CHAPTER 4

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Decision Making

CHOOSING WISELY

Chapter Outline

LESSON 1

Improving Your Decision Making

LESSON 2

Decisions That Are Important, but Not Urgent

"It's not hard to make decisions when you know what your values are."

Roy Disney

LESSON 1

Improving Your Decision Making

Quick Write

Why was it important for President Kennedy to consider several options before deciding what action to take?

Learn About

- the six steps of the decision-making process
- the difference between rational and intuitive decision making
- making decisions through bounded rationality

AS PRESIDENT JOHN F. KENNEDY looked at the photos in October 1962, the evidence was clear. The Soviet Union was installing nuclear missiles in Cuba—an island in the Caribbean Sea only 90 miles from Key West, Florida. That wasn't the only threat—aerial surveillance photos showed Soviet IL-28 bombers as well.

The president called his closest advisors together to consider what to do. Some of them—including the Joint Chiefs of Staff—favored an air strike to destroy the missiles, followed by an invasion of Cuba. Others proposed issuing a stern warning to both Cuba and the Soviet Union. The president chose a middle course.

President John F. Kennedy signs the proclamation setting up a naval quarantine of Cuba, 23 October 1962.

Cecil Stoughton, White House photographer/John F. Kennedy Presidential Library and Museum

On 22 October 1962, he ordered a naval "quarantine" of Cuba. All ships going to Cuba would be stopped and searched. If they carried no offensive weapons, they would be allowed to proceed. But no weapons would be permitted through. He also demanded that the missile bases be dismantled and returned to the Soviet Union.

The president also announced that any attack from Cuba would be considered an attack by the Soviet Union requiring full retaliation upon the Soviet Union. Twice the president increased US defense readiness levels. Troops and aircraft were placed on alert and moved into position. A flurry of diplomatic messages flew back and forth between Washington and Moscow. By 26 October 1962, the president told his advisors it looked as if only a US attack would remove the missiles. But he insisted on giving diplomacy a bit more time.

Then an amazing thing happened. A Soviet agent approached an ABC News correspondent in Washington with a proposal that the Soviet Union would withdraw the missiles if the United States would promise not to invade Cuba. Soon after, Soviet leader Nikita Khrushchev sent Kennedy a message proposing a similar deal. However, Khrushchev then sent a second message demanding that the United States withdraw its Jupiter missiles from Turkey.

Vocabulary

- rational decisions
- intuitive decisions
- subconscious mind
- ambiguity
- bounded rationality
- heuristics
- availability heuristic
- representative heuristic
- escalation of commitment

After considering options, the president and his advisors decided to ignore Khrushchev's second message and reply favorably to the first. They also sent Attorney General Robert Kennedy, the president's brother, to meet secretly with the Soviet ambassador in Washington. He told the ambassador that the United States was going to withdraw the Jupiter missiles anyway. But that could not be part of a public resolution of the crisis. The next day on 28 October 1962, Khrushchev issued a statement that the Soviet missiles would be dismantled and removed from Cuba.

The naval quarantine around Cuba continued until November, when the Soviets withdrew their IL-28 bombers. In April 1963, the United States withdrew the Jupiter missiles from Turkey.

Both sides learned important lessons from the worst crisis of the Cold War. Because communication between them had been difficult and confusing, they established a direct communications link between the Kremlin and the White House—the "Hotline." They also turned to serious arms control negotiations and began the first steps towards the Nuclear Test Ban Treaty.

