

Individual Decision-Making

Managers make decisions. Indeed, decision-making is perhaps the quintessential management task. But decision-making is not restricted solely to managers: All employees make decisions as a routine part of their jobs. Understanding how they do so is an important part of good management. So is understanding the implications of different decision-making styles.

Perception and individual decision-making

People make decisions based on their perceptions of other people with whom they interact and the contexts in which their interaction occurs. To understand individual decision-making, therefore, it is important to review the dynamics of individual perception.

In simplest terms, individual perception has three components: the individual who perceives (the perceiver), the individual perceived (the target of perception), and the context. Each component can be influenced by a number of factors.

1. The *perceiver* will be influenced by
 - *existing attitudes*: people attempt to reduce dissonance between their attitudes and what they perceive about others
 - *motives and interests*: what people want, do, or are involved shapes how they perceive others
 - *past experiences*: what people have experienced in the past molds what they perceive in the present
 - *novelty or familiarity*: people more readily perceive what is novel than what is familiar
 - *expectations*: what people expect shapes what they perceive
2. The *target* will have various features that influence how it is perceived. Among the more relevant features are:
 - *background*: does the target blend in with or stand out from its background
 - *physical proximity*: targets in close proximity to each other are usually perceived as belonging together, those distant from each other are usually perceived as being separate
 - *physical similarity*: physically similar targets will be perceived as similar
 - *novelty or familiarity, motion, sounds, size*: these attributes all shape how the target will be perceived (e.g., rapid motion may be perceived as threat, small size as vulnerability, and so on)
3. The *context* within which perception occurs is influenced by
 - *time*: we associate ways of dressing, walking, or talking with specific times of day and days of the week; if these are incongruent with our expectations, we tend to perceive them more readily
 - *setting*: again, we associate ways of dressing, walking, or talking with specific settings; we quickly perceive those that are incongruent with a setting (e.g., someone who wears a three-piece suit to an 8:00 a.m. class is more readily noticed than someone who shows up in sweats and flip-flops)
4. Our perceptions influence how we interpret and predict an individual's behavior, and whether we believe it is determined by factors within the individual's control (internal) or outside the individual's control (external). The body of psychological thought dealing with these issues is called *attribution theory*. There are three general criteria people tend to use when deciding if a person's behavior reflects internal or external control.
 - whether a person's behavior is unusual for the given context: the tendency is to regard contextually unusual behavior as externally controlled, contextually usual behavior as internally controlled
 - whether a person's behavior is congruent or incongruent with the behavior of other group members in the same context: incongruent behavior (e.g., one individual returns late from lunch, but others who were also at lunch in the same place return on time) is generally interpreted as internally controlled,

while congruent behavior (e.g., everyone returns late) is generally interpreted as externally controlled

- whether a person's behavior is consistent over time: consistent behavior is interpreted as internally, inconsistent behavior as externally controlled

People are held more responsible for behaviors that they themselves control, that is, are internally controlled. There is little a manager can do about external factors, but he/she can intervene with an employee to address unsatisfactory behaviors that are within the employee's control.

Two caveats need to be added here, based on attribution theory-based research.

1. When assessing someone else's behavior, there is a tendency to *underestimate* the importance of external factors and to *overestimate* the importance of internal factors.
 2. When assessing our own behavior, there is a tendency to *overestimate* the significance of internal factors for our successes and the significance of external factors for our failures.
5. Workplace environments are very dynamic and very complex, making it impossible for one individual to grasp all the details. People use a wide variety of shortcuts when interpreting and predicting the behavior of others. Recognizing these shortcuts allows managers to adjust for their biases and to work toward eliminating them.
- A. *selective perception*: People engage in selective perception to simplify their workplace environments, perceiving far more readily those stimuli salient to their individual or group interests than those that are not. Although this allows people to size up an environment very quickly, it does so at the risk of over-simplification or outright error.
 - B. *halo effect*: This occurs when people use a single dominant or salient trait as the basis for their evaluations. The traits that create halos are often those a person her/himself particularly values (or devalues). The presence of a particularly valued trait is likely to create an overall positive perception of an individual, while the presence of a particularly devalued trait is likely to create an overall negative perception.
 - C. *contrast effects*: These occur because nothing is perceived in isolation, but always in a specific context. We tend to perceive people through filters created by contextual effects. For example, perceptions of contractors bidding on a construction project will be influenced by the order in which they make their presentations. The same thing occurs when interviewing job candidates. The current presenter or interviewee is perceived in part by contrasting her/him with previous presenters or interviewees.
 - D. *projection*: This is the tendency to perceive other people as having one's own traits. One projects those traits on to others: trustworthy people may perceive others as trustworthy, unreliable people may perceive others as unreliable. Projection creates a filter between the perceiver and perceived, which may lead to considerable distortion.
 - E. *stereotyping*: People often generalize from groups to individual members of those groups. We are most familiar with racial, gender, ethnic, age, and ability stereotyping, but it also occurs according to occupations or location within an organization. The cartoon strip *Dilbert*, for example, is humorous in part because of it uses stereotypes about engineers, managers, and marketers.

