PART 2  Planning

CHAPTER 3  Foundations of Decision Making

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Flight Plan

With a small year-round population, Branson, Missouri, is in a location not easily accessible by air service. The city, best known for its country music, aging pop-star variety shows, and family-style attractions, also has the kinds of outdoor activities that attracted eight and a half million visitors last year, “earning it the unofficial nickname ‘Vegas without the gambling.’” About 95 percent of those visitors come by car or bus. But now it’s show time for a new entrant—the Branson Airport. The $155 million airport, which opened in May 2009, is an experiment that many people are watching.

The new airport is generating interest from city governments and the travel industry because it’s the nation’s first commercial airport built and operated as a private, for-profit business with absolutely no government funding. As one expert said, “…unpretentious little Branson Airport could have an outsize effect if it works. It could turn what now is a mostly regional tourist spot into a national destination for tourists.”

Steve Peet, the airport’s chief executive admits that he had no idea where Branson was in 2000. But by 2004, he was convinced there was money to be made flying tourists there. He says, “If you were ever going to think about building a private commercial airport, this would be the place to do it. How many more visitors would come here if we made it easier and affordable for them? It seemed like an incredible opportunity.” So he decided to build a new commercial airport using private financing a short distance south of Branson’s popular theater district. Decisions made by both Peet and Jeff Bourk (pictured), executive director of the airport, have been a big part of turning that dream into reality.

After deciding where to locate the airport, work began on constructing the 7,140-foot runway (which can accommodate most narrow-body jets) and the terminal. Despite all the major decisions, project construction went smoothly. Bourk believed that much of that was due to minimal red tape. Because the airport wasn’t using federal assistance, it didn’t face the restrictions that accompany taking government money. Thus, it could also pick and choose the airlines it would let in. The airport’s owners offered exclusive contracts to AirTran and Sun Country on certain routes to Branson. To attract those providers, the airport agreed to not allow other competitors in. Also, the airport owners kept the airlines’ operating costs low since airport employees do much of the work usually done by an airline’s ground staff. Peet stated that they want the airlines to succeed. “We want to build real service, sustainable service.” The airport earns money from landing fees (based on number of passengers, not on weight), aircraft fuel sales, a percentage of every sale at the airport’s facility, and a $8.24 fee paid by the city of Branson for each arriving passenger. To reach Peet’s goal of 250,000 passengers a year, the airport needs only 685 passengers (five to six planeloads) a day. He says, “What we’re doing is going to work.”
Making decisions, especially when there are no precedents to guide you, can’t be easy. However, that doesn’t mean that managers can just forget about or ignore making decisions. Rather, as the decision makers in the chapter-opening story about Branson Airport illustrate, even when decisions are difficult or complex, you gather the best information you can and just do it.

Managers make a lot of decisions—some minor and some major. The overall quality of those decisions goes a long way in determining an organization’s success or failure. In this chapter, we examine the basics of decision making.

**How Do Managers Make Decisions?**

Decision making is typically described as choosing among alternatives, but this view is overly simplistic. Why? Because decision making is a process rather than the simple act of choosing among alternatives. Exhibit 3-1 illustrates the decision-making process as a set of eight steps that begins with identifying a problem; it moves through selecting an alternative that can alleviate the problem and concludes with evaluating the decision’s effectiveness. This process is as applicable to your decision about what you’re going to do on spring break as it is to the decisions Branson Airport executives made as they got the new airport up and running. The process can also be used to describe both individual and group decisions. Let’s take a closer look at the process in order to understand what each step entails.

**What Defines a Decision Problem?**

The decision-making process begins with the identification of a problem (step 1) or, more specifically, a discrepancy between an existing and a desired state of affairs. Let’s develop an example illustrating this point to use throughout this section. For the sake of simplicity, we’ll make the example something to which most of us can relate: the decision to buy a vehicle. Take the case of a new-product manager for the Netherlands-based food company Royal Ahold. The manager spent nearly $6,000 on auto repairs over the past few years, and now the car has a blown engine. Repair estimates indicate that it is not economical to repair the car. Furthermore, convenient public transportation is unavailable.

So now we have a problem that results from the disparity between the manager’s need to have a functional vehicle and the fact that her current one isn’t working. Unfortunately, this example doesn’t tell us much about how managers identify problems. In the real world, most problems don’t come with neon signs identifying them as such. A blown engine is a clear signal to the manager that she needs a new vehicle, but few problems
The steps involved in buying a vehicle provide a good example of the decision-making process, which applies to both individual and group decisions. For this young man, the process starts with a problem: He needs a car to drive to a new job. He identifies decision criteria (price, color, and performance); assigns priorities to the criteria; develops, analyzes, and selects alternatives; implements the alternative; and finally, evaluates the effectiveness of his decision.

What Is Relevant in the Decision-Making Process?

Once a manager has identified a problem that needs attention, the decision criteria that will be important in solving the problem must be identified (step 2).

In our vehicle-buying example, the product manager assesses the factors that are relevant in her decision, which might include criteria such as price, model (two door or four door), size (compact or intermediate), manufacturer (Japanese, German, American), optional equipment (automatic transmission, side-protection impact system, leather interior), and repair records. These criteria reflect what she thinks is relevant in her decision. Every decision maker has criteria—whether explicitly stated or not—that guide his or her decision making. Note that in this step in the decision-making process, what is not identified is as important as what is. If the product manager doesn’t consider fuel economy to be a criterion, then it will not influence her choice of vehicle. Thus, if a decision maker does not identify a particular factor in this second step, it’s treated as irrelevant.

How Does the Decision Maker Weight the Criteria and Analyze Alternatives?

The criteria are not all equally important. It’s necessary, therefore, to allocate weights to the items listed in step 2 in order to give them their relative priority in the decision (step 3). A simple approach is to give the most important criterion a weight of 10 and then assign weights to the rest against that standard. Thus, in contrast to a criterion that you gave a 5, the highest-rated factor would be twice as important. The idea is to use your personal preferences to assign priorities to the relevant criteria in your decision as well as to indicate their degree of importance by assigning a weight to each. Exhibit 3-2 lists the criteria and weights that our manager developed for her vehicle replacement decision. Price is the most important criterion in her decision, with performance and handling having low weights.

Then the decision maker lists the alternatives that could succeed in resolving the problem (step 4). No attempt is made in this step to appraise these alternatives, only to list them. Let’s assume that our manager has identified 12 vehicles as viable choices: Jeep Compass, Ford Focus, Mercedes C230, Pontiac G6, Mazda CX7,
Dodge Durango, Volvo S60, Isuzu Ascender, BMW 335, Audi A6, Toyota Camry, and Volkswagen Passat.

