Chapter 9

Managerial Decision Making

Chapter Outline

I. Types of Decisions and Problems
   A. Programmed and Nonprogrammed Decisions
   B. Certainty, Risk, Uncertainty, and Ambiguity
II. Decision Making Models
   A. Classical Model
   B. Administrative Model
   C. Political Model
III. Decision Making Steps
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   B. Diagnosis and Analysis of Causes
   C. Development of Alternatives
   D. Selection of Desired Alternative
   E. Implementation of Chosen Alternative
   F. Evaluation and Feedback
IV. Personal Decision Framework
V. Increasing Participation in Decision Making
   A. Vroom-Jago Model
   B. New Decision Approaches for the Turbulent Times

Annotated Learning Objectives

After studying this chapter, students should be able to:

1. **Explain why decision-making is an important component of good management.**

   Every organization grows, prospers, or fails as a result of decisions by its managers. Managers are often referred to as decision makers. Good decision-making is a vital part of good management. Decisions determine how the organization solves its problems, allocates resources, and accomplishes its objectives. Decision-making is not easy. It must be done amid ever-changing factors, unclear information, and conflicting points of view. Plans and strategies are arrived at through decision-making. The better the decision making, the better the strategic planning.
2. Explain the difference between programmed and nonprogrammed decisions and the decision characteristics of risk, uncertainty, and ambiguity.

A decision is a choice made from available alternatives. Decision-making is the process of identifying problems and opportunities and then resolving them. Decision-making involves effort both before and after the actual choice. Management decisions typically are either programmed decisions or nonprogrammed decisions.

Programmed decisions involve situations that have occurred often enough to enable decision rules to be developed and applied in the future. Once managers formulate decision rules, subordinates and others can make the decision, freeing managers for other tasks.

Nonprogrammed decisions are made in response to situations that are unique, are poorly defined and largely unstructured, and have important consequences for the organization. Many nonprogrammed decisions involve strategic planning because uncertainty is great and decisions are complex.

Every decision situation can be organized on a scale according to the availability of information and the possibility of failure. The four positions on the scale are certainty, risk, uncertainty, and ambiguity. Certainty means that all the information the decision maker needs is fully available. However, few decisions are certain in the real world. Most contain risk or uncertainty.

Risk means that a decision has clear-cut goals and good information available, but the future outcomes associated with each alternative are subject to chance.

Uncertainty means that managers know which goals they wish to achieve, but information about alternatives and future events is incomplete. Ambiguity is by far the most difficult decision situation. Ambiguity means that the goals to be achieved or the problem to be solved is unclear, alternatives are difficult to define, and information about outcomes is unavailable.

3. Describe the classical, administrative, and political models of decision-making and their applications.

Managers usually make decisions using the classical model or the administrative model. The choice of model depends on the managers’ preference, whether the decision is programmed or nonprogrammed, and the decision characteristics of risk, uncertainty, or ambiguity.

The classical model of decision-making is considered to be normative, which means it defines how a decision maker should make decisions. It does not describe how managers actually make decisions so much as it provides guidelines on how to reach an ideal outcome for the organization. The application of the classical model is most valuable when applied to programmed decisions and to decisions characterized by certainty or risk because information is available and probabilities can be calculated. The classical model is often associated with high performance for organizations in stable environments.
The administrative model describes how managers actually make decisions such as those characterized by nonprogrammed decisions, uncertainty, and ambiguity. The administrative model is considered to be descriptive. It assumes that managers do not have the time or resources to make the optimal decision and therefore will be satisfied with the first decision, which meets the minimal criteria. Intuition based on past practice and experience is often used in this model to make decisions. The application of the administrative model and intuition has been associated with high performance in unstable environments in which decisions must be made rapidly and under more difficult conditions.

4. **Identify the six steps used in managerial decision-making.**

   Whether a decision is programmed or nonprogrammed or the manager follows the classical or administrative model of decision-making, six steps typically are associated with effective decision processes. These steps are:
   
   - Recognition of a decision requirement
   - Diagnosis and analysis of causes
   - Development of alternatives
   - Selection of desired alternative
   - Implementation of chosen alternative
   - Evaluation and feedback.

5. **Explain four personal decision styles used by managers.**

   The directive style is used by people who prefer simple, clear-cut solutions to problems. Managers with an analytical style like to consider complex solutions based on as much data as they can gather. People who tend toward a conceptual style also like to consider a broad amount of information. The behavioral style is characterized by having a deep concern for others as individuals.

6. **Discuss the advantages and disadvantages of participative decision-making.**

   Decision-making is something that individual managers often do, but decision makers in the business world also operate as part of a group. Decisions may be made through a committee, a task group, departmental participation, or an information coalition.

   One of the advantages of group decision-making is that it provides a broader perspective for defining the problem and diagnosing underlying causes and effects. Groups offer more knowledge and facts with which to identify potential solutions and produce more decision alternatives. Group discussion can reduce uncertainty about alternatives. People who participate in decision-making are more satisfied with the decision and more likely to support the decision.
A primary disadvantage of group decision-making is that it is time consuming. People must be consulted, and they jointly diagnose problems and discuss solutions. Groups may reach a compromise solution that is less than optimal for the organization. Another problem is groupthink. Groupthink is a mode of thinking that people engage in when they are in a cohesive group and are not able to realistically appraise alternative courses of action. There is no clear focus of decision responsibility because the group, rather than any single individual, makes the decision.

7. Identify techniques for improving decision-making in today’s fast moving and uncertain environment.

In many industries, the rate of competitive and technological change is so extreme that opportunities are fleeting, clear and complete information is seldom available, and the cost of a slow decision means lost business or even company failure. People throughout today’s workplace are involved in decision-making and have the information, skills, and freedom they need to respond immediately to problems and questions. Managers, as well as employees throughout the organization, often have to act first and analyze later. There is no time for top managers to evaluate options, conduct research, develop alternatives, and tell people what to do and how to do it. When speed matters, a slow decision may be as ineffective as the wrong decision, and companies can learn to make decisions fast. Effective decision-making in today’s fast moving business relies on the following guidelines.

Learn, Don’t Punish. Decisions made under conditions of uncertainty and time pressure produce many errors, but managers in the new workplace are willing to take the risk in the spirit of trial and error. Each failure provides new information and learning. People throughout the organization are encouraged to take risks and learn from their mistakes. When people are afraid to make mistakes, the company is stuck.

Know When to Bail. Even though the new workplace encourages risk taking and learning from mistakes, it also teaches people to know when to pull the plug on something that is not working. Research has found that organizations often continue to invest time and money in a solution despite strong evidence that it is not appropriate. This tendency is referred to as escalating commitment. The key to successful creative decision-making is to fail early, fail often, and pull the plug early.

Practice the Five Whys. One way to encourage good decision-making under high uncertainty is to get people to think more broadly and deeply about problems rather than going with a superficial understanding and a first response. One simple procedure adopted by a number of leading companies is known as the five whys. The point of five whys is to improve how people think about problems and generate alternatives for solving them.
Build Collective Intuition. Managers in the new workplace encourage people to develop and use their intuition on an individual level as they make rapid decisions to serve customers. However, they also build what has been called collective intuition for making complex, uncertain organizational decisions. Just as an individual develops his or her intuition based on knowledge and experience, collective intuition comes from the combined knowledge, experience, and understanding of the group. Managers may hold frequent “don’t miss” meetings at which they discuss real-time information that helps them perceive problems and opportunities sooner and more completely. Research has shown that bringing people together to discuss problems and decision alternatives in a group leads to more effective decision-making than having a manager consult with each member individually.

