

CHAPTER 8

Effective Decision Making

Always remember that no decision is a decision, nonetheless.

- Anonymous

If a decision-making process is flawed and dysfunctional, decisions will go awry.

- Carly Fiorina

A peacefulness follows any decision, even the wrong one.

- Rita Mae Brown

A good leader knows when doing nothing is not an option.

- Anonymous

1. SOCIAL MEDIA BLUES

As your organization has grown, many decisions have been made for it to expand from the one-hundred-person store in two states to the now two-thousand-employee chain store spanning across eight states. As the vice president of marketing, you have welcomed social media as a great way to keep in touch with your customers, develop relationships with them, and keep them updated on in-store happenings. Recently, several store managers have told you that your company's Facebook page does not match the values and needs of the individual customers in their area. The managers complain that the Facebook page has become out of touch. For example, the Facebook page may advertise a certain brand of dog food; however, when the customer goes to the local store, it doesn't carry that particular brand or flavor. They suggest allowing each store to create their own Facebook page and keep in touch with customers in that manner rather than through the corporate-sponsored page.

You are torn on this decision. First, you want the store managers to feel ownership of the marketing efforts, but on the other hand, you are worried there will no longer be consistency among the stores.

As a leader, these types of decisions can be stressful and confusing. As you already know, every decision comes with upsides and downsides. This chapter discusses some potential models for decision making, decision-making pitfalls, and challenges in team decision making.

2. DECISION-MAKING MODELS

LEARNING OBJECTIVE

1. Name and discuss various decision-making models.

Learning how to make good decisions and then implementing those decisions—both alone and in a team—could be one of the most important aspects of leadership. That is the focus of this chapter. We discuss decision-making models; bias in decision making; group, organizational, and individual challenges in decision making and change; and, finally, some strategies for making good group decisions.

2.1 Ethical Priorities in Decision Making

The exploration of ethical values and priorities in decision making may have started with King Solomon and his description of six universal values,^[1] which are still relevant today:

1. Wisdom
2. Justice
3. Integrity
4. Compassion
5. Courage
6. Faith

Solomon's wisdom directs leaders to engage in the decision-making process using a wider range of values than simply profit and/or performance. Furthermore, Solomon's writings can be also be seen as the "genesis" of intrinsic versus extrinsic values and rewards as the main motivating forces for successful leaders. When leaders are overly focused on the drive for money, title, power, and acclaim for their actions (extrinsic), decisions are more likely to be self-serving and ethically challenged. If leaders are more focused on a calling to support social justice, self-improvement, insight, the good of the whole, transformation, service, consistency, fairness, and justice (intrinsic), then decisions are more likely to be ethical. Moreover, almost all decisions will have a moral component that will require grappling with complexities and balancing divergent needs and constituencies. Ultimately, a history of facing these complex situations increases our capacity for ethical decision making.^[2]

2.2 Procedural Justice and Distributive Justice

distributive justice

The perceived decision fairness of compensation, favors, access, and reward outcomes in general.

procedural justice

The perceived fairness of the decision means used to determine the rewards or outcomes.

One model for reviewing complex decision-making situations involves follower perceptions related to justice. Justice is commonly defined as consistent fairness and accountability, as seen in leader and organizational process styles (procedural) and outcomes (distributive). Furthermore, **distributive justice** refers to the perceived decision fairness of compensation, favors, access, and reward outcomes in general. **Procedural justice** relates to the perceived fairness of the decision-making process used to determine rewards or outcomes.^[3]

Procedural and distributive justice act as interacting principles. Leaders should appreciate the relative interaction of these principles when decisions are viewed as unfavorable or unpopular. With unpopular decisions, procedural justice tends to be an overwhelming focus of the people impacted by the decision outcome, often requiring a greater need for explanation and rationale justification. For example, assume your organization needs to cut salaries for a three-month period in order to reduce operational costs. This certainly would be considered an unpopular decision, resulting in detailed discussions with employees about the pay cut, how it will affect them, and the benefits in the longer term of such a pay cut. Similarly, a leader can expect a high level of critique of all procedures, decision making, attention to detail, and due diligence enacted in reaching an unpopular decision.

With follower comfort in the provision of information on procedural justice, trust in the authority/leader will positively impact employee/follower commitment to the leader and the organization as a whole. With popular decisions, distributive justice likely enjoys positive attention, and procedural justice is assumed to have been fair. Therefore, procedural justice tends not to be a main focus with popular decision making.^[4]

Additional Perspectives

Uncertainty Avoidance in Leadership

Uncertainty avoidance refers to the extent to which an organization, society, or group relies on social norms to alleviate the unpredictability of future events. A person with high uncertainty avoidance may use more formality, be orderly, and resist change. A person with low uncertainty avoidance may be less calculating when taking risks and tend to be less orderly.

In a leadership situation, understanding that others may be very comfortable—or not comfortable—with uncertainty can help us better understand and plan for successful group decision-making processes. Assume you are running a meeting where the goal is to decide on a future direction for the organization. Anyone can contribute at any time, with no formal process regarding who speaks and how the decision will be made.

How might this situation be uncomfortable for someone who tends to have low uncertainty avoidance? How can you maintain your high uncertainty avoidance while still creating a comfortable decision-making environment for those who may be lower in this area?

Source: House, R., Javidan, M., & Dorfman, P. (2001). Project GLOBE: An introduction. *Applied Psychology: An International Review*, 50(4), pp. 489–505.

2.3 Rational Decision-Making Model

The **rational decision-making model** is perhaps one of the most common models leaders use to make decisions, and it consists of eight steps:

1. Identify the problem.
2. Establish decision criteria.
3. Weigh decision criteria.
4. Generate alternatives.
5. Evaluate alternatives.
6. Choose the best alternative.
7. Implement the decision.
8. Evaluate the decision.

