Decision Making

Stephen P. Fitzgerald

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- Covers the key areas of decision making, from decision support systems and global templates to contemplation and implementation
- Examples and lessons from some of the world's most successful businesses, including Coca Cola and Pepsi Cola, The Valio Group, Best Buy and Scandic Hotels, and ideas from the smartest thinkers, including Mary Altomare, Mike Aristedes, David L. Cooperrider, Andre L. Delbecq, J. D. Eveland, Brian Hsieh, Don Mankin, Paul Nutt, Daniel Power and Morris Raker
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To my dad, now lost to Alzheimer's, for being such an all around great decision-maker.

Introduction

Given the decades of research on decision making and its vital importance to business, why do so many key managerial decisions fail? Recent research is presented that sheds light on answers to that question. The central role of decision making in management and the forces that are shaping it in the new millennium are also discussed.

If you're a business manager, executive, or leader at any level, you're doing it. You're doing it all day, every day – and all-too-frequently all night in this increasingly non-stop global marketplace. It's what you get paid the big bucks for (or not). In fact, it's widely considered to be *the primary function* that distinguishes management from non-management (at least within more traditional organizational settings in which that distinction still exists). ''It'' is making business decisions.

Making business decisions is the bread and butter of everyday organizational management. It ranks alongside leadership as one of the core topics of vital, perennial interest to business. In fact, it is so crucial to human endeavor that an entire scientific discipline is devoted to studying and improving decision-making processes. Legions of management thinkers, tinkerers, and sorcerers draw upon the fruits of that and other relevant research (to a greater or lesser extent), combine it with healthy doses of practical wisdom, skepticism, and sleight-of-hand, and presto! They transform it all into a wild and ever-escalating cacophony of decision-making theories, models, processes, tools, techniques, and approaches.

For example, a quick search for ''decision making'' on Amazon.com yields a whopping 6681 books – with 1126 of those categorized under business and investing, 1362 under professional and technical, and 761 under non-fiction, and those numbers continue to escalate. The books cover all sectors (private, public, and non-profit). They range from classic texts that mine ancient wisdom about purportedly related topics like Sun Tzu's *The Art of War*[1] (no less than 49 different versions and derivatives of this book are available), to primers on various facets of decision making and analysis,[2] to current treatises on critical issues like business and the environment.[3] Add to that at least 734 articles on business decision making that have been published since 1986 (with 170 of those appearing since 1999) according to a search on Proquest, and 12,300 Web page matches on a Yahoo.com search that only begins to touch upon the number of consultants, courses, and other resources on business decision making that are available.

This cornucopia of decision-making guidance and ''support'' can obviously overwhelm the unsuspecting manager. It can lead to decisional gridlock. What's needed is a book, tool, or technique to help us wade through these mountains of models, tools, techniques, and approaches, and to help us decide which to rely on – if any. Unfortunately such an analysis is impractical if not impossible, and certainly beyond the scope of this brief volume.

The bounty of resources on decision making reflects its central importance to the field of management. Curiously, while management is eternal and all-embracing, debates continue to rage (typically among academics, not among managers) as to what does and should actually constitute management. The host of definitions now available cannot cloud the central fact that management is about decision making. ''Decisions are the essence of management,'' says Des Dearlove, author of *The Ultimate Book of Business Thinking: Harnessing the Power of the World's Greatest Business Ideas*.[4] ''Management without decision making is a vacuum. Of course, that does not mean that every decision a manager makes is important or that they always make the right decisions. The vast majority of decisions made by managers are completely unimportant. And often the decisions they make are the wrong ones.''[5]

Wrong or right, an astonishing 50% of senior management decisions fail, according to a 1999 study of 356 highly diverse, actual decisions made in medium to large private, public, and non-profit organizations throughout the US and Canada.[6] The researcher, Ohio State Professor Paul Nutt, has been studying managerial decision making for twenty years. He finds that ''managers often jump to conclusions and then try to implement the solution they reached. The bias for action causes them to limit their search, consider too few alternatives, and pay too little attention to people who are affected, not realizing that decisions fail for just these reasons.'' Nutt identifies several underlying reasons for decision failure.

