# Decision Making in Organizations

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**CTO / VPE Forum**

Decision making is not a well-defined field.  It includes to a variety of processes that are all intermediate steps between thought and action.  They are the precursors to behavior.  They express our ideas into their active consequences in the world.

One of the reasons the field is so ill-defined is that we look at decision-making in so many arenas:

>career choice
>health care
>public policy
>business
>science
>politics

And the scope of our decisions ranges from choices that impact lifetimes all the way down to decisions about where to eat lunch.

Not surprisingly we find a polyglot of issues and dynamics rather than a clear, well-defined process.

How much of your time do you spend in decision-making?

**Decision Issues**

- ■ Distortions in decision making
  - □ Cognitive or social patterns that compromise quality in decision-making
- ■ Meta-decision making processes
- ■ Decision challenges
  - □ Why quality decision-making is difficult
- ■ Making good decisions
  - □ Content
  - □ Styles
  - □ Forums

The quality of managerial decision-making seems to be declining, for several reasons:

shorter time frames with generally contracting business cycles

eroding quality of data (internet is not a juried source)

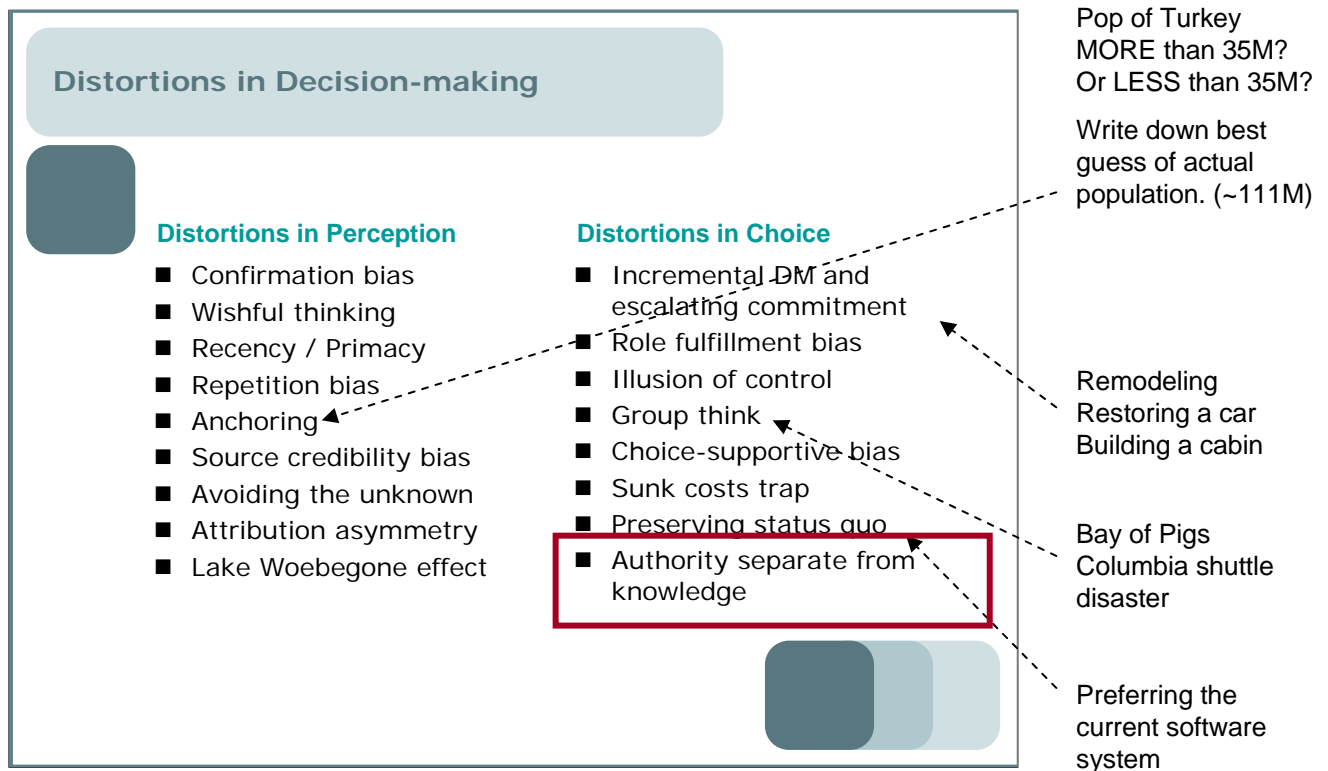rate of change invalidates data behind a decision before implementation

**Distortions:** We are not a rational species; we are prone to all manner of illogical thought processes. We are easily effected by social pressure, others' opinions, preconceived notions of what is honorable or acceptable. When it comes to decision-making, we need to acknowledge that the deck is stacked against us. We have the same emotional and cognitive wiring as our humanoid predecessors. We're prepared for day-to-day survival in the tribe. All of modern life is a stretch.

**Meta-DM'ing:** There are decisions we make about decision-making. They typically happen too fast to be noticed. They're embedded in a word, a glance, an unintentional frame. We would have to slow down and unpack our more fleeting thoughts to expose these processes.

