Many have observed the importance of plans and planning, as demonstrated by the abundance of familiar quotes about it. From the noted Chinese philosopher Confucius, who said, “A man who does not plan long ahead will find trouble at his door,” to Crimson Tide American football coach Paul “Bear” Bryant, who said, “Have a plan. Follow the plan, and you’ll be surprised how successful you can be.” A famous Arab saying indicates that, “you should plan and work for your life as if you’re going to live forever, and you should plan and work for the Hereafter as if you’re going to die tomorrow.” Great managers need to learn how to plan and then do it. As novelist Richard Cushing said, “Always plan ahead. It wasn’t raining when Noah built the ark.”

In Part Two, we look at the first management function – planning. Chapter 6 introduces how managers make decisions. In Chapter 7, we look at the fundamental elements of planning – goals and plans. In Chapter 8, we look at an important aspect of planning – strategic management.

We cannot resist one more quote about planning, this one from Benjamin Franklin: “By failing to prepare, you are preparing to fail.”
Every human act is a result of a decision-making process. Managers make decisions and they want those decisions to be the right ones. In this chapter, we are going to study the steps in the decision-making process. We will also look at the various things that influence a manager as he or she makes decisions. Focus on the following learning outcomes as you read and study this chapter.

**LEARNING OUTCOMES**

- **6.1** Describe the eight steps in the decision-making process. Page 134
- **6.2** Explain the three ways managers make decisions. Page 138
- **6.3** Classify decisions and decision-making conditions. Page 141
- **6.4** Describe different decision-making styles and discuss how biases affect decision making. Page 145
- **6.5** Describe effective decision-making practices in today’s world. Page 149
You will be hearing more from these real managers throughout the chapter.
Part Two Planning

Like managers everywhere, the general manager of GASCO needs to make decisions as he manages. Decision making is the essence of management. It is what managers do (or try to avoid). And all managers would like to make good decisions since they are judged on the outcomes of those decisions. In this chapter, we examine the concept of decision making and how managers make decisions.

THE DECISION-MAKING PROCESS

Heavy sandstorms hit several areas of Saudi Arabia a few years ago, which put a stop to public life. Riyadh remained covered with dust, causing low visibility that affected air and road traffic and resulted in the cancellation of many domestic flights. Saudi Civil Aviation Authority officials announced an emergency plan to tackle the situation, by which all airline companies were to take appropriate decisions regarding the operation and cancellation of flight services. Fortunately, sandstorms are often encountered in the gulf region, and transportation personnel are experienced enough to deal with such situations. But this does not mean that the decisions are always easy to make, especially when decisions affect hundreds of flights and thousands of passengers. Although most decisions managers make do not involve the weather, you can see that decisions play an important role in what an organization has to do or is able to do.

Managers at all levels and in all areas of organizations make decisions. That is, they make choices. For instance, top-level managers make decisions about their organization’s goals, where to locate manufacturing facilities, or what new markets to move into. Middle- and lower-level managers make decisions about production schedules, product quality problems, pay raises, and employee discipline. Making decisions is not something that just managers do; all organizational members make decisions that affect their jobs and the organization they work for. But our focus is on how managers make decisions.

Although decision making is typically described as choosing among alternatives, that view is too simplistic. Why? Because decision making is a process, not just a simple
act of choosing among alternatives. Even for something as straightforward as deciding where to go for lunch, you do more than just choose the type of food. Although you may not spend a lot of time contemplating your lunch decision, you still go through the process when making that decision. Exhibit 6–1 shows the eight steps in the decision-making process. This process is as relevant to personal decisions as it is to corporate decisions. Let’s use an example – a manager deciding what laptop computers to purchase – to illustrate the steps in the process.

**STEP 1: IDENTIFYING A PROBLEM**

Every decision starts with a problem, a gap between an existing and a desired condition. Sarah is a sales manager whose reps need new laptops because their old ones are outdated and inadequate for doing their job. To make it simple, assume that it is not economical to add memory to the old computers and it is the company’s policy to purchase, not lease. Now we have a problem – a gap between the sales reps’ current computers (existing condition) and their need to have more efficient ones (desired condition). Sarah has a decision to make.

**Decision**
A choice from two or more alternatives.

**Problem**
An obstacle that makes achieving a desired goal or purpose difficult.
The choice of a new laptop computer relies on specific decision criteria like price, convenience, memory and storage capacity, display quality, battery life, and even carrying weight.

How do managers identify problems? In the real world, most problems do not come with neon signs flashing “problem.” When her reps started complaining about their computers, it was pretty clear to Sarah that something needed to be done, but few problems are that obvious. Managers also have to be cautious not to confuse problems with symptoms of a problem. Is a 5 percent drop in sales a problem? Or are declining sales merely a symptom of the real problem, such as poor-quality products, high prices, or bad advertising? Also, keep in mind that problem identification is subjective: what one manager considers a problem might not be considered a problem by another manager. In addition, a manager who resolves the wrong problem perfectly is likely to perform just as poorly as a manager who does not even recognize a problem and does nothing. As you can see, effectively identifying problems is important but not easy.

**STEP 2: IDENTIFYING DECISION CRITERIA**

Once a manager has identified a problem, he or she must identify the decision criteria that are important or relevant to resolving the problem. Every decision maker has criteria that guide his or her decisions, even if they are not explicitly stated. In our example, Sarah decides after careful consideration that memory and storage capabilities, display quality, battery life, warranty, and carrying weight are the relevant criteria in her decision.