As a leader, it is important to note that at times we may have to go through this decision process quickly. In fact, if you consider a simple decision such as what to make for dinner, you ultimately are using this model. First, you identify the problem (I'm hungry! Time for dinner!). Second, you determine what criteria you will use to make your decision on what to have for dinner (I have chicken in my refrigerator; I don't want to go to the store). Next, you weigh the options (Although I don't want to go to the store, I also really want a hamburger, which would require me to drive to the store but make me feel happy). Next, after you weigh the pros and cons of the decision, you will determine the "overall" thought of the decision (So, I can go to the store to get beef, or I can stay here and have chicken). Next, you make your selection. Once you have made your selection, you will act on it and then eventually evaluate it (I am really glad I just had chicken at home, the traffic looks really bad).

Of course, this example is simplified to illustrate how often we utilize this decision process model without realizing it. As leaders, we may do the same thing. We are often faced with choices that must be made quickly, or other times, we are faced with decisions where we can really consider all the alternatives over a period of time. When doing this, we want to make sure to involve all stakeholders in our decision-making process.

One thing to be concerned about when making a decision is a concept called **analysis paralysis**. This occurs when we overthink the decision and spend so much time thinking about it that we never take action. The danger of analysis paralysis in a leadership role is missed opportunities. One of the more popular quotes on analysis paralysis comes from Ross Perot when discussing work at General Motors (GM): "At GM, if you see a snake, the first thing you do is go hire a consultant on snakes. Then you get a committee on snakes, and then you discuss it for a couple of years. The most likely course of action is—nothing. You figure, the snake hasn't bitten anybody yet, so you just let him crawl around on the factory floor. We need to build an environment where the first guy who sees the snake kills it."^[5] As a leader, there are a few ways you can deal with analysis paralysis:^[6]

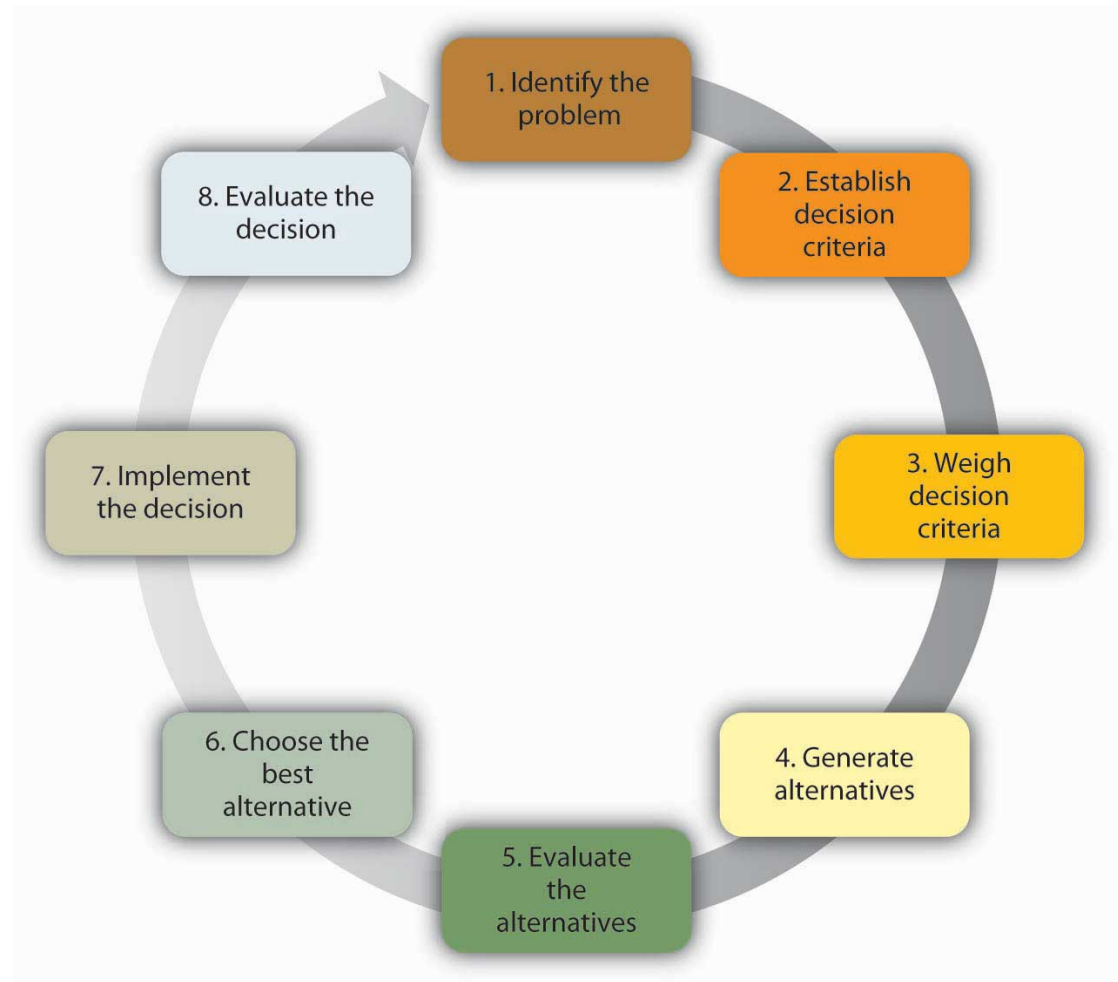
- **Expectation clarification.** Make sure everyone on your team understands the clear expectations, goals, and outcomes of the decision. Of course, make sure you understand them yourself!
- **Checkpoints.** Set realistic checkpoints and small goals. Sometimes considering a big decision (i.e., change of marketing strategy) can be daunting. Making the decision in small steps can be a helpful way to overcome analysis paralysis.
- **Certainty of uncertainty.** Understand—and make sure your team understands—that no decision will ever be 100 percent sure. Get comfortable with the fact that it may be 80 percent right, which means it may be the right decision to go with.
- **Trust and support.** If you do not support your employees when they make bad decisions, it could result in them being unwilling to make any decision.

rational decision-making model

An eight-step model used to make decisions.

analysis paralysis

This occurs when we overthink the decision and spend so much time thinking about it that we never take action.

