



# Managerial Decision Making

Senior Leadership Program | IIMV | August 11, 2024



How do you make  
decisions?



# Decision-making in Organizations

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- The Rational Model
- Bounded Rationality - Satisficing
- Intuition
- Creative

# Roy Inc.

- Roy Inc. transforms bulk steel into smaller components, ready to be used in consumer products. It has more than 5,000 employees and has a presence in almost all Asian countries.
- It is a traditional company characterized by a low level of flexibility and high levels of bureaucracy. To stay close to its customers, the company has several branches and subsidiaries located all over Asia
- At Roy Inc., once a customer (new or existing) approaches the firm, decision making must happen at a quick pace. Obviously, decisions about level of customization, speed of manufacturing, and prices determine which of the competing companies gets the order.
- When making a proposal, a huge number of factors (internal & external) must be considered. If Roy Inc. takes too long to deliver a clear proposal, cannot deliver the demanded products fast enough, or bids too high, competitors will seal the deal.

# Roy Inc. (Contd.)

- Sara and Rakesh are managers at the subsidiaries in China and Japan respectively.
- In formulating a proposal or bid for a customer's order, Sara can be characterized as a very rational person. Although she takes somewhat longer than her colleagues to do similar work, she has always secured a lot of customer orders and is therefore considered a very successful manager within the company.
- However, Roy Inc.'s success in recent years has affected her decision making. She now drafts a proposal faster, but she also considers less information. In some cases, she even takes competitor prices as a starting point and simply adapts those a little. Still, the change doesn't seem to harm her performance, and orders keep coming in.
- Rakesh performs the same job as Sara, however, is very unsuccessful lately. He too makes rational decisions, but often criticized for taking a lot of time to gather required information. Top management has looked at Sara's success and now wonders whether to impose that style on Rakesh.

*Decision  
Making Model*

*Use This Model When:*

Rational	<ul style="list-style-type: none"><li>• Information on alternatives can be gathered and quantified.</li><li>• The decision is important.</li><li>• You are trying to maximize your outcome.</li></ul>
Bounded Rationality	<ul style="list-style-type: none"><li>• The minimum criteria are clear.</li><li>• You do not have or you are not willing to invest much time to make the decision.</li><li>• You are not trying to maximize your outcome.</li></ul>
Intuitive	<ul style="list-style-type: none"><li>• Goals are unclear.</li><li>• There is time pressure and analysis paralysis would be costly.</li><li>• You have experience with the problem.</li></ul>
Creative	<ul style="list-style-type: none"><li>• Solutions to the problem are not clear.</li><li>• New solutions need to be generated.</li><li>• You have time to immerse yourself in the issues.</li></ul>

# Common Biases & Errors in Decision Making

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- **Over confidence bias**

- Subjective confidence about own judgement is greater than the objective accuracy of those judgements, especially when confidence is relatively high.

- **Anchoring bias**

- Tendency to rely too heavily on the first piece of information and fail to adequately adjust for subsequent information.

- **Confirmation bias**

- Tendency to focus on information that will confirm preexisting beliefs and conclusions.

- **Availability bias**
  - Tendency to base judgements on information readily available
  
- **Sunk cost trap/Escalation of commitment**
  - Tendency to escalate commitment to a course of action in which substantial prior investments have been made. Making choices in a way that justify past choices, even when those choices no longer seem valid.
  
- **Framing bias**
  - Tendency to react in a particular choice based on how it is presented

- **Randomness error**

- Tendency to believe we can predict the outcome of random events

- **Risk Aversion**

- Tendency to prefer sure thing over a risky outcome

- **Hindsight bias**

- Tendency to believe falsely, after an outcome of an event is actually known, that one would have accurately predicted that outcome

- **Status Quo bias**

- Tendency to keep things the way they are. Bias towards the alternatives that perpetuate the status quo.

# Toward Reducing Bias and Errors

- Think on your own and from different perspectives
- Be open minded
- Focus on Goal
- Look for information that disconfirms beliefs
- Reframe the problems
- Don't try to create meaning out of random events
- Increase your options
- Have the “Chief Contrarian” as part of the team

Be aware of your own biases

# Myths of Decision Making

- I like to be efficient
- I'm too busy; I don't have time to give to this decision
- I just need to solve this problem at this point
- This is my decision alone; I don't need to involve others
- I know I'm right; I just want data or an opinion to confirm my own thinking
- I trust my gut

# Myths of Decision Making

- Decision making is linear
- I can pull my ideas together well in my head
- I have all the information I need
- I can make a rational decision
- There is just one way to do this

# Group Decision Making

- **Advantages**

- Mutual influence and encouragement
- Commitment to decision
- More knowledge and experience

- **Disadvantages**

- Conformity
- Dominance of one person or clique
- Time

# Limits of Group Decision Making

- Groupthink
  - A phenomenon in which the norm for consensus overrides the realistic appraisal of alternative courses of action
  - “Deterioration of mental efficiency, reality testing and moral judgements” resulting from pressures within the group
  - E.g. NASA - Challenger 1986 and Columbia 2003
  - Rationalization; self-censorship; peer-pressure; illusions – morality and unanimity

# Limits of Group decision making

- Group Polarization or Groupshift
  - Shift towards one or the other end of the decision continuum.
  - Group discussion produced shifts towards – more risky or more cautious positions
  - Exaggeration of initially held positions

# Group Decision Making Techniques

- Interacting
- Brainstorming
- Nominal Group Technique
- Electronic

# Group decision making Techniques - comparison

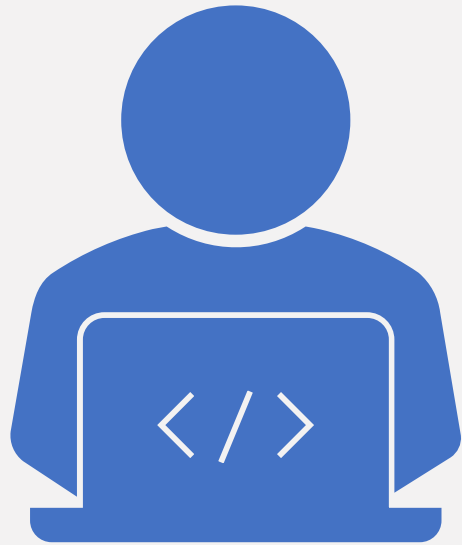
## Exhibit 9-7

### Evaluating Group Effectiveness

Effectiveness Criteria	Type of Group			
	Interacting	Brainstorming	Nominal	Electronic
Number and quality of ideas	Low	Moderate	High	High
Social pressure	High	Low	Moderate	Low
Money costs	Low	Low	Low	High
Speed	Moderate	Moderate	Moderate	Moderate
Task orientation	Low	High	High	High
Potential for interpersonal conflict	High	Low	Moderate	Low
Commitment to solution	High	Not applicable	Moderate	Moderate
Development of group cohesiveness	High	High	Moderate	Low

# Strategies for Effective Group Decision Making

- Keep the group small when you need to make an important decision
- Chose a heterogenous group over a homogeneous one (especially for complex tasks)
- Appointing a strategic dissenter
- Collect opinions independently
- Provide a safe space to speak up
- Don't over rely on experts
- Share collective responsibility



# Thank You

**Dr. Happy Paul**

Associate Professor (HR & OB Area)

IIM Visakhapatnam

[happyp@iimv.ac.in](mailto:happyp@iimv.ac.in)