



chapter

9

Ready Notes

*Managing Decision
Making and Problem
Solving*

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The Nature of Decision Making

Decision making:

- The act of choosing one alternative from among a set of alternatives.

Decision-making process:

- Recognizing and defining the nature of a decision situation, identifying alternatives, choosing the “best” alternative, and putting it into practice.



Types of Decisions

Programmed decision:

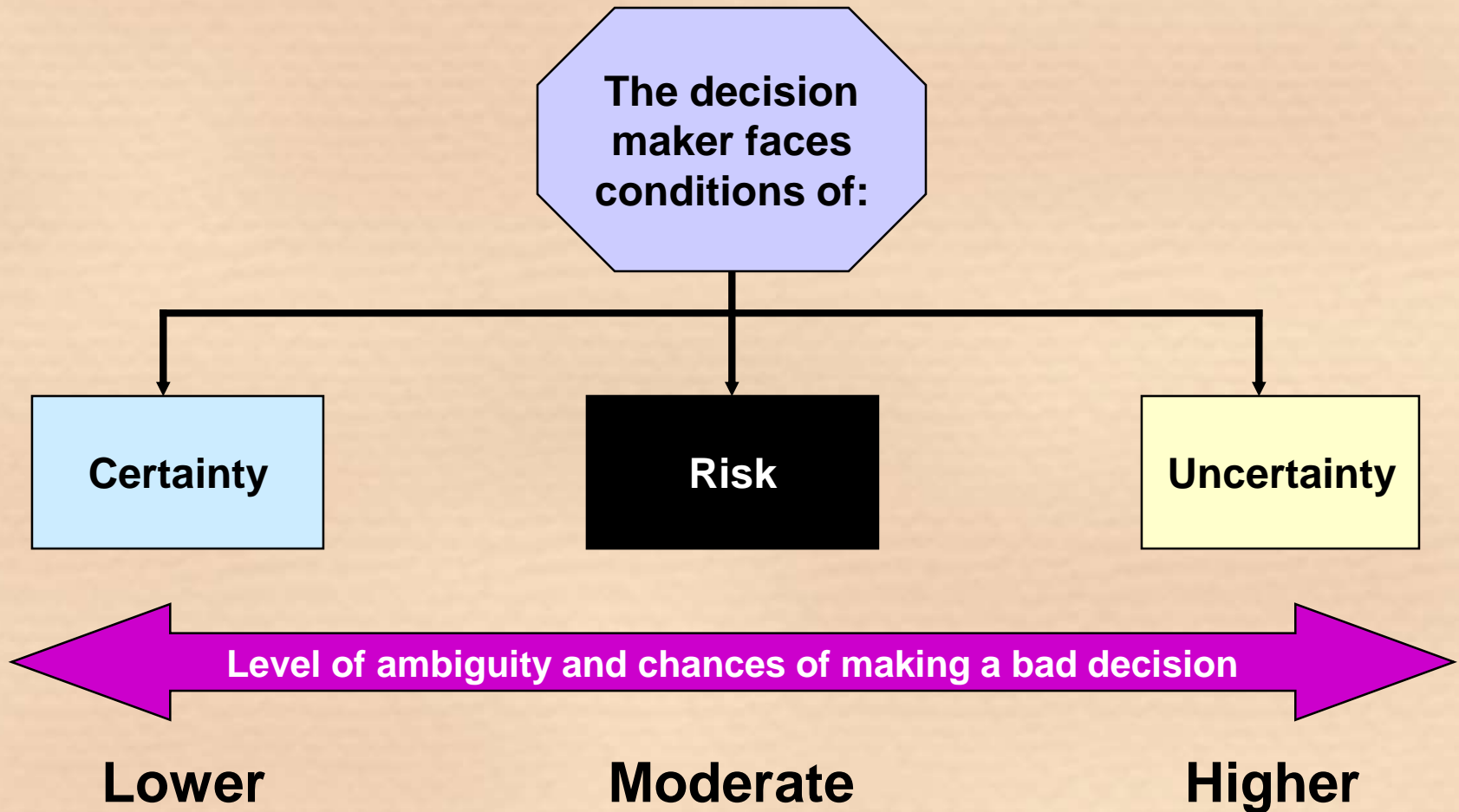
- A decision that is fairly structured or recurs with some frequency (or both).