Engage in Rigorous Debate. A technique for better group decision-making is to encourage rigorous debate. Managers in today’s successful companies recognize that conflict based on divergent points of view can bring a problem into focus, stimulate creative thinking, create a broader understanding of issues and alternatives, and improve decision quality. There are several ways to stimulate rigorous debate. One way is by ensuring that the group is diverse in terms of age and gender, functional area of expertise, hierarchical level, and experience with the business. Some groups assign a devil’s advocate, who has the role of challenging the assumptions and assertions made by the group. Another approach is to have group members develop as many alternatives as they can as quickly as they can. Still another way to encourage constructive conflict is to use a technique called point-counterpoint, which breaks a decision-making group into two subgroups and assigns them different, often competing responsibilities. The groups then develop and exchange proposals and discuss and debate the various options until they arrive at a common set of understandings and recommendations.

Lecture Outline

Suggested Opening Remarks

At Tupperware, feedback and evaluation revealed that the decision to sell Tupperware in Target stores was not successful, so a new decision cycle has begun. Problem recognition is easy; sales and profits are on a downhill slide. In diagnosing the causes, managers determined that the shift in how the company does business has left salespeople feeling slighted. Their earnings have decreased because of dwindling parties and recruiting opportunities, further damaging morale and motivation. Some of the highest performers have already left. In addition, the image of Tupperware as stuck in the 1950s is not helping to lure modern women who could help the company rebound.

Managers have considered alternatives and are now implementing three of their choices. One decision was to update the product line to stay ahead of new competitors, such as adding a new Chef Series line of stainless steel pans and knives. Managers are also reinventing the Tupperware party, making it a more sophisticated social event where
guests can drink wine and sample easy-to-make dishes prepared with Tupperware gadgets and served straight out of Tupperware pans and bowls. The company also plans to implement a new compensation structure that will enable Tupperware salespeople to earn much more, which managers hope will lure back some of their lost salespeople as well as appeal to new ones.

Managers will gather information to see how well these new decisions are implemented and whether they are successful. So far, limited feedback indicates that the updated “Taste of Tupperware” a party is effective. When people get to try a variety of gadgets, they tend to buy more. The new format is now ready to roll out across the United States with celebrity chefs doing demonstrations in various venues.

I. TYPES OF DECISIONS AND PROBLEMS

Why are managers also referred to as decision makers?

Although many of their important decisions are strategic, managers also make decisions about every other aspect of an organization, including structure, control systems, and responses to the environment.

A decision is a choice made from available alternatives.

Decision-making is the process of identifying problems and opportunities and then resolving them.

Decision-making involves effort both before and after the actual choice.

A. Programmed and Nonprogrammed Decisions

Management decisions fall into one of two categories: programmed and nonprogrammed.

Programmed decisions involve situations that have occurred often enough to enable decision rules to be developed and applied in the future.

Once managers formulate decision rules, subordinates and others can make decisions freeing managers for other tasks.

Nonprogrammed decisions are made in response to situations that are unique, poorly defined, largely unstructured, and likely to have important consequences for the organization.

Nonprogrammed decisions often involve strategic planning because uncertainty is great and decisions are complex.

For example, NBC Entertainment’s search for a new sitcom is not subject to rational analysis and decision rules; routine decision rules for solving the problem do not exist.

Discussion Question #4: Analyze three decisions you have made over the last six months. Which of these were programmed and which were nonprogrammed?
B. Certainty, Risk, Uncertainty, and Ambiguity

One difference between programmed and nonprogrammed decisions relates to the degree of certainty or uncertainty that managers have in making the decision.

In a perfect world, managers have all the information necessary for making decisions; in reality, some things are unknowable and some decisions will fail.

Every decision situation can be organized on a scale according to the availability of information and the possibility of failure.

The four positions on the scale are certainty, risk, uncertainty, and ambiguity.

- **Certainty** means that all the information the decision maker needs is fully available.

  Few decisions are certain in the real world. Most contain risk or uncertainty.

- **Risk** means a decision has clear-cut objectives and good information available.

  The future outcomes associated with each alternative are subject to chance; however, enough information is available to allow the probability of a successful outcome.

- **Uncertainty** means managers know which goals they wish to achieve, but information about alternatives and future outcomes is incomplete.

  Factors that may affect a decision, such as price, production costs, volume, or future interest rates, are difficult to analyze and predict.

  Managers may have to come up with creative approaches to alternatives and use personal judgment to determine which alternatives is best.

  Many decisions made under uncertainty do not produce the desired results, but managers face uncertainty every day.

- **Ambiguity** refers to the objectives to be achieved, or the problem to be solved is unclear; alternatives are difficult to define; and information about outcomes is unavailable.

  Ambiguity is a *wicked problem*, with conflicts over goals and decision alternatives, changing circumstances, fuzzy information, and unclear linkages among decision elements.

  Some managers come up with a “solution” only to realize that they hadn’t clearly defined the real problem.

  Ambiguity is by far the most difficult decision situation.
Discussion Question #3: Explain the difference between risk and ambiguity. How might decision-making differ for each situation?

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II. DECISION MAKING MODELS

Decisions are usually made using the classical, the administrative, or the political decision making model.

The choice of model used depends on the manager’s personal preference, whether the decision is programmed or nonprogrammed, and the extent of certainty, risk, uncertainty, or ambiguity.

A. Classical Model

The classical model of decision-making is based on assumptions that managers should make logical decisions that will be in the organization’s best economic interests.

The four assumptions include:

- The decision maker operates to accomplish goals that are known and agreed upon.
- The decision maker strives for conditions of certainty; gathering complete information.
- Criteria for evaluating alternatives are known.
- The decision maker is rational and uses logic to assign values, order preferences, evaluate alternatives, and make the decision to maximize goals.

The classical model is normative, defining how a decision maker should make decisions and provides guidelines for reaching an ideal outcome for the organization.

The value of the classical model has been to help decision makers be more rational; many managers rely solely on intuition and personal preferences for making decisions.

The classical model represents an “ideal” model if decisionmaking that is often unattainable by real people in real organizations.

It works best when applied to programmed decisions and to decisions characterized by uncertainty or risk because relevant information is available and probabilities can be calculated.

Southwest uses quantitative models to help keep costs low and retain its position as the low-cost leader.

By using the classical approach, NBC generates optimal plans that meet the advertiser’s needs and saves millions of dollars of premium inventory used to lure new advertisers.
Discussion Question #8: List some possible advantages and disadvantages to using computer technology for managerial decision-making.

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B. Administrative Model

The administrative model describes how managers actually make decisions in difficult situations such as nonprogrammed decisions, for instance, when managers make decisions with uncertainty and ambiguity.

Many management decisions are not sufficiently programmable to lend themselves to any degree of quantification.

Thus managers are unable to make economically rational decisions even if they want to.

1. Bounded Rationality and Satisficing

Herbert A. Simon proposed two concepts instrumental in shaping the administrative model: bounded rationality and satisficing.

*bounded rationality* means people have limits, or boundaries, on the amount of information they can process in making a decision.

Because managers do not have the time or ability to process complete information about complex decisions, they must satisfice.

*Satisficing* means that decision makers choose the first solution alternative that satisfies minimal decision criteria.

Rather than pursue all alternatives, managers will opt for the first solution that appears to solve the problem.

The decision maker cannot justify the time and expense of obtaining complete information.

According to the administrative model:

- Decision goals often are vague, conflicting, and lack consensus.
- Rational procedures are not always used, and when they are, they are confined to a simplistic view of the problem that does not capture the complexity of real events.
- Managers’ searches for alternatives are limited because of human, information, and resource constraints.
- Most managers settle for a satisficing rather than a maximizing solution.

The administrative model is considered to be description, meaning that it describes how managers actually make decisions rather than how they should make them.
2. Intuition.

Another aspect of administrative decision-making is intuition. 

