

Ricky W. Griffin

Eighth Edition



Fundamentals of

# MANAGEMENT

© 2016 Cengage Learning. All rights reserved.  
May not be copied, scanned, or duplicated,  
in whole or in part, except for use as permitted  
in a license distributed with a certain product or  
service or otherwise on a password-protected  
website for classroom use.



PowerPoint Presentation  
design by Charlie Cook

PART 2  
Planning

## CHAPTER 4

# Managing Decision Making

# Learning Outcomes

*After studying this chapter you should be able to:*



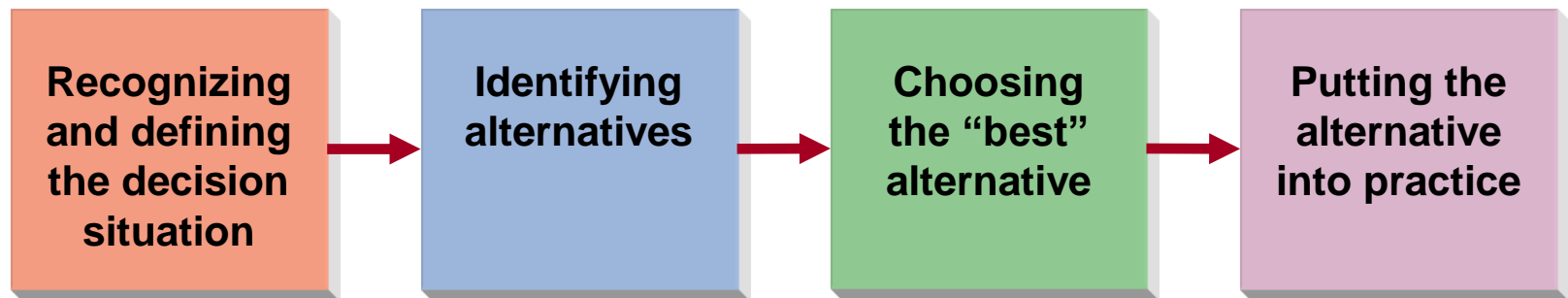
1. Define decision making and discuss types of decisions and decision-making conditions.
2. Discuss rational perspectives on decision making, including the steps involved.
3. Describe the behavioral aspects of decision making.
4. Discuss group and team decision making, including its advantages and disadvantages and how it can be more effectively managed.

# The Nature of Decision Making

- Decision Making

- The act of choosing one (*the best*) alternative from among a set of alternatives.

- Decision-Making Process:



# The Nature of Decision Making (cont'd)

- Decision-Making Process (cont'd)
  - An effective decision optimizes some set of factors such as profits, sales, employee welfare, and market share.
  - Managers make decisions about both problems and opportunities.