Non-programmed decision:

- A decision that is relatively unstructured and occurs much less often than a PROGRAMMED DECISION.



A View of Decision-Making Conditions



Decision-Making Conditions

State of certainty:

- A condition in which the decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative.

State of risk:

- A condition in which the availability of each alternative and its potential payoffs and costs are all associated with probability estimates.

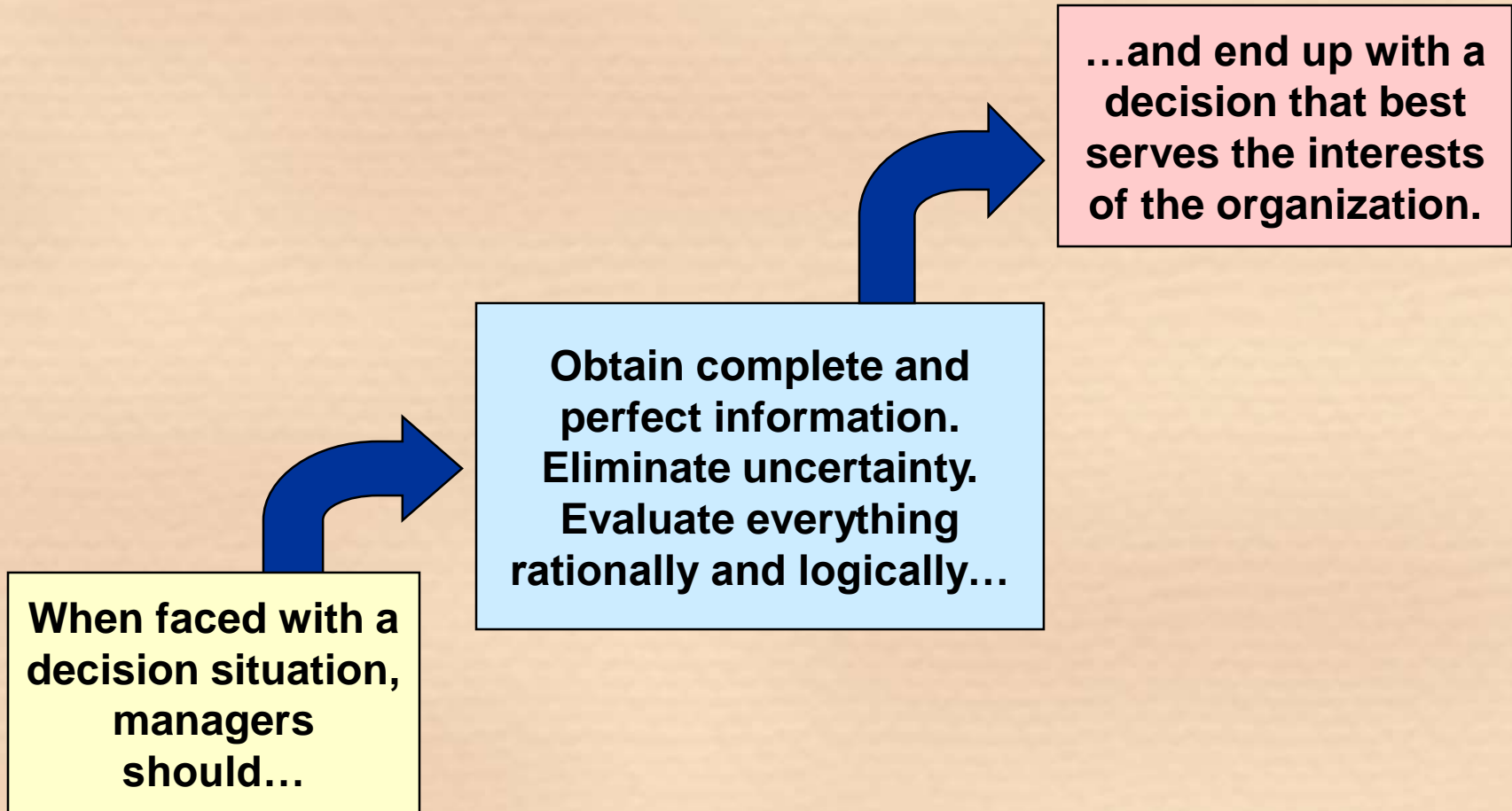


State of Uncertainty

- A condition in which the decision maker does not know all the alternatives, the risks associated with each, or the likely consequences of each alternative.



The Classical Model of Decision Making



Rational Perspectives on Decision Making

Classical model:

- A prescriptive approach to decision making that tells managers how they should make decisions. It assumes that managers are logical and rational and that they make decisions that are in the best interests of the organization.



Steps in Rational Decision Making

STEP

- Recognize and define situation.
- Identify alternatives.
- Evaluate alternatives.
- Select alternative.
- Implement alternative.
- Follow up and evaluate results.

DETAIL

- Stimulus may be positive or negative.
- Alternatives must be generated.
- Feasibility check.
- Choose best fit alternative.
- Implementation.
- Does it work?

(see Table 9.1 for examples)



TABLE 9.1

Steps in the Rational Decision-making Process

Although the presumptions of the classical decision model rarely exist, managers can still approach decision making with rationality. By following the steps of rational decision making, managers ensure that they are learning as much as possible about the decision situation and its alternatives.

