The Nature of Organizational Decision Making

Because organizations are made up of people, the basic psychological processes that guide much individual decision making also apply to organizational decisions. What differs is the context, which tends to be much more complicated for organizational decisions. In These Web Notes, we compare problem recognition in organizations to consumer problem recognition. However, before we turn to that material, we should begin by comparing the overall approaches people take to purchase decisions when they act on their own behalf as consumers versus when they act on behalf of an organization.

Characteristics of Organizational versus Consumer Purchases

As noted above, the context of organizational purchases tends to be more complicated than consumer purchases. An obvious but important reason is because the purchases themselves frequently differ in significant ways. Here we briefly examine a few of those differences.

Larger purchases. In general, organizations make larger average purchases than consumers, both in terms of dollar value and overall quantity. This fact, however, carries with it a small caveat. Approximately 75% of all currently registered U.S. business firms operate as micro sole proprietorships with no payroll. Though technically licensed businesses, these tiny concerns frequently operate from the owners’ homes and are often not the owners’ primary source of income. Therefore, we do not include them as “organizations” in our discussion of organizational decision making. Indeed, the Census Bureau reports that these micro businesses account for less than 4% of total business receipts. As a result, governments rarely include them in reports on economic activity.

Beyond these “micro-businesses,” more substantial organizations, including normally sized small businesses, frequently make purchases that by consumer standards would be huge. From inventories to raw materials, from insurance to real estate, these organizations spend many times what even wealthy consumers might spend. And beyond small businesses, purchases made by medium sized and large organizations dwarf those of average consumers.

Riskier purchases. Because of their sheer size, organizational purchases carry greater risk than consumer purchases. The costs of a poor purchase decision can be very high. Moreover, these costs can extend well beyond that of the errant purchase itself. For example, organizations may be vulnerable to legal liability for unsafe or ineffective products. Additionally, poor purchase decisions can also damage organizations’ reputations among key constituencies, especially their customers.

Because they may have so much to lose from poor purchase decisions,
organizations tend to be more risk averse than consumers. Consequently, organizations frequently put in place procedures to help control this risk. These procedures may range from simply maintaining a detailed paper trail to planning and conducting statistically based formal risk assessments.

More complex purchases. For most consumers, homes are the largest and most complex purchases they make. Organizations, on the other hand, routinely make purchases of much greater complexity. This complexity extends not only to the actual products being purchased but also the details of the transactions.

With respect to the products purchased by organizations, the potential complexity should be obvious. Organizations may purchase extremely complex products such as aircraft, office buildings, even satellites. Developing the specifications for these purchases may require considerable resources (which add to the risk of the purchase, as discussed earlier).

With respect to the transactions, the process of consummating a large transaction may also involve considerable complexity. Terms of sale such as title transfer, delivery dates, shipping, inspection, defect rates, and payment are frequently written into lengthy contracts, which must be negotiated, written, reviewed, and if necessary, litigated.

Steps in the Decision Process

The basic steps of the decision process followed by organizational buyers do not differ from the basic decision process followed by consumers. Both begin with problem recognition, proceed to search, alternative evaluation and so forth. However, the specifics in each step of organizational purchases may differ markedly from those in consumer purchases. This fact owes to two reasons.

First, human beings have a remarkable ability to behave in very context specific ways. We can understand clearly the delineation between our own interests and the interests of others. And when necessary, we can modify our behavior to act on behalf of others even when doing so is at odds with our own interests. This means that people purchasing on behalf of an organization may approach purchases very differently from similar purchases they were making for themselves or their households. Second, organizational decision making frequently involves several people. The interaction of inputs and behaviors from several people changes the specifics of each step of the process, even if the steps themselves remain relatively intact.

Role of Buying Centers

Students often take the term “buying center” to imply the existence of some physical space such as a suite of offices or a warehouse. However, the term buying center refers to something much more ephemeral. Buying centers simply mean the individuals in an organization directly or indirectly involved with a given purchase. Buying center members assume roles very similar to those found in the family decision making model that you may have learned in your principles of marketing class. The traditional buying center roles are described in Exhibit 1. Several points about buying center roles are in order. First, more than one person may act in a single role. For example, many people may influence a variety of different facets of a proposed purchase or several people can initiate a purchase. Second, one person can play more than one buying center role. For example, initiators commonly also act as
Exhibit 1. Buying Center Roles

