

CHAPTER 3

Managerial Decision Making

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The business executive is by profession a decision maker. Uncertainty is his opponent. Overcoming it is his mission.

— JOHN McDONALD

LEARNING OBJECTIVES

After studying Chapter 3, you will be able to:

- LO 1** Describe the kinds of decisions you will face as a manager.
- LO 2** Summarize the steps in making “rational” decisions.
- LO 3** Recognize the pitfalls you should avoid when making decisions.
- LO 4** Evaluate the pros and cons of using a group to make decisions.
- LO 5** Identify procedures to use in leading a decision-making group.
- LO 6** Explain how to encourage creative decisions.
- LO 7** Discuss the processes by which decisions are made in organizations.
- LO 8** Describe how to make decisions in a crisis.

CHAPTER OUTLINE

Characteristics of Managerial Decisions

- Lack of Structure
- Uncertainty and Risk
- Conflict

The Phases of Decision Making

- Identifying and Diagnosing the Problem
- Generating Alternative Solutions
- Evaluating Alternatives
- Making the Choice
- Implementing the Decision
- Evaluating the Decision

The Best Decision

Barriers to Effective Decision Making

- Psychological Biases
- Time Pressures
- Social Realities

Decision Making in Groups

- Potential Advantages of Using a Group
- Potential Problems of Using a Group

Managing Group Decision Making

- Leadership Style
- Constructive Conflict
- Encouraging Creativity
- Brainstorming

Organizational Decision Making

- Constraints on Decision Makers
- Organizational Decision Processes
- Decision Making in a Crisis

Management in Action

CAN UBER OVERCOME ITS POOR DECISIONS?

Uber Technologies, Inc., the app-based ride-hailing service launched in San Francisco in 2010, claimed to be “changing the logistical fabric of cities around the world” by allowing users to hail a ride via their smartphone. Since going global in 2013, the game-changing company has provided fast access to two billion reliable rides for passengers in more than 540 cities in 70 countries around the world and enabled thousands of independent drivers to earn a share of the fees.

Valued in early 2017 at \$70 billion, Uber appears to have made some smart decisions. Its managers’ aggressive business strategy put some competitors like Sidecar out of business and put costly pressure on others like Lyft. The company took market share from many cities’ venerable public transportation and traditional taxi services, often driving down the high price of taxi medallions in the process. It introduced ride-sharing options, started a delivery service, and began exploring the possibility of building a fleet of self-driving cars.

However, Uber has also made decisions that damaged its reputation and may threaten its future growth and profits. By insisting its drivers are independent contractors rather than employees, the company adopted a risky business model whose legality was questioned. It came under scrutiny in countries around the world for conducting flawed background checks on drivers, which put some riders’ safety at risk. Protests by taxi drivers forced it from some markets, such as Hungary.

In the United States, the company was charged with “fraudulent and arguably criminal conduct” for investigating a lawyer and plaintiff who were suing the company. Uber wrongly blamed human error when a self-driving test car ran a red light in San Francisco.



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When local taxi drivers protested President Trump’s first immigration order and Uber appeared to capitalize by keeping its airport service rolling, criticism on social media was scathing. The backlash also forced Travis Kalanick, the company’s founder and CEO, to resign from the president’s Economic Advisory Council.

Meanwhile, allegations by a female software engineer at Uber about a heedless company culture rife with sexism and harassment forced the company to investigate. A report surfaced alleging that for years the company misused a data-collecting tool to engage in systematic deception intended to evade authorities in Boston, Las Vegas, Paris, and other cities. And a video of founder and CEO Travis Kalanick dealing angrily with an Uber driver’s complaint went viral, forcing Kalanick to apologize publicly.

It appears that Uber may need to reexamine its management decision-making processes.¹

Uber has transformed the ride-hailing and ride-sharing industries and perhaps is not done innovating yet, but its management decisions have not always made friends for the company. As you read this chapter, consider what makes decision making difficult, and how managers can overcome those difficulties and make the right choices.

Bottom Line

You'll be making decisions constantly and often, under time pressure. If you know how to make good decisions in a timely manner, you'll deliver good results.

What makes a management decision a "good" decision?



The best managers make decisions constantly. Some are difficult and strategic, while others are smaller decisions that affect day-to-day actions. Marie Robinson, the former chief logistics officer at Toys "R" Us, had to make sure toys arrived at the retailer's 600 U.S. stores and to online customers' homes efficiently and on schedule. For routine decisions, toys are shipped from either warehouses or stores based on which locations are most economical and have enough of the item in stock. Other decisions must be made in crisis mode. When superstorm Sandy shut down transportation systems in the New York City region in October 2012, Robinson learned that a ship loaded with merchandise for the holidays was being rerouted from New Jersey to the Bahamas. She worked with the shipper, so that the toys could still reach stores in time for Black Friday.² Robinson's managerial led to fashion retailer Michael Kors hiring her (without any experience in the fashion industry) in 2014 as its new senior vice president of global operations.³

The typical organization has the potential to more than double its decision effectiveness in terms of impact on financial results.⁴ If you can't make good decisions, you won't be an effective manager. This chapter discusses what kinds of decisions managers face, how they often make them, and how they *should* make them.

Characteristics of Managerial Decisions

LO 1

Managers face problems and opportunities constantly. Some situations that require a decision are relatively simple; others seem overwhelming. Some demand immediate action; others take months or even years to unfold.

Actually, managers often ignore challenges.⁵ For several reasons, they avoid taking action.⁶ First, managers can't be sure how much time, energy, and trouble lie ahead once they start working on an issue. Second, getting involved is risky; tackling a problem but failing to solve it successfully can hurt a manager's track record. Third, because problems can be so perplexing, it is easier to procrastinate or to get busy with less demanding activities. Managers may lack the insight, courage, or will to decide.

It is important to understand why decision making can be so challenging. Exhibit 3.1 illustrates several characteristics of managerial decisions that contribute to their difficulty and pressure. Most managerial decisions lack structure and entail risk, uncertainty, and conflict.

programmed decisions

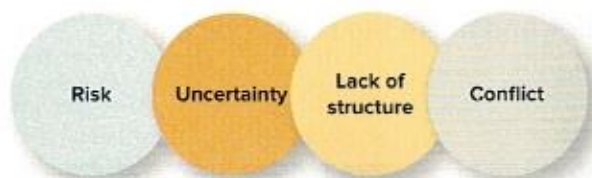
Decisions encountered and made before, having objectively correct answers, and solvable by using simple rules, policies, or numerical computations.

nonprogrammed decisions

New, novel, complex decisions having no proven answers.

EXHIBIT 3.1

Characteristics of Managerial Decisions



Lack of Structure

Lack of structure is the usual state of affairs in managerial decision making.⁷ Although some decisions are routine and clear-cut, for most there is no automatic procedure to follow. Problems are novel and unstructured, leaving the decision maker uncertain about how to proceed.

An important distinction illustrating this point is between programmed and nonprogrammed decisions. **Programmed decisions** have been encountered and made before. They have objectively correct answers and can be solved by using simple rules, policies, or numerical computations. If you face a programmed decision, a clear procedure or structure exists for arriving at the right decision. For example, if you are a small-business owner and must decide the amounts for your employees' paychecks, you can use a formula—and if the amounts are wrong, your employees will prove it to you. Exhibit 3.2 gives some other examples.

If most important decisions were programmed, managerial life would be much easier. But managers typically face **nonprogrammed decisions**: new, novel, complex decisions having no certain outcomes. They have a variety of possible solutions, all of which have merits and drawbacks. The decision maker must create or impose a method for

	Programmed Decisions	Nonprogrammed Decisions
Problem	Frequent, repetitive, routine. Much certainty regarding cause-and-effect relationships.	Novel, unstructured. Much uncertainty regarding cause-and-effect relationships.
Procedure	Dependence on policies, rules, and definite procedures.	Necessity for creativity, intuition, tolerance for ambiguity, creative problem solving.
Examples		
Business firm	Policies to follow when posting about the company on social media.	Developing a new service for different market.
University	Number of course credits that must be accumulated to graduate.	Raising funds to add new technology to classrooms.
Health care	Procedure for admitting patients.	Purchase of experimental equipment.
Government	Merit system for promotion of state employees.	Reorganization of state government agencies.

SOURCE: Adapted from Gibson, J., Ivancevich, J., Donnelly, J., Jr., and Konopaske, R., *Organizations: Behavior, Structure, Processes*, 14th ed. New York: McGraw-Hill, 2011.

making the decision; there is no predetermined structure on which to rely. As Exhibit 3.1 suggests, important, difficult decisions tend to be nonprogrammed, and they demand creative approaches.

Uncertainty and Risk

If you have all the information you need and can predict precisely the consequences of your actions, you are operating under a condition of **certainty**.⁸ Managers are expressing their preference for certainty when they are not satisfied hearing about what might have happened or may happen and insist on hearing what did or will happen.⁹ But perfect certainty is rare. For important, nonprogrammed managerial decisions, uncertainty is the rule.

Uncertainty means the manager has insufficient information to know the consequences of different actions. Business people do not like uncertainty; it can hold them back from taking action. For example, uncertainty about the strength and timing of the economic recovery made businesses slow to start hiring.¹⁰ But economies don't strengthen until consumer demand picks up, which doesn't happen until employment rises.

When you can estimate the likelihood of various consequences but still do not know with certainty what will happen, you are facing **risk**. Risk exists when the probability of an action being successful is less than 100 percent and losses may occur. If the decision is the wrong one, you may lose money, time, reputation, or other important assets.

Risk, like uncertainty, is a fact of life in managerial decision making. But this is not the same as taking a risk. Although it sometimes seems as though risk takers are admired and entrepreneurs and investors thrive on taking risks, the reality is that good decision makers prefer to *manage* risk. They accept the fact that decisions have consequences entailing risk, but they do everything they can to anticipate the risk, minimize it, and control it.

The stories detailed in "The Greatest Business Decisions of All Time" are creative approaches to managing risk. A classic example is how Henry Ford, when facing high levels of employee turnover and discontent, doubled workers' pay and switched from two 9-hour shifts to three 8-hour shifts per day. These improvements cost Ford \$10 million but his gamble paid off with higher retention rates and productivity levels.¹¹ Ford could not have known with certainty that his changes would work, but he assessed his options and took a calculated risk.

EXHIBIT 3.2

Comparison of Types of Decisions

certainty

The state that exists when decision makers have accurate and comprehensive information.

uncertainty

The state that exists when decision makers have insufficient information.

risk

The state that exists when the probability of success is less than 100 percent and losses may occur.

Social Enterprise

Saul Garlick's Social Enterprise: Nonprofit or For-Profit?

When visiting Mpumalanga, South Africa, as a boy, Saul Garlick was shocked at the village's lack of basic resources: "The small rural village had nothing—no classrooms, no electricity, no water." He decided he wanted to help. While still in high school, Garlick founded Student Movement for Real Change (SMRC), a nonprofit whose mission was to fight poverty by encouraging entrepreneurship in villages in Africa. The organization recruited students to "live with local families, hunt for water sources, farm alongside villages and absorb day-to-day nuances of life in a developing country with the goal of building social businesses along with the local residents."

As a nonprofit, the organization was funded through an intermittent stream of donations from friends, family members, and donors. SMRC started to grow. As a 23-year-old who was working full time for the organization, Garlick began to draw a salary and hired a recent graduate to run the daily operations. Even with the extra help, Garlick was under constant pressure to raise enough funds to keep the operation functioning when in fact he wanted to spend more time doing the core work of the organization.

If he wanted to have a high-impact social enterprise, Garlick needed a business model that could sustain itself.

He believed that a market-based solution was his best hope to help him reduce poverty in Africa, resulting in his decision to buy out his nonprofit, SMRC, and launch a for-profit social enterprise, ThinkImpact.

