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# Decision Making and Creativity

# Decision Making Blunders at JCPenney



Ron Johnson (shown) and his executive team at JCPenney made a series of decision blunders due to their overconfident diagnosis of the retailer's problems and preconceived (Apple-centric) solutions to those problems.

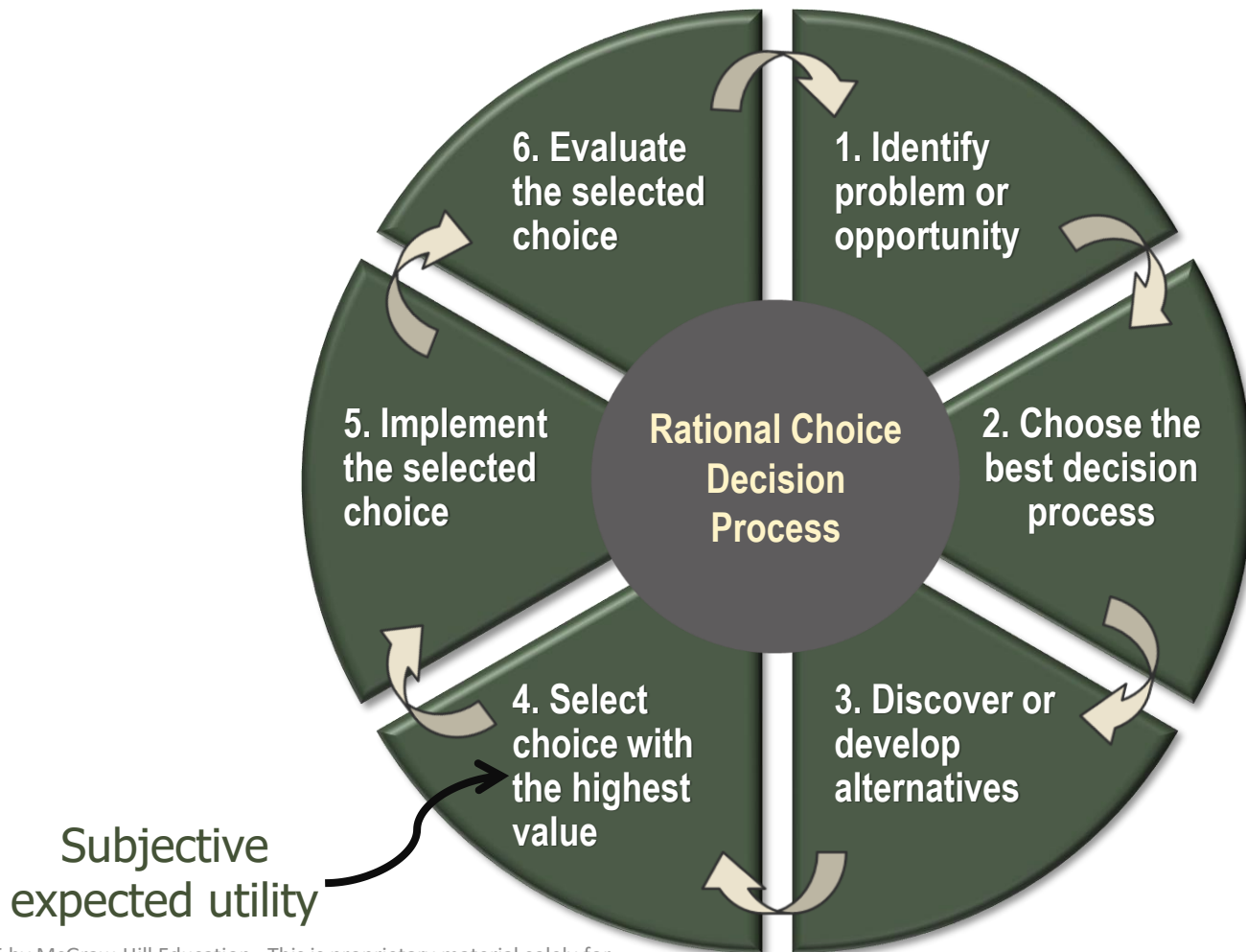


# Rational Choice Paradigm

- View that effective decision makers identify, select, and apply the best possible alternative
- Two main elements of rational choice
  1. Subjective expected utility –determines choice with highest value (maximization)
  2. Decision making process – systematic stages of decision making