**STEP 3: ALLOCATING WEIGHTS TO THE CRITERIA**

If the relevant criteria are not equally important, the decision maker must weigh the items in order to give them the correct priority in the decision. How? A simple way is to give the most important criterion a weight of 10 and then assign weights to the rest using that standard. Of course, you could use any number as the highest weight. The weighted criteria for our example are shown in Exhibit 6–2.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Memory and storage</td>
<td>10</td>
</tr>
<tr>
<td>Battery life</td>
<td>8</td>
</tr>
<tr>
<td>Carrying weight</td>
<td>6</td>
</tr>
<tr>
<td>Warranty</td>
<td>4</td>
</tr>
<tr>
<td>Display quality</td>
<td>3</td>
</tr>
</tbody>
</table>

**STEP 4: DEVELOPING ALTERNATIVES**

The fourth step in the decision-making process requires the decision maker to list the alternatives that could work to solve the problem. This is the step where a decision maker needs to be creative. At this point, the alternatives are only listed, not evaluated. Our sales manager, Sarah, identifies eight laptops as possible choices (Exhibit 6–3).
STEP 5: ANALYZING ALTERNATIVES

Once alternatives have been identified, a decision maker must evaluate each one. How? By using the decision criteria established in step 2. Exhibit 6–3 shows the assessed values that Sarah gave each alternative after doing some research on them. Keep in mind that these data represent an assessment of the eight alternatives using the decision criteria but not the weighting. When you multiply each alternative by the assigned weight, you get the weighted alternatives, as shown in Exhibit 6–4. The total score for each alternative, then, is the sum of its weighted criteria.

There are times when a decision maker might not have to do this step. If one alternative scored highest on every criterion, you would not need to consider the weights because that alternative would already be the top choice. Or, if the weights were all equal, you could evaluate an alternative merely by summing up the assessed values for them all. For example, the score for the Toshiba Protégé would be 36, and the score for the Gateway would be 35.

STEP 6: SELECTING AN ALTERNATIVE

The sixth step in the decision-making process is choosing the best alternative or the one that generated the highest total in step 5. In our example (Exhibit 6–4), Sarah would choose the Toshiba Qosmio because it scored highest (249 total).

STEP 7: IMPLEMENTING THE ALTERNATIVE

In step 7 in the decision-making process, you put the decision into action by communicating it to those affected and getting their commitment to it. We know that if the people who must implement a decision participate in the process, they are more likely to support it than if you just tell them what to do. Another thing managers may
need to do during implementation is reassess the environment for any changes, especially with a long-term decision. Are the criteria, alternatives, and choices still the best ones, or has the environment changed in such a way that you need to reevaluate?

**STEP 8: EVALUATING DECISION EFFECTIVENESS**

The last step in the decision-making process involves evaluating the outcome or result of the decision to see if the problem was resolved. If the evaluation shows that the problem still exists, then the manager needs to assess what went wrong. Was the problem incorrectly defined? Were errors made when evaluating alternatives? Was the right alternative selected but poorly implemented? The answers might lead you to redo an earlier step or might even require starting the whole process over.

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### LEARNING OUTCOME 6.2

**Explain the three ways managers make decisions**

**Meet the Managers**

**WHAT DO YOU THINK IS THE BEST WAY TO MAKE A DECISION?**

I do lots of research about the topic and then I rely on my own judgement.

At certain times, one has to react quickly and make a decision on the spot while lacking information. On the other hand, when one has the luxury of time, continuous research, consulting, and training should be exploited. Most important of all a decision maker should always involve others in the decision-making process.

---

MANAGERS MAKING DECISIONS

Although everyone in an organization makes decisions, decision making is particularly important to managers. As Exhibit 6–5 shows, it is part of all four managerial functions. In fact, that is why we say that decision making is the essence of management. And that is why managers – when they plan, organize, lead, and control – are called decision makers.

The fact that almost everything a manager does involves making decisions does not mean that decisions are always time-consuming, complex, or evident to an outside observer. Most decision making is routine. Every day of the year, you make a decision about what to eat for dinner. You have made the decision thousands of times before; it is a pretty simple decision and can usually be handled quickly. It is the type of decision you almost forget is a decision. And managers also make dozens of these routine decisions every day – for example, which employee will work what shift next week, what information should be included in a report, or how to resolve a customer’s complaint. Keep in mind that even though a decision seems easy or has been faced by a manager a number of times before, it still is a decision. Let’s look at three perspectives on how managers make decisions.

**MAKING DECISIONS: RATIONALITY**

In late 2013, a Dutch court ruled that Tiffany & Co., in which Qatar Investment Authority owns more than 8 percent, must pay Swatch Group about $449 million in damages. The two companies had previously entered into a joint venture where luxury watches would be produced under the Tiffany brand. The joint venture did not work out and the two companies sued each other. What seemed to be a perfectly rational decision by the two companies did not materialize as hoped by the decision makers. In many cases, managers cannot decide with complete rationality, because – among other things – information is off-limits or not available to them, or because they do not have the time to assess every possible alternative and contingency.

We assume that managers’ decision making will be rational; that is, we assume that they will make logical and consistent choices to maximize value. After all, managers...
have all sorts of tools and techniques to help them be rational decision makers. But as the above example illustrates, managers are not always rational. What does it mean to be a rational decision maker?

Assumptions of Rationality. A rational decision maker would be fully objective and logical. The problem faced would be clear and unambiguous, and the decision maker would have a clear and specific goal and know all possible alternatives and consequences. Finally, making decisions rationally would consistently lead to selecting the alternative that maximizes the likelihood of achieving that goal. These assumptions apply to any decision – personal or managerial. However, for managerial decision making, we need to add one additional assumption: decisions are made in the best interest of the organization. These assumptions of rationality are not very realistic, but the next concept can help explain how most decisions get made in organizations.

MAKING DECISIONS: BOUNDED RATIONALITY

Despite the unrealistic assumptions, managers are expected to be rational when making decisions. They understand that "good" decision makers are supposed to do certain things and exhibit good decision-making behaviors as they identify problems, consider alternatives, gather information, and act decisively but cautiously. When they do so, they show others that they are competent and that their decisions are the result of intelligent deliberation. However, a more realistic approach to describing how managers make decisions is the concept of bounded rationality, which says that managers make decisions rationally but are limited (bounded) by their ability to process information. Because they cannot possibly analyze all information on all alternatives,

### Exhibit 6-5

**Decisions Managers May Make**

**Planning**
- What are the organization’s long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization’s short-term objectives be?
- How difficult should individual goals be?