1 As time pressures intensify (a key mantra in business today, and a by-product of globalization and technological innovation), managers take ''time-saving'' shortcuts, like quickly attempting to copy the best practice of a respected company. Unfortunately, such ''time-savers'' often lead to unexpected, costly complications – including decision failure.
2 Instead of communicating the criteria for desired solutions to their subordinates and liberating them to generate creative alternatives, managers tend to rely on problem-solving approaches, not realizing

that those approaches only generate defensiveness and blaming behavior among subordinates.

3 Managers fail to use the most successful approaches to setting the direction for a decision-making process because they ''are drawn to power and shy away from ambiguity and uncertainty.''
4 Although managers are commonly aware of some higher quality approaches to decision making like participation, they tend to resort to more ineffective approaches like issuing edicts. For example, participation was used in just 1 out of 5 of the 356 significant decisions included in the study. Yet 73% of decisions made with participation were fully implemented, and 80% of those decisions continued to be sustained after two years, as opposed to a mere 35% and 53% for decisions made by edict, and 47% and 56% for decisions made via persuasion. Unfortunately, the latter two methods were employed 75% of the time.

Think about those numbers for a minute. Edict and persuasion – the approaches to implementing decisions favored by 3 out of 4 senior managers in a highly diverse sample of organizations and types of decisions – failed in 65% and 53% of those decisions, respectively. These failure rates are even more shocking when considered in light of the plethora of resources on effective decision making described above.

Ultimately, the costs associated with such high failure rates are staggering. Surely with all of the decision-making research, models, tools, and techniques available, we should be able to do *better* – not worse – than a simple coin flip, shouldn't we? As Paul Nutt notes, *there are demonstrably better ways to make decisions*. However, we must have the courage to step out of our comfort zones and try something different – and significantly more effective. Managers have some important decisions to make about how they make decisions.

Those choices will become increasingly critical as the constellation of factors affecting business decisions continues to broaden, deepen, and intensify. Those factors include the usual suspects:

» continually accelerating pace of change;
» relentless technological innovation, including e-commerce;
» rapid transformation to an information-based, knowledge economy;

» escalating demand for and shortage of knowledge workers;
» demands to globalize, localize, diversify, and right-size – often simultaneously; and
» constantly shifting markets, organizational structures and boundaries.

If edicts didn't work very well in the old economy, think about trying to implement a decision by decree in a virtual network organization. Think about trying to make the decision alone – quickly and effectively – based on the information you have in your head. Business decisions in the twenty-first century demand instant access to extensive, relevant, high-quality data – anywhere, anytime. They increasingly require respectful collaboration with diverse others, a facilitative leadership style, and equanimity in the midst of turmoil. And as the need for collaboration escalates, it's important to be able to understand and work effectively with others' decision styles, as well as to choose and shape yours appropriately.

This book is designed to stimulate thinking regarding the intricacies of effective decision making. We'll begin with a very brief overview of some of the basic ideas and theories associated with business decision making, and a quick look at its evolution. We'll then explore the implications of e-commerce, globalization, and leading-edge thinking and practice in making business decisions. Three success stories from highly complex business environments are then discussed, followed by a glossary, and links to a wide variety of Web-based resources. We'll conclude by considering ten steps to help heighten the effectiveness of your business decision making. Each chapter can stand alone, and chapters may be taken out of sequence and at random, to suit your particular interests and needs.

If ever in doubt, you might just try flipping a coin, as you are likely to beat the prevailing track record of senior decision-makers. Otherwise, read on – but save that coin as a backup.