By borrowing an initial \$450,000 from friends, family, and angel investors, Garlick developed a growth strategy to set Denver-based ThinkImpact on a profitable course. The for-profit social enterprise developed an eight-week program that brings students and entrepreneurs together from universities and communities around the globe to work with locals in villages in Rwanda, Panama, South Africa, Kenya, and Ghana. The curriculum is designed to spark the creative talents of individuals while developing their social problem-solving skills. ThinkImpact has expanded into funding, supporting, and launching new social enterprises. Since its inception, ThinkImpact's entrepreneurs and scholars have formed 192 social enterprises in such areas as sustainable agriculture, basic health, and engineering and tech businesses.

The belief that continues to inspire Saul Garlick and those involved in ThinkImpact is that social enterprises and the experience of building them together can change lives forever.¹²

A more recent example is how *National Geographic* launched a contest over social media to gather user-generated travel content. Named the "Wanderlust" contest, over 52,000 people shared photos and videos of their travels. In exchange for this content, *National Geographic* offered a chance to win a photo expedition to Yosemite National Park. By involving users in this contest, the organization reduced risk by learning firsthand about current travelers' passions with regard to memorable moments. This information will help *National Geographic* align more precisely its content with users' interests.¹³

Conflict

Important decisions are even more difficult because of the conflicts managers face. **Conflict**, which exists when a manager must consider opposing pressures from different sources, occurs at two levels.

First, individual decision makers experience psychological conflict when several options are attractive or when none of the options is attractive. For instance, a manager may have to decide whom to lay off when she doesn't want to lay off anyone. Or she may have three promising job applicants for one position—but choosing one means she has to reject the other two.

Second, conflict arises between people. A chief financial officer argues in favor of increasing long-term debt to finance an acquisition. The chief executive officer, however, prefers to minimize such debt and find the funds elsewhere. A marketing department wants more product lines to sell, and the engineers want higher-quality products. But the production people want to lower costs by having longer production runs of fewer products with no changes. Few decisions are without conflict.

conflict

Opposing pressures from different sources, occurring on the level of psychological conflict or conflict between individuals or groups.

In the “Social Enterprise” feature, how much “structure” and how many programmed decisions do you see? Try to identify and describe the uncertainties, risks, and potential conflicts in the major unprogrammed decisions.

The Phases of Decision Making

Faced with these challenges, how can you make good decisions? The ideal decision-making process includes six phases. As Exhibit 3.3 illustrates, decision makers should (1) identify and diagnose the problem, (2) generate alternative solutions, (3) evaluate alternatives, (4) make the choice, (5) implement the decision, and (6) evaluate the decision.

LO 2

Identifying and Diagnosing the Problem

The first phase in the decision-making process is to recognize that a problem exists and must be solved. Typically, a manager realizes some discrepancy between the current state (the way things are) and a desired state (the way things ought to be). Such discrepancies—say, in organizational or unit performance—may be detected by comparing current performance against (1) *past* performance, (2) the *current* performance of *other* organizations or units, or (3) *future* expected performance as determined by plans and forecasts.¹⁴

The “problem” may be an opportunity that can be exploited with appropriate action. In that case, decisions involve choosing how to seize the opportunity. To recognize important opportunities as a manager, you will need to understand your company’s macro- and competitive environments (described in Chapter 2).

Recognizing that a problem (or opportunity) exists is only the beginning of this phase. The decision maker must dig in deeper and attempt to analyze its possible causes. For example, a sales manager knows that sales have dropped drastically. If he is leaving the company soon or believes the decreased sales volume is due to the economy (which he can’t do anything about), he won’t take action. But if he does try to solve the problem, he should not automatically reprimand his sales staff, add new people, or increase the advertising budget. He must analyze *why* sales are down and then develop a solution appropriate to his analysis. Asking why, of yourself and others, is essential to understanding the real problem.

Michael Ortner and Rakesh Chilakapati cofounded a company called Capterra, which created an online directory of companies that sell business software. Their problem was that they wanted to bring more traffic to their website; more listings would make the site more valuable to buyers, and more buyers would make the site more attractive to vendors.¹⁵

The company asked *why* traffic was low by surveying the directory’s users. Buyers wanted to see reviews of vendors; the underlying problem was that the website lacked a key feature that buyers would find helpful.¹⁶

Exhibit 3.4 lists some useful questions to ask and answer in this phase.¹⁷

Generating Alternative Solutions

The second phase of decision making links problem diagnosis to the development of alternative courses of action aimed at solving the problem. Managers generate at least some alternative solutions based on past experiences.¹⁸

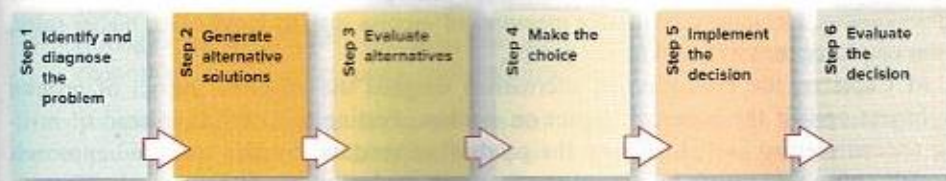


EXHIBIT 3.3
The Phases of Decision Making

EXHIBIT 3.4

Questions for Problem Identification and Diagnosis

How can you best describe the difference between what is actually happening and what should be happening?

What is/are the cause(s) of the deviation?

What short- and long-term goals need to be met?

Which goals are absolutely critical to the success of the decision?

ready-made solutions

Ideas that have been seen or tried before.

custom-made solutions

New, creative solutions designed specifically for the problem.

Solutions range from ready-made to custom-made.¹⁹ Decision makers who employ **ready-made solutions** use ideas they have tried before or follow the advice of others who have faced similar problems. **Custom-made solutions**, by contrast, must be designed for specific problems. This technique often combines ideas into new, creative solutions.

For example, IDEO, a design and innovation firm, helped its start-up-in-residence, PillPack, to change how customers of advanced age, of limited mobility, or with serious illnesses interact with their pharmacy. PillPack launched a simple, fast home-delivery service that sorts patients' multiple prescriptions and over-the-counter medicines into packets that are organized by the date and time they should be taken. Pills arrive in an organized, recyclable dispenser with a label that includes an image of the pill. Customers can coordinate refills with or ask questions of PillPack's pharmacists via phone or e-mail on a 24/7 basis. There is no charge for the packaging and delivery service.²⁰

Potentially, custom-made solutions can be devised for any challenge. Later in the chapter, we will discuss how to generate creative ideas.

Often, many more alternatives are available than managers realize. For example, what would you do if one of your competitors reduced prices? Managers sometimes assume that cutting prices in response to a competitor's price cuts is their only option, but it is not. Alternatives include conveying consumer risks of low-priced products, building awareness of your products' features and overall quality, and communicating your cost advantage to your competitors so they realize that they can't win a price war. If you do decide to cut your price as a last resort, do it fast; if you do it slowly, your competitors will gain sales in the meantime, which may embolden them to employ the same tactic again in the future.²¹

Returning to the example of Capterra, Michael Ortner was eager to launch the product reviews, but Rakesh Chilakapati, the company's technology manager at the time, wanted to proceed cautiously because of the time and expense required to add the feature, along with

fear that some vendors would get bad reviews and leave the directory. So to generate alternatives, the two partners studied existing websites with product reviews (for example, Amazon, eBay, and Edmunds.com). They identified a variety of ways to offer reviewing features. They could simply post testimonials from satisfied customers. They could allow or

forbid anonymous comments. They could require reviewers to list both positive and negative points. The big question that remained was whether the features attractive to buyers would repel sellers.²²

When it comes to generating alternatives, the first one that comes to mind may not be the best one.

Evaluating Alternatives

The third phase of decision making involves determining the value or adequacy of the alternatives that were generated. Which solution will be the best?

Especially when decisions are important, alternatives should be evaluated with careful thought and logic. Fundamental to this process is to predict the consequences that will occur if the different options are put into effect. Managers should consider several types of consequences, including quantifiable measures of success such as lower costs, higher sales, lower employee turnover, and higher profits.

At Capterra, the evaluation of alternatives weighed the expected impact of reviews on buyers against the expected impact on vendors. Posting testimonials instead of inviting reviews seemed likely to protect the goodwill of vendors, but this one-sided approach seemed unlikely to satisfy buyers, so the founders doubted it would have much effect on

Which goals does each alternative meet and fail to meet?

Which alternatives are most acceptable to you and to other important stakeholders?

If several alternatives might solve the problem, which can be implemented at the lowest cost or greatest profit?

If no alternative achieves all your goals, can two or more of the best ones be combined?

EXHIBIT 3.5**Questions for Evaluating Alternatives**

traffic overall. Anonymous reviews seemed risky because vendors' competitors could abuse the system, so they dropped that alternative. Requiring both pros and cons in the reviews would encourage balanced information about vendors, an apparent plus. But Ortner knew that many vendors still worried about the risk of negative reviews.²³

An important technology affecting the analysis of alternatives is the ability to collect and analyze big data. The term refers to massive amounts of structured and unstructured data that exceed the capabilities of a traditional computer database. Businesses today can gather details about Internet usage, consumer behavior, and employee skills and activities, among many other things. Organizations can store the data, search it for patterns or trends, and analyze it to identify alternatives that previously would have gone unnoticed.

Evaluation that would have relied heavily on intuition or experience now can be data-driven. For example, companies are using big data to make more effective decisions about pay. General Electric uses data analytics to help digital wind farms achieve better efficiencies. By using data to optimize the angle of its turbines, GE can produce up to 10 percent more energy off the same amount of wind.²⁴

To evaluate alternatives, refer to your original goals, defined in the first phase. Next, you should consider the questions in Exhibit 3.5.

Several additional questions help:²⁵

Is our information about alternatives complete and current? If not, can we get more and better information?

Does the alternative meet our primary objectives?

What problems could we have if we implement the alternative?

Of course, results cannot be forecast with perfect accuracy. But sometimes decision makers can build in safeguards against an uncertain future by considering the potential consequences of several scenarios. Then they generate **contingency plans**—alternative courses of action that can be implemented depending on how the future unfolds.

For example, during an economic crisis when it is unclear when a recovery might begin and how strong it will be or what shape it will take, the range of potential outcomes is wide, and many companies will not survive. Firms could consider at least four scenarios:²⁶

1. A most optimistic scenario in which trade and capital flows resume, further recession is averted, globalization stays on course, and developed and emerging economies continue to integrate as confidence rebounds quickly.
2. A battered-but-resilient scenario in which the recession continues for a long period, recovery is slow, confidence is shaken but does rebound, and globalization slowly gets back on course.
3. Stalled globalization, in which the global recession is significant, the intensity varies greatly from nation to nation, but overall growth is slow.
4. A long freeze, in which the recession lasts more than five years, economies everywhere stagnate, and globalization goes into reverse.

As you read this, what economic scenario is unfolding? What are the important current events and trends? What scenarios could evolve six or eight years from now? How will *you* prepare?

contingency plans

Alternative courses of action that can be implemented based on how the future unfolds.



Some decisions do not work out. Although this can surprise and frustrate, you should have contingency plans that will help you still achieve your desired goals.

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Making the Choice

Once you have considered the possible consequences of your options, it is time to make your decision. The temptation to overanalyze can lead to paralysis by analysis—that is, indecisiveness caused by too much analysis. When it comes time to decide, assertive decision making can help an organization seize new opportunities or thwart challenges.