**Organizing**
- How many employees should I have reporting directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

**Leading**
- How do I handle employees who appear to be low in motivation?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

**Controlling**
- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?
Managers satisfy rather than maximize. That is, they accept solutions that are “good enough.” They are being rational within the limits (bounds) of their ability to process information. Let’s look at an example.

Suppose that you are a marketing major, and upon graduation you want a job, preferably in an advertising company, with a minimum salary of US$35,000 and within one-hour drive from your home. You accept a job offer in the marketing department of a medium-size firm—not exactly in the advertising field, but still a marketing job—at a company within one-hour drive from your home at a starting salary of US$34,000. If you had done a more comprehensive job search, you would have discovered a job in the advertising field only 20 minutes away from your home and starting at a salary of US$38,000. You were not a perfectly rational decision maker because you did not optimize your decision by searching all possible alternatives and then choosing the best. But because the first job offer was satisfactory (or “good enough”), you behaved in a bounded rationality manner by accepting it.

Most decisions do not fit the assumptions of perfect rationality, so managers satisfy. However, keep in mind that managers’ decision making is also likely influenced by the organization’s culture, internal politics, power considerations, and a phenomenon called escalation of commitment, which is an increased commitment to a previous decision despite evidence that it may have been wrong. The Challenger space shuttle disaster in the United States is often used as an example of escalation of commitment. Decision makers chose to launch the shuttle that day even though the decision was questioned by several individuals who believed that it was a bad one. Why would decision makers escalate commitment to a bad decision? Because they do not want to admit that their initial decision may have been flawed. Rather than search for new alternatives, they simply increase their commitment to the original solution.

MAKING DECISIONS: THE ROLE OF INTUITION

Marico, producers of a range of hair care products in the GCC, spent two years of extensive research and product development before introducing the alcohol-free “GO hair gel,” which was a hit in the hair grooming market. In contrast, other managers may use a more intuitive decision-making approach to come up with their products.

Intuitive decision making is making decisions on the basis of experience, feelings, and accumulated judgment. Researchers studying managers’ use of intuitive decision making have identified five different aspects of intuition, which are described in Exhibit 6–6. How common is intuitive decision making? One survey found that

![Exhibit 6-6 What Is Intuition?](source: Based on L. A. Burke and M. K. Miller, “Taking the Mystery Out of Intuitive Decision Making,” Academy of Management Executive, October 1999, pp. 91–99.)
almost half of the executives surveyed “used intuition more often than formal analysis to run their companies.”\(^{14}\)

Intuitive decision making can complement bounded rational decision making. First of all, a manager who has had experience with a similar type of problem or situation often can act quickly with what appears to be limited information because of that past experience. In addition, a recent study found that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.

**QUICK LEARNING REVIEW:**

**LEARNING OUTCOME 6.2**

Because they cannot possibly analyze all information on all alternatives, managers:

- Maximize rather than satisfice
- Satisfice rather than maximize
- Accept solutions that are “good enough”
- b and c.

Decision making can be:

- Rational
- Intuitive
- Rational and intuitive
- Based on the unconscious

Go to page 155 to see how well you know this material.

**LEARNING OUTCOME 6.3**

Classify decisions and decision-making conditions

**TYPES OF DECISIONS AND DECISION-MAKING CONDITIONS**

In late 2013, a new law was passed in Dubai requiring all employers to purchase health insurance for their expatriate staff. While this could be seen as very good news for the insurance industry, such a law increases employment costs for employers. Company managers cannot make their business decisions without taking into consideration this new regulation.

**TYPES OF DECISIONS**

Managers in all kinds of organizations face different types of problems and decisions as they do their jobs. Depending on the nature of the problem, a manager can make one of two different types of decisions.

**Structured Problems and Programmed Decisions.** Some problems are straightforward. The decision maker’s goal is clear, the problem is familiar, and information about the problem is easily defined and complete. Examples might include when a customer returns a purchase to a store, when a supplier is late with an important delivery, a news team’s response to a fast-breaking event, or a college’s handling of a student wanting to drop a class. Such situations are called structured problems because they are straightforward, familiar, and easily defined. For instance, a server spills a drink on a customer’s coat. The customer is upset, and the manager needs to do something. Because it is not an unusual occurrence, there is probably some standardized routine for handling it. For example, the manager offers to have the coat cleaned at the restaurant’s expense. This is what we call a programmed decision, a repetitive decision.
that can be handled using a routine approach. Because the problem is structured, the
manager does not have to go to the trouble and expense of going through an involved
decision-making process. With this type of decision, the “develop-the-alternatives”
age of the decision-making process either does not exist or is given little attention.
Why? Because once the structured problem is defined, the solution is usually self-
evident or at least reduced to a few alternatives that are familiar and have proved
successful in the past. The spilled drink on the customer’s coat does not require the
restaurant manager to identify and weigh decision criteria or to develop a long list of
possible solutions. Instead, the manager relies on one of three types of programmed
decisions: procedure, rule, or policy.

A procedure is a series of sequential steps a manager uses to respond to a struc-
tured problem. The only difficulty is identifying the problem. Once the problem is
clear, so is the procedure. For instance, say that a purchasing manager receives
a request from a warehouse manager for 15 handheld computers for the inventory
clerks. The purchasing manager knows how to make this decision by following the
established purchasing procedure.

A rule is an explicit statement that tells a manager what can or cannot be done.
Rules are frequently used because they are simple to follow and ensure consistency.
For example, rules about lateness and absenteeism permit supervisors to make dis-

ciplinary decisions rapidly and fairly.

The third type of programmed decisions is a policy, which is a guideline for
making a decision. In contrast to a rule, a policy establishes general parameters for
the decision maker rather than specifically stating what should or should not be
done. Policies typically contain an ambiguous term that leaves interpretation up to the
decision maker. Here are some sample policy statements:

• The customer always comes first and should always be satisfied.
• We promote from within whenever possible.
• Employee wages shall be competitive within community standards.

