DEVELOPING DECISION MAKING SKILLS.

Checklist 277

» INTRODUCTION

Making effective decisions as a manager is a very significant challenge in a fast-moving world. Increasingly managers are expected to act under conditions of uncertainty or limited information, which have a considerable impact at every stage of the decision making process.

This checklist is intended to provide guidance for individual managers making decisions in their area of responsibility, but it is important to recognise that this will often require consultation with colleagues and other stakeholders. There are many approaches to decision making, and this checklist introduces some of the tools and models which can be used. Some of these involve gathering extensive information about preferences and available options before undertaking a deliberate analytical process to evaluate the merits of each possibility. At the other extreme, decisions can sometimes be based purely on a manager's intuition as they subconsciously synthesise past experiences and extract lessons to apply to a current situation.

As a manager, you will need to apply your skills to select the most appropriate approach for the context you are operating in and the kind of decision you need to make. Usually this will involve finding a balance between the two extremes outlined above. Good decision making skills will enable you to understand what information you will require and how best to use it to inform your decision, as well as helping you to avoid unhelpful or biased assumptions, and recognising the degrees of uncertainty and risk involved and whether these are acceptable in the circumstances. Understanding the implications of your decision, including the impact on departmental and organisational objectives, will help you to avoid costly mistakes and make decisions that add value to your business.

» DEFINITION

Decision making skills enable a manager to consider alternatives and use judgement to choose an appropriate and timely course of action. The terms 'decision making' and 'problem solving' are often used interchangeably but are not identical. As the term suggests 'problem solving' starts with the identification of a problem or difficulty. The resolution of a problem may require decision making skills, but these are also relevant in other situations - where there is a desire to plan for the future or develop new areas of business, for example.

» ACTION CHECKLIST

1. Be clear about the scope of the decision you are faced with

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How to proceed with making a decision can involve as many choices as the decision itself. Some decisions are routine – we all make these every day. Others involve strictly governed processes and predictable outcomes, somewhat like a recipe - individuals have little discretion in these decisions.

Others are more complex, involving many inter-relating factors. The possible options and outcomes are unknown or uncertain, and may be subject to influence by multiple groups and individuals. It may be that only a broad goal can be identified at the start of the process, with no set way to achieve it. In the volatile world of modern business, such decisions are becoming more common. In some cases it may be vital to take decisions urgently and make timely interventions, in response to unexpected changes in circumstances. When faced with a particular decision, it is necessary to define exactly what needs to be decided (and what does not need to be decided) at this point in time.

Once you are clear on the scope of the decision, check whether you can identify established methods for making similar decisions in your organisation. Are there already rules or regulations in place that will dictate how and by whom this decision is made? If not, are there any guidelines?

2. Consider the potential impact of the decision and how this will be evaluated

Consider the scope of the decision and its potential impact. Who and what will be directly affected? Are there indirect implications for other stakeholders or services?

Remember to consider how the decision relates to organisational and departmental objectives, since these may be helpful in delimiting acceptable options, and will provide some criteria against which to evaluate decisions. Will the decision help to progress the department or organisation towards meeting a particular objective? Would certain choices have a negative impact on the meeting other objectives?

3. Decide who needs to be involved in the decision making process

Consider whether making the decision is within your remit. Especially in larger organisations, this is rarely the case – there will be colleagues who need to be consulted, informed or influenced. Consider who these stakeholders are, and how you will go about gathering their contributions or making recommendations to them. Stakeholder Analysis methods could be helpful here (see Related Checklists below). Do not forget to consider people whose work will be directly impacted, especially since you will be dependent upon their commitment to implement the decision.

Questions to ask yourself at this stage include:

- Who has the formal responsibility for the decision?
- Who will be accountable for its success or failure?
- Who has the experience or expertise to contribute to making the decision?
- Who will ensure that it is implemented properly?
- Who controls the resources necessary for implementation?