Once the alternatives have been identified, the decision maker must critically analyze each one (step 5). Each alternative is evaluated by appraising it against the criteria. The strengths and weaknesses of each alternative become evident as they're compared with the criteria and weights established in steps 2 and 3. Exhibit 3-3 shows the assessed values that the manager put on each of her 12 alternatives after she had test driven each vehicle. Keep in mind that the ratings given the 12 vehicles shown in Exhibit 3-3 are based on the assessment made by the new-product manager. Again, we’re using a 1-to-10 scale. Some assessments can be achieved in a relatively objective fashion. For instance, the purchase price represents the best price the manager can get from local dealers, and consumer magazines report data from owners on frequency of repairs. However, the assessment of handling is clearly a personal judgment. The point is that most decisions contain judgments. They’re reflected in the criteria chosen in step 2, the weights given to the criteria, and the evaluation of alternatives. The influence of personal judgment explains why two vehicle buyers with the same amount of money may look at two totally distinct sets of alternatives or even look at the same alternatives and rate them differently.

Exhibit 3-3 is only an assessment of the 12 alternatives against the decision criteria; it does not reflect the weighting done in step 3. If one choice had scored 10 on every criterion, you wouldn’t need to consider the weights. Similarly, if the weights were all equal, you could evaluate each alternative merely by summing up the appropriate lines in Exhibit 3-3.
For instance, the Pontiac G6 would have a score of 38, and the Toyota Camry a score of 43. If you multiply each alternative assessment against its weight, you get the figures in Exhibit 3-4. For instance, the Isuzu Ascender scored a 40 on durability, which was determined by multiplying the weight given to durability [5] by the manager’s appraisal of Isuzu on this criterion [8]. The sum of these scores represents an evaluation of each alternative against the previously established criteria and weights. Notice that the weighting of the criteria has changed the ranking of alternatives in our example. The Mazda CX7, for example, has gone from first to third. From our analysis, both initial price and interior comfort worked against the Mazda.

**What Determines the Best Choice?**

Step 6 is the critical act of choosing the best alternative from among those assessed. Since we determined all the pertinent factors in the decision, weighted them appropriately, and identified the viable alternatives, we merely have to choose the alternative that generated the highest score in step 5. In our vehicle example (Exhibit 3-4), the decision maker would choose the Toyota Camry. On the basis of the criteria identified, the weights given to the criteria, and the decision maker’s assessment of each vehicle’s achievement on the criteria, the Toyota scored highest [224 points] and, thus, became the best alternative.

**What Happens in Decision Implementation?**

Although the choice process is completed in the previous step, the decision may still fail if it is not implemented properly (step 7). Therefore, this step is concerned with putting the decision into action. Decision implementation includes conveying the decision to those affected and getting their commitment to it. As we’ll demonstrate later in this chapter, groups or committees can help a manager achieve commitment. The people who must carry out a decision are most likely to enthusiastically endorse the outcome if they participate in the decision-making process.
**What Is the Last Step in the Decision Process?**

In the last step in the decision-making process (step 8) managers appraise the result of the decision to see whether it has corrected the problem. Did the alternative chosen in step 6 and implemented in step 7 accomplish the desired result? The evaluation of the results of decisions is detailed in Chapter 13 where we will look at the control function.

**What Common Errors Are Committed in the Decision-Making Process?**

When managers make decisions, they not only use their own particular style, but may use “rules of thumb” or heuristics, to simplify their decision making. Rules of thumb can be useful because they help make sense of complex, uncertain, and ambiguous information. Even though managers may use rules of thumb, that doesn’t mean those rules are reliable. Why? Because they may lead to errors and biases in processing and evaluating information. Exhibit 3-5 identifies 12 common decision errors and biases that managers make. Let’s look at each.

When decision makers tend to think they know more than they do or hold unrealistically positive views of themselves and their performance, they’re exhibiting the overconfidence bias. The immediate gratification bias describes decision makers who tend to want immediate rewards and to avoid immediate costs. For these individuals, decision choices that provide quick payoffs are more appealing than those in the future. The anchoring effect describes when decision makers fixate on initial information as a starting point and then, once set, fail to adequately adjust for subsequent information. First impressions, ideas, prices, and estimates carry unwarranted weight relative to information received later. When decision makers selectively organize and interpret events based on their biased perceptions, they’re using the selective perception bias. This influences the information they pay attention to, the problems they identify, and the alternatives they develop. Decision makers who seek out information that reaffirms their past choices and discount information that contradicts past judgments exhibit the confirmation bias. These people tend to accept at face value information that confirms their preconceived views and are critical and skeptical of information that challenges

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**EXHIBIT 3-5** Common Decision-Making Errors and Biases

- Overconfidence
- Hindsight
- Immediate Gratification
- Self-Serving
- Anchoring Effect
- Sunk Costs
- Selective Perception
- Confirmation
- Randomness
- Representation
- Availability
- Framing
Explain the three approaches managers can use to make decisions.

3.2 What Are Three Approaches Managers Can Use to Make Decisions?

Although everyone in an organization makes decisions, decision making is particularly important to managers. As Exhibit 3-6 shows, it’s part of all four managerial functions. In fact, that’s why we say that decision making is the essence of management. And that’s why managers—as they plan, organize, lead, and control—are called decision makers.

The fact that almost everything a manager does involves making decisions doesn’t mean that decisions are always time-consuming, complex, or evident to an outside observer. Most decision making is routine. Every day of the year you make a decision about what to eat for dinner. It’s no big deal. You’ve made the decision thousands of times before. It’s a pretty simple decision and can usually be handled quickly. It’s the type of decision you almost forget is a decision. And managers also make dozens of these routine decisions.

These views. The framing bias is when decision makers select and highlight certain aspects of a situation while excluding others. By drawing attention to specific aspects of a situation and highlighting them, while at the same time downplaying or omitting other aspects, they distort what they see and create incorrect reference points. The availability bias is when decision makers tend to remember events that are the most recent and vivid in their memory. The result? It distorts their ability to recall events in an objective manner and results in distorted judgments and probability estimates. When decision makers assess the likelihood of an event based on how closely it resembles other events or sets of events, that’s the representation bias. Managers exhibiting this bias draw analogies and see identical situations where they don’t exist. The randomness bias describes when decision makers try to create meaning out of random events. They do this because most decision makers have difficulty dealing with chance even though random events happen to everyone and there’s nothing that can be done to predict them. The sunk costs error is when decision makers forget that current choices can’t correct the past. They incorrectly fixate on past expenditures of time, money, or effort in assessing choices rather than on future consequences. Instead of ignoring sunk costs, they can’t forget them. Decision makers who are quick to take credit for their successes and to blame failure on outside factors are exhibiting the self-serving bias. Finally, the hindsight bias is the tendency for decision makers to falsely believe that they would have accurately predicted the outcome of an event once that outcome is actually known.

