

Module 11 - Decision-Making



Organizational Theory and Behavior

MGMT 630

In this module you will learn:

- You will learn how to be more effective decision-maker
- You will also learn about bias and errors in decision-making
- A multi-ethnic work group or team requires additional management attention to achieve its goals

Module 11 **Decision Making and Multicultural Values**

Introduction:

Every day and at every level, managers are engaged in making decisions large and small. We make decisions about who to hire, how to spend our unit's budget, whether or not to delegate a task and to whom, what goals should be pursued and how should they be measured, what business processes need to be changed, or what programs need updating, or what strategies should be followed. We are constantly making decisions that have a real impact on the quality of the lives of the people who work for us, and on the organization as a whole.

Decision making is a risky business. If we make a bad decision then we could put the entire enterprise in jeopardy. When VW decided to install a chip that would make it appear that their diesel engines were in compliance with environmental standards when tested, but were actually not, it cost the company millions of dollars in fines, buy backs and sales of current vehicles. When Kodak, the inventor of digital photography decided to stick with film processing they made a mistake that brought the company to its knees. Or when Dean Kamen decided to launch a product that Steve Jobs was convinced would change the World, he marketed a product that had no impact on the World at all. What was that product? The Segway.

But when good decisions are made, they can be very profitable. When McDonalds decided to offer all day breakfast, it helped them increase same-store sales significantly at a time when sales in America were slumping.

When four college students got fed up with paying so much money for eyeglasses they decided to launch Warby Parker: the first company to sell prescription eyeglasses on line. Fast forward to 2015, when Fast Company released a list of the World's most innovative companies. Warby Parker just didn't make the list- they came in first.



At-a-glance definitions:

Decision: A determination, agreement, or declaration. Decisions are often made on the basis of facts and logic, as well as intuition, and judgements based upon personal experiences and expertise.

Organizational Decision-making: This is a process of identifying and solving problems by selecting/deciding which solutions will best address the identified problem.

Decision-making models.

Rational decision-making models help managers think about a problem in a way that may lead to a good solution. This approach generally follows a five-step problem-solving process.

1. Identify the problem. Problems are gaps between the current state and the desired future state.
2. Determine why the problem exists. What is the root cause of the problem?
3. Generate alternative solutions to address the gap.
4. Evaluate the solutions against a set of criteria that will help us select the most appropriate solution.
5. Implement/test the solution in the real world and measure or determine its effectiveness.

Decision-making in an environment that is characterized by rapid change, greater complexity and uncertainty requires organizations to make decisions quickly, with less than perfect information, and with less certainty that the intended outcome will be reached. Even under these kinds of conditions, a rational approach will help managers sort out the problems that need to be addressed and to make decisions that will help close the gap between the way it is right now and the way we need it to be.

There are several factors or constraints that limit the rational decision-making model. These are listed below.

- People rarely have full (or perfect) information. For example, the information might not be available; the person might not be able to access it, or it might take too much time or too many resources to acquire
- It is limited by people's inability to analyze complex situations and to think through a variety of alternative solutions and their intended and unintended consequences.
- Rather than always seeking the best solution, we tend to seek the acceptable one.
- People are just not that rational. Emotions, feelings, attitudes, and beliefs hinder our ability to see things objectively and rationally.

(Bazerman & Chugh, 2006)

Hammond, 2006 points to the following psychological factors or traps that can impact our decisions. Our brains work in ways that can cloud our judgment and decision-making. These include the following

The Anchoring Trap: The anchoring effect refers to the adjustment a decision-maker carries out based on information presented to him. For example, if a person must make a decision about whether the Mississippi River is longer or shorter than 20 miles, he will use the figure of 20 miles as a reference point in coming to a conclusion. Behavioral scientists call the numerical figure that people use to make decisions an anchor.

The status quo trap biases us toward maintaining the current situation—even when better alternatives exist.

The sunk-cost trap inclines us to perpetuate the mistakes of the past.

The confirming-evidence trap leads us to seek out information supporting an existing predilection and to discount opposing information.

The framing trap occurs when we misstate a problem, undermining the entire decision-making process.

The overconfidence trap makes us overestimate the accuracy of our forecasts.

The prudence trap leads us to be overcautious when we make estimates about uncertain events.

The recall ability trap prompts us to give undue weight to recent, dramatic events.

There are many factors that can influence our decision-making, many of which lie below the surface of our awareness, but nevertheless influencing the choices and decisions that we make.

The Role of Intuition in Decision Making.

Decision-making is not always determined strictly by a rational approach where data is collected; evidence is examined and right decision pops out. Intuition is often used when making a decision, where we use our judgement and experience to help us make the best decision possible. Sometimes we “just know” that we should or should not do something.

