

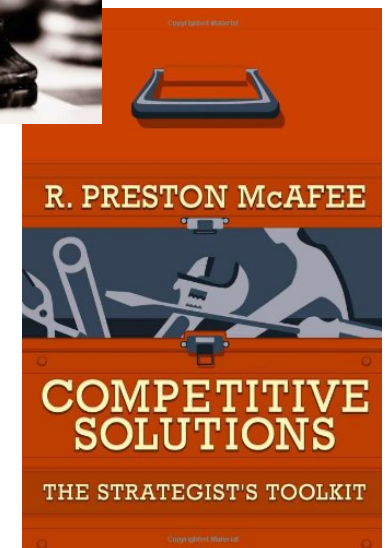
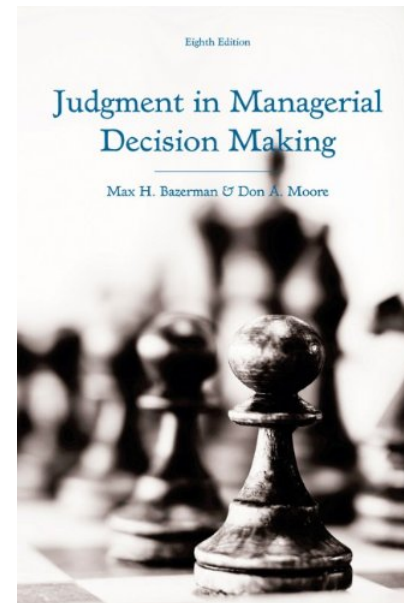


Strategic Decision Making

Steven R. Van Hook, PhD

Reference Textbooks

- *Judgment in Managerial Decision Making*, 8th Edition, by Max Bazerman and Don Moore. New York: John Wiley & Sons, 2012. ISBN: 1118065700
- *Competitive Solutions: The Strategist's Toolkit*, by Preston R. McAfee. Princeton, NJ: Princeton University Press, 2009. ISBN: 0691124035



Strategic Decision Making

Unit 1

How & Why We Decide

Steven R. Van Hook, PhD

Guiding Questions

- **What** preliminary steps should one take in deciding an action?
- **What** shortcomings may inhibit effective decision-making?
- **How** might biases impede clear thinking and optimal decisions?



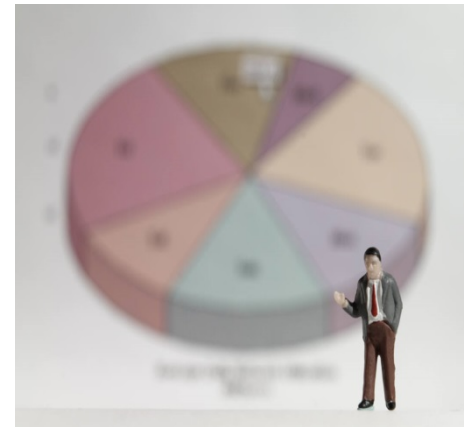
Two Systems of Deciding

1. **Intuitive:** fast, automatic, effortless, implicit and emotional; how most life decisions are made
2. **Reasoning:** slower, conscious, effortful, explicit, logical; essential in business decisions



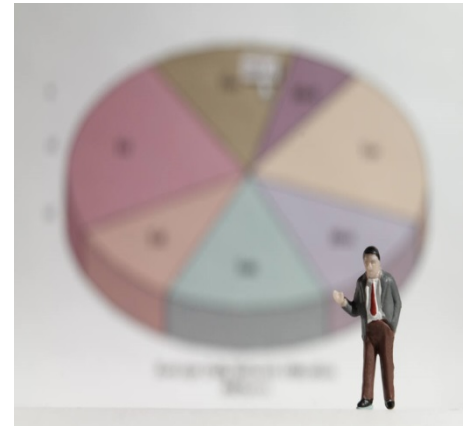
Preliminary Steps in Decisions

- **Define the Problem:** accurately identify the right problem to solve, rather than ancillary issues or symptoms
- **Identify the Criteria:** list the objectives that need to be met for a resolved problem
- **Weight the Criteria:** rank the relative value on each of the criteria (some are more important than others)