# Types of Decisions

- Programmed Decision

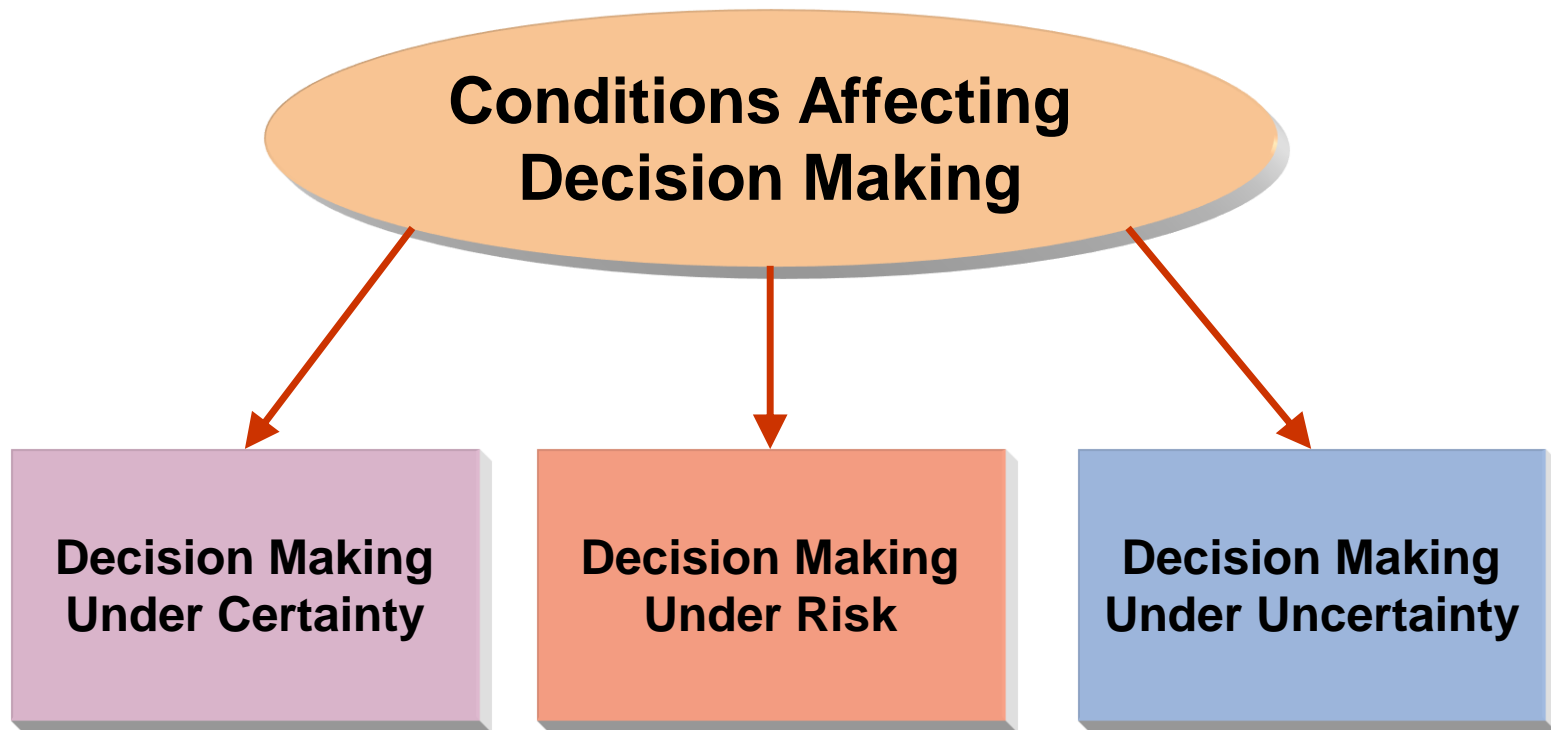
- A decision that is relatively structured or recurs with some frequency (or both).
- Example: Starting your car in the morning.

- Nonprogrammed Decision

- A decision that is relatively unstructured and occurs much less often than a programmed decision.
- Example: Choosing a vacation destination.