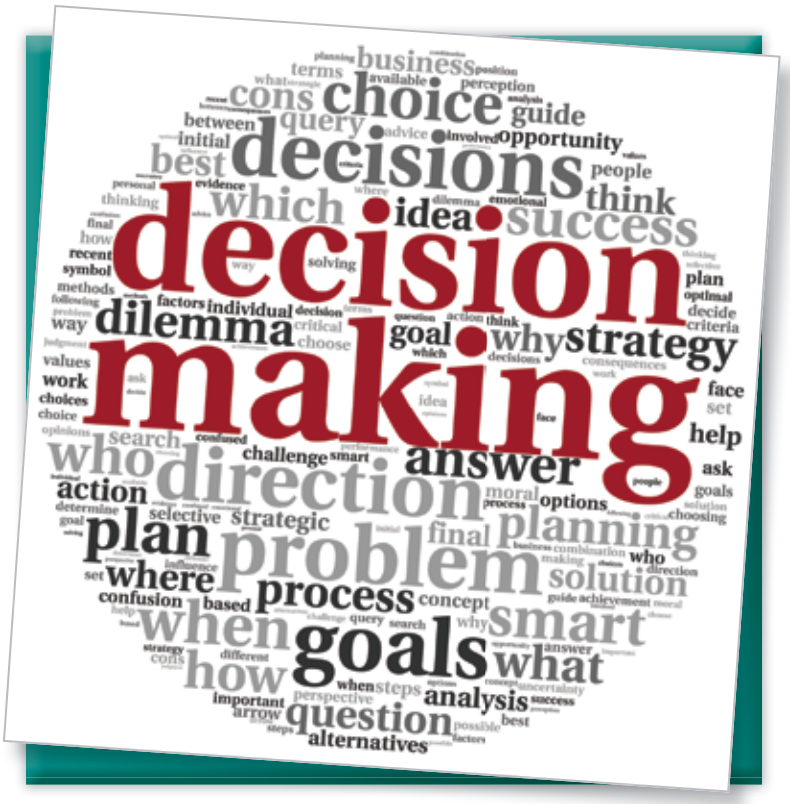
The Six Steps of the Decision-Making Process

Being able to make good decisions is a crucial skill for a manager. No matter which level of management you find yourself in, you'll be asked to make decisions on a daily and hourly basis—and sometimes more often.

In your LE 200 course, you read about the decision-making process experts recommend. To review, the process includes the following six steps:

1. Identify the situation.
2. List the options.
3. Weigh the possible outcomes of each option.
4. Consider your values.
5. Make your decision and take action.
6. Evaluate the decision.

This section will look at each of these steps in a bit more detail.



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Step 1: Identify the Situation

To make the correct decision in a given situation, you need to be sure you understand the situation and the problems involved. This can often be harder than it sounds because it's easy to confuse the symptoms of a problem with the problem itself.

Suppose cadets are repeatedly showing up late for drill practice. This is affecting the team's performance. You're worried that your team might perform poorly at the next drill competition. Is the problem that some team members don't care? Do team members get along? Are practice times being clearly communicated? Or are the practice times inconvenient, causing cadets to have transportation problems?

Correctly identifying the situation is a matter of judgment. What might seem to be a problem to one manager might not be a problem to another. A manager who solves the wrong problem is just as ineffective as one who does nothing.

Step 2: List the Options

Once you have identified the situation, you must list the options you have. This involves research to gather the information you need to make a decision.

Say you determine that the problem with drill team practice is that cadets are having transportation problems. While the practice time worked well last year, the bus schedule changed this year, and the bus several cadets ride to get to drill practice is often late.

One option, of course, would be to find new team members who can get to practice at the current time. Another would be to approach the school about changing the after-school bus schedule. A third would be to change the time of the drill practice to fit the new bus schedule.

Step 3: Weigh the Possible Outcomes

At this point, the manager must consider the possible consequences of each option. Would choosing that option actually solve the problem? Or would it make the situation worse? Might it poorly affect the situation in ways no one expects?

Consider the options for drill practice outlined in Step 2. Recruiting new team members would upset many cadets. The team would have to learn the drills all over again. Getting the school to change the bus schedule seems unlikely. Your instructor learns from the principal that the buses are needed at other times to transport elementary school children.

That leaves changing the time of the drill practice. This is rather inconvenient for you personally, but it doesn't prevent you from participating. Some other cadets complain that they would get home from school later in the day, but they could still come. However, the cadets who are having the transportation problem would be able to arrive on time and participate fully in practice.

ethical compass

When you're making decisions, ask yourself: Who benefits from this option? Who is harmed? Whose rights are respected? Whose are denied? These questions can help lead you to ethical decision making.

Step 4: Consider Your Values

Whenever you make decisions, your values come into play. These include your personal values and the organization's values. As a manager, you should always consider, "What is the right thing for the organization?" and "What is the right thing for the people involved?" A manager who focuses only on how a course of action will benefit her or him personally will not be effective in the long run. In the case of the drill practice, you would decide based on what's best for the drill team as a whole, not what's convenient for you.

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Step 5: Make Your Decision and Take Action

After weighing the outcomes and considering your values, it's time to make your decision and take action to implement it. You'll find this easier if you have included team members or subordinates in the process. People who have helped come up with a solution are more committed to seeing it through.

So you've consulted with the other drill team members, your instructors, and any necessary school administrators. The consensus is that it's best to change the time of the drill practice. You make the decision and announce the change to everyone who needs to know.