Indecisiveness became a risk at Capterra because Ortner and Chilakapati had conflicting worries. Ortner continued to see the lack of reviews as a missed opportunity, whereas

Chilakapati remained focused on the risks of adding this feature. Ortner further researched the situation by calling vendors who had expressed concerns about reviews; he became convinced that they, too, were simply not seeing the opportunities of this additional feature and would come around when experience showed them the value. Finally, after three months of debate, Ortner was enjoying his regular five-mile run when he concluded that the analysis had to end,

and he must make a decision. As president, he made the final call, respecting Chilakapati's concerns but announcing that it was time to try the reviews.²⁷

As you make your decision, important guiding concepts include maximizing, satisficing, and optimizing.²⁸

The process of considering multiple scenarios raises important “what if” questions for decision makers and highlights the need for contingency plans.

maximizing

A decision realizing the best possible outcome.

satisficing

Choosing an option that is acceptable, although not necessarily the best or perfect.

optimizing

Achieving the best possible balance among several goals.

Maximizing is achieving the best possible outcome. The maximizing decision realizes the greatest positive consequences and the fewest negative consequences. In other words, maximizing results in the greatest benefit at the lowest cost, with the largest expected total return. Maximizing requires searching thoroughly for a complete range of alternatives, carefully assessing each alternative, comparing one to another, and then choosing or creating the very best.

Satisficing is choosing the first option that is minimally acceptable or adequate. When you satisfice, you compare your choice against your goal, not against other options. Satisficing means that a search for alternatives stops after you find one that is okay. You do not expend the time or energy to gather more information. Instead you make the expedient decision based on readily available information.

Let's say you are purchasing new equipment, and your goal is to avoid spending too much money. You would be maximizing if you checked out all your options and their prices and then bought the cheapest one that met your performance requirements. But you would be satisficing if you bought the first adequate option that was within your budget and failed to look for less expensive options.

Satisficing is sometimes a result of laziness; other times, there is no other known option because time is short, information is unavailable, or other constraints make maximizing impossible. When the consequences are not huge, satisficing can even be the ideal approach. But in other situations, when managers satisfice, they fail to consider options that might be better.

Optimizing means that you achieve the best possible balance among several goals. Perhaps, in purchasing equipment, you are interested in quality and durability as well as price. So instead of buying the cheapest piece of equipment that works, you buy the one with the best combination of attributes, even though there may be options that are better on the price criterion and others that are better on the quality and durability criteria. The same idea applies to achieving business goals: One marketing strategy could maximize sales, whereas a different strategy might maximize profit. An optimizing strategy is the one that achieves the best balance among multiple goals.

Implementing the Decision

The decision-making process does not end once you make a choice. The chosen alternative must be implemented. Sometimes the people involved in making the choice are the same people who put it into effect. At other times, they delegate the responsibility for

Management in Action

A HUGE PROBLEM AT UBER

Susan Fowler kept meticulous records of the year she worked for Uber as a software engineer. During that time she was an exemplary employee but reportedly faced repeated instances of sexism and sexual harassment, only to see the offending managers let off with a reprimand at best. Sometimes her complaints to human resources were denied, sometimes they were belittled and minimized as a "first offense," and at other times, according to the revealing blog post she wrote later, Fowler was told she herself was the problem. When she resigned in December 2016, from what she called "an organization in complete, unrelenting chaos," it was after a transfer she requested was secretly blocked and she was told she could be fired for reporting a manager who discriminated against her.

Such dismissal is illegal. During Fowler's time at the ride-hailing company, she says she saw the percentage of women employees dwindle from 25 percent to about 6 percent.

Fowler's explosive blog post also included allegations that brutally competitive behavior originated with the company's top managers: "It seemed like every manager was fighting their peers and attempting to undermine their direct supervisor so that they could have their direct

supervisor's job. . . . They boasted about it in meetings, told their direct reports about it, and the like."

Her accusations sparked an immediate reaction from the company's founder, Travis Kalanick. At a meeting of all employees, Kalanick announced a thorough investigation into the company culture, to be led by former U.S. attorney general Eric Holder and board member Ariana Huffington (founder of *Huffington Post*). "I am authentically and fully dedicated to getting to the bottom of this," Kalanick said.

And in a separate meeting with female employees, Kalanick reportedly said, "There are people in this room who have experienced things that are incredibly unjust. I want to root out the injustice. I want to get at the people who are making this place a bad place. And you have my commitment."²⁹

- Why do you think it took so long for Uber's management to recognize that the company had a problematic corporate culture? What indications of the problem did it apparently overlook?
- Assuming the investigation confirms that the problem is an aggressive company culture that discriminates against women, how do you think the company's managers should begin to generate solutions?

implementation to others, such as when a top management team changes a policy or operating procedure and has operational managers carry out the change.

At Capterra, implementation of the decision to add customer reviews included 10 months of software development, followed by invitations to vendors to encourage their customers to submit reviews. Notice that the implementation took into account the concerns about negative reviews by giving the vendors some control over who submitted the initial reviews.³⁰

Unfortunately, sometimes managers make decisions but don't take action. Implementing may fail to occur when *talking* a lot is mistaken for *doing* a lot; when people forget that merely making a decision changes nothing; when meetings, plans, and reports are seen as actions, even if they have no effect on what people actually do; and if managers don't check to ensure that what was decided was actually done.³¹

Managers should plan implementation carefully. Adequate planning requires several steps.³²

1. Determine how things will look when the decision is fully operational.
2. Chronologically order, perhaps with a flow diagram, the steps necessary to achieve a fully operational decision.
3. List the resources and activities required to implement each step.
4. Estimate the time needed for each step.
5. Assign responsibility for each step to specific individuals.

Decision makers should assume that things will *not* go smoothly during implementation. It is useful to take a little extra time to identify *potential problems* and *potential opportunities*

Bottom Line

It's easy to become so focused on maximizing one goal that you lose sight of other important goals. You're optimizing if you make sure that no important result is ignored. *What could be the negative consequences of making decisions that maximize only quality?*



EXHIBIT 3.6Questions for
Implementing Decisions

What problems could this action cause?
What can we do to prevent the problems?
What unintended benefits or opportunities could arise?
How can we make sure they happen?
How can we be ready to act when the opportunities come?

associated with implementation. Then you can take actions to prevent problems and be ready to seize unexpected opportunities. Exhibit 3.6 lists several useful questions that should be asked in the implementation stage of decision making.

Decision makers should assume that things will *not* go smoothly during implementation.

Many of the chapters in this book are concerned with implementation issues: how to implement strategy, allocate resources, organize for results, lead and motivate people, manage change, and so on. View the chapters from this perspective and learn as much as you can about how to implement properly.

Evaluating the Decision

The final phase in the decision-making process is evaluating the decision. It involves collecting information on how well the decision is working. Quantifiable goals—a 20 percent increase in sales, a 95 percent reduction in accidents, 100 percent on-time deliveries—can be set before implementing the solution. Then objective data can be gathered to determine its success or failure accurately.

Decision evaluation is useful whether the conclusion is positive or negative. Feedback that suggests the solution is working implies that the decision should be continued and perhaps applied elsewhere in the organization. Negative feedback means that either (1) implementation will require more time, resources, effort, or thought; or (2) the solution wasn't good enough.

The feedback for Capterra was positive. In the first year of offering customer reviews, the site gathered about 500 reviews. A year after that, the site had 2,000 reviews, with about 40 percent of them unsolicited. Most reviews were positive. Even though some are less than glowing, traffic to the site grew to 25,000 reviews; vendors see the review feature as a benefit because they are getting more business. Revenues jumped, and the executives concluded that customer reviews were a great idea.³³

If the decision appears inadequate, it's time to adjust. The process cycles back to the first phase: (re)defining the problem. The decision-making process begins anew, preferably with more information, new suggestions, and an approach that attempts to eliminate the mistakes made the first time around.

The Best Decision

LO 3

How can managers tell whether they have made the best decision? Although nothing can guarantee a "best" decision, managers should at least be confident that they followed proper *procedures* that will yield the best possible decision under the circumstances. This means that the decision makers were appropriately vigilant in making the decision. **Vigilance** occurs when the decision makers carefully and conscientiously execute all six phases of decision making, including making provisions for implementation and evaluation.³⁴

vigilance

A process in which a decision maker carefully executes all stages of decision making.

Even if managers reflect on their decision-making activities and conclude that they executed each step conscientiously, they still will not know whether the decision will work; after all, nothing guarantees a good outcome. But they *will* know that they did their best to make the best possible decision.

Barriers to Effective Decision Making

Vigilance and full execution of the six-phase decision-making process are the exception rather than the rule. But when managers use such rational processes, better decisions result.³⁵ Managers who make sure they engage in these processes are more effective.

But it is easy to neglect or improperly execute these processes. The problem may be improperly defined or goals misidentified. Not enough solutions may be generated, or they may be evaluated incompletely. A satisficing rather than maximizing choice may be made. Implementation may be poorly planned or executed, or evaluation may be inadequate or nonexistent.

And as discussed next, decisions are influenced by subjective psychological biases, time pressures, and social realities.

Psychological Biases

Decision makers are far from objective in the way they gather, evaluate, and apply information in making their choices. People have biases that interfere with objective rationality. The examples that follow represent only a few of the many documented subjective biases.³⁶

The **illusion of control** is a belief that one can influence events even when one has no control over what will happen. Gambling is one example: some people believe they have the skill to beat the odds, even though most of the time they cannot. In business, such overconfidence can lead to failure because decision makers ignore risks and fail to evaluate the odds of success objectively.

Managers may believe they can do no wrong or hold a general optimism about the future that can lead them to believe they are immune to risk and failure.³⁷ They may overrate the value of their experience. They may believe that a previous project met its goals because of their decisions alone, so they can succeed by doing everything the same way on the next project.

Framing effects refer to how problems or decision alternatives are phrased or presented and how these subjective influences can override objective facts. In one example, managers indicated a desire to invest more money in a course of action that was reported to have a 70 percent chance of profit than in one said to have a 30 percent chance of loss.³⁸ The choices were equivalent in their chances of success; it was the way the options were framed that determined the managers' choices.

Managers may be quick to frame a problem as being similar to problems they have already handled, so they don't search for new alternatives. For example, when CEO Richard Fuld tackled financial problems at Lehman Brothers as the mortgage market tumbled, he assumed that the situation was much the same as when he had handled a previous financial crisis in the late 1990s. Unfortunately for Lehman Brothers, the crisis was far worse. In late 2008, the firm declared bankruptcy—the largest in U.S. history—helping to send global financial markets into a tailspin.

Similarly, at Yahoo! people expected Marissa Mayer to turn around the failing Internet pioneer by making major strategy changes when she took over as CEO. Critics said that she made only minor tactical changes, such as changing Yahoo!'s home page layout, to an "outdated success formula."³⁹ Her actions were not enough to keep the famous company from being sold to Verizon for \$4.8 billion in 2017. Mayer resigned from the board of directors and the company was renamed "Altaba."⁴⁰

Often, decision makers **discount the future**. That is, in their evaluation of alternatives, they weigh short-term costs and benefits more heavily than longer-term costs and benefits. Consider your own decision about whether to go for a dental checkup. The choice to go poses short-term financial costs, anxiety, and perhaps physical pain. The choice not to go will inflict even greater costs and more severe pain if dental problems worsen. How do you choose? Many people decide to avoid the short-term costs by not going for regular checkups, but end up facing greater pain in the long run.

illusion of control

People's belief that they can influence events even when they have no control over what will happen.

framing effects

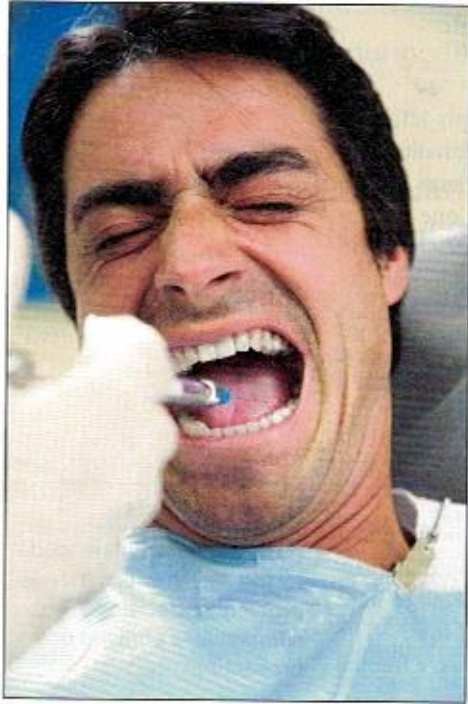
A decision bias influenced by the way in which a problem or decision alternative is phrased or presented.

discounting the future

A bias weighting short-term costs and benefits more heavily than longer-term costs and benefits.