**Challenges:** If we turn our attention to the situation, we can characterize the different challenges that make decision-making difficult.

**Making good decisions:** Our overall purpose tonight is to improve the quality of your decisions. So before we're done we want to look at how to make decisions. And how to make them better.

During this presentation I will try to indicate the keys to higher quality decisions at each point. And I invite you to contribute your own suggestions. Or questions. There's a lot of decision experience and decision expertise in the room. Don't assume that it's all "up here".

## Distortions in Decision-making

### Distortions in Perception
- Confirmation bias
- Wishful thinking
- Recency / Primacy
- Repetition bias
- Anchoring
- Source credibility bias
- Avoiding the unknown
- Attribution asymmetry
- Lake Woebegone effect

### Distortions in Choice
- Incremental DM and escalating commitment
- Role fulfillment bias
- Illusion of control
- Group think
- Choice-supportive bias
- Sunk costs trap
- Preserving status quo
- Authority separate from knowledge

Pop of Turkey MORE than 35M? Or LESS than 35M?

Write down best guess of actual population. (~111M)

Remodeling Restoring a car Building a cabin

Bay of Pigs Columbia shuttle disaster

Preferring the current software system

**Confirmation Bias:** focus on information supporting desired outcome
**Wishful thinking:** seeing things in an overlay optimistic light
**Recency/Primacy effect:** focusing on information that is most recent, or first available.
**Repetition bias:** favoring information repeated the most
**Anchoring:** basing decision on an inappropriate reference point
**Source credibility:** favoring info from sources we like
**Avoiding the unknown:** "world hunger" story
**Attribution asymmetry:** attributing our success to talents, while dismissing failures as bad luck or circumstances. Doing the reverse for others.
**Lake Woebegone effect:** the persistent belief that 80% of us are above average

**Incremental decision making**
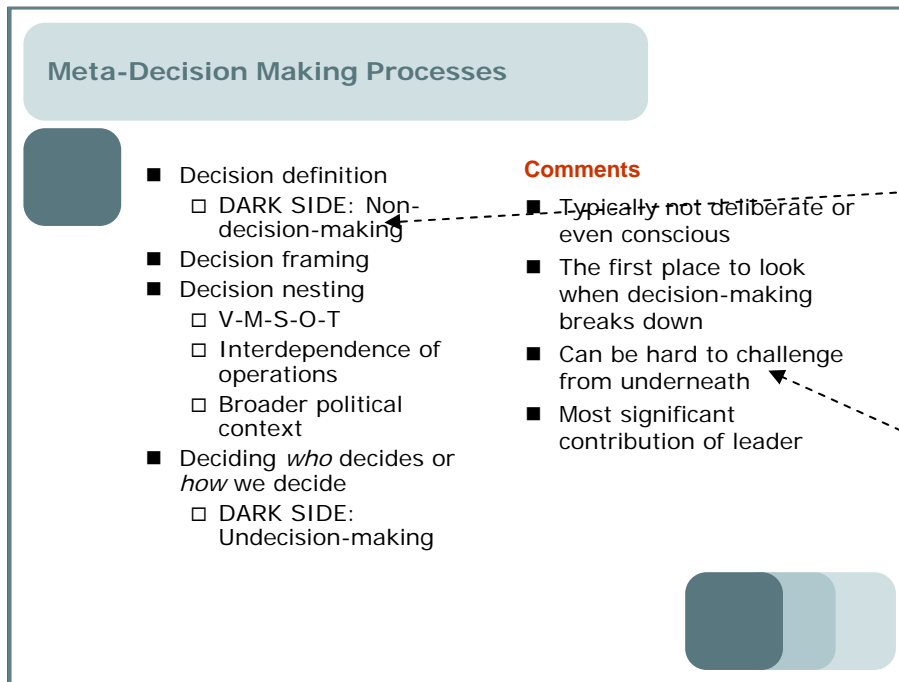**Role fulfillment:** Becoming a parent or manager
**Group think:** more responsive to harmony and consensus than quality
**Sunk costs:** (zero-based) budgeting? 10% increase over last year's goal
**Authority <> Knowledge**
    Boss often more sensitive to broader environment.

The impressive part of the list is not its contents, but its sheer length. The pitfalls in decision-making are numerous, subtle, and swift. **[QUALITY]** They are also quite vulnerable to simply being noticed and named.

**Meta-Decision Making Processes**

- Decision definition
  - DARK SIDE: Non-decision-making
- Decision framing
- Decision nesting
  - V-M-S-O-T
  - Interdependence of operations
  - Broader political context
- Deciding *who* decides or *how* we decide
  - DARK SIDE: Undecision-making

**Comments**

- Typically not deliberate or even conscious
- The first place to look when decision-making breaks down
- Can be hard to challenge from underneath
- Most significant contribution of leader

Possible frames for software adoption:
➤Skill deficit
➤Emotional attachment
➤Changing requirements
➤Cultural resistance
➤Work not standard
➤Political deficiency of IT
➤Resistance to centralization of control

Requires tact, creative confusion.

"I'm confused about one thing. Are we certain this is a skill problem? Some of the sharpest people are our most vociferous critics."