Intuition is based on our past deep experience and knowledge. We are quick to recognize patterns that allow us to make snap judgments. Before we know it our “gut” is telling us something that we feel we should listen to.

But our intuitions are only trustworthy when we use our judgments and experience in predictable environments. If you are confronting a patient’s symptoms as a doctor, experience will make your intuitions more accurate. There is a relationship between the patterns you have seen before and what you experience today. But in a rapidly changing world, our experience can mislead us and point us in the wrong direction. In environments where change is accelerating and our environments are becoming more unpredictable, our intuitions, which are based on past experience and recognizable patterns, may not be as reliable as we thought. While Steve Jobs could use his intuition to determine what products would sell well for Apple; he had absolutely no experience in the transportation industry. On top of that, because he was so successful at Apple, he was overconfident in his intuitive abilities about what products would be successful even in industries that he knew nothing about.

This is not to say that intuition is not to be used when making decisions. Experience and depth of knowledge can help us make snap decisions. Decisions should use a combination of what we “sense” to be right and hard data.

Research Trends:

There are many other factors that influence our decision-making.

Judgment under Uncertainty:

Bazerman (2006) a recognized researcher on decision methodologies, believes that decision-makers look for certainty even though many decisions are made in the face of uncertainty. The main premise of Bazerman on this point is that understanding risk and uncertainty will increase the likelihood of a quality decision-making process. Two concepts determine alternatives under uncertainty:

- **Probability** (the likelihood that any particular outcome will occur); and
- **Expected value** (weighing all potential outcomes associated with the alternative by their probabilities and summing them).

When approaching uncertainty, Bazerman identifies systematic ways to increase your awareness of uncertainty and risk. He concludes that the process of framing is critical in developing a manager's ability to make effective decisions.

To date, there's little psycho-social research examining the impact of cultures that appear to place priorities on reducing uncertainty. However, as cultural awareness grows, interest can expand around the use of risk and holding expectations for avoiding as much uncertainty as possible. But it may be that those who are acculturated to pay particular attention to avoiding unknowns or uncertainties will add deliberation to decisions. Their critical thinking and drive for added discussion/information gathering may shape future decision-making processes in important ways. In the meantime, you as a manager can be especially thoughtful about how and how much time to spend on gathering information, thinking critically about that information, to make good decisions.

Framing

Can even the way questions are framed influence the reconstructive process?

The research of Elizabeth Loftus (1980) on memory and on the reliability of eyewitness testimony provides a resounding "yes" to the above question. Loftus described the problem this way.

Human memory does not work like a videotape recorder or a movie camera. When a person wants to remember

something, he or she does not simply pluck a whole memory intact out of a "memory store." The memory is constructed from stored and available bits of information; any gaps in the information are filled in unconsciously by inferences. When these fragments are integrated and make sense, they form what we call "memory" (p. 31).

Loftus' statement serves as a reminder that it is not just the shadowy figures of the underworld or those of dubious integrity that are likely to give unreliable testimony. Honest and otherwise reliable people can sincerely affirm as true what is actually false. When our memories are put to the test, we do not discriminate very well what was actually encoded from what we reconstructed to make sense of the event. Thus we can quite sincerely testify as having observed something that never took place because we may be relying on an active retrieval process that fills in the gaps. This process is a normal and integral aspect of our memory. There are many factors that influence the way the gaps are filled in. Many of these factors are subtle and contextual in nature. And outcome knowledge is one of the key ingredients in shaping context.

In one of her experiments, Loftus showed how the framing of a question can influence what is subsequently reported. With the cooperation of the Seattle Police Department, Loftus and Palmer (1974) had people view realistic films of actual and staged automobile accidents and then answer questions about what they saw. One of the questions was "About how fast were the cars going when they smashed into each other?" This question elicited a different estimate of speed than questions using the verbs collided, bumped, hit, or contacted in place of smashed. Although the subjects saw the same films, cars which were framed by the word smashed were found, on average, to be traveling nine miles per hour faster than cars which merely contacted. Smashed provided some other information as well. A week later, experimental subjects were called back and asked, "Did you see any broken glass?" Fourteen percent of the subjects whose question was framed with the verb hit reported seeing broken glass, while 32% of the subjects whose question was framed with smashed reported seeing broken glass. As the reader may have already guessed, there was no footage of broken glass in the films seen by these "eyewitnesses."



Decision-making: Hindsight Bias

Alex Agase, former Northwestern University football coach, once quipped if you want to give him advice, do it on Saturday between 1 and 4 o'clock, during the 25 seconds between plays. Not on Monday. He knew the right thing to do on Monday.

