Judgment in Managerial Decision Making 8e

Chapter 12
Improving Decision Making
Strategies for Better Decisions

- Use decision-analysis tools
- Acquire expertise
- Debias your judgment
- Reason analogically
- Take an outsider’s view
- Understand others’ biases
- Urge others to improve decisions
Use Decision-Analysis Tools

• Linear models
  – What are they?
  – Why they help decisions
  – Why we resist them
• Improving admissions decisions
• Improving hiring decisions
Acquire Expertise

- Most studies use inexperienced undergraduates
- Experience allows for feedback
- Difficulties in learning from feedback
  - Accurate and immediate feedback rare
  - Misremembering of forecasts
- Acquiring expertise
Debias Your Judgment

• Strategies for reducing bias
  – Consider the opposite
  – Make decisions in groups
  – Training in statistical reasoning
  – Make people accountable
• Unfreezing
• Change
• Refreezing
Reason Analogically

- Abstract commonalities from situations
- Understand key situational differences
- Learn concepts with diverse training
Take an Outsider’s View

• Insider view versus outsider view
  – Overprecision
  – Optimistic estimates of project completion
  – Entrepreneurs overestimating probability of success

• Outsiders make better decisions

• Ask for outsider advice
Understand Biases in Others

- Select a comparison group
- Assess the comparison group’s distribution
- Incorporate intuitive estimation
- Assess the decision’s predictions
- Adjust the intuitive estimate

\[
\text{adjusted estimate} = \text{group mean} + \text{correlation} \times (\text{initial estimate} - \text{group mean})
\]
Nudge Wider Decisions

• Organ donations
• Increasing contributions to 401(k) plans
• Jointly evaluating employees
Conclusion

• Refreeze your new decision-making strategies
• Understand the decisions of others
• Reward good decisions, not results