

Research
Based
Curricula



**Decision Making in
Business**

Key Stage 5

Business Studies

Resource 2

2019



Resource Two Overview



Topic	Individual Decisions in Organisations
A-Level Modules	Understanding management, leadership and decision making
Objectives	By the end of this resource, you will be able to: <ul style="list-style-type: none">✓ Demonstrate an understanding of how decisions are made in organisations;✓ Critically assess the quality of decisions taken;✓ Show awareness of the ethical dilemmas and responsibilities faced by organisations and individuals.
Instructions	<ol style="list-style-type: none">1. Read the data source2. Complete the activities3. Explore the further reading



Resource Two

Data Source



The simplest way to produce decisions is to ask someone about their opinion on the subject. For example, you make decisions every day such as: what you are going to wear to go outside in the morning or what you are going to have for breakfast and so on. The same procedure is required in many business questions: what and when to hire a new employee, what product to put on sale next month or what credit to take. Of course, all these tasks could be done either by an individual or by a group of people, but an individual decision is more time effective and cheaper than the decisions made by groups of experts. In this part, we will focus on single expert decisions in the organisational context.

Individual decisions are particularly vulnerable to various biases and heuristics that are hard to control. For instance, if a person who makes decisions happens to be a manager, then these decisions might reflect their wishful thinking and aim that they want to achieve. But this is only a tip of the iceberg.

Let's think what other problems that we might have with individual decisions. Imagine that we are in a company that produces and sells vacuum cleaners. First, a human bias will depend on the role of a decision-maker in the organisation. For example, as a salesman, you would underestimate your demand, so you get a bonus with lower targets. The marketing department would most probably go for overestimation of the demand to make sure of supplies. But the production is interested in producing less since they will hold a cost of unsold products. So every step in the process of producing and selling a product we may uncover many potential risks and personal interests in decision making. In other words, corporate politics which is frequently found in all aspects of a business process influences the decisions made in the organisations.

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Data Source



The other well-known issue with human judgment is "pattern matching". It means that people often look for patterns trying to find similarities in the randomness. In general, you have to be careful with past information since many things usually happen due to a chance (randomly) and there is no particular reason explaining for this. That's the reason why statistical methods often perform better than humans – the algorithms do not overcomplicate things and do not have subjectivity.

According to Tetlock (2005), the analysis of around 300 experts and 80 thousand political forecasts showed that individual political forecasts were performing worse than group (consensus) forecasts. Moreover, the experts' predictions were not as accurate as mathematical algorithms with economic and social inputs. However, there were two distinct groups of experts, one ("foxes") performing better than the other ("hedgehogs"). The first group was more flexible and reactive to the upcoming information and was willing to accept mistakes in the past, while the other did the opposite. The best description of these "foxes" was given in the book "Superforecasting: The Art and Science of Prediction" as "cautious, humble, openminded and analytical". These people overcome some of the biases and heuristics that have been covered in Resource 1, which is extremely useful and important.



Resource Two Activities



Activities 1

1. How would you explain individual decision making? Can you give at least two examples from your life?
2. How would you control personal biases as a manager? What kind of information would you use for making your decisions?
3. Who is "a fox" according to Tetlock (2005)?
4. Can you explain why "foxes" performed better than "hedgehogs"?
5. What conclusions can you draw from this part for your own decisions?

2

Can you list at least three pros and cons in a table below for single expert decisions?

Advantages	Disadvantages



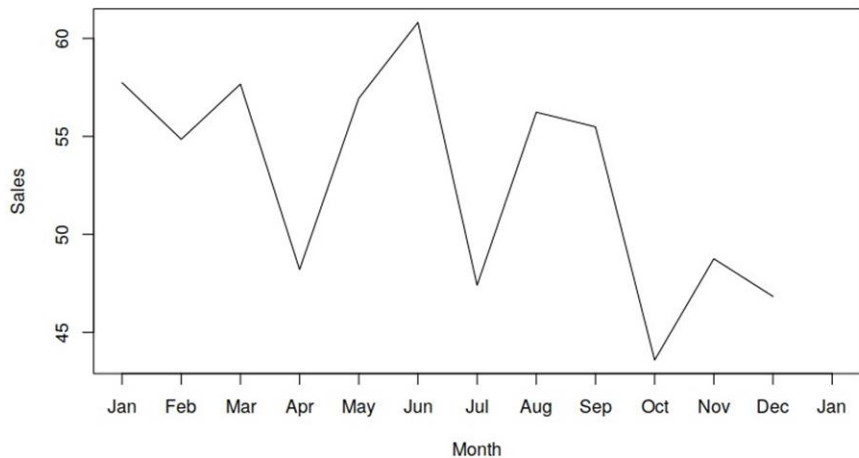
Resource Two

Activities



Activities 3

Imagine that you are a forecaster for Sainsbury's supermarket in your town. You need to decide how many boxes of Pringles BBQ your customers will buy in the next month. You are provided with the historical sales of crisps on the graph below, where the months are shown on x-axis and sales are shown on the y-axis. So, for example, you can say that you have sold more than 60 units in June this year. Now try to analyse the graph below and put down your estimation for January (the last missing point on a graph).



What is your estimation for the next January (approximately)? _____

Why? What information might help you to produce better forecast?

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Further Reading



Explore Tetlock, P.E. (2005). *Expert Political Judgment: How Good Is It? How Can We Know?* Princeton, NJ: Princeton University Press.

Tetlock, P., and Gardner, D. (2016). *Superforecasting: The Art and Science of Prediction*. Random House.

[Predicting the Future: A lecture by Phillip Tetlock \(2015\)](#)

[Talks at Google, Phillip Tetlock \(2008\)](#)



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