**Decision definition**:  Recognizing the need for a decision
Could make things worse, so taking on the decision is not always the right answer.  Some things are out of our control; DM'ing just a futile act or expression of moral outrage ("We've got to do *something!")*.
The best choice is not obvious (otherwise we'd just act)
Cannot do nothing; natural evolution of events is unacceptable
Criteria and constraints
**Decision framing**:  How to think about the situation
Challenging how we represent the world to ourselves is often more important than how we explore our options within that world we've designed.  The process of defining our reality is much less visible than our navigation of the world we see.
What problem are we trying to solve?
What's the larger system in which the decision lives?
[QUALITY] Is a solution possible within the given domain?
**Decision nesting**
Links to other decisions ("rearranging deck chairs on Titanic")
Policy context
Larger political environment
[QUALITY] Will the decision survive?
**Decision process**
What forum is appropriate?          Inclusion ∧ Speed
Who has the authority?                 Analytical ∧ Intuitive
Political complexities?                  Divergent ∧ Convergent
**Non-decision-making**
Analysis paralysis, constant data requests
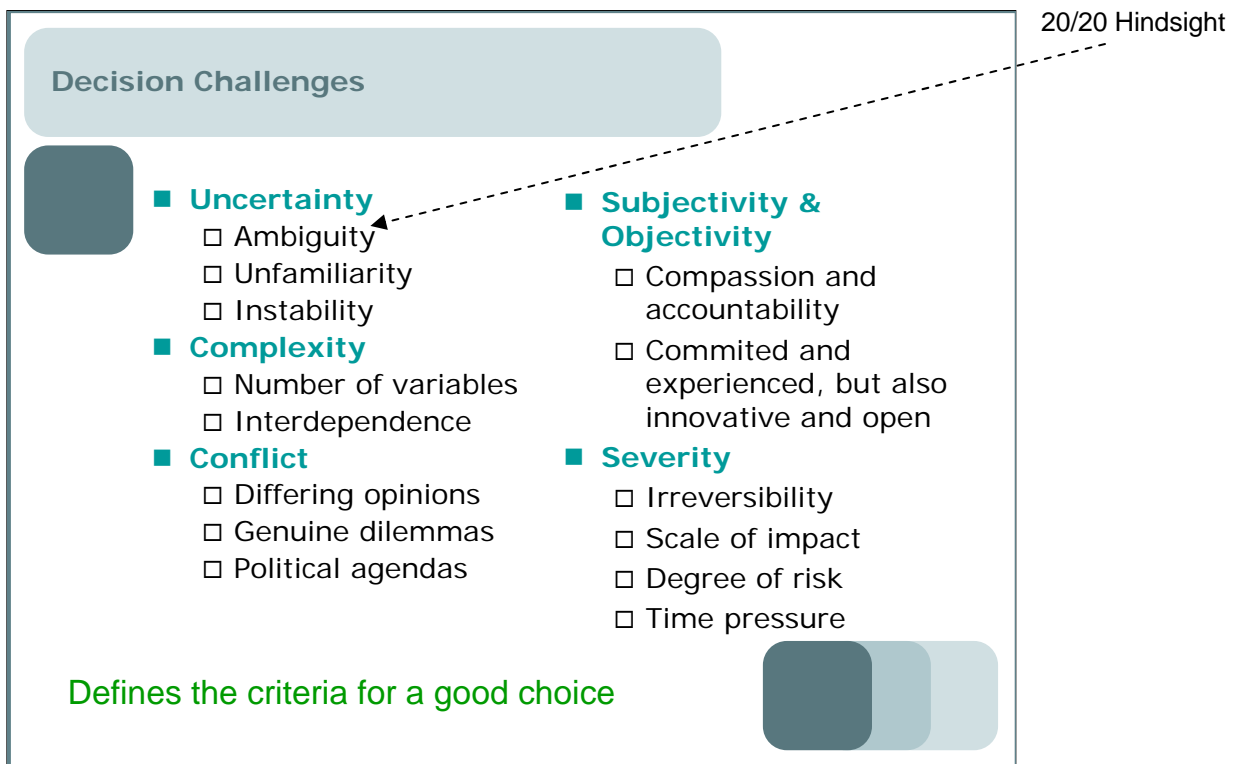Fear of making a mistake
**Undecision-making**
Don't write it down; how long will it last?
Don't assign accountability
No plans for implementation
Organizational inertia or elasticity (good solutions "snap back")

**Decision Challenges**

■ **Uncertainty**
  □ Ambiguity
  □ Unfamiliarity
  □ Instability
■ **Complexity**
  □ Number of variables
  □ Interdependence
■ **Conflict**
  □ Differing opinions
  □ Genuine dilemmas
  □ Political agendas

■ **Subjectivity & Objectivity**
  □ Compassion and accountability
  □ Commited and experienced, but also innovative and open
■ **Severity**
  □ Irreversibility
  □ Scale of impact
  □ Degree of risk
  □ Time pressure

20/20 Hindsight

Defines the criteria for a good choice

We want to be able to address these challenges.  The key is *not* some standard "best practice", but rather a greater understanding of the underlying dynamics.  And the ability to parse out a specific situation to quickly identify where to focus your attention and your resources.

