Decision Making and Creativity

Session 7

Decision Making Defined

Decision making is a conscious process of making choices among one or more alternatives, with the intention of moving toward some desired state of affairs.

Rational Choice Paradigm

- Rational choice paradigm – effective decision makers identify, select, and apply the best possible alternative
- Two key elements of rational choice
  1. Subjective expected utility – determines choice with highest value (maximisation)
  2. Decision making process – systematic application of stages of decision making
Subjective Expected Utility

Estimating the best possible alternative (maximisation)

Expected – probability of an outcome occurring
- eg. chance that outcome 3 will occur is 90% if choice ‘A’ is chosen, 30% if choice ‘B’ is chosen

Utility – value or happiness produced by each option from value of expected outcomes
- Choice ‘B’ has higher utility (value) than choice ‘A’
- Choice ‘B’ expected utility is \((0.8 \times 7) + (0.2 \times -2) + (0.3 \times 1) = 6.4\)

Rational Choice Decision Process

1. Identify problem/opportunity
   - Symptom vs. problem
2. Choose decision process
   - eg. (non) programmed
3. Develop/identify alternatives
   - Search, then develop
4. Choose best alternative
   - Subjective expected utility
5. Implement choice
6. Evaluate choice
Problem Identification Challenges

- Stakeholder framing
- Mental models
- Decisive leadership
- Solution-focused problems
- Perceptual defence

Identifying Problems Effectively

1. Be aware of perceptual and diagnostic limitations
2. Fight against pressure to look decisive
3. Maintain ‘divine discontent’ (aversion to complacency)
4. Discuss the situation with colleagues – see different perspectives

Making Choices: Rational vs OB Views

<table>
<thead>
<tr>
<th>Rational choice paradigm assumptions</th>
<th>Observations from organisational behaviour</th>
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</thead>
<tbody>
<tr>
<td>Goals are clear, compatible, and agreed upon</td>
<td>Goals are ambiguous, conflicting, and lack agreement</td>
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<tr>
<td>People are able to calculate all alternatives and their outcomes</td>
<td>People have limited information processing abilities</td>
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<tr>
<td>People evaluate all alternatives simultaneously</td>
<td>People evaluate alternatives sequentially</td>
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Making Choices: Rational vs OB Views

Rational choice paradigm assumptions

- People use absolute standards to evaluate alternatives
- People make choices using factual information
- People choose the alternative with the highest payoff (SEU)

Observations from organisational behaviour

- People evaluate alternatives against an implicit favourite
- People make choices using perceptually distorted information
- People choose the alternative that is good enough (satisficing)

Biased Decision Heuristics

People have built-in decision heuristics that bias evaluation of alternatives

1. Anchoring and adjustment – initial information (e.g., opening bid) influences evaluation of subsequent information
2. Availability heuristic – we estimate probabilities by how easily we can recall the event, even though other factors influence ease of recall
3. Representativeness heuristic – we estimate probabilities by how much they are similar to something else (e.g., stereotypes) even when better information about probabilities is available

Paralysed by Choice

- Decision makers are less likely to make any decision at all as the number of options increases
- Occurs even when there are clear benefits of selecting any alternative (such as joining a company retirement plan)
- Evidence of human information processing limitations
Emotions and Making Choices

1. Emotions form preferences before we consciously evaluate those choices
2. Moods and emotions influence how well we follow the decision process
3. We ‘listen in’ on our emotions and use that information to make choices

Intuitive Decision Making

- Ability to know when a problem or opportunity exists and select the best course of action without conscious reasoning
- Intuition as emotional experience
  - Gut feelings are emotional signals
  - Not all emotional signals are intuition
- Intuition as rapid nonconscious analysis
  - Uses action scripts

Making Choices more Effectively

- Systematically evaluate alternatives against relevant factors
- Be aware of effects of emotions on decision preferences and evaluation process
- Scenario planning
Postdecisional Justification

- Tendency to inflate quality of the selected option; forget or downplay rejected alternatives
- Caused by need to maintain a positive self-concept
- Initially produces excessively optimistic evaluation of decision

Escalation of Commitment

- The tendency to repeat an apparently bad decision or allocate more resources to a failing course of action
- Four main causes of escalation:
  - Self-justification
  - Prospect theory effect
  - Perceptual blinders
  - Closing costs

Evaluating Decisions More Effectively

- Separate decision choosers from evaluators
- Establish a preset level to abandon the project
- Find sources of systematic and clear feedback
- Involve several people in the evaluation process
Employee Involvement Defined

- The degree to which employees influence how their work is organised and carried out
- Different levels and forms of involvement

Potential involvement outcomes

- Better problem identification
- Synergy produces more/better solutions
- Better at picking the best choice
- Higher decision commitment

Contingencies of Involvement

Higher employee involvement is better when:

- **Decision structure**: Problem is new and complex (i.e. nonprogrammed decision)
- **Knowledge source**: Employees have relevant knowledge beyond leader
- **Decision commitment**: Employees would lack commitment unless involved
- **Risk of conflict**: 1. Norms support firm’s goals 2. Employee agreement likely
Creativity Defined

- Developing an original idea that makes a socially recognised contribution
- Applies to all aspects of the decision process – problems, alternatives, solutions

Creative Process Model

Characteristics of Creative People

- Cognitive and practical intelligence
- Persistence
- Subject knowledge and experience
- Independent imagination traits
  - Higher openness to experience personality
  - Lower need for affiliation motivation
  - Higher self-direction/stimulation values
Creative Work Environments

- Learning orientation
  - Encourage experimentation
  - Tolerate mistakes
- Intrinsically motivating work
  - Task significance, autonomy, feedback
- Open communication and sufficient resources
- Unclear/complex effects of team competition and time pressure on creativity

Creative Activities

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<tr>
<th>Redefine the problem</th>
<th>Associative play</th>
<th>Cross-pollination</th>
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<td>• Review abandoned projects</td>
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<td>• Explore issue with other people</td>
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<td>• Storytelling</td>
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