Bottom Line

When you want to pursue sustainability, think in terms of the long-term consequences of your decisions. *What might be the long-term consequences of not investing in energy efficiency?*



Delaying dental checkups can have a negative impact on the future. It may save money today but lead to larger costs (and more pain) later.

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The same bias applies to students who don't study, weight watchers who sneak dessert or skip an exercise routine, and people who take the afternoon off to play golf when they really need to work. It can also affect managers who hesitate to invest funds in research and development programs that may not pay off until far into the future. In all these cases, the avoidance of short-term costs or the seeking of short-term rewards results in negative long-term consequences.

Asian managers tend to think with a longer-term outlook than do American managers, and many believe that this provides competitive advantage for long-term success.⁴¹ Western myopia is driven in part by Wall Street's focus on quarterly earnings, causing managers to make decisions based primarily on short-run considerations and to neglect long-term problems and opportunities. Why is it so hard to make decisions with the long term in mind?

In contrast, when U.S. companies sacrifice present value to invest for the future—such as when Weyerhaeuser incurs enormous costs for its reforestation efforts that won't lead to harvest until 60 years in the future—it seems the exception rather than the rule. Discounting the future partly explains governmental budget deficits, environmental destruction, and decaying infrastructure.⁴²

Time Pressures

In today's rapidly changing business environment, the premium is on acting quickly and keeping pace. The most conscientiously made business decisions can become irrelevant or disastrous if managers take too long to make them.

How can managers make decisions quickly? Some natural tendencies, at least for North Americans, might be to skimp on analysis (not be too vigilant), suppress conflict, and make decisions on one's own without consulting others.⁴³ These strategies may speed up decision making, but they reduce decision quality.

The speed trap can be as dangerous as moving too slowly.⁴⁴ In an Internet start-up that went bankrupt, fast decisions initially helped the firm achieve its growth objectives. Early on, the founders did everything they could to create a sense of urgency: They planned a meeting to "light a fire under the company," calling it a "state-of-emergency address" with the purpose of creating "the idea of panic with an emerging deadline." Speed became more important than content. They failed to con-

sider multiple alternatives, used little information, didn't fully acknowledge competing views, and didn't consult outside advisers. They never considered slowing down to be an option.

Can managers under time pressure make decisions that are both timely and high quality? A study of effective decision-making processes in a fast-paced, high-tech industry

revealed the tactics that such companies use.⁴⁵ First, instead of relying on old data, long-range planning, and futuristic forecasts, they focus on real-time information: current information obtained with little or no time delay. For example, they constantly monitor

daily operating measures such as work in process rather than checking periodically the traditional accounting-based indicators such as profitability.

Second, they involve people more effectively and efficiently in the decision-making process. They rely heavily on trusted experts, and this yields both good advice and the confidence to act quickly despite uncertainty. They also take a realistic view of conflict: they value differing opinions, but they know that if disagreements are not resolved, the top executive must make the final choice in the end. Slow-moving firms, in contrast, are stymied by conflict. Like the fast-moving firms, they seek consensus; but when disagreements persist, they fail to decide.

The speed trap can be as dangerous as moving too slowly.

Bottom Line

You'll feel pressure to make quick decisions, but rushing can lead to mistakes. Fortunately, you can be vigilant while moving quickly, avoiding the speed trap. *When you are under time pressure, what can you do to avoid mistakes?*



The Digital World

Even as the volume of information managers have access to increases, we see a decrease in the time they have in which to make decisions. Quickly sorting through so much available information for truly useful data is a challenge. During a crisis, this challenge becomes even bigger.

During natural disasters, organizations use social media as part of their decision-making process. People are asked to tweet and post pictures with descriptions of current situations. Rescue workers get real-time curated data so that rather than wait for reports about blocked routes, they can make decisions that save hours of transportation time.

In Kenya, real-time posts show images and reports from election polling stations. Citizens post which stations are burning the paper ballots, which stations have gangs that intimidate voters not voting for the “right” candidate, and which stations are safe for one or both sides.

Kenyans are then better able to contribute to decisions that matter. They can know that if they walk a greater distance or travel to another town their vote will count, because they choose a safe location based on citizen-provided, real-time data.

Social Realities

Many decisions are made by a group rather than by an individual manager. In slow-moving firms, interpersonal factors decrease decision-making effectiveness. Even the manager acting alone is accountable to the boss and to others and must consider the preferences and reactions of many people. Therefore, many decisions are the result of intensive social interactions, bargaining, and politicking.

The remainder of this chapter focuses on the social context of decisions, including decision making in groups and the realities of decision making in organizations.

Decision Making in Groups

Sometimes managers convene groups of people in order to make important decisions. Some advise that in today’s complex business environment, significant problems should *always* be tackled by groups.⁴⁶ As a result, managers must understand how groups operate and how to use them to improve decision making.

LO 4

The basic philosophy behind using a group to make decisions is captured by the adage, “two heads are better than one.” But is this statement really valid? Yes, it is—but only potentially, not necessarily.

If enough time is available, groups usually make higher-quality decisions than most individuals acting alone. However, groups often are inferior to the *best* individual.⁴⁷

How well the group performs depends on how effectively it capitalizes on the potential advantages and minimizes the potential problems of using a group. Exhibit 3.7 summarizes these issues.

Potential Advantages of Using a Group

If other people have something to contribute, using groups to make a decision offers at least five potential advantages:⁴⁸

1. More information is available when several people are making the decision. If one member doesn’t have all the facts or needed expertise, another member might.
2. A greater number of perspectives on the issues, or different approaches to solving the problem, are available. The problem may be new to one group member but familiar to another. Or the group may need to consider other viewpoints—financial, legal, marketing, human resources, and so on—to achieve an optimal solution.

EXHIBIT 3.7**Pros and Cons of Using Groups to Make Decisions****Potential Advantages**

Larger pool of information.
 More perspectives and approaches.
 Intellectual stimulation.
 People understand the decision.
 People are committed to the decision.

Potential Disadvantages

One person dominates.
 Satisficing.
 Groupthink.
 Goal displacement.
 Social loafing.

Bottom Line

If one person dominates a group discussion, it may feel like you're speeding up the decision making. But one dominant person reduces decision quality, and most of you will have wasted your time. *When you're meeting with a group, how can you help to make sure everyone is contributing?*



- Group discussion provides an opportunity for intellectual stimulation. It can get people thinking and unleash their creativity to a far greater extent than would be possible with individual decision making.

Those three potential advantages of using a group improve the odds that a more fully informed, higher-quality decision will result. Thus managers should involve people with different backgrounds, perspectives, and access to information. They should not involve only their colleagues who think the same way they do.

- People who participate in a group discussion are more likely to understand why the decision was made. They will have heard the relevant arguments both for the chosen alternative and against the rejected alternatives.
- Group discussion typically leads to a higher level of commitment to the decision. Buying into the proposed solution translates into high motivation to ensure that it is executed well.

The last two advantages improve the chances that the decision will be implemented successfully. Therefore, managers should involve the people who will be responsible for implementing the decision as early in the deliberations as possible.

Potential Problems of Using a Group

Things can go wrong when groups make decisions. Most of the potential problems concern the processes through which group members interact with one another:⁴⁹

- Sometimes one group member dominates the discussion. When this occurs—such as when a strong leader makes his or her preferences clear—the result is the same as it would be if the dominant individual made the decision alone. Individual dominance has two disadvantages. First, the dominant person does not necessarily have the most valid opinions—and may even have the most unsound ideas. Second, even if that person's preference leads to a good decision, convening as a group will have been a waste of everyone else's time.
- Satisficing is more likely with groups. Most people don't like meetings and will do what they can to end them. This may include criticizing members who want to keep exploring new and better alternatives. The result is a satisficing rather than an optimizing or maximizing decision.
- Pressure to avoid disagreement can lead to a phenomenon called **groupthink**. This occurs when people choose not to disagree or raise objections. Some groups want to think as one, tolerate no dissension, and strive to remain cordial. They can be overconfident, complacent, and perhaps too willing to take risks. Pressure to go along with the group's preferred solution stifles creativity and other positive behaviors characteristic of vigilant decision making.
- Goal displacement often occurs in groups. The goal of group members should be to come up with the best possible solution to the problem. But when **goal displacement** occurs, new goals emerge to replace the original ones. It is common for two or more group members to have different opinions and present their conflicting cases. Attempts at rational persuasion become heated disagreement. Winning the argument

groupthink

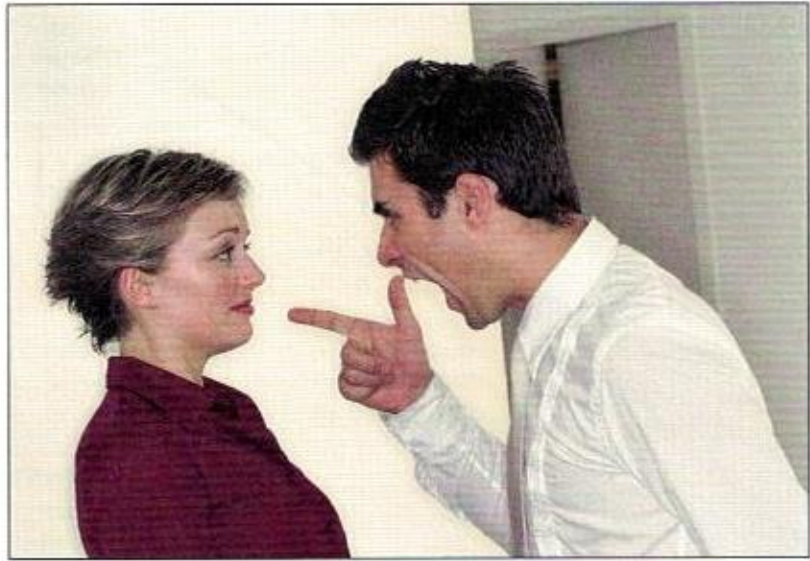
A phenomenon that occurs in decision making when group members avoid disagreement as they strive for consensus.

goal displacement

A decision-making group loses sight of its original goal and a new, less important goal emerges.

becomes the new goal. Saving face and defeating the other person's idea become more important than solving the problem.

5. When members of a group do not feel their contribution is important, they may engage in social loafing by working less hard when in a group.⁵⁰ This tendency to not pull one's own weight while working in groups poses many problems. Social loafing reduces cohesiveness between group members, resulting in lower group performance and higher absenteeism.⁵¹ Chapter 14 discusses how managers can address social loafing and other barriers to building effective teams.



Effective managers pay close attention to the group process; they manage it carefully. You have just read about the pros and cons of using a group to make decisions, and you are about to read how to manage the group's decision-making process. Chapter 12, on leadership, helps you decide *when* to use groups to make decisions.

Heated arguments can arise when team members have differing opinions and are more concerned with winning the dispute than resolving the initial problem.

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Managing Group Decision Making

As Exhibit 3.8 illustrates, effectively managing group decision making has three major requirements: (1) an appropriate leadership style, (2) the constructive use of disagreement and conflict, and (3) the enhancement of creativity.