Managers can avoid the negative effects of these decision errors and biases by being aware of them and then not using them! Beyond that, managers also should pay attention to “how” they make decisions and try to identify the heuristics they typically use and critically evaluate how appropriate those are. Finally, managers might want to ask those around them to help identify weaknesses in their decision-making style and try to improve on them.

heuristics Judgmental shortcuts or “rules of thumb” used to simplify decision making.
decisions every day, such as, for example, which employee will work what shift next week, what information should be included in a report, or how to resolve a customer’s complaint. Keep in mind that even though a decision seems easy or has been faced by a manager a number of times before, it still is a decision. Let’s look at three perspectives on how managers make decisions.

What Is the Rational Model of Decision Making?

When Hewlett-Packard (HP) acquired Compaq, the company did no research on how customers viewed Compaq products until “months after then-CEO Carly Fiorina publicly announced the deal and privately warned her top management team that she didn’t want to hear any dissent pertaining to the acquisition.”10 By the time they discovered that customers perceived Compaq products as inferior—just the opposite of what customers felt about HP products—it was too late. HP’s performance suffered and Fiorina lost her job.

We assume that managers’ decision making will be rational; that is, they’ll make logical and consistent choices to maximize value.11 After all, managers have all sorts of tools and techniques to help them be rational decision makers. (See the “Technology and the Manager’s Job” box for additional information.) But as the HP example illustrates, managers aren’t always rational. What does it mean to be a “rational” decision maker?

A rational decision maker would be fully objective and logical. The problem faced would be clear and unambiguous, and the decision maker would have a clear and specific goal and know all possible alternatives and consequences. Finally, making decisions rationally would consistently lead to selecting the alternative that maximizes the likelihood of achieving that goal. These assumptions apply to any decision—personal or managerial. However, for managerial decision making, we need to add one additional assumption—decisions are made in the best interests of the organization. These assumptions of rationality aren’t very realistic, but the next concept can help explain how most decisions get made in organizations.
What Is Bounded Rationality?

Despite the unrealistic assumptions, managers are expected to act rationally when making decisions. They understand that “good” decision makers are supposed to do certain things and exhibit good decision-making behaviors as they identify problems, consider alternatives, gather information, and act decisively but prudently. When they do so, they show others that they’re competent and that their decisions are the result of intelligent deliberation. However, a more realistic approach to describing how managers make decisions is the concept of bounded rationality, which says that managers make decisions rationally, but are limited (bounded) by their ability to process information. Because they can’t possibly analyze all information on all alternatives, managers satisfice, rather than maximize. That is, they accept solutions that are “good enough.” They’re being rational within the limits (bounds) of their ability to process information. Let’s look at an example.

Suppose that you’re a finance major and upon graduation you want a job, preferably as a personal financial planner, with a minimum salary of $42,000 and within a

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**rational decision making**
Describes choices that are consistent and value-maximizing within specified constraints.

**bounded rationality**
Making decisions that are rational within the limits of a manager’s ability to process information.

**satisfice**
Accepting solutions that are “good enough.”
Herbert A. Simon, who won a Nobel Prize in economics for his work on decision making, was primarily concerned with how people use logic and psychology to make choices. He proposed that individuals were limited in their ability to "grasp the present and anticipate the future," and this bounded rationality made it difficult for them to "achieve the best possible decisions." Thus, people made "good enough" or "satisficing" choices. He went on to describe all administrative activity as group activity in which an organization took some decision-making autonomy from the individual and substituted it for an organizational decision-making process.

Simon believed that such a process was necessary since it was impossible for any single individual to achieve any "high degree of objective rationality." Simon's important contributions to management thinking came through his belief that to study and understand organizations meant studying the complex network of decisional processes that were inherent. His work in bounded rationality helps us make sense of how managers can behave rationally and still make satisfactory decisions, even given the limits of their capacity to process information.

Hundred miles of your hometown. You accept a job offer as a business credit analyst—not exactly a personal financial planner but still in the finance field—at a bank 50 miles from home at a starting salary of $38,000. If you had done a more comprehensive job search, you would have discovered a job in personal financial planning at a trust company only 25 miles from your hometown and starting at a salary of $43,000. You weren't a perfectly rational decision maker because you didn't maximize your decision by searching all possible alternatives and then choosing the best. But because the first job offer was satisfactory (or "good enough"), you behaved in a bounded rationality manner by accepting it.

Most decisions that managers make don't fit the assumptions of perfect rationality, so they satisfice. However, keep in mind that their decision making is also likely influenced by the organization's culture, internal politics, power considerations, and by a phenomenon called escalation of commitment, which is an increased commitment to a previous decision despite evidence that it may have been wrong. The Challenger space shuttle disaster is often used as an example of escalation of commitment. Decision makers chose to launch the shuttle that day even though the decision was questioned by several individuals who believed that it was a bad one. Why would decision makers escalate commitment to a bad decision? Because they don't want to admit that their initial decision may have been flawed. Rather than search for new alternatives, they simply increase their commitment to the original solution.

What Role Does Intuition Play in Managerial Decision Making?

When managers at stapler-maker Swingline saw the company's market share declining, they used a logical scientific approach to address the issue. For three years, they exhaustively researched stapler users before deciding what new products to develop. However, at Accentra, Inc., founder Todd Moses used a more intuitive decision approach to come up with his line of unique PaperPro staplers.

Like Todd Moses, managers often use their intuition to help their decision making. What is intuitive decision making? It's making decisions on the basis of experience, feelings, and accumulated judgment. It's been described as "unconscious reasoning." Researchers studying managers' use of intuitive decision making have identified five different aspects of intuition, which are described in Exhibit 3-7. How common is intuitive decision making? One survey found that almost half of the executives surveyed "used intuition more often than formal analysis to run their companies."

Intuitive decision making can complement both bounded rationality and rational decision making. First of all, a manager who has had experience with a similar type of problem or situation often can act quickly with what appears to be limited information because of that past experience. In addition, a recent study found that individuals who experienced intense feelings and emotions when making decisions actually achieved higher decision-making performance, especially when they understood their feelings as they were making decisions. The old belief that managers should ignore emotions when making decisions may not be the best advice.

