Organizational Decision Making

All decisions are about finding and choosing courses of action in order to attain some goals.

How difficult a decision is depends on:
• How clear the goals are
• How well we know about alternatives to achieve those goals.

Rational mode
• Goal-directed
• Guided by rules, routines and performance programs

Political mode
• Conflicting goals, interests
• Certainty about preferred approach and outcomes

Process mode
• Goal-directed
• Multiple options and alternative solutions

Anarchy mode
• Goals are ambiguous
• Processes to reach goals are unclear
In the light of BR, organizations reduce the uncertainty and complexity of DM by specifying **Decision Premises**.
Decision Premises

- **Value Premises**
  Define desirable attributes and outcomes of good alternatives

- **Factual Premises**
  Define facts that are relevant and that need to be established

Boundedly Rational Model (2)

Bounded Rationality

- Values
- Information
- Cognition

Boundedly Rational Model (3)

Decision Premises

Bounded Rationality

- Values
- Information
- Cognition

Decision Routines

- Performance Programs
- Simplified Search
- Satisficing
Individuals are limited in their capacity to behave rationally.

Organizations define **DECISION PREMISES** that reduce uncertainty and complexity of the decision problem.

Decision premises are embedded in **DECISION ROUTINES** that serve as performance programs for decision making.

These premises and routines together constitute a set of **RULES for decision making**.

Organizations pursue a form of **GOAL-DIRECTED, RULE-BASED DM**.

A DM process is “rational” when it is directed at goal attainment and when it follows rules and routines that implement the organization’s logic and value preferences for making “rational” decisions.
Bounded Rationality: Rule-Based Decision Making

Value Premises: Preference Rules
Preferences, Goals

Factual Premises: Attention Rules
Information Needs

Decision Routines:
Search + Selection Rules
Performance Programs
Search + Choice

Search Rules:
• Search is simplified, satisficing, rule-based
• Search is hierarchical: memory → passive → trap → active search

Selection Rules:
• Who gets to decide
• What information to attend to
• What evaluation criteria to apply

Decisions, Actions
Bounded Rationality: Technology Purchasing Decision

Value Premises
- Dependable vendor
- Flexible, interoperable solutions

Factual Premises
- Vendor position, user base
- Technology trends, standards

Decision Routines
- Search is trap generated → call for proposals
- Search is rule-based, procedural, satisfying

Decisions, Offers
- Request for Proposal
- Tender, documentation
- Evaluation committee
- Selection procedure
- WHO? Appointed committee decides
- HOW? Choose bid using predefined evaluation criteria and information

Technology Purchasing Example: Organizational Learning when rules break down?

Value Premises/Preference Rules
- Dependable vendor
- Flexible, interoperable solutions

Factual Premises/Attention Rules
- Vendor position, user base
- Technology trends, standards

Decision Routines/Search+ Selection Rules
- RFP
- Tender, documentation
- Evaluation committee
- Selection procedure

Are preferences in conflict?
Has the environment changed?
Are we successful in finding solutions?

Decisions, Offers
Bounded Rationality: FI Admissions Application Worksheet

Value Premises

What information about the applicant is being collected?
What do they indicate about the decision premises (i.e., value and factual premises) guiding the admissions process?

Factual Premises

Decision Routines

Do you see principles of the Bounded Rationality model influencing the admissions process?
Do you see examples of "satisficing," simplified search, or "performance program" at work?

Decisions, Actions