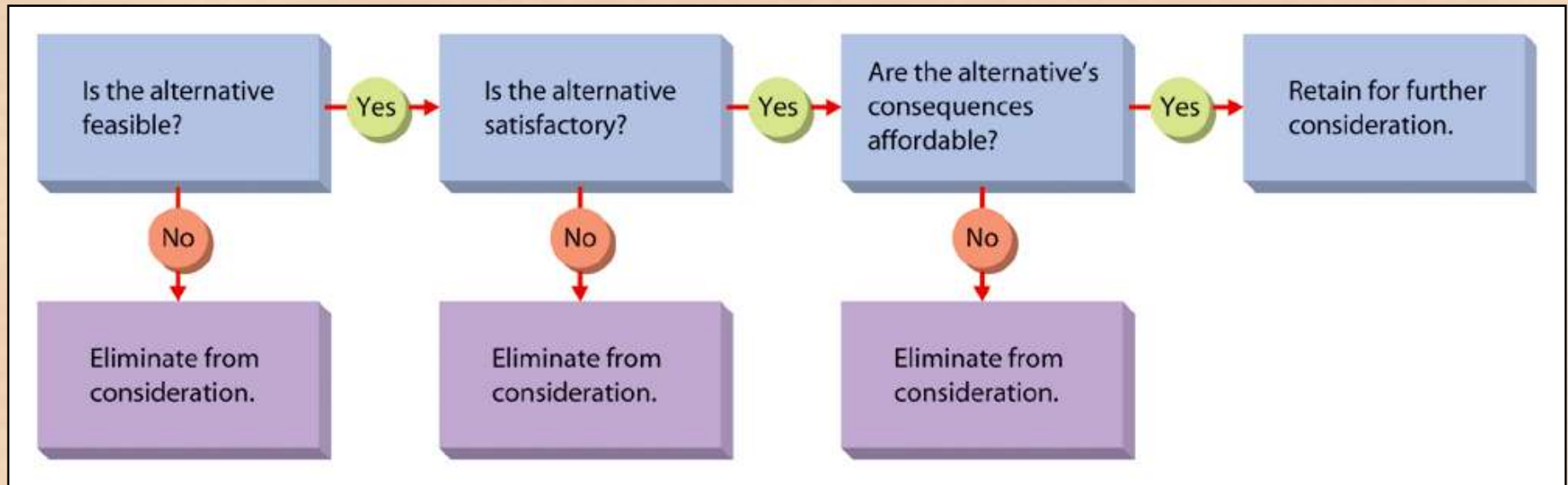
Step	Detail	Example
1. Recognizing and defining the decision situation	Some stimulus indicates that a decision must be made. The stimulus may be positive or negative.	A plant manager sees that employee turnover has increased by 5 percent.
2. Identifying alternatives	Both obvious and creative alternatives are desired. In general, the more important the decision, the more alternatives should be generated.	The plant manager can increase wages, increase benefits, or change hiring standards.
3. Evaluating alternatives	Each alternative is evaluated to determine its feasibility, its satisfactoriness, and its consequences.	Increasing benefits may not be feasible. Increasing wages and changing hiring standards may satisfy all conditions.
4. Selecting the best alternative	Consider all situational factors and choose the alternative that best fits the manager's situation.	Changing hiring standards will take an extended period of time to cut turnover, so increase wages.
5. Implementing the chosen alternative	The chosen alternative is implemented into the organizational system.	The plant manager may need permission from corporate headquarters. The human resource department establishes a new wage structure.
6. Following up and evaluating the results	At some time in the future, the manager should ascertain the extent to which the alternative chosen in step 4 and implemented in step 5 has worked.	The plant manager notes that, six months later, turnover dropped to its previous level.

