

A person wearing a grey and black long-sleeved shirt and dark pants is standing in a forest, looking through binoculars. The background is filled with trees displaying vibrant autumn foliage in shades of red, orange, and yellow. The scene is captured from a slightly low angle, emphasizing the person's focus on the distance.

Decisions:

Knowing How to Make
Decisions is Often More
Important Than The
Decision.

John Reno, PMP
Program Engineering Manager
Northrop Grumman, SLC, UT
<http://www.linkedin.com/in/johnjreno>
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Early Decision Tools



Eeny, Meeny, Miny, Moe...



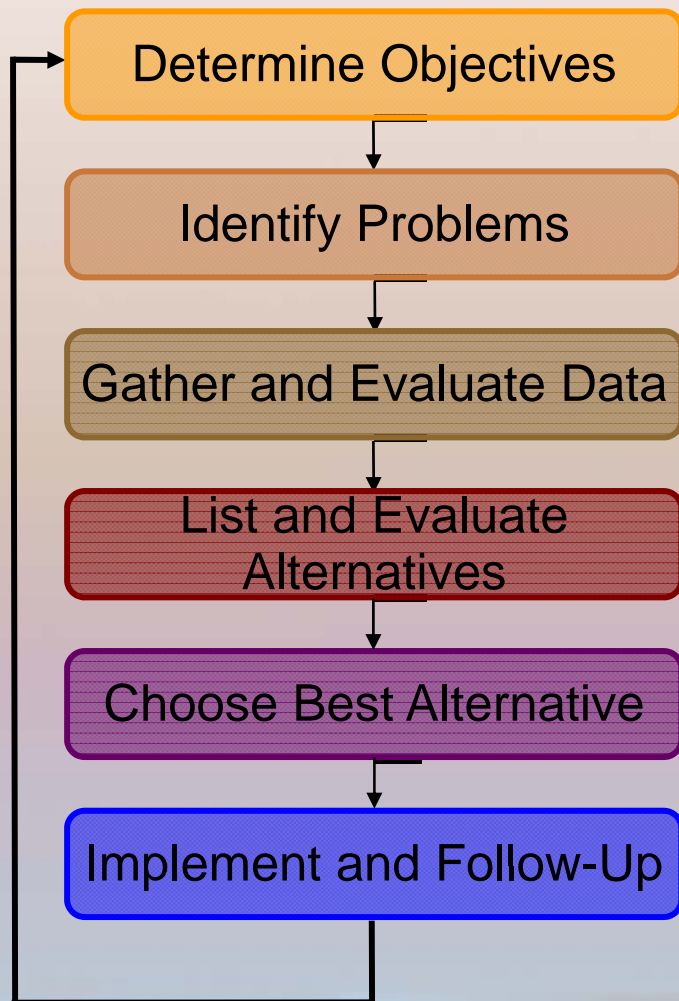
Pick a number between One and Ten:

4

Agenda

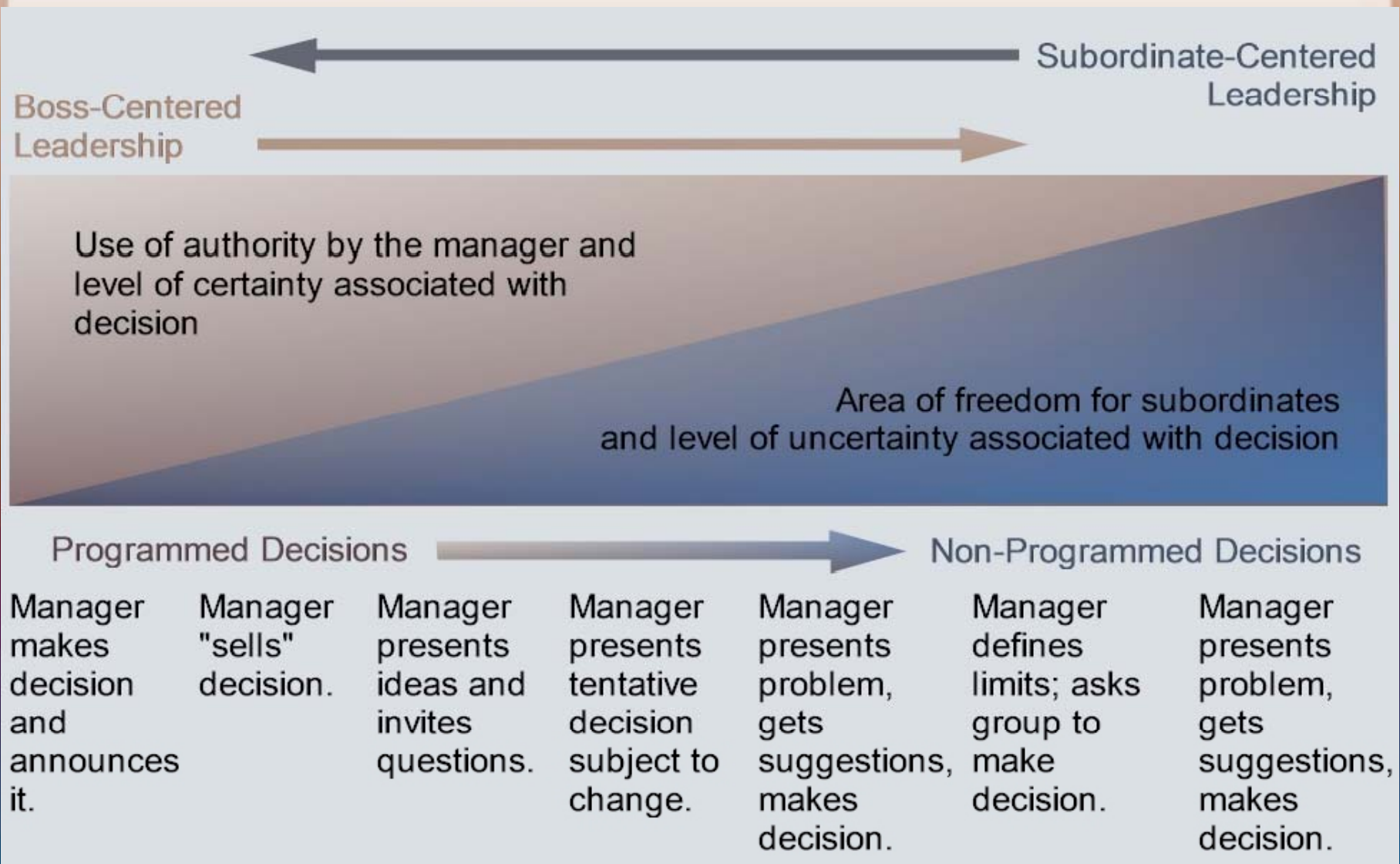
- Rational Decision Making Process
- Simon/Tannenbaum & Schmidt – 1973
- Vroom-Yetton Decision Tool – 1988
 - Is time or quality of the decision the driver?
 - When do you involve subordinates?
- The Elusive Sigmoid Curve
 - Unfreeze – Transition - Refreeze
- Roberto Strategic Decision Making Processes – 2005
 - Making Important Decisions
 - What Biases Might We Have
 - Avoiding Decision Traps
- Finally, the Last Word

Rational Decision Making Process₁



- Most Models of Rational Decision Making Include these Major Activities:
 - Problem Definition
 - Obtaining Facts
 - Solution Identification
 - Decision Implementation

