Title: Managers as Decision Makers
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Chapter 4
Managers as Decision Makers
Chapter 4

• How do managers use information to solve problems?

• What are the five steps in the decision-making process?

• What are some current issues in managerial decision making?
4.1 Using Information to Solve Problems

• Managers deal with problems posing threats and offering opportunities.
• Managers can be problem avoiders, problem solvers, or problem seekers.
• Managers make programmed and nonprogrammed decisions when solving problems.
• Managers can use systematic and intuitive thinking.
Using Information To Solve Problems

- Managers use different cognitive styles to process information for decision making.
- Managers make decisions under conditions of certainty, risk, and uncertainty.
USING INFORMATION TO SOLVE PROBLEMS

Problems Pose Threats And Opportunities

• Problem Solving
  – Identifying and taking action to solve problems.

• Knowledge Workers
  – Use information to solve problems, describes managers well.

• Performance Threat
  – A situation where something is wrong or likely to be wrong.

• Performance Opportunity
  – A situation that offers the possibility of a better future, if the right steps are taken.
Using Information to Solve Problems

Problems Pose Threats And Opportunities

- Decisional Roles: Information used for entrepreneurship, resource allocation, disturbance handling, negotiation
- Interpersonal Roles: Information used for ceremonies, motivation, and networking
- Information Roles: Information sought, received, transferred among insiders and outsiders
- Information Competency
- Planning, Organizing, Leading, Controlling

Computer Literacy

Interpersonal Skills
Problem Solving Approaches

- Problem avoiders – prefer not to make decisions and ignore problems
- Problem solvers – react to problems as they occur
- Problem seekers – proactive in anticipating threats and opportunities
USING INFORMATION TO SOLVE PROBLEMS

Types of Decisions

• Programmed decisions
  – applies a solution from past experience to a routine problem

• Non-programmed decisions
  – applies a specific solution crafted for a unique problem
Problem Solving Approaches

• Systematic Thinking
  – Approaches problems in a rational and analytical fashion.
• Intuitive Thinking
  – Approaches problems in a flexible and spontaneous fashion.
Managers use different cognitive styles.

- **Sensation Thinkers**: impersonal, realistic, prefer facts
- **Intuitive Thinkers**: impersonal, abstract, idealistic, likes unstructured problems
- **Intuitive Feelers**: relationship oriented, abstract, flexible
- **Sensation Feelers**: relationship oriented, analytical, realistic
Managers make decisions with various amounts of information

**Certain environment**
- offers complete information on possible action alternatives and their consequences

**Risk environment**
- lacks complete information but offers probabilities of the likely outcomes for possible action alternatives

**Uncertain environment**
- lacks so much information that it is difficult to assign probabilities to the likely outcomes of alternatives
USING INFORMATION TO SOLVE PROBLEMS

Problem Solving Environments

Certain environment
Alternative courses of action and their outcomes are known to decision maker.
- Alternative 1 → Outcome A
- Alternative 2 → Outcome B
- Alternative 3 → Outcome C

Risk environment
Decision maker views alternatives and their outcomes in terms of probabilities.
- 0.7: Alternative 1 → Outcome A
- 0.5: Alternative 2 → Outcome B
- 0.2: Alternative 3 → Outcome C

Uncertain environment
Decision maker doesn't know all alternatives and outcomes, even as probabilities.
- 0.4: Alternative 1 → Outcome A
- Alternative 2 → Outcome ?
- Alternative ?

Low
Risk of failure
Programmed
Type of decision
Nonprogrammed
High
Step 1 is to identify and define the problem.
Step 2 is to generate and evaluate alternative courses of action.
Step 3 is to decide on a preferred course of action.
Step 4 is to implement the decision.
Step 5 is to evaluate results.
4.2

Steps In The Decision Making Process

Step 1
Identify and define the problem

Step 2
Generate and evaluate alternative solutions

Step 3
Decide on preferred course of action

Step 4
Implement the decision

Step 5
Evaluate results

Conduct ethical analysis
THE DECISION MAKING PROCESS

Step 1 – Identify And Define The Problem

• Gather information and decide what should be accomplished

• Common mistakes include
  – Identifying the problem too broadly
  – Dealing with symptoms rather than problems
  – Choosing the wrong problem
THE DECISION MAKING PROCESS