*Intuition* represents a quick apprehension of a decision situation based on past experience but without conscious thought.

Intuition decision-making is not arbitrary or irrational because it is based on years of practice and hands-on experience.

In today’s fast-paced, turbulent business environment, intuition plays an important role in decision making; a study showed that half of the professionals used intuition.

Intuition begins with *recognition*: when people build a depth of experience and knowledge, the right decision often comes quickly and effortlessly.

**Discussion Question #9:** Do you think intuition is a valid approach to making decisions in organizations? Why or why not? How might intuition be combined with a rational decision approach?

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C. Political Model

This model is for nonprogrammed decisions when conditions are uncertain, information is limited, and there is disagreement about the goals to pursue or the action to take.

Most organizational decisions involve many managers pursuing different goals.

Managers often engage in coalition building for making complex organizational decisions.

A *coalition* is an informal alliance among managers who support a specific goal; *coalition building* is the process of forming alliances among managers.

When outcomes are not predictable, managers gain support through discussion, negotiation, and bargaining; without a coalition a powerful individual could derail the process.

The political model closely resembles the real environment in which most managers and decision makers operate.

The basic assumptions of the political model include:

- Organizations are made up of groups with diverse interests, goals, and values.
- Information is ambiguous and incomplete.
- Managers do not have time, resources, or mental capacity to identify all dimensions of the problem and process all relevant information.
- Managers engage in the push and pull of debate to decide goals and discuss alternatives.
The inability of leaders to build coalitions often makes it difficult or impossible for managers to get their decisions implemented.

Recent research has found rational, classical procedures to be associated with high performance in organizations with stable environments.

Administrative, political, and intuition have been associated with high performance in unstable environments when decisions must be made rapidly.

**Discussion Question #7:** What are the major differences between the administrative and political models of decision-making?

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### III. DECISION-MAKING STEPS

**Exhibit 9.3**

Whether a decision is programmed or nonprogrammed or follows the classical, administrative, or political model, the following steps are associated with the process.

**A. Recognition of Decision Requirement**

Managers confront a decision requirement in the form of either a problem or an opportunity.

A *problem* occurs when organizational accomplishment is less than established goals; some aspect of performance is unsatisfactory.

An *opportunity* exists when managers see potential accomplishments that exceed current goals.

Awareness of a problem, or opportunity, is the first step in the decision sequence and requires surveillance of the internal and external environment for issues that merit executive attention.

Recognizing decision requirements is difficult because it often means integrating information in novel ways.

Problem recognition led managers at GM to focus on decision about the fat of two divisions in their effort to lead the company out of a downturn.

**B. Diagnosis and Analysis of Causes**

Diagnosis is the step in which managers analyze the underlying causal factors associated with the decision situation.

Managers make a big mistake if they jump right into generating alternatives without first exploring the cause of the problem more deeply.

Studies recommend that a series of questions be asked:

- What is causing this situation?
- When did it occur?
- Where did it occur?
• How did it occur?
• To whom did it occur?
• What is the urgency of the situation?
• What is the interconnectedness of events?
• What result came from which activity?

C. Development of Alternatives

Once the problem, or opportunity, has now been recognized and analyzed, decision makers begin to consider taking action.

The next step is to develop possible alternative solutions that will respond to the needs of the situation and correct the underlying causes.

For a programmed decision, feasible alternatives are often available within the organization’s rules and procedures.

Nonprogrammed decisions require developing new courses of action that will meet the needs of the company.

For decisions made under conditions of high uncertainty, managers may develop only one or two solutions that will satisfice for handling the problem.

Decision alternatives reduce the difference between the organization’s current and desired performance.

D. Selection of Desired Alternative

The best alternative is one in which the solution best fits the firm’s overall goals and values and achieves the desired results using the fewest resources.

The manager tries to select the choice with the least amount of risk and uncertainty.

Making choices depends on managers’ personality factors and willingness to accept risk and uncertainty.

Risk propensity is the willingness to undertake risk with the opportunity of gaining an increased payoff.

E. Implementation of Chosen Alternative

The implementation of a chosen alternative involves the use of managerial, administrative, and persuasive abilities to cause the decision to be carried out.

The success of the chosen alternative depends on whether or not it is translated into action.

Sometimes an alternative never becomes reality because managers lack resources or energy needed to make things happen.

Communication and leadership skills must be used to see that the decision is carried out.

If managers lack the ability or the desire to implement decisions, the chosen alternative cannot be carried out to benefit the organization.
F. Evaluation and Feedback

In the evaluation step, decision makers gather information or feedback to answer the following: How well was the decision implemented? Did the decision achieve its goals? Feedback is important because decision-making is a continuous, never-ending process.

Feedback provides decision makers with information that can start a new decision cycle.

When Tom’s of Maine found that their natural deodorant failed half of the time, they diagnosed the problem; the developers failed to test the product properly.

By learning from decision mistakes, managers can turn problems into opportunities.

Discussion Question 10: Do you see a conflict between today’s emphasis on risk taking and decision learning and the six steps in Exhibit 9.3 that are associated with effective decision-making?

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MANAGER’S SHOPTALK

Decision Biases to Avoid

At a time when decision making is so important, many managers do not know how to make a good choice among alternatives. Awareness of the six biases below can help managers make more enlightened choices:

- Being influenced by initial impressions
- Justifying past decisions
- Seeing what you want to see
- Perpetuating the status quo
- Being influenced by problem framing
- Overconfidence

Discussion Question #1: You are a busy partner in a legal firm and an experienced secretary complains of headaches, drowsiness, dry throat, and occasional spells of fatigue and flu. She tells you she believes air quality in the building is bad and would like something done.

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IV. PERSONAL DECISION FRAMEWORK

How would you go about making important decisions that might shape the future of your department or company?

Decisions may be programmed or nonprogrammed; situations are characterized by various levels of uncertainty, and managers may use the classical, administrative, or political model of decision-making.

In addition, there are six recognized steps to take in the decision-making process.

Not all managers make decisions in the same way. These differences can be explained by the concept of personal decision styles.

Personal decision style refers to differences between people with respect to how they perceive problems and make decisions.

Research has identified four major decision styles:

- The directive style is used by people who prefer simple, clear-cut solutions to problems.
- With an analytical style, managers like to consider complex solutions based on as much data as they can gather.
- People who tend toward a conceptual style also like to consider a broad amount of information.
- The behavioral style is characterized by having a deep concern for others as individuals.

Most managers have a dominant decision style; the most effective managers are able to shift among styles as needed to meet the situation.

Discussion Question #2: Why is decision-making considered a fundamental part of management effectiveness?

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V. INCREASING PARTICIPATION IN DECISION MAKING  Exhibit 9.6

Are decisions in the business world usually made by an individual?

Individual managers often make decisions, but decision makers in the business world also operate as part of a group.

Effective decision making often depends on whether managers involve the right people in the right ways in helping solve the problems.

One model that provides guidance for practicing managers was originally developed by Vroom and Jago.

A. Vroom-Jago Model

The Vroom-Jago Model helps the manager gauge the appropriate amount of participation for subordinates in making a particular decision.

This model has three major components:

1. Leader participation styles

The model employs five levels of subordinate participation in decision making, ranging from highly autocratic (leader decides alone) to highly democratic (leader delegates to group).

The exhibit shows five decision styles:

- **Decide:** the leader decides alone
- **Consult Individually:** presenting the problem to subordinates individually for their suggestions and then making the decision.
- **Consult Group:** sharing the problem with subordinates as a group, collectively obtaining their ideas and suggestions, then making the decision
- **Facilitate:** sharing the problem with subordinates and acting as a facilitator to help the group arrive at a decision
- **Delegate:** delegating the problem and permitting the group to make the decision within prescribed limits.