LO 5

Leadership Style

The leader of a decision-making group must attempt to minimize process-related problems. The leader should avoid dominating the discussion or allowing another individual to dominate. Less vocal group members should be encouraged to air their opinions and suggestions, and all members should be asked for dissenting viewpoints.

At the same time, the leader should not allow the group to pressure people into conforming. The leader should be alert to the dangers of groupthink and satisficing. Also, she should be attuned to indications that group members are losing sight of the primary objective: to come up with the best possible solution to the problem.

These suggestions have two implications. First, don't lose sight of the problem and your goals. Second, make a decision! Slow-moving organizations whose group members can't come to an agreement will be standing still while their competitors move ahead.

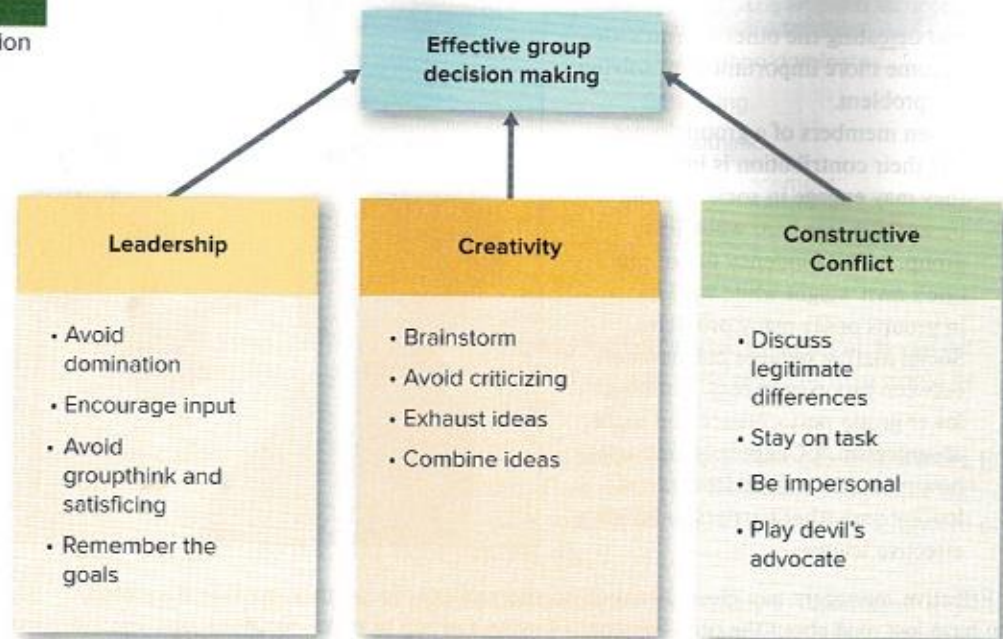
First, don't lose sight of the problem and your goals. Second, make a decision! Don't fall prey to analysis paralysis.

Constructive Conflict

Total and consistent agreement among group members can be destructive. It can lead to groupthink, uncreative solutions, and a waste of the knowledge and diverse viewpoints that

EXHIBIT 3.8

Managing Group Decision Making



cognitive conflict

Issue-based differences in perspectives or judgments.

affective conflict

Emotional disagreement directed toward other people.

devil's advocate

A person who has the job of criticizing ideas to ensure that their downsides are fully explored.

dialectic

A structured debate comparing two conflicting courses of action.

people bring to a group. Therefore, a certain amount of constructive conflict should exist.⁵² Pixar, which depends on creativity to make its animated films great, encourages constructive conflict with a standard for production meetings: Whenever someone wants to criticize an idea, the critic must attach an idea for improvement. In this way, good ideas can become great, and great ideas can become amazing. The practice is so much a part of Pixar's culture, it even has a name, "plussing."⁵³

The most constructive type of conflict is **cognitive conflict**, or differences in perspectives or judgments about issues. In contrast, **affective conflict** is emotional and directed at other people. Affective conflict is likely to be destructive to the group because it can lead to anger, bitterness, goal displacement, and lower-quality decisions. Cognitive conflict can air legitimate differences of opinion and develop better ideas and problem solutions. Conflict, then, should be task-related rather than personal.⁵⁴ But even task-related conflict is good only when managed properly.⁵⁵

Managers can generate constructive conflict through structured processes like **devil's advocacy**, in which a group member identifies and states the problems with an idea being considered. The group leader can formally assign people to play this role. Requiring people to point out problems can reduce inhibitions about disagreeing and make the conflict less personal and emotional.

An alternative to devil's advocacy is the dialectic. The **dialectic** goes a step beyond devil's advocacy by requiring a structured debate about two conflicting courses of action.⁵⁶ The philosophy of the dialectic stems from Plato and Aristotle, who advocated synthesizing the conflicting views of a thesis and an antithesis. Structured debates between plans and counterplans can be useful prior to making a strategic decision. For example, one team might present the case for acquiring a firm while another team advocates not making the acquisition.

Constructive conflict does not need to be generated on such a formal basis, and is not solely the leader's responsibility. Any team member can introduce cognitive conflict by being honest with opinions, by being unafraid to disagree with others, by pushing the group to action if it is taking too long or making the group slow down if necessary, and by advocating long-term considerations if the group is too focused on short-term results. Introducing

constructive conflict is a legitimate and necessary responsibility of all group members interested in improving the group's decision-making effectiveness.

Encouraging Creativity

As you've already learned, ready-made solutions to a problem can be inadequate or unavailable. In such cases, custom-made solutions are necessary, so the group must be creative in generating ideas.

Some say that the most fundamental unit of value is ideas. Creativity is more than just an option; it is essential to survival. Allowing people to be creative may be one of the manager's most important and challenging responsibilities.

You might be saying to yourself, "I'm not creative." But even if you are not an artist or a musician, you do have potential to be creative in countless other ways. You don't need to be a genius in school either—Thomas Edison and Albert Einstein were not particularly good students. Nor does something need to change the world to be creative; the little things can always be done in new, creative ways that add value to the product and for the customer. Exhibit 3.9 describes three ways to be creative along with some ideas of college student entrepreneurs who turned their creativity into businesses.⁵⁷

How do you become more creative?⁵⁸ Recognize the almost infinite little opportunities to be creative. Assume you can be creative if you give it a try. Escape from work once in a while. Read widely and try new experiences. Take a course or find a good book about creative thought processes; plenty are available. Exchange ideas and seek and give feedback.⁵⁹ And be aware that creativity is social;⁶⁰ your creativity will be affected by your social relationships at work, including your connections with other people outside your immediate close network.⁶¹ Talk to people, often, about the issues and ideas with which you are wrestling.

How do you get creativity out of other people?⁶² Give creative efforts the credit they are due and don't punish creative failures. Avoid extreme time pressure if possible.⁶³ Stimulate and challenge people intellectually. Listen to employees' ideas and allow enough time to explore different ideas. Put together groups of people with different styles of thinking and behaving. Get your people in touch with customers. Experiment with ways to stimulate fresh modes of thinking. Design company IDEO tells clients to install long communal tables or other spaces for employees to gather. Providing mobile chairs and desks encourages employees to get out of their silos to find new people to collaborate with.⁶⁴ And strive to be creative yourself—you'll set a good example.

People are likely to be more creative if they believe they are capable, if they know that their co-workers expect creativity, and if they believe that their employer values creativity.⁶⁵

LO 6

Bottom Line

Most creative ideas do not come from the lone genius in the basement laboratory, but from people talking and working together. *Why is listening useful in stimulating creativity?*

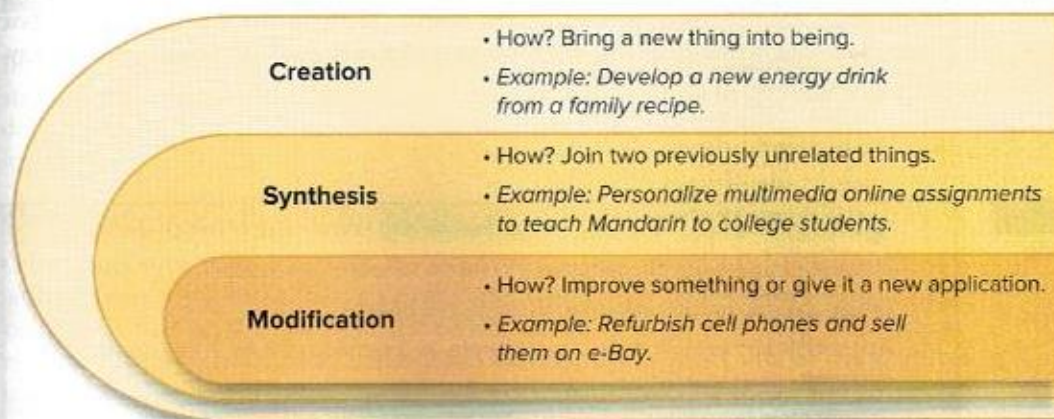


EXHIBIT 3.9 Creative Actions



Brainstorming is a technique used to generate as many ideas as possible to solve a problem. You have probably engaged in brainstorming sessions for various class or work projects.
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brainstorming

A process in which group members generate as many ideas about a problem as they can; criticism is withheld until all ideas have been proposed.

EXHIBIT 3.10

Improving Brainstorming Effectiveness

conversations—complimenting one another, repeating ideas, telling stories—that are nice but don't promote creativity. Exhibit 3.10 shows how McKinsey creates effective brainstorming sessions.⁶⁷

Other techniques that help include brainwriting (taking time to write down ideas silently), using trained facilitators, setting high performance goals, brainstorming electronically so that people aren't competing for air time, and even building a playground with fun elements that can foster creativity.⁶⁸ The nearby "Multiple Generations at Work" box discusses an Internet-based approach to soliciting ideas and feedback from customers anywhere in the world.

As a manager, you can do much to help employees develop these beliefs by how you listen, what you allow, and what you reward and punish. At a large consumer products company, management signals that it values creativity by inviting managers to post stories on the company's intranet about ideas their employees have suggested and the results of implementing them. The company also awards innovation bonuses linked to how their ideas have benefited the organization.⁶⁶

Brainstorming

A common technique used to elicit creative ideas is brainstorming. In **brainstorming**, group members generate as many ideas about a problem as they can. As the ideas are presented, they are posted so that everyone can read them, and people can use the ideas as building blocks. The group is encouraged to say anything that comes to mind, with one exception: no criticism of other people or their ideas is allowed.

In the proper brainstorming environment—free of criticism—people are less inhibited and more likely to voice their unusual, creative, or even wild ideas. By the time people have exhausted their ideas, a long list of alternatives has been generated. Only then does the group turn to the evaluation stage. At that point, many ideas can be considered, modified, or combined into a creative, custom-made solution to the problem.

Brainstorming isn't necessarily as effective as some people think. Sometimes in a brainstorming session, people are inhibited and anxious, they conform to others' ideas, they set low standards, and they engage in noncreative behaviors including cocktail party-type

1. Choose participants based on their expertise and knowledge of the challenge.
2. Use well-thought-out questions as a platform to spark new ideas.
3. Break up large groups into subgroups of 3–5 people.
4. Ask subgroups to think deeply to generate 2–3 solutions for each key question explored.
5. Do not have the full group evaluate the winning ideas, but rather ask subgroups to identify their top 2 or 3 ideas. Describe next steps (e.g., top management team will evaluate ideas).
6. Act quickly on key ideas and provide feedback to all participants.