What Types of Decisions and Decision-Making Conditions Do Managers Face?

The types of problems managers face in decision-making situations often determine how a problem is treated. In this section, we present a categorization scheme for problems and for types of decisions. Then we show how the type of decision making a manager uses should reflect the characteristics of the problem.

**Exhibit 3-7 What Is Intuition?**

![Intuition Chart]


**escalation of commitment**
An increased commitment to a previous decision despite evidence that it may have been a poor decision.

**intuitive decision making**
Making decisions on the basis of experience, feelings, and accumulated judgment.
Netflix founder and CEO Reed Hastings made a nonprogrammed decision that changed the course of his company—and the movie-rental business. Hastings originally launched Netflix as a movie rental by mail firm that operated much like Blockbuster. While some customers liked the concept, Hastings admitted it wasn’t very popular. So he decided to try a more radical approach of a subscription-based service. Hastings’ new strategy resulted in Netflix becoming the world’s largest online movie rental service with more than 10 million subscribers.

How Do Problems Differ?

Some problems are straightforward. The goal of the decision maker is clear, the problem familiar, and information about the problem easily defined and complete. Examples might include a supplier’s tardiness with an important delivery, a customer’s wanting to return an Internet purchase, a news program team’s having to respond to an unexpected and fast-breaking event, or a university’s handling of a student who is applying for financial aid. Such situations are called structured problems. They align closely with the assumptions underlying perfect rationality.

Many situations faced by managers, however, are unstructured problems. They are new or unusual. Information about such problems is ambiguous or incomplete. Examples of unstructured problems include the decision to enter a new market segment, to hire an architect to design a new office park, or to merge two organizations. So, too, is the decision to invest in a new, unproven technology.

How Does a Manager Make Programmed Decisions?

Just as problems can be divided into two categories, so, too, can decisions. Programmed, or routine, decision making is the most efficient way to handle structured problems. However, when problems are unstructured, managers must rely on nonprogrammed decision making in order to develop unique solutions.

An auto mechanic damages a customer’s rim while changing a tire. What does the manager do? Because the company probably has a standardized method for handling this type of problem, it is considered a programmed decision. For example, the manager may replace the rim at the company’s expense. Decisions are programmed to the extent that they are repetitive and routine and to the extent that a specific approach has been worked out for handling them. Because the problem is well structured, the manager does not have to go to the trouble and expense of an involved decision process. Programmed decision making is relatively simple and tends to rely heavily on previous solutions. The develop-the-alternatives stage in the decision-making process is either nonexistent or given little attention. Why? Because once the structured problem is defined, its solution is usually self-evident or at least reduced to only a few alternatives that are familiar and that have proved successful in the past. In many cases, programmed decision making becomes decision making by precedent. Managers simply do what they and others have done previously in the same situation. The damaged rim does not require the manager to identify and weight decision criteria or develop a long list of possible solutions. Rather, the manager falls back on a systematic procedure, rule, or policy.

PROCEDURES. A procedure is a series of interrelated sequential steps that a manager can use when responding to a well-structured problem. The only real difficulty is identifying the problem. Once the problem is clear, so is the procedure. For instance, a purchasing manager receives a request from computing services for licensing arrangements to install 250 copies of Norton Antivirus Software. The purchasing manager knows that a definite procedure is in place for handling this decision. Has the requisition been properly filled out and approved? If not, one can send the requisition back with a note explaining what is deficient. If the request is complete, the approximate costs are estimated. If the total exceeds $8,500, three bids must be obtained. If the total is $8,500 or less, only one vendor need be identified and the order placed. The decision-making process is merely the execution of a simple series of sequential steps.

RULES. A rule is an explicit statement that tells a manager what he or she ought—or ought not—to do. Rules are frequently used by managers who confront a structured problem because they’re simple to follow and
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ensure consistency. In the preceding example, the $8,500 cutoff rule simplifies the purchasing manager’s decision about when to use multiple bids.

POLICIES. A third guide for making programmed decisions is a policy. It provides guidelines to channel a manager’s thinking in a specific direction. The statement that “we promote from within, whenever possible” is an example of a policy. In contrast to a rule, a policy establishes parameters for the decision maker rather than specifically stating what should or should not be done. It’s at this point that one’s ethical standards will come into play. As an analogy, think of the Ten Commandments as rules and the U.S. Constitution as policy. The latter requires judgment and interpretation; the former do not.

How Do Nonprogrammed Decisions Differ from Programmed Decisions?

Examples of nonprogrammed decisions include deciding whether to acquire another organization, deciding which global markets offer the most potential, or deciding whether to sell off an unprofitable division. Such decisions are unique and nonrecurring. When a manager confronts an unstructured problem, no cut-and-dried solution is available. A custom-made, nonprogrammed response is required.

The creation of a new organizational strategy is a nonprogrammed decision. This decision is different from previous organizational decisions because the issue is new; a different set of environmental factors exists, and other conditions have changed. For example, Amazon.com’s Jeff Bezos’s strategy to “get big fast” helped the company grow tremendously. But this strategy came at a cost—perennial financial losses. To turn a profit, Bezos made decisions regarding “sorting orders, anticipating demand, more efficient shipping, foreign partnerships, and opening a marketplace allowing other sellers to sell their books at Amazon.” As a result, for the first time in company history, Amazon.com earned a profit.

How Are Problems, Types of Decisions, and Organizational Level Integrated?

Exhibit 3-8 describes the relationship among types of problems, types of decisions, and level in the organization. Structured problems are responded to with programmed decision making. Unstructured problems require nonprogrammed decision making. Lower-level decisions are made at the lower levels of the organization.
managers essentially confront familiar and repetitive problems; therefore, they most typically rely on programmed decisions such as standard operating procedures. However, the problems confronting managers are likely to become less structured as they move up the organizational hierarchy. Why? Because lower-level managers handle the routine decisions themselves and pass upward only decisions that they find unique or difficult. Similarly, managers pass down routine decisions to their employees in order to spend their time on more problematic issues.

Few managerial decisions in the real world are either fully programmed or fully nonprogrammed. Most decisions fall somewhere in between. Few programmed decisions are designed to eliminate individual judgment completely. At the other extreme, even the most unusual situation requiring a nonprogrammed decision can be helped by programmed routines. A final point on this topic is that organizational efficiency is facilitated by programmed decision making—a fact that may explain its wide popularity. Whenever possible, management decisions are likely to be programmed. Obviously, this approach isn’t too realistic at the top of the organization, because most of the problems that top-level managers confront are of a nonrecurring nature. However, strong economic incentives motivate them to create policies, standard operating procedures, and rules to guide other lower-level managers.