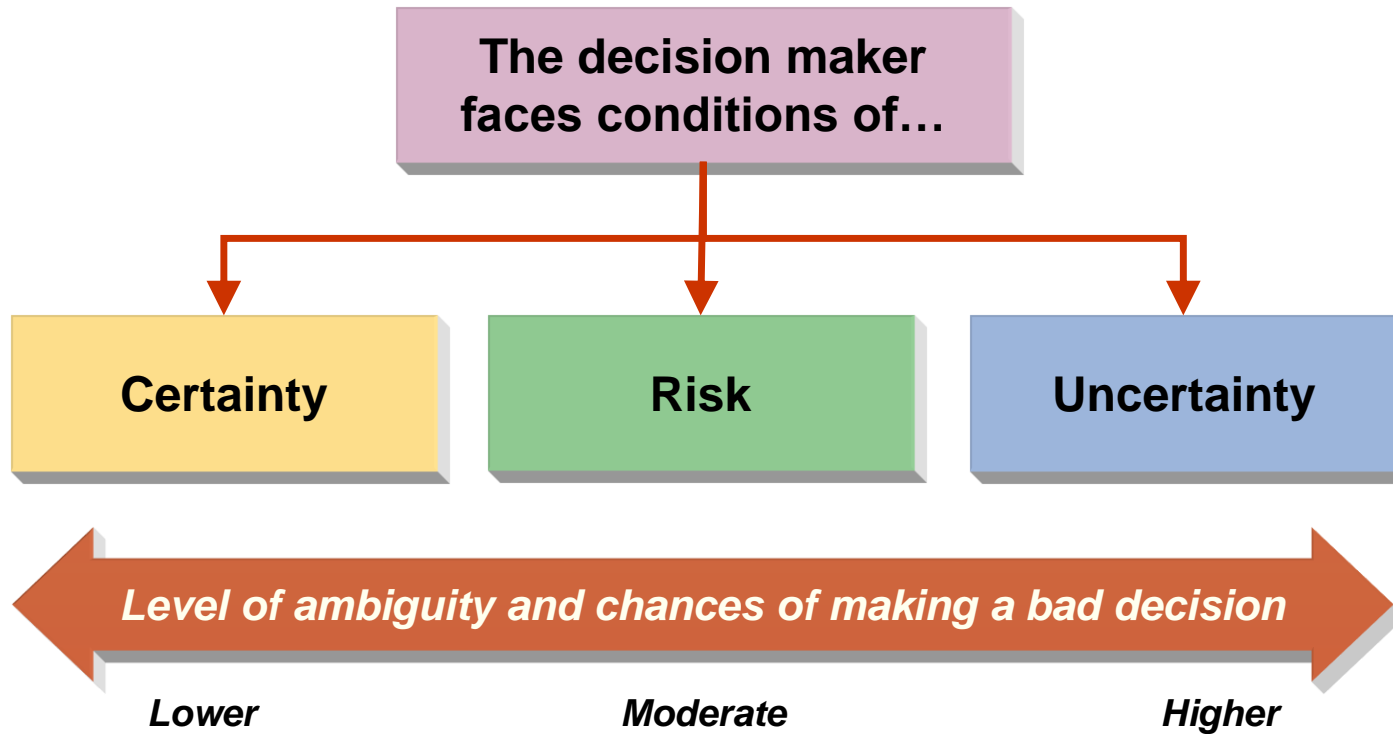


# Decision-Making Conditions



**FIGURE 4.1**

**Decision-Making Conditions**

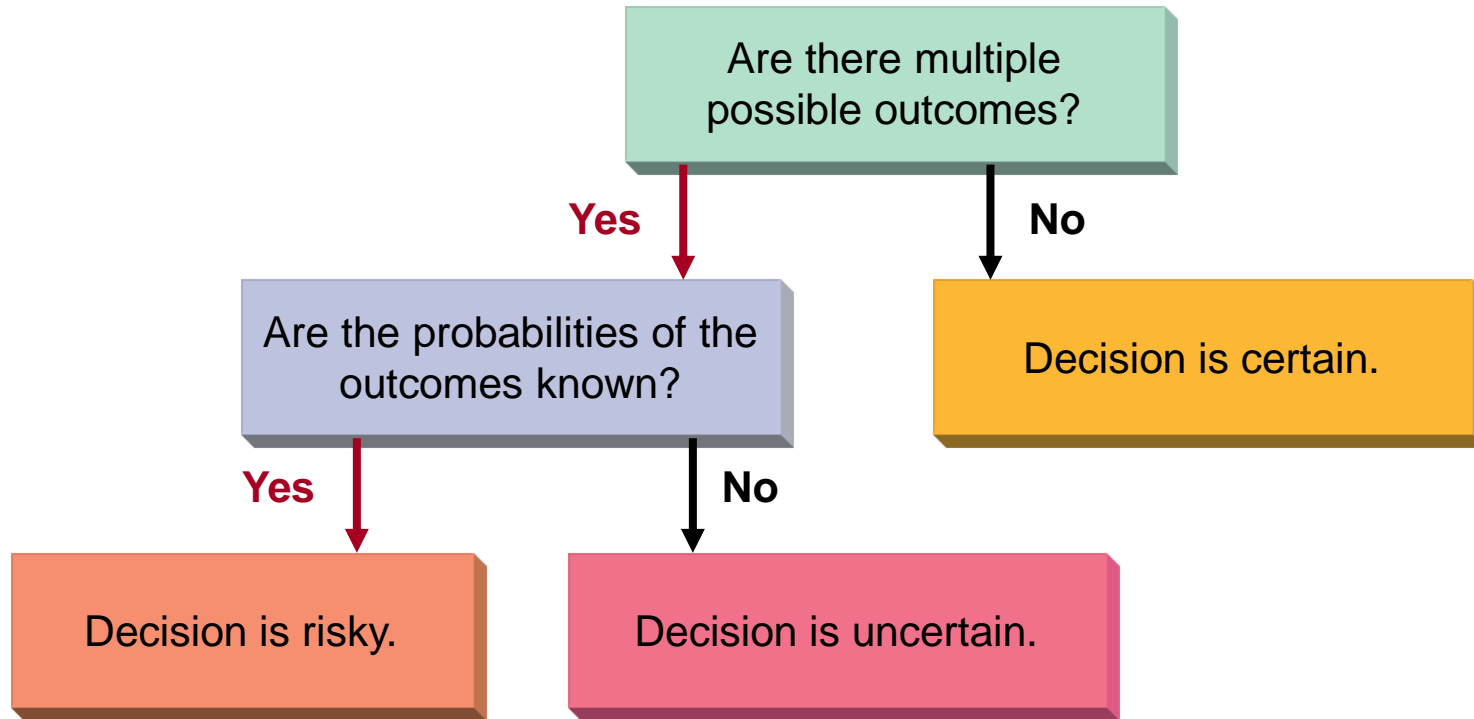


# Management Challenge Question

- You are captain of a container ship caught in a typhoon. Water is leaking into the cargo hold and you are unsure of whether or not you should abandon ship.
  - What state of uncertainty is described in this scenario?
  - How does the state of uncertainty affect the likelihood that you will make the correct decision?