2. Diagnostic questions

How does a manager decide which of the five decision styles to use?

The appropriate degree of decision participation depends on a number of situational factors:

These factors include: the level of decision quality, the level of leader or subordinate expertise, and the importance of having subordinates commit to the decision.

Leaders can analyze the appropriate degree of participation by answering seven diagnostic questions:
• **Decision Significance**: How significant is this decision for the project or organization?

• **Importance of Commitment**: How important is subordinate commitment to carrying out the decision?

• **Leader Expertise**: What is the level of the leader’s expertise in relation to the problem?

• **Likelihood of Commitment**: If the leader were to make the decision alone, would subordinates have high or low commitment to the decision?

• **Group Support for Goals**: What is the degree of subordinate support for the team or organization’s objectives at stake in this decision?

• **Group Expertise**: What is the level of group members’ knowledge and expertise in relation to the problem?

• **Team Competence**: How skilled and committed are group members to working together as a team to solve problems?

**Discussion Question #5**: *Why are many decisions made by groups rather than by individuals?*

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3. **Selecting a decision style**

The decision matrix allows a manager to adopt a participation style by answering the diagnostic questions in sequence.

The manager enters the matrix at the left-hand side, at Problem Statement, and considers the seven situational questions in sequence from left to right.

The manager answers high (H) or low (L) to each one avoids crossing horizontal lines.

The first question would be: *How significant is this decision or project or organization?*

If the answer is High, the leader proceeds to importance of commitment: *How important is subordinate commitment to carrying out the decision?*

If there is a high likelihood that subordinates would be committed, the decision matrix leads directly to the Decide style of decision making.

The Vroom-Jago model has been criticized as being less than perfect, but it is useful to managers, and the body of supportive research is growing.

Smart managers are encouraging greater employee participation in solving problems whenever possible.
Broad participation often leads to better decisions; involving others in decision making also contributes to individual and organizational learning.

**Discussion Question #6:** *The Vroom-Jago model describes five decision styles. How should a manager go about choosing which style to use?*

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B. New Decision Approaches for Turbulent Times

In many industries, the rate of competitive and technological change is so extreme that opportunities are fleeting.

Clear and complete information is seldom available, and the cost of a slow decision means lost business or even company failure.

This calls for people throughout the organization to be involved in decision-making.

When speed matters, a slow decision may be as ineffective as the wrong decision, and companies can learn to make decisions fast.

Effective decision making under turbulent conditions relies on the following guidelines.

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**UNLOCKING CREATIVE SOLUTIONS THROUGH PEOPLE**

*Atlas Container: The Power of Shared Decision Making*

How do you take a nickel-and-dime, down-and-dirty business like box manufacturing and turn it into a fast-growing, exciting place to work? The Centanaris did it by having their employees decide on just about everything, including how the company would spend its money. The company was on the verge of bankruptcy, and the brothers set ambitious goals—build a big company by acquiring competitors and keep swiping market share from the stodgy manufacturers who rule this low-margin industry. Today, Atlas has a Learning Center where employees can take classes or pursue self-directed learning.

Managers hold meetings where they review sales, costs, profits and other data about the business. Everyone is involved in making tough decisions.

1. Start with Brainstorming

One of the best known techniques for rapidly generating creative alternatives is brainstorming.

*Brainstorming* uses a face-to-face group to spontaneously suggest a broad range of alternatives for decision making.
The keys to effective brainstorming are that people can build on one another’s ideas; all ideas are acceptable, no matter how crazy they seem; and criticism and evaluation are not allowed.

The goal is to generate as many ideas as possible; one drawback is groupthink, others may be concerned about pleasing the boss or impressing others.

Electronic brainstorming called brainwriting brings people together in an interactive group over a computer network.

Recent studies show that electronic brainstorming generates about 40 percent more ideas than individuals brainstorming alone and 25 to 200 percent more than groups.

Discussion Question #12: What do you see as the advantages and disadvantages of electronic brainstorming versus face-to-face brainstorming?

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2. Learn. Don’t Punish.

Decisions made under conditions of uncertainty and time pressure produce many errors, but managers are willing to take the risk in the spirit of trial and error.

People must be encouraged to engage in experimentation, which means taking risks and learning from mistakes.

By making mistakes, people go through the process of decision learning, which means that they gain valuable experience and knowledge to perform more effectively in the future.

3. Know when to Bail.

Even though the new workplace encourages risk taking and learning from mistakes, it also teaches a person to know when to pull the plug on something that isn’t working.

Escalating commitment means that organizations often continue to invest time and money in a solution despite strong evidence that it is not appropriate.

Managers might block or distort negative information because they don’t want to be responsible for a bad decision, or they do not accept that their decision is wrong.

4. Practice the Five Whys.

One way to encourage good decision making is to think about problems rather than going with a superficial understanding and a first person response.

One simple procedure is known as the five whys; for every problem, employees learn to ask “Why?” not just once, but five times.
The first why produces a superficial explanation, and each subsequent why probes deeper into the causes of the problem and potential solutions.

The point of the five whys is to improve how people think about problems and generate alternatives for solving them.

5. Engage in Rigorous Debate

An important key to better decision making under conditions of uncertainty is to encourage a rigorous debate of the issue at hand.

Managers recognize that constructive conflict based on different points of view can focus a problem, clarify ideas, and stimulate creative thinking.

It can also create a broader understanding of issues and alternatives, and improve broader decision quality.

There are several ways to stimulate rigorous debate.

One way is by ensuring diversity in terms of age and gender, functional area of expertise, hierarchical level, and experience with the business.

Some groups assign a devil's advocate, who has the role of challenging the assumptions and assertions made by the group.

Another approach is to have group members develop as many alternatives as they can as quickly as they can.

Another approach is technique called point-counterpoint, a technique in which two subgroups assigned competing points of view.

The two groups then develop and exchange proposals and discuss the various options until they arrive at a common set of understandings.

Discussion Question #11: How might rigorous debate contribute to better decision-making?

Notes

Lecture Example File

Students are encouraged to research training requirements for effective managerial decision-making.

Top and middle managers have to make management decisions.

The objectives to be achieved are:

- Explore main factors which influence the decision
- Introduce an effective decision-making process
- Introduce practical tools for effective decision making
- Practice the implementation of these tools
Emphasis should be on:
Programmed and non-programmed decisions:
What are programmed decisions and when to use them.

Personality types and management decisions:
How the psychological type of a manager affects the style and nature of the decision.

Different approaches to decision-making:
What approach is more effective: intuitive or rational?

Initiative management:
Being proactive or reactive.

Decision-making process:
Main steps in the effective decision-making.

Generating alternatives:
Why you need several options when making a decision.

Influencing factors:
How to take into account the complexity and ambiguity of the situation when making a decision.

Projecting the outcomes:
How to foresee the consequences and implications of the decision.
Simulation in decision-making:
Using simulation techniques to optimize decision-making.

Pay matrix and the decision tree:
Choosing the best alternative.

Carrying through the decision:
How to design an action plan and ensure the follow-up.

Programmed decisions can be used to:
- Use programmed decisions to save time and energy
- Make informed and rational decisions based on thorough situation analysis
- Implement brainstorming techniques properly to generate alternative solutions
- Use projection and simulation approach for a better decision-making process
- Identify and take into account various factors influencing the decision

Top management must recognize the use of non-programmed decisions where situations are unique, single events and require decisions at one time. A decision-making model must be utilized to improve upon managerial decision-making.
Answers To End Of Chapter Discussion Questions

1. You are a busy partner in a legal firm and an experienced secretary complains of headaches, drowsiness, dry throat, and occasional spells of fatigue and flu. She tells you she believes air quality in the building is bad and would like something done. How would you respond?