FIGURE 8.1 Rational Decision-Making Model

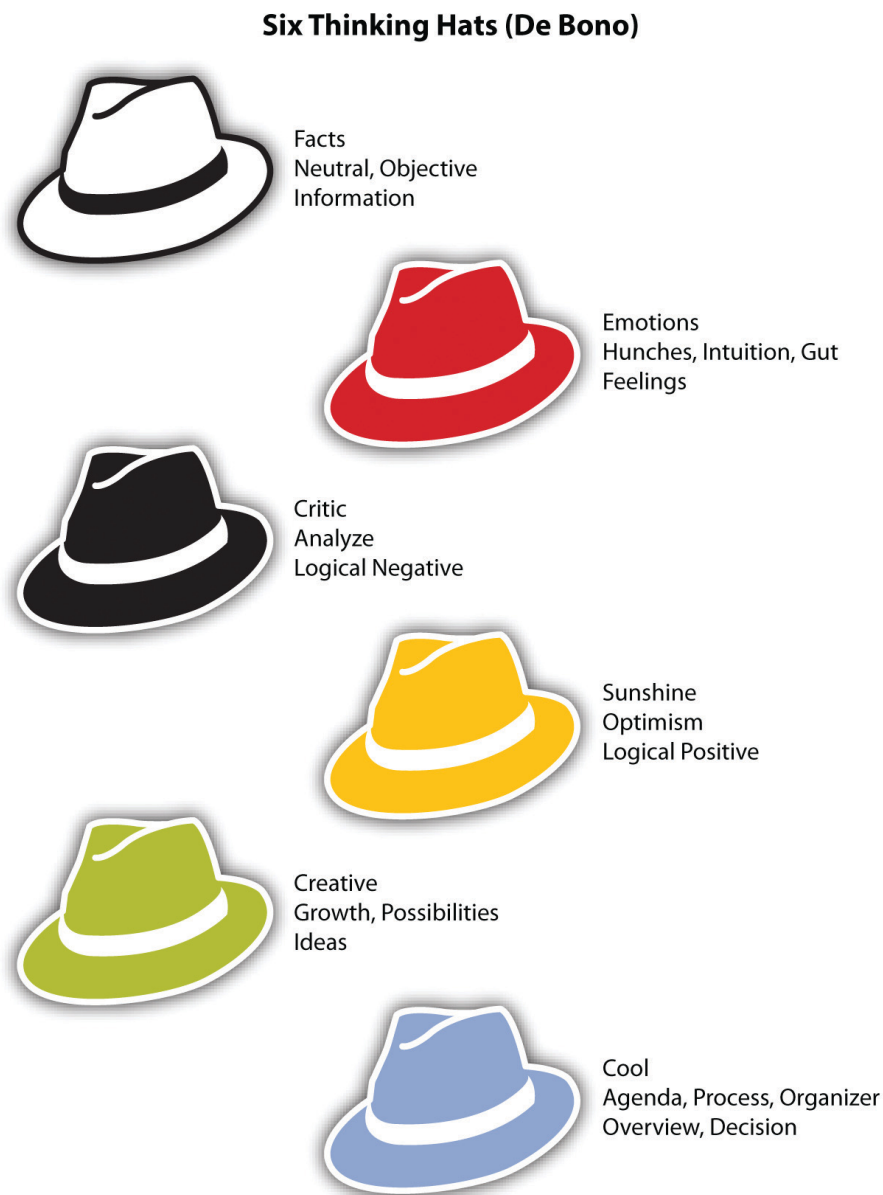
Source: Simon, H. A. (1979). Rational decision making in business organizations. *The American Economic Review*, 69(4), pp. 493–513.

2.4 De Bono's Six Thinking Hats

Six Thinking Hats

A set of six perspectives or steps used in making good decisions.

Another example of a decision-making model is the Edward de Bono model. The Edward de Bono model of the **Six Thinking Hats** provides us with a different way of thinking about how we make decisions.^[7] The six hats provide us six different perspectives. Similar to the rational decision-making model discussed earlier, this model uses hats to represent the steps we need to follow in order to make good decisions. For example, the white hat helps us look at the facts of the situation. The red hat helps us look at the emotional aspect of the problem or solution. The black hat helps us to look at the negatives of the solution, while the yellow hat helps us think about the positives of the solution. The green hat allows us to come up with potential solutions or courses of action, while the blue hat helps us manage the process of making the decision. For example, Andi is considering acceptance of a leadership role in her organization. If she were using the Six Thinking Hats model, she would first look at the facts—that is, the aspects of the job offer, such as pay raise and her ability to perform the job (white hat). Then she would look at how she feels (red hat) about the job—for example, does the position “feel” right? Next, she would look at the downsides of taking the job (black hat), such as the requirement to work more hours. Then she would look at the positives of the job, such as enhancement to her career (yellow hat). Next, she would use the green hat to look at the job from a creative perspective, such as salary potential three years out or her ability to be chief executive officer someday. Finally, the blue hat would cause Andi to make sure she used all hats to decide and, based on the data, go ahead and make the best choice.

FIGURE 8.2 Six Thinking Hats Model Helps People Look at All Sides of a Decision

Source: De Bono Group. (n.d.). The six thinking hats. Retrieved June 5, 2013, from http://www.debonogroup.com/six_thinking_hats.php.



Video Clip 1

Indigo Introduces de Bono's Six Thinking Hats®

This video offers a brief explanation of de Bono's Six Thinking Hats model.



View the video online at: <http://www.youtube.com/v/K4IkCdBtTxE>

2.5 Intuitive Decision Making

intuition

A complex form of reasoning based on past experience, double-loop learning, patterns, concepts, and other useful knowledge a leader has.

Decision making based on intuition is not as favored as other decision models, but we feel it is worth mentioning since many organizational leaders utilize a combination of the rational decision-making model and intuitive decision making. Due to technology's ability to provide numerous data points, charts, graphs, and information, making decisions based on intuition when combined with other methods can be an important part of the leadership toolbox.^[8] **Intuition** is a complex form of reasoning based on past experience, double-loop learning, patterns, concepts, and other useful knowledge a leader has. As you remember from our discussion in Chapter 2, Myers-Briggs indicators can be applicable to leaders who use intuitive decision making. Regardless of the decision-making style, any one of the models discussed can help us with decision making. The next one we discuss, the Vroom-Jago decision model, shows us in which situations it makes sense to make an autocratic decision versus a consultative one.