Identifying Alternatives

- When the decision situation has been recognized and defined, the second step is to identify alternative courses.
- The third step in the decision-making process is evaluating each alternative.
- See next slide Figure 9.3 for an illustration of a decision tree.



Figure 9.3: Evaluating Alternatives in the Decision-Making Process



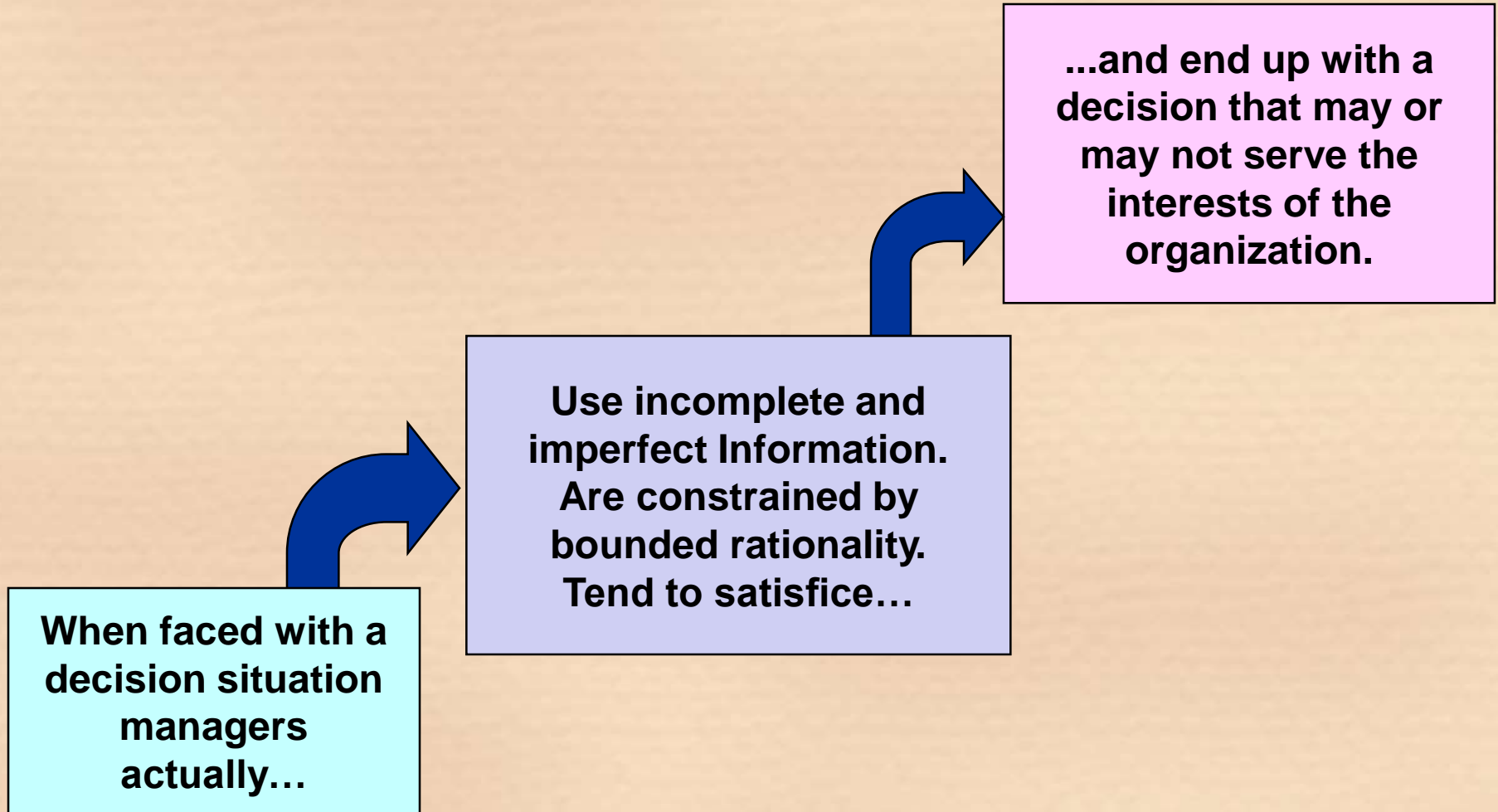
Behavioral Aspects of Decision Making

The Administrative Model:

- A decision making model showing that managers:
 1. Have incomplete and imperfect information.
 2. Are constrained by bounded rationality.
 3. Tend to satisfice when making decisions.



The Administrative Model of Decision Making



Bounded Rationality

- A concept suggesting that decision makers are limited by their values and unconscious:
 - A. Values.
 - B. Unconscious reflexes.
 - C. Skills.
 - D. Habits.



Satisficing

- The tendency to search for alternatives only until one is found that meets some minimum standard of sufficiency.



Political Forces in Decision Making

Coalition:

- An informal alliance of groups formed to achieve a common goal.



Intuition and Escalation of Commitment

Intuition:

- An innate belief about something without conscious consideration.

Escalation of commitment:

- A decision maker's staying with a decision even when it appears to be wrong.



Risk Propensity and Decision Making

Risk propensity:

- The extent to which a decision maker is willing to gamble when making a decision.



Group and Team Decision Making in Organizations

Forms of Group and Team Decision Making:

- Interacting group or team:
 - A decision making group or team in which members openly discuss, argue about, and agree on the best alternative.
- Delphi group:
