

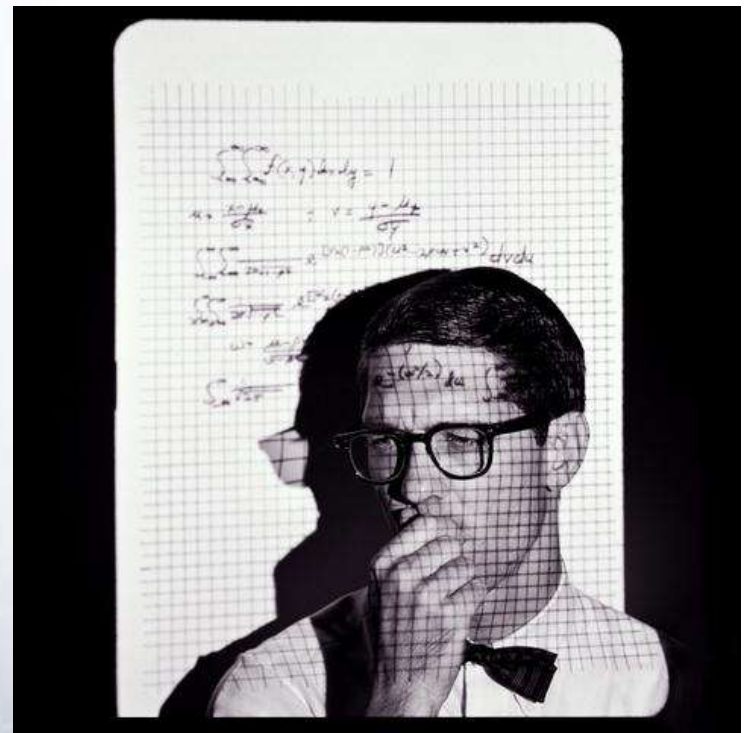


Organization Decision Making & Creativity

Chapter 12

Wagner III & Hollenbeck,
1997

Rational Decision Making Process

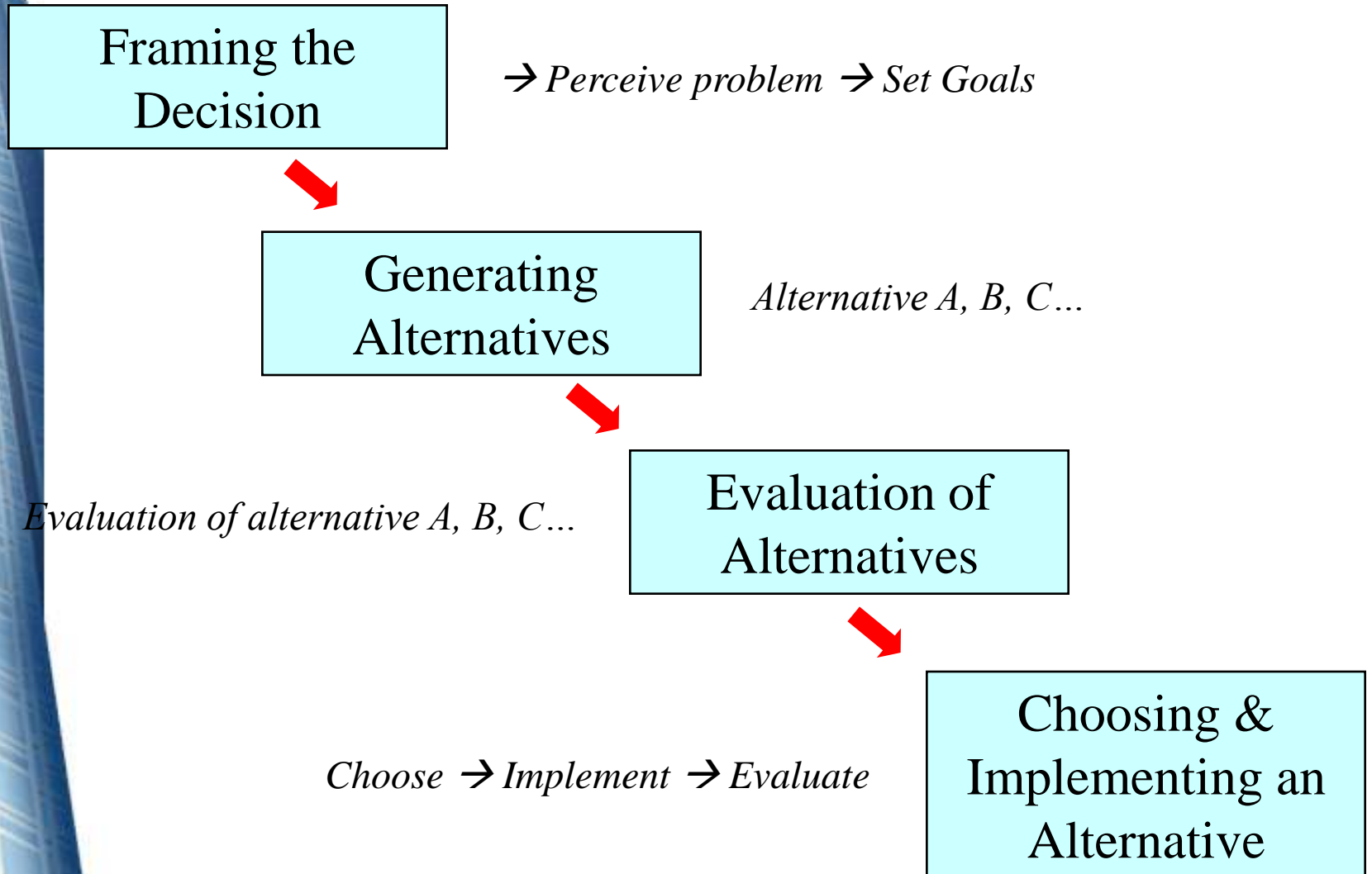




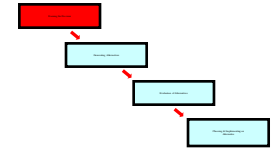
Rational Decision Making

- 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

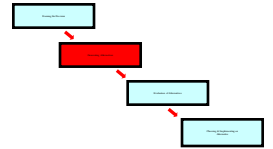


Framing Decisions



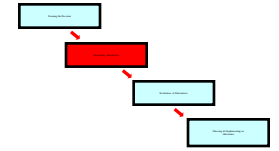
- Process of defining the problem to be solved, question to be answered or type of decision to be made.
- Example:
 - A marketing manager frame the problem as, “poor sales in Sumatra”, and set a division making **goal** of designing a solution that will increase sales by 10% next year

Generating Alternatives



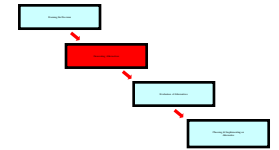
- Historical decision models
- Off-the-shelf decision models
- Nova techniques

Historical models



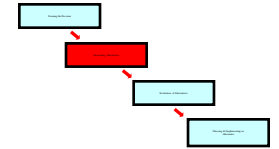
- A method of generating alternatives for current decisions by reviewing processes that were used in the past
- Provincial model: same as other company or person before
- Enriched model: looks for several organizations for same problem and look for the ways they solve the problem
- Benchmarking: finding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

Off-the-shelf Decision Model



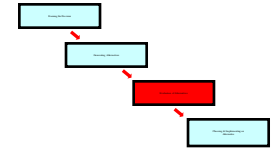
- Generate alternatives for current decisions by consulting external agents (consultants) which has ready-made alternatives

Nova techniques



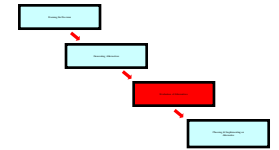
- Tries to generate alternatives by seeking new and innovative solutions
- Includes: brainstorming, Delphi, nominal group techniques, & R/D department.
- Why? Because in business some few cases encountered are truly new!

Evaluation of alternatives



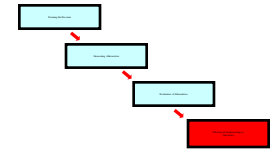
- Assessment of the ‘goodness’ and ‘badness’ of each outcome of alternatives
- Relates to ***economic rationality***: the belief underlying rational decision making models that people attempt to maximize their individual economic outcomes (or benefit).