Video Clip 2

How to Make Intuitive Decisions: Listening to Your Gut

Intuitive decision making is discussed in this video. Although the focus is on personal decision making, we can still apply these in leadership situations.



View the video online at: http://www.youtube.com/v/7_YoHudxtro

2.6 Vroom-Jago Decision Model

The **Vroom-Jago model** can be used to determine how involved your employees should be in the decision-making process.^[9] First, we must discuss the different types of decision situations that could be made, as shown in Figure 8.3.

FIGURE 8.3 Vroom-Jago Model

Type	Situation	Example
Autocratic I (A1)	The leader makes the decision.	In a hiring situation, the leader simply interviews the candidate and makes a decision about who to hire.
Autocratic II (A2)	Information is requested from the team, but the leader makes the decision. The team might not know why the leader is requesting such information.	Input is requested from the team on what type of person to hire for the open position, but ultimately, the leader still makes the decision.
Consultative I (C1)	The leader explains the situation to individuals on the team and gets input. A group discussion may occur to determine input, and while the leader makes the ultimate decision, the group input weighs heavily on the leader's decision.	The leader may have members of the team interview the candidate and provide recommendations on the strengths of each candidate, but the leader still makes the ultimate decision about who to hire.
Consultative II (C2)	A group discussion occurs to determine input. The leader makes the ultimate decision.	The group may get together to determine who is the best candidate, but the leader gets the final say in who to hire.
Group II (G2; also called participative)	The leader presents the situation and the group as a whole makes the decision.	The group makes a team decision about who to hire, with minimal input from the leader.

Vroom-Jago model

A decision-making model that can be used to determine how involved your employees should be in the decision-making process.

Source: Duncan, W. J., LaFrance, K. G., & Ginter, P. M. (2003). Leadership and decision making: A retrospective application and assessment. *Journal of Leadership & Organizational Studies*, 9(4), pp. 1–20.

To use the model, you will use these questions^[10] and the decision tree in Figure 8.5.

1. Is high quality important here or is a good solution absolutely critical? (Is this a case where it would not be acceptable to have lots of equal alternatives?)
2. As the leader, do you have enough information of your own to make a good decision?
3. Is the problem structured in a way that is clearly defined and organized and has recognized solutions?
4. Do the members of the group have to accept this decision for it to work?
5. If you make this decision yourself, are you sure the group will accept it?
6. Are the group members aligned with the same goals that you are trying to achieve?
7. Is disagreement likely among group members in reaching a decision?

The Vroom-Jago model looks at three main factors in team decision making: decision quality (how important is the “right” decision?), subordinate commitment (how important is it that your team buys into the decision?), and time constraints (how much time do you have to make the decision?). This model proves to be very useful in determining how decisions should be made. The model provides a framework to look at each of these important questions and then correlate them to the chart (Figure 8.3) to determine *how* a decision should be made. For example, when utilizing a group decision process, we want to be sure we need to include all parties involved because of the extensive time it may take to come to group consensus. Likewise, it is important to know which types of decisions should be group decisions and which decisions should be autocratic ones. This can also relate to our earlier discussion on procedural justice, in that there may be perceived fairness when making a decision using a systematic process such as the Vroom-Jago model.

2.7 Assessment Model

When we utilize an assessment model, we can look at several aspects and the effects of our decision to make better decisions, which include possible outcomes—positive or negative. Lee Bolman and Terrence Deal^[11] present a model called the Four Frames, which states that we should look at any decision from four perspectives, or frames: political, human resource, structural, and symbolic. This model is expanded upon in Chapter 12.

This model is useful in evaluating the factors and/or repercussions of any potential decision, especially when major organizational change is involved. Therefore, the Four Frames model has application in making the “go/no-go” decision.

Another useful model is Quinn’s Seven Factors of Strategic Change, or “logical incrementalism.”

Henry Mintzberg found that strategy selection is not one decision but rather a set of smaller decisions or, actually, a “pattern in a stream of decisions.”^[12] If this stream of decisions presents a consistent pattern over time, then a strategy is considered to have formed, regardless of urgency.

James B. Quinn^[13] expanded on the “stream of decisions” concept to explore the main factors successful decision makers used to evaluate an organizational change situation and assess the organizational readiness for and impact of the proposed change. Quinn described this process as “logical incrementalism.”

Through interviews with over one hundred managers and leaders, he distilled a pattern of assessing their organizations, and the impact of a change strategy, down to seven common factors:

1. Past organizational strategies (i.e., success, failures, and style)
2. Managerial/leader attitudes toward risk (i.e., risk tolerance)
3. Degree of organizational dependence on environmental factors and/or regulators
4. Organizational culture and power relationships
5. Impact of proposed change on lower-level managers and staff personnel
6. Probable actions and reactions of competitors
7. Timing of change strategy (i.e., windows of opportunity, staging, and project length)

2.8 A Closer Look at the Seven Factors

The Influence of Past Organizational Strategies

It is very common for people to commit a vast amount of energy and resources to a past course of action, especially when they were personally responsible for choosing that strategy. Therefore, if the past course was unsuccessful, these people can be very resistant to change.

Similarly, if a new course of action is viewed as significantly deviating from past process styles (i.e., “the way we always did things”), some people will be very resistant to new innovations, regardless of logic or strategic opportunity. This factor relates well to Bolman and Deal’s political and symbolic frames.

Managerial/Leader Attitudes toward Risk

Risk relates to the perceived chance of loss or damage in both real (economic, political) and symbolic (embarrassment, image) terms. Risk can be viewed as those factors that can negatively impact any “hoped for” planned changes or results.

Risk is always present. Organizations, and their respective leaders, develop attitudes or a culture of dealing with risk that invariably impact their strategic choices for change. Some leaders/organizations embrace risk (change) easier than others. They are more likely to adopt an active or offensive strategy (proactive) in reaction to environmental change on the horizon rather than waiting to be forced to react. On the other hand, risk-averse leaders/organizations tend to prefer a defensive strategy, where they only react when forced to by external forces.

Risk avoiders are more likely to use past strategies (however dysfunctional), while risk-tolerant organizations/leaders react more comfortably with discussions and exploration of a wide range of change options. Risk tolerance predicts success on both organizational and leadership levels, particularly in industries that have rapidly changing environments. Risk tolerance relates closely with Bolman and Deal’s human resources (HR) frame.

