Organization Decision Making & Creativity

Chapter 12
Wagner III & Hollenbeck, 1997
Rational Decision Making Process
Rational Decision Making

• A model in which decisions are made systematically and based consistently on the principle of economic rationality

• The ‘normative’… what should, but may not what is actually done…!
Rational Decision Making Process

Framing the Decision

→ Perceive problem → Set Goals

Generating Alternatives

Alternative A, B, C...

Evaluation of Alternatives

Evaluation of alternative A, B, C...

Choosing & Implementing an Alternative

Choose → Implement → Evaluate
Framing Decisions

- Process of defining the problem to be solved, question to be answered or type of decision to be made.
- Example:
  - A marketing manager frame the problem as, “poor sales in Sumatra”, and set a division making goal of designing a solution that will increase sales by 10% next year
Generating Alternatives

- Historical decision models
- Off-the-shelf decision models
- Nova techniques
Historical models

• A method of generating alternatives for current decisions by reviewing processes that were used in the past
• Provincial model: same as other company or person before
• Enriched model: looks for several organizations for same problem and look for the ways they solve the problem
• Benchmarking: finding companies that have the best practices in some functional areas (marketing, sales, production, etc.)
Off-the-shelf Decision Model

• Generate alternatives for current decisions by consulting external agents (consultants) which has ready-made alternatives
Nova techniques

• Tries to generate alternatives by seeking new and innovative solutions
• Includes: brainstorming, Delphi, nominal group techniques, & R/D department.
• Why? Because in business some few cases encountered are truly new!
Evaluation of alternatives

• Assessment of the ‘goodness’ and ‘badness’ of each outcome of alternatives
• Relates to economic rationality: the belief underlying rational decision making models that people attempt to maximize their individual economic outcomes (or benefit).
Uncertainty in Decision Making

- Certainty of an outcome of each alternative has uncertainty factor
- Certain: deposits in bank
- Uncertain: gambling
- Therefore we need to factor each outcome with an expected value that permit us to compare the probability of each outcome
Choosing & Implementing Alternative

- Utility maximization is a process by which a decision maker selects the one alternative that leads to the highest possible payoff.
- We need to set in advance, what do we want to achieve? That’s the importance of goal setting...
Evaluation of Decisions Taken

• Is everything working according to plan?
• Do we need to change the decision?
Inhibitors to Rational Decision Making
Factors Preventing Rational Decision Making

• Herbert Simon, “the capacity of the human mind for *formulating and solving* complex problems is very *small compared* with the size of the problems whose solution is required for objectively rational behavior in the real world”

• Factors:
  – Lack of consensus
  – Unclear Means-Ends Relations
  – Noisy Environment
Lack of Consensus

• Rational decision making only works when everyone agrees on the definition of:
  – The problem
  – The goals
  – The criteria…!

• Example, “We must be the best mobile application service provider”… everyone would agree. But, “we must expand mobile service to teenagers…”

• Apparent in large organization
Unclear Means-Ends

• Impossible to generate an exhaustive list of alternatives and select the best one
• Especially for infrequent (non-programmed) decisions
Bounded discretion

- The recognition that alternatives offered to a decision maker are bounded by social, legal, moral and organizational restrictions

Diagram:
- Unofficial social norms
- Legal restrictions
- Organizational rules & procedures
- Moral & ethical norms
Noisy environment

• Initial assumption: implemented alternatives can be measured against initial intentions
• In business... situations are complex, many factors intervene the result of a decision.
• Noisy environment: situation where actions and outcomes are hard to predict.
• Can be factored out only if the same decisions are repeated numerous.
Administrative Decision Making

- A model which decision pursuant to negotiated goals are made based on satisficing rather than maximizing outcomes, through a sequential consideration of alternatives
Negotiating goals

Monitoring problems and prospects to determine routineness

Routine Problem

Initiate Performance Program

Check outcome against minimum acceptable standard (satisfying)

Non-Routine Problem

Experts evaluate alternatives sequentially

First alternative that meets minimum acceptable standard chosen

Check outcome against minimum acceptable standard
Satisficing vs. Optimizing

• Settling for a decision alternative that meets some *minimum level of acceptability*, as opposed to trying to maximize utility by considering all possible alternatives

• Example: finding the suitable candidate, not the best candidate for the director position in a company
Consider Alternatives Sequentially

• Typical manager process alternatives one at a time, rather than simultaneously
Performance Programs

• Scripts that detail exactly what actions are to be taken by a job incumbent when confronted with a standard problem or situation

• Example:
  – Standard operating procedure (of a fire accident…)
  – Business process
Developing Experts

• An individual authority to change or modify performance program, because some changes in the context
• It is also an area where the decision maker can use her own judgment
Group Decision Making
Group Decision Making

• A group task in which the ultimate aim is to solve a problem or make a decision

• Interactive groups:
  – A group whose members interact in unstructured face 2 face relationships like those that take place during ordinary conversations
Group Decision Making Errors

- Compliance
- Choice Shift
- Groupthink
Choice Shift

• Tendency for groups to make decisions that appear more extreme than the decision groups members would make on their own

• Types:
  – Risky shifts
  – Cautious shifts
Why?

- Social comparison: when others voiced more extreme, they move from their original position to the extreme... If alone they are afraid to advocate something different.

- Persuasive argumentation: switch are made when an argument for extremism are uncovered in group
Groupthink

• A threat to the effective performance of groups that develops in highly cohesive groups whenever striving for harmony overrides apprise groups realistically.
Symptoms and Consequences of Groupthink

Symptoms:
1. Illusion of invulnerability
2. Believe in group’s morality
3. Collective rationalization
4. Stereotyping of outsiders
5. Self-censorship
6. Illusion unanimity / harmony
7. Direct pressure
8. Mindguards

Defective Decisions
1. Poor information search
2. Incomplete alternatives
3. Failure to examine risk
4. Selective bias in processing information at hand

Unsound Decision
Overcoming Decision Making Errors in Groups

- Brainstorming
- Delphi
- Nominal Group Technique
Brainstorming

• Criticism is not allowed
• Quantity is encouraged
• Combination and improvements are sought
Other Issues
Availability heuristic

• Then tendency for people to base their judgements on information that is readily available to them.
• May lead to uninformed decision
Escalation of Commitment

• An increased commitment to a previous decision in spite of (new) negative information.

• Khawatir tidak bisa dianggap sebagai pemimpin yang konsisten! 😞

• Tapi manager yang efektif adalah yang bisa tahu kapan ‘kekekehan’ akan bermanfaat dan kapan tidak…!
Individual Decision-Style Model

Way of thinking

Tolerance for ambiguity

Rational  Intuitive

Low

High

Directive  Behavioral

Analytic  Conceptual