Multiple Generations at Work

Crowdsourcing: An Inexpensive Source of Creative Ideas

Remember not to stereotype and that individuals differ within as well as between “generations.” But when faced with a difficult work problem to solve, Baby Boomer managers are more likely to seek expert opinions, whereas Millennials are more inclined to *crowdsource*: solicit ideas, opinions, and suggestions from members of large online networks. They may run an online contest to see which fan or customer can create the best tag line, and award them with a modest cash prize or free merchandise. The cost of crowdsourcing is usually much lower than seeking guidance from experts, such as an advertising company.

Anyone from cash-starved entrepreneurial ventures to charities to large companies can use crowdsourcing (and crowdfunding) to help them accomplish a variety of objectives and goals. Here is a sample of how organizations are tapping into the creativity and funding of online crowds:

1. Havenly, an interior design website, uses crowdsourcing to get feedback on everything from pricing to new products. According to CEO Lee Mayer: “Crowdsourcing is fast, cheap and scruffy.” By sending out fun and brief questionnaires to respondents, Mayer keeps down the cost of product development.
2. PepsiCo turned to the crowd for help naming the newest flavor of Frito-Lay potato chips. After launching the “Do Us a Flavor” online contest, PepsiCo received 3.8 million chip flavor ideas. Celebrity chefs and other experts narrowed the list to three finalists. An online fan vote named the winner, Cheesy Garlic.
3. Chip maker Intel partnered with Zooppa, a company that helps clients collect crowdsourced content, to tap the collective creativity of its 185,000-member online community. Together they ran an online contest to “create a print ad or a video up to 60 seconds long expressing [perceptions] of the technology firm.”



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Inspired by the Millennial generation, crowdsourcing provides a virtually limitless source of creative ideas for solving problems, building brands, and co-creating products and services with customers around the world.⁶⁹

Organizational Decision Making

Individuals and groups make decisions constantly throughout every organization. To understand decision making in organizations, a manager should consider (1) the constraints decision makers face, (2) organizational decision processes, and (3) decision making during a crisis.

LO 7

Constraints on Decision Makers

Organizations—or, more accurately, the people who make important decisions—cannot do whatever they wish. Resources are scarce,⁷⁰ and various constraints—financial, legal, market, human, and organizational—inhibit certain actions. Capital or product markets may make an expensive new venture impossible. Legal restrictions may constrain the kinds of international business activities in which a firm can participate. Labor unions may defeat a contract proposed by management, and managers and investors may block a takeover attempt. In strategic alliances, the allies should pursue rational decisions collaboratively, not separately.⁷¹ Even brilliant ideas must take into account the practical matters of implementation.⁷²

Bottom Line

You may be an innovator if you come up with a creative idea. But you still need to implement it. *Assuming you are a frontline manager, what should you do next? With whom should you share this new idea?*



bounded rationality

A less-than-perfect form of rationality in which decision makers cannot be perfectly rational because decisions are complex and complete information is unavailable or cannot be fully processed.

incremental model

Model of organizational decision making in which major solutions arise through a series of smaller decisions.

coalition model

Model of organizational decision making in which groups with differing preferences use power and negotiation to influence decisions.

garbage can model

Model of organizational decision making depicting a chaotic process and seemingly random decisions.

Suppose you have a great idea that will provide a revolutionary service for your bank's customers. You won't be able to put your idea into action immediately. You will have to sell it to the people who can give you the go-ahead and to those whose help you will need to carry out the project. You might start by convincing your boss of your idea's merit. Next, the two of you may have to hash it out with a vice president. Then maybe the president has to be sold. At each stage, you must listen to these individuals' opinions and suggestions and often incorporate them into your original concept. Ultimately, you will have to derive a proposal acceptable to others.

In addition, you should carefully think through ethical and legal considerations. Decision makers must consider ethics and the preferences of many constituent groups—the realities of life in organizations. You will have plenty of opportunity to think more about ethical issues in Chapter 5.

Organizational Decision Processes

Just as with individuals and groups, organizational decision making historically was described with rational models like the one depicted earlier, in Exhibit 3.3. But Nobel laureate Herbert Simon challenged the rational model and proposed an important alternative. Due to **bounded rationality**, decision makers cannot be truly rational because (1) they have imperfect, incomplete information about alternatives and consequences; (2) the problems they face are so complex; (3) human beings simply cannot process all the information to which they are exposed; (4) there is not enough time to process all relevant information fully; and (5) people, including managers within the same firm, have conflicting goals.

When these conditions hold—and they do for most consequential managerial decisions—perfect rationality will give way to more biased, subjective, messier decision processes. For example, the **incremental model** of decision making occurs when managers make small decisions, take little steps, move cautiously, and move in piecemeal fashion toward a bigger solution. The classic example is the budget process, which traditionally begins with the budget from the previous period and makes incremental decisions from that starting point.

The **coalition model** of decision making arises when people disagree on goals or compete with one another for resources. The decision process becomes political as groups of individuals band together and try collectively to influence the decision. Two or more coalitions form, each representing a different preference, and each tries to use power and negotiations to sway the decision.

Organizational politics, in which people try to influence organizational decisions so that their own interests will be served, can reduce decision-making effectiveness.⁷³ One of the best ways to reduce such politics is to create common goals for members of the team—that is, make the decision-making process a collaborative, rather than a competitive, exercise by establishing a goal around which the group can rally. In one study, top management teams with stated goals such as “build the biggest financial war chest” for an upcoming competitive battle, or “create the computer firm of the decade,” or “build the best damn machine on the market” were less likely to have dysfunctional conflict and politics between members.⁷⁴ On a personal level, if you find yourself in a conflict, you and your adversary may be focused on the wrong goals. Work to find common ground in the form of an important goal that you both want to achieve.

The **garbage can model** of decision making occurs when people aren't sure of their goals, or disagree about the goals, and likewise are unsure of or in disagreement about what to do. This situation occurs because some problems are so complex that they are not well understood, and because decision makers move in and out of the decision process due to having so many other things to attend to as well. This model implies that some decisions are chaotic and almost random. You can see that this is a dramatic departure from rationality in decision making.

LO 8

Decision Making in a Crisis

In crises, managers must make decisions under a great deal of pressure.⁷⁵ You know some of the most famous recent crises: the explosion of BP's oil rig in the Gulf of Mexico, hurricane

devastation along the East Coast and elsewhere, the financial crisis that brought turmoil to the housing and banking industries, and the ongoing political crises that have shaken many governments around the world.

Information technology is a new arena for crises. Businesses, homes, government agencies, hospitals, and other organizations send critical information through the Internet and private networks around the clock, and any technical failure—sometimes accidental, sometimes maliciously intentional—could be magnified by the speed and reach of information technology. One vulnerable area is the electrical grid, which links utilities and carries power to each user. Information technology systems allow utility employees to control the grid remotely. Hackers have gained access to the U.S. electrical grid, enabling them to interfere with the grid's operations.⁷⁶ It almost feels routine how often hackers gain unethical, illegal, and dangerous access to databases and systems of companies and government agencies.

The response to IT-related crises must involve senior executives in online communication, both to protect the firm's reputation and to communicate with outside experts, news sources, and key external and internal stakeholders. Managers can use IT to monitor and respond immediately to problems, including scandals, boycotts, rumors, cyberattacks, and other crises.⁷⁷

Although many companies still don't concern themselves with crisis management, this is a recipe for compounding disaster; it is imperative for it to be on management's agenda. As illustrated in Exhibit 3.11, an effective plan for crisis management (CM) should include several elements.⁷⁸

Ultimately, management should be able to answer the following questions:⁷⁹

- What kinds of crises could your company face?
- Can your company detect a crisis in its early stages?
- How will it manage a crisis if one occurs?
- How can it benefit from a crisis after it has passed?



Superstorm Sandy hit the East Coast with fierce devastation. Managers had to make critical decisions to keep people safe.

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Strategic actions such as integrating CM into strategic planning and official policies.

Evaluation and diagnostic actions such as conducting audits of threats, and establishing tracking systems for early warning signals.

Technical and structural actions such as creating a CM team and dedicating a budget to CM.

Communication actions such as providing training for dealing with the media, local communities, and police and government officials.

Psychological and cultural actions such as providing training and psychological support services regarding the human and emotional impacts of crises.

EXHIBIT 3.11

Elements in an Effective Crisis Plan

SOURCES: Meyers, G. with Holusha J., *When It Hits the Fan: Managing the Nine Crises of Business*. Boston: Houghton Mifflin, 1986; Bacharach, S. and Bamberger, P., "9/11 and New York City Firefighters' Post Hoc Unit Support and Control Climates: A Context Theory of the Consequences of Involvement in Traumatic Work-Related Events," *Academy of Management Journal* 50 (2007), pp. 849–68.

Management in Action

UBER IN CRISIS

There is little doubt that Uber's innovative technology disrupted the taxi industry in cities around the world. While its ride-hailing service has been a boon to many a late-night partygoer and stranded office worker, the company recently experienced a series of escalating crises that could imperil its future. In addition to allegations of widespread sexism and sexual harassment, Uber faced accusations from current and former employees that for years it has fraudulently applied a data-sharing program to secretly identify and evade enforcement officials in cities where it had been banned or was not yet authorized to operate.

Intended as a means of identifying potentially problematic riders to protect its drivers, the program, called VTOS (for *violation of terms of service*), employs a software tool called Greyball. Together these technologies reportedly have been used to tag would-be riders Uber suspected might be municipal enforcement officers. These officials might in turn be engaging in a sting operation to locate Uber drivers, who could be issued tickets or have their cars impounded. Once identified by Uber, however, officials would be given false information about whether any cars were available to respond to their hail. If any officer were accidentally picked up, Uber would alert the driver to discharge him or her.

Despite some doubts within the company about whether it was legal or ethical, the Greyballing strategy has been used in the United States and about 12 foreign countries. According to Uber, "This program denies ride requests to fraudulent users who are violating our terms of service—whether that's people aiming to physically harm drivers, competitors looking to disrupt our operations, or opponents who collude with officials on secret 'stings' meant to entrap drivers."

But questions about its legality are now being raised here and in Europe. Said Peter Henning, a law professor at Wayne State University, "With any type of systematic thwarting of the law, you're flirting with disaster. We all take our foot off the gas when we see the police car at the intersection up ahead, and there's nothing wrong with that. But this goes far beyond avoiding a speed trap." Meanwhile, an official in the Netherlands has asked the EU's European Commission whether it plans to investigate.⁸⁰

At this writing, Uber observers are wondering what lies ahead, including for the rest of Silicon Valley regarding sexist culture and sexual harassment.

- What ideas from this chapter could improve decision making at Uber?
- What's been happening lately? Has there been any evidence of improved decision making?

And if someone steps in and manages the crisis well, a hero is born.

Crises can harm personal and work relationships and long-term performance. But with effective crisis management, old as well as new problems can be resolved, new strategies and competitive advantages may appear, and positive change can emerge. And if someone steps in and manages the crisis well, a hero is born.

As a leader during a crisis, don't pretend that nothing happened (as did managers at one firm after a visitor died in the hallway despite employees' efforts to save him).⁸¹ Communicate and reinforce the organization's values. Try to find ways for people to support one another and remember that others will take cues from your behavior. You should be optimistic but brutally honest. Show emotion, but not fear. "You have to be cooler than cool," says Gene Krantz of *Apollo 13* ground control fame.

But don't ignore the problems or downplay them and reassure too much; don't create false hopes. Give people the bad news straight—you'll gain credibility, and when the good news comes, it will really mean something.

