

Comprehensive Notes

MGMT1001

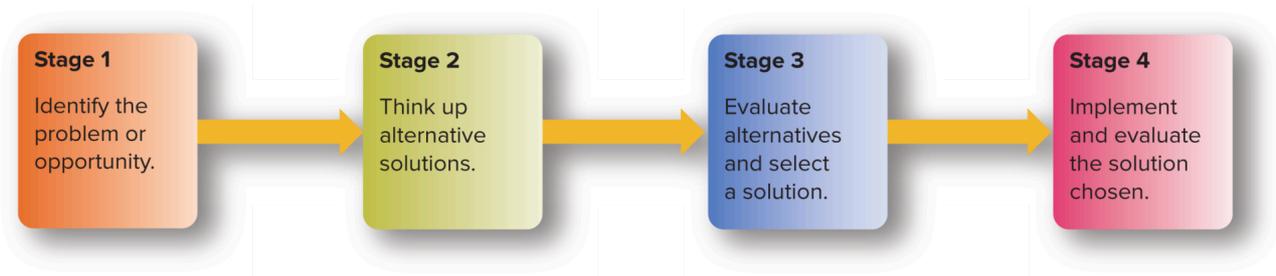
2018 Semester 1

Table of Contents

7.1 Two kinds of decision making: rational and non-rational.....	2
7.2 Evidence-based decision making and analytics.....	4
7.3 Four general decision-making styles.....	4
7.4 Making ethical decisions.....	6
7.5 How to overcome barriers to decision making	6
7.6 Group decision making: how to work with others.....	8

7.1 Two kinds of decision making: rational and non-rational

Steps in making rational decisions



1. Identify the problem or opportunity – actual vs desirable

- No shortage of problems or difficulties achieving goals
- Opportunities are possibilities exceeding existing goals
- Diagnosis and analysing underlying cases

2. Think up alternative solutions – obvious and creative

3. Evaluate alternatives and selection solutions – ethics, feasible, effectiveness

4. Implement and evaluate chosen solution – actual vs desirable

- Plan carefully and be sensitive to those affected

What's wrong with the rational model?

- Prescriptive
 - How managers **ought** to make decisions
- Does not describe how managers **actually** make decisions
- Assumptions:
 - Complete information, certainty
 - Logical and unemotional analysis
 - Best decision for organisation

Non-rational decision making: managers find it difficult to make optimal decisions

- Descriptive
- Assume decision making is always risky and uncertain
 - Not guided by objective evidence that gives perfect insight into alternatives

Types of non-rational models

▪ Satisficing model

- *Seek alternatives until they find one satisfactory not optimal*
- Rationality is bound by restrictions, so managers can't act truly logically
- Ability to be rational is limited by constraints
- Don't make exhaustive search for best alternative

<ul style="list-style-type: none">▪ Complexity The problems that need solving are often exceedingly complex, beyond understanding.▪ Time and money constraints There is not enough time or money to gather all relevant information.	<ul style="list-style-type: none">▪ Different cognitive capacity, values, skills, habits and unconscious reflexes Managers aren't all built the same way, of course, and all have personal limitations and biases that affect their judgement.▪ Imperfect information Managers have imperfect, fragmentary information about the alternatives and their consequences.	<ul style="list-style-type: none">▪ Information overload There is too much information for one person to process.▪ Different priorities Some data are considered more important, so certain facts are ignored.▪ Conflicting goals Other managers, including colleagues, have conflicting goals.
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▪ Incremental model

- *Small short-term steps alleviating problems rather than for long term*
- Over time, series of short term steps may move to long term solution

▪ Intuition model

- *Making choices without use of conscious thought or logical inference*
- Steps from expertise known as *holistic hunch*
- Intuition based on feelings is *automated experience*
 - Can speed up decision making, useful for tight deadlines
 - Help managers when resources are limitedDifficult to convince others and subject to biases

▪ Political model

- *How people make decisions when managers disagree what to be done*
- Assumptions
 - Organisations compromise competing groups of people, decisions arise from bargaining and negotiation among groups of interests
 - Non rational decision making conditions prevail, tendency for incomplete info increased as groups engage in organ politics to advance their interests

▪ Inspirational (garbage can model)

- *Focuses on need for 4 conditions: choice opportunities, participants, problems and solutions*
- Assumes uncertainty surrounds decisions, emphasis to come together to discuss