Notice that the terms satisfied, whenever possible, and competitive require interpreta-
tion. For instance, the policy of paying competitive wages does not tell a company’s
human resources manager the exact amount he or she should pay, but it does guide
the person in making the decision.

Unstructured Problems and Nonprogrammed Decisions. Not all the problems managers
face can be solved using programmed decisions. Many organizational situations
involve unstructured problems, which are problems that are new or unusual and for
which information is ambiguous or incomplete. Building a new manufacturing facility
is an example of an unstructured problem. So, too, is the problem facing restaurant
managers who must decide how to modify their businesses to comply with the curfew
law. When problems are unstructured, managers must rely on nonprogrammed
decision making in order to develop unique solutions. Nonprogrammed decisions are
unique and nonrecurring and involve custom-made solutions.

Exhibit 6–7 describes the differences between programmed and nonprogrammed
decisions. Lower-level managers mostly rely on programmed decisions (procedures,
rules, and policies) because they confront familiar and repetitive problems. As man-
gagers move up the organizational hierarchy, the problems they confront become more
unstructured. Why? Because lower-level managers handle the routine decisions and
let upper-level managers deal with the unusual or difficult decisions. Also, upper-level
managers delegate routine decisions to their subordinates so they can deal with more
difficult issues. Thus, few managerial decisions in the real world are either fully pro-
grammed or nonprogrammed. Most fall somewhere in between.

DECISION-MAKING CONDITIONS

When making decisions, managers may face three different conditions: certainty, risk,
and uncertainty. Let’s look at the characteristics of each.
Chapter Six  Managers as Decision Makers  143

Exhibit 6–7
Programmed Versus Nonprogrammed Decisions

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Programmed Decisions</th>
<th>Nonprogrammed Decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of problem</td>
<td>Structured</td>
<td>Unstructured</td>
</tr>
<tr>
<td>Managerial level</td>
<td>Lower levels</td>
<td>Upper levels</td>
</tr>
<tr>
<td>Frequency</td>
<td>Repetitive, routine</td>
<td>New, unusual</td>
</tr>
<tr>
<td>Information</td>
<td>Readily available</td>
<td>Ambiguous or incomplete</td>
</tr>
<tr>
<td>Goals</td>
<td>Clear, specific</td>
<td>Vague</td>
</tr>
<tr>
<td>Time frame for solution</td>
<td>Short</td>
<td>Relatively long</td>
</tr>
<tr>
<td>Solution relies on</td>
<td>Procedures, rules, policies</td>
<td>Judgment and creativity</td>
</tr>
</tbody>
</table>

Certainty. The ideal situation for making decisions is one of **certainty**, which is a situation in which a manager can make accurate decisions because the outcome of every alternative is known. For example, when a company’s treasurer decides where to deposit excess corporate funds, he knows exactly the interest rate being offered by each bank and the amount that will be earned on the funds. He is certain about the outcomes of each alternative. As you might expect, most managerial decisions are not like this.

Risk. A far more common situation than decision making under certainty is one of **risk**, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information that lets them assign probabilities to different alternatives. Let’s look at an example.

In 1973, Yusuffali M.A. landed on the shores of Dubai arriving from Mumbai. A huge story of success was waiting for him as he built his famous Lulu brand totalling about $4.5 billion in sales. Yusufali now wants to export back his success to his home country, India. He will face lots of nonprogrammed decisions as he tries to keep his brand strong in the UAE and in India.

---

**Procedure**
A series of sequential steps used to respond to a well-structured problem.

**Rule**
An explicit statement that tells managers what can or cannot be done.

**Policy**
A guideline for making decisions.

**Unstructured problem**
A problem that is new or unusual and for which information is ambiguous or incomplete.

**Nonprogrammed decision**
A unique and nonrecurring decision that requires a custom-made solution.

**Certainty**
A situation in which a decision maker can make accurate decisions because all outcomes are known.

**Risk**
A situation in which the decision maker is able to estimate the likelihood of certain outcomes.
Uncertainty. What happens if you face a decision and you are not certain about the outcomes and cannot even make reasonable probability estimates? We call this condition uncertainty. Managers do face decision-making situations of uncertainty. Under these conditions, the choice of alternative is influenced by the limited amount of available information and by the psychological orientation of the decision maker.

Although managers try to quantify a decision when possible by using payoff and regret matrices, uncertainty often forces them to rely more on intuition, creativity, hunches, and "gut feel."

<table>
<thead>
<tr>
<th>Event</th>
<th>Expected Revenues</th>
<th>× Probability</th>
<th>= Expected Value of Each Alternative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy snowfall</td>
<td>$850,000</td>
<td>0.3</td>
<td>$255,000</td>
</tr>
<tr>
<td>Normal snowfall</td>
<td>725,000</td>
<td>0.5</td>
<td>362,500</td>
</tr>
<tr>
<td>Light snowfall</td>
<td>350,000</td>
<td>0.2</td>
<td>70,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$687,500</td>
</tr>
</tbody>
</table>

Deciding How to Give Information

Decisions can and do create ethical dilemmas. School board members at a high school learned of a threat of violence at the school on a Sunday afternoon. After investigating, they found it to be baseless. However, on Sunday evening, another threat of violence reached the administration. By this time, it was 10:30 p.m. The high school key officials decided to close the school on Monday and say that it was due to a broken water main. To get the word out quickly, they contacted the media. When the second rumor also turned out to be false, the public was informed that school had been canceled because of a rumored threat of violence, not because of a broken water main. Not only did the media get upset, but some parents demanded the resignation of the people in charge. What do you think about this situation? Was the “right” decision made? Could the situation have been handled better? Discuss.
Decision Making Styles

Describe different decision-making styles and discuss how biases affect decision making.

William D. Perez’s tenure as Nike’s CEO lasted a short and turbulent 13 months. Analysts attributed his abrupt dismissal to a difference in decision-making approaches between him and Nike co-founder Phil Knight. Perez tended to rely more on data and facts when making decisions, while Knight highly valued, and had always used, his judgment and feelings to make decisions. As this example clearly shows, managers have different styles when it comes to making decisions.

