Chapter 7

Rational choice Paradigm of Decision Making

- Decision making – involves identifying, selecting and applying the best possible alternative
    - Best decisions use pure logic and all available information to choose the alternative with the highest value
    - Highest expected profitability, customer satisfaction, employee well being or some combination of these outcomes
- This calculative view of decision making represents the ration choice paradigm
    - The ultimate principle of the rational choice paradigm is to choose the alternative with the highest subjective expected utility
    - Subjective expected utility – is the probability (expectation) of satisfaction(utility) for each alternative
    - Rational choice – assumes that decision makers should select the alternative that gives the greatest level of happiness → highest return for stakeholders, highest satisfaction for customers, employees, government and other stakeholders
    - The maximum subjective expected utility depends on the value of outcomes resulting from that choice and the probability of those outcomes occurring
- Utility of what people can bring to an organisaation – need to acknowledge company's values → such as skills and knowledge and the capacity to learn, flexibility and social skills
    - Company will choose applicant with the highest probability of having each of the desired characteristics
    - Wants to choose applicatnes with the highest subjective expected utility
        - All decisions rely on:
            - The expected value of the outcomes (utility)
            - The probability of those good or bad outcomes occurring (expectancy)

Rational choice – decision-making process

- First step: identify the problem or recoginisean opportunity
- A problem – deviation between the current and desired situation
- An opportunity - deviation between current expectations and a potentially better situation that as not previously expected – decision makers realize that some decisions may produce results beyond current goals or expectations
- Second Step: involves deciding how to process the decision
    - Whether the decision maker has enough information or need sto involve others in the process
    - Whether the decision is programmed or non-programmed
        - Programmed – follow standard operating procedures, have been resolved in the past, so the optimal solution has already been identified and documented
        - Non – programmed – require all steps in the decision model because the problems are new, complex or ill-defined
- Third Step: identify and develop a list of possible soultions
    - Begins by searching for ready made solutions as practices that have worked well on similar problems
    - If an acceptable solution can be found – then decision makers need to design a custom made solution or modify an exisiting one
- Fourth step: is the rational choice decision process – choose the alternative with the highest subjectivity expected utility
    - For all possible information about all possible alternatives and their outcomes, but expected utility

- Fifth step: to implement the selected alternative
- Sixth step: evalutation wither the gap has narrowed between 'what is' and 'what ought to be' – ideally this information should come from systematic benchmarks so that relevant feedback is objective and easily observed

Problems with Rational Choice of Paradigm

- Model assumes – people are efficient and logical information processing machines
- In reality, people have difficulty recognizing problemsl they cannot stimulataneously process the huge volume of information needed to identify the best solution – have difficulty recognizing when their choices have failed
- Focuses on logical hinking and completed ignoseres that emoitions can influence, perhaps even dominate the decision making process
- Emotions – support/interfere with out quest to make better deicions

Identifying Problems and Opportunities

Problems with Problem identification:

1. Stakeholder Framing
    a. Stakeholders filter information to amplify or suppress the seriousness of the situation – highlights or hides specific problems and opportunities
    b. Employees point to external factors rather than their won faults as the cause of production delays
    c. Occurs by emphasisng or witholidng information
    d. Organisational decisions and actions ar nfuenced mainly by what attracts the attention of management, rather than whats truly important
    e. Attentaion process Is subject to a variety of cognitive biases, such as the decision maker's perceptual process, specific circumstacnes and the ways that stakeholers sape or filter incoming information
2. Decisive Leadership
    a. Being decisive includes quickly forming an opinion of whether an event signals a problem or opportunity
    b. Leaders quickly announce a problem or opportunity before having a chance to logically assess the situation
    c. More often, a poorer decision than would result if more time had been devoted to idenifiying the problems and evaluating the alternatives
3. Solution – Focused Problems
    a. Decision makers have a tendancy to define problems as veiled solutions
    b. Decision makers engage in solution-focused problem identification because it provide comforting closure to the otherwise ambigious and uncertain nature of problems
    c. Familiarity of past solutions makes the current problem less ambigious or uncertain
4. Perceptual Defence
    a. Some people inheritenly avoid negative information, where as others are more sensitive to it
    b. People are more likely to disregard dnger signlas when they have limited control over the situation

Identifying Problems and Opportunites more effectively

- By recognizing that mental models restrict a person's perspective of the world, decision makers are more motivated to consider other perspectives of reality
- Leaders require considerable willpower to resist the temptation of looking decisive when a more thoughtful examination of the situation should occur

- Leaders – create a norm of 'divine dicontent' → they are never satisfied with the status quo, and this aversion to complacency creates a mindset that more actively searches for problems and opportunities
- Employees can minimize these difficultires with problem identification by discussing the situation with colleagues - blind spots on problem identification are more easily identified by hearing how others perceive information and diagnose problems
- Opportunities also become apparent when outsiders ecplore this information from their different mental models

Evaluating and Choosing Alternatives

- Choose the alternative with the highest pay-off
- People engaged in bounded rationality (the view that people are bounded in their decision making capabilities, including acess to limited information processing and a tendency to practice satisfying thather than maximisng with making choices) because they process limited and imperfect information and rarely select the best choice

Problems with goals (PAGE 208)

- Orgnaisational goals are often ambiguous or in conflict with each other
- 25% of managers and employees felt that decisions are delayed because of difficulty agreeing on what they want the decision to achieve

Problems with Information Processing

- Assumes that decision makers can process information about all alternatives and their consequences
- Decision makers typically evaluate alternatives sequentially rather than all at the same time
- As a new alternative comes along, it is immediately compared to an implicit favourite- an alternative that the decision maker prefers and that is used as a comparison with other choices
- When choosing a new computer system – people typically have an implicit favourite brand or model in their heads that they use to compare with others → this sequential process of comparing alternatives with an implicit favourite occurs even when decision makers aren't consciously aware that they are doing this
- Often undermines effective decision making because people distort information to facour their implicit favourite over other alternative choices
- Tend to ignore problems with the implicit favour and the advantages of the alternative
- Decision makers also over-weight factors on which the implicit favourite is better and underwirght areas in which the alternative is superior

Biased Decision Heuristics

- People can estimate the probabilities of outcomes
- Human beings have built in decision heuristics – unstructed and often non-conscious modes of reasoning or rules of thumb- that bias an individual's percceved probabilities that specific outcomes will occur

1. Anchoring and Adjustment Heuristic
    a. States that we are influenced by an initial anchor point and do not suffiencently move away from that point as new information is provided
    b. The anchor point might be an initial offer pronce, initial opinion of someone or intia estiemated probability tht something will occur
    c. Bias affects the value that we assign to choices that their outcomes
    d. Their intial anchor point biases their estimation
2. Availability Heuristic
    a. The availability Heurisitic – tendency to estimate the probability