The point of this question is to have students apply the decision-making steps to solve this problem. The first step is recognition of decision requirement. The manager must determine if there truly is a problem with the air quality that needs to be solved. Discussions with others and, if warranted, testing the air quality should help make this determination. If a problem does indeed exist, the next step is the diagnosis and analysis of the causes of the poor air quality. The testing may reveal this. If needed, further tests by experts in the field should be made to determine the cause. Once the cause has been determined, the development of alternatives to eliminate the cause should be developed. The selection of desired alternatives is the next step during which the risk must be considered and the pros and cons of each alternative must be weighed. After an alternative has been chosen, the chosen alternative should be implemented. After an appropriate time evaluation of the alternative should be made and feedback provided.

2. Why is decision making considered a fundamental part of management effectiveness?

Decision making is especially important to effectiveness because it underlies all manager activity. Managers are faced with limited resources, competing demands, and a continuous stream of problems and opportunities. As a result, managers make decisions every day—and hence are often referred to as decision makers. They make decisions about virtually every aspect of an organization including its strategy, structure, control systems, innovations, and human resources. They must make decisions to perform the basic functions of planning, organizing, motivating, and controlling. Managerial decision making ultimately determines how well the organization solves its problems, allocates resources, and accomplishes its objectives.

3. Explain the difference between risk and ambiguity. How might decision making differ for each situation?

Risk means that the decision maker has most of the necessary information. The objectives of the decision are clear cut, and alternatives can be identified. However, the future outcome of each alternative is not known for certain, although the probability of outcomes can be calculated, which is the source of risk. Ambiguity means the almost complete absence of information pertaining to a decision. Managers do not agree on the objectives to be achieved by the decision, alternatives are difficult to find, and outcomes cannot be predicted.

Decision-making approaches differ considerably for each situation. For decisions under risk, a rational, calculative approach is preferred. The managers’ responsibility
is to obtain the available information and run necessary computations in order to predict outcomes and select the best alternative. Decisions under ambiguity are more difficult. In these cases managers do not have sufficient information to perform computations. They must rely on personal judgment and experience to define alternatives and to anticipate possible outcomes of each alternative. Under ambiguity, managers have to take a chance and push ahead with decisions, even though they have poor information and will be wrong a substantial percentage of the time.

4. **Analyze three decisions you have made over the last six months. Which of these were programmed and which were nonprogrammed?**

The point of this question is to have students relate the concepts of programmed and nonprogrammed decisions to their own experience. A programmed decision involves a situation that has occurred often enough so that students can use past experience and similar decision rules over and over again. Programmed decisions are considered routine. Nonprogrammed decisions are made in response to novel, unique, and largely unstructured decision situations. The nonprogrammed decision requires the student to search for possible alternatives and information and to make a decision that has not been made previously. An example of a programmed decision might be where to go to lunch or where to park the car. A nonprogrammed decision could be the choice of a major field of study, a decision that the student may have made after taking aptitude tests and investigating a number of career choices. Although the student may already be studying for the chosen career field, whether the decision was correct still may not be perfectly clear.

5. **Why are many decisions made by groups rather than by individuals?**

Through discussions and political negotiations, a group of managers agree that a problem needs attention and that a chosen course of action is correct. Often, decisions are made in an organization where uncertainty and ambiguity are high. Because uncertainty is high, each manager has only limited information, and discussions and negotiation with other managers can provide additional information and opinions. Moreover, people affected by the decision may have conflicting goals or values, and group decision making enables managers to overcome these differences and obtain agreement. Group decision making also provides a way to coordinate across multiple departments, each of which may have different goals and may prefer different decision outcomes. Also, decision making often requires consensus in order to implement the preferred choice later on. Using a group means that people will support and implement the selected alternative.

6. **The Vroom-Jago model describes five decision styles. How should a manager go about choosing which style to use?**

The decision style appropriate for a given situation should be chosen by answering the seven diagnostic questions provided with the model. The decision flowchart in Exhibit 9.6 presents the diagnostic questions in the proper sequence. Answering the questions leads a manager to the appropriate style.
7. What are the major differences between the administrative and political models of decision making?

The major differences between the administrative and political models of decision making are several.

The Administrative Model of decision making describes how managers actually make decisions in difficult situations, such as those characterized by non-programmed decisions, uncertainty, and ambiguity. Many management decisions are not sufficiently programmable to lend themselves to any degree of quantification. Managers are unable to make economically rational decisions even if they want to.

Political Model is useful for making non-programmed decisions when conditions are uncertain, information is limited, and there is disagreement among managers about what goals to pursue or what course of action to take. Most organizational decisions involve many managers who are pursuing different goals, and they have to talk with one another to share information and reach an agreement. Managers often engage in coalition building for making complex organizational decisions. The political model closely resembles the real environment in which most managers and decision makers operate. Decisions are complex and involve many people, information is often ambiguous, and disagreement and conflict over problems and solutions are normal.

The basic assumptions of the political model are:

1. Organizations are made up of groups with diverse interests, goals, and values. Managers disagree about problem priorities and may not understand or share the goals and interests of other managers.
2. Information is ambiguous and incomplete. The attempt to be rational is limited by the complexity of many problems as well as personal and organizational constraints.
3. Managers do not have the time, resources, or mental capacity to identify all dimensions of the problem and process all relevant information. Managers talk to each other and exchange viewpoints to gather information and reduce ambiguity.
4. Managers engage in the push and pull of debate to decide goals and discuss alternatives. Decisions are the result of bargaining and discussion among coalition members.

8. What is meant by satisficing and bounded rationality? Why do managers not strive to find the economically best solution for many organizational decisions?

Satisficing means that decision makers choose the first alternative that provides a minimally acceptable solution. Rather than pursue every single alternative, managers will search until they identify a single solution that will solve the problem adequately. Bounded rationality means that people have limits or boundaries on how rational they can be. Managers have only limited time and ability to process information with which to make a decision. Satisficing and bounded rationality help explain why managers often do not strive to find the economically best solution. The
organization is extremely complex, and managers are under intense time pressure. Moreover, decisions characterized by uncertainty and ambiguity do not have good information available. Hence decision makers are forced to use experience and intuition to make a satisfactory decision at the moment and move on to new problems. Managers who attempt to find the perfect solution to nonprogrammed decisions would become hung up on a single decision and spend far too much time on it. Over time their overall decision-making performance would suffer.

9. **What techniques could you use to improve your own creativity and effectiveness in decision making?**

The techniques described in the chapter include devil’s advocate, multiple advocacy, dialectical inquiry, and brainstorming. These techniques are typically used in groups, but they can also be used to expand the thinking of a single individual. The devil’s advocate is the use of an individual to challenge the assumptions made by an individual or group when making a decision. Multiple advocacy means that multiple viewpoints and minority opinions are surfaced. An individual could adopt these by having other people represent opposing viewpoints before a decision is made, or by simply forcing himself or herself to think about opposing points of view. Dialectical inquiry means that the underlying values and assumptions associated with a problem are challenged. Brainstorming uses a freewheeling approach to identify alternatives and problem solutions. Individuals can adopt the freewheeling approach even when working alone, or they can ask others to share ideas with them through brainstorming.

10. **Which of the six steps in the decision-making process do you think is most likely to be ignored by a manager? Explain.**

This question is designed to stimulate student thinking and discussion, and there is no single correct answer. People who have experience as management decision makers would say that the step most likely to be ignored is control. After the decision is made, the manager goes on to new problems and may not follow up and control the outcomes of the previous decision. Another possible answer is that managers may not spend a great deal of time on digging beneath the surface to diagnose the problem or on generating multiple alternatives. However, these steps must be performed to at least a small degree in order for a decision to be made.
Teaching Note for Experiential Exercise

What Is Your Personal Decision Style?