Step 6: Evaluate the Decision

Effective decision makers ensure that their decision actually addresses the situation and solves the problem. If you find that the situation hasn't improved and the problems continue, something is wrong. Either you've addressed the wrong problem or your solution just plain didn't work.

When this happens, you should review your decision by walking through these decision-making steps again. Did you correctly identify the situation? Did you consider the right options? Did you weigh the outcomes properly? Did you consider your personal values and the organization's values?

In the case of the drill team practice, if you find after changing the time, most cadets are now able to get there on time, your decision was most likely correct. But one cadet is still showing up late at every practice. In that case, you probably must address a different situation involving that cadet.

The Difference Between Rational and Intuitive Decision Making

Managers can make dozens of decisions daily, and some are easy and routine. Others are complicated and risky. Experts who have studied how managers make decisions traditionally divide the process into two models: rational decisions and intuitive decisions.

Rational Decisions

Rational decisions are *decisions that are logical and consistent, made with the conscious mind*. In theory, a rational decision maker follows the decision-making steps. He or she gathers hard data, evaluates it, and always arrives at the decision that is best and creates the most value.

Everyone knows, however, that this is seldom the case. Why not? Well, the rational model implies a degree of certainty that rarely exists. Think back to Chapter 2 Lesson 2, which discussed the uncertainty organizations face when they plan. Hard data is not always available. And you cannot know perfectly the outcome of every option. You may not even know all the options.

Consider a professional baseball manager faced with the decision about whom to send in to bat when his team desperately needs a run to tie the game. Using the rational model, the manager looks at his charts to see which of the available hitters has the best record against the other team's pitcher. Hitter A has a .233 batting average in such situations. (That means that if he batted 1,000 times, he would get a hit 233 times.) Hitter B has a .467 average. And Hitter C has a .375 average.

Under the rational model, the manager sends Hitter B to the plate. His higher batting average gives the best chance to get the needed hit and drive in a run. But it's not certain—just because Hitter B has performed well in the past is no guarantee that he will do so this particular time. That's the risk the manager has to take.

Intuitive Decisions

Intuitive decisions are *decisions based on a decision maker's "gut feelings," personal experience, and judgment, made with the subconscious mind*. The subconscious mind is *that part of your mind that holds thoughts and feelings you are not consciously aware of*.

The late Steve Jobs of Apple Corporation is often identified as an intuitive decision maker. Jobs insisted on things like rounded corners on the rectangular windows in the Macintosh operating system and on the iPod and iPhone. He did so because he felt they added to the products' appeal, not based on any hard data the company had collected.

Some baseball managers still make intuitive decisions. In the baseball example, the intuitive manager might not even look at his batting average charts. He knows that Hitter C is a veteran who has hit well in such situations before. He performs well under pressure. And the manager remembers that Hitter C hit a home run against the same pitcher two months ago. His gut feeling is to send in Hitter C, so that's what he does.

Which model is the best? It's impossible to say. Different situations can call for different approaches from the same manager. Rational decision making still requires the manager to display some creativity. Intuitive decision making still requires the manager to gather some information. Neither model eliminates risk and uncertainty. In both cases, as a manager you'll be judged on the results of your decision making over time. So in any event, you'll find using the decision-making process helpful.

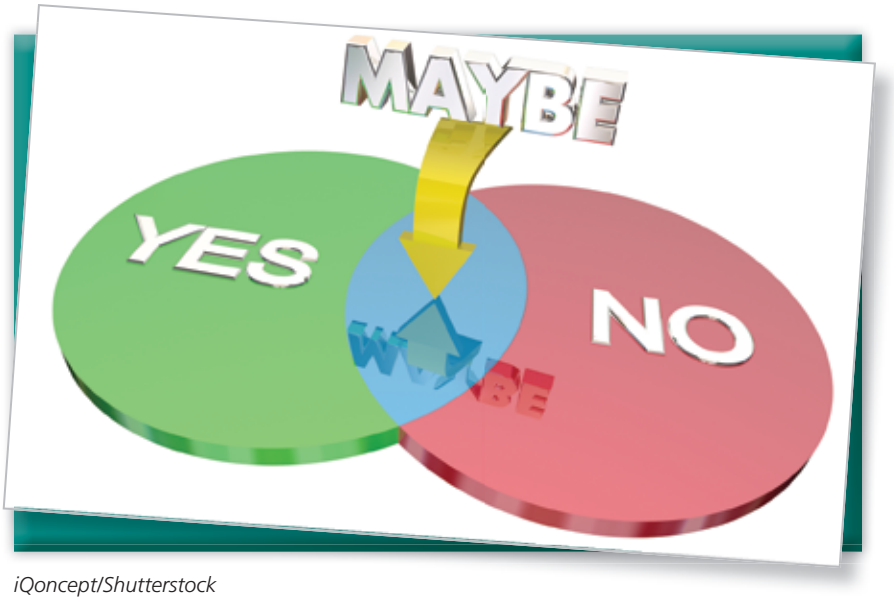
Decision-Making Styles

Whether rational or intuitive decision making is involved, the manager's personal decision-making style also plays an important role. Some managers thrive on taking risks and being creative, and others avoid risk as much as they can.