# Distinguishing Between Decision Making Conditions

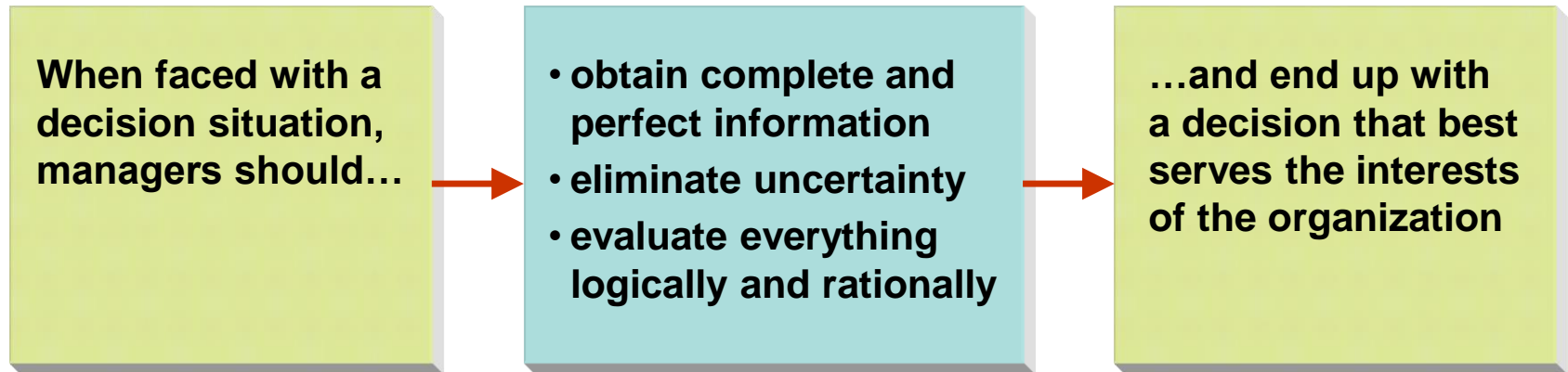


# Decision-Making Conditions

- **Decision Making Under Certainty**
  - The decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative.
- **Decision Making Under Risk**
  - The availability of each alternative and its potential payoffs and costs are all associated with risks.
- **Decision Making Under Uncertainty**
  - The decision maker does not know all the alternatives, the risks associated with each, or the consequences of each alternative.