Tannenbaum and Schmidt's Leadership Continuum, sometimes also known as the decision making continuum (see Related models below) depicts a sliding scale of levels of managerial authority and delegation. In decision making it can be used to help you to evaluate the context of the decision and the level of delegation that is appropriate. Consider which position along the spectrum it would be most suitable to adopt for the current decision.

4. Define the issue to be decided and collect relevant information

The next step is to clearly define the matter in hand. You must know exactly what you have to decide, and also what does not need to be decided at the current point in time, so as to avoid 'mission creep'. It is possible that you may need to refine your definition when you have gathered more information, but it is crucial to have a working definition before you begin to collect these details.

Gathering relevant and accurate information will help you to evaluate the available options. Consider the specific elements that are required to make the decision, and then consider what information is actually available or can easily be accessed. In some cases, the available information may be limited and the time constraints tight. This is likely to shorten the information-gathering stage and increase dependence on managerial experience or intuition.

In slower-paced situations, it is important to avoid 'information overload', which occurs when you become bogged down in analysing every bit of available information before making a decision. Often the answer will not become any clearer, and in the meantime you may have missed the opportunity to act at the time when your decision would have produced the best results. Meanwhile, excessive information gathering can produce an illusion of control by hiding uncertainties and leading to over-confidence.
Information management systems, spreadsheets and graphs can be helpful here, but these can often over-simplify reality, excluding information which cannot be assigned a numerical value. Bear in mind also, that while data describing past and present transactions and trends can form a useful starting point for the decision making process, future trends can only be predicted with some degree of uncertainty. For these reasons be careful not to rely too heavily on such figures.

5. Take account of uncertainty

It is important to accept that there will almost always be a degree of uncertainty about outcomes. Even if you are fairly confident that you understand the implications of your decision in the current situation, the long-term impact may be less clear. For example, rapid change could happen when a tipping point is reached, meaning that past results are poor predictors of the future. Often, there is a further degree of ambiguity when there is less information available at the time than you would prefer.

Recognising and accepting uncertainty is important even if you cannot resolve it. The actions you take will also be dependent on your own or your organisation's attitude to risk. Your level of 'risk aversion' is the extent to which you prefer a more certain outcome, possibly with a lower payoff, over an uncertain outcome with a potentially higher payoff. Think about how prevailing levels of risk-seeking or risk aversion in your situation may affect your decision.

Consider the best and worst case scenarios, and what the impact of these would be on your organisation. Always try to consider the 'outside view' – for example you might believe from an insider perspective that your organisation will be successful in its change project, but what is the historical rate of success for similar projects across your sector? Is your project plan stronger or weaker than similar ones?

6. Gather appropriate contributions

Depending on the spread of decision making responsibility in your context, other colleagues will be able to contribute to defining the decision to be taken, gathering relevant information, or making the decision.

Wide participation in decision-making has advantages, including:

- engagement, leading to a feeling of 'ownership' of the decision
- confidence in the legitimacy of the decision
- opportunities for the decision to be challenged
- increased transparency.

Participation also brings risks. While a decision in which more people have participated may appear to be more legitimate, teams can fall victim to 'groupthink' or exhibit unhelpful group dynamics. They may follow the lead of a particularly dominant individual, or may share a collective bias that leads them to gloss over dissenting views or ignore crucial signals. This is especially likely if the group is quite homogenous, for example if all members have similar job roles or backgrounds. At its worst, groupthink can be the result of a leader's deliberate strategy, as they surround themselves with people who will not challenge their views.

One method of preventing groupthink is the Stepladder Technique. This is similar to the Delphi method but uses face-to-face interactions instead of anonymous written contributions. Individuals are all asked to consider the problem independently and record their thoughts before joining the group one by one and contributing their views before hearing those of others. Edward de Bono's Six Thinking Hats technique (See Additional resources below) could also help the team to consider a decision from all points of view.

In order to get the best from a decision making team:

- create a constructive environment where dissent is welcome
- ensure that dissenting views are fully explored
- actively seek out information that challenges your recommendations
- keep groups small to maximise effectiveness, since large groups can become unfocused
- be aware of others' motivations and interests, and be careful that the issue or decision is not being framed in a particular way to influence you.