NOTES

1 See, for example, Sun Tzu (1988) *The Art of Strategy: A New Translation of Sun Tzu's Classic, the Art of War*, Wing, R.L. (trans). Doubleday, New York.
2 See, for example, Sinner, D. (1999) *Introduction to Decision Analysis*, 2nd edn. Probabilistic Publishing, New York

3 See, for example, Gordon, P. (2001) *Lean and Green: Profit for Your Workplace and the Environment*. Berrett-Koehler, San Francisco, CA.
4 Dearlove, D. (2001) *The Ultimate Book of Business Thinking: Harnessing the Power of the World's Greatest Business Ideas*. Capstone Publishing, Oxford.
5 Author interview.
6 Nutt, P. (1999) ''Surprising but true: Half the decisions in organizations fail.'' *Academy of Management Executive*, **13**(4).

Definition of Terms: What is Decision Making?

All managerial decisions are not alike. They differ significantly in their nature, scope, and potential impact. Decision making and related terms are defined, and several of the key conceptual models of decision making are briefly discussed.

» Defining decision making
» Nature, scope, and types of managerial decisions
» Decision scope and allocation of resources
» Models of decision making
» Key learning points

> "The essence of ultimate decision-making remains impenetrable to the observer – often indeed, to the decider himself . . . There will always be the dark and tangled stretches in the decision-making process – mysterious even to those who may be most intimately involved."
>
> *John F. Kennedy*[1]

All decisions are not alike. Distinguishing the nature of a decision – prior to launching into one's favored decision-making approach or deciding whether to try a new one – may facilitate the process of deciding and implementing. It can aid in identifying stakeholders that should optimally have input into the process and/or be informed of its progress and outcomes. It can help define the scope of the decision, and the context which gives rise to the decision opportunity.

In this chapter we will:

» define managerial decision making;
» gain an understanding of the nature and types of decisions that managers make;
» explore the concept of decision scope and its implications for the level of resources (information, people, time, money, technology) that may be called for in decision situations;
» compare several basic models of decision making; and
» contrast individual and group decision making.

The intent is to provide the reader with an overview of basic ideas related to managerial decision making as a resource for enhancing the quality and effectiveness of his or her business decisions.

DEFINING DECISION MAKING

Making a decision involves a choice among alternatives. A managerial decision typically commits organizational resources to a course of action in order to accomplish something that the organization (and/or the manager) desires and values.

A decision is the point at which a choice is made between alternative – and usually competing – options. As such, it may be seen as a stepping-off point – the moment at which a commitment is made to one course of action to the exclusion of others. In practice, it is the commitment made to a particular course of action that imbues a decision with significance.

It is no coincidence that the word decision actually means "to cut," or as Helga Drummond says in her book *Effective Decision-Making*,[2] "to resolve upon a specific choice or course of action." Drummond makes an important distinction between a decision *per se*, and the decision-making process. The decision, she suggests, is the final outcome of the process, but the decision-making process involves "events leading up to the moment of choice and beyond." This is a valid point. However, as with so many processes which take place in the human brain, it is difficult – if not impossible – to entirely separate cause from effect. In addition, simply making a decision does not guarantee its successful implementation, as any experienced manager can attest.

Thus making business decisions involves processes that precede the actual decision, including gathering information and generating, contemplating, and evaluating alternative courses of action, as well as processes of implementation and evaluation that should follow a decision once made. Improving the quality of business decisions, therefore, involves a spectrum of processes that must be taken into account.

NATURE, SCOPE, AND TYPES OF MANAGERIAL DECISIONS

Virtually all decisions we make are managerial in nature. Decisions usually concern people (human resources); money (budgeting); buying and selling (marketing); how to do things (operations); or how to do things in the future (strategy and planning). These may be more broadly classified into two generic types of decisions.

» *Routine*: Decisions that need to be made on a recurring basis. Organizations may develop and implement systems to support managers in handling such repetitive decision situations.
» *Non-routine*: Unique, random, non-recurring decision situations. Such non-routine decisions typically have strategic implications for the organization.