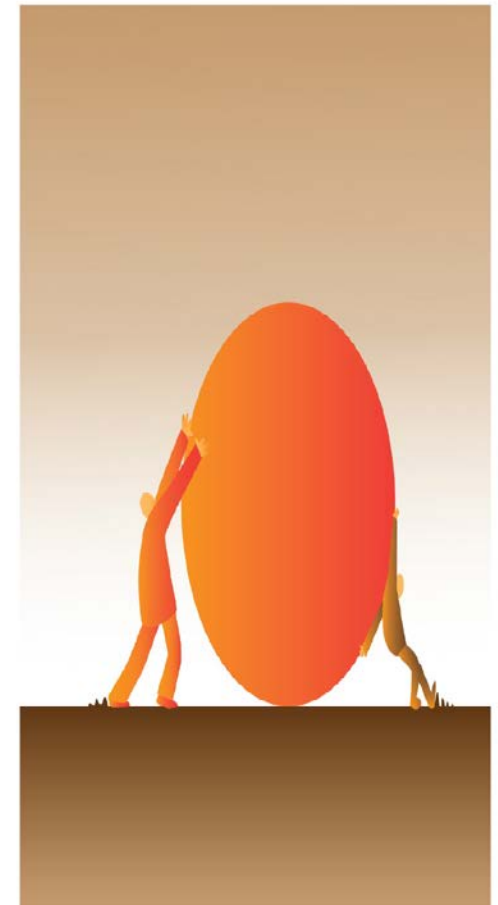
Preliminary Steps in Decisions

- **Generate Alternatives:** identify possible courses of action, without overloading the list of options
- **Rate Each Alternative:** rank how each alternative will achieve the identified criterion (often the most difficult stage of decision-making)
- **Compute the Optional Decision:** choose the solution with the highest value



Limitations in Decisions

- **Lack** of important information key to decisions
- **Optimal** decisions are still dependent on the reactions of others
- **Misunderstanding** or disregard of the decision-making process
- ***Satisfice***: the acceptance of a *satisfactory* solution that *suffices*, rather than an optimal solution



Biases in Decision Making

- **Ease of Recall:** deciding based on most vivid and recent information
- **Retrievability:** selecting the most available information and options
- **Insensitivity to Base Rates:** periphery data overwhelming the base rate (e.g., margins of error, accuracy rates, false positives, etc.)
- **Insensitivity to Sample Size:** a larger sample size provides more accurate assessments



Biases in Decision Making

- **Misconceptions of Chance:** e.g., the odds flipping four tails in a row is 1 in 16; yet the odds on any one flip is still 50-50
- **Regression to the Mean:** ignoring that extreme events (such as high traffic) tend to regress to the mean in subsequent measures
- **Conjunction Fallacy:** assuming that two events co-occurring are more probable than others (e.g., rain and floods, tidal/earthquake floods)
- **Confirmation Trap:** seeking data that confirms expectations & hypotheses



Biases in Decision Making

- **Anchoring:** making decisions consistent with anchor data (such as salary history)
- **Overconfidence:** based on a human tendency to prefer confirming data
- **Conjunctive & Disjunctive Events:** overestimating and underestimating probabilities of events (e.g., timeline, costs, and glitches for home improvement project)
- **Hindsight & Curse of Knowledge:** overestimating what we knew beforehand, and others' knowledge by our own (e.g., travel directions)



Review of Decision Model

- **Decisions** are reached both *intuitively* and *rationally*.
- **Decision-Making Steps:**
 1. Define the problem
 2. Identify the 'end' criteria
 3. Weight the 'end' criteria
 4. Generate alternatives to reach 'end'
 5. Rate/rank each alternative
 6. Compute the optimal decision