Programmed decisions minimize the need for managers to exercise discretion. This factor is important because discretion costs money. The more nonprogrammed decision making a manager is required to do, the greater the judgment needed. Because sound judgment is an uncommon quality, it costs more to acquire the services of managers who possess it.

What Decision-Making Conditions Do Managers Face?

When making decisions, managers may face three different conditions: certainty, risk, and uncertainty. Let’s look at the characteristics of each.

The ideal situation for making decisions is one of **certainty**, which is a situation where a manager can make accurate decisions because the outcome of every alternative is known. For example, when North Dakota’s state treasurer decides where to deposit excess state funds, he knows exactly the interest rate being offered by each bank and the amount that will be earned on the funds. He is certain about the outcomes of each alternative. As you might expect, most managerial decisions aren’t like this.

A far more common situation is one of **risk**, conditions in which the decision maker is able to estimate the likelihood of certain outcomes. Under risk, managers have historical data from past personal experiences or secondary information, which lets them assign probabilities to different alternatives.

What happens if you face a decision where you’re not certain about the outcomes and can’t even make reasonable probability estimates? We call this condition **uncertainty**. Managers do face decision-making situations of uncertainty. Under these conditions, the choice of alternative is influenced by the limited amount of available information and by the psychological orientation of the decision maker.

How Do Groups Make Decisions?

Do managers make a lot of decisions in groups? You bet they do! Many decisions in organizations, especially important decisions that have far-reaching effects on organizational activities and personnel, are typically made in groups. It’s a rare organization that doesn’t at some time use committees, task forces, review panels, work teams, or similar groups as vehicles for making decisions. Why? In many cases, these groups represent the people who will be most affected by the decisions being made. Because of their expertise, these people are often best qualified to make decisions that affect them.
Studies tell us that managers spend a significant portion of their time in meetings. Undoubtedly, a large portion of that time is involved with defining problems, arriving at solutions to those problems, and determining the means for implementing the solutions. It’s possible, in fact, for groups to be assigned any of the eight steps in the decision-making process.

What Are the Advantages of Group Decision Making?

Individual and group decisions have their own set of strengths. Neither is ideal for all situations. Let’s begin by reviewing the advantages that group decisions have over individual decisions.

Group decisions provide more complete information than do individual ones. There is often truth to the saying that two heads are better than one. A group will bring a diversity of experiences and perspectives to the decision process that an individual acting alone cannot. Groups also generate more alternatives. Because groups have a greater quantity and diversity of information, they can identify more alternatives than can an individual. Quantity and diversity of information are greatest when group members represent different specialties. Furthermore, group decision making increases acceptance of a solution. Many decisions fail after the final choice has been made because people do not accept the solution. However, if the people who will be affected by a certain solution, and who will help implement it, participate in the decision they will be more likely to accept the decision and encourage others to accept it. And, finally, this process increases legitimacy. The group decision-making process is consistent with democratic ideals; therefore, decisions made by groups may be perceived as more legitimate than decisions made by a single person. The fact that the individual decision maker has complete power and has not consulted others can create a perception that a decision was made autocratically and arbitrarily.

MANAGING DIVERSITY | The Value of Diversity in Decision Making

Have you decided what your major is going to be? How did you decide? Do you feel your decision is a good one? Is there anything you could have done differently to make sure that your decision was the best one?

Making good decisions is tough! Managers continuously make decisions—for instance, developing new products, establishing weekly or monthly goals, implementing an advertising campaign, reassigning an employee to a different work group, resolving a customer’s complaint, or purchasing new laptops for sales reps. One important suggestion for making better decisions is to tap into the diversity of the work group. Drawing upon diverse employees can prove valuable to a manager’s decision making. Why? Diverse employees can provide fresh perspectives on issues. They can offer differing interpretations on how a problem is defined and may be more open to trying new ideas. Diverse employees can be more creative in generating alternatives and more flexible in resolving issues. And getting input from diverse sources increases the likelihood that creative and unique solutions will be generated.

Even though diversity in decision making can be valuable, there are drawbacks. The lack of a common perspective usually means that more time is spent discussing the issues. Communication may be a problem particularly if language barriers are present. In addition, seeking out diverse opinions can make the decision-making process more complex, confusing, and ambiguous. And with multiple perspectives on the decision, it may be difficult to reach a single agreement or to agree on specific actions. Although these drawbacks are valid concerns, the value of diversity in decision making outweighs the potential disadvantages.

Now, about that decision on a major. Did you ask others for their opinions? Did you seek out advice from professors, family members, friends, or coworkers? Getting diverse perspectives on an important decision like this could help you make the best decision! Managers also should consider the value to be gained from diversity in decision making.

**certainty**
A situation in which a decision maker can make accurate decisions because all outcomes are known.

**risk**
A situation in which a decision maker is able to estimate the likelihood of certain outcomes.

**uncertainty**
A situation in which a decision maker has neither certainty nor reasonable probability estimates available.
What Are the Disadvantages of Group Decision Making?

If groups are so good, how did the phrase “a camel is a racehorse put together by a committee” become so popular? The answer, of course, is that group decisions are not without their drawbacks. First, they’re time-consuming. It takes time to assemble a group. In addition, the interaction that takes place once the group is in place is frequently inefficient. Groups almost always take more time to reach a solution than an individual would take to make the decision alone. They may also be subject to minority domination, where members of a group are not perfectly equal.

They may differ in rank in the organization, experience, knowledge about the problem, influence on other members, verbal skills, assertiveness, and the like. This imbalance creates the opportunity for one or more members to dominate others in the group. A minority that dominates a group frequently has an undue influence on the final decision.

Another problem focuses on the pressures to conform in groups. For instance, have you ever been in a situation in which several people were sitting around discussing a particular item and you had something to say that ran contrary to the consensus views of the group, but you remained silent? Were you surprised to learn later that others had agreed to your views and also had remained silent? What you experienced is what Irving Janis termed groupthink. In this form of conformity, group members withhold deviant, minority, or unpopular views in order to give the appearance of agreement. As a result, groupthink undermines critical thinking in the group and eventually harms the quality of the final decision. And, finally, ambiguous responsibility can become a problem. Group members share responsibility, but who is actually responsible for the final outcome? In an individual decision, it’s clear who is responsible. In a group decision, the responsibility of any single member is watered down.