The routine/non-routine categorization is similar – but not identical – to another common way of classifying business decisions as being either operational or strategic in nature.

» *Operational decisions* are concerned with the day-to-day running of the business. While operational decisions have a greater tendency to fall into the routine category, not all do. Examples of operational decisions might include setting production levels, deciding to recruit additional employees, or deciding whether to close a particular factory.
» *Strategic decisions* are those concerned with organizational policy and direction over a longer time period. So a strategic decision might involve determining whether to enter a new market, acquire a competitor, or exit from an industry altogether.

Interestingly, Madan G. Singh, chair of information engineering at Manchester University's Institute of Science and Technology and an acknowledged expert on decision making, prefers an alternative breakdown of decision levels, which recognizes some of the changes taking place within companies.[3] He divides the decision-makers in an organization into three levels of decisions.

» *Day-to-day decisions* are those made by front-line staff. Collectively, they make thousands of decisions daily, most of them in a short timeframe and on the basis of concrete information – answering a customer's request for information about a product, for example. Their decisions usually have a narrow scope and influence a small range of activities.
» *Tactical decisions* cover a few weeks to a few months, and include decisions such as the pricing of goods and services, and deciding advertising and marketing expenditures.
» *Strategic decisions* are those with the longest time horizon – one to five years or longer. They generally concern expanding or contracting the business, or entering new geographic or product markets.

Tactical and strategic decisions not only have longer-term implications, the data needed to make them are much broader, extending outside the organization, and the information derived from that data is less precise, less current, and subject to more error. This classification is based upon the relative scope of decisions.

Decision scope

Decision scope may be thought of as the extent of the potential impact of a decision. For example, the consequences of a particular decision may affect one person or millions, one pound/dollar or millions, one product/service or an entire market, one day or 10 years, and so on, depending upon the nature of that decision. Decisions with the broadest scope are typically made by those in the top echelons of an organization, although forward thinking organizations are increasingly involving all levels of personnel in broad-scope decision processes in order to ensure that important data is not overlooked, and to facilitate implementation of the decision once it has been made.

Exactly what constitutes a broad-scope decision will depend upon the size and nature of the business. For example, for a small firm an investment of £10,000 might be a big decision, while for a multinational it would barely be a drop in the ocean. (On the other hand, the same investment may represent a big decision for a very junior manager even though its impact on the organization is limited to his or her immediate career prospects.) Thus decision scope is relative, not absolute. It depends entirely upon the context within which the decision is being made, and the characteristics of the person(s) making the decision. The general principle holds, however, that some decisions are of a greater magnitude or scope than others.

Decision scope and allocation of resources

Understanding the scope of a decision can aid in determining the resources (e.g. people, information, time, money, technology) that should be allocated to it. For example, it makes no sense to devote a lot of resources to a decision with a very narrow scope – *unless* it happens to be the sort of routine, narrow-scope decision that is made by hundreds or thousands of personnel on a frequent basis. In that case, investment in technical support systems and training to provide ready access to information that those decision-makers need to have on hand is essential. But a decision that potentially impacts hundreds or thousands of narrow-scope decisions is in fact a non-routine decision of relatively broad scope. Thus it is essential to clarify the nature and scope of the decision situation in order to develop appropriate solutions and resource commitments.

MODELS OF DECISION MAKING

Models are conceptualizations intended to represent complex phenomena, and to assist us in understanding those phenomena. By their very nature models are gross simplifications. They may be descriptive (this is how decisions are made in the real world), predictive/prescriptive (following this model will increase the likelihood of making a ''successful'' decision), and/or normative (there is one best way to make decisions). Models typically exclude as much as they include, therefore every model should be viewed with a healthy dose of skepticism.

Once a model becomes popular, it influences the way that we perceive things, and in some ways models may actually shape our experience of organizational ''reality.'' Thus they are not mere representations. They can have a significant impact on the way managers think and act. Beware the seemingly innocuous model!