# Rational Choice Decision-making Process



# Problem Identification Challenges

- Problems/opportunities are constructed from ambiguous information, not “given” to us
- Influenced by cognitive and emotional biases
- Five problem identification challenges
  - Stakeholder framing
  - Decisive leadership
  - Solution-focused problems
  - Perceptual defense
  - Mental models

# Identifying Problems Effectively



- Be aware of perceptual and diagnostic limitations
- Fight against pressure to look decisive
- Maintain “divine discontent” (aversion to complacency)
- Discuss the situation with colleagues -- see different perspectives

# Making Choices: Rational vs OB Observations



## Rational Choice Paradigm Assumptions

Goals are clear, compatible, and agreed upon

People are able to calculate all alternatives and their outcomes

People evaluate all alternatives simultaneously

## Observations from Organizational Behavior

Goals are ambiguous, conflicting, and lack agreement

People have limited information processing abilities

People evaluate alternatives sequentially

# Making Choices: Rational vs OB Observations (con't)

## Rational Choice Paradigm Assumptions

People use absolute standards to evaluate alternatives

People make choices using factual information

People choose the alternative with the highest payoff (SEU)

## Observations from Organizational Behavior

People evaluate alternatives against an implicit favorite

People make choices using perceptually distorted information

People choose the alternative that is good enough (satisfice)



# Biased Decision Heuristics



- Anchoring and adjustment
  - We are anchored by and don't move far from an initial anchor point (e.g. opening bid)
- Availability heuristic
  - we estimate probabilities by how easy we can recall the event, even though other factors influence ease of recall
- Representativeness heuristic
  - we estimate probability of something by its similarity to something known rather than by more precise statistics

# Problems with Maximization



- People don't try to select choice with highest value (maximization) because:
  - Alternatives appear sequentially, not all at once
  - People lack motivation/ability to process volumes of information
- How decision makers respond to maximization problems
  - Satisficing – choose first “good enough” alternative
  - Oversimplifying decision calculations (e.g. few evaluation criteria)
  - Avoiding the decision

Courtesy of Microsoft

# Emotions and Making Choices



- Emotions form preferences before we consciously evaluate those choices
- Moods and emotions influence how well we follow the decision process
- We ‘listen in’ on our emotions and use that information to make choices

# Intuitive Decision Making



- Ability to know when a problem or opportunity exists and select the best course of action without conscious reasoning
- Intuition as emotional experience
  - Gut feelings are emotional signals
  - Not all emotional signals are intuition
- Intuition as rapid nonconscious analysis
  - Uses action scripts

# Choosing Alternatives Better



1. Systematically evaluate alternatives against relevant factors
2. Be aware of effects of emotions on decision preferences and evaluation process
3. Scenario planning

# Decision Evaluation Problems

- Confirmation bias
  - Inflate quality of the selected option; forget or downplay rejected alternatives
  
- Escalation of commitment -- repeating or further investing in an apparently bad decision
  - Caused by
    - self-justification effect
    - self-enhancement effect
    - prospect theory effect
    - sunk costs effect

# Evaluating Decisions Better



1. Separate decision choosers from evaluators
2. Establish a preset level to abandon the project
3. Find sources of systematic and clear feedback
4. Involve several people in the evaluation process