Student responses will vary regarding their own decision making style. For additional information one is encouraged to review decision making styles in the chapter. Personal decision style refers to differences among people with respect to how they perceive problems and make decisions. A suggestion would be to discuss the four decision making styles: directive, analytical, conceptual, and behavioral.

1. The directive style is used by people who prefer simple, clear-cut solutions to problems. Managers who use this style often make decisions quickly because they do not like to deal with a lot of information and may consider only one or two alternatives. People who prefer the directive style generally are efficient and rational and prefer to rely on existing rules or procedures for making decisions.

2. Managers with an analytical style, on the other hand, like to consider complex solutions based on as much data as they can gather. These individuals carefully consider alternatives and often base their decisions on sources. They search for the best possible decision based on the information available.

3. People who tend toward a conceptual style also like to consider a broad amount of information. However, they are more social oriented than those with an analytical style and like to talk to others about the problem and possible alternatives for solving it. Managers using a conceptual style consider many broad alternatives, rely on information from both people and systems, and like to solve problems creatively.

4. The behavioral style is often the style adopted by managers having a deep concern for others as individuals. Managers using this style like to talk to people one-on-one and understand their feelings about the problem and effect of a given decision upon them. People with a behavioral style usually are concerned with the personal development of others and may make decisions that help others achieve their goals.

Teaching Note for Ethical Dilemma

The Unhealthy Hospital

Reid has the opportunity to take Blake Memorial into a new era. If he closes the clinics now, he solves short term financial problems, but he greatly reduces the health care options of poor residents of the city. In addition, the long-term future of Blake is still at risk, and would need to be addressed. Option 2 offers a better chance for long-term success, if the clinics in affluent neighborhoods succeed, and it does at least provide for critical care for poorer residents. However, the most creative as well as the most ethical choice is Option 3. By involving the commissioner of health services and meeting with community groups throughout the city, Blake can develop a whole new way of delivering health care that serves the needs of all residents. Although hospitals have to watch the financial picture, hospitals have missions to serve the health care needs of patients. A whole new approach to how the hospital meets that mission can enable Blake Memorial
remain a viable organization. Ask students to discuss Dr. Russell’s statement: “A hospital is not a building; it’s a service. And wherever the service is needed, that is where the hospital should be.”

**Surf the Net**

1. **Creativity.** Investigation into the WEB site has been explored and one must be a customer of “tiac.net” to use their service. Creativity and/or problem solving is extremely important with non-program decision. Using a seven step model to build upon creativity could start with the first step:
   1. Identify the problem or opportunity. “My college students need new personal computers.”
   2. Identification of decision criteria. Price, warranties, support, and reliability.
   4. Development of Alternatives. IBM, Compaq, HP.
      **Compaq** reliability .30, service .25, price .40
      **HP** reliability .35, Service .30, Price .10.
   7. Evaluation and a follow-up. The last step in the decision-making process appraises the result of the decision to see whether the opportunity has been solved.

2. **Pushing Key Data to Decision Makers.** The PointCast Network is a free Internet news service that takes the work out of staying informed by broadcasting personalized news and information directly to your computer screen. You get just the news you’re interested in from trusted sources like CNN, The Wall Street Journal, The New York Times and many more, presented in a way that’s easy-to-scan, easy-to-read and easy-to-digest.

3. **Participative Decision Making.** Participative Designs Inc. is a Toronto, Ontario, Canada based group of consultants committed to changing how organizations change. Our High Involvement Change process achieves fast, dramatic organizational change through involving the "whole system" in a collaborative strategic planning and a change management process. We are committed to working with clients whose mission includes a commitment to social and ethical responsibility, building partnership with customers, employees, and communities, and who are innovators in the new world of work.

**Case for Critical Analysis Solution**

**Greyhound Lines**

1. *Was the decision facing Greyhound executives programmed or non-programmed?*

The type of decision that was facing Greyhound executives was a non-programmed decision. The decision to implement the TRIPS software was unique and a one time
decision. Non-programmed decisions are made in response to situations that are unique, poorly defined, largely unstructured, and have important consequences for the organization. Many non-programmed decisions involve strategic planning because the degree of uncertainty is great and the decisions are complex. The new computerized service (encompassing everything from passenger reservations to fleet scheduling) was a non-programmed decision.

2. Do you think they should have used the classical, administrative, or political model to make their decision? Which do you believe they used? Discuss.

In making this decision the executives of Greyhound should have used the classical model of decision making. Under this model managers are expected to make decisions that are economically sensible and in the organization’s best economic interests. The executives of Greyhound should have made the decision to accomplish goals that were known and agreed upon. Top management should have sought agreement from middle management. The reorganization plan (that called for massive cuts in personnel, routes, and services, along with the computerized service of everything from passenger reservations to fleet scheduling) was not supported by middle management, and this lack of support presented a problem. Discourtesy to customers increased as a downsized workforce struggled to cope with a system they were ill-trained to operate. The time Greyhound operators spent responding to phone calls dramatically increased. These types of problems existed and required the classical or economic approach to decision making. The increase in demand required an economic decision that was circumvented without proper analysis applied to this unique decision.

The political model of decision making was utilized. Greyhound management was challenged by a non-programmed decision that required a search for the development of alternatives before evaluating the decisions. When conditions are uncertain, information is limited, and there is disagreement among middle management about what goals to pursue or what course of action to take at Greyhound. The political model closely resembles the real environment in which most managers and decision makers operate. Decisions are complex and involve many people, information is often ambiguous, and disagreements and conflict over problems and solutions are normal.

The highly complex software at Greyhound was the result of the employees not being properly trained to deal with customer reservations, which led to delays and customer confusion. Many callers couldn’t even get through because of problems in the new switching mechanism. Most passengers arrived to buy their tickets and get on the bus just like they always had, but the computers were so swamped that it sometimes took 45 seconds to respond to a single keystroke and five minutes to print a ticket.

3. Analyze the Greyhound case in terms of the six steps in the managerial decision making process. Do you think top executives paid adequate attention to all six steps? If you were a Greyhound executive, what would you do now and why?
The application of the six steps of decision making for Greyhound was implemented by recognizing the decision requirements. Greyhound Lines had problems. The company was operating on paper-thin margins and could not afford to dispatch nearly empty vehicles or have buses and drivers on call to meet surges in demand. The real problem was one of customer service.

The second step of diagnosis and analysis was not given careful attention by top management. Management failed to recognize this step because they moved directly to the third step in the decision making model. Employees were not qualified or trained to use the TRIPS software application.

The third step is the development of alternative courses of action. The reorganization plan was concerned with the reduction of operating costs, and the improvement of customer service. The massive cutting of personnel, routes, and services was not the immediate solution to the problem. Decision making alternatives should have included improvement of customer service. A suggestion would be retraining of personal to become customer driven with respect to their passengers. Another alternative would be the improvement of communication and baggage handling in order to create increased customer satisfaction.

The fourth step was the implementation of the desired alternative. The decision that would yield the highest payoff would be focused upon improving customer satisfaction. In addition, retraining of personnel would be essential.

The fifth step is the implementation of the chosen alternative. Top management should have received support on ways to improve customer satisfaction. Students could have different ways to improve upon their solution.

The final step is evaluation and feedback. Customer feedback could have been generated by installing a customer hotline, and/or a survey questionnaire to evaluate customer service.

Top management did not give adequate attention to all six steps in making their decision. Diagnosis and analysis was not considered, and, therefore, a limitation of alternatives was not forthcoming by top management. The implementation of desired alternatives should have been exhausted. The decision to implement the software application was not supported throughout the organization. The evaluation and feedback was not forthcoming, and therefore top management should have realized an ineffective decision was made.

As a Greyhound executive, I would call a meeting with middle management in order to obtain their participation and support of these problems.