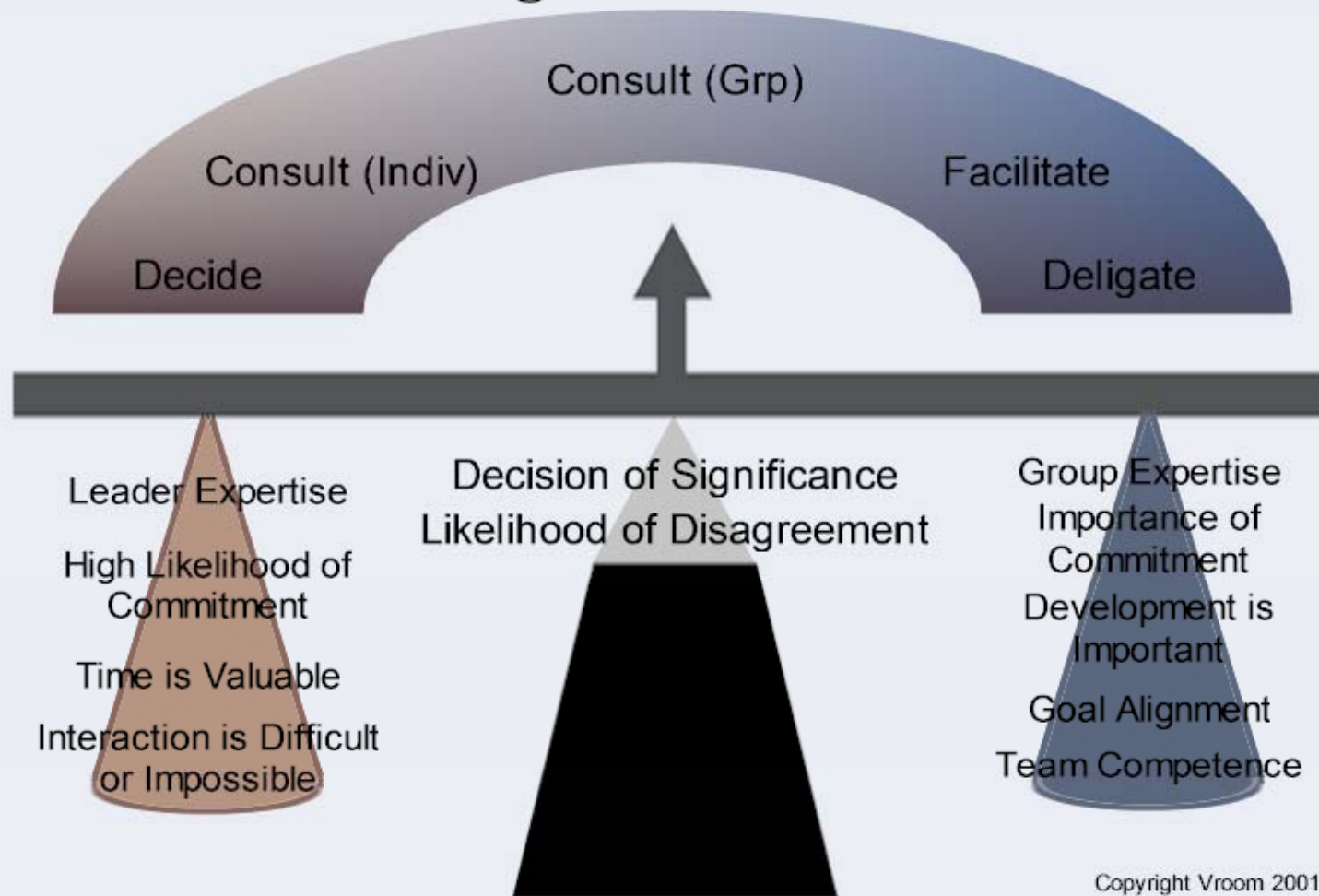
Simon/Tannenbaum & Schmidt_{1,6}



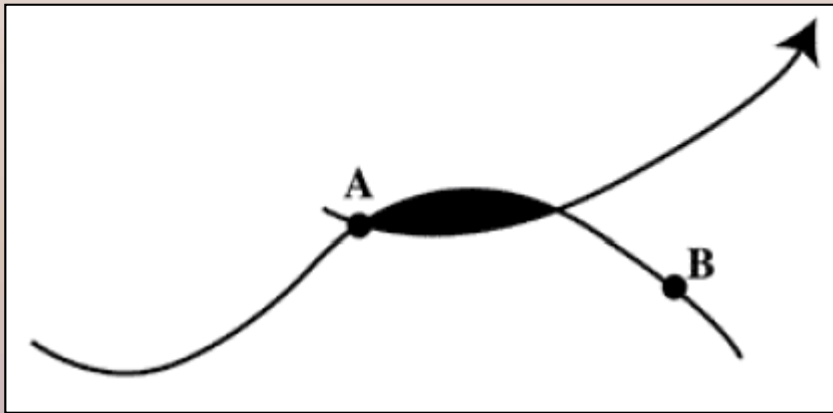
Vroom/Yetton

- **Quality of a decision** – is the decision the best that can be made with available information?
- **Timeliness of a decision** – Is there enough time available to resource and analyze the decision prior to implementation?
- **Implementation** – is there enough commitment and understanding to carry out the decision by those assigned to perform it?