Linear-Nonlinear Thinking – Style Profile

Suppose that you are a new manager. How will you make decisions? Recent research done with four distinct groups of people says that the way a person approaches decision making is likely affected by his or her thinking style. Your thinking style reflects two things: (1) the source of information you tend to use (external data and facts or internal sources, such as feelings and intuition) and (2) how you process that information (linear – rational, logical, analytical; or nonlinear – intuitive, creative, insightful).

Uncertainty
A situation in which a decision maker has neither certainty nor reasonable probability estimates available.

Business performance management (BPM) software
IT software that provides key performance indicators to help managers monitor efficiency of projects and employees. Also known as corporate performance management software.

Making Better Decisions with IT

Most companies are “drowning in data” and do not know how to make sense out of it. One of the primary uses for IT can be to help managers – and other employees – make better decisions by sorting through tons of data, looking for trends, patterns, and other insights. As we saw in our discussion of bounded rationality, a person’s ability to process such a massive amount of information would be severely limited. So managers use IT to help make sense of all this information so they can make better decisions.

Another way that IT can help managers make better decisions is by using software tools that help them analyze data. Consultants estimate that some 75 percent of individual managers rely on personal productivity tools, such as spreadsheets, which can be used to gather and report information to help them make decisions in their own local area of responsibility. However, when you have each manager using his or her own data collection tools, there are no linkages or collaboration. Thus, on the organization-wide level, there is the more sophisticated business performance management (BPM) software, also sometimes called corporate performance management software, to help make decisions. BPM, which provides key performance indicators that help companies monitor efficiency of projects and employees, was initially believed to be the “silver bullet that had the potential to help corporate managers control their organization’s performance in an increasingly volatile world.” Although BPM software has not quite lived up to those lofty expectations, as it improves, it will increasingly be a tool managers use to help make better decisions.

A guideline for making decisions is a:

a. Policy
b. Rule
c. Procedure
d. None of the above

A situation in which the decision maker is able to estimate the likelihood of certain outcomes is a:

a. Certainty
b. Risk
c. Uncertainty
d. Accuracy
Diversity

The Value of Diversity in Decision Making

Have you decided what your major is going to be? How did you decide? Do you feel that your decision is a good one? Is there anything you could have done differently to make sure that your decision was the best one?23

Making good decisions is tough! Managers continuously make decisions – for instance, developing new products, establishing weekly or monthly goals, implementing an advertising campaign, reassigning an employee to a different work group, resolving a customer’s complaint, or purchasing new laptops for sales reps. One important suggestion for making better decisions is to make use of the diversity of the work group. Drawing on diverse employees can prove valuable to a manager’s decision making. Why? Diverse employees can provide fresh perspectives on issues. They can offer different interpretations of how a problem is defined and may be more open to trying new ideas. Diverse employees can be more creative in generating alternatives and more flexible in resolving issues. And getting input from diverse sources increases the likelihood that creative and unique solutions will be generated.

Even though diversity in decision making can be valuable, there are drawbacks. The lack of a common perspective usually means that more time is spent discussing the issues. Communication may be a problem particularly if language barriers are present. In addition, seeking out diverse opinions can make the decision-making process more complex, confusing, and ambiguous. And with multiple perspectives on the decision, it may be difficult to reach agreement or to agree on specific actions. Although these drawbacks are valid concerns, the value of diversity in decision making outweighs the potential disadvantages.

Now, about that decision on a major. Did you ask others for their opinions? Did you seek out advice from professors, family members or friends? Getting diverse perspectives on an important decision like this could help you make the best decision. Managers should also consider the value to be gained from diversity in decision making.

These four dimensions are collapsed into two styles. The first, the linear thinking style, is characterized by a person’s preference for using external data and facts and processing this information through rational, logical thinking to guide decisions and actions. The second, the nonlinear thinking style, is characterized by a preference for internal sources of information (feelings and intuition) and processing this information with internal insights, feelings, and hunches to guide decisions and actions. Look back at the earlier Nike example, and you will see both styles described.

Managers need to recognize that their employees may use different decision-making styles. Some employees may take their time weighing alternatives and relying on how they feel about it, while others may rely on external data before logically making a decision. This does not make one person’s approach better than the other. It just means that their decision-making styles are different. The “Managing Workforce Diversity” box addresses some of the issues associated with valuing diversity in decision making.

DECISION-MAKING BIASES AND ERRORS

When managers make decisions, they do not only use their own particular style: they may use “rules of thumb,” or heuristics, to simplify their decision making. Heuristics can be useful because they help make sense of complex, uncertain, and ambiguous information.24 Even though managers may use rules of thumb, that does not mean those rules are reliable. Why? Because they may lead to errors and biases in processing and evaluating information. Exhibit 6–9 identifies 12 common decision errors and biases that managers make. Let’s look at each.25

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they are exhibiting the overconfidence bias. The immediate gratification bias describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those that may provide payoffs in the future. The anchoring effect describes the situation when decision...
makers only focus on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later. When decision makers selectively organize and interpret events based on their biased perceptions, they are using the **selective perception bias**. This influences the information they pay attention to, the problems they identify, and the alternatives they develop. Decision makers who seek out information that reaffirms their past choices and discount information that contradicts past judgments exhibit the **confirmation bias**.

These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges these views. With the **framing bias**, decision makers select and highlight certain aspects of a

**Linear thinking style**
A decision style characterized by a person’s preference for using external data and facts and processing this information through rational, logical thinking.

**Nonlinear thinking style**
A decision style characterized by a person’s preference for internal sources of information and processing this information with internal insights, feelings, and hunches.