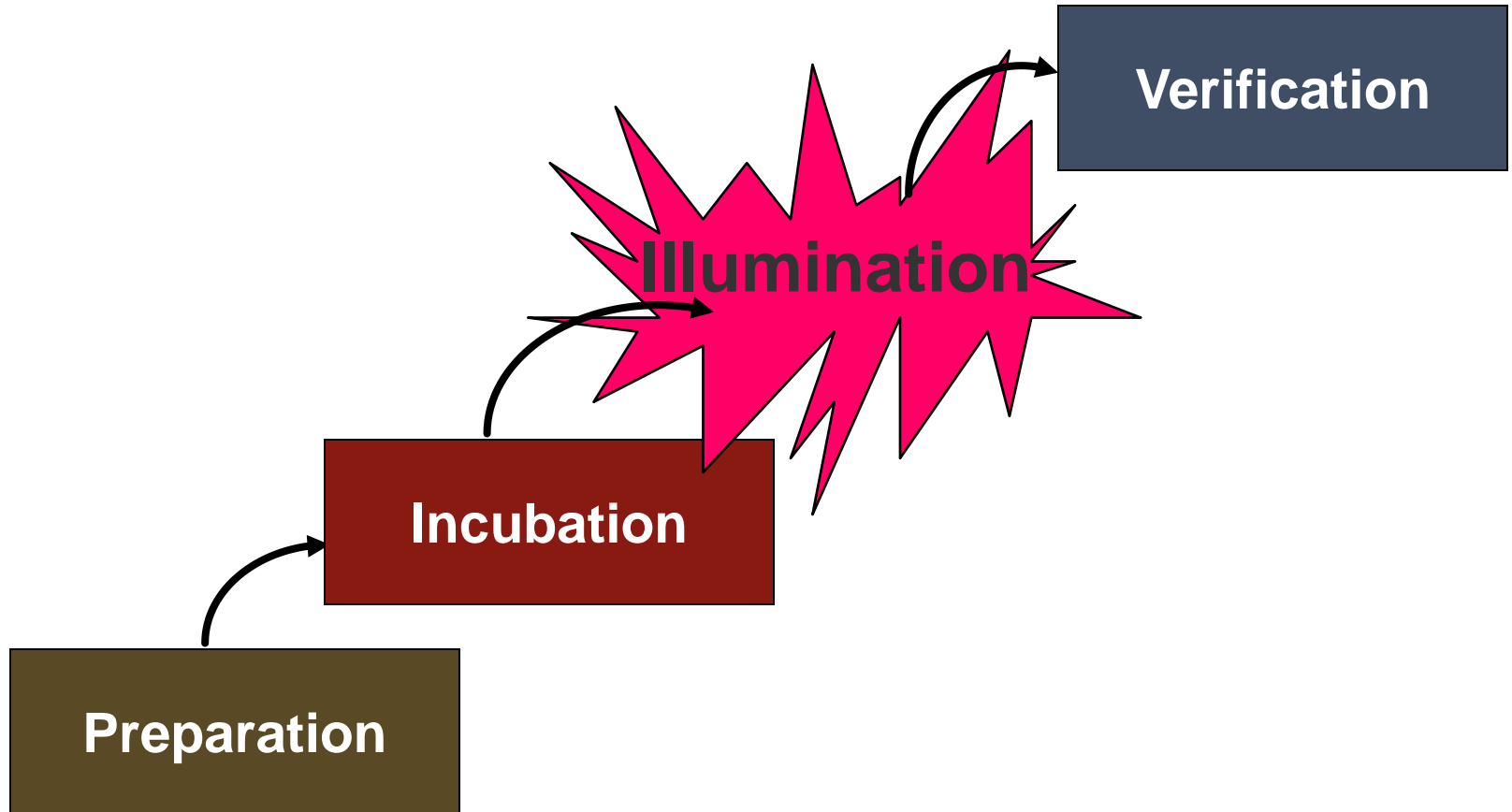
# Tangible Creativity

Alex Beim, founder and chief creative technologist of Tangible Interaction Design in Vancouver, Canada, relies on creative thinking to invent enticing interactive displays, such as the zygotes at the Olympic Games.