Step 2 – Generate And Evaluate Alternatives

• Who are the stakeholders and how will the alternatives affect them?
• Criteria for evaluating alternatives
  – Cost benefit analysis
  – Timeliness
  – Acceptability
  – Ethical soundness
THE DECISION MAKING PROCESS

Step 3 – Decide On A Preferred Course Of Action

• Two different outcomes
  – Behavioral model leads to satisficing decisions
  – Classical model leads to optimizing decisions
THE DECISION MAKING PROCESS

Step 4 – Implement The Decision

• Take action on the selected alternative
• Lack of participation error occurs when parties necessary for supporting the decision were not included in the process
THE DECISION MAKING PROCESS

Step 5 – Evaluate Results

• Did the decision solve the problem?
• Results must be evaluated against objectives set at the beginning of the process.
THE DECISION MAKING PROCESS

Ethical Reasoning Is Important

Make the ethics “double check”.

- Ethical reasoning

<table>
<thead>
<tr>
<th>Utility</th>
<th>Does the decision satisfy all constituents or stakeholders?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rights</td>
<td>Does the decision respect the rights and duties of everyone?</td>
</tr>
<tr>
<td>Justice</td>
<td>Is the decision consistent with the canons of justice?</td>
</tr>
<tr>
<td>Caring</td>
<td>Is the decision consistent with my responsibilities to care?</td>
</tr>
</tbody>
</table>
THE DECISION MAKING PROCESS

Ethical Reasoning Is Important

• Spotlight questions
  – How would I feel if my family found out about this decision?
  – How would I feel if this decision were published in the local newspaper or posted on the Internet?
  – What would the person I know who has the strongest character and best ethical judgment say about my decision?
4.3

Current Issues In Decision Making

- Personal factors help drive creativity in decision making.
- Group decision making has both advantages and disadvantages.
- Judgmental heuristics and other biases and traps may cause decision-making errors.
- Managers must be prepared for crisis decision making.
Personal Factors Drive Creativity
Personal Factors Help Drive Creativity

- Creativity – generating a novel idea or unique approach
- Personal creativity drivers
  - Task expertise is expanding an existing skill
  - Task motivation is the drive to work hard
  - Creativity skills include imagination, intuition, holistic processing, right brain characteristics
### Why group decisions are often good:

- More information, expertise, and viewpoints are available to help solve problems.
- More alternatives. More alternatives are generated and considered during decision making.
- Increased understanding. There is increased understanding and greater acceptance of decision by group members.
- Greater commitment. There is increased commitment of group members to work hard and support the decision.

### Why group decisions can be bad:

- Conformity with social pressures. Some members feel intimidated by others and give in to social pressures to conform.
- Domination by a few members. A minority dominates; some members get railroaded by small coalition of others.
- Time delays. More time is required to make decisions when many people try to work together.
- A crisis is an unexpected problem that can lead to disaster if not resolved quickly and appropriately.
Heuristics simplify decision making when time or information are scarce. Examples include a “rule of thumb” or “trial and error”.
Availability Heuristic occurs when people use information “readily available” as a basis for assessing a current event or situation.

Representative Heuristic occurs when people assess the likelihood of something occurring based on its similarity to a stereotyped set of occurrences.

Anchoring and Adjustment Heuristic involves making decisions based on adjustments to a previously existing value, or starting point.
Decision Making Errors

**Framing Error** - solving a problem in the context perceived for example, positive or negative.

**Confirmation Error** – only pay attention to information that confirms the decision that has been made.

**Escalating Commitment** – adding resources to a course of action even if it’s not working.
ISSUES IN DECISION MAKING

Decision Making Errors

How to avoid the escalation trap

- Set advance limits on your involvement and commitment to a particular course of action; stick with these limits.

- Make your own decisions; don’t follow the lead of others, since they are also prone to escalation.

- Carefully determine just why you are continuing a course of action; if there are insufficient reasons to continue, don’t.

- Remind yourself of the costs of a course of action; consider saving these costs as a reason to discontinue.
ISSUES IN DECISION MAKING

Decision Making In A Crisis

**Crisis** – unexpected situations that can lead to disaster if not handled quickly

**Crisis management programs** train managers in decision making and establish plans to handle emergencies
Decision Making In A Crisis

- Figure out what is going on
- Remember that speed matters
- Remember that slow counts too
- Respect the danger of the unfamiliar
- Value the skeptic
- Be ready to “fight fire with fire”