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>initiator</td>
<td>individual who first recognizes a problem that a purchase might solve and who begins the purchase decision process</td>
</tr>
<tr>
<td>influencer(s)</td>
<td>individual(s) who provide input into any dimension of the purchase decision.</td>
</tr>
<tr>
<td>decider(s)</td>
<td>individual(s) involved with making specific critical decisions regarding the purchase such as brand that will be purchased and how much will be spent</td>
</tr>
<tr>
<td>buyer</td>
<td>individual who actually makes the purchase</td>
</tr>
<tr>
<td>user(s)</td>
<td>individual(s) within the organization who actually use the product once purchased</td>
</tr>
<tr>
<td>gatekeeper(s)</td>
<td>individual(s) who control the flow of information in and out of the buying center</td>
</tr>
</tbody>
</table>

Influencers. Indeed, depending on the nature of the purchase, an initiator may be the only influencer. Third, buying centers are specific to a single purchase or group of related purchases and are therefore not permanent. They exist only as long as the decision process proceeds. Once the purchase has been made, the buying center ceases to exist.

Problem Recognition in Organizations

The basics definition of problem recognition differs somewhat from the definition given for consumer problem recognition. In organizations, problem recognition occurs “when a relevant decision maker reaches a threshold level of discrepancy between current conditions and expected or desired conditions.” This definition is worded carefully in order to accommodate the complexities of organizational decision making discussed earlier. Importantly, from a marketer’s perspective, organizational problem recognition does not really exist until a decision maker decides to act to solve the problem. After all, unless the decision maker recognizes the discrepancy between expected and current conditions as actionable, then the organization will not take steps, such as making a purchase, to enact a solution.

This may seem like a small point, but it has big implications for how marketers sell to potential buyers. If a salesperson calls on a decision maker who does not believe his or her organization faces a problem, then the salesperson’s first task is to demonstrate that a problem does in fact exist. If a salesperson calls on a decision maker who acknowledges the existence of a problem, then the salesperson’s first task is to demonstrate that the brand he or she represents is better suited to solve the problem than competitive brands.

Not much research exists regarding problem recognition in organizations. What studies have been conducted take the opinion that organizational problem recognition is more of a process than a discrete event, as is frequently the case with consumers. As such, problem recognition generally occurs more gradually in organizations than in consumers. The exception to this is an organizational crisis where potentially catastrophic events bring problem recognition on very quickly.
Who Recognizes Organizational Problems?

Exhibit 2 presents an adaptation of one model of organizational problem recognition. At first glance, the model seems relatively straightforward. However, the model is not particularly clear about which organizational members actually go through the process and recognize the problem. This is important because, as noted earlier, organizations are collections of people, which means that the model applies to some person or persons and not abstractly to some nebulous entity called an organization.

The author of the original model (Cowan 1986) attempts to circumvent this little problem by suggesting that the process can apply to any organizational member or group of members. However, this explanation doesn’t work particularly well when one considers problem recognition as
only the first step of a larger decision making process that includes search, alternative evaluation, and so forth. The difficulty is that, for all practical purposes, until an organizational decision maker decides whether or not to act, then the problem really isn’t a problem at all. Therefore, as we emphasized earlier, organizational problem recognition can only occur when a decision maker makes a choice to act on the problem. Until that choice is made, the problem really has not been recognized in any way practical to marketers.

Importantly, acting on a recognized problem does not always result in a purchase. Other ways may exist to solve the problem. Therefore, for our purposes, acting on a problem simply means proceeding to the next step of the decision process, search, which is discussed in later Web Notes.

Major Components of the Model

Scanning. All well managed firms scan the external environment for information that might affect business. The term “scanning” may seem to imply some formal process for getting this information, but this need not be so. Scanning may be something as simple as a small business manager regularly reading the business section of the local newspaper for news relevant to his or her company. Of course, larger companies frequently invest significant resources to develop and operate systems that continuously gather, compile, summarize and report information to management.

Scanning can also occur internally, within the organization. Effective managers regularly seek information about employees, facilities, processes, and other internal factors that affect organizational operations. Even small managerial initiatives such as employee suggestion boxes can yield information useful for better managing the organization. Importantly for marketers, when companies make such internal improvements, they frequently also need to purchase necessary goods or services.

Thus, the information that scanning the internal or external environments provides frequently serves as the starting point for the problem recognition process.