Groupthink applies to a situation in which a group’s ability to appraise alternatives objectively and arrive at a quality decision is jeopardized. Because of pressures for conformity, groups often deter individuals from critically appraising unusual, minority, or unpopular views. Consequently, an individual’s mental efficiency, reality testing, and moral judgment deteriorate. How does groupthink occur? The following are examples of situations in which groupthink is evident:

- Group members rationalize any resistance to the assumptions they have made.
- Members apply direct pressure on those who momentarily express doubts about any of the group’s shared views or who question the validity of arguments favored by the majority.
- Those members who have doubts or hold differing points of view seek to avoid deviating from what appears to be group consensus.
- An illusion of unanimity is pervasive. If someone does not speak, it is assumed that he or she is in full accord.

Does groupthink really hinder decision making? Yes. Several research studies have found that groupthink symptoms were associated with poorer-quality decision outcomes. But groupthink can be minimized if the group is cohesive, fosters open discussion, and has an impartial leader who seeks input from all members.

When Are Groups Most Effective?

Whether groups are more effective than individuals depends on the criteria you use for defining effectiveness, such as accuracy, speed, creativity, and acceptance. Group decisions tend to be more accurate. On average, groups tend to make better decisions than individuals, although groupthink may occur. However, if decision
effectiveness is defined in terms of speed, individuals are superior. If creativity is important, groups tend to be more effective than individuals. And if effectiveness means the degree of acceptance the final solution achieves, the nod again goes to the group.

The effectiveness of group decision making is also influenced by the size of the group. The larger the group, the greater the opportunity for heterogeneous representation. On the other hand, a larger group requires more coordination and more time to allow all members to contribute. This factor means that groups probably should not be too large: A minimum of five to a maximum of about fifteen members is best. Groups of five to seven individuals appear to be the most effective. Because five and seven are odd numbers, decision deadlocks are avoided. Effectiveness should not be considered without also assessing efficiency. Groups almost always stack up as a poor second in efficiency to the individual decision maker. With few exceptions, group decision making consumes more work hours than does individual decision making. In deciding whether to use groups, then, primary consideration must be given to assessing whether increases in effectiveness are more than enough to offset the losses in efficiency.

How Can You Improve Group Decision Making?

Three ways of making group decisions more creative are brainstorming, the nominal group technique, and electronic meetings.

WHAT IS BRAINSTORMING? Brainstorming is a relatively simple technique that utilizes an idea-generating process that specifically encourages any and all alternatives while withholding any criticism of those alternatives.34 In a typical brainstorming session, a half-dozen to a dozen people sit around a table. Of course, technology is changing where that “table” is. The group leader states the problem in a clear manner that is understood by all participants. Members then “freewheel” as many alternatives as they can in a given time. No criticism is allowed, and all the alternatives are recorded for later discussion and analysis.35 Brainstorming, however, is merely a process for generating ideas. The next method, the nominal group technique, helps groups arrive at a preferred solution.36

HOW DOES THE NOMINAL GROUP TECHNIQUE WORK? The nominal group technique restricts discussion during the decision-making process, hence the term. Group members must be present, as in a traditional committee meeting, but they are required to operate independently. They secretly write a list of general problem areas or potential solutions to a problem. The chief advantage of this technique is that it permits the group to meet formally but does not restrict independent thinking, as so often happens in the traditional interacting group.37

HOW CAN ELECTRONIC MEETINGS ENHANCE GROUP DECISION MAKING? The most recent approach to group decision making blends the nominal group technique with computer technology and is called the electronic meeting.

Once the technology for the meeting is in place, the concept is simple. Numerous people sit around a table that’s empty except for a series of computer terminals. Issues are presented to the participants, who type their responses onto their computer screens. Individual comments, as well as aggregate votes, are displayed on a projection screen in the room.

The major advantages of electronic meetings are anonymity, honesty, and speed.38 Participants can anonymously type any message they want, and it will flash on the screen.
Discuss contemporary issues in managerial decision making.

3.5

PART TWO | PLANNING

Videoconferencing improves the efficiency of group decision making at Accenture, a global management consulting, technology services, and outsourcing firm. Accenture has offices in more than 200 cities in 52 countries and clients spanning the world’s major geographic regions. With such dispersion of employees and customers, videoconferencing enables Accenture to conduct face-to-face meetings while saving the time and costs involved in business travel. This photo shows Jill Smart, Accenture’s chief human resources officer, conducting a meeting from her office in Chicago with colleagues working in Atlanta and London.

for all to see with a keystroke. It allows people to be brutally honest with no penalty. And it is fast—chitchat is eliminated, discussions do not digress, and many participants can “talk” at once without interrupting the others.

Electronic meetings are significantly faster and much cheaper than traditional face-to-face meetings. Nestlé, for instance, continues to use the approach for many of its meetings, especially globally focused meetings. However, as with all other forms of group activities, electronic meetings do experience some drawbacks. Those who type quickly can outshine those who may be verbally eloquent but lousy typists; those with the best ideas don’t get credit for them; and the process lacks the informational richness of face-to-face oral communication. However, group decision making is likely to include extensive usage of electronic meetings.

A variation of the electronic meeting is the videoconference. By linking together media from different locations, people can have face-to-face meetings even when they are thousands of miles apart. This capability has enhanced feedback among the members, saved countless hours of business travel, and ultimately saved companies such as Nestlé and Logitech hundreds of thousands of dollars. As a result, they’re more effective in their meetings and have increased the efficiency with which decisions are made.

What Contemporary Decision-Making Issues Do Managers Face?

Today’s business world revolves around making decisions, often risky ones, usually with incomplete or inadequate information, and under intense time pressure. Most managers make one decision after another; and as if that weren’t challenging enough, more is at stake than ever before. Bad decisions can cost millions. We’re going to look at two important issues—national culture and creativity—that managers face in today’s fast-moving and global world.

How Does National Culture Affect Managers’ Decision Making?

Research shows that, to some extent, decision-making practices differ from country to country. The way decisions are made—whether by group, by team members, participatively, or autocratically by an individual manager—and the degree of risk a decision maker is willing to take are just two examples of decision variables that reflect a country’s cultural environment. For example, in India, power distance and uncertainty avoidance (see Chapter 2) are high. There, only very senior-level managers make decisions, and they are likely to make safe decisions. In contrast, in Sweden, power distance and uncertainty
avoidance are low. Swedish managers are not afraid to make risky decisions. Senior managers in Sweden also push decisions down in the ranks. They encourage lower-level managers and employees to take part in decisions that affect them. In countries such as Egypt, where time pressures are low, managers make decisions at a slower and more deliberate pace than managers do in the United States. And in Italy, where history and traditions are valued, managers tend to rely on tried and proven alternatives to resolve problems.