Individual decision-making

A decision occurs in response to the need to choose between two or more alternatives. To decide is to make a choice, often creating a disjunction between the present and the future. Everyone in an organization makes decisions on a daily basis. Sometimes these decisions are so routine they are scarcely recognized. At other times they involve issues crucial to the survival of an organization. Decisions entail evaluating information of various types from various sources. How types and sources of information are perceived contributes to how they are evaluated, and thus how information is included in the decision-making process. Similar comments may be made about the various models of decision-making.

1. *Rational decision-making model*

- A. The rational decision-making model is perhaps the most frequently discussed of all approaches to decision-making. Its widespread appeal is based as much on the cultural and professional value

attached to a specific understanding of rationality as it is on the effectiveness and efficiency of the model itself.

Six steps are generally included within the rational decision-making model.

- (1) *defining* the issue to be decided thoroughly and accurately
- (2) *identifying* the proper criteria by which to make the decision
- (3) *prioritize* the decision criteria and weight them accordingly
- (4) *develop* alternative decisions that resolve the issue to be decided
- (5) *analyze and evaluate* each alternative critically using the weighted decision criteria
- (6) *select* the alternative with the highest score using weighted the decision criteria

B. The rational decision-making model is based on several assumptions. To the degree these assumptions hold, the model may be useful. If these assumptions are inaccurate, however, the model can unduly narrow the range of alternatives considered and skew the selection process.

- (1) *complete information*: the decision maker is assumed to have full, complete information about the problem and the range of alternative decisions
- (2) *known consequences*: the decision maker is assumed to have full knowledge about the consequences of each alternative decision
- (3) *clear decision criteria*: the decision criteria are assumed to be known, the differences among them distinct, and preferences among alternative outcomes them clearly stated
- (4) *consistent decision criteria*: the decision criteria, the differences among them, and the preferences among alternative outcomes are consistent over time
- (5) *zero time and cost constraints*: there are no time or cost constraints that prevent decision makers from developing full information about the decision criteria and alternative outcomes
- (6) *maximized payoffs*: the decision maker wishes to maximize the payoff from any decision and will therefore select the alternative scoring the highest using the weighted decision criteria

C. There are two great difficulties with the rational decision-making model. First, it tends to reduce the scope for creativity in decision-making. Second, it does not fit well with the contexts within which actual decisions must be made. These issues are discussed in the following sections.

2. Creativity in decision-making

A. Creativity in decision-making is the ability to come up with original and useful solutions to problems, or to extend existing solutions in new ways. Although most people have at least some creative impulses and potential, relatively few people develop their creativity very fully. Robbins (2001, Exhibit 5-5) summarizes research indicating that individual creativity in decision-making has three dimensions: *expertise*, *skills in thinking creatively*, and *intrinsic task motivation*. The higher an individual scores on these dimensions, the greater the likelihood that individual will be able to make creative decisions.

- (1) *Expertise* is the basic requirement for creative decision-making. It consists of KSAs relevant to and prior experience with the issues to be decided.
- (2) *Skills in thinking creatively* may themselves be divided into three categories.
 - (a) individual characteristics usually associated with creativity, including intelligence, independence, self-confidence, tolerance for risk, internal locus of control, tolerance for ambiguity, and perseverance
 - (b) the ability to use analogies or “lateral thinking” in order to see similarities and differences among issues and possible solutions
 - (c) the ability to see what is familiar or ordinary in new ways
- (3) *Intrinsic motivation* is the willingness to seek resolution of an issue because the issue itself is interesting, the process is inherently enjoyable or meaningful, and/or there is personal

satisfaction in doing so. Intrinsic motivation may be thought of as the catalyst that transforms ideas into action, that stimulates people to become fully engaged in the creative process.

- B. The presence of any of the following in an organization may constrain individual creativity in decision-making.
- (1) *evaluation*: when individuals anticipate that the outcomes of their work will be evaluated, they tend to adjust their work to conform with the anticipated evaluation criteria
 - (2) *surveillance*: when individuals are aware their work is under surveillance by their supervisors, they tend to withdraw into what they regard as a safe range of behaviors and ideas
 - (3) *external motivators*: emphasis on external motivators like money, promotions, or other tangible rewards tends to reduce willingness to risk failure, which is essential for creative decision-making
 - (4) *zero-sum situations*: situations in which the “winner takes all” also reduce the willingness to take risks

3. *Actual decision-making in organizations*

As noted above, the rational decision-making model entails a number of assumptions, in the absence of which it tends to break down. This is the second great difficulty with the model, for the contexts in which decisions are generally made seldom correspond with the assumptions underlying the rational decision-making model. Instead, these contexts are more likely characterized by the following conditions and/or processes.