Review of Decision Biases

1. Ease of recall
2. Retrievability
3. Insensitivity to base rates
4. Insensitivity to sample sizes
5. Misconceptions of chance
6. Regression to the mean
7. Conjunction fallacy
8. Confirmation trap
9. Anchoring
10. Conjunctive & disjunctive events bias
11. Overconfidence
12. Hindsight and the curse of knowledge

Strategic Decision Making

Unit 2

Good & Bad Executive Decisions

Steven R. Van Hook, PhD

Unit 2 Guiding Questions

- **What** influences frame our decision making?
- **How** can we identify emotional influences and self-serving motivations?
- **Which** personal subjective factors can impact decision making, and how might we mitigate them?



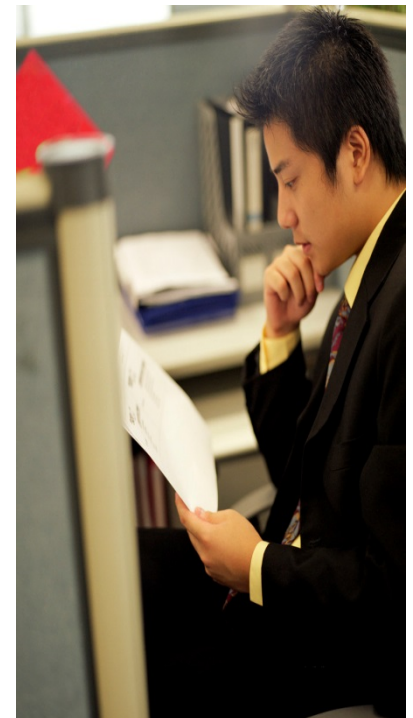
Framing of Decisions

- **Certainty:** we have a bias towards increasing certainty and reducing uncertainty, even with lesser returns
- **Ownership:** we place a higher value on what we already own than what we'd pay to get it
- **Do No Harm:** we prefer our actions do no harm, even if inaction would cause more harm
- **Reward Framing:** we prefer *bonuses* over *rebates*



Motivational Influences on Decisions

- **Multiple Selves:** conflicts between what we *want* versus what we *need*
- **Discounting:** tradeoffs between *immediate* and *future* benefits discount the future returns
- **Positive Illusions:** people tend to view themselves *positively* rather than *accurately*
- **Self Service:** people perceive *fairness* based on *self interests* over *true equity*



Emotional Influences on Decisions

- **Happiness:** feelings of joy or exuberance can lead to overconfidence, increased feelings of power, and decreased sensitivity to risk
- **Anger:** though a 'negative' emotion, it may share the same features as happiness
- **Fear:** makes us oversensitive to risk and urges us to flee



Emotional Influences on Decisions

- **Disgust:** focuses our attention on contaminations and motivates us to purge
- **Sadness:** causes deeper ruminations and tendency to seek change
- **Regret Avoidance:** causes a motivation to minimize regrets even by suboptimal decisions
- **Weather:** stock market prices often go up on sunny days and down when cloudy



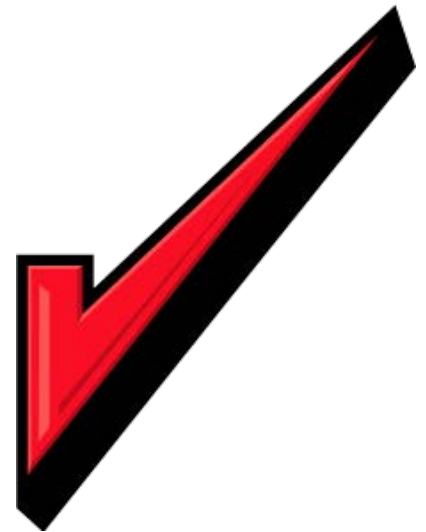
Escalation of Commitment

- **Favoring Prior Decisions:** we end to favor earlier choices, even if they prove faulty; countering poor results with greater commitment
- **Impression Management:** we fear that reversing an earlier decision makes us look inconsistent or flakey
- **Remedies:** disregard 'sunk costs'; focus on future benefits and costs of choices



Mitigating Motives & Emotions

- **We can't** block core motivational and emotional reflexes
- **We can** identify and label our reflexive reactions
- **By acknowledging** motivational and emotional influences, understanding their impact, and moderating their result, we can improve our decision making process



Strategic Decision Making

Unit 3

Negotiating Decisions with Others

Steven R. Van Hook, PhD

Unit 3 Guiding Questions

- **What** is an analytically rational approach to negotiations?
- **What** tactics might assist a successful negotiation?
- **How** can we further improve our negotiating powers?