**Heuristics**
Rules of thumb that managers use to simplify decision making.

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JCDecaux, a leading outdoor advertising player, won a 10-year contract from the General Authority of Civil Aviation in Saudi Arabia to cover all 26 airports in the Kingdom. The decision to grant the contract to an advertising agency included many factors; the decision was not restricted only to the cost element, but also looked at the reputation, track record, professionalism, and degree of innovation of the companies involved. Decision makers typically have to choose from among a group of extremely qualified companies, which can make decisions very difficult.
situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points. The **availability bias** causes decision makers to tend to remember events that are the most recent and vivid in their memory. This bias distorts their ability to recall events in an objective manner and results in distorted judgments and probability estimates. When decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events, that is the **representation bias**. Managers exhibiting this bias draw analogies and see identical situations where they do not exist. The **randomness bias** occurs when decision makers try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance, even though random events happen to everyone, and there is nothing that can be done to predict them. With the **sunk costs error**, decision makers forget that current choices cannot correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they cannot forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors exhibit the **self-serving bias**. Finally, the **hindsight bias** is the tendency for decision makers to falsely believe, after that outcome is actually known, that they could have accurately predicted the outcome of an event.

Managers avoid the negative effects of these decision errors and biases by being aware of them and then not using them. Managers should also pay attention to how they make decisions and try to identify the heuristics they typically use and critically evaluate how appropriate those are. Finally, managers might want to ask those around them to help identify weaknesses in their decision-making style and try to improve on those weaknesses.

**OVERVIEW OF MANAGERIAL DECISION MAKING**

Exhibit 6–10 provides an overview of managerial decision making. Because it is in their best interests to do so, managers want to make good decisions – that is, choose the “best” alternative, implement it, and determine whether it takes care of the problem, which is the reason the decision was needed in the first place. Their decision-making process is affected by four factors: the decision-making approach, the type of problem, decision-making conditions, and their decision-making style. In addition,
certain decision-making errors and biases may affect the process. Each factor plays a role in determining how the manager makes a decision. So whether that decision involves addressing an employee’s habitual tardiness, resolving a product quality problem, or determining whether to enter a new market, remember that it has been shaped by a number of factors.

PRACTICES OF DECISION MAKING IN THE ARAB WORLD

People make decisions in all types of social encounters and contexts, and managers in business environments reflect aspects of their societies. The traditional Arab decision-making process has been impacted by several factors, two of which stand out. First, tribal, familial, or kin relations in different Arab societies have traditionally necessitated a system of networking and collective decision making where the leader or manager makes extensive consultations with other group members to arrive at a decision that has the support of the community. Second, the concept of Shura, or consultation in decision making, has been emphasized in Islamic teaching. Shura is not restricted to the political arena, rather it has – at least in theory – manifestations in other institutions such as the family and business organizations. Shura should not be a formality; it is a genuine involvement in decision making.

The extent to which Arab managers in the business arena are involved in consultation or Shura has been subjected to several investigations. Some studies on the decision-making processes of Arab managers have indicated the existence of several styles including the autocratic (no or very limited consultation), consultative (giving consideration to subordinates’ opinions), and participative (a group decision). Several studies, however, seem to show that the consultative style is more widespread than the autocratic style, reflecting the tribal nature of Arab society and a level of adherence to accepted religious practices. Other studies have found that pseudo-consultation may also be prevalent in some contexts (that is, the facade of consultation that lacks real authenticity).

QUICK LEARNING REVIEW:

LEARNING OUTCOME 6.4

Two decision maker’s styles are:

a. Well structured and unstructured
b. Certainty and uncertainty
c. Linear and nonlinear
d. Programmed and non-programmed

Consultation in decision-making practices in the Arab context is linked to the concept of:

a. Shura
b. Wasta
c. Mediation
d. None of the above

Go to page 155 to see how well you know this material.

LEARNING OUTCOME 6.5

Describe effective decision-making practices in today’s world

EFFECTIVE DECISION MAKING IN TODAY’S WORLD

Contrary to what some may think, running a family business is not always without challenges. Raja Easa Al Gurg, Managing Director of the Easa Saleh Al Gurg Group, indicates that “It is not easy at all to run a family business, let alone running one of the biggest companies in the Arab region. It takes lots of effort and follow-up”27. In running the group’s many businesses, many decisions are made – both programmed and nonprogrammed – and the fact that this is a group of several businesses makes it even more challenging.

Today’s business world revolves around making decisions, often risky ones, usually with incomplete or inadequate information, and under intense time pressure. Most managers make one decision after another; and as if that were not challenging enough, more is at stake than ever before. Bad decisions can cost millions. What do managers need to do to make effective decisions in today’s fast-moving world? Here are some guidelines:
• **Understand cultural differences.** Managers everywhere want to make good decisions. However, is there only one “best” way worldwide to make decisions? Or does the “best way depend on the values, beliefs, attitudes, and behavioral patterns of the people involved?”

• **Know when it is time to stop.** When it is evident that a decision is not working either because of internal problems in the decision or because of sudden or unexpected changes in the external environment, do not be afraid to change the decision. For instance, the founder and managing director of Kuwait’s Global Investment House announced in 2009 that some branches outside of Kuwait would be closed because of the global economic crisis: “It is not the time to have branches in 16 countries. We will try to reduce our operations. Some branches which in our view are not strategic today will be closed.” As discussed earlier, many decision makers block or distort negative information because they do not want to believe that their decision was a bad one. They become so attached to a decision that they refuse to recognize when it is time to move on. In today’s dynamic environment, this type of thinking simply will not work.

• **Use an effective decision-making process.** Experts say that an effective decision-making process has these six characteristics:
  1. It focuses on what is important.
  2. It is logical and consistent.
  3. It acknowledges both subjective and objective thinking and blends analytical with intuitive thinking.
  4. It requires only as much information and analysis as is necessary to resolve a particular dilemma.
  5. It encourages and guides the gathering of relevant information and informed opinion.
  6. It is straightforward, reliable, easy to use, and flexible.