Deciding How to Decide



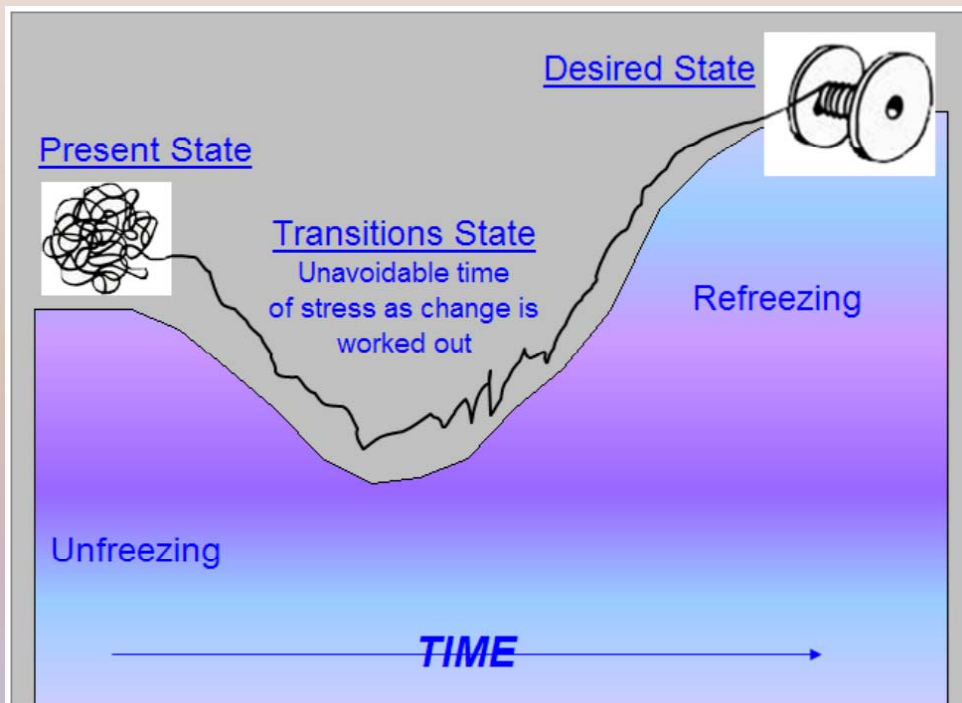
Sigmoid Curve₅



- Life has its cyclical ups and downs.
- Most decisions are made in reaction to a need (B), while on the downward slope.
 - Bad Timing!
- Best decisions are made when things are going well (A) you have momentum to carry you.
 - Great Timing!
- Regardless the Sigmoid Curve restarts a new cycle.

Unfreeze-Transition-Refreeze₂

Transition Management Approach



- Change brings “chaos” and unknowns, breaking assurances of past experience.
 - Even experts get lost here.
 - Which is why people don’t like change.
- Gradually change gets worked out.
- Notice the Sigmoid Curve.

