THE DECISION-MAKING PROCESS
CHAPTER 7

The four-step decision-making process

2. Develop alternative responses (identify possible courses of action)

1. Identify the need for a decision (problem or opportunity)

3. Evaluate options and choose one (based on situational factors)

4. Implement and monitor the choice (this may prompt a need for new decision)

Step 1: Identify the Need for a Decision

Managers, like all people, use cognitive scripts when they make decisions, akin to the scripts actors use to know what to do and say in specific scenes. **Cognitive scripts** *are learned guidelines or procedures that help people interpret and respond to what is happening around them*. Just as there are different genres of movie scripts—action, comedy, romance, horror, and so on—so also there are different generic scripts for FBL, TBL, and SET management (see Table 7.1).

Table 7.1: Relative emphases in scripts used for identifying the need to make a decision

Emphasis on:	FBL approach	TBL approach	SET approach
Maximizing financial well-being	High	High	Low
Reducing negative externalities	Low	Medium	High
Attending to external stakeholders	Low	Medium	High
Enhancing positive externalities	Low	Low	High

SET management scripts share and extend the emphasis that TBL scripts place on attending to external stakeholders and reducing negative socio-ecological externalities, but SET scripts differ from TBL scripts in two additional ways. First, SET scripts place a greater emphasis on enhancing positive externalities by seeking out and trying to address society's vexing problems. Second, unlike FBL and TBL approaches, SET scripts may lead to decisions that enhance certain non-financial benefits (e.g., employee satisfaction) even if doing so does not yield financial or productivity benefits. For example, AT&T manager Robert Greenleaf noticed that the decision-making scripts used in recruitment and promotion at his firm were resulting in women being under-represented in its workforce, and in African-American employees being promoted at a slower rate than their white co-workers. Because issues like these were not perceived to be associated with AT&T's financial well-being at the time, a manager with an FBL or TBL perspective would not have identified them as problems or opportunities. However, because of his SET approach to management, Greenleaf recognized them as issues calling for decisions to be made, and this prompted him to work with others to develop new scripts to address them. These new scripts eventually became the new norms and guidelines that informed subsequent decision-making at AT&T.

Step 2: Develop Alternative Responses

Once the need for a decision has been established, the next step is to *develop alternatives* for addressing the problem or opportunity that has been identified. In the most general sense, managers can respond in one of three ways.

The first approach—"do nothing"—is the appropriate response in situations where action is not worth the effort or the cost. For example, doing nothing might be the appropriate response if someone arrives late at work due to an unexpected traffic jam.

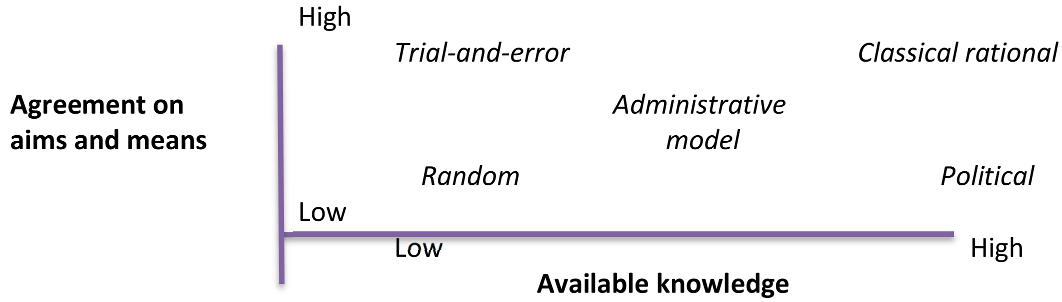
The second approach involves following an existing script or routine. Doing so results in making programmed decisions (also called routine decisions). In **programmed decisions** *the response to an organizational problem or opportunity is chosen from a set of standard alternatives*. These decision rules and policies have been developed to simplify the handling of situations that recur frequently.

The third approach is to make a non-programmed decision. A **non-programmed decision** *involves developing and choosing a new way of dealing with a problem or opportunity.* The quality of non-programmed decisions often depends on the time and resources a manager is willing to invest in developing them. The amount of time and resources invested in making non-programmed decisions increases with the perceived *importance* and *newness* of the decision, and decreases with the *urgency* of the decision.

Step 3: Choose the Appropriate Alternative

The third step—choosing the best alternative—lies at the heart of the decision-making process. *How* a choice is made depends on two key factors: 1) the quality of knowledge available to decision-makers about the outcomes that are likely to result with each of the alternatives, and 2) the level of agreement among decision-makers regarding an organization's aims and the best means to achieve those aims. These two factors can be combined to form the two-dimensional framework shown in Figure 7.2. The figure also shows five general approaches decision-makers use as they choose among possible alternatives. We first explain the two dimensions of the figure, and then describe each of the five general approaches.