Degree of Organizational Dependence on Environmental Factors and/or Regulators

A higher level of organizational dependence on environmental and/or external factors (stakeholders, regulations, unions, competitors, governmental oversight, etc.), lowers the level of flexibility the

organization has in the strategic choice process. Research shows that patterns of continual adjustment to an organization's environment create a perspective that hardens and then tends to limit or constrain leader/managerial choices. This factor closely resembles Bolman and Deal's structural and symbolic frames.

Organizational Culture and Power Relationships

Culture is a concept used to describe and determine the values that set a pattern for an organization's activities, actions, style, and priorities. Culture is very similar to Bolman and Deal's symbolic frame.

Power is the relationship between people that involves organizational members' ability to influence others to engage in activities they might not otherwise. Power is also seen through the style individuals use to compete for perceived limited resources within the organization. Power is closely related to politics; therefore power is closely related to Bolman and Deal's political frame.

When choosing a strategy and planning for change, one should identify the following:

- The kind of culture needed to support the proposed change
- The existing (current) culture
- Any gaps or potential resistance between the current and needed culture
- What methods will be used to decrease resistance and encourage participation and acceptance
- How to implement the strategy
- Whether the strategy needs to be refined

This perspective relates closely to Kotter's eight stages of implementing change.

Impact of the Proposed Change on Lower-Level Managers and Other Staff Personnel

Change strategies usually have an organization-wide impact, varying from subtle to extreme. Also, it is very common that those responsible for the major part of any change implementation are lower-level managers and staff. Therefore, it is imperative to consider the impact of the change on these people and to solicit their comments and input on the proposed change.

Given that lower-level managers tend to contribute greater to projects likely to be accepted, while conversely stepping back from projects deemed likely to fail, the success of any strategic change outcome can be greatly influenced by individual and subunit self-interest as well as the perceived consideration of their concerns by upper management.

When these people are brought into the change discussion, the preferred strategy, chosen by upper management, is usually altered somewhat for the better. Additionally, the views of the lower-level staff tend to be less resistant to change when their subunit's respective perspectives and objectives are integrated, or at least taken into consideration, in developing the ultimate strategic decision. This factor relates closely to all four of Bolman and Deal's frames. Additionally, this factor has great weight on choosing your guiding coalition, per Kotter's eight steps and stages of change.

Probable Actions and Reactions from Competitors (Both Internal and External)

Change can have a ripple effect that is not easily predicted. The change agent is wise to view the proposed change from the frame of competitors (either internal or external) and the perceived threat of successful change to them. Furthermore, competitors may use risk of failure (previously discussed) to weaken the organization, subunit, or person leading the change. This is especially true of internal competitors who view their current positive position, or image for future promotions and/or political power, as threatened by a successful change strategy. This factor also covers Bolman and Deal's political frame and should not be underappreciated.

Timing of Change Strategy

Change can sometimes be open ended and other times be very dependent on windows of opportunity that are either taken advantage of, lost, or cyclical in nature. Certain industries are very cyclical in nature, where any change must conform to timelines, reapproval, or the vagaries of governing bodies and the deliberative process the change agent has very little control over.

Higher education curriculum change is an example of a cyclical approval process. Bringing new pharmaceuticals to market and aviation are examples of the long-term project management and strategic step watching required for preapproval. Bringing technology development to market (especially smartphones) represents opportunities lost or taken advantage of. This area closely relates to Bolman and Deal's structural frame and the implementation phase of organizational development.

KEY TAKEAWAYS

- The rational decision-making model is an eight-step model that asks the decision maker to go through a series of steps to determine the end decision result. The steps consist of the following: identify the problem, establish decision criteria, weigh decision criteria, generate alternatives, evaluate the alternatives, choose the best alternative, implement the decision, and evaluate the decision.
- De Bono's Six Thinking Hats model is another useful decision-making tool. The six hats provide us six different perspectives. For example, the white hat helps us look at the facts of the situation. The red hat helps us look at the emotional aspect of the problem or solution. The black hat helps us to look at the negatives of the solution, while the yellow hat helps us think about the positives of the solution. The green hat allows us to come up with potential solutions or courses of action, while the blue hat helps us manage the process of making the decision.
- The Vroom-Jago model assists us in determining by which method we should decide, for example, autocratically, consultatively, or as a group. It utilizes a decision tree to help make the decision.
- Intuition can be a valuable tool in decision making in that it includes all data a person has learned.

EXERCISES

1. Utilizing the rational decision-making model, discuss a recent decision you have made at work, school, or home and explain your thought process at each step.
2. Review the opening story. Using the Vroom-Jago model, determine the process for this decision making. Discuss why you think this is the best choice.

3. FAULTY DECISION MAKING

LEARNING OBJECTIVE

1. Explain and give examples of faulty decision-making types.

Despite our best efforts, we often find we have made an incorrect decision. This section discusses some of the ways we can make faulty decisions. An awareness of how and why the decision didn't go as planned can help us understand what makes a bad decision before we make that questionable decision. It is important to mention single- and double-loop learning, which we discussed in Chapter 2. Single-loop learning refers to when we look at a failed attempt and then we simply try something else, without ever reflecting on why the failure happened to begin with. Double-loop learning relies on our ability analyze *why* something didn't work, so we can take better action the next time. Single-loop learning doesn't allow us to learn from our mistakes, while a focus on double-loop learning can help us to ask ourselves about the forces and factors that went into making a wrong decision.

3.1 Overconfidence Effect

overconfidence effect

A bias in which a leader's subjective confidence in his or her judgment is higher than his or her accuracy in making a decision.

The **overconfidence effect** is a bias in decision making in which a leader's subjective confidence in his or her judgment is higher than his or her accuracy in making a decision. For example, consider the leader who believes she always makes good decisions but actually only makes good decisions 60 percent of the time. This personality trait can lead her to trust her ability to make decisions when, in fact, the ability isn't as good as she thinks.^[14]

3.2 Framing Bias

Framing bias occurs when we don't fully understand the problem at hand or identify it incorrectly. For example, assume a vice president of sales sees sales numbers dropping for a particular product line, so he determines the website must be poor. He then utilizes the rational decision-making model to figure out how he and his team will fix the website. In this case, he framed the problem wrong—the problem was actually the decrease in sales commissions, which drove the particular product to experience sales drops.