- A. *bounded rationality and satisficing*: The rational collection and analysis information are constrained by many factors, for example, lack of ability, inadequate resources, or the complexity of the issues to be decided. Such constraints impose boundaries within which decisions must be made, boundaries that fall far short of the assumptions underlying the full rational decision-making model.

One frequent response to bounded rationality is to *satisfice*, a term popularized by Lindblom (1993) to designate decision alternatives selected because they are sufficiently satisfactory to a sufficient number of stakeholders, not because they fulfill the assumptions of the rational decision-making model. Satisficing works by simplifying the decision-making context and by narrowing the range within which alternatives will be sought. Satisficing tends to emphasize alternatives that are readily identified and familiar to decision makers. There is more concern with arriving at an acceptable decision than there is with fully exploring the universe of all possible decisions. Satisficing thus tends to reproduce existing conditions rather than introduce departures from them. Since the first satisfactory and sufficient alternative discovered is likely to be the alternative selected, the order or sequence in which alternatives are presented is very important. Assuming there is a set of five alternatives available to a decision maker who is engaged in satisficing, if the third alternative is satisfactory and sufficient, it is likely to be selected and the fourth and fifth alternatives ignored.

- B. *intuitive decision-making*: Intuition is the ability, often operating on the subconscious level, to analyze patterns or trends and make quick decisions. This ability is often dependent on having considerable experience with the issues to be decided or the contexts in which decisions must be made. It does not operate independently of rational analysis, but rather accelerates that process through rapidly sorting events, behaviors, contextual constraints, and the like into identifiable patterns that provide the decision maker with adequate information on which to act.

There appear to be a number of conditions that lead people to employ intuitive decision-making techniques:

- (1) high levels of uncertainty exist in the decision-making context
- (2) no familiar alternatives are readily available
- (3) the factors affecting the decision-making context are not easily predicted using empirical tools like statistical analysis
- (4) it is uncertain what counts as a *fact* (e.g., attitudes and values may be more in play than observable events)

- (5) those facts that are available appear to point in contradictory
 - (6) there is pressure to make a decision, but several reasonable alternatives are available, supported by persuasive arguments, and little time to analyze them in detail
 - C. *visibility bias*: Issues that are more visible, not only to the decision maker but to others in the organization, are more likely to receive attention. This may occur even if other issues have more substantial and longer term implications for the organization.
 - D. *incrementalism*: As noted in discussing the satisficing approach, the search for decision alternatives tends to concentrate on those that are most readily identified and familiar, so that decisions tend not to fall very far outside the bounds of the status quo. As a result, problem solving proceeds incrementally, as a series of smaller scale decisions rather than in one or two bolder, more encompassing decisions. Satisficing does not put a premium on creativity, which becomes apparent in the alternatives considered and the incremental structure of actual decisions.
 - E. *decision heuristics*: A *heuristic* is an analytical structure intended to simplify, stand in for, or represent the complexities of actually existing conditions. People use heuristics in everyday life just as they do in their work. Two common heuristics have already been mentioned, though not labeled as such: availability and familiarity. Another common heuristic is representativeness, that is, the assumption that one or a few behaviors or events are representative of much broader classes of behaviors and events. Decision makers use decision heuristics to simplify the contexts within which the decision makers operate, but all decision heuristics skew decision-making in ways that can have serious consequences.
 - F. *escalation of commitment*: Managers may become increasingly committed to their preferred decision alternatives or to their actual decisions even when there are good reasons to abandon them. The possibility for escalation of commitment may increase as a manager feels greater responsibility for a decision. A number of personal characteristics commonly associated with being a good manager – decisiveness, consistency, perseverance – can also reinforce the tendency toward escalation of commitment. Clearly, as a manager it is undesirable to waffle on decisions and their implementation, but it is just as clearly undesirable to stick with a bad decision just because the manager her/himself made it.
4. *Organizational constraints on individual decision-making*
- Certain features in any organizational context have constraining effects on individual decision-making. These effects may predispose decision-makers to value certain forms and sources of information or favor certain alternative solutions over others. In studying decision-making within an organization, it is important to be sensitive to the constraints imposed, often unknowingly, on how managers go about making decisions.
- A. *rewards*: The types of reward available and how they are distributed will influence decision-making. People are more likely to make decisions that will increase their individual reward levels. Even in public service organizations, individuals are not entirely self-disinterested. Although they may prefer the satisfaction of making contributions to their community over monetary rewards, they nevertheless seek such satisfaction as a reward.
 - B. *time constraints*: Deadlines constrain decision-making by imposing decision criteria that are often external to the issues being decided. The budget calendar has a great deal to do with funding for an agency's youth-at-risk programs, but the challenges facing at-risk youth go on without regard to the budget calendar. At-risk-youth program analysis and selection are nonetheless constrained more by the demands of the budget calendar.
 - C. *routine operating procedures*: "Going by the book" standardizes behavior within organizations, increases the predictability of behavior within them, and thus facilitates coordination. These are not inconsiderable benefits in organizations, particularly as their size or complexity increase. Yet routine constrains decision-making by making it more obvious whenever a decision falls outside the expected range. Organizations develop a form of inertia, making it more difficult for managers to consider, let alone to recommend alternatives that challenge organizational routines.

