

Managerial Decision Making - when values take over rational economical thought

Case duration (Min):	45-60
Principles of Management (PoM)	
Organizational Behaviour (OB)	
Managerial decision making	
Organization change	

Worldwide

Case summary:

This case describes a challenging strategic decision about downsizing in Southwest Airlines. On the one hand, the company must reduce costs (after all, it is a low cost airline) and is presented an opportunity to do so as a result of the success of its e-commerce initiatives whilst on the other hand, the company is committed to provide its employees with a stable work environment and has a culture of job security and treating employees well.

Learning objectives:

Apply the rational model of decision making and contrast it with other models.

Identify and classify types of organizational decision.

Explain how decision maker characteristics impact upon decision making within organizations.

Case problem:

Decisions about whether, when and how to downsize (restructure).

Air Delivery & Freight Services

Company

Southwest Airlines

www.southwest.com/

Southwest Airlines Co. ("Southwest") is a major domestic airline that provides primarily short haul, high-frequency, point-to-point, low-fare service. Founded in 1971 and headquartered in the US, Southwest is a large low-cost airline. Airlines rely on key inputs such as aircraft, fuel and labour in order to operate. Like any airline it is sensitive to jet fuel prices and other operating costs. FORTUNE has listed Southwest Airlines among America's Top Ten most admired corporations and previously ranked Southwest Airlines in the top five of the "Best Companies to Work For" in America. Today Southwest operates over 500 Boeing 737 aircraft in 66 cities. Southwest has among the lowest cost structures in the domestic airline industry and consistently offers the lowest and simplest fares. Southwest also has one of the best overall Customer Service records. The company is committed to provide its employees with a stable work environment with equal opportunity for learning and personal growth; there are more than 35,000 employees throughout the Southwest system. The airline is unionized (heavily unionized when compared with other US airlines). In 1995, Southwest became one of the first airlines to have a web site. In 2006, 70 percent of flight bookings and 73 percent of revenue was generated from bookings on southwest.com.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type	URL/ Media description
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A Tough Call in the Call Centres.

http://feedroom.businessweek.com/?fr_story=16f090656f747fce5547f89f283dd539b3cbf12b&rf=bm

Film

Ex-Southwest CEO, Parker on downsizing.

After providing customers with the opportunity to book tickets online, Southwest Airlines found it then had too many call centre agents. Former CEO James Parker, discusses how he decided to downsize.

Rational economic arguments for change are considered alongside value based arguments to continue the status quo.

NOTES:

Case study questions...

Action	Pre/During/After class
1 DECISION MAKING. Discuss what is meant by the term 'decision making'. Identify types of business decision and classify the decision discussed within this case study.	During
2 DECISION MODELS. A variety of models and processes have been offered to suggest ideally how people should or describe how they actually do make decisions. Some writers discuss rational, bounded rational and intuitive or value-based models. Describe and discuss the models.	During
3 DECISION MAKING PROCESS WITHIN THIS CASE STUDY. Discuss the decision making process in this case study: was it rational, bounded rational, intuitive, subjective/value based?	During
4 YOUR DECISION. List/ summarise the factors influencing the decision at Southwest Airlines: what would your decision have been?	During

Answers...

DECISION

commitment of resources

DECISION ALTERNATIVES

the choices that the decision maker can make

DECISION BEHAVIOUR.

Describes the way in which people make decisions.

DECISION MAKING

a process of making choices from among several options.

DECISION RISK

choices/ alternatives may result in outcome variance

DECISION VARIABLES

Within the context of optimization modeling, those variables that will be manipulated to find the best solution.

DECISIONAL ROLES

Mintzberg's classification for managerial roles where managers initiate activities, handle disturbances, allocate resources, and negotiate conflicts.

RATIONAL DECISIONS

refer to choices based on rationality, that is, on a rational mode of thinking.

VALUE

a broad tendency to prefer certain states of affairs over others

STRUCTURED DECISIONS

Decisions that are repetitive, routine, and have a definite procedure for handling them.

UNSTRUCTURED DECISIONS

Nonroutine decisions in which the decision maker must provide judgment, evaluation, and insights into the problem definition; there is no agreed-upon procedure for making such decisions.

SEMI STRUCTURED DECISIONS

Decisions where only part of the problem has a clear-cut answer provided by an accepted procedure.