Decision making in Japan is much more group oriented than in the United States. The Japanese value conformity and cooperation. Before making decisions, Japanese CEOs collect a large amount of information, which is then used in consensus-forming group decisions called ringisei. Because employees in Japanese organizations have high job security, managerial decisions take a long-term perspective rather than focusing on short-term profits, as is often the practice in the United States.

Senior managers in France and Germany also adapt their decision styles to their countries’ cultures. In France, for instance, autocratic decision making is widely practiced, and managers avoid risks. Managerial styles in Germany reflect the German culture’s concern for structure and order. Consequently, German organizations generally operate under extensive rules and regulations. Managers have well-defined responsibilities and accept that decisions must go through channels.

As managers deal with employees from diverse cultures, they need to recognize common and accepted behavior when asking them to make decisions. Some individuals may not be as comfortable as others with being closely involved in decision making, or they may not be willing to experiment with something radically different. Managers who accommodate the diversity in decision-making philosophies and practices can expect a high payoff if they capture the perspectives and strengths that a diverse workforce offers.

**Why Is Creativity Important in Decision Making?**

A decision maker needs creativity: the ability to produce novel and useful ideas. These ideas are different from what’s been done before but are also appropriate to the problem or opportunity presented. Why is creativity important to decision making? It allows the decision maker to appraise and understand the problem more fully, including “seeing” problems others can’t see. However, creativity’s most obvious value is in helping the decision maker identify all viable alternatives. (See the “Developing Your Creativity Skill” box.)

Most people have creative potential that they can use when confronted with a decision-making problem. But to unleash that potential, they have to get out of the psychological ruts most of us get into and learn how to think about a problem in divergent ways.

We can start with the obvious. People differ in their inherent creativity. Einstein, Edison, Dali, and Mozart were individuals of exceptional creativity. Not surprisingly, exceptional creativity is scarce. A study of lifetime creativity of 461 men and women...
found that fewer than 1 percent were exceptionally creative. But 10 percent were highly creative, and about 60 percent were somewhat creative. These findings suggest that most of us have creative potential, if we can learn to unleash it.

Given that most people have the capacity to be at least moderately creative, what can individuals and organizations do to stimulate employee creativity? The best answer to this question lies in the three-component model of creativity based on an extensive body of research.47 This model proposes that individual creativity essentially requires expertise, creative-thinking skills, and intrinsic task motivation. Studies confirm that the higher the level of each of these three components, the higher the creativity.

Expertise is the foundation of all creative work. Dali’s understanding of art and Einstein’s knowledge of physics were necessary conditions for them to be able to make creative contributions to their fields. And you wouldn’t expect someone with a minimal knowledge of programming to be highly creative as a software engineer. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies, and similar expertise in their fields of endeavor.
The second component is *creative-thinking skills*. It encompasses personality characteristics associated with creativity, the ability to use analogies, as well as the talent to see the familiar in a different light. For instance, the following individual traits have been found to be associated with the development of creative ideas: intelligence, independence, self-confidence, risk taking, internal locus of control, tolerance for ambiguity, and perseverance in the face of frustration. The effective use of analogies allows decision makers to apply an idea from one context to another. One of the most famous examples in which analogy resulted in a creative breakthrough was Alexander Graham Bell’s observation that it might be possible to take concepts that operate in the ear and apply them to his “talking box.” He noticed that the bones in the ear are operated by a delicate, thin membrane. He wondered why, then, a thicker and stronger piece of membrane shouldn’t be able to move a piece of steel. Out of that analogy the telephone was conceived. Of course, some people have developed their skill at being able to see problems in a new way. They’re able to make the strange familiar and the familiar strange. For instance, most of us think of hens laying eggs. But how many of us have considered that a hen is only an egg’s way of making another egg?

The final component in our model is *intrinsic task motivation*—the desire to work on something because it’s interesting, involving, exciting, satisfying, or personally challenging. This motivational component is what turns creative potential into actual creative ideas. It determines the extent to which individuals fully engage their expertise and creative skills. So creative people often love their work, to the point of seeming obsessed. Importantly, an individual’s work environment and the organization’s culture (we’ll look at organization culture in the next chapter) can have a significant effect on intrinsic motivation. Specifically, five organizational factors have been found that can impede your creativity: (1) expected evaluation—focusing on how your work is going to be evaluated; (2) surveillance—being watched while you’re working; (3) external motivators—emphasizing external, tangible rewards; (4) competition—facing win–lose situations with your peers; and (5) constrained choices—being given limits on how you can do your work.
To check your understanding of learning outcomes 3.1 – 3.5, go to mymanagementlab.com and try the chapter questions.

Chapter Summary

3.1 Describe the decision-making process. The decision-making process consists of eight steps: (1) identify problem, (2) identify decision criteria, (3) weight the criteria, (4) develop alternatives, (5) analyze alternatives, (6) select alternative, (7) implement alternative, and (8) evaluate decision effectiveness. As managers make decisions, they may use heuristics to simplify the process, which can lead to errors and biases in their decision making. The 12 common decision-making errors and biases include overconfidence, immediate gratification, anchoring, selective perception, confirmation, framing, availability, representation, randomness, sunk costs, self-serving bias, and hindsight.

3.2 Explain the three approaches managers can use to make decisions. The first approach is the rational model. The assumptions of rationality are as follows: the problem is clear and unambiguous, a single, well-defined goal is to be achieved, all alternatives and consequences are known, and the final choice will maximize the payoff. The second approach, bounded rationality, says that managers make rational decisions but are bounded (limited) by their ability to process information. In this approach, managers satisfice, which is when decision makers accept solutions that are good enough. Finally, intuitive decision making is making decisions on the basis of experience, feelings, and accumulated judgment.

3.3 Describe the types of decisions and decision-making conditions managers face. Programmed decisions are repetitive decisions that can be handled by a routine approach and are used when the problem being resolved is straightforward, familiar, and easily defined (structured). Nonprogrammed decisions are unique decisions that require a custom-made solution and are used when the problems are new or unusual (unstructured) and for which information is ambiguous or incomplete. Certainty is a situation when a manager can make accurate decisions because all outcomes are known. Risk is a situation when a manager can estimate the likelihood of certain outcomes. Uncertainty is a situation where a manager is not certain about the outcomes and can’t even make reasonable probability estimates.