Video Clip 3

Emotion and Rationality in Decision Making

This scientific video shows how the brain works when making decisions.



View the video online at: <http://www.youtube.com/v/F8Csytgjcro>

FIGURE 8.4 Framing Bias

Framing bias occurs when we do not understand or perceive the decision correctly from the beginning.



© Thinkstock

framing bias

A bias that occurs in decision making when we don't fully understand the problem at hand or we identify it incorrectly.

3.3 Illusion of Control

Another possible decision-making bias is people's ability to assume they will have more control over a situation than they actually may; this is called **illusion of control**. For example, many leaders make this mistake by believing a decision they make will be accepted by all employees involved. Employees may not embrace a decision at first—even if it is the right decision. Because of this, and because leaders need their employees to carry out tasks, the leader will not be able to implement the decision without buy-in from employees.

illusion of control

A decision-making bias whereby people assume they will have more control over a situation than they might actually possess.

3.4 Sunk Cost Bias / Escalation of Commitment

Many organizations will continue along an incorrect decision path because they've "already gone this far." For example, suppose you decided to update your current customer relationship software. After a few months, the software isn't working how you needed it to work for your organization. When it is time to upgrade to the new version, the decision is to go ahead and pay for the upgrade even though the software isn't working the way the company needs it to work. Many organizations would continue along the path—using the wrong software and paying for the update—because they have already spent the money to implement it to begin with. In this situation, the sunk cost (the cost of the software) can be a **sunk cost bias** (also called escalation of commitment) in decision making.

sunk cost bias

Continuing along the same path (even if incorrect) because the organization has already spent time and money on that path.



Video Clip 4

Escalation of Commitment Heuristic

This video presents an amusing example of escalation of commitment.



View the video online at: http://www.youtube.com/v/qs_B5gP-Z4s

3.5 Status Quo Bias

status quo bias

Choosing not to decide and sticking with things the way they are.

According to research by William Samuelson and Richard Zeckhauser,^[15] status quo—or maintaining one’s current state—is quite common in business decisions. So rather than making a decision, choosing not to decide can result in **status quo bias**. Often, leaders engage in status quo bias because they do not know the result of the other decision—so they keep things the same.^[16] Consider auto manufacturers, such as General Motors (GM), that continued to make large trucks and SUVs even though American consumers were buying smaller foreign cars. In this case, they chose the status quo (“continue making what we are making”), which resulted in near failure for GM in 2008.^[17]

Understanding our personal biases, and biases associated with decision making, can help us have self-awareness as we make decisions to determine if any of these biases are at play. Another consideration in decision making includes hurdles when making team decisions, which is the topic of Section 4.

KEY TAKEAWAY

- Many types of bias can exist when making decisions—for example, overconfidence bias, framing bias, illusion of control, sunk cost bias, status quo bias, and availability bias. We should look for these biases and be aware of them when making leadership decisions.

EXERCISE

1. Describe a time when you made a decision in which one of the biases discussed in this section occurred.

4. TEAM DECISION MAKING AND CHANGE

LEARNING OBJECTIVES

1. Explain the reasons for resistance to change and give examples.
2. Explain the meaning of groupthink, the reasons for it, and how to overcome it as a leader.

As leaders, we will rarely make decisions on our own. Involvement from our colleagues, employees, and supervisors will likely be part of the decision-making process. As a result, it is important to take a look at group decision making in a leadership context.

4.1 Team Decision-Making Challenges

There are many reasons why people will resist a change or a decision in your organization. These could be because of organizational reasons, group reasons, or individual reasons. Some of the organizational reasons include the following:^[18]

1. **Inertia.** Inertia is like an 18-wheeler barreling down a hill—sometimes it can be difficult to stop the direction we are already going. This inertia is often involved with sunk costs, one of the biases in decision making.
2. **Culture.** Creation of a culture that allows for change—which begins from decision making—is an important part in implementing a successful decision. Some cultures don't allow for mistakes or poor decisions, and as a result, employees are afraid to make decisions.
3. **Lack of rewards.** We must obtain “buy-in” from our employees when we decide and eventually create a culture of change in our organization. Obtaining buy-in may mean involving employees in the process and providing rewards for successful decision making and change implementation.
4. **Structure.** Some organizations do not have the organizational structure to manage decision making and change effectively. For example, large organizations spanning over many parts of the world may find challenges implementing changes across the board.
5. **Poor timing.** If an employee associates a change with something negative—for example, “the last time we changed our vision, one hundred people were laid off”—there may be resistance to decision making and change. In addition, if too much change happens at once, employees may resist it.

There are also group causes in resisting change, which include the following:

1. **Group norms.** As you already know, every organization and group has its own set of norms. Some organizations do not readily accept change. These group norms are an important consideration—how does your group normally make decisions? Are you following the group norm or is there a way to change the group norm?
2. **Group cohesion.** Sometimes it is easier to “go along with the group.” When this occurs, individuals, for a variety of reasons (discussed here), do not speak up about their concerns with “the way we have always done things.” When this occurs, employees are less likely to share ideas on how things could be better; therefore, change does not occur.
3. **Leadership.** Leaders must lead the change. This can only be done through mutual respect and trust. It is important to understand that leaders must have this before moving forward with a change in the organization.

Individual causes can also be a reason employees resist change:

1. **Fear of the unknown.**^[19] Giving employees adequate warning of the change and participation in the process are important to overcoming resistance to change.
2. **Fear of failure.** Employees may be concerned about their skills becoming less valued with the change or are wondering “where does this leave me?” Providing employee training for new skills that are needed and other opportunities can both help with this resistance.
3. **Job security.** People may be concerned that the change could lead to eventual job loss (either their job or the job of their colleagues). Assurance (only if true) can mitigate some of these issues.
4. **Individual characteristics.**^[20] Positive thinking, openness to experience, and tolerance for ambiguity play an important role in employees' work attitudes and their coping with change. In addition, self-esteem, optimism, and perceived control predict employees' willingness to accept a change.^[21] When you think back to Chapter 2, you may remember that some personality characteristics from the Big Five and Meyers-Briggs Type indicators can affect how a person deals with a change individually and in teams. For example, some individuals may prefer to focus on efficiency—that is, making a quick decision and acting on that decision—while others may feel thoroughness is more important. Taking time to review data, for example, could be a higher priority than making a decision quickly. Being able to identify your tendencies and those of your team can help teams make better decisions in the long run.

