2.5 DECISION MAKING

In the past, decision making was thought of as a management function all by itself, but now almost everyone places it with planning. Regardless of how you view it, decision making is a critical part of being an effective manager. Managers make dozens of decisions every day. Many are quite small but some are huge. Your success as a manager depends on how well you make decisions.

A decision is a choice between alternatives and decision making is the process of choosing one alternative over the others. Making good decisions should be a process. It is a process of identifying problems and resolving them, or of identifying opportunities and taking advantage of them.

The process is made up of two components: (1) Judgement and (2) Choice

Judgment – a process of evaluating alternatives **Choice** – a process of selecting a specific alternative to implement Judgment can occur without being followed by choice. However, some level of judgment will always precede choice.

2.5.1 Characteristics of Human Information Processors

Selective perception - Human beings can handle only limited amounts of stimuli simultaneously, we all "choose" what we will attend to and what we will ignore. The key to successful organizational decision making is to "select" the relevant information and ignore irrelevant information.

Framing - This refers to how a decision is oriented and organized. A typical contrast of "framing" is for a choice to be represented as a problem to solve versus an opportunity to take advantage of. Simply known as positive versus negative. Framing is important because different outcomes result depending upon how the decision is framed, even when the decision maker has the same information.

Escalation of commitment to a failing course of action - Failure to ignore sunk costs (investments that are already gone and cannot be recovered) and see that the original choice is not achieving--and will not achieve—the initial objectives. The "sunk cost" doesn't have to be financial. It can be just personal effort and self-esteem that someone has invested in a course of action.

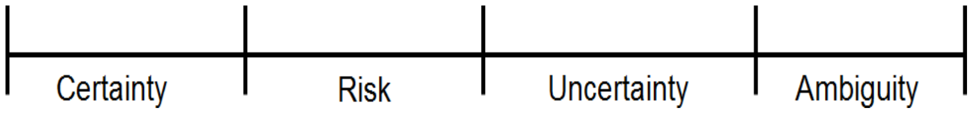
Risk propensity - The orientation of the decision maker to either seek risk or avoid it. While each of us has an individual risk propensity, all of us are typically risk seeking for gains and risk averse for losses. This means that if something has been working, we will continue to do more of the same even though the situation has changed. Coupled with selective perception, framing, and escalation of commitment, this phenomenon of choice can have dire consequences of overly conservative behavior to the point that we fail to be creative.

Hindsight bias - this is the inability of a decision maker to remember correctly the circumstances that existed prior to implementing a choice once action has been taken. You can recognize this behavior when someone says, "I KNEW that was going to happen!" This is a problem because we fail to learn from our decisions.

Over-confidence, complacency - Pilots know these two. Over-confidence is where we give ourselves credit for being more capable than we actually are, particularly with respect to risky situations. We take more risky actions than are objectively justifiable. Complacency is becoming more comfortable with a situation than is warranted by the level of risk that objectively exists (Kilbourne, 2006). Both of these can cause us to make poor choices.

Background Factors for Decision Making

Degree of Certainty



Certainty: All information relevant to the decision is known or available to the decision maker, including specific goals, alternatives, and outcomes associated with each alternative action.

Risk: Decision maker has specific goals and good information relevant to alternatives, but there is some risk associated with the outcomes of each

Alternative—but the risk can be assessed. Uncertainty: Decision maker has specific goals, but information about alternatives and outcomes of alternatives is incomplete.

Ambiguity: The situation is so new or unclear that goals are vague, alternatives are difficult to specify, and outcomes of alternatives are unknown.

2.5.2 Decision Making Process

There are many decision-making models. Here is another that is not nearly as insightful as the one above, but it is one that many of the students will be familiar with.

1. **Identify the problem**

   The first step is to recognize there is a problem and a decision must be made. Some people just react to problems, but good managers seek to understand the problem. Defining and clarifying the problem helps. Decision making is essentially a problem-solving process. This involves understanding the situation and trying to resolve it.

2. **List alternatives**

   Managers need to develop a list of possible courses of action that will solve the problem. Managers must look for standard answers and also creative answers. The technique “brainstorming” is an example of creative thinking that can take place between a manager and the subordinates. In brainstorming, everyone comes up with as many alternatives as possible. A critical point about brainstorming sessions is that no criticism should be allowed. You want to foster a nurturing environment where everyone will feel like contributing. Shooting down an idea will stop the free flow of exchange.

3. **Select the best alternative**

   In some models, the next step is evaluating your alternatives, but we are combining the evaluation with the selection. Evaluating is part of selecting. As part of the evaluation, you should list the potential effects of each choice. You should also weigh the advantages and disadvantages. Discuss those effects and make the decision based on what is best for the organization.

4. **Implement the chosen alternative**

   Put the alternative into action. This is critical. All of your successful analysis won’t do any good if you are afraid to act. Whether the implementation is easy or hard, you must take action.

5. **Evaluate**

   Earlier we evaluated the alternatives, but now this final step means to evaluate the action. This is done with feedback. Collect the best feedback you can. If the problem is not resolved, a manager must go back through the process and look at other alternatives

Meeting the Challenge of Resource Scarcity

Resource scarcity is a very important consideration for any organization today. There would be no need for planning if material, financial and human resources were unlimited and cheap.

Planners in both private business and public agencies are challenged to stretch their limited resources through intelligent planning. Otherwise, wasteful inefficiencies would give rise to higher prices, severe shortages and great public dissatisfaction.

Facing Environmental Uncertainty

The second most important conceptual reason is that organizations continually face environmental uncertainty in the course of accomplishing the tasks. Organizations meet this challenge largely through planning safeguard. Some organizations do this job better than others partly because of their differing patterns of response to environmental factors beyond the organization's immediate control.