Welcome to this audio visual presentation on decision-making.

Individuals behave in a given manner based not on the way their external environment actually is but, rather on what they see or believe it to be. An organization may spend millions of dollars to create a pleasant work environment for its employees. However, in spite of these expenditures, if an employee believes that his or her job is lousy, that employee will behave accordingly.

It is the employee’s perception of a situation that becomes the basis for his or her behavior. The evidence suggests that what individuals perceive about their work situation will influence their productivity more than the situation itself. Whether or not a job is actually interesting or challenging is irrelevant. Whether or not a manager successfully plans and organizes the work of his or her employees and actually helps them to structure their work more efficiently and effectively is far less important than how employees perceive the manager’s efforts.

Similarly, issues like fair pay for work performed, the validity of performance appraisals, and the adequacy of working conditions are not judged by employees in a way that assures common perceptions, nor can we be assured that individuals will interpret conditions about their jobs in a favorable light. Therefore, to be able to influence productivity, it is necessary to assess how workers perceive their jobs. Absenteeism, turnover, and job satisfaction are also reactions to the individual’s perceptions. Dissatisfaction with working conditions or the belief that there is a lack of promotion opportunities in the organization are judgments based on attempts to make some meaning out of one’s job.

The employee’s conclusion that a job is good or bad is an interpretation. Managers must spend time understanding how each individual interprets reality and, where there is a significant difference between what is seen and what exists, try to eliminate distortions. Failure to deal with the differences when individuals perceive the job in negative terms will result in increased absenteeism and turnover and lower job satisfaction.

Individuals think and reason before they act. It is because of this that an understanding of how people make decisions can be helpful for explaining and predicting their behavior. For most people in non-routine decisions, following the rational decision-making model is probably more the exception than the rule. Few important decisions are simple and unambiguous enough for the rational model’s assumptions to apply, so we find individuals looking for solutions that satisfice, rather than optimize, injecting biases and prejudices into the decision process, and relying on intuition.

Given the evidence we have described on how decisions are actually made in organizations, what can managers do to improve their decision-making? We offer five suggestions.

First, analyze the situation. Adjust your decision-making style to the national culture you are operating in and to the criteria your organization evaluates and rewards. For instance, if you are in a country that does not value rationality, do not feel compelled to follow the rational decision-making model, or even to try to make your decisions appear rational. Similarly, organizations differ in terms of the importance they place on risk and the use of groups. Adjust your decision style to ensure it is compatible with the organization’s culture.

Second, be aware of biases. We all bring biases to the decisions we make. If you understand the biases influencing your judgment, you can begin to change the way you make decisions to reduce those biases.

Third, combine rational analysis with intuition. These are not conflicting approaches to decision making. By using both, you can actually improve your decision-making effectiveness. As you gain managerial experience, you should feel increasingly confident in imposing your intuitive processes on top of your rational analysis.
Fourth, **do not assume that your specific decision style is appropriate for every job.** Just as organizations differ, so do jobs within organizations. Your effectiveness as a decision-maker will increase if you match your decision style to the requirements of the job. For instance, if your decision-making style is directive, you will be more effective working with people whose jobs require quick action. This style would match well with managing stockbrokers.

Finally, **try to enhance your creativity.** Overtly look for novel solutions to problems, attempt to see problems in new ways, and use analogies. Additionally, try to remove work and organizational barriers that might impede your creativity.

The optimizing decision-maker is rational. He or she makes consistent, value-maximizing choices within specified constraints. The Rational Model has six steps.

**Step 1: Define the problem:** A problem is a discrepancy between an existing and a desired state of affairs. Many poor decisions can be traced to the decision maker overlooking a problem or defining the wrong problem.

**Step 2: Identify the decision criteria important to solving the problem:** The decision-maker determines what is relevant in making the decision. Any factors not identified in this step are considered irrelevant. This step brings in the decision-maker’s interests, values, and similar personal preferences.

**Step 3: Weigh the previously identified criteria in order to give them the correct priority in the decision**

**Step 4: Generate possible alternatives that could succeed in resolving the problem.**

**Step 5: Rate each alternative on each criterion:** Critically analyze and evaluate each alternative. The strengths and weaknesses of each alternative become evident as they are compared with the criteria and weights established in the second and third steps.

**Step 6: The final step is to compute the optimal decision:** Evaluate each alternative against the weighted criteria and selecting the alternative with the highest total score.

The actions of rational decision-making result in the following:

**Problem clarity:** The decision-maker is assumed to have complete information regarding the decision situation.

**Known options:** It is assumed the decision-maker is aware of all the possible consequences of each alternative.

**Clear preferences:** Criteria and alternatives can be ranked and weighted to reflect their importance.

**Constant preferences:** Specific decision criteria are constant and the weights assigned to them are stable over time.

**No time or cost constraints:** The rational decision-maker can obtain full information about criteria and alternatives because it is assumed that there are no time or cost constraints. The rational decision-maker will choose the alternative that yields the highest perceived value.

Decision makers allow systematic biases and errors to creep into their judgments. People tend to rely on experience, impulses, gut feelings, and rules of thumb. These can lead to distortions.

**Overconfidence bias** occurs when individuals whose intellectual and interpersonal abilities are weakest are most likely to overestimate their performance and ability. The more knowledgeable a person is, the less likely to display overconfidence.
Anchoring bias occurs when individual fixate on initial information as a starting point and fail to adequately adjust for subsequent information. Anchors are widely used by people in advertising, management, politics, real estate, and lawyers, where persuasion skills are important.

Confirmation bias happens when individuals seek out information that reaffirms past choices, and discount information that contradicts past judgments.

Availability bias occurs because of the tendency of people to base judgments on information that is readily available.

Representative bias happens when the individual assesses the likelihood of an occurrence by trying to match it with a preexisting category.

Hindsight bias occurs when an individual has the tendency to believe falsely that he or she has accurately predicted the outcome of an event, after that outcome is actually known.

Escalation of commitment errors occur when an individual stays with a decision even when there is clear evidence that it is wrong.

Randomness errors can happen when a person tries to create meaning out of a random event.

Winner’s curse errors can happen when the individual thinks he or she is always right.

Utilitarian criterion decisions are made solely on the basis of their outcomes or consequences. The goal of utilitarianism is to provide the greatest good for the greatest number. This view tends to dominate business decision-making.

A focus on rights encourages individuals to make decisions consistent with fundamental liberties and privileges as set forth in documents such as the Bill of Rights.

An emphasis on rights means respecting and protecting the basic rights of individuals, such as the right to privacy, right to free speech, and the right to due process.

A focus on justice requires individuals to impose and enforce rules fairly and impartially, with an equitable distribution of benefits and costs.

Decision-makers tend to feel safe and comfortable when they use utilitarianism. Many critics of business decision-making argue that this perspective needs to change. Increased concern in society about individual rights and social justice suggests the need for managers to develop ethical standards based solely on non-utilitarian criteria.

End of presentation