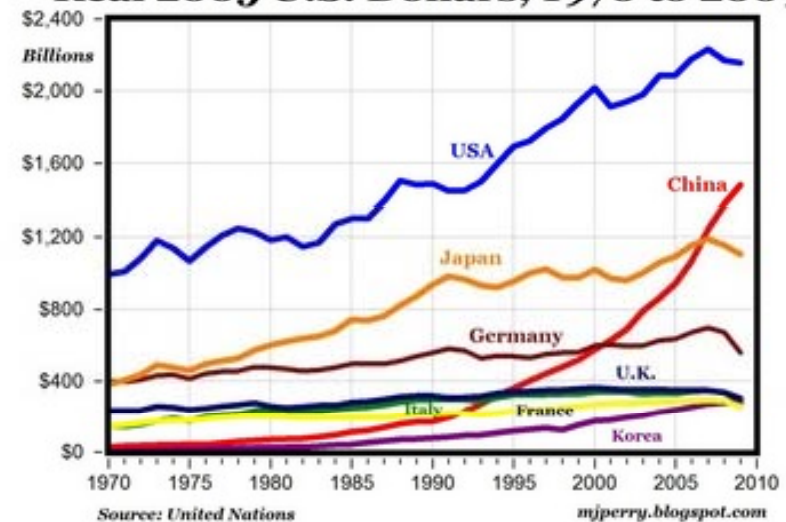
Making Great Decisions₃

- Things to Recognize About Decisions:
 - Decisions are not events, they are processes. Involving specific inputs and are all subject to various types of biases: Individual, Group and Organizational
 - Decisions are not made in a “Decision Room.”
 - Politics is not abnormal, and it is always present in decision making.
 - Social Pressures for conformity and a natural desire for belonging distort our decision making.
 - Quantitative analysis of financial key decisions are useful, but rarely used as the driving factor in decision making.

What Biases Might We Have

- Overconfidence in Our Judgment.
- Sunk Cost Effects
 - Cognitive Dissonance or Prospect Theory
- Recency Effect
 - Availability Bias – placing too much emphasis upon what is readily available.
 - Getting caught in a streak of success (or losses).
- Be careful to avoid categorizing upon just one cause.

**Manufacturing Output, Top 8 Countries
(Includes Mining and Utilities)
Real 2005 U.S. Dollars, 1970 to 2009**



The death of America's manufacturing sector? Not by a long shot.

Avoiding Decision Traps

- We will be further looking at various *Affect Heuristics* which can alter our logic:
 - Confirmation Bias
 - Anchoring Effect
 - Illusory Correlation
 - Hindsight Bias

Confirmation Bias

- Tendency to gather and rely on data and information that confirm our existing views, and avoid or downplay information.
- To fight the confirming bias:
 - Ask disconfirming questions
 - Entertain and test multiple hypothesis
 - Engage in Contrarian Analysis
 - Probe the logic of experts



Anchoring Bias

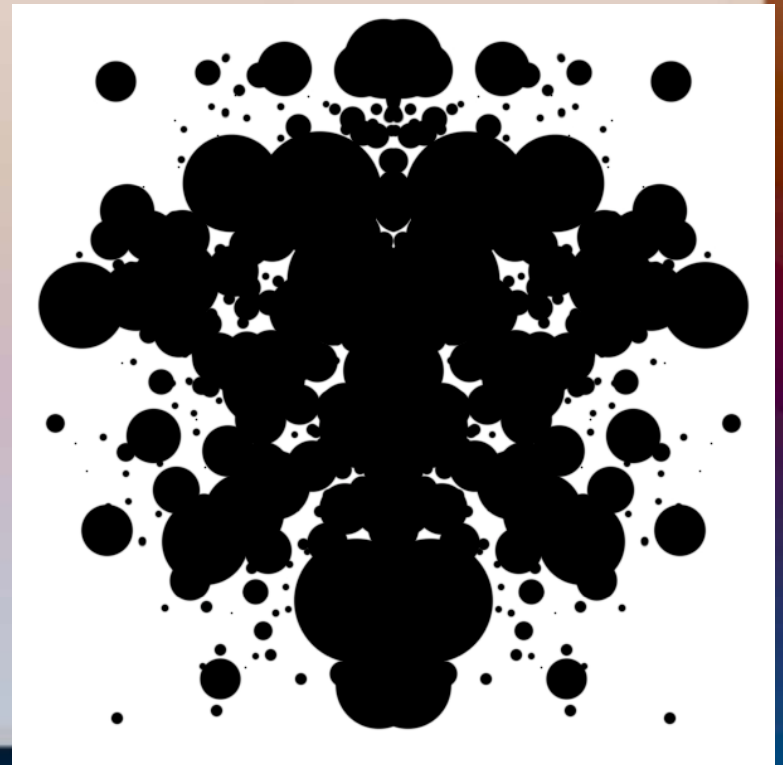
- We sometimes allow an initial reference point to distort our estimates. We begin in that reference point and then adjust from there, even if the initial reference point is completely arbitrary.
- Combating the anchoring bias:
 - Be aware of it!
 - Provide a range first, not a single value.
 - Work with multiple anchors.
 - Avoid only considering incremental scenarios.
 - Always remain open to new data.
- Think of a number between One and Ten.



How many of you picked **4** ?