Researchers have identified four decision-making styles based on the two dimensions—again, rational versus intuitive.

1. Rational people value logic and rational thinking. They like to set facts in order and follow them to a conclusion.
2. Intuitive people like to look at the big picture and come up with creative solutions.

The four styles evolve from how both types of people deal with ambiguity—*that which is uncertain or doubtful*. Some people need order and method to minimize ambiguity as much as possible. Others enjoy a great deal of ambiguity and can deal with many thoughts and facts at once.



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Combining the two dimensions with the two approaches to ambiguity leads researchers to the four decision-making styles:

- **Rational, low ambiguity**—These managers are logical and efficient, and are good at making a lot of short-term decisions.
- **Rational, high ambiguity**—These folks still prefer to marshal as many facts as possible and carefully review all options. But they're better at coping with a good deal of uncertainty.
- **Intuitive, low ambiguity**—These managers value creativity and think intuitively, but don't like a lot of uncertainty. They tend to work well in groups and listen to others' suggestions.
- **Intuitive, high ambiguity**—These people like to look at the big picture and make long-term decisions. They see ambiguity as a challenge to exercise their creativity to the fullest.

tech TIP

The ability of modern computers to collect and combine data means that managers often have more information at their fingertips than ever before. The decision maker should always seek out such information. But hard data doesn't provide the answers to every problem. A manager still must deal with human nature and personalities on a daily basis. The skilled and efficient manager is the one who learns how to best factor both into decision making.

In the real world, few decision makers use totally one style or another. The four styles can overlap, although in many people one tends to dominate. But it's useful to understand how different people can approach the same situation differently, since you will have both superiors and subordinates of all four types. And you might find your decision-making style changing as facts become available to you or the situation's uncertainty demands.

Making Decisions Through Bounded Rationality

It's clear that in most cases, even the most rational decision maker can't have all the facts necessary to make a perfect decision. So Herbert Simon, a Nobel Prize-winning economist, proposed a revised model to describe decision making as it more often happens: bounded rationality. Bounded rationality is *a process in which decision makers simplify problems and information gathering to come up with a "good" solution instead of a "perfect" one.*

When "Good Enough" Really Is Good Enough

In the bounded-rationality model, decision makers consciously limit the options they consider. They do this both because time is limited and there's far too much information to gather and understand. So they look for the most obvious solutions and limit their consideration to those. Simon found that often this means the options they consider tend to be similar to those they used in past situations.

The decision maker then reviews this shorter list of options, but the review is brief. The decision maker looks for an option that is good enough to deal with the problem. When he or she finds one, the review stops, and the decision is implemented.

Say you are looking to buy paper plates and cups for a unit picnic. You check prices at three nearby stores. The best price of the three is $10.95 for what you need, so you buy them. Had you checked three more nearby stores, you would have found that one of them was selling the same plates and cups for $10.25. But you didn't have time to go to six stores. You used bounded rationality and bought a slightly more-expensive package.

In the bounded rationality model, decision makers look for the most obvious solutions and limit their consideration to those.

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Heuristics—Decision Shortcuts

Given how managers use bounded rationality to make decisions, it's important to consider some of the shortcuts they use. Psychologists call these *mental shortcuts* heuristics. This section will look at three types of heuristics.

The first is the availability heuristic—*the tendency of decision makers to base decisions on information they already have without seeking more*. This often leads to decisions based on something that happened recently or something that comes easily to mind.

The second is the representative heuristic—*the tendency of decision makers to base decisions on people or products they are familiar with*. For example, you might buy Brand X's new dishwashing detergent because you're familiar with Brand X's laundry detergent. A manager might decide a company's new product is going to be a success simply because the last product was.

The third heuristic is known as escalation of commitment. This *causes decision makers to stay the course on their commitment to a decision, even when new evidence shows the costs outweigh the benefits*. This escalation is sometimes referred to as "throwing good money after bad"—as when a gambler loses a small bet, then doubles the next bet to try to cover the previous loss.