Cue discrepancy. The “cue discrepancy” lies at the heart of organizational problem recognition. A cue discrepancy refers to the “perceived difference between expectations and reality.” Note that the definition of cue discrepancy sounds much like the definition of consumer problem recognition from earlier Web Notes. This is because, by itself, a cue discrepancy would be enough to trigger problem recognition in an individual consumer. But in organizations, it’s not enough. While people within organizations are the ones who perceive cue discrepancies, as noted earlier, organizational problem recognition cannot occur until a relevant decision maker chooses to act.

As shown in Exhibit 2, if the discrepancy is perceived to be quite large or pertains to something considered highly important by the organization, then the process proceeds immediately to classifying the discrepancy as a problem or not, and then deciding whether or not to act. If the discrepancy is not perceived to be particularly large or if it does not pertain to something the organization considers important, then a few additional steps must occur before actual problem recognition.

Sense of urgency to respond. The sense of urgency to respond to a cue discrepancy can differ across individuals; it may also depend on circumstances at the time the discrepancy is perceived. Some people may, as a simple matter of their personalities, be more prone than others to
act when things in their environments are not as expected. Compared to others, even small cue discrepancies may prompt them to contact decision makers to see if some action might be necessary. Similarly, the urgency one feels to respond to a cue discrepancy may depend on the situation at hand when the discrepancy is first noticed. For example, if an individual organization member is especially busy when they perceive a cue discrepancy, they may delay responding.

Clarification of the discrepancy. At this point, more information may be required regarding the nature of the discrepancy. Clarification of the cue discrepancy can occur in a couple of ways. First, the individual who initially noted the cue discrepancy can try to clarify it before moving forward to tell a decision maker. Second, when someone shares a cue discrepancy with a decision maker, the decision maker can seek clarification before deciding whether or not to act.

Accumulation or persistence of discrepancies over time. This variable applies most to organizational decision makers, who receive information about cue discrepancies noted by their subordinates or who notice discrepancies themselves. As they hear repeatedly about a certain cue discrepancy from one or more sources, this information accumulates or persists in the decision makers’ memories. While the accumulation is low, decision makers may do nothing or they may seek clarification. At some point, the accumulation of discrepancies may grow large enough or persist long enough that the decision maker classifies the information as a problem, as described below.

Classification of discrepancy. At this stage of the process, a relevant decision maker must decide whether or not a discrepancy or some set of persistent or accumulated discrepancies constitute a problem. If not, the issue is dismissed. That is, the decision maker does not classify the discrepancy or accumulated discrepancies as problematic. This could mean several things. It could be that the decision maker does not agree that the discrepancies brought to his or her attention are discrepant at all. Or it could be that the area of concern is not one that the decision maker believes requires attention. In any case, the decision maker refuses to act and no problem is recognized.

On the other hand, the decision maker could classify the discrepancy or accumulated discrepancies as a problem upon which he or she should act. With this decision, problem recognition itself is complete and the organization continues with the rest of the decision making process (i.e., search, alternative evaluation, etc.).

Implications for Marketers

The model of organizational problem recognition in Exhibit 2 offers marketers several insights into selling to organizations. First, the fact that well managed organizations scan the environment emphasizes that marketers should be a visible part of that environment. Regular contact with potential organizational customers through salesforce activities, business-to-business advertising, trade show presence and other efforts do indeed pay dividends. Getting noticed by potential customers means being noticeable.

Second, marketers should help potential customers set and manage expectations. Because problem recognition in organizations centers on discrepancies between expected or desired conditions and perceived current conditions, then marketers can encourage problem recognition by communicating to potential customers about what they should expect regarding the marketers’ products or describing conditions that make using the products appropriate.
Third, because discrepancies frequently must persist or accumulate, marketers must likewise be persistent in their efforts to win over customers. Few organizational customers ask for an order on the first try. Often, marketers must maintain a continuous effort to highlight discrepancies that exist in customer organizations until they persist or accumulate sufficiently to draw decision maker action.

Finally, marketers may influence decision makers through multiple organizational members, who may ultimately form some sort of buying center. As several organization members bring a discrepancy to the attention of a decision maker, according to the model, the accumulation of discrepancies may eventually prompt the decision maker to recognize a problem and act. Marketers who show a presence early in the process through contacts at various parts of the organization may have a better chance of making a sale.

With a little imagination, you can probably see other ways in which the process described in the model of organizational problem recognition might inform marketers trying to gain the attention of decision makers. However, every organization is unique and a variety of factors may influence how the problem recognition process works from one organization to the next. We discuss these influences in the next section.