Uncertainty in Decision Making



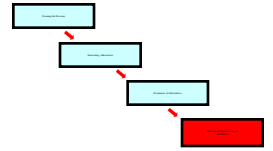
- Certainty of an outcome of each alternatives has uncertainty factor
- Certain: deposits in bank
- Uncertain: gambling
- Therefore we need to factor each outcome with an expected value that permit us to compare the probability of each outcome

Choosing & Implementing Alternative



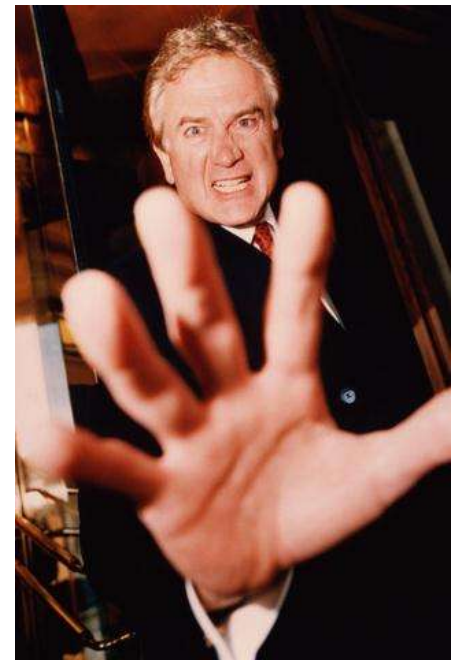
- Utility maximization is process by which a decision maker selects the one alternative that leads to the highest possible payoff
- We need to set in advance, what do we want to achieve? That's the importance of goal setting...