- D. *performance evaluation*: Anticipation of being evaluated on the consequences of one's decisions constrains individual creativity and willingness to take risks. This is particularly true when there is a direct connection between evaluation and rewards. Few people are comfortable with a "max-max" approach to decision-making, in which both potential gains and potential risk are maximized. Instead, people tend to prefer reducing risk even if it means lesser gains.
- E. *organizational history*: No decision is ever made *de novo*, that is, without history or context. The decisions made today are conditioned by past decisions and their consequences; future decisions will be conditioned by the consequences of the decisions we make today. Though we may have had no part in past decisions, we must still deal with their consequences.

5. *Decision-making styles*

Individual differences in decision-making reflect differences in the ways people process information and respond to the contexts in which they find themselves. There are many assessment tools available that help managers analyze their individual decision-making styles. In my view, much of the literature on individual decision-making overemphasizes the importance of developing a decision-making style, implying that a single preferred style can be adjusted to fit most situations a manager is likely to find her/himself in. Although the ancient Greek maxim "Know thyself" surely applies here – any manager is better off knowing how he/she processes information and responds to contextual cues – this does not mean he/she must necessarily have a single best decision-making style. It is better to develop a repertoire of such styles, for this provides considerably greater flexibility.

As Robbins (2001, p. 141) comments, there are two dimensions of decision-making that have proven particularly useful for understanding differences among managers. Though these dimensions are deliberately overdrawn here, they do capture important components of decision-making styles.

- A. *linear vs. holistic thought processes*: Some people analyze an issue in a step-by-step fashion, beginning with what is known (or assumed to be known) about an issue and proceeding from there to analyze succeeding facets of the issue one at a time. This is linear thinking. In contrast, holistic thinking is intuitive, open to lateral moves, and often proceeds by creative leaps. Linear thinking tends to be more process oriented, holistic thinking more "big picture" oriented. Linear thinkers prefer to focus on a relative few facts at a time, holistic thinkers on relatively more.
- B. *ambiguity-intolerance vs. ambiguity-tolerance*: People have different tolerance levels for ambiguity. It is unlikely anyone could function well at either end of the continuum, i.e., under conditions of total certainty or total ambiguity. In between these two poles, however, tolerance of ambiguity varies considerably, depending, for example, on the issue involved, the immediacy with which a decision must be made, the likely outcome of the decision, and the degree of individual responsibility for the decision.

It is tempting to assume there is a natural affinity between linear thinking and ambiguity-intolerance, on one hand, and holistic thinking and ambiguity-tolerance, on the other. This would be misleading, however, and it is better to regard each dimension as independent. Doing so leads us to the following typology of leadership styles.

Individual decision-making styles			
Tolerance of ambiguity	<i>High</i>	ANALYTIC	CONCEPTUAL
	<i>Low</i>	DIRECTIVE	BEHAVIORAL
		<i>Linear</i>	<i>Holistic</i>
		Individual thought processes	

Source: Robbins, S. P. (2001). *Organizational behavior* (9th ed.). Upper Saddle River, NJ: Prentice-Hall (p. 141)

These four decision-making styles can be defined as follows.

- (1) *analytic*: accepts ambiguity, prefers more rather than less information, considers more rather than fewer alternatives, cautious but able to adapt to unfamiliar circumstances
- (2) *directive*: emphasizes efficiency in decision-making, avoids ambiguity, prefers to make decisions based on minimum acceptable amount of information, considers fewer rather than more alternatives, focuses on short- rather than long-term consequences
- (3) *conceptual*: prefers greater amounts of information in order to consider widest possible range of alternatives, very much oriented to the "big picture," focused on long-term prospects, often very creative in problem-solving
- (4) *behavioral*: emphasizes consensual decision-making and frequent interaction to reduce ambiguity, invites suggestions from others, higher person-orientation than task-orientation, strives for acceptance and minimizes conflict