3.4 Discuss group decision making. Groups offer certain advantages when making decisions—more complete information, more alternatives, increased acceptance of a solution, and greater legitimacy. On the other hand, groups are time-consuming, can be dominated by a minority, create pressures to conform, and cloud responsibility. Three ways of improving group decision making are brainstorming (utilizing an idea-generating process that specifically encourages any and all alternatives while withholding any criticism of those alternatives), the nominal group technique (a technique that restricts discussion during the decision-making process), and electronic meetings (the most recent approach to group decision making, which blends the nominal group technique with sophisticated computer technology).

3.5 Discuss contemporary issues in managerial decision making. As managers deal with employees from diverse cultures, they need to recognize common and accepted behavior when asking them to make decisions. Some individuals may not be as comfortable as others with being closely involved in decision making, or they may not be willing to experiment with something radically different. Also, managers need to be creative in their decision making since creativity allows them to appraise and understand the problem more fully, including “seeing” problems that others can’t see.

Understanding the Chapter

1. Why is decision making often described as the essence of a manager’s job?
2. All of us bring biases to the decisions we make. What would be the drawbacks of having biases? Could there be any advantages to having biases? Explain. What are the implications for managerial decision making?
3. “Because managers have software tools to use, they should be able to make more rational decisions.” Do you agree or disagree with this statement? Why?
4. Is there a difference between wrong decisions and bad decisions? Why do good managers sometimes make wrong decisions? Bad decisions? How might managers improve their decision-making skills?
Am I a Deliberate Decision Maker?

People differ in how they make decisions. Some people prefer to collect information, carefully weigh alternatives, and then select the best option. Others prefer to make a choice as quickly as possible. This self-assessment exercise assesses how deliberate you are when making decisions.

**INSTRUMENT**  
Indicate to what extent the following statements describe you when you make decisions.

- 1 = To a very little extent
- 2 = To a little extent
- 3 = Somewhat
- 4 = To a large extent
- 5 = To a very large extent

1. I jump into things without thinking.  
2. I make rash decisions.  
3. I like to act on a whim.  
4. I rush into things.  
5. I don’t know why I do some of the things I do.  
6. I act quickly without thinking.  
7. I choose my words with care.

**SCORING KEY**  
To score the measure, first reverse-code items 1, 2, 3, 4, 5, and 6 so that 1 = 5, 2 = 4, 3 = 3, 4 = 2, and 5 = 1. Then, compute the sum of the seven items. Your score will range from 7 to 35.

**ANALYSIS AND INTERPRETATION**  
If you scored at or above 28, you tend to be quite deliberate. If you scored at or below 14, you tend to be more hasty in making decisions. Scores between 14 and 27 reveal a more blended style of decision making.

How should decisions be made? The rational model states that individuals should define the problem, identify what criteria are relevant to making the decision and weigh those criteria according to importance, develop alternatives, and finally evaluate and select the best alternative. Though this sounds like an arduous process, research has shown that the rational model tends to result in better decisions.

If you tend to make decisions on a whim, you may want to be especially careful in auction settings, like those found on eBay. The time pressures involved, along with the emotional arousal that comes with bidding, can result in “auction fever” and suboptimal decisions. Put simply, if you make quick, impulsive decisions, you may pay more than you should have, and that’s true not only for buying on eBay, but in other situations as well.

To: Rajiv Dutta, Research Manager  
From: Amanda Schrenk, Vice President of Operations  
Re: Software Design Decisions

For some time, I’ve been aware of a problem in our software design unit. Our diverse pool of extremely talented and skilled designers is, undoubtedly, one of our company’s most important assets. However, I’m concerned that our designers’ emotional attachment to the software they’ve created overshadows other important factors that should be considered in the decision whether to proceed with the new product design. At this point, I’m not sure how to approach this issue. The last thing I want to do is stifle their creativity. But I’m afraid if we don’t come up with an action plan soon, the problem may get worse.

Please research the role of emotions in decision making. What do the “experts” say? Is it even an issue that we need to be concerned about? What’s the best way to deal with it? Please provide me with a one-page bulleted list of the important points you find from your research. And be sure to cite your sources in case I need to do some follow-up.

This fictionalized company and message were created for educational purposes only. It is not meant to reflect positively or negatively on management practices by any company that may share this name.
The Nazareth, Pennsylvania–based C. F. Martin Guitar Company has been producing acoustic instruments since 1833. Martin’s legendary guitars have long been loved by legendary musicians, and a Martin guitar is among the best that money can buy. CEO Christian Frederick Martin IV—better known as Chris—continues to be committed to the guitar maker’s craft. Although the company increased sales by 8 percent in 2008 to $93 million, it’s facing some serious issues.

Martin Guitar Company is an interesting blend of old and new. Although the equipment and tools may have changed over the years, company employees remain true to the principle of high standards of musical excellence. The company’s customers expect exceptional quality. Building a guitar to meet these standards requires considerable attention and patience. Each guitar goes through a series of 60 workstations, with more than 300 distinct production steps. Musician Eric Clapton once said that, “If [I] could be reincarnated as anything, it would be as a Martin guitar.” It’s not surprising that Martin guitars aren’t cheap. Some of its limited-edition guitars made of Brazilian rosewood sell for $100,000 or more. Its more popular models sell for $2,000 to $3,000.

Like many businesses, Martin’s sales have dropped off—some 20 percent since fall 2008—as consumer spending nosedived. Guitars aren’t exactly necessities and consumers were being extremely cautious in spending. Meanwhile, the company’s inventories of its higher-priced guitars ballooned. Chris didn’t want to lay off employees, especially since it takes special woodworking skills to make the guitars. “The company figured it is better to find a way to keep workers occupied than face the challenge of having to train new ones after the economy recovered.” Chris and his managers came up with a solution: “Copy what many big retailers do by offering a lower-priced alternative.” The challenge was how to do that without sacrificing quality or harming its image.

They’ve been able to do just that by using extreme flexibility and less labor hours on the production line, something the company had to do back in the 1930s during the Great Depression. “The ability to come up with a new design quickly and without tearing apart a production process allowed Martin to get a lower-priced product into stores without a huge investment.” Initial reaction to the company’s under $1,000 guitar has been promising. The 1 Series guitar was introduced in April 2009 and promptly sold out.

Discussion Questions

1. How do you think good decision making has contributed to the success of this business?
2. A decision to move into a new market as Chris did is a major decision. How could he have used the decision-making process to help him make this decision?
3. What criteria do you think would be most important to Chris as he makes decisions about the company’s future?
4. Would you characterize the conditions surrounding C. F. Martin Guitar Company as conditions of certainty, risk, or uncertainty? Explain your choice. How would these conditions affect managerial decision making?