**Influences on Organizational Problem Recognition**

Just as people differ from each other in consumer contexts, organizations also differ in ways important to their propensity to recognize and respond to problems. These differences can be very important to marketers because they may affect the likelihood of successfully selling to an organization or affect the amount of resources necessary to eventually make the sale happen. In this section, we briefly examine some of the factors that affect the likelihood of problem recognition in organizations.

**Organizational Culture**

Like societies, organizations develop unique cultures. And while organizations themselves may reflect the larger cultures of the societies in which they operate, their own cultures will differ from other organizations within the same society. Thus, the same definition of culture we introduced earlier at the societal level applies equally well to organizations, though somewhat reduced in scope. Organizational culture is defined as “a system of shared symbols and meanings held by members of the same organization.”

Organizational culture ranks among the most studied of organizational characteristics, in part because its effects on how an organization operates are enormous. Researchers have identified seven characteristics that define an organization’s culture. These are given in Exhibit 3; all should be fairly self-explanatory.

| 1.   | innovation and risk taking |
| 2.   | attention to detail        |
| 3.   | outcome orientation        |
| 4.   | people orientation         |
| 5.   | team orientation           |
| 6.   | aggressiveness             |
| 7.   | orientation to status quo  |

Exhibit 3. Dimensions of Organizational Culture

Any of these organizational cultural characteristics can affect whether organizational decision makers recognize problems, and if so, whether and how they
respond. For example, decision makers in organizations highly oriented to the status quo would likely require greater accumulations of discrepancies before recognizing problems than would decision makers in organizations less oriented to the status quo. Of course marketers must get to know the cultural characteristics of organizations they intend to pursue as customers, which may require some degree of investigation or can simply be based on customer reputation. Either way, the dimensions of organizational culture given in Exhibit 3 can help marketers systematically examine potential customers to assess how problem recognition might best be encouraged.

**Decision Structure**

An additional but related factor is the organization’s decision making structure, which is a reflection of its culture. Although many factors comprise an organization’s decision structure, here decision structure refers to the degree of “centralization” and “formalization” the organization builds into its purchasing decisions and activities. Both can affect whether decision makers deem cue discrepancies as problems and how to respond if they do.

The degree to which organizations centralize their decision making simply refers to the number of people holding decision making authority over certain areas of the organization. Highly centralized decision authority within potential customer’s organization presents marketers with something of a double-edged sword. On one hand, it uncomplicates selling responsibilities by reducing the number of people who can recognize and act on a problem. On the other hand, it also may reduce the likelihood that knowledge of discrepancies will reach the right person and accumulate sufficiently to reach the threshold of problem recognition.

The other decision structure factor is formalization, or the degree to which required decision making procedures are standardized in the organization. Some decision makers may be formally constrained from acting on problems until certain conditions are met. Or in highly formalized organizations, some decision makers may set high thresholds for acting on problems simply because procedures may be onerous and consume too much in the way of resources. Indeed, highly formalized organizations may put in place difficult written procedures for bringing cue discrepancies to the attention of decision makers, which may discourage organizational members from reporting them.

**Organizational Objectives**

A third factor is the organization’s objectives. Organizational objectives can influence employees’ sensitivities to what they perceive as discrepant and their willingness to bring perceived discrepancies to the attention of decision makers. For example, in organizations whose immediate objective is cost cutting may actually reduce employee sensitivity to cost cutting measures if those measures require some initial investment but reduce costs over the long term.

**Marketing Efforts**

Finally, as with consumer problem recognition, marketers can influence the perception of problems in organizations. However, this influence manifests itself differently than with consumers because the nature of communication differs markedly. In other words, marketers communicate
differently to consumers than they do to organizational decision makers.

Communication with consumers is dominated by advertising and retail sales promotion. The mass nature of consumer markets makes the efficiency of one-way mass media communication particularly attractive to marketers. However, as noted earlier, attracting consumer attention frequently poses a significant challenge for marketers who must “shout” above the noise of other consumer marketers.

Marketers selling to organizational customers communicate most frequently using personal salespeople. While several salespeople may still vie for a decision maker’s time and attention, the task is made less complicated by smaller numbers of competing messages and an interactive communication process. Moreover, when salespeople communicate with their regular customers, they gain the opportunity to carefully and rationally bring new potential problems to the decision makers’ attention either directly or through other buying center members.

Sources

Information about buying centers was obtained from


The model of organizational problem recognition was adapted from


Other sources include