**Uncertainty:**  The situation may be in a state of rapid flux.  Decisions made (no matter how good they are) are quickly rendered outdated, irrelevant.  There may also be uncertainty about the decision process.  Or who has the authority.  The expertise.  The right to make inputs.

## Conflict:

**Genuine dilemmas:** Inherent conflicts between equally valuable but opposing goals (such as in the example introduction).  Broad participation ∧ Decision speed.

**Political agendas:** Using decision situations to build alliances, frustrate enemies, or enhance personal power.  Political utility of a choice is greater than any concern for the substantive issues or system consequences.

**Subjectivity vs. Objectivity:**  We want DM'ers who are compassionate and humane, but not overly involved, or more responsive to personal agendas than the demands of the situation.  We also want DM'ers able to challenge their own previous choices, to find new approaches to old problems.

**Severity:**  The severity can be in terms of personal consequences.  Decisions are sometimes pushed up the organizational ladder because of fear of being fired or held accountable.

**Decision Content**

- **Ends**
  - ☐ Desired outcomes
  - ☐ Customer group for whom we create value
- **Means**
  - ☐ Methods
  - ☐ Task assignments
  - ☐ Resource allocation
- **Values**
  - ☐ Who we are
  - ☐ How we treat each other
  - ☐ What we model to the community

Decisions are typically a mix of ends, means, and values. That is, we are usually juggling a combination of desirable outcomes, methods, and constraints of equity, honor, respect, or some other value.

It's made more difficult since ENDS and MEANS are relative. Your daughter's graduation from college was an END for you, but just a MEANS for her.
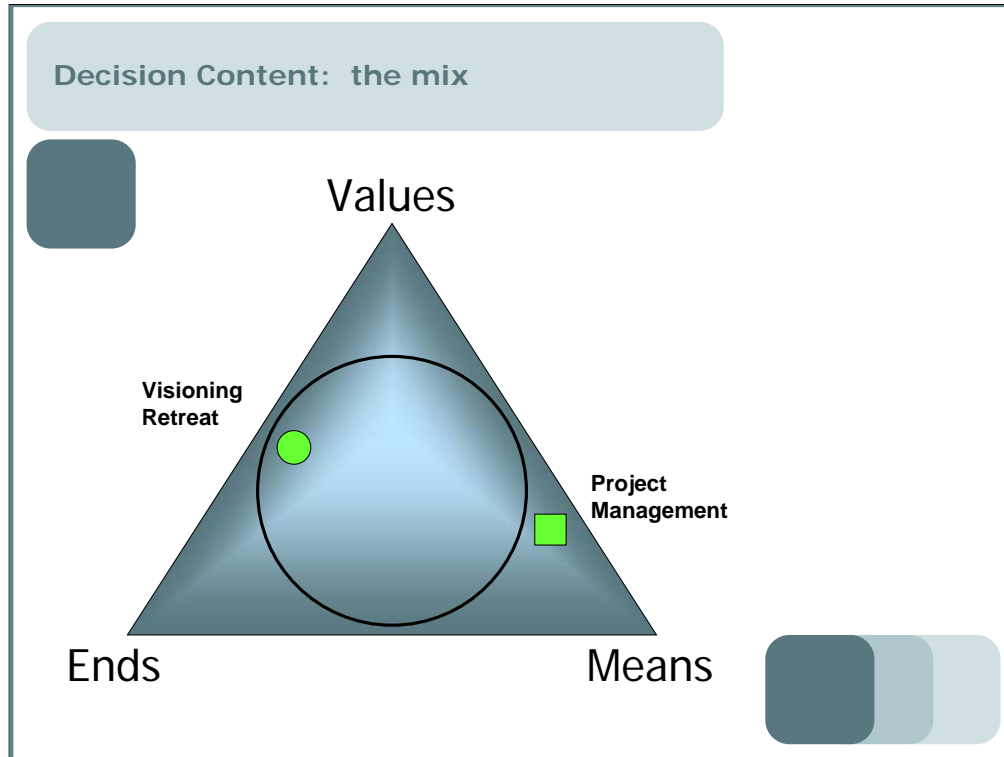
Releasing **overly optimistic estimates of the delivery date** for a new product contains the following elements:

> GOAL: Secure the greatest customer commitment to purchase
> MEANS: Misrepresent the availability of the product
> VALUES: Honesty, reputation, credibility

Postpone the **announcement of a likely downsizing:**

> GOALS: Make an orderly transition in staffing without compromising program delivery
> MEANS: Choosing an announcement schedule that leaves little chance for disruptive, personal agendas to contaminate the work team
> VALUES: Honesty, consideration