Despite Agase's lament, Monday morning quarterbacking is still a favorite American pastime. Clearly the interception could have been avoided by running the ball. Since the outcome is so clear, Monday morning quarterbacks question why the coach couldn't anticipate it. We tend to expect that others should know by foresight what we have learned by hindsight. The problem is that this bias is not confined to football. Often a part of the "blaming" game, hindsight speculation is pervasive and has the potential to adversely impact a wide variety of human performance activities.

Being Smart After the Fact

Proclamations about human error are most always made "after the fact," rarely before. As noted by Reason (1990), the most significant psychological difference between individuals who were involved in events leading up to a disaster and those who are called upon to investigate after it occurred is knowledge of the outcome. Investigators have the luxury in hindsight of knowing how things are going to turn out; front line operators and their supervisors do not. While most people would not expect much credit for picking a horse after it has won the race, many investigators are unaware of the influence of outcome knowledge on their perceptions and reconstructions of the incident. Given the advantage of a known outcome, what would have been a bewildering array of non-convergent events becomes assimilated into a coherent, causal framework for making sense out of what happened. In fact, it may be difficult to imagine it happening any other way. "Why couldn't they see it?" is the question that is often asked. Such hindsight results in expectations that participants should have anticipated the incident by foresight. These beliefs also blind them to what actually would have been known had the roles been reversed. If investigations of human error are to be fair and impartial, appropriate actions and decisions need to be determined

before the mishap; not from the comfortable vantage point of hindsight.

Process vs. Outcome

Russo and Schoemaker (1989) observed that many managers have difficulty improving their decision-making processes. Instead they focus on outcomes which limit clearer understanding of process methods. These researchers had managers choose between one of two potential new products to market. It was given that Product A had a 50% chance of succeeding, while product B had a 60% chance of succeeding. In both cases, success meant a profit of one million dollars; failure resulted in no profit. The company chose to market Product B. It failed, and Product A is later marketed by a competitor, and it succeeds. Did the company make the right decision?

Managers were asked to rate the quality of the decision on a scale from 1 (clearly made the wrong decision) to 7 (clearly made the right decision). Their average rating was 4.4, showing a fair degree of confusion as to the correct decision. The decision to market product B was absolutely correct. Why didn't they all respond with a 7, as any group of rational managers should have? Because chance factors will sometimes have their way (accounting for 40% in this case) does not mean that clear thinking should be abandoned. Part of the problem may be cultural. In a very competitive U.S. business environment where the stakes are high, successful outcomes are highly valued. New product managers are more likely to be rewarded for successful outcomes than they are for implementing correct decision processes that are less discernible.

In environments where the rate of change is so rapid that past data is obsolete or unavailable, organizations must learn how to make successful decisions. Research shows that companies that operate in this type of environment follow these guidelines;

1. They focus on real-time information and on what is going on right now. Predictions about the future are just to uncertain.
2. They generate and store a large numbers of alternative choices
3. The seek advice from a wide band of people and depended on one or two trusted colleagues as advisors
4. If consensus can't be reached then the top manager made the decision and they moved on
5. Decisions were integrated into other decisions that the company had made.



Leadership and Decision-making:

What is the role that leaders can and should play in organizational decision-making? Here are five suggestions:

- **Recognize that decision-making is a continuum.** Who makes the decision is not an either/or question. It's more complex than that. The continuum runs all the way from *Leader makes the decision unilaterally*, to *Leader gathers information and then makes the decision* to lead and his or her team make the decision jointly, to *Leader delegates the final decision to others*.
- **Effective leading does not depend on you having all the answers.** Look around for who may also have ideas and insights. Leaders who are comfortable with themselves are also comfortable in empowering others.
- **Consider a brainstorm and participation/negotiation.** Decisions should involve a group when the choice may be unpopular; or when it would be helpful to gather additional information prior to making a decision, or when you as a manager know that you don't have important data, observations or direct experience.
- **Know when to delegate the decision-making process.** Not every decision needs a committee. Consider who needs to take the lead. Staff is often quite willing to have the CEO make some decisions; it gives them a sense that someone is in charge.
- **Leadership and organizational culture are two sides of the same coin.** Know whether your work culture is more hierarchical or more team focused. If the organizational culture is participatory/team-centric, it is OK to speak up. You will observe workers doing so. As a result, the leader is more likely to get the information needed to make an informed decision. If, on the other hand, the culture is characterized by "shoot the messenger" with decisions handed down, only the foolhardy are likely to want to be a player when it comes

to making tough decisions. The culture of strict hierarchy is changing in many organizations, but your work as a leader means that you will observe and become skilled at knowing when you can involve others in decisions, and when you must be seen as the decision-maker.