 - A form of group decision making in which a group solicits input from a panel of experts who contribute individually; their opinions are combined and, in effect, averaged.



Nominal Groups

- Unlike the Delphi method where group members do not see one another, this group is brought together.
- A structured technique used most often to generate:
 - Creativity.
 - Innovative alternatives.
 - Ideas.



Advantages and Disadvantages of Group and Team Decision Making

ADVANTAGES

- More information and knowledge available.
- More alternatives generated.
- More acceptance.
- Enhanced communication.
- Better discussions.

DISADVANTAGES

- The process takes longer.
- Compromised decisions result from indecisiveness.
- One person may dominate.
- Groupthink may occur.



Groupthink

- A situation that occurs when a group or team's desire for consensus and cohesiveness overwhelms the goal of reaching the best possible decision.



TABLE 9.2

Advantages and Disadvantages of Group and Team Decision Making

To increase the chances that a group or team decision will be successful, managers must learn how to manage the process of group and team decision making. Federal Express and IBM are increasingly using groups and teams in the decision-making process.

Advantages	Disadvantages
<ol style="list-style-type: none">1. More information and knowledge are available.2. More alternatives are likely to be generated.3. More acceptance of the final decision is likely.4. Enhanced communication of the decision may result.5. Better decisions generally emerge.	<ol style="list-style-type: none">1. The process takes longer than individual decision making, so it is costlier.2. Compromise decisions resulting from indecisiveness may emerge.3. One person may dominate the group.4. Groupthink may occur.