**Launching a new product?**

> GOAL: What are we hoping to achieve?  Whose the customer?
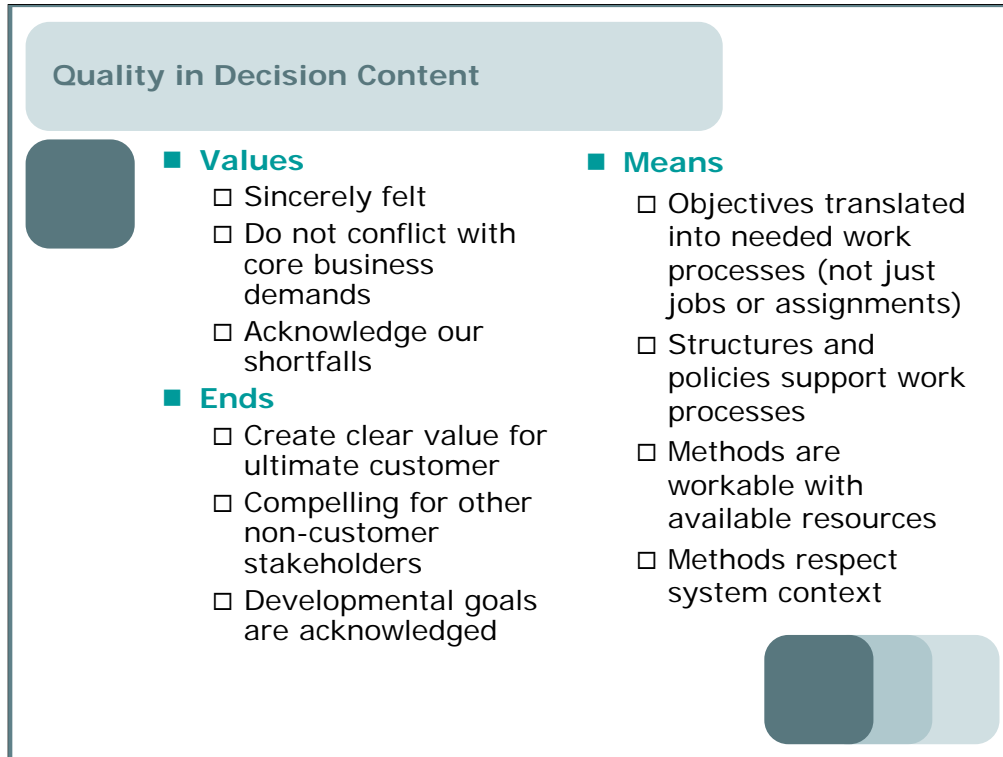> MEANS: Are the costs justified?  Will it work?
> VALUES: Does it reflect who we are?  Fit with our culture?

**Installing a new software program?**

> GOALS: What work flow are we hoping to support?
> MEANS: Will training actually change peoples' behavior?
> VALUES: Are we giving people more control?  Options?  Satisfaction?

**Quality in Decision Content**

■ **Values**
- □ Sincerely felt
- □ Do not conflict with core business demands
- □ Acknowledge our shortfalls

■ **Ends**
- □ Create clear value for ultimate customer
- □ Compelling for other non-customer stakeholders
- □ Developmental goals are acknowledged

■ **Means**
- □ Objectives translated into needed work processes (not just jobs or assignments)
- □ Structures and policies support work processes
- □ Methods are workable with available resources
- □ Methods respect system context

The criteria for quality are fairly clear in each of the three components:

**For Values**
• Sincerely felt…even if practice is problematic
• Don't hold out "Honesty" as a primary value if you're a law firm specializing in Mergers and Acquisitions.
• Values are often "as desired" rather than "as practiced".  Some honesty about the gaps in performance are appropriate.

**Ends**
• Ends should have a clear value to a clearly defined customer
• The ends should be compelling for investors, employees, and partners as well
• Often there are developmental needs (infrastructure, skill development, financing, etc.) that are embedded in a stated end.  They should be stated as well.

**Means**
• It's never enough to simply assign work to people; there should be viable and effective work processes and procedures within which that assignment is doable.
• If the means require high levels of collaboration, then performance reviews should reward collaboration over individual performance.  Policies should reinforce required means.

