



Strategic Decision Making

How you decide shapes *what* you decide.

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What is a decision?

- The **determination of an issue** or matter that needs to be resolved (e.g. choosing a bidder to receive a contract).
- A decision involves some **degree of finality**, though some decisions are frequently revisited (e.g. every year the state passes or amends its budget).
- Some decisions cannot practicably be revisited (once a contract is awarded and work starts; the death penalty, once “executed” that’s it).
- But, important decisions may not be “final”.



What some important decisions are involved in procurement?

- What service or good is being sought?
- What are the specifications for the service or good?
- Must the contract be bid competitively?
- Does the RFP achieve its objectives?
- Which bid do we accept?
- *What do you think are important decisions?*
- Examples ...



How do you make important procurement decisions?

- Apply my knowledge of laws and regulations.
- Apply my personal experience.
- Apply my knowledge of the bidders.
- Listen to my “gut”.
- Other. How do you make important decisions?
- Examples ...

Selected models of decision-making

Decisions are made in many different ways. Here are some common “models” of decision making.

- “Elite” model – the boss decides; we follow.
- “Group” model – a team decides.
- The “rational” model – weigh costs and benefits and chose outcome that maximizes benefits.
- “Incrementalism” – small tweaks to big decisions (the state budget) made in the past.
- “Game” theory model – “practice” reality.
- “Public choice” model – self interest reigns.



“Elite model”: the boss decides; we follow

• Pros

- History shows this model reflects reality
- Speed is possible
- A good leader often means good decisions
- Unity of command
- Other?

• Cons

- We live in a more inclusive world
- “Speed kills”
- A bad leader often means bad decisions
- Lack of buy-in
- Other?

The “group” model: “Go Team, Go!”

• Pros

- Diverse views heard
- Representative
- Buy-in of team
- Deliberate
- Groups can be flexible
- Spreads the fame

• Cons

- Too much information
- How ‘bout that Congress?
- Only “winners” buy in
- Too time consuming
- Groups are stacked to get wanted answer
- Spreads the blame

Mustang

- On the sheet provided, write down the name of every car model that you can think of that begins with the name of an animal, e.g. a Ford “Mustang”
- Do not consult with anyone else.
- Read your responses.
- Conclusions?

The “Rational” Model – Procurement?

• Pros

- Fair
- Defensible
- All costs are calculated, included
- All benefits are calculated, included
- Balances costs and benefits

• Cons

- “Fair” is subjective
- CYA?
- Are costs inclusive? Dollars or consequences?
- Benefits often require assumptions.
- Some costs and benefits may not be known for years



Buying a House: Comparisons

- Cape Code
 - This is an attractive house in the city and you like city living, but you're concerned about schools (2 kids) and a small yard.
 - You give this house a 66 on a 100 point scale.
- Rancher
 - This is a very functional house in a great school division. You like that it's on one level.
 - You give this house a 75 rating.
 - It's the winner, right?

In every class, a majority of my students have changed their “rational” decision. To what?



The “Incremental” Model: aka “the science of muddling through”

• Pros

- Most decisions are made this way
- Builds on past knowledge
- Tried and true
- This is derivative of “bounded rationalism”

• Cons

- Most decisions may not be optimal or even good
- Builds on past mistakes
- Tired and unproven
- Bounded rationalism can stifle innovation

“Game Theory” (Assumes Rational Actors)

• Pros

- Game theory is interactive
- Computer modeling increasingly powerful
- “Sequential” games (chess) can model simple decisions
- “Simultaneous decisions” (football) are hard to model

• Cons

- Game theory also rests on assumptions
- Reality still can't be captured by models
- Reality rarely plays out sequentially
- Simultaneous decisions don't always involve rational actors

Public Choice Theory (Looking out for yourself)

- The U.S. Constitution assumed “interests” would protect themselves
- Does not assume selfless statesmanship
- A reflection of market-based thinking
- Checks and balances are designed to reign in interests
- Some view this as a - cynical view (is re-election all that matters?)
- Aren't there higher motives?



All decisions have “traps”

- Anchoring trap (we stick with first info)
- Status-quo trap (stick with what we know)
- Sunk cost trap (good money after bad)
- Confirming evidence trap (we see what we want to see and discount contradictory info)
- Framing trap (solution is to misstated problem)
- Overconfidence trap (overestimate our answer)
- Prudence trap (over-cautiousness)
- Recallability trap (recent events are overvalued)

So what is a good decision?

- One that works, if we're lucky.
- Decision making is not a science.
- David Brooks: “Decision-making – whether it is taking out a loan or deciding whom to marry – isn’t a coldly rational, self-conscious act. Instead, decision-making is a long chain of processes, most of which happen beneath the level of awareness. We absorb a way of perceiving the world from parents and neighbors. We mimic the behavior around us. Only at the end of the process is there self-conscious oversight.”
- Maybe we know it if we see it.

Questions and
comments?



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