Illusory Bias

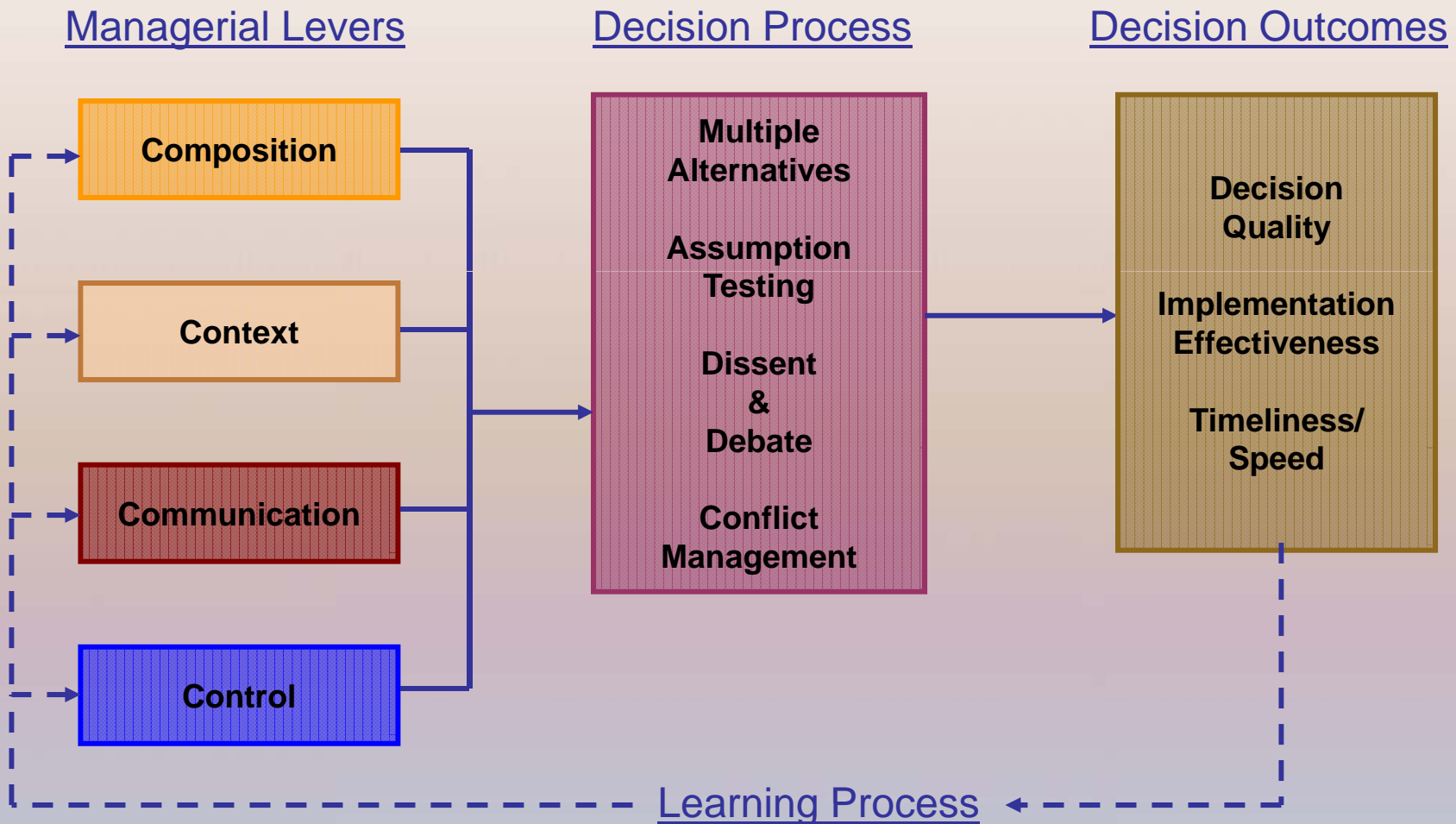
- Illusory bias is when we jump to conclusions about the relations between two variables when no relationship actually exists.
- Combating the illusory bias:
 - Again, be aware of it!
 - Always remain open to new data.



Combating Cognitive Biases

- Become more aware of these biases.
- Review past work to determine if you are particularly vulnerable to these biases.
- Get rapid feedback on decisions
- Tap into unbiased experts.
- Encourage effective group dynamics.

Deciding How to Decide₄



References

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