**Decision Making Style**

- *You immerse yourself in the information, and then get really overwhelmed.*
- *You follow your gut, even when the facts point elsewhere.*
- *You decide on something, and you hang onto it whether it works or not.*
- *You avoid making a choice until it's almost forced on you by external circumstances.*
- *You tend to go along with whatever's popular, even if it's doubtful.*
- *You like to champion the unpopular cause, just to be different.*
- *You're cold; you need more heart.*
- *You make good decisions for the moment, but you miss the long-term trends*
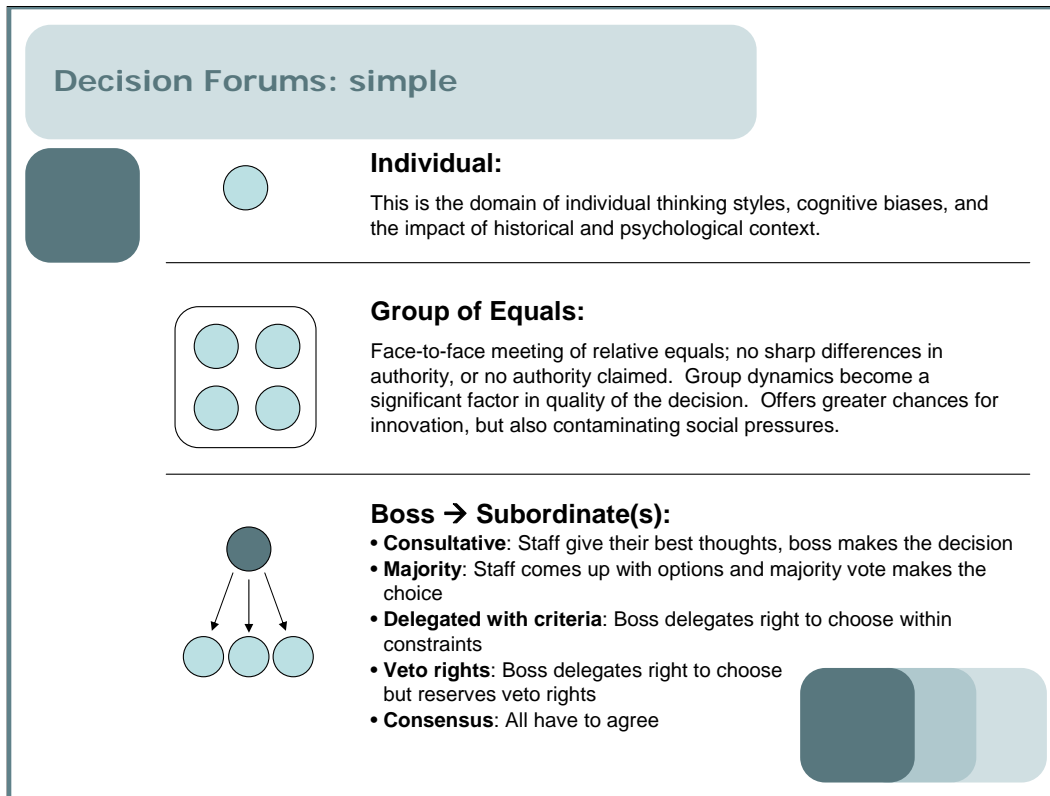
**Comments**

- A predisposition that is *independent* of the situation
  - a possible liability, a blind spot
- The style successful in one setting could be disastrous in another
- Successful DMers adjust their style to fit the circumstance

Each of us has a decision-making *style*.  It is probably unconscious and hence invisible to ourselves.  If we asked our friends or co-workers, they could probably describe it for you:

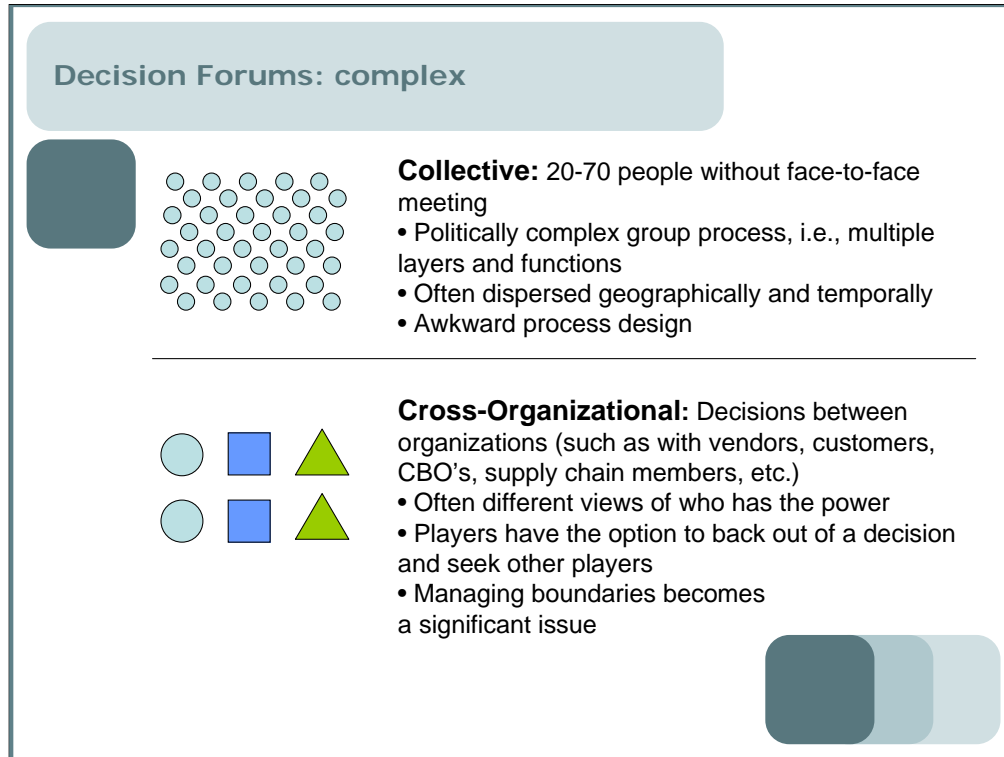**Myers-Briggs types:**  Judging vs. Perceiving; Thinking vs. Feeling

The research on decision-making styles has a very clear finding:  **your decision-making style is a liability, a blind spot.**  It is a predisposition to use a particular sequence or strategy *independent of the subtleties of the situation.*  You may have useful principles in your style, but there will always be a situation where it is too much, or too little.