7. Use decision making tools which fit the situation

Decision making tools can be applied to help you to evaluate and compare alternatives. The choice of tool will depend on the situation. If there is time available to evaluate options thoroughly, and the options can be appropriately quantified, the following methods could be helpful:

- **Kepner and Tregoe's rational model** encourages managers to determine which factors are most important in a decision and to weight options according to how well they meet requirements (See Related checklists below). For a complex technical decision, for which plenty of time has been allocated, this can be an effective and transparent process for reaching a conclusion. However under conditions of uncertainty or rapid change, this method maybe too cumbersome to be viable.
- **Decision trees** can be used to represent uncertainty, revealing the risks and potential rewards of alternative courses of action. The division of the tree into branches shows the points at which choices can be made, and the possible outcomes of these choices. Probabilities are assigned to each outcome, as well as estimates of how much value each would deliver. The expected value of each choice (values x probabilities of all possible outcomes) can then be calculated.
- **The Plan-Do-Check-Act (PDCA**) cycle suggests making incremental decisions and following these up with actions, and then analysis, before moving forward (see Related models below).

'Shortcut' strategies, for use if time is limited or the decision is less complex, include:

- **Paired comparisons.** If you are considering multiple options, pairing them and comparing their performance on key requirements allows you to quickly eliminate options, allowing only the preferred options to progress to the next 'round'. You could then use another decision making tool to make the final choice.
- **PMI** – plus/minus/interesting is a kind of 'pros and cons' list used to make binary yes/no decisions, where you also record any interesting implications of the choice that do not clearly fit into the 'plus' or 'minus' columns. Before you start, it is important to ensure that a binary decision is really what you are faced with, and that you are not excluding other valid options.
- **The Pareto Principle** states that 20% of inputs deliver 80% of results. It can be applied and holds true in a surprising variety of situations. If you are aware of where this principle applies in your business, you may be able to work out which change option could deliver the greatest benefits.

Finally, intuitive 'hunches' may be your brain's way of communicating information that it has subconsciously received, based on pattern recognition. Knowing when to act on these hunches is a useful skill for managers to develop - in certain time-critical situations, for example, your intuition may be a crucial factor. The extent to which you can employ intuition may depend on your organisation or role. Remember that you will need to convince others of the validity of your decision in order to achieve buy-in, which could be more difficult if you are unable to rationalise your choice. Consider:

- **your place within the organisation** – research has shown that those who are higher up in the organisational hierarchy are more likely, and perhaps more able, to act on their intuitive hunches
- **the nature of your work** - managers in customer services, human resources, marketing and sales are more likely to be intuitive decision makers
- **the size of your organisation** - making decisions in this way is often more acceptable in smaller organisations, while larger businesses tend to rely more on analytic processes.

8. Watch out for biases and common psychological traps

Our responses to situations are prompted by a complex array of factors influenced by our background, experiences and even hard-wired evolutionary responses. This can easily lead managers into traps where they are misled into making sub-optimal decisions.

Common psychological traps that can impair our decision making include:

- **confirmation bias** – uncritical acceptance of information that confirms existing beliefs
- **false analogy** – assuming that the situation is just like a previous one, ignoring the differences
- **availability bias** – allowing your mind to construct a narrative only from the information that is immediately in front of you
- **tunnel vision** – failing to see the 'big picture' while focusing on the detail
- **vividness** – ignoring more mundane alternatives in favour of the most vivid option, for example being swayed by a sales pitch into making an instant decision without considering alternatives
- **sunk cost fallacy** – giving weight to resources that have already been spent, when these do not have an impact on the future costs and gains of pursuing an alternative
- **loss aversion** – a preference for avoiding possible losses over pursuing possible gains.

The first step to avoiding these traps is to be aware of them, but this is unlikely to be enough to eliminate them. Including more people in the decision could help, since it is easier to spot biases in others' thinking that to recognise them in your own. Crowdsourcing techniques have been shown to reduce errors in decision making, since they allow many people to pool their knowledge on an equal footing.