• **Build an organization that can spot the unexpected and quickly adapt to the changed environment.** This suggestion comes from Karl Weick, an organizational psychologist, who has made a career of studying organizations and how people work. He calls such organizations *highly reliable organizations* (HROs) and says they share five habits:
  1. **They are not tricked by their success.** HROs are preoccupied with their failures. They are alert to the smallest deviations and react quickly to anything that does not fit with their expectations.
  2. **They defer to the experts on the front line.** Front-line workers – those who interact day in and day out with customers, products, suppliers, and so forth – have first-hand knowledge of what can and cannot be done, what will and will not work. Get their input. Let them make decisions.
  3. **They let unexpected circumstances provide the solution.** One of Weick’s best-known works is his study of the Mann Gulch wildfire in the U.S. state of Montana that killed 13 firefighters in 1949. The event was a massive, tragic organizational failure. However, the reaction of the foreman illustrates how effective decision makers respond to unexpected circumstances: when the fire was nearly on top of his men, he invented the escape fire – a small fire that consumed all the brush around the team, leaving an area where the larger fire could not burn. His action was contrary to everything firefighters are taught (that is, you do not start fires – you extinguish them), but at the time it was the best decision.
  4. **They embrace complexity.** Because business is complex, these organizations recognize that it “takes complexity to sense complexity.” Rather than simplifying data, which we instinctively try to do when faced with complexity, these organizations aim for deeper understanding of the situation. They ask “why” and keep asking why as they probe more deeply into the causes of the problem and possible solutions.
5. **They anticipate but also recognize their limits.** These organizations do try to anticipate as much as possible, but they recognize that they cannot anticipate everything. As Weick says, they do not “think, then act. They think by acting. By actually doing things, you will find out what works and what does not.”

Making decisions in today’s fast-moving world is not easy. Successful managers need good decision-making skills to plan, organize, lead, and control.

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**QUICK LEARNING REVIEW:**

**LEARNING OUTCOME 6.5**

A highly reliable organization:
- Embraces simplicity
- Embraces complexity
- Anticipates but doesn’t recognize limits
- Embraces neutrality

One characteristic of an effective decision-making process is that it:
- Only acknowledges subjective thinking and blends both analytical and intuitive approaches
- Only acknowledges objective thinking and blends both analytical and intuitive approaches
- Acknowledges both subjective and objective thinking
- Blends analytical approaches

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**LEARNING OUTCOMES SUMMARY**

6.1 Describe the eight steps in the decision-making process

6.2 Explain the three ways managers make decisions

6.3 Classify decisions and decision-making conditions

**THE DECISION-MAKING PROCESS**

A decision is a choice. The decision-making process consists of eight steps: (1) identify the problem, (2) identify decision criteria, (3) weight the criteria, (4) develop alternatives, (5) analyze alternatives, (6) select an alternative, (7) implement the alternative, and (8) evaluate decision effectiveness.

**MANAGERS MAKING DECISIONS**

The assumptions of rationality are as follows: the problem is clear and unambiguous; a single, well-defined goal is to be achieved; all alternatives and consequences are known; and the final choice will maximize the payoff. Bounded rationality says that managers make rational decisions but are bounded (limited) by their ability to process information. Decision makers satisfice when they accept solutions that are good enough. Escalation of commitment is when managers increase commitment to a decision even when they have evidence that it may have been a wrong decision. Intuitive decision making is making decisions on the basis of experience, feelings, and accumulated judgment.

**TYPES OF DECISIONS AND DECISION-MAKING CONDITIONS**

Programmed decisions are repetitive decisions that can be handled by a routine approach and are used when the problem being resolved is straightforward, familiar, and easily defined (structured). Nonprogrammed decisions are unique decisions that require a custom-made solution and are used when the problems are new or unusual (unstructured) and when the information for the problems is ambiguous or incomplete. Certainty is a situation in which a manager can make accurate decisions because all outcomes are known. Risk is a situation in which a manager can estimate the likelihood of certain outcomes. Uncertainty is a situation in which a manager is not certain about the outcomes and cannot even make reasonable probability estimates.
DECISION-MAKING STYLES

A person’s thinking style reflects two things: the source of information the person tends to use (external or internal) and how the person processes that information (linear or nonlinear). These four dimensions were collapsed into two styles. The linear thinking style is characterized by a person’s preference for using external data and processing this information through rational, logical thinking. The nonlinear thinking style is characterized by a preference for internal sources of information and processing this information with internal insights, feelings, and hunches. The 12 common decision-making errors and biases are overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias, and hindsight. The managerial decision-making model helps explain how the decision-making process is used to choose the best alternative(s) either through maximizing or satisficing and then implement and evaluate the decision. It also helps explain what factors affect the decision-making process, including the decision-making approach (rationality, bounded rationality, intuition), the types of problems and decisions (structured and programmed or unstructured and nonprogrammed), the decision-making conditions (certainty, risk, uncertainty), and the decision maker’s style (linear or nonlinear). Arab managers are impacted by the collective nature of their societies and they tend to use the consultative style when making decisions.

EFFECTIVE DECISION MAKING IN TODAY’S WORLD

Managers can make effective decisions by understanding cultural differences in decision making, knowing when it is time to call it quits, using an effective decision-making process, and building an organization that can spot the unexpected and quickly adapt to the changed environment. The six characteristics of an effective decision-making process are (1) focuses on what is important, (2) is logical and consistent, (3) acknowledges both subjective and objective thinking and blends both analytical and intuitive approaches, (4) requires only “enough” information to resolve a problem, (5) encourages and guides gathering relevant information and informed opinions, and (6) is straightforward, reliable, easy to use, and flexible. The five habits of highly reliable organizations are (1) not being tricked by their successes, (2) deferring to experts on the front line, (3) letting unexpected circumstances provide a solution, (4) embracing complexity, and (5) anticipating but also recognizing limits.