**The styles that fit for one decision challenge may be disastrous if applied to a different decision challenge**.  Successful managers and executives are the ones who have adjusted their decision-making style to fit the distinctive features of their situation.

## Decision Forums: simple

**Individual:**

This is the domain of individual thinking styles, cognitive biases, and the impact of historical and psychological context.

**Group of Equals:**

Face-to-face meeting of relative equals; no sharp differences in authority, or no authority claimed. Group dynamics become a significant factor in quality of the decision. Offers greater chances for innovation, but also contaminating social pressures.

**Boss → Subordinate(s):**
- **Consultative**: Staff give their best thoughts, boss makes the decision
- **Majority**: Staff comes up with options and majority vote makes the choice
- **Delegated with criteria**: Boss delegates right to choose within constraints
- **Veto rights**: Boss delegates right to choose but reserves veto rights
- **Consensus**: All have to agree

The main premise here is that an intelligent discussion of decision-making is only possible within a particular forum. The dynamics and issues are unique to the forum.

And the techniques that support better decision-making in one venue may be inappropriate or even counter-productive if applied to another venue.
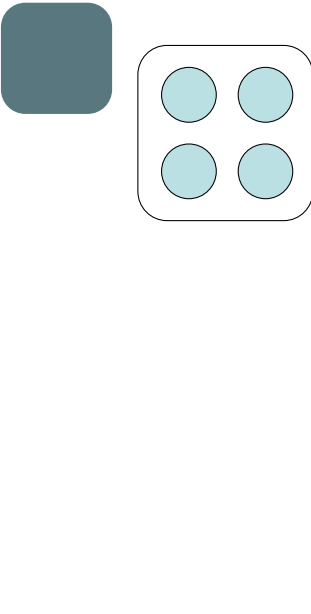
**Decision Forums: complex**

**Collective:** 20-70 people without face-to-face meeting
• Politically complex group process, i.e., multiple layers and functions
• Often dispersed geographically and temporally
• Awkward process design

**Cross-Organizational:** Decisions between organizations (such as with vendors, customers, CBO's, supply chain members, etc.)
• Often different views of who has the power
• Players have the option to back out of a decision and seek other players
• Managing boundaries becomes a significant issue

**Collectives** are increasingly dominant in today's business environment. Stakeholders, supply chains, and distributed decision making often mean that "the boss" is a network of dozens rather than a single person.  Consider the decision about what features to include in a new product offering:

- • Marketing and sales
- • Major customers
- • Engineering
- • Manufacturing
- • Finance
- • Executives
- • Regional voices

**Cross-organizational:** Suppliers, customers, outsource partners, channel partners.

**More on Groups of Equals**

- Clarity of membership
  - □ Team member or representative?
- Homogeneity of cultures
- Ambiguity of authority
- Uneven expertise or experience
- Negotiated decision style
  - □ Level of consensus
  - □ Rights of the minority
- Tolerance for ambiguity
- Tolerance for risk

Have you ever been on a team that was memorable for the quality of outcome and the closeness of the relationships?  Is that your typical experience?

Are there some types of group that are especially good for decision-making?  Or especially bad for decision-making?

Groups create a variety of advantages and disadvantages.  Some of the **advantages** are:
1. Greater pool of knowledge
2. Different perspectives
3. Greater comprehension
4. Increased acceptance for better implementation
5. Training ground
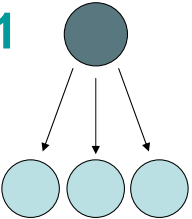
Some of the **disadvantages** of a group are:
1. Social pressure
2. Potential for greater conflict
3. Greater process complexity – more need to plan the steps
4. Longer time frames
5. GroupThink
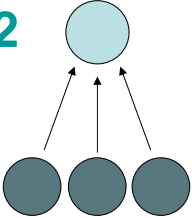
**More on Boss and Subordinate(s)**

**1**

- Opportunity to lead through framing and process design
- Temptation to mistake authority for expertise
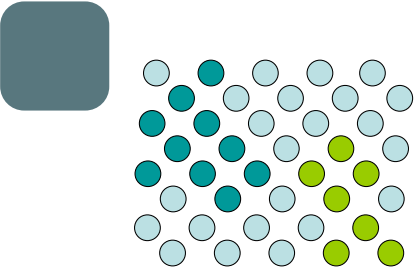- Build focus without suppressing discussion

**2**

- Harder to challenge meta decision processes … but critical
- Authority may *not* have greater intimacy with the situation, but..
- Authority may have greater intimacy with the context of the decision

Managing up is a critical skill for success in organizations:
- Learn to "lead from the floor"
- Don't surprise the boss
- Don't bring problems without an outline of a solution
- Don't provoke him/her into making a quick decision without adequate input
- Realize they live in a different realm of political networks and interpersonal relationships

**More on Collectives**

■ Make the collective aware of itself
■ Need some mechanism for capturing segmented debate ← • Blogs
■ Leverage technology to maximize interaction ← • Wiki's
■ Address dilemmas first! • Google Docs
■ Tools for convergence
    □ Define criteria for good choices
    □ Have a clear deadline
    □ Post a default choice
    □ Delphi techniques

Collectives are often not fully aware of **who is "in" and who is "out".** Can stumble on assumptions of whose a real participant, and who merely needs to be kept informed. Identify not only whose in, but what perspective they represent, or what role they will play (advisor, informant, consultant, DMer, etc.)