KEY TERMS

affective conflict, p. 88	devil's advocate, p. 88	maximizing, p. 80
bounded rationality, p. 92	dialectic, p. 88	nonprogrammed decisions, p. 74
brainstorming, p. 90	discounting the future, p. 83	optimizing, p. 80
certainty, p. 75	framing effects, p. 83	programmed decisions, p. 74
coalition model, p. 92	garbage can model, p. 92	ready-made solutions, p. 78
cognitive conflict, p. 88	goal displacement, p. 86	risk, p. 75
conflict, p. 76	groupthink, p. 86	satisficing, p. 80
contingency plans, p. 79	illusion of control, p. 83	uncertainty, p. 75
custom-made solutions, p. 78	incremental model, p. 92	vigilance, p. 82

RETAINING WHAT YOU LEARNED

In Chapter 3, you learned that most managers make less than perfectly rational decisions because they lack the necessary information, time, or structure. The ideal decision-making process includes six steps (see Exhibit 3.3 recreated below). The best decision hinges on the manager's ability to be vigilant at all stages of the decision-making process. Various barriers can diminish the effectiveness of the decision-making process. While there are advantages and disadvantages of making decisions in groups, a good leader can manage the challenges by using the right leadership style, allowing constructive conflict, encouraging creativity, and brainstorming.

Decision making in organizations is complex and individuals are often bounded by multiple constraints. Decisions can be made incrementally, through coalitions, or in a chaotic garbage can manner. Decision making during organizational crises is particularly challenging; managers should anticipate and plan for it.

LO 1 Describe the kinds of decisions you will face as a manager.

- Most important managerial decisions lack structure and are characterized by uncertainty, risk, and conflict.
- Despite these challenges, managers are expected to make rational decisions in a timely manner.

LO 2 Summarize the steps in making "rational" decisions.

- The ideal decision-making process involves six phases. The first, identifying and diagnosing the problem (or opportunity), requires recognizing a

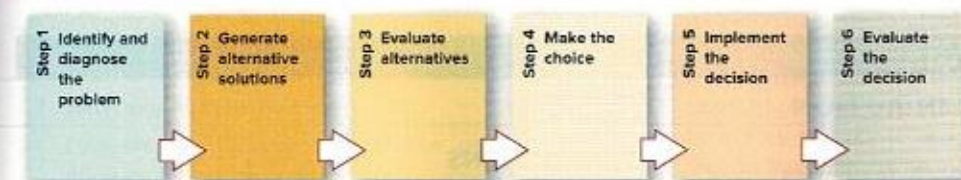
discrepancy between the current state and a desired state and then delving below surface symptoms to identifying underlying causes of the problem.

- The second phase, generating alternative solutions, involves applying ready-made or designing custom-made solutions.
- The third, evaluating alternatives, means predicting the consequences of different alternatives, sometimes through building scenarios of the future.
- Fourth, a solution is chosen; the solution might maximize, satisfy, or optimize.
- Fifth, people implement the decision; this phase requires more careful planning than it often receives.
- Finally, managers should evaluate how well the decision is working. This means gathering objective, valid information about the impact the decision is having. If the evidence suggests the problem is not getting solved, either a better decision or a better implementation plan must be developed.

LO 3 Recognize the pitfalls you should avoid when making decisions.

- Situational and human limitations lead most decision makers to satisfice rather than maximize or optimize.
- Psychological biases, time pressures, and the social realities of organizational life may prevent rational execution of the six phases.
- Vigilance and an understanding of how to manage decision-making groups and organizational constraints will improve the process and result in better decisions.

EXHIBIT 3.3 (revisited) The Phases of Decision Making



LO 4 Evaluate the pros and cons of using a group to make decisions.

- Advantages of using groups include more information, perspectives, and approaches brought to bear on problem solving; intellectual stimulation; greater understanding of the final decision; and higher commitment to the decision once it is made.
- Potential dangers or disadvantages of using groups include individual domination of discussions, satisficing, groupthink, goal displacement, and social loafing.

LO 5 Identify procedures to use in leading a decision-making group.

- Effective leaders in decision-making teams avoid dominating the discussion; encourage people's input; avoid groupthink and satisficing; and stay focused on the group's goals.
- They encourage constructive conflict via devil's advocacy and the dialectic, posing opposite sides of an issue or solutions to a problem.

LO 6 Explain how to encourage creative decisions.

- When creative ideas are needed, leaders should set a good example by being creative themselves. They should recognize the almost infinite little opportunities for creativity and have confidence in their own creative abilities.

- They can inspire creativity in others by providing creative freedom, rewarding creativity, and not punishing creative failures.
- Leaders should encourage interaction with customers, stimulate discussion, and protect people from managers who might squelch the creative process.
- Brainstorming is one of the most popular techniques for generating creative ideas.

LO 7 Discuss the processes by which decisions are made in organizations.

- Decision making in organizations can be a highly complex process. Individuals and groups are constrained by a variety of factors and constituencies. In practice, decision makers are boundedly rational rather than purely rational.
- Some decisions are made on an incremental basis. Coalitions form to represent different preferences. The process is often chaotic, as depicted in the garbage can model.
- Politics can also enter the process, decisions are negotiated, and crises come and go.

LO 8 Describe how to make decisions in a crisis.

- Crisis conditions make sound, effective decision making more difficult. However, it is possible for crises to be managed well.
- A strategy for crisis management can be developed beforehand, and the mechanisms readied, so that if crises do arise, decision makers are prepared.

DISCUSSION QUESTIONS

1. Discuss Uber's success and crises in terms of risk, uncertainty, and how its managers are handling the company's challenges. What is the current news on this company?
2. Identify some risky decisions you have made. Why did you take the risks? How did they work out? Looking back, what did you learn?
3. Identify a decision you made that had important unexpected consequences. Were the consequences good, bad, or both? Should you, and could you, have done anything differently in making the decision?
4. What effects does time pressure have on your decision making? In what ways do you handle it well and not so well?
5. Recall a recent decision that you had difficulty making. Describe it in terms of the characteristics of managerial decisions.
6. What do you think are some advantages and disadvantages to using computer technologies in decision making?
7. Do you think that when managers make decisions they follow the decision-making steps as presented in this chapter? Which steps are apt to be overlooked or given inadequate attention? What can people do to make sure they do a more thorough job?
8. Discuss the potential advantages and disadvantages of using a group to make decisions. Give examples from your experience.
9. Suppose you are the CEO of a major corporation and one of your company's oil tanks has ruptured, spilling thousands of gallons of oil into a river that empties into the ocean. What do you need to do to handle the crisis?
10. Identify some problems you want to solve. Brainstorm with others a variety of creative solutions.

EXPERIENTIAL EXERCISES**3.1 DECISION MAKING IN ACTION****OBJECTIVE**

Learn how to improve your ability to make good decisions.

INSTRUCTIONS

Refer again to Exhibit 3.3. Think back to a recent expensive purchase you made. It could have been a bike,

mobile device, suit for interviews, and so forth. In order to evaluate the quality of your decision, please think

about your purchase when answering each of the questions below.

Decision Making Worksheet

1. What problem did you hope to solve by making this purchase?

2. What alternative (or competing) products did you consider?

3. How did you evaluate the different alternative (or competing) products? Did you identify each product's strengths and weaknesses?

4. When you made the final choice, was it a maximizing, satisficing, or optimizing outcome?

5. After purchasing the product, how frequently did you test it out?

6. Was your decision to make the purchase a positive or negative one? Did it satisfy your original need(s)?

3.2 GROUP PROBLEM SOLVING AT A SOCIAL ENTERPRISE

OBJECTIVE

To understand the dynamics of group decision making through role-playing a meeting between a president and her employees.

INSTRUCTIONS

1. Identify 5 students to play the roles of the employees. Ask these 5 individuals to read their roles below.
2. Identify 1 student to play the role of the president of the social enterprise (Taylor Johnson). Ask this individual to read his/her role below.
3. Set up a table with 6 chairs at the front of the classroom.
4. Ask the remaining students in the audience to observe how the 6 individuals behave and then answer the discussion questions below.
5. When everyone is ready, Taylor Johnson joins the others at the table in her office, and the scene commences.
6. The meeting continues until there is a successful close unless an argument develops and no progress is made after 10–15 minutes.

DISCUSSION QUESTIONS

1. How did each member frame the problem? What did each member discuss?
2. How effectively did the group generate and evaluate alternatives?
3. What was its final decision?
4. Evaluate the effectiveness of the group's decision making.
5. How could the group's effectiveness be enhanced?

OVERVIEW

The role-play exercise is based on a meeting between a manager of a social enterprise and her 5 employees. Each character's role is designed to re-create a realistic business meeting. Each character brings to the meeting a unique perspective on a major problem confronting the social enterprise as well as some personal views of the other characters developed over several years of knowing them in business and social contexts.

CAST OF CHARACTERS

Taylor Johnson, the president, founded the enterprise 10 years ago as a way to connect outstanding teachers who have recently earned their teaching degrees with students in schools located in economically disadvantaged areas. The new teachers agree to serve in the disadvantaged schools for a 3-year period in exchange for a reasonably good salary and forgiveness of up to \$30,000 of their student loans. Taylor is well known for her hard-driving, selfless style of leadership. A charismatic leader, she is highly skilled at bringing diverse stakeholders together. However, Taylor admits that she lacks knowledge related to online classroom and teaching technologies. In the old days, this wouldn't be an issue. However, Taylor's competitors are beginning to overtake the social enterprise by offering new teachers training, mobile devices, and online learning tools (e.g., online homework, interactive videos, eBooks, and so forth) to help them create high-performance classrooms. She doesn't know whether the enterprise should continue doing what it does best (placing new teachers into traditional face-to-face teaching environments) or begin preparing its recruits to teach online and hybrid (combining face-to-face with online modules) classes.

Amit Patel, head of information technology, has worked for the enterprise for 6 months. A recent college graduate,

Amit reports directly to Taylor. She is on a mission to modernize the way the enterprise does its work. She feels strongly that the enterprise should be shifting more of its IT operations to the cloud. Also, Amit feels that a great deal of insight could be mined from 10 years of data currently stored in antiquated servers at the enterprise. Amit believes she could make these changes without spending a lot of funds. Unfortunately, Amit's zeal for rapid change has been a cause of concern for Felipe and Taylor who prefer a more methodical approach to change.

Felipe Rodriguez, director of fund-raising, reports directly to Johnson. He has held this position for 8 years and is a very close friend of Taylor's. Donations and grants for the most recent year are down by 10 percent. Prior to joining the enterprise, he worked as a fund-raiser for a major university in the region. The university offered a wide variety of online and hybrid courses. Felipe would often refer to these innovations when seeking donations from alumni. He was widely viewed as successful at his work.

Mike Clarke, manager in charge of recruiting new teachers, works for Felipe. After working for the enterprise as an entry-level recruiter for two years, Mike was recently promoted to this position. Though a persuasive recruiter of new teachers, he has noticed a recent decline in the

number of recruits willing to teach in traditional face-to-face learning environments. He is progressive in his thinking and believes that the enterprise needs to change how it does business in order to keep up with the competitors. Mike and Amit feel they are agents of change and want to modernize the enterprise.

TODAY'S MEETING

Taylor has called the meeting with these three managers to decide whether the social enterprise should begin preparing its new recruits to teach not only traditional face-to-face classes, but also hybrid and online classes. This decision has to be made within 15 minutes because the enterprise's largest client just called and asked to meet with Taylor immediately. Taylor is concerned that the school may be on the verge of discontinuing the contract with the enterprise. If that's the case, Taylor wants the managers to help her decide on a counteroffer to win back the client school. Losing this client school is not an option given that it makes up 40 percent of the enterprise's revenue.

SOURCE: Adapted from Gordon, Judith R., *A Diagnostic Approach to Organizational Behavior* (Upper Saddle River, NJ: Pearson Education, Inc., 1983).

Concluding Case

SOARING EAGLE SKATE COMPANY

As a child, Stan Eagle just knew he loved riding his skateboard and doing tricks. By the time he was a teenager, he was so proficient at the sport that he began entering professional contests and taking home prize money. By his twenties, Eagle was so successful and popular that he could make skateboarding his career. A skateboard maker sponsored him in competitions and demonstrations around the world.