Chip and Dan Heath, in their book Decisive, propose a simple framework – the WRAP framework – for avoiding psychological traps:

- **W**iden your options – expand your set of choices as far as possible
- **R**eality-test your assumptions – collect reliable information and explore dissenting views
- **A**ttain distance before deciding – avoid making decisions based on short-term or emotional factors
- **P**repare to be wrong – what will happen if things do not go according to plan?

9. Communicate the decision and act on it

However you reach your decision, communicating it clearly is crucial. Your communications should:

- be timely
- include all stakeholders
- explain how and why the decision was made
- clearly explain the consequences of the decision.

Force field analysis (See Related Models) can help to identify and pre-empt any potential problems by identifying the forces that are expected to support or oppose change. This allows for strategies to be put in place to maximise the positive drivers and limit the negative forces.

10. Monitor and learn from the outcomes

One of the most important factors in improving your decision making is feedback. In some cases, feedback may be quick and clear. In others, such as long term investment decisions, it may take some time for the impact to become apparent. It may also be ambiguous - the decision moved the organisation forward in some ways, but held it back in other areas. However long it takes for the lessons to become clear, they should not be ignored. Keeping a record such as a decision making journal could help you to continuously hone your decision making skills and recognise traps in your own thinking.

» POTENTIAL PITFALLS

Managers should avoid:

- excluding those who should be involved in decision making
- information overload – trying to consider every piece of available information before making a decision
- analysis paralysis – thinking over a decision so thoroughly that you miss opportunities
- failing to recognise common biases in your thinking that might skew decision making.

» ADDITIONAL RESOURCES

BOOKS

Decide: better ways of making decisions, David Wethey
London: Kogan Page, 2013
This book is available as an e-book.

Decisive: how to make better choices in life and work, Chip and Dan Heath
London: Random House, 2013

Thinking, fast and slow, Daniel Kahneman
New York NY: Farrar, Straus and Giroux, 2013

Guide to decision making, Helga Drummond
London: Economist in association with Profile Books, 2012

John Adair's 100 greatest ideas for smart decision making, John Adair
Chichester: Capstone, 2011
This book is available as an e-book.

Decide & deliver: 5 steps to breakthrough performance in your organization, Marcia W Blenko, Michael C Mankins and Paul Rogers
Boston, Mass: Harvard Business Review Press, 2010

Think twice: harnessing the power of counterintuition, by Michael J Mauboussin
Boston Mass, Harvard Business School, 2009

This is a selection of books available for loan to members from CMI's library. More information at: www.managers.org.uk/library

JOURNAL ARTICLES

Intuition: the missing ingredient for good managerial decision-making, Kurt Matzler, Borislav Uzelac and Florian Bauer
Journal of Business Strategy, 2014, vol 35 no 6, pp31-40

Before you make that big decision, Daniel Kahneman, Dan Lovallo and Olivier Sibony
Harvard Business Review, June 2011, vol 86 no 6, p 51-60

Learning from fiasco: what causes decision error and how to avoid it, Julia Hodgson and Helga Drummond
Journal of General Management, Winter 2009, vol 35 no 2, pp81-92

Intuition in strategic decision making: friend or foe in the fast-paced 21st century? C Chet Miller and R Duane Ireland
Academy of Management Executive, vol 19 no 1, February 2005, pp19-30

These articles are available for members to download from CMI's library. More information at www.managers.org.uk/library.

RELATED CHECKLISTS

015 Rational decision making: Kepner and Tregoe's model
234 Stakeholder analysis and management

RELATED MODELS

De Bono's six thinking hats
Tannenbaum and Schmidt leadership continuum
Stakeholder analysis
Force field analysis
Deming's PDCA Cycle "the Deming Wheel"

» NATIONAL OCCUPATIONAL STANDARDS FOR MANAGEMENT & LEADERSHIP

This checklist has relevance for the following standards:

› Unit EC5 Use information to make effective decisionsUnit number: title

» MORE INFORMATION

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