Collectives have a tendency to be **divergent.** Conversations of subgroups lead to new issues or reversal of opinion from other sub-groups. The membership is often ambiguous, so new players can surface unexpectedly. And anyone in the collective can suddenly decide to escalate the debate to different authorities, further confounding the debate.

Decisions often are made only because of impending deadlines, or (worse yet) simple fatigue.

There is a powerful and valuable role for someone who acts as a neutral facilitator or recorder for the network.

**Defining a "best practice" for decision making is dependent on the forum.**

**Decision Checklist**

**1**
- What decision frame provides the most traction?
- Be clear on the content
  - □ Values?  Ends?  Means?
  - □ A system?  A task?  A person?
- Which decision challenges are most pungent?
  - □ Uncertainty?  Complexity?  Conflict?  Involvement?  Severity?
- What are the criteria or constraints for a good choice?

**Decision Checklist**

**2**
- In what forum will the decision be made?
    - ☐ Individual?  Equals?  Boss/Subordinate?
      Collective?  Cross-functional?
- What process would secure the best decision?
    - ☐ Inclusion *and* Speed?
    - ☐ Analytical *and* Intuitive?
    - ☐ Divergent *and* Convergent?
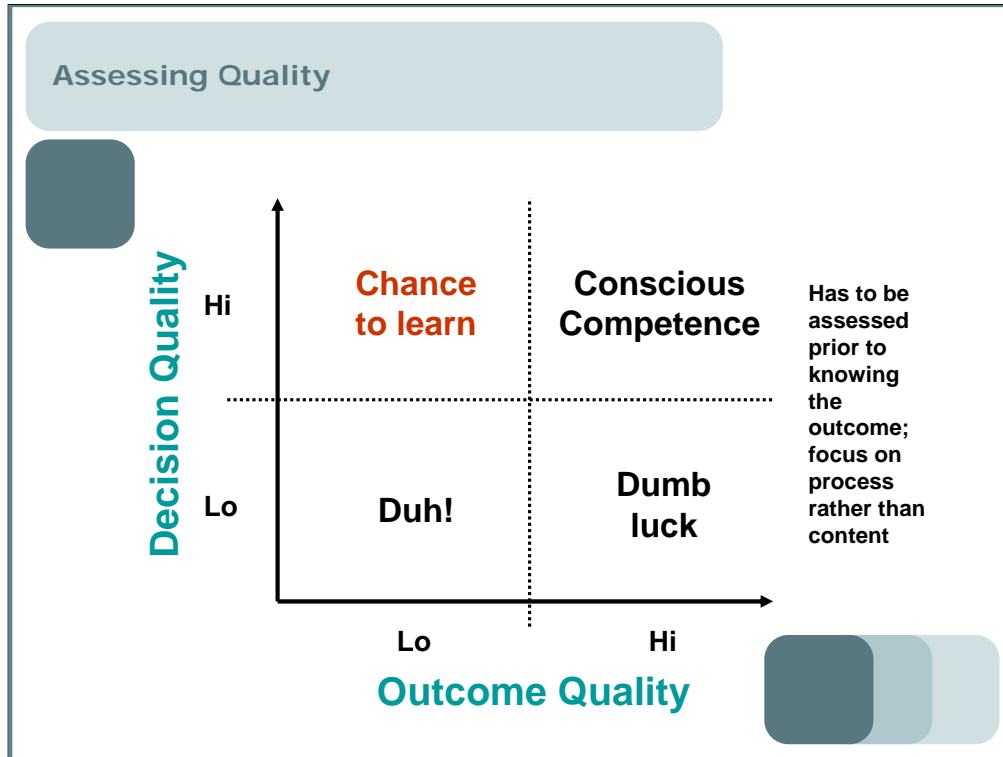- How will we assess the quality of the decision independent of the outcome?

What process options are going to be least comfortable giving my style?  How can I compensate for my flat spots?

**Analytical and Intuitive**
> playful /\ serious
> emotional /\ intellectual
> head /\ heart

The more playful process tools allow for low-quality options, since they are often the stepping stone to something else entirely unanticipated.

**Assessing Quality**



**Decision Quality**

| | Chance to learn | Conscious Competence |
|---|---|---|
| Hi | | |
| Lo | Duh! | Dumb luck |
| | Lo | Hi |

**Outcome Quality**

Has to be assessed prior to knowing the outcome; focus on process rather than content

Most of us assess the quality of the decision-making process by the success of the outcome.  But if you take that stance, you never focus on how to build the best process *ahead of time.*  You can do a post-mortem on a failed decision, but it would have little impact on our ability to plan a good process ahead of time.

Decision quality should be something you can confidently defend even if the outcome was less than desired.  In other words, you know you did the best possible process, even though the outcome was less than desired.  Now in some organizations, results are a veritable religious totem.

**Any questions or comments?**

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