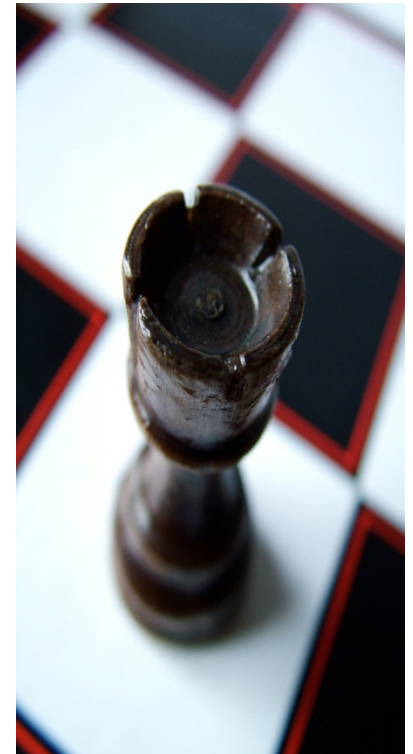
Negotiate Rationally

- **Negotiation:** Two or more people working to reach a joint decision with a wide variety of possible outcomes
- **Analytical Negotiation Issues:**
 - 1) Each party's best alternative to a negotiated agreement (BATNA) in case negotiations fail
 - 2) Each party's set of interests
 - 3) The relative importance of each party's interests



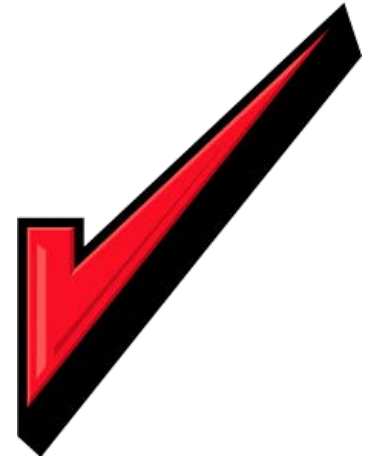
Negotiation Aspects

- **Position:** what a party demands from the other side
- **Interest:** the often unstated underlying motives behind a position. Negotiators may find creative solutions by considering others' self interests
- **If final offer is better** than the BATNA, accept it
- **If final offer is worse** than BATNA, reject it



Negotiation Tactics

- **Weigh** the relative importance of each issue (e.g., price, extras)
- **Share** information between parties of the values of different issues
- **Trade** on issues to create acceptable swaps of values
- **Ask** questions to help form wise trades
- **Strategically** disclose information incrementally as it creates opportunities



Negotiation Tactics

- **Negotiate multiple issues** simultaneously so the relative importance of each issue can be compared
- **Make multiple offers** simultaneously so the relative value of each offer can be compared
- **Search for post-settlement** settlements, reviewing the agreement for possible improvements acceptable to all parties



Improved Decision Making

- **Acquire Expertise:**
Develop rational decision-making steps and understand the biases that limit rationality
- **De-bias Your Judgment:**
 - 1) Unfreeze your ingrained thinking & bad habits
 - 2) Change your decision-making process
 - 3) Refreeze your improved processes and habits



Improved Decision Making

- **Take an Outsider's View:**
From a more removed perspective, it's easier to generalize and find similarities
- **Understand Biases in Others:**
The executive's duty is to detect, label, and deal with biases
- **Learn the Language of Logic:**
The vocabulary to articulate flaws in logic is a powerful tool