Additional Material: Part 3

Video Case
Chapter 7

Caribou Coffee Has a Mission

John and Kim Puckett love the outdoors. They also love coffee. About a decade ago, they were hiking Sable Mountain in Alaska. When they reached the summit, they were inspired not only by the scenery surrounding them but also by the sight of a distant herd of caribou galloping through the valley below. No, the Pucketts didn’t suddenly pull a coffeemaker out of a backpack and start brewing coffee on the mountaintop. But when they got home after their mountain trip, they wanted to find a way to re-create the sights and sounds of the Alaskan wilderness, preserving some of the feelings they had experienced. They wanted to establish a place where people could gather to share good and simple things: casual conversation with friends, time for the daily newspaper, a tasty cup of coffee, and “an escape from the daily grind.” They also wanted to start their own business. So they opened their first coffee shop in Minneapolis, in December of 1992.

Today, Caribou Coffee is the nation’s second largest specialty coffee company, with 160 stores and 2,000 employees across eight states. The Pucketts have remained true to their original vision of bringing the wilderness home: each store is built and decorated to look like an Alaskan lodge, with knotty-pine cabinets, a rustic fireplace, and comfortable seating. “We still strive to make the Caribou experience adventurous, rewarding, and fun,” says the company’s Web site. “Our mission is to be the best neighborhood gathering place; fast and friendly service is at the heart of this goal.”

A clear mission is the soul of an organization, but achievable goals and good planning are its heart and lungs. Caribou Coffee integrates all three, but its development and growth have not been without struggle. The Pucketts perfected the company’s rustic image and style. With the help of Barry Judge, vice president of marketing, and the Carmichael Lynch advertising agency in Minneapolis, Caribou came up with buzzwords to capture the Caribou experience: “Outdoorsy. Leave smiling. Hand-made. Down to earth. Clever. Transformational.”

People who had a Caribou shop in their area immediately became loyal customers. They seemed to prefer Caribou’s brew to that of its largest competitor, Starbucks, and Caribou even debuted certain flavors and brewing methods that Starbucks followed later. Quality, service, and satisfied customers—all were goals that Caribou could achieve. But the company had problems with setting more specific goals and planning for growth. For one thing, Caribou lacked the funds for the kind of expansion that the Pucketts envisioned. For another, their expansion from Minneapolis to other locations was driven by the competition—they simply went where Starbucks wasn’t located, instead of establishing growth goals independently. By 1997, Caribou Coffee had 123 stores, with only Starbucks ahead of it. Caribou company president Jay Willoughby declared, “Our intent is to be a national player.” But Starbucks had more than 2,000 stores, including nearly 190 overseas. Caribou wasn’t even close. That doesn’t mean being number two is necessarily bad. In fact, said Alan Hickok, an industry analyst, “In markets where Caribou competes head-to-head with Starbucks, they’ve done just fine… There’s no consumer category, with the exception of Microsoft, where consumers have been satisfied with having just one choice. Absolutely, there’s room for a No. 2.”

Caribou still wanted to grow—but they were having trouble coming up with a clear plan and the money to back it. Enter Don Dempsey, former head of McDonald’s China division. Dempsey joined Caribou as its new CEO in 1999. Why would he make the
leap from a giant like McDonald’s to the small beans of Caribou Coffee? “When you’re running an international company for McDonald’s, you really have a lot of autonomy,” he explained. “I wanted to take what I had learned at a large company and apply it to a small one.” When one news writer asked Dempsey about his goal for the company, he answered that he wanted to “reliably and consistently grow profits.” But he needed a plan, and he needed a way to raise the money to achieve his overall goal.

Dempsey recalls that when he needed more money to fund a project at McDonald’s, he just called up the CEO and asked for it. Funding wasn’t so easy for Caribou. But eventually the Crescent Capital group of Atlanta agreed to purchase a percentage of the company, which would pump the needed growth dollars into the organization. Dempsey outlined a plan for expansion: stick with locations in which Caribou already had stores and strengthen the Caribou brand within those locations. Caribou’s largest market is its hometown of Minneapolis-St. Paul, but other markets include Columbus and Cleveland, Ohio; Raleigh and Charlotte, North Carolina; Atlanta; Detroit; Chicago; and Washington, D.C. “We have to increase penetration and increase brand awareness in order to improve our economics,” Dempsey said. Meanwhile, Caribou would continue to brew a good cup of coffee in a place where people can get away from the daily grind.

Questions

1. Write what you think would be an effective, updated mission statement for Caribou Coffee.

Students should focus on the concepts of effective goal setting and clear planning as they create their own mission statements. One idea could be the following: “To allow customers to take a break from their hectic lives, our company strives to provide the highest-quality coffee products and services in a homey environment, even while expanding to reach growth goals.”

2. What is the relationship between Dempsey’s goal and his plan for sticking with existing markets?

Dempsey’s goal for reliably and consistently growing profits is supported by a plan to focus on markets he knows are already successful and strengthening them instead of spending money to scatter stores around the country.

3. How important is the Pucketts’ original vision to the company’s identity today? Explain your answer.
Responses may vary, but most students will probably say that it is still vitally important—otherwise, Caribou would become just any other coffee shop.


Video Case

Chapter 8

Caribou Coffee’s Strategy: Worth More than Beans

Picture drinking your daily cuppa joe in an Alaskan lodge. You have plenty of time to chat with friends, scan the daily paper, and imagine that when you step outside you’ll have a sweeping view of Denali itself, with a few stray caribou grazing its foothills. That’s what the folks at Caribou Coffee want you to feel, whether you’re in Minneapolis, Ohio, or Washington, D.C. The rustic image conveyed by Caribou’s 160 coffee shops is a major part of the company’s strategy, which is to create a comfortable, attractive, unique atmosphere in which customers can relax and enjoy their coffee.

But the company’s grand strategy is growth. At first, founders John and Kim Puckett followed a strategy of placing Caribou shops wherever their major competitor, Starbucks, didn’t have shops. But that growth strategy lacked cohesiveness and planning. The company also tried to grow too fast, a pitfall of many young firms. “There’s a lot of instability with rapid growth,” says Jay Willoughby, a restaurant executive whom the Pucketts hired to be president of their company in 1997, five years after they opened their first shop in Minneapolis. Willoughby determined that before Caribou grew any more, it had to become more stable financially, without sacrificing value to its customers. In other words, every cup of coffee served by Caribou staff, from Kenya AA to Fireside Blend, had to be fresh, hot, and full of flavor. It also had to come at a reasonable price. To offer value and still make a profit, Willoughby had to make sure that the company’s warehouse and field operations were functioning efficiently and cost effectively so that all coffee goods moved through the system quickly, remaining fresh. Only then would a grand strategy of growth make sense.

In 1999, Don Dempsey joined Caribou as its new CEO. After 20 years with McDonald’s, Dempsey was ready for a new challenge. Like Willoughby, he examined the company’s previous expansion strategy. “Their strategy was to go where Starbucks wasn’t, and that was a flawed strategy,” noted Dempsey. “They had a half-dozen stores here and a half-dozen there, but no strong brand awareness in any one market. Then, they ran out of money.” First Dempsey had to come up with more backing for the company, then create a strategy of controlled growth. He found the backing he needed in the form of Crescent Capital of Atlanta, which agreed to purchase a portion of the company for $80 million, giving Caribou the funding it needed for growth. Dempsey has
so far resisted franchising as a source of income or expansion, however. All Caribou stores are company owned. “Our stores run pretty well, and I like getting all of the profit from the stores,” he explains. Also, the recapitalization from Crescent has given the company enough money to carry through its growth plans without franchising or making an offer of public stock. “I’d love to have a nice, big private company,” Dempsey admits.

