therefore choose to tackle some meaningful subset of it

UNDERSTAND YOURSELF

EMOTION-BASED DECISION MAKING

Using the scale below, write the number from 1 to 6 that reflects your agreement or disagreement with the statements below. When you are finished, follow the scoring instructions at the bottom to interpret your score.

strongly disagree	moderately disagree	slightly disagree	slightly agree	moderately agree	strongly agree
1	2	3	4	5	6

- ___ 1. I listen to my feelings when making important decisions.
- ___ 2. I base my goals in life on inspiration, rather than logic.
- ___ 3. I plan my life based on how I feel.
- ___ 4. I plan my life logically.
- ___ 5. I believe emotions give direction to life.
- ___ 6. I believe important decisions should be based on logical reasoning.
- ___ 7. I listen to my brain rather than my heart.
- ___ 8. I make decisions based on facts, not feelings.

Scoring: For questions 4, 6, 7, and 8, change your score as follows: 1 = 6; 2 = 5; 3 = 4; 4 = 3; 5 = 2; 6 = 1. Cross out your old response so that you can clearly see the replacement number. Now add up your responses to the eight items.

Interpretation: If you scored 36 or above, you tend to rely heavily on your feelings when making decisions. This could mean that you try to make decisions too quickly. You might try to recognize the role that emotions tend to play in your decisions, and consciously take more time to identify and consider the facts before deciding.

If you scored between 24 and 35, you tend to use a balance of logic and emotion when making decisions. Although intuition can be helpful when making complex decisions, try to remain fact- rather than emotion-focused.

If you scored 23 or less, you tend to use logic over emotions when making decisions. This can lead to effective decisions, although it also can lead to slower decision making.

Source: International Personality Item Pool: A Scientific Collaboratory for the Development of Advanced Measures of Personality Traits and Other Individual Differences. <http://ipip.ori.org>

below a certain level, the company might increase its print advertising expenditures by 25 percent during the following month.

Suboptimizing is knowingly accepting less than the best possible outcome. Frequently, given organizational constraints, it is not feasible to make the ideal decision in a real-world situation. The decision maker often must suboptimize to avoid unintended negative effects on other departments, product lines, or decisions.¹⁹ An automobile manufacturer, for example, can cut costs dramatically and increase efficiency if it schedules the production of one model at a time. Thus, the production group's optimal decision is single-model scheduling. But the marketing group, seeking to optimize its sales goals by offering a wide variety of models, may demand the opposite production schedule: short runs of entirely different models. The groups in the middle—design and scheduling—may suboptimize the benefits the production and marketing groups seek by planning long runs of slightly different models. This is the practice of the large auto manufacturers such as General Motors and Ford, which make multiple body styles in different models on the same production line.

The final feature of the behavioral approach is **satisficing**: examining alternatives only until a solution that meets minimal requirements is found

suboptimizing

Knowingly accepting less than the best possible outcome to avoid unintended negative effects on other aspects of the organization

satisficing

Examining alternatives only until a solution that meets minimal requirements is found

and then ceasing to look for a better one.²⁰ The search for alternatives usually is a sequential process guided by procedures and rules of thumb based on previous experiences with similar problems. The search often ends when the first minimally acceptable choice is encountered. The resulting choice may narrow the discrepancy between the desired and the actual states, but it is not likely to be the optimal solution. As the process is repeated, incremental improvements slowly reduce the discrepancy between the actual and desired states.

Other Behavioral Forces in Decision Making

In addition to those behavioral elements identified in the administrative model, the manager should also be aware of other behavioral forces that can affect decision making as well. These include political forces, intuition, escalation of commitment, risk propensity, and ethics. Prospect theory is also relevant.

Political Forces in Decision Making

Political forces can play a major role in how decisions are made. We cover political behavior in Chapter 13, but one major element of politics, coalitions, is especially relevant to decision making. A **coalition** is an informal alliance of individuals or groups formed to achieve a common goal. This common goal is often a preferred decision alternative. For example, coalitions of stockholders frequently band together to force a board of directors to make a certain decision. Indeed, many of the recent power struggles between management and dissident shareholders at Dell Computer have relied on coalitions as each side tried to gain the upper hand against the other.²¹ The impact of coalitions can be either positive or negative. They can help astute managers get the organization on a path toward effectiveness and profitability, or they can strangle well-conceived strategies and decisions. Managers must recognize when to use coalitions, how to assess whether coalitions are acting in the best interests of the organization, and how to constrain their dysfunctional effects.²²

coalition

An informal alliance of individuals or groups formed to achieve a common goal

Intuition

Intuition is an innate belief about something without conscious consideration. Managers sometimes decide to do something because it “feels right” or they have a hunch. This feeling is usually not arbitrary, however. Rather, it is based on years of experience and practice in making decisions in similar situations. An inner sense may help managers make an occasional decision without going through a full-blown rational sequence of steps. The best-selling book by Malcolm Gladwell entitled *Blink: The Power of Thinking Without Thinking* made strong arguments that intuition is both used more commonly and results in better decisions than had previously been believed. On the other hand, some experts challenge this view and suggest that underlying understanding and experience make intuition mask the true processes used to make quick decisions.²³

intuition

An innate belief about something without conscious consideration

The New York Yankees once contacted three major sneaker manufacturers, Nike, Reebok, and Adidas, and informed them that they were looking to make a sponsorship deal. While Nike and Reebok were carefully and rationally assessing the possibilities, managers at Adidas quickly realized that a partnership with the Yankees made a lot of sense for them. They responded very quickly to the idea, and ended up hammering out a contract while the