# Creative Process Model

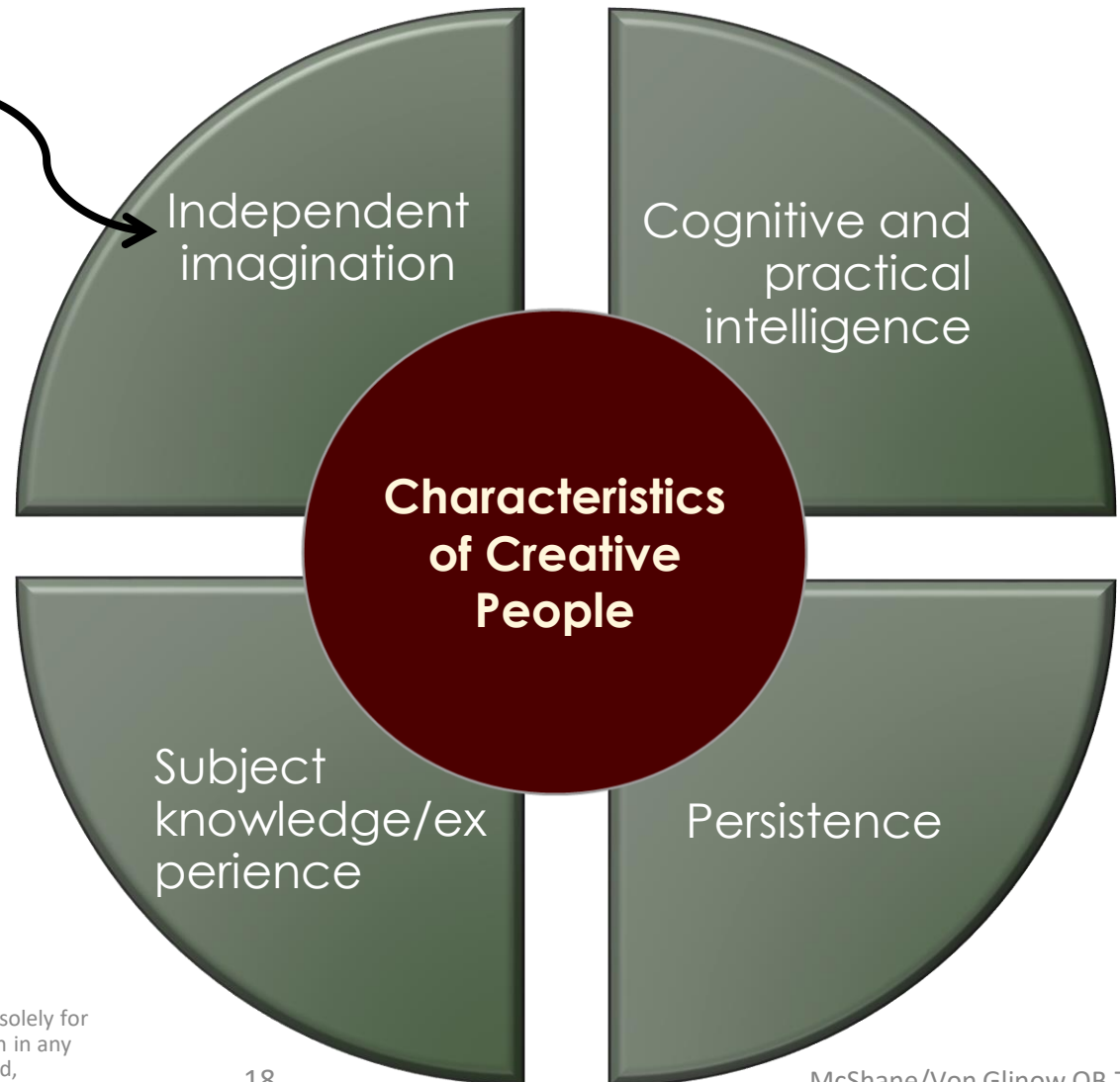


# Characteristics of Creative People



Independent imagination includes:

- Higher openness to experience personality
- Lower need for affiliation motivation
- Higher self-direction/stimulation values



# Creative Work Environments



- Learning orientation
  - Encourage experimentation
  - Tolerate mistakes
- Intrinsically motivating work
  - Task significance, autonomy, feedback
- Open communication and sufficient resources
- Unclear/complex effects of team competition and time pressure on creativity

# Creative Activities

## Redefine the Problem

- Revisit abandoned projects
- Explore issue with other people

## Associative Play

- Storytelling
- Artistic activities
- Morphological analysis

## Cross- Pollination

- Diverse teams
- Information sessions
- Internal tradeshows

# Brasilata, The Ideas Company

Brasilata has become one of the most innovative and productive manufacturing businesses in Brazil by involving employees in company decisions.