The sponsorship and prize money paid enough to support him for several years. But then interest in the sport waned, and Eagle knew he would have to take his business in new directions. He believed skateboarding would return to popularity, so he decided to launch into designing, building, and selling skateboards under his own brand. To finance Soaring Eagle Skate Company, he pooled his own personal savings with money from a friend, Pete Williams, and came up with \$75,000. Sure enough, new young skaters began snapping up the skateboards, attracted in part by the products' association with a star.

As the company prospered, Eagle considered ideas for expansion. Another friend had designed a line of clothing he thought would appeal to Eagle's skateboarding fans, and Eagle's name on the product would lend it credibility. At the friend's urging, Eagle branched out into clothing for skateboarders. However, he discovered that the business of shorts and shirts is far different from the business

of sports equipment. The price markups were tiny, and the sales channels were entirely different. Three years into the expansion, Soaring Eagle had invested millions of dollars in the line but was still losing money. Eagle decided to sell off that part of the business to a clothing company and cut his losses.

Soon after that experiment, cofounder Williams proposed another idea: They should begin selling other types of sports equipment—inline roller skates and ice skates. Selling equipment for more kinds of sports would produce more growth than the company could obtain by focusing on just one sport. Eagle was doubtful. He was considered one of the most knowledgeable people in the world about skateboarding. He knew nothing about inline skating and ice skating. Eagle argued that the company would be better off focusing on the sport in which it offered the most expertise. Surely there were ways to seek growth within that sport—or at least to avoid the losses that came from investing in industries in which the company lacked experience.

Williams continued to press Eagle to try his idea. He pointed out that unless the company took some risks and expanded into new areas, there was little hope that Williams and Eagle could continue to earn much of a return on the money they had invested. Eagle was troubled. The attempt at clothing delivered, he thought, a message that they needed to be careful about expansion. But he

seemed unable to persuade Williams to accept his point of view. He could go along with Williams and take the chance of losing money again, or he could use money he had earned from his business to buy Williams's ownership share in the company and then continue running Soaring Eagle on his own.

DISCUSSION QUESTIONS

1. How do the characteristics of management decisions—uncertainty, risk, conflict, and lack of structure—affect the decision facing Stan Eagle?
2. What steps can Eagle take to increase the likelihood of making the best decision in this situation?

PART ONE SUPPORTING CASE

Zappos Eliminates All Managers and Titles

Recently, Zappos' CEO Tony Hsieh surprised many observers in the business world by announcing to his 1,500 or so employees that the e-retailer famous for its shoes was doing away with job titles, managers, and other artifacts associated with traditional top-down management and replacing it with a system where employees are expected to act like mini entrepreneurs. This new approach or holacracy encourages employees to self-manage and self-organize, thus eliminating the need for bosses. One of the management system's overarching goals is to "create a dynamic workforce where everyone has a voice and bureaucracy doesn't stifle innovation."

How does a holacracy function? Based on the work of Brian Robertson, who developed the idea while running his start-up, Ternary Software, a holacracy organizes employees into circles of responsibility—similar to functional areas like marketing and customer service, and employee special interest areas like career development and so forth. Though democratic and self-governing, the circles do not operate in a vacuum as they are arranged in a hierarchy (circles report to higher-level circles) and follow detailed procedures for running meetings and making decisions. Employees are free to choose which circles to which they want to belong and on what projects they would like to work. The circles are responsible for achieving a specific set of responsibilities. At meetings, employees are encouraged to address and resolve in a proactive manner "tensions" or problems related to internal (e.g., unfair workloads) or external (e.g., a way to enhance the customer experience) issues. Rather than reporting to a manager with the power to hire or fire, as is the case in hierarchically organized companies, a "lead link" helps employees accomplish the circle's responsibilities and communicates between circles.

Zappos is not the first company in history to experiment with employee self-management. For example, Gore & Associates (maker of Gore-Tex) has no formal chain of command and provides its associates with freedom to self-select work projects and choose associates with relevant expertise to assist in the development of those projects. Semco Partners, a Brazilian industrial machinery manufacturer, engages its 3,000-plus employees through participative management, where employees set their own work hours and pay levels, hire and review their supervisors, and

decide which new businesses in which to enter. Johnsonville Sausage Company eliminated its hierarchy and introduced "self-managed, self-organizing teams throughout the company." Ralph Styer, the CEO who championed this radical change, believed that "helping human beings fulfill their potential is of course a moral responsibility, but it's also good business practice." He believed in the connection between employee happiness and organizational performance: "Learning, striving people are happy people and good workers."

Are the employees at Zappos happy about their expanded responsibilities and freedom to self-govern? How are the managers accepting this change? It's mixed. In a recent e-mail to all staff at the company, Hsieh said that everyone had a choice to make: either embrace the new holacratic system or accept a three-month severance package and resign. Two hundred and ten (or 14 percent) of the staff resigned. Of those who left the company, 20 (or 7 percent) were managers. Does that mean that the 86 percent of staff who decided to stay did so because they believe in the new holacratic approach? Time will tell. One may speculate that the individuals who chose to remain at Zappos did so because they are either "believers" or lack the interest or motivation to switch jobs at the moment.

Some of the employees who are staying have shared concerns about the new management approach like using the complicated new lingo, adjusting to the rapidly changing work roles and expectations, and the "ever-expanding number of circles and the endless meetings" that take employees away from achieving their work goals. On the upside, holacracy promotes employees' ownership and encourages even the lowest-paid employees to add items to meeting agendas that are subsequently discussed and acted upon.

What will become of the 267 ex-managers at Zappos? Though no one knows for sure, the company has created a new circle titled "Reinventing Yourself" to help these individuals find "new roles that might be a good match for their passions, skills, and experience." John Bunch, the employee who is helping Zappos transition to a holacracy, suggests, "most managers will be able to grow into new areas of technical work to replace the time they were doing people management."

There may be an irony in the way that Zappos shifted from a hierarchical management structure to one that is based on democratic, self-organizing circles. The mandate for this change came from Tony Hsieh, the CEO. Those employees and managers who did not agree with the "top-down" change were asked to leave the company. This irony suggests that even for visionary business leaders like Hsieh, radical change may not be easy to accomplish in a consensus-driven manner.

As Zappos and its employees continue to adapt to the new holacratic system of management, Bunch has admitted the company will need to refine salary processes as well as the decision process for assigning projects throughout the company. He is patient and is taking the long view: "We believe that, over time, the ability for people to be empowered and entrepreneurial will make people happy."

DISCUSSION QUESTION

1. To what degree do you think that Zappos' new holacratic approach to organizing will enhance its competitive advantage in innovation, quality, service, speed, and cost competitiveness? Explain.

SOURCES: Adapted from Noguchi, Y., "Zappos: A Workplace Where No One and Everyone Is the Boss," NPR, July 21, 2015, <http://www.npr.org>; Gelles, D., "At Zappos, Pushing Shoes and a Vision," *The New York Times*, July 17, 2015, <http://www.nytimes.com>; Feloni, R., "7% of Zappos' Managers Quit After Recent CEO Ultimatum to Embrace Self-Management or Leave," *Business Insider*, June 9, 2015, <http://www.businessinsider.com>; Silverman, R., "At Zappos, Banishing Bosses Brings Confusion," *The Wall Street Journal*, May 20, 2015, <http://www.wsj.com>; Petriglieri, G., "Making Sense of Zappos' War on Manager," *Harvard Business Review*, May 19, 2015, <http://www.hbr.org>; Denning, S., "Zappos Says Goodbye to Bosses," *Forbes*, January 15, 2015, <http://www.forbes.com>; Fisher, L., "Ricardo Semler Won't Take Control," *Strategy + Business*, November 29, 2005, <http://www.strategy-business.com>.

CASE INCIDENTS

Employee Raiding

Litson Cotton Yarn Manufacturing Company, located in Murray, New Jersey, decided as a result of increasing labor costs to relocate its plant in Fairlee, a southern community of 4,200. Plant construction was started, and a human resources office was opened in the state employment office, located in Fairlee.

Because of ineffective HR practices in the other three textile mills located within a 50-mile radius of Fairlee, Litson was receiving applications from some of the most highly skilled and trained textile operators in the state. After receiving applications from approximately 500 people, employment was offered to 260 male and female applicants. These employees would be placed immediately on the payroll with instructions to await final installation of machinery, which was expected within the following six weeks.

The managers of the three other textile companies, faced with resignations from their most efficient and best-trained employees, approached the Litson managers with the complaint that their labor force was being "raided." They registered a strong protest to cease such practices and demanded an immediate cancellation of the employment of the 260 people hired by Litson.

Litson managers discussed the ethical and moral considerations involved in offering employment to the 260 people. Litson clearly faced a tight labor market in Fairlee, and management thought that if the 260 employees were discharged, the company would face cancellation of its plans and large construction losses. Litson management also felt obligated to the 260 employees who had resigned from their previous employment in favor of Litson.

The dilemma was compounded when the manager of one community plant reminded Litson that his plant was part of a nationwide chain supplied with cotton yarn from Litson. He implied that Litson's attempts to continue operations in Fairlee could result in cancellation of orders and the possible loss of approximately 18 percent market share. It was also suggested to Litson managers that actions taken

by the nationwide textile chain could result in cancellation of orders from other textile companies. Litson's president held an urgent meeting of his top subordinates to (1) decide what to do about the situation in Fairlee, (2) formulate a written policy statement indicating Litson's position regarding employee raiding, and (3) develop a plan for implementing the policy.

How would you prepare for the meeting, and what would you say at the meeting?

SOURCE: Champion, J. and James, J., *Critical Incidents in Management: Decision and Policy Issues*, 6th ed. New York: McGraw-Hill/Irwin, 1989. Copyright © 1989 The McGraw-Hill Companies.

Effective Management

Dr. Sam Perkins, a graduate of the Harvard University College of Medicine, had a private practice in internal medicine for 12 years. Fourteen months ago, he was persuaded by the Massachusetts governor to give up private practice to be director of the State Division of Human Services.

After one year as director, Perkins recognized he had made little progress in reducing the considerable inefficiency in the division. Employee morale and effectiveness seemed even lower than when he had assumed the position. He realized his past training and experiences were of a clinical nature with little exposure to effective management techniques. Perkins decided to research literature on the subject of management available to him at a local university.

Perkins soon realized that management scholars are divided on the question of what constitutes effective management. Some believe people are born with certain identifiable personality traits that make them effective managers. Others believe a manager can learn to be effective by treating subordinates with a personal and considerate approach and by giving particular attention to their need for favorable working conditions. Still others emphasize the importance of developing a management style characterized by an authoritarian, democratic, or laissez-faire approach. Perkins

was further confused when he learned that a growing number of scholars advocate that effective management is contingent on the situation.

Because a state university was located nearby, Perkins contacted the dean of its college of business administration. The dean referred him to the director of the college's management center, Professor Joel McCann. Discussions between Perkins and McCann resulted in a tentative agreement that the management center would organize a series of management training sessions for the State Division of Human Services. Before agreeing on the price tag for the management conference, Perkins asked McCann to prepare a proposal reflecting his thoughts on the following questions:

1. How will the question of what constitutes effective management be answered during the conference?
2. What will be the specific subject content of the conference?
3. Who will the instructors be?
4. What will be the conference's duration?
5. How can the conference's effectiveness be evaluated?
6. What policies should the State Division of Human Services adopt regarding who the conference participants should be and how they should be selected? How can these policies be implemented best?

SOURCE: Champion, J. and James, J., *Critical Incidents in Management: Decision and Policy Issues*, 6th ed. New York: McGraw-Hill/Irwin, 1989. Copyright © 1989 The McGraw-Hill Companies.