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

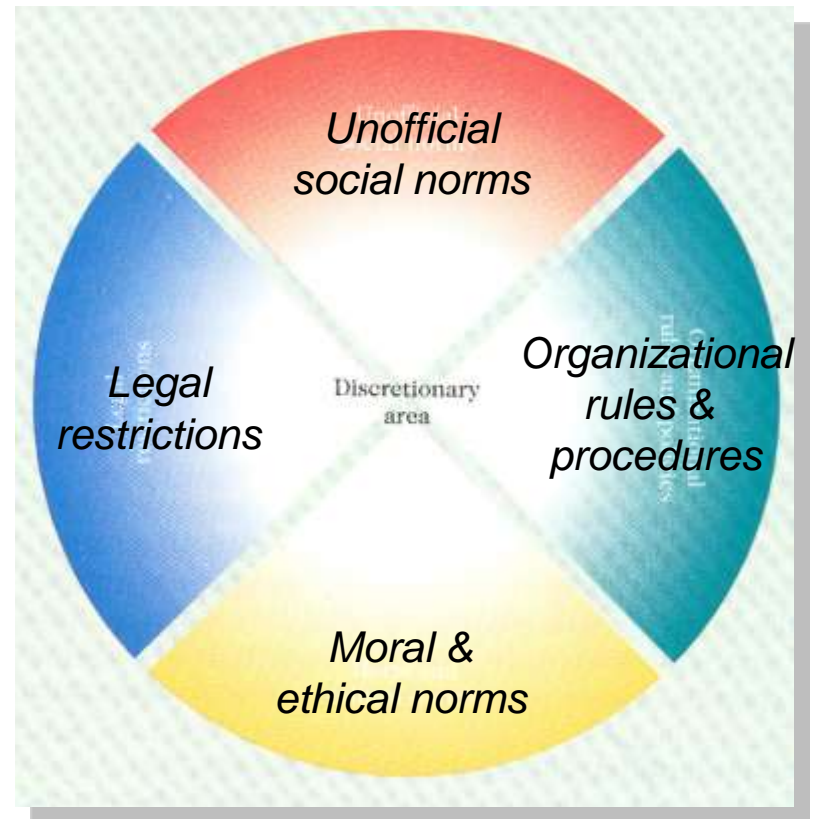


Unclear Means-Ends

- 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



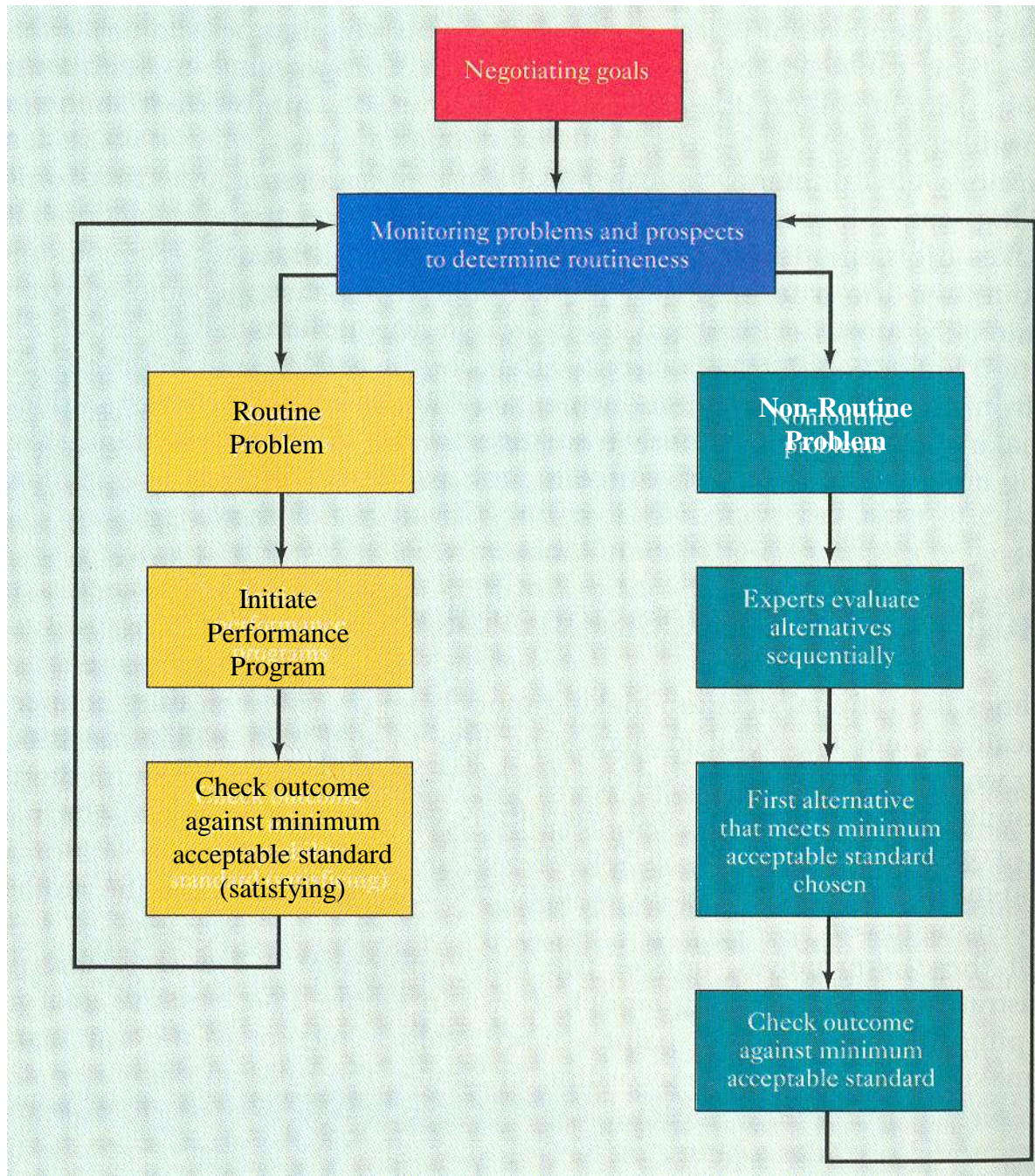
Noisy environment

- 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 numerously.



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



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



Considering 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: switches are made when an argument for extremism is 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

A low-angle photograph of a modern glass skyscraper against a bright sky, with a glass-enclosed walkway in the foreground.

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