Rational model

The most pervasive and influential (for better or worse) model of decision making is the rational approach that consists of a logical sequence of five steps (depending on who's counting).

1 Clearly identify the problem. A ''problem'' may be defined as a perceived gap between the current and desired reality, hence ''gap analysis'' as a standard approach to problem identification.
2 Generate potential solutions. For routine decisions, various alternatives may be fairly easily identified through pre-specified decision rules, but non-routine decisions require a creative process to come up with novel alternatives.
3 Using appropriate analytic approaches, choose a solution from among the available alternatives, preferably the one with the greatest expected value. In decision theory this is called maximizing the ''expected utility'' of the results.

4 Implement the solution. Managers frequently undermine implementation by not ensuring that those responsible for the implementation fully understand and accept what they need to do, and that they have the motivation and resources needed to do it successfully.[4]
5 Evaluate the effectiveness of the implemented decision.

Embedded within the rational model is the belief that managers actually *optimize* their decision-making behaviors by deliberately choosing and implementing the best alternatives.[5] But the belief in the ability to optimize is based on a host of dubious assumptions, including that:

» it is possible to know in advance all of the possible alternative solutions and the specific results that will flow from each of them;
» there is in fact an optimal solution, and that solution is included among the alternatives that have been identified;
» it is possible to accurately, numerically weight the various alternatives, the probabilities of their outcomes, and the relative desirability of those alternatives and outcomes;
» decision-makers always act rationally, and therefore decision making is free of emotion, prejudice, and politics; and
» business decisions are entirely driven by the desire to maximize profits.

The rational model is normative in that it sets forth a logical sequence of steps to be followed religiously in every decision situation. It is built on the foundations set down by economists in the early industrial period. They believed that under a given set of circumstances human behavior is logical and therefore predictable. Based on this premise, they built models to explain the workings of commerce, which they believed could be extended to the way in which decisions were made.

Simon's normative model

Nearly a quarter century ago, in 1978, decision theorist Herbert Simon won the Nobel Prize for his groundbreaking theoretical work on decision making. In Simon's view ''the assumptions of perfect rationality are contrary to fact. It is not a question of approximation; they do not even remotely describe the processes that human beings use for making decisions in complex situations.''[6] Simon proposed that decision making is constrained by managers' limited ability to process information (which he called ''bounded rationality'') and their use of shortcuts and rules of thumb based on prior experience with problems that seem similar to the current situation. Given these constraints, in real life managers don't actually optimize as much as they '' *satisfice*,'' that is, they choose a solution that is just good enough to solve the problem and get on with it. It's a satisfactory solution, not necessarily the best or optimal solution (if there even is such a thing). This is a descriptive model in that it attempts to illustrate how managers actually make decisions in the ''real world.''

Garbage Can model

This is the name given to a pattern of decision making in organizations first identified by the American Professor of Management James March.[7] It is a descriptive model in which organizational ''participants'' generate a constant stream of problems and solutions when faced with a decision or ''choice opportunity.'' These streams – participants, problems, solutions, and choice opportunities – are metaphorically ''dumped'' into an organizational ''garbage can,'' the four streams interact at random, and only a very small percentage of the solutions generated are ever incorporated in the final decision.

The Garbage Can model also implies that participants seize upon problems as opportunities to implement their favorite solutions, which in turn are based on their experience and personal style. Thus another way to view this model is to see organizations as sets of competing solutions – each favored by different participants – waiting for problems to arise. Decisions may then be regarded as what happens when a set of problems, solutions, and choices come together – or collide – at a particular juncture. In a sense, the final decision is no more than the by-product of the alchemy that take place within the organizational ''garbage can.''

Thinking, seeing, and doing

In spite of Herbert Simon's decades-old Nobel Prize-winning observations on the limitations of rational decision making, the rational