THINKING ABOUT MANAGEMENT ISSUES

1. Why is decision making often described as the essence of a manager’s job?
2. How might an organization’s culture influence the way managers make decisions?
3. All of us bring biases to the decisions we make. What would be the drawbacks of having biases? Could there be any advantages to having biases? Explain. What are the implications for managerial decision making?
4. Would you call yourself a linear or nonlinear thinker? What are the implications for choosing the type of organization where you want to work?
5. “As managers use computers and software tools more often, they will be able to make more rational decisions.” Do you agree or disagree with this statement? Why?
6. How can managers blend the guidelines for making effective decisions in today’s world with the rationality and bounded rationality models of decision making? Or can managers not do this? Explain.
7. Is there a difference between wrong decisions and bad decisions? Why do good managers sometimes make wrong decisions? Bad decisions? How can managers improve their decision-making skills?
Developing Your Creativity Skill

About the Skill
Creativity is a frame of mind. You need to open your mind to new ideas. Every individual has the ability to be creative, but many people simply don’t try to develop that ability. In contemporary organizations, such people may have difficulty achieving success. Dynamic environments and managerial chaos require that managers look for new and innovative ways to attain their goals as well as those of the organization.

Steps in Practicing the Skill
1. **Think of yourself as creative.** Although it’s a simple suggestion, research shows that if you think you can’t be creative, you won’t be. Believing in yourself is the first step in becoming more creative.
2. **Pay attention to your intuition.** Every individual’s subconscious mind works well. Sometimes answers come to you when least expected. For example, when you are about to go to sleep, your relaxed mind sometimes whispers a solution to a problem you’re facing. Listen to that voice. In fact, most creative people keep a notepad near their bed and write down those great ideas when they occur. That way, they don’t forget them.
3. **Move away from your comfort zone.** Every individual has a comfort zone in which certainty exists. But creativity and certainty often do not mix. To be creative, you need to move away from the status quo and focus your mind on something new.
4. **Engage in activities that put you outside your comfort zone.** You not only must think differently; you need to do things differently and thus challenge yourself. Learning to play a musical instrument or learning a foreign language, for example, opens your mind to a new challenge.
5. **Seek a change of scenery.** People are often creatures of habit. Creative people force themselves out of their habits by changing their scenery, which may mean going into a quiet and serene area where you can be alone with your thoughts.
6. **Find several right answers.** In the discussion of bounded rationality, we said that people seek solutions that are good enough. Being creative means continuing to look for other solutions even when you think you have solved the problem. A better, more creative solution just might be found.
7. **Challenge your own ideas.** Challenging yourself to defend your solutions helps you to develop confidence in your creative efforts. Second-guessing yourself may also help you find more creative solutions.
8. **Believe in finding a workable solution.** Like believing in yourself, you also need to believe in your ideas. If you don’t think you can find a solution, you probably won’t.
9. **Brainstorm with others.** Being creative is not a solitary activity. Bouncing ideas off others creates a synergistic effect.
10. **Turn creative ideas into action.** Coming up with ideas is only half the process. Once the ideas are generated, they must be implemented. Keeping great ideas in your mind or on paper that no one will read does little to expand your creative abilities.

Practicing the Skill
How many words can you make using the letters in the word brainstorm? There are at least 95.

YOUR TURN TO BE A MANAGER

- For one week, pay close attention to the decisions you make and how you make them. Write a description of five of those decisions, using the steps in the decision-making process as your guide. Also, describe whether you relied on external or internal sources of information to help you make each decision and whether you think you were more linear or nonlinear in how you processed that information.
- When you feel you have not made a good decision, assess how you could have made a better decision.
• Find two examples each of procedures, rules, and policies. Bring your examples to class and be prepared to share them.
• Write a procedure, a rule, and a policy for your instructor to use in your class. Be sure that each one is clear and understandable. And be sure to explain how it fits the characteristics of being a procedure, a rule, or a policy.
• Find three examples of managerial decisions described in any of the popular business periodicals (Wall Street Journal, BusinessWeek, Fortune, etc.). Write a paper describing each decision and any related information, such as what led to the decision, what happened as a result of the decision, etc. What did you learn about decision making from these examples?
• Interview two managers and ask them for suggestions on what it takes to be a good decision maker. Write down their suggestions and be prepared to present them in class.
• Do a web search on the phrase “101 dumbest moments in business.” Get the most current version of this end-of-year list. Choose three of the examples and describe what happened. What is your reaction to each example? How could the managers have made better decisions?
• In your own words, write down three things you learned in this chapter about being a good manager.

CASE APPLICATION

Tough Decisions in Tough Times
During the financial crisis of 2008, Raja Al Gurg faced the toughest of decisions as managing director of Al Gurg Group (UAE). The Group had more than $275 million invested in the real estate sector when the financial crisis hit. Many companies in the Gulf stopped operations, projects were cancelled or postponed, and thousands of people lost their jobs. Al Gurg faced a difficult decision: Should operations be halted, or should they continue until the economic situation improved? She consulted her father, a well experienced and seasoned businessman who advised her to take the decision of keeping work as planned with their real estate projects. “My father surprised me when he said that we should complete all the projects that were under construction, because neither contractors nor workers were to be blamed for the current situation.” The father advised his daughter to finish all existing projects and then lease them even below normal market price. Al Gurg is proud to say that: “we are among the companies that preserved their values and did not lose during the crisis”.

This is just one example of the tough decisions that managers sometimes have to make. When Raja Al Gurg moved into her family business, this did not come without challenges. She had to prove herself and to demonstrate that a woman running an Arab company can be very effective and take all the necessary decisions, including the toughest ones.

Discussion Questions
1. Would you characterize the decision to halt all projects or complete them as structured or unstructured?
2. What lessons can one deduce from the decision that Raja Al Gurg took in this case?
3. Do you think that in consulting with her father, Raja Al Gurg is showing signs of proper decision-making, or is she showing signs of dependency and lack of autonomy?
4. Do you believe females in the Arab world have to work harder – compared to males – to prove that they can make tough business decisions?

ANSWERS TO

QUICK LEARNING REVIEW

LEARNING OUTCOME 6.1  LEARNING OUTCOME 6.4
b, b  c, a

LEARNING OUTCOME 6.2  LEARNING OUTCOME 6.5
d, c  b, c

LEARNING OUTCOME 6.3
a, b