**FIGURE 4.2**

## The Classical Model of Decision Making

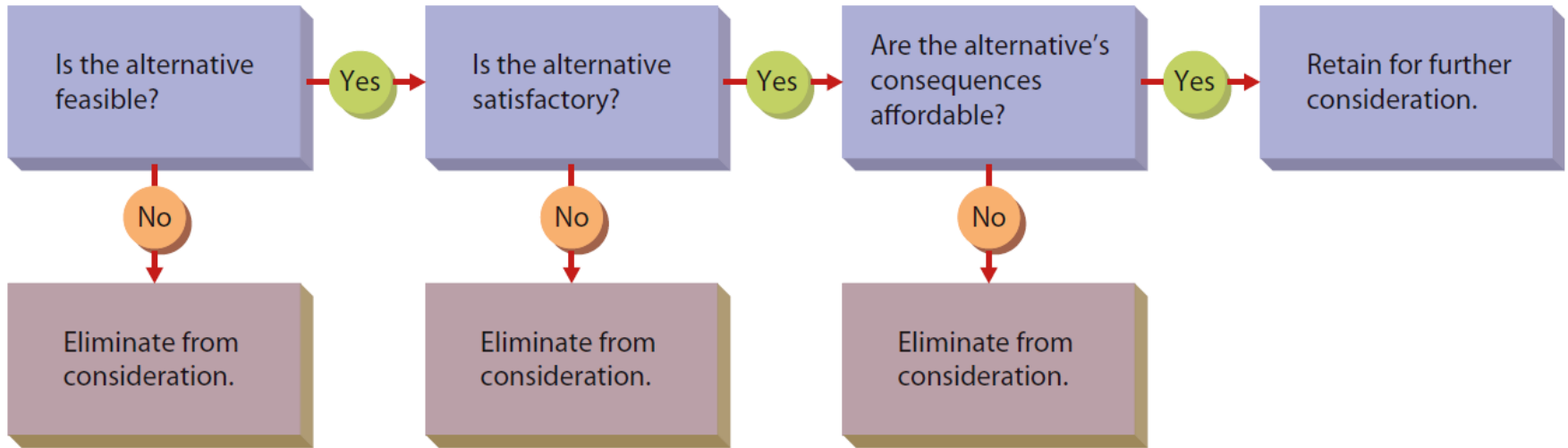


**Table 4.1****Steps in the Rational Decision-Making Process**

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

**FIGURE 4.3**

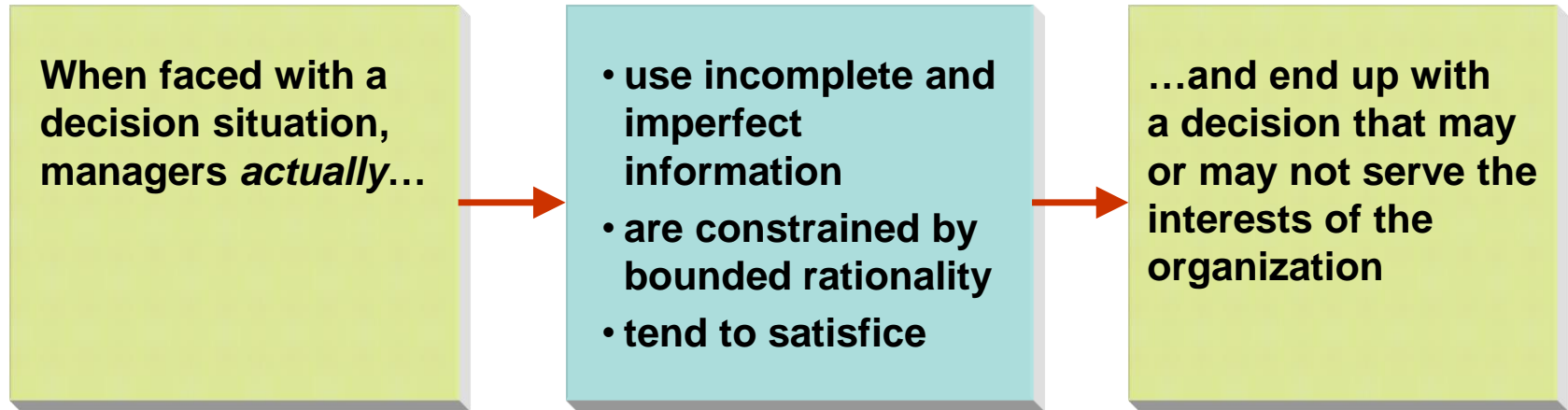
## Evaluating Alternatives in the Decision-Making Process