It was important to accomplish controlled growth while maintaining Caribou’s woodsy, rustic, comfortable style. Everyone involved with Caribou—from its founders to its loyal customers—already knew that the Caribou shops performed well against Starbucks. In fact, claims Dempsey, “You can put us right next to a Starbucks. But our place cannot be less convenient or attractive than the Starbucks.” Industry analyst Alan Hickok agrees with Dempsey. “Even in my little suburb, there are three Caribous within a couple of miles and a couple of Starbucks, and they are all doing quite well. Dempsey is a smart guy, and he knows exactly what he is doing.” Minneapolis investor Jim Jundt concurs with Dempsey’s strategic management. “He is using a strategy that has succeeded for him in the past,” Jundt says.

Where can you go for a cup of Caribou? If you live in a few Midwestern states or Georgia, North Carolina, or Washington, D.C., you’re in luck. If not, you can order coffee beans and other products through Caribou’s catalog or online. If you visit the Web site, you can find out how much caffeine is in a cup of coffee, why you should use an oxygen-bleached filter, and why it’s a bad idea to microwave a cooled cup of premium coffee. But you don’t have to be a coffee aficionado to appreciate the aroma of success that seems to be wafting around Caribou Coffee. Don Dempsey had never sipped a cup of gourmet coffee before he came to Caribou. “I recently had some of the coffee I used to drink, and I was astounded at how bad it was,” he recalls. “Once you’ve had good coffee...you can’t go back.”

**Questions**

1. **Why was it important for Caribou to achieve stability before proceeding with further growth?**

If the company had continued to grow too fast, without a clear plan, it might not have survived in the long run.

2. **How would you define Caribou’s core competence?**

   Caribou’s core competence is serving top-quality coffee products in a unique atmosphere.

3. **Identify two internal strengths and two internal weaknesses of Caribou’s.**

   Suggestions for strengths include the following: strong strategic managers; high-quality products; a unique atmosphere; loyal customers; a drive to create value; newly
acquired capital. Suggestions for weaknesses include the following: only one source of capital; competition from Starbucks; other possible competitors; a weakened economy; stores scattered across a wide geographic area.


Video Case
Chapter 9

Machado and Silvetti: A Business Based on Decisions

When was the last time you designed a building? Maybe you cut a door in a large cardboard box when you were a child, painted on windows and crawled inside your new “house” with a couple of friends. Maybe you were one of those lucky kids who actually had a tree fort. Or perhaps an ambitious school teacher assigned you a project that involved planning and constructing an imaginary structure. Regardless of how simple or complex your building project was, it involved many decisions, from materials to dimensions. Harvard professors Rodolfo Machado and Jorge Silvetti, who also head up their own architectural firm, are examples of advanced design and architecture decision makers. In fact, almost everyone who works at Machado and Silvetti Associates makes decisions—whether programmed or nonprogrammed.

Machado and Silvetti Associates, based in Boston, specializes in creating housing and other structures for colleges and universities, as well as public buildings such as the Boston Public Library. The firm has an impressive roster of clients, including the J. Paul Getty Trust, the Utah Museum of Fine Arts, Harvard University, the Federal Reserve Bank of Boston, and the City of Vienna. Like most architectural firms, Machado and Silvetti is essentially organized around its projects, so that professionals such as associate Michael Yusem, a project manager, can focus on all the decisions related to a certain assignment. Since every project is different, many of these decisions are nonprogrammed, and much effort goes into reducing both uncertainty and risk. For instance, once initial design choices are made and a budget is approved by a client, Yusem and his colleagues need to figure out how to deliver the design requirements within the budget, or risk losing money. Then come the building details, all of which must satisfy the customer while producing revenue for the firm. As the team develops a new graduate housing facility for a Boston-based university, they must consider the needs of future residents, the overall look or image of the complex, as well as the choice of quality materials including rugs, tiles, flooring, bathroom fixtures, and appliances. They need to determine the number and size of the rooms. They must be certain that the facility complies with local building and environmental codes. They must select and
coordinate subcontractors for various phases of the project. And they must deliver the project on a schedule. All of this coordination is just for one of the firm’s projects.

Across the country, another Machado and Silvetti team has undertaken the renovation of the Getty Villa, which is part of the J. Paul Getty Museum in southern California. The mission for the Getty Villa is entirely different from the graduate housing project—its residents are works of art from the museum’s Antiquities Collection, which contains roughly 50,000 objects ranging from statues to ancient tools. So the design team had to come up with a plan that incorporated the classical inspiration of the works themselves as well as the surrounding buildings of the museum. To achieve this, they chose pattern mosaic and terrazzo floors, coffered ceilings, and colorful plaster walls, with detailing in wood and bronze. But they also considered the modern needs of visitors and caretakers of the museum. In doing so, they added skylights and reopened some of the old windows to bring in natural light for better viewing, and added a variety of other modern amenities for comfort. Each of these decisions involved development of and selection among alternatives, along with feedback from the client. And all of the decisions had to contribute somehow to the mission of the project as a whole.

Machado and Silvetti enjoy a top-notch reputation for its designs around the world, both with clients and critics. “The new branch of the Boston Public Library in Allston is a delight: an airy, spacious place where the breeze seems to flow through uninterrupted...This is the best new public building in Boston in years,” writes architecture critic Robert Campbell of The Boston Globe. When the firm won the First Award in Architecture from the American Academy of Arts and Letters, the awards committee wrote, “In a series of boldly conceived and brilliantly executed urban projects completed over the past two decades Rodolfo Machado and Jorge Silvetti have pursued an extended and vigorous program of research through design. Their investigations...have been uncompromisingly dedicated to envisioning a meaningful architecture of the public realm.” And it’s all done one brick—and one decision—at a time.

Questions

1. How might project managers at Machado and Silvetti use the classical model of decision-making to make a decision about what type of windows to install in a building?

They would make sure the goals were known and agreed upon—for instance, a goal might be to let in more light. They would discuss potential problems—such as exposure to high winds on one side of the building. They would gather complete information and develop alternatives, perhaps of different models. They would select the alternative that is of the highest quality that can still meet the budget.

2. What might be the consequences of using satisficing in a project like the Getty Villa or Harvard’s graduate housing facility?

Since satisficing involves selection of the first solution that satisfies minimal criteria, it would not be an ideal choice for a public building. For example, safety might be compromised if less-than-ideal materials were chosen, costs might actually run higher
in the long run without investigating alternatives, the client might be unhappy, and the firm’s reputation might suffer. Complex projects such as public buildings that must combine artistic and functional characteristics would benefit from exploration of multiple alternatives to satisfy the client.

3. *How might project managers at Machado and Silvetti use decision-making to enhance performance beyond its current levels?*

They might find ways to develop more alternatives; they might find ways to make designs more efficient or more user friendly; they can use innovation in materials and design; they can use innovation not only to solve clients’ problems but also to help clients get more for their dollar or be more competitive.


**PART III**

**Continuing Case**

**A Tale of Two Strategies**

**Suggested Answers**

1. *Based on what you’ve read, formulate a brief mission statement for the “new” Ford Motor Company.*

Answers will vary, but an example might be: Ford is committed to building and servicing top-quality cars and trucks designed to meet the needs and wants of consumers the world over.

2. *Imagine that you are part of Bill Ford’s management team. Set a stretch goal either for the company as a whole or for the Premier group strategy board that you think would realistically help the company turn around. Explain why you chose this goal.*

Answers will vary, but students are encouraged to set clear, compelling and imaginative goals that they can support with sound reasoning based on their reading.

3. *Describe the differences between Jac Nasser and Bill Ford’s decision makers.*

Most students will probably say that Nasser had a directive style and Ford has a more conceptual style (based on his desire to take “tough” action but avoid downsizing and his wish to repair the relationship with Firestone).