Question/ Answer

1 Decision making.

Discuss what is meant by the term 'decision making'. Identify types of business decision and classify the decision discussed within this case study.

Decision making is the process of making choices from amongst several options. Decisions are made at all organizational levels – from strategic to operational. Decisions may be classified or categorised in many ways such as by the organisational level and the degree of structure to the decision i.e. repetitive, routine, and require judgments. Some decisions are semi structured - in such cases, only part of the problem has a clear-cut answer, provided by an accepted procedure. Decisions (selecting the right action from a series of choices) can be structured (decision rules are known) or unstructured (not known – highly uncertain/ ambiguous situations) and may be made/ taken at a variety of levels (operational/ tactical/ strategic) within the organization. In the case of structured decision making the organization may formulate decision/ business rules specifying what action is required in a given situation. OPERATIONAL DECISIONS tend to be structured, frequent with more certainty, often relying on data/ information from within the organization. STRATEGIC DECISIONS on the other hand are unstructured, made less frequently and may use more information sourced from outside the organization. In this case the decision is strategic, non-routine, semi structured, with no clear cut answer.

2 Decision models.

A variety of models and processes have been offered to suggest ideally how people should or describe how they actually do make decisions. Some writers discuss rational, bounded rational and intuitive or value-based models. Describe and discuss the models.

A variety of models and processes have been offered to suggest ideally how people should or describe how they actually do make decisions. Some writers discuss rational models where decision makers adopt VALUE MAXIMISING CALCULATIONS and pursue alternatives that best meet organisational goals, whilst other writers recognise real-world situation and cognitive decision maker constraints where rationality may be bounded. The rational model (problem structuring, search for alternatives, gather data about alternatives, evaluate alternatives and select, implement and monitor), has a number of inherent weaknesses. For example, it is rarely possible to consider all alternatives since there are too many and some alternatives will not have occurred to the decision maker. It may be impractical to consider all consequences and accurate information may not be available; furthermore generated or purchased information has a cost. Consequently decisions are often made on incomplete, insufficient and only partially accurate information. Finally decision makers as individuals may lack the mental capacity to store and process all the information relevant to a decision and frequently lack the mental ability to perform the mental calculations required. DESCRIPTIVE MODELS of decision-making investigate how individuals actually make decisions. Each decision made by an individual or group is affected by a number of factors. These include: individual personality and values, group relationships, organizational power relationships and political behaviour, external environmental pressures, organisation strategic considerations and information availability (or lack of). Bounded rationality refers to individuals making decisions by constructing simplified models which extract the essential features from problems without capturing all their complexity. Research suggests that decisions may be subject to bias (prejudiced predisposition or a systematic distortion caused by the application of heuristics - simple rules used to solve problems). With turbulent environments there is greater uncertainty and a lack of information available for decision-making. Consequently rational decision-making may be seen as more appropriate in a stable environment whereas intuitive and subjective decision-making may dominate in turbulent environments. A similar issue concerns the programmability of decisions. Routine decisions are made according to established procedures and rules whereas adaptive decisions require human judgement.

3 Decision making process within this case study.

Discuss the decision making process in this case study: was it rational, bounded rational, intuitive, subjective/value based?

Answer: some combination of all – rational consideration of costs, balanced with a value-based need not to deviate from custom (culture of job security).

CHOICE

Simon's third stage of decision making, when the individual selects among the various solution alternatives.

PROBLEM DEFINITION

The process of uncovering the nature and boundaries of a situation or question

4 Your decision.

List/ summarise the factors influencing the decision at Southwest Airlines: what would your decision have been?

Cost argument: Online bookings effectively disintermediate the call centre and reduce the need for HR; excess HR are an unnecessary cost

Strategy Argument: southwest is a large low-cost airline. Airlines rely on key inputs such as aircraft, fuel and labour in order to operate. Like any airline it is sensitive to jet fuel prices and other operating costs.

Culture argument: An established practice of job security

Students may also consider the choices

- Do nothing

- Forced redundancies and closure of X call centres/ forced relocations

- Voluntary (incentivised but potentially costly) or no redundancy and natural attrition and/or voluntary relocation

Case study references

Albright, S., Winston, W. and Zappe, C. (2006) 'Data Analysis & Decision Making - with Microsoft Excel', Ed. 3. South Western.

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.