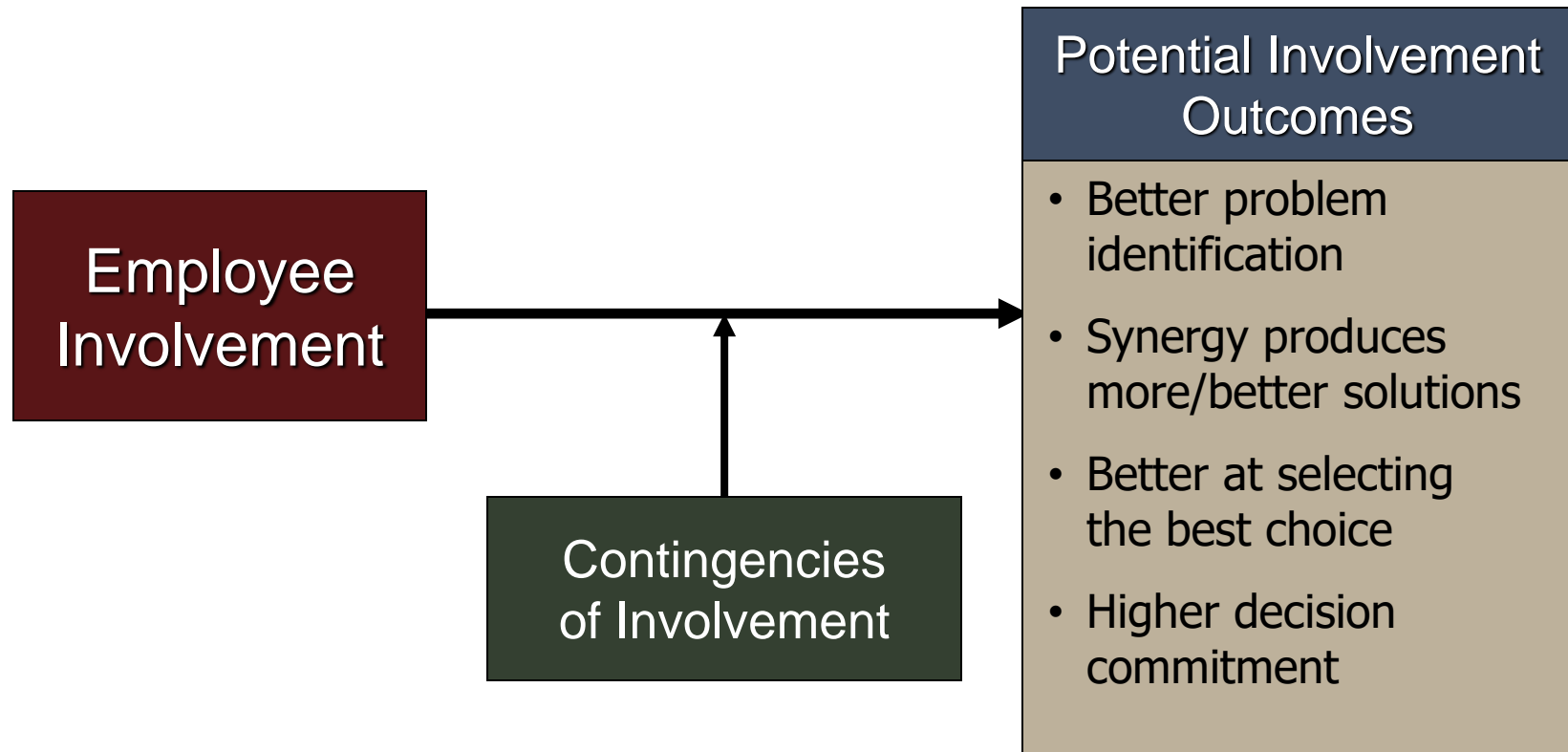


# Levels of Employee Involvement



- **High:** Employees responsible for entire decision-making process
- **Medium-High:** Employees hear problem, then collectively develop recommendations
- **Medium-Low:** Employees hear problem individually or collectively, then asked for information relating to that problem
- **Low:** Employees individually asked for specific information but the problem is not described to them

