Individual Decision Making

Individuals in organizations make **decisions** , choices from among two or more alternatives.

Top managers determine their organization's goals, what products or services to offer, how best to finance operations, or where to locate a new manufacturing plant.

Middle- and lower-level managers set production schedules, select new employees, and decide how to allocate pay raises.

Every decision requires us to interpret and evaluate information.

Decision Making in Organizations

How Decision are Making?

- **The Rational Model**
- **Bounded Rationality**
- **Intuition**

When making decision, people usually make errors and we must take this into account.

The Rational Model

The rational decision-making model relies on a number of assumptions, including that the decision maker has complete information

These decisions follow a **six-step rational decision-making model**

1. Define the problem.
2. Identify the decision criteria.
3. Allocate weights to the criteria.
4. Develop the alternatives.
5. Evaluate the alternatives.
6. Select the best alternative.

Bounded Rationality

- Many problems don't have an optimal solution because they are too complicated to fit the rational decision-making model.

   Because the human mind cannot formulate and solve complex problems with full rationality, we operate within the confines of **bounded rationality** .

    We identify choices that are easy to find and highly visible and that usually represent familiar criteria and tried- and true solutions.

Our solution usually represents a satisficing choice—the first *acceptable* one we encounter—rather than an optimal one.

Intuition

- **Intuition often plays important role in decision making**

    It's fast; and it's affectively charged, meaning it usually engages the emotions.

But sometimes it is very useful:

- When "facts" are limited
- When a high level of uncertainty exist
- When variables are less scientifically predictable
- When analytical data are of little use
- When time is limited

Common Biases and Errors in Decision Making

- **Overconfidence Bias –** makes us think we know more than we actually do.
- The **anchoring bias** is a tendency to fixate on initial information and fail to adequately adjust for subsequent information. Usually people emphasize the first receiving information.
- **Confirmation Bias -** represents a specific case of selective perception: we seek out information that reaffirms our past choices, and we discount information that contradicts them.
- **Availability Bias -** is our tendency to base judgments on information readily available. (Events that evoke emotions, are particularly vivid, or are more recent tend to be more available in our memory, leading us to overestimate the chances of unlikely events such as an airplane crash).

Common Biases and Errors in Decision Making
(continuation)

- **Representative bias –** tendency to asses the likelihood of an event relying on the previous information (preexisting category)
- **Escalation of Commitment -** refers to staying with a decision even when there is clear evidence it's wrong
- **Randomness Error -** Our tendency to believe we can predict the outcome of random events (when we try to create meaning in random events)
- The **hindsight bias** is the tendency to believe falsely, after the outcome is known, that we'd have accurately predicted it.
- **Risk aversion -** the tendency to prefer a sure gain of a moderate amount over a riskier outcome, even if the riskier outcome might have a higher expected payoff.

Reducing Biases and Errors

- **Focus on Goals.** Clear goals make decision making easier and help you eliminate options that are inconsistent with your interests.

- **Look for Information That Disconfirms Your Beliefs.** One of the most effective means for counteracting overconfidence and the confirmation and hindsight biases is to actively look for information that contradicts your beliefs and assumptions. When we overtly consider various ways we could be wrong, we challenge our tendencies to think we're smarter than we actually are.

- **Don't Try to Create Meaning out of Random Events.** The educated mind has been trained to look for cause-and-effect relationships. When something happens, we ask why. And when we can't find reasons, we often invent them. You have to accept that there are events in life that are outside your control. Ask yourself if patterns can be meaningfully explained or whether they are merely coincidence. Don't attempt to create meaning out of coincidence.

- **Increase Your Options.** No matter how many options you've identified, your final choice can be no better than the best of the option set you've selected. This argues for increasing your decision alternatives and for using creativity in developing a wide range of diverse choices. The more alternatives you can generate, and the more diverse those alternatives, the greater your chance of finding an outstanding one.

Influences on Decision Making: Individual Differences and Organizational Constraints

Creativity in Decision Making

Creativity - the ability to produce novel and useful ideas.

Three-Component Model of Creativity proposes that individual creativity essentially requires:

- expertise,

- creative thinking skills,

- intrinsic task motivation.

Studies confirm that the higher the level of each, the higher the creativity.