Once we have awareness of the reasons employees resist change, we can better handle our decision-making process through employee involvement, but we can also plan ahead for possible resistance to change.

4.2 Kotter's Eight Stages of Change

As leaders, once we have decided a change needs to take place, understanding how the change is actually implemented can be explained by Kotter's change and decision-making model. In this model, Kotter explains that there are eight steps to getting the decision or change to "stick." These steps are as follows:^[22]

1. **Create urgency.** Let your employees have the sense that change is important. Identify situations that could cause potential positive and/or negative outcomes, and create a dialogue with employees about it.
2. **Form a powerful coalition.** Convince people that change is necessary, and find "cheerleaders" in your organization who can implement it.
3. **Create the vision for the change.** Have a clear vision so employees and management can see how the change applies to the organization, to the department, and to them as individuals.
4. **Communicate the change.** Communicate the change and the vision. Talk about it often.
5. **Remove obstacles.** Determine if people are resisting the change, and if so, why? What obstacles might be in the way and are preventing the change from happening?
6. **Plan for and create short-term wins.** Recognize and reward the individuals or teams involved in creating initial improvements or for being successful in implementing a stage or timeline of the change plan, as a planned step, prior to the project's full completion.
7. **Consolidate the improvements.** Build on the change. Don't declare victory too early. Continue finding ways to improve the change and build on the vision.
8. **Anchor and institutionalize the change into the organizational culture.** The change should become part of the organization's values. Discuss the progress with employees often and tweak it where necessary.

Now that we have discussed decision-making models, it is important to discuss some of the possible pitfalls when making decisions.

4.3 Groupthink

groupthink

Occurs in group decision making when a group is so concerned with maintaining agreement that it fails to evaluate all available alternatives and options.

Groupthink occurs when a group is so concerned with maintaining agreement that its members fail to evaluate all their alternatives and options.^[23] One of the classic examples of groupthink is the space shuttle *Challenger* disaster in 1986. Although the *Challenger* was ultimately destroyed as the result of equipment failure, the deadly human decision to launch was based on groupthink. Although management knew there could be some safety issues, they felt the risk was worth the reward because they had already delayed a launch earlier in the week. No one in the group spoke up against this decision, so the *Challenger* was launched and sent to its demise.^[24] In a more recent example, the housing crisis of 2008–12 is said to be a result of groupthink, specifically social pressure. The belief that housing prices will always go up leads to the purchasing of overpriced houses. The result was that a lot of people purchased homes many times their actual value,^[25] which created a "housing bubble." Eventually, prices did drop and many people were stuck with mortgages they could not afford for homes they overpaid to purchase.



Video Clip 5

Groupthink and the Space Shuttle Disaster: This video discusses the *Challenger* disaster in 1986 and the influence of groupthink on this deadly decision.



View the video online at: <http://www.youtube.com/embed/fSTrmJtHlFU>.

While many decisions we make as leaders may not result in deadly consequences, it is important to recognize the symptoms and reasons for groupthink in the decision-making process. They include the following:

1. **Self-censorship.** This occurs when team members are not comfortable discussing their concerns about a decision. Often this occurs because they want to avoid being viewed as “not a team player.”
2. **Illusion of immortality.** When members of a group tend to lose sight of their personal moral principles to “go along” with the group.
3. **Illusion of invulnerability.** When an entire group believes with certainty that they “can’t be wrong” and, as a result, makes the wrong decision.
4. **Apparent agreement in the group.** When members censor their own opinions, the group members believe all are in agreement, resulting in no one speaking up (this is the result of self-censorship).

Groupthink

Please review this groupthink-related article discussing a deadly avalanche accident in the Central Cascades in Washington State. Review and consider the causes of this groupthink decision.

<http://www.nytimes.com/projects/2012/snow-fall>

4.4 Avoiding Groupthink

As a leader, it is our job to make sure we avoid groupthink in decision making. Here are some ways we can achieve this:

- Exploring end-state goals and objectives
- Exploring all alternatives
- Encouraging all ideas to be challenged without fear of reprisal
- Examining the risks of all possible decisions
- Making sure you have enough information to decide (avoiding analysis paralysis)
- Creating contingency plans

nominal group technique

A decision-making technique where members of a group have time to discuss their opinion and then ideas are ranked and added up to come to a final decision.

consensus

A decision-making technique in which the approval of all or most group members is necessary to move forward with the decision.

decision tree

A visual depiction of all possible options, costs, and outcomes of each alternative.

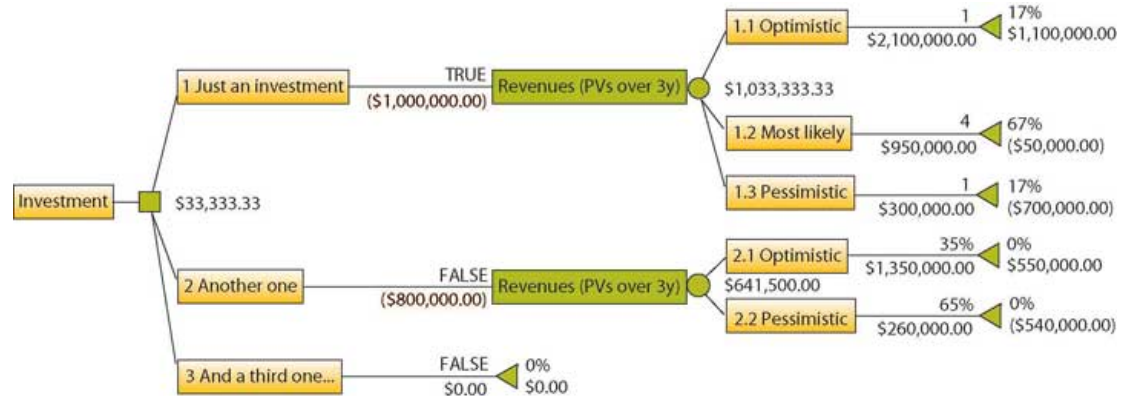
When we conduct a decision-making meeting, a number of techniques can be utilized to follow the tips for avoiding groupthink. The **nominal group technique** involves the rational decision-making model. In this technique, each group member provides his or her view of the correct decision. Then duplicate solutions are eliminated from the list of all solutions. The group then ranks the remaining decisions first, second, third, and so forth. The rank numbers for each team member are totaled, and the decision with the lowest total is chosen. The upside to this technique is the group's ability to discuss as a whole, but individual differences and opinions are recognized in the ranking of the solutions.