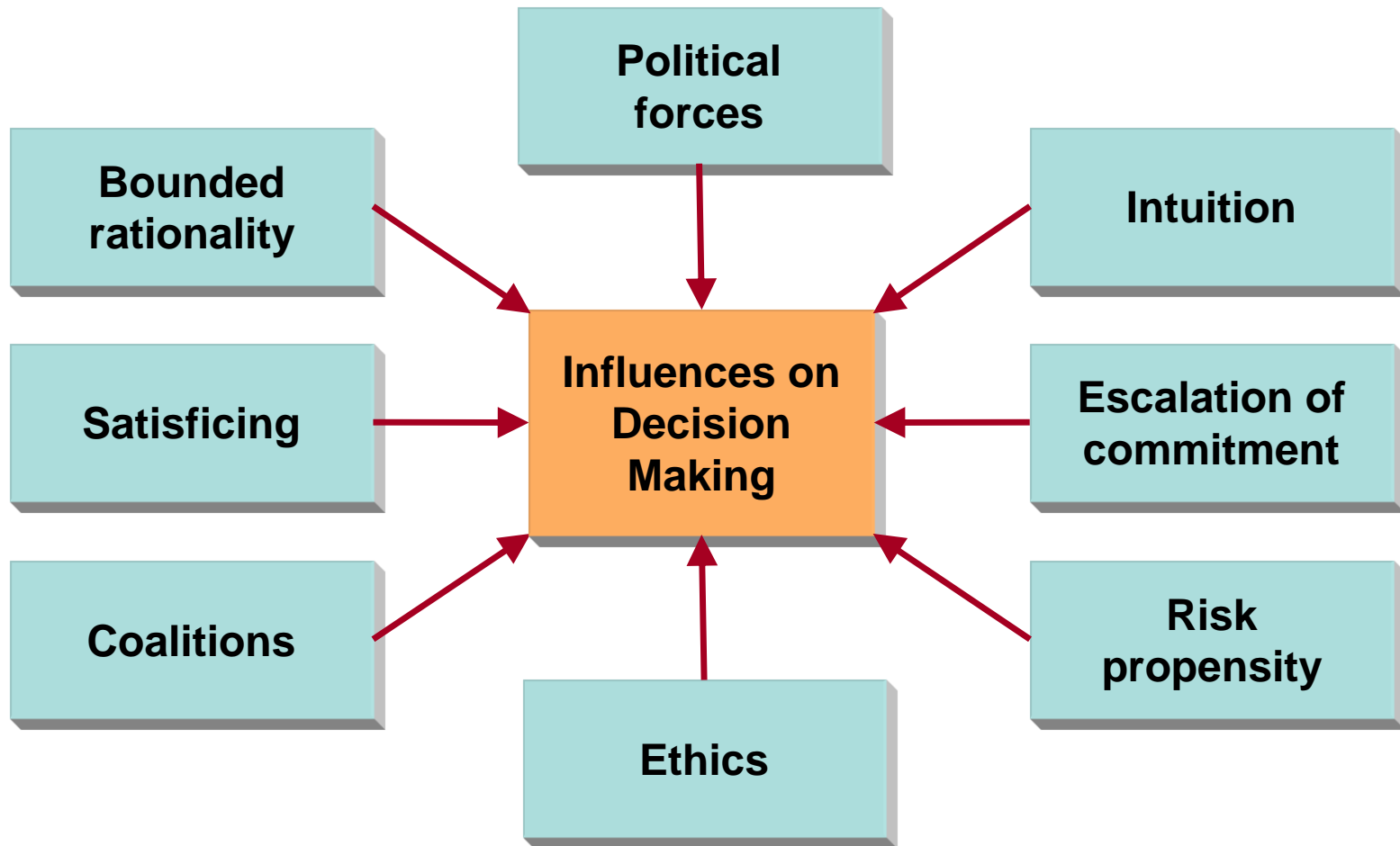
**Optimization**—selecting the alternative that offers the best combination (balance) of feasibility, satisfactoriness, and affordability suited to the situation.

**FIGURE 4.4**

## The Administrative Model of Decision Making



# What Influences Decision Making



# Behavioral Aspects of Decision Making

- Bounded Rationality

- The concept that decision makers are limited by their values and unconscious reflexes, skills, and habits.

- Satisficing

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

- Personal motives and biases
    - Expediency (degree of impact alternative choice will have)
    - Cost of continuing to search for alternatives



# Behavioral Aspects of Decision Making (cont'd)

- Coalition

- A positive or negative political force in decision making which consists of an informal alliance of individuals or groups formed to achieve a goal.