# Employee Involvement Model




# Contingencies of Involvement

Higher employee involvement is better when:

Decision Structure	<ul style="list-style-type: none"><li>• Problem is new &amp; complex (i.e nonprogrammed decision)</li></ul>
Knowledge Source	<ul style="list-style-type: none"><li>• Employees have relevant knowledge beyond leader</li></ul>
Decision Commitment	<ul style="list-style-type: none"><li>• Employees would lack commitment unless involved</li></ul>
Risk of Conflict	<ol style="list-style-type: none"><li>1. Norms support firm's goals</li><li>2. Employee agreement likely</li></ol>





The following exhibit on subjective expected utility (SEU) is not presented in the book

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# Decision Making and Creativity

# Subjective Expected Utility

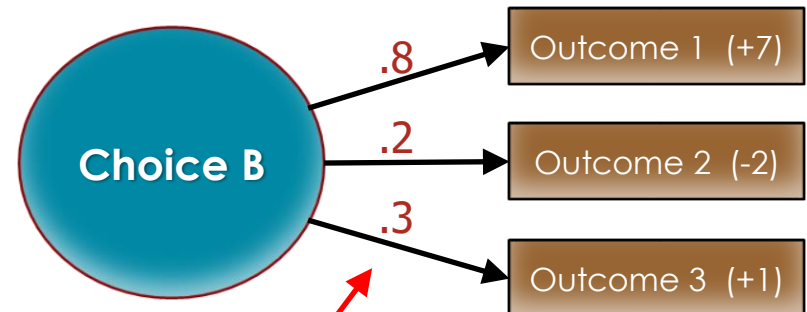
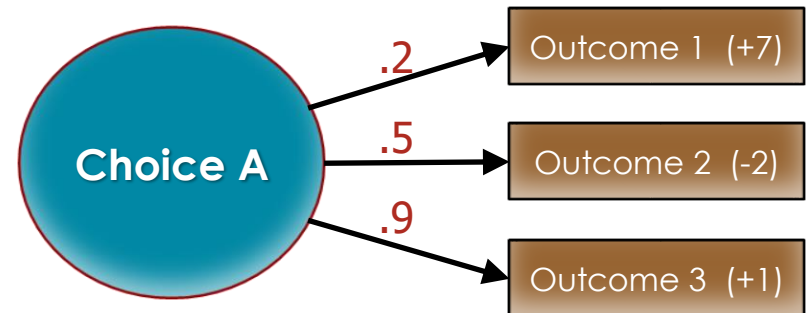
Estimating the best possible alternative (maximization)

Expected -- probability of an outcome occurring

- e.g., Chance that outcome 3 will occur is 90% if choice 'A' is chosen, 30% if choice 'B' is chosen

Utility -- Value or happiness produced by each option from value of expected outcomes

- Choice 'B' has higher utility (value) than choice 'A'
- Choice 'B' expected utility is  $(.8 \times 7) + (.2 \times -2) + (.3 \times 1) = 6.4$



Probability of outcome occurring

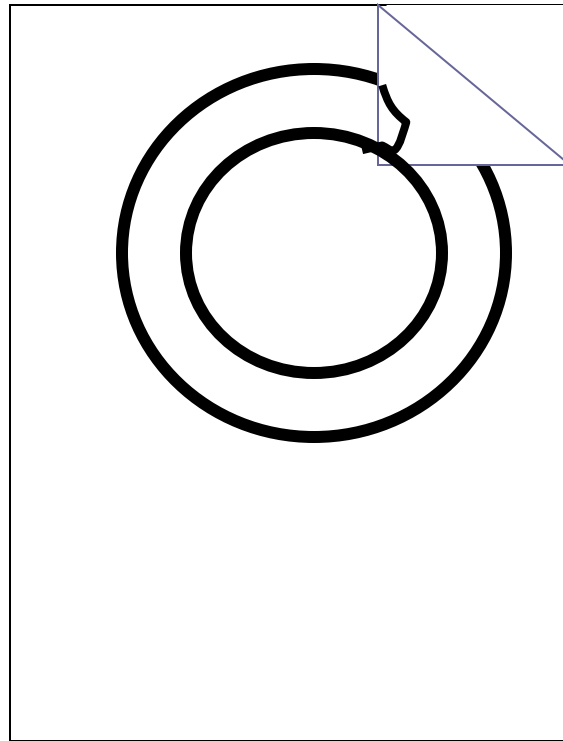
Utility (expected happiness)