Common Errors and Biases in Decision Making

It's easy to see how these mental shortcuts can lead to errors in decision making and let biases slip in. The availability heuristic might cause the decision maker to ignore other information that might be more relevant. This often shows up when, say, people create lists of the top 10 athletes or movie stars in the last century. The tendency is often to stack the list with personalities who have starred more recently than those who performed in the past, but might have more impressive records. Who's a bigger movie star, Brad Pitt or Rudolph Valentino?

President Lyndon Johnson announcing a greatly increased commitment of US forces to Vietnam in July 1965

LBJ Library photo by Unknown

In Chapter 3 Lesson 1, you read about an example of the representative heuristic in France's military planning before World War II. The country's defense authorities planned to defend the country based on their experience in World War I, ignoring more-recent developments in German arms and tactics. The result was disaster.

Many historians cite President Lyndon Johnson's decisions in the Vietnam War as an escalation of commitment—continuously increasing American involvement in the war despite evidence it would not lead to victory at an acceptable cost.

As a decision maker, you must be alert to other biases that can get in the way of good decisions. These biases are deeply ingrained in human nature, and no one is exempt from their influence. The following are a few of the more common biases:

- **Overconfidence**—This bias causes decision makers to have an inflated sense of their performance and knowledge. An overconfident team might underestimate its opponent and fail to prepare adequately. Or a manager might plan to handle a new project the same way he or she successfully managed a previous project—not realizing the new project is actually quite different.

- **The illusion of control**—This bias causes you to believe that you can influence events even if you have no control over them. Gamblers who believe they can beat the odds when they rarely do are a good example of this. A manager who issues an instruction that no one can implement would be another. The legend of King Canute of England and Demark in the early 1000s is appropriate here. The story goes that he set his throne by the sea and commanded the tide to stop before it washed over his feet. Of course it did not stop, which was the king's point—he wanted to illustrate to his court that his power over events was limited.
- **Confirmation bias**—This bias affects people who only accept information or data that confirms what they already believe. They may actively dismiss information that contradicts what they have already decided is true. An extreme example of this occurred in 1941 when Nazi Germany invaded the Soviet Union. Soviet dictator Josef Stalin was shocked—but he shouldn't have been. The British and US governments, as well as Stalin's own spies and border guards, warned him for months that Nazi leader Adolf Hitler was preparing to invade. But Stalin was convinced he had a deal with Hitler and refused to believe the reports. Soviet forces were utterly unprepared for the attack. Millions of Soviet soldiers and civilians died as a result.
- **The framing effect**—This bias occurs when decision makers choose to focus only on certain aspects of a situation and ignore others. It can also result from the way information is presented. For example, which is better: a 65 percent chance of winning or a 35 percent chance of losing? Does one sound like a better bet than the other? In fact, the odds are the same in either case. The head of the Department of Homeland Security operations center decided early on that Hurricane Katrina in 2005 would be much like a typical Florida hurricane. He saw an early TV report confirming his impression that things were not that serious. At the same time he ignored many other reports coming in that an unprecedented disaster had occurred in New Orleans. Relief efforts were delayed for several crucial days.
- **Immediate gratification**—This bias causes people to put more value on short-term gains over longer-term costs. In other words, you might do something that costs less now, but that doesn't solve the problem. The problem gets worse over time and ends up costing more to fix than it would have if addressed earlier. The same bias explains a student who doesn't study until the last minute or a company that doesn't invest in researching new products.

A decision maker should seek input from a variety of sources, including people who oppose the proposed solution.
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How do you avoid these decision-making errors? An important step is to be aware of the heuristics you use and ask yourself if they are appropriate in the situation. Professor Sidney Finkelstein of Dartmouth University's Tuck School of Business says a manager should face an important decision by admitting biases are present, then identifying them. The decision maker should also seek input from a variety of sources, including people who advise against the proposed solution.

CHECKPOINTS

Lesson 1 Review

Using complete sentences, answer the following questions on a sheet of paper.

1. Why can it often be harder than it sounds to identify the situation?
2. What happens whenever you make decisions?
3. In theory, what does a rational decision maker do?
4. In the real world, what style do most decision makers use?
5. Who was Herbert Simon and what did he propose?
6. When does the framing effect occur?

APPLYING YOUR LEARNING

7. Give an example of a decision maker you know of who demonstrated overconfidence or immediate gratification bias.