Five general approaches for evaluating options and choosing one



Available Knowledge

As shown along the horizontal dimension of Figure 7.2, the decision-making process is influenced by the knowledge that is available to decision-makers. Three factors are important regarding the available knowledge:

1. **Is it possible to identify an optimal choice?** Many decisions are *dilemmas*, meaning that no optimal choice can be made because there are both positive and negative aspects associated with each alternative and the resulting trade-offs are complex and defy complete analysis.
2. **Do decision makers have good knowledge about the likelihood and pay-offs of each possible outcome? Certainty** *exists when managers know exactly what outcomes are associated with each alternative they are choosing among, the possible payoffs associated with each possible outcome for each alternative, and the probability or likelihood that each pay-off will occur*. the other extreme, **uncertainty** *exists when managers do not know what outcomes are associated with each alternative they are choosing among, do not know the possible payoffs associated with each possible outcome for each alternative, and do not know the probability or likelihood that each pay-off will occur.* **Risk** *is evident when decision-makers have at least some knowledge about the likelihood of the different possible outcomes that might occur if they choose to implement a particular alternative, and the pay-offs associated with each outcome*. Risk involves decisions where managers are able to develop some (but not all) alternatives, estimate (but not know for certain) payoffs for each alternative, and estimate (but not know for certain) the probabilities of the payoffs. Thus, there is no way to guarantee that choosing a particular alternative will lead to a particular outcome or payoff.

Scripts are important for understanding how decision-makers interpret and perceive the knowledge that is available to them. The scripts used by FBL, TBL, and SET management may influence whether a decision is perceived to have an optimal solution, and how risks and uncertainties are perceived. For example, the FBL script in the Ford Pinto example focused on the financial costs associated with each option, but did not take into account the trauma of victims (which may have been included in a SET script), or possible damage to the company's brand image (which may have been included in a TBL script).

Agreement on Aims and Means

Agreement on aims and means *refers to the level of consensus among decision-makers about the goals of an organization and the best way to achieve those goals.* **Goals** *refer to the objectives or desired results that members in an organization are pursuing,* and means are similar to ***plans****, which describe the steps and actions that are required to achieve goals*. Low agreement on aims and means indicates that there is considerable debate about what the aims should be and/or about the best means to achieve those aims.

On the face of it, we might expect the SET approach to have the lowest level of agreement in terms of both aims and means. In terms of aims, SET management seeks to enhance both social and ecological well-being, which can be considerably more complex than simply focusing on enhancing financial well-being (as in the FBL and TBL approaches). A similar argument is evident in terms of means, where the potential for disagreement is expected to be higher in the SET approach simply because of the added complexity that develops when an organization seeks to reduce negative externalities *and* enhance positive externalities.

This problem may be reduced to some degree since SET managers are more willing to accept and even embrace disagreements (see Chapter 16). Whereas FBL and TBL approaches make an implicit assumption that it is *ideal* to have complete agreement on aims and means (even if this ideal is seldom realized), this assumption does not hold in the SET approach, where decision-makers accept that the world is simply too complex for there to be one best set of aims and means.

SET management recognizes the world is too complex for there to be one best set of aims and means.

Whereas a SET approach suggests that embracing *diversity* in aims and means will contribute to overall organizational performance, the traditional FBL and TBL approaches suggest that *uniformity* in views about aims and means will enhance an organization's financial performance. It turns out that research provides some empirical support for both SET and for FBL/TBL approaches regarding the effect of disagreement about aims and means. Consistent with the SET view, the level of agreement is negatively related to *organizational* performance measures (including how well the organization performs its main function). However, consistent with the FBL/TBL approaches, the level of agreement is positively related to *individual*-based measures of performance (including their financial contributions).

Step 4: Implement and Monitor the Choice

The fourth step involves implementing and monitoring the chosen alternative. After implementation, the four-phase cycle starts over again at the first step, as the outcome is monitored to see if it has solved the problem or perhaps unintentionally created a new problem. Managers face two key challenges in this step: 1) overcoming resistance to implementing a decision (i.e., resistance to change); and 2) overcoming resistance to recognizing and admitting decision mistakes. We will look at each in turn.

Overcoming Resistance to the Implementation

Obviously, some decisions require more effort to implement than others. Generally, a routine programmed decision will be easier to implement than a non-programmed decision. For example, buying a new copying machine will be easier than acquiring another company.

Perhaps the most fundamental way that managers can increase the likelihood that decisions will be implemented is to involve members in the decision-making process at the outset. Such involvement can be financially costly and is not necessary for *many* decisions, but it may be cost-effective and *critical* for some decisions. A manager is encouraged to involve members in the decision-making process when the manager lacks information to make the decision, when members can be trusted because their goals are aligned with the manager's, when commitment from others is critical to success, and when there is ample time to make the decision. SET managers are more likely to welcome participative decision-making because they recognize its inherent value in involving others and thereby increasing social well-being. As a result, SET managers are likely to meet less resistance during step 4, and are more likely to respect any resistance they do experience.