- Using Coalitions

- When to use them
  - Assessing their impact
  - Constraining their effects



# Behavioral Aspects of Decision Making (cont'd)

- 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

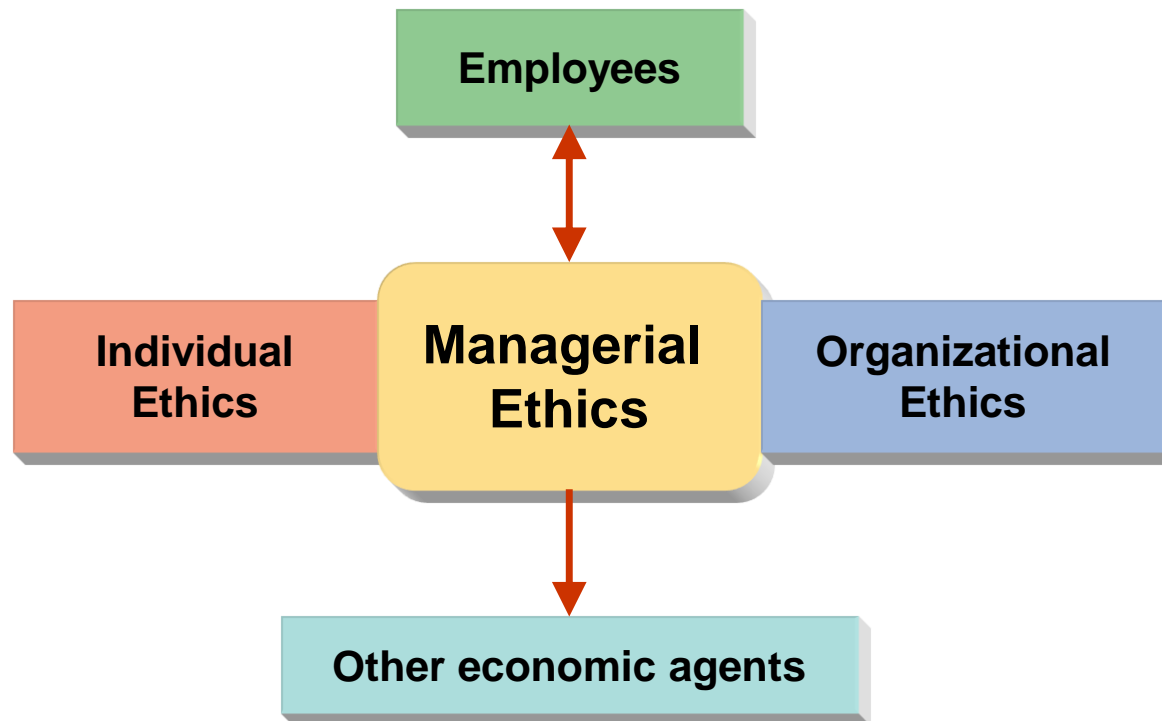
- The extent to which a decision maker is willing to gamble when making a decision.



# Management Challenge Question

- How could a coalition lead to escalation of commitment?
- What can be done to prevent or avoid the escalation?
- How are escalation of commitment and groupthink related?

