

## CHAPTER 13

# **DECISION MAKING PROCESSES**

# Definitions

- **Organizational decision making** is defined as the process of identifying and solving problems. It has two major stages:
  - Problem identification stage.
  - Problem solution stage.
- **Programmed decisions**
  - Repetitive and well defined.
  - Clear procedures exist for the problem.
- **Nonprogrammed decisions**
  - Novel and poorly defined.
  - Uncertainty is great and decisions are complex.
  - Involve strategic planning.
  - *Wicked problem.*

# Decision Making in Today' s Environment

# Individual Decision Making

- Two ways to describe individual decision making by managers – ***rational approach*** and ***bounded rationality perspective***.
- **Rational approach**
  - Suggests how managers should make decisions.
  - Stresses the need for systematic analysis of a problem followed by choice and implementation in a logical sequence.
  - An ideal method, though not fully achievable in the changing environment.
  - 8 steps in the rational approach to decision making.

# Steps in the Rational Approach

# Bounded Rationality Perspective

- ***Bounded rationality perspective*** describes how decisions are made under severe time and resource constraints.
- There is a limit to how rational managers can be
  - time and resource constraints.
- ***Constraints and tradeoffs***
  - Constraints impinge the decision maker.
- ***The role of intuition***
  - Experience and judgment rather than logic.
  - Not simply 'gut feeling'.

# Constraints and Trade-offs During Non-programmed Decision-Making

# Organizational Decision Making

- Organizational decision making processes are influenced by a number of factors:
  - Internal structure.
  - Degree of stability or instability of the external environment.
- Four types of organizational decision making process:
  - The ***management science approach***
  - The ***Carnegie model***
  - The ***incremental decision process model***
  - The ***garbage can model***



# Management Science Approach

- The **management science approach** to organizational decision making is the analogue to the rational approach by individual managers.
- Use of statistics to identify relevant variables.
- Removes human element.
- Very successful for military problems.
- Good tool for decisions where variables can be identified and measured.
- A drawback of management science is that quantitative data is not rich and lacks tacit knowledge.

# Carnegie Model

- The **Carnegie model** suggests that organizational-level decisions involve many managers and that a final choice is based on a coalition among those managers.
- A **coalition** is an alliance among several managers who agree about organizational goals and problem priorities.
- Implication of the process of coalition on organizational decision behaviour:
  - Decision are made to **satisfice** rather than to optimize problem solutions.
  - **Problematic search**: Managers are concerned with immediate problems and short-run solutions.

# Carnegie Model

# Incremental Decision Process Model

- The **incremental decision process model** focuses on structured sequence of activities from discovery to solution.
- It places less emphasis on the political and social factors described in the Carnegie model.
- Large decisions are a collection of small choices.
- Three major decision making phases:
  - **Identification phase**: 2 steps – recognition and diagnosis.
  - **Development phase**: 2 steps – search and design.
  - **Selection phase**: 3 steps – judgment, bargaining and authorization.
- **Dynamic factors** – these are decision interrupts.

# Incremental Decision Process Model

# The Learning Organization

- Many organizations are marked by a tremendous amount of uncertainty at both the problem identification and problem solution stages.
- Two approaches to cope with the uncertainty and complexity
  - Combine the ***Carnegie*** and ***incremental process models***.
  - The ***garbage can model***.

# Combining the Incremental Process and Carnegie Models

- Best when problem identification and problem solution are uncertain.

# Garbage Can Model

- This model deals with the pattern or flow of **multiple decisions** within organizations.
- It explains decision making in high uncertainty.
- **Organized anarchy** – three characteristics:
  - Problematic preferences.
  - Unclear, poorly understood technology.
  - Turnover.
- **Streams of events** instead of defined problems and solutions.
  - Problems.
  - Potential solutions.
  - Participants.
  - Choice opportunities.



# Garbage Can Model

- **Four specific consequences:**
  - Solutions may be proposed even when problems do not exist.
  - Choices are made without solving problems.
  - Problems may persist without being solved.
  - A few problems are solved.
- It is probably inevitable in the exceptionally complex global environment.

# Illustration of Independent Streams of Events in the Garbage Can Model of Decision-Making

# Contingency Decision-Making Framework

- The choice of an approach is contingent on the organization setting. Two characteristics determine the use of approaches:
- **Problem consensus**
  - It refers to the agreement about the nature of a problem or opportunity and about which goals/outcomes to pursue.
  - It tends to be low when organizations are differentiated.
  - Particularly important for the problem identification stage.
- **Technical knowledge about solutions**
  - Technical knowledge refers to understanding and agreement about how to solve problems and reach organizational goals.

# Contingency Decision-Making Framework

# Special Decision Circumstances

- In **high-velocity environments**, organizations need to:
  - Track information in real time.
  - Act fast and build multiple alternatives.
  - Seek advice from everyone and depend on trusted people.
  - Aim for consentient decisions.
  - Integrate decisions within the overall strategic direction.
- **Decision mistakes and learning**
  - Each failure provides new information and insight.
- **Escalating commitment** – Two possible explanations are:
  - Managers trying to avoid responsibility by blocking or distorting negative information.
  - Consistency and persistence are valued.