Consensus can be another way to make group decisions. In this technique, the approval of all or most group members is necessary to move forward with the decision. The method can be time consuming and political. However, at the end, you may end up with more “buy-in” because the entire group made the decision. This process normally works with the presentation of one or two solutions to a decision and then deliberation occurs among the group until agreement is reached by all. Groupthink is of concern with this technique because often people will “just agree” because they feel everyone else agrees.

A **decision tree** is a visual depiction of all possible options, costs, and the possible outcome of each alternative. Decision trees can be easy to interpret and understand, provide best- and worst-case alternatives, and provide a visual representation for group decision making.

FIGURE 8.5 Decision Tree

Using a decision tree, we can look at the “big picture” of our possible decision options and outcomes.



4.5 Communicating the Decision

Once we make a decision, we need to communicate that decision effectively. When we communicate a decision that was made autocratically, we should make sure to state the reasons why the decision was made, the advantages and/or benefits of the decision, and how the decision will be implemented. As leaders, we will make decisions daily. The important thing to remember about decision making is to utilize a model that allows you to look at all possible options, have an awareness of resistance to change in decision making, and be aware of possible flawed group decision making. Once a decision is made, communicating that decision in an effective way can establish trust and buy-in and increase the likelihood that it will be effectively implemented by employees.

KEY TAKEAWAYS

- There are many causes of resistance to change. They can include organizational causes, group causes, and individual causes. For example, inertia, culture, structure, lack of rewards, and poor timing are organizational causes.
- Group causes of resistance to change can include group norms, group cohesion, and leadership. Individual causes might include fear of the unknown, job security, fear of failure, and individual personality traits.
- Kotter's change process model consists of eight steps that can help us, as leaders, understand how we can "cement" decisions we have made to become part of our company's organizational culture.
- Groupthink occurs when the members of a group are so concerned about maintaining a level of agreement that they fail to evaluate all options. Groupthink sometimes occurs because individuals are afraid of being viewed as a "not a team player," so they don't speak up, even if they feel a wrong decision is being made.
- To avoid groupthink in decision making, we should do the following: make sure we know end-state objectives and goals, explore all alternatives, encourage all ideas to be challenged without fear of reprisal, examine all risks, ensure we have enough information to make a good decision, and create contingency plans.
- As leaders, we can utilize a number of techniques for group decision making, including the nominal group technique, decision trees, and consensus decision making.
- We must communicate the change or decision well to employees in order to achieve buy-in for the decision.

EXERCISE

1. Review the decision tree in Figure 8.5. Discuss how each of the causes of groupthink results in this disaster.

5. CHAPTER SUMMARY AND CASE

Chapter Summary

- The rational decision-making model is an eight-step model that asks the decision maker to go through a series of steps to determine the end decision result. The steps consist of the following: identify the problem, establish decision criteria, weigh decision criteria, generate alternatives, evaluate the alternatives, choose the best alternative, implement the decision, and evaluate the decision.
- De Bono's Six Thinking Hats model is another useful decision-making tool. The six hats provide us six different perspectives. For example, the white hat helps us look at the facts of the situation. The red hat helps us look at the emotional aspect of the problem or solution. The black hat helps us to look at the negatives of the solution, while the yellow hat helps us think about the positives of the solution. The green hat allows us to come up with potential solutions or courses of action, while the blue hat helps us manage the process of making the decision.
- The Vroom-Jago model assists us in determining by which method we should decide, for example, autocratically, consultatively, or as a group. It utilizes a decision tree to help make the decision.
- Intuition can be a valuable tool in decision making in that it includes all data a person has learned.
- Kotter's change process model consists of eight steps that can help us, as leaders, understand how we can "cement" decisions we have made to become part of our company's organizational culture.
- Many types of bias can exist when making decisions—for example, overconfidence bias, framing bias, illusion of control, sunk cost bias, status quo bias, and availability bias. We should look for these biases and have an awareness of them when making leadership decisions.
- There are many causes for resistance to change. They can include organizational, group, and individual causes. For example, inertia, culture, structure, lack of rewards, and poor timing are organizational causes.
- Group causes in resistance to change can include group norms, group cohesion, and leadership. Individual causes might include fear of the unknown, job security, fear of failure, and individual personality traits.

- Groupthink occurs when the members of a group are so concerned about maintaining a level of agreement that they fail to evaluate all options. Groupthink sometimes occurs because individuals are afraid of being viewed as a “not a team player,” so they don’t speak up, even if they feel a wrong decision is being made.
- To avoid groupthink in decision making, we should make sure we know end-state objectives and goals, explore all alternatives, encourage all ideas to be challenged without fear of reprisal, examine all risks, ensure we have enough information to make a good decision, and create contingency plans.
- As leaders, we can utilize a number of techniques for group decision making, including the nominal group technique, decision trees, and consensus decision making.

Chapter Case

You are the operations manager for a large consulting business. Recently, the organization has had immense growth, resulting in the need to hire fifteen additional consultants and two support staff and to invest funds in expanding office space and equipment. Currently, you are determining whether or not to implement a flex-time schedule with all your consultants. The consultants could work from home up to three days per week.

1. Using the Vroom-Jago model, determine how this decision should be made.
2. Which organizational, group, and individual causes of resistance to change might you be concerned with? Discuss at least two from each category.
3. Based on the concerns you listed, how would you address these issues with your employees?
4. Design a decision tree for this situation.

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