# Managerial Ethics and Decision Making



# Ethics and Decision Making

- Managerial Ethics

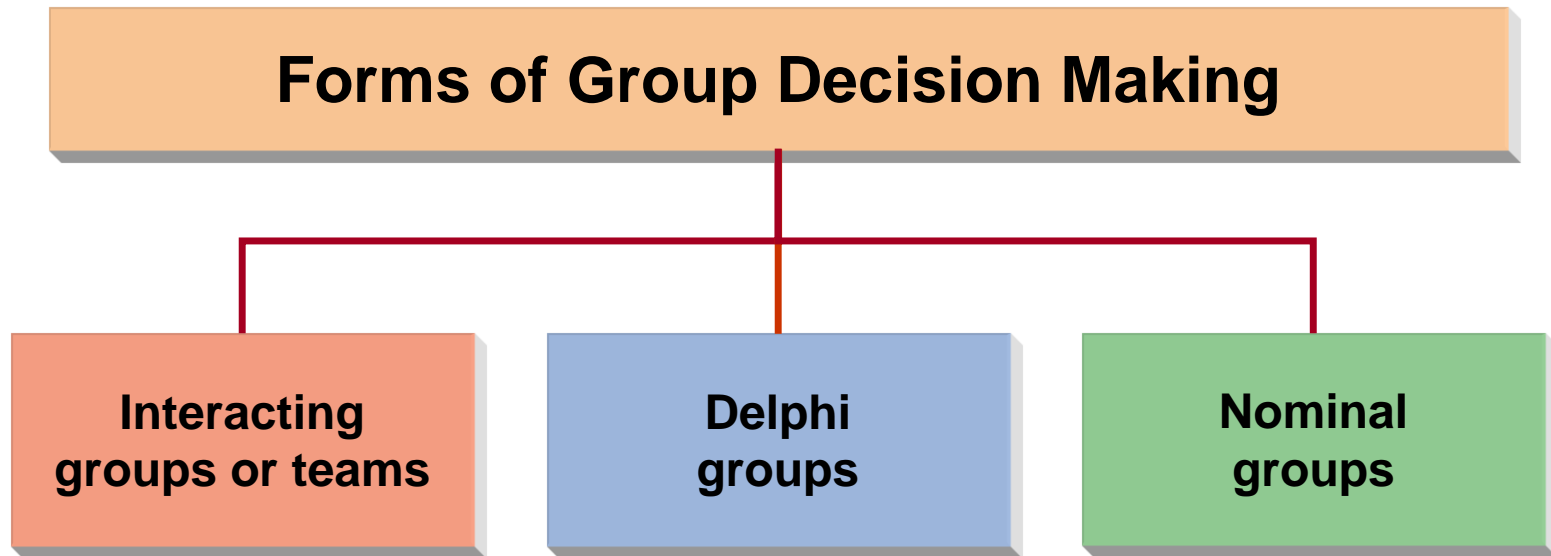
- Individual ethics (personal beliefs about right and wrong behavior) combine with the organization's ethics to create managerial ethics.

- Components of managerial ethics:

- Relationships of the firm to employees
    - Employees to the firm
    - The firm to other economic agents



# Group and Team Decision Making in Organizations



# Group and Team Decision Making

- **Forms of Group Decision Making**

- **Interacting groups or teams**

- Consists of an existing group or newly formed team interacting and then making a decision.

- **Delphi groups**

- Developing a consensus of expert opinion from a panel of experts who individually contribute through a moderator.

- **Nominal groups**

- Generating ideas through the individual contributions of alternatives that are winnowed down to reach a decision.

**Table 4.2**

**Advantages and Disadvantages of Group and Team Decision Making**

**Advantages**

- More information and knowledge are available.
- More alternatives are likely to be generated.
- More acceptance of the final decision is likely.
- Enhanced communication of the decision may result.
- Better decisions generally emerge.

**Disadvantages**

- The process takes longer than individual decision making, so it is costlier.
- Compromise decisions resulting from indecisiveness may emerge.
- One person may dominate the group.
- Groupthink may influence a group or team's desire for consensus and overwhelm its desire to reach the best possible decision



# The Group-think Process

1. Group Cohesiveness
2. Leader Promotion of Preferred Solution
3. Insulation from Expert Opinion

Group Characteristics

1. Invulnerability
2. Rationalization
3. Morality
4. Stereotyping
5. Peer Pressure
6. Self-censorship
7. Unanimity
8. Mindguards

Symptoms of Groupthink

1. Few Alternatives
2. No Reexamination of Preferred Alternative
3. No Reexamination of Rejected Alternative
4. Rejection of Expert Opinions
5. Selective Bias of New Information
6. No Contingency Plans

Decision-Making Defects

Lower Performance  
Lower Decision Quality

Outcome Variables

# Managing Group and Team Decision-Making Processes

## Promoting the Effectiveness of Group and Team Decision Making:

- Be aware of the pros and cons of having a group or team make a decision.
- Set deadlines for when decisions must be made.
- Avoid problems with dominance by managing group membership.
- Have each group member individually and critically evaluate all alternatives.
- As a manager, do not make your position known too early.
- Appoint a group member to be a “devil’s advocate.”
- Hold a follow-up meeting to recheck the decision.