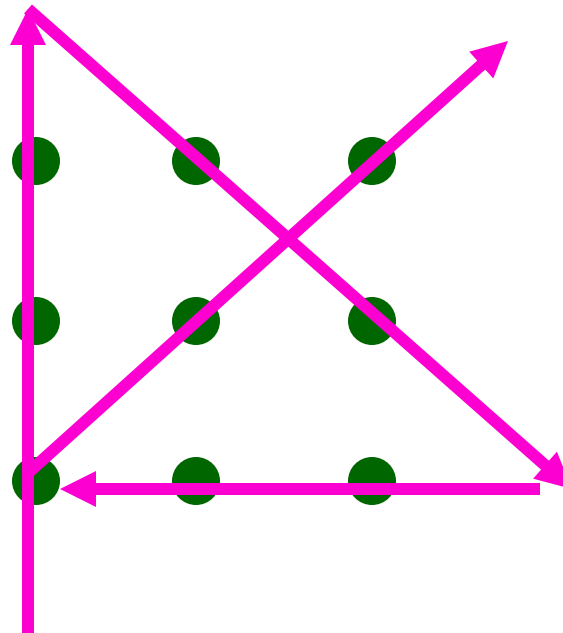
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## Solutions to Creativity Brainbusters Exercise

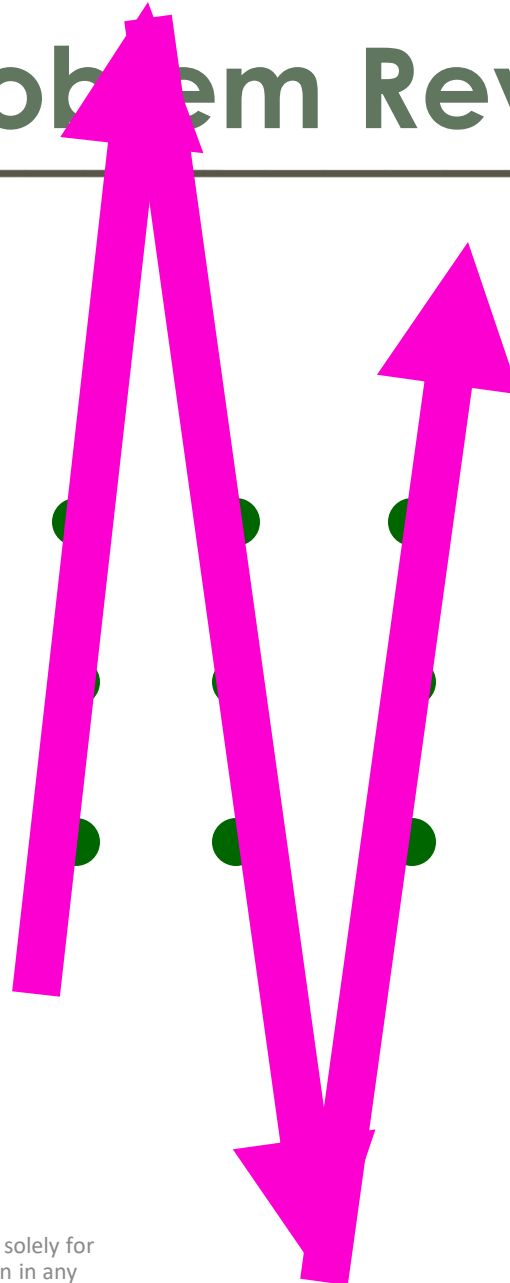
# Double Circle Problem



# Nine Dot Problem



# Nine Dot Problem Revisited



# Word Search

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C R      E A T      I V E      E

# Burning Ropes



After first rope burned  
i.e. 30 min.



## One Hour to Burn Completely