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# Foundations of decision-making

## Decision-making process

1. Identify a problem
2. Identify decision criteria
3. Weight the criteria
4. Develop alternatives
5. Analyse alternatives
6. Select alternative
7. Implement alternative
8. Evaluate decision effectiveness

**Problem:** a discrepancy between an existing and a desired state of affairs

**Decision criteria:** factors relevant in a decision

**Decision implementation:** putting a decision into action

**Heuristics:** judgmental shortcuts ('rules of thumb') used to simplify decision making 12 common decision-making errors and biases:

- Overconfidence
- Immediate gratification
- Anchoring
- Selective perception
- Confirmation
- Framing
- Availability
- Representation
- Randomness
- Sunk costs
- Self-serving bias
- Hindsight

## Approaches to decision-making

**Rational model:** making choices that are consistent and value-maximising within specified constraints

**Bounded rationality:** making decisions that are rational within limits of manager's ability to process information

- Satisficing: accepting solutions that are 'good enough'
- Escalation of commitment: increased commitment to previous decision despite evidence it may have been a poor decision

**Intuitive decision-making:** making decision on basis of experience, feelings and accumulated judgement

# Foundations of planning

## Nature and purposes of planning

*Planning can be informal or formal, informal*

*Formal planning involves*

1. *Defining specific goals covering a specific time period*
2. *Writing down goals and making them available to organisation members*
3. *Using goals to develop specific plans that clearly define path organisation will take to get from where it is to where it wants to be*

### Reasons for planning

*Establishes coordinated effort*

*Reduces uncertainty*

*Reduces overlapping and wasteful activities*

*Establishes goals or standards that facilitate control*

### Criticisms of planning

*May create rigidity, managers as such need to remain flexible and tied to course of action simply because it's the plan*

*Formal plans can't replace intuition and creativity, planning should enhance and support it, not replace it*

*Focuses on competition rather than long term survival, managers should be open to forging into uncharted waters if there are untapped opportunities*

*Formal planning reinforces success, which may lead to failure, managers should be open to doing things in new ways to be even more successful*

## Strategic Management Process

**Strategic management:** *what managers do to develop an organisation's strategies*

**Strategies:** *plans for how the organisation will do what it's in business to do, how it will compete successfully and how it will attract its customers in order to achieve its goals*

### Strategic Management Process

*Six-step process that encompasses strategy planning, implementation and evaluation*

1. *Identify the organisation's current mission, goals and strategies*
  - a. *Mission: statement of organisation's purpose*
2. *Do an external analysis*
  - a. *Opportunities: positive trends in the external environment*
  - b. *Threats: negative trends in the external environment*
3. *Do an internal analysis*

## **Structural variables**

### **Organic structures**

*Organic-type structure positively influences innovation*

*As is low in formalisation, centralisation and work specialisation, it facilitates flexibility and sharing of ideas that are critical to innovation*

- *Abundant resources*  
*Availability of plentiful resources provides key building block for innovation*  
*With an abundance of resources, managers can afford to purchase and institute innovations, and absorb failures*
- *High inter-unit communication*  
*Frequent communication between organisational units breaks barriers to innovation*  
*Cross-functional teams, task forces, and other designs facilitate interaction across departmental lines and widely used in innovative organisations*
- *Minimal time pressure*  
*Extreme time pressures on creative activities are minimised despite demands of fast-paced environments*  
*Studies show time pressures cause people to be less creative*
- *Work and non-work support*  
*When organisation's structure explicitly supports creativity, creativity performance can be enhanced*  
*Beneficial kinds of support include encouragement, open communication, readiness to listen, and useful feedback*

### **Culture variables**

- *Acceptance of ambiguity*  
*Too much emphasis on objectivity and specificity constrain creativity*
- *Tolerance of the impractical*  
*Individuals who offer impractical questions not stifled*  
*What seems impractical might lead to innovation*
- *Low external controls*  
*Rules, regulations, policies, similar organisational controls kept minimal*
- *Tolerance of risks*  
*Employees encouraged to experiment without fear of consequences should they fail*  
*Mistakes treated as learning opportunities*
- *Tolerance of conflict*  
*Diversity of opinions is encouraged*  
*Harmony and agreement not assumed to be evidence of high performance*
- *Focus on ends*  
*Goals are to be made clear, and individuals encouraged to consider alternative routes towards meeting goals*  
*Focusing on ends suggests there might be several right answers to any given problem*
- *Open-system focus*  
*Managers closely monitor environment and respond to changes as they occur*
- *Positive feedback*

# Contemporary theories of motivation

## Goal-setting theory

*Goal setting theory: the proposition that specific goals increase performance and that difficult goals, when accepted, result in higher performance than do easy goals*

- Goal-setting theory assumes individual is committed to goal, commitment most likely when
  - o Goals made public
  - o Individual has internal locus of control
  - o Goals are self-set rather than assigned
- Motivation to work towards goal
  - o Self-efficacy: individual's belief they are capable of performing a task
  - o Goal setting may not lead to higher performance in some national cultures

## Job-design

*Job design: the way tasks are combined to form complete jobs*

*Job characteristics model (JCM): a framework for analysing and designing jobs that identifies five primary core job dimensions, their interrelationships and their impact*

1. Skill variety: degree to which job requires a variety of activities
  2. Task identity: degree to which the job requires completion of a whole and identifiable piece of work
  3. Task significance: degree to which job affects lives or work of other people
  4. Autonomy: degree to which job provides freedom, independence and discretion to the individual in scheduling work and determining the processes in carrying it out
  5. Feedback: the degree to which carrying out the work activities required by the job results in the individual's obtaining direct and clear information about the effectiveness of their performance
- Job enrichment: the vertical expansion of a job by adding planning and evaluation responsibilities

## Equity theory

*Equity theory: theory that an employee compares their job's input-to-outcome ratio with that of relevant others and then corrects any inequity*

*Referent: persons, systems or selves against which individuals compare themselves to assess equity*

*Distributive justice: perceived fairness of amount and allocation of rewards among individuals*

*Procedural justice: perceived fairness of the process used to determine the distribution of rewards*

## Expectancy theory

*Expectancy theory: the theory that an individual tends to act in a certain way, based on the expectation that the act will be followed by a given outcome and on the attractiveness of that outcome for the individual*

*Three variables:*

- Effort-performance linkage (expectancy); probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance