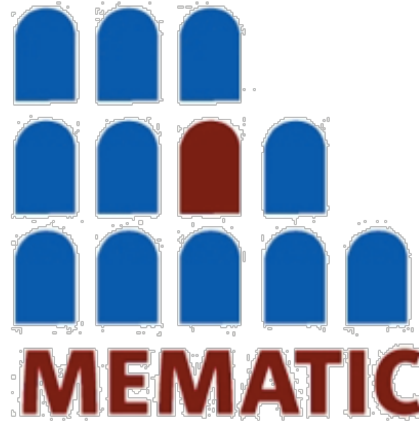




**TOR VERGATA**  
UNIVERSITÀ DEGLI STUDI DI ROMA



**MASTER  
IN ECONOMIA  
E MANAGEMENT  
DELLE ATTIVITÀ  
TURISTICHE  
E CULTURALI**

**“Decision making and problem solving  
tools for tourism firms and destinations”**

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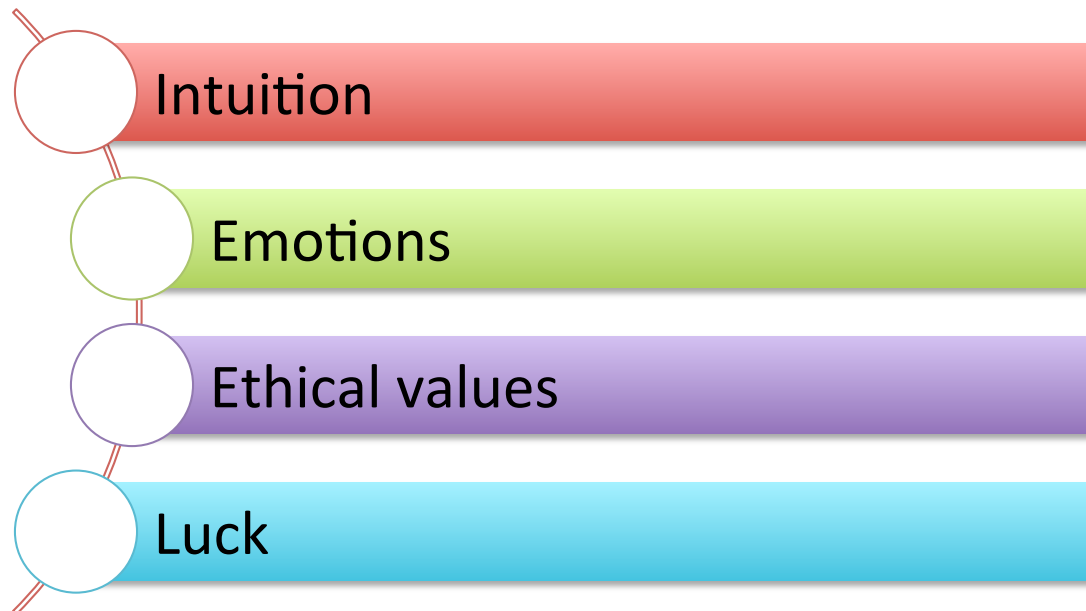
# Introduction

This lecture presents the theme of decision-making processes, with particular reference to their implementation in tourism firms and destinations. The first part introduces the concepts of bounded rationality and cognitive errors; in the second part, after introducing the 'traditional' decision making scheme, the analysis tools for organizational problems are deepened. Through this lecture it is possible to learn specific skills in the area of decision making and the problem solving tools useful within organizational life.

- Decision making
- Heuristics and traps
- The problem solving cycle
- Analysis tools. What they are and what they are for
- Resources & Capabilities analysis
- 5 Porter's forces
- PEST Analysis
- SWOT

# Decision making

- How do we make decisions?



In the workplace, we would like solving in complex problems reaching excellent choices. Unfortunately, however:

- a) Rationality requires complete knowledge and a prediction of the consequences that will result from each choice. In reality, knowledge of the consequences is always fragmented.
- b) Since these consequences concern the future, the imagination will have to intervene to fill the absence of experience, in order to attribute a value to these consequences. But the values can only be predicted roughly.
- c) Only a few of these possible alternative behaviors present themselves to the individual mind. Man therefore presents himself as 'rationally limited' (Simon, 1947), hence the so-called 'Administrative theory'.

## Example of bounded rationality

Scenario 1: given the strategic actions done in the past, the CEO must make a decision to limit his losses by € 600,000 in 2020. The CEO proposes two alternatives:

- a) withdrawing a product from the market, saving € 200,000.
- b) b) put on the market a new product that has  $\frac{1}{3}$  of the probability of producing profits for € 600,000 and  $\frac{2}{3}$  of not producing at all. Which alternative would you recommend?

Scenario 2: The CEO, given the strategic actions done in the past, must make a decision to limit his losses by € 600,000 in 2020. The CEO proposes two alternatives:

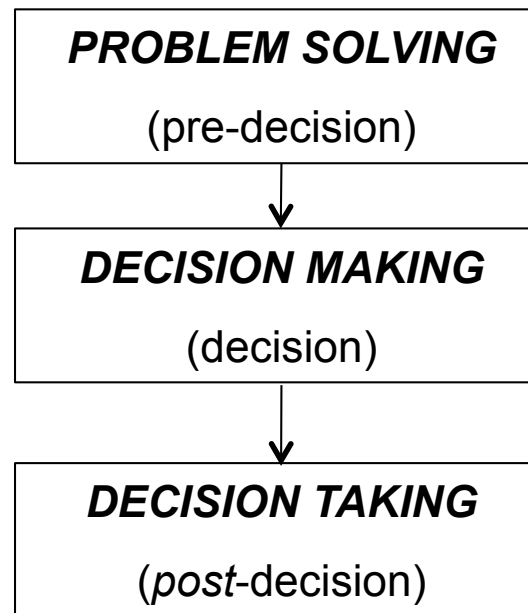
- c) withdrawing from the market a product that in any case does not limit the losses below € 400,000.
- d) put on the market a new product that has  $\frac{1}{3}$  the probability of not suffering losses and  $\frac{2}{3}$  of having to suffer losses for € 600,000. Which alternative would you recommend?

What is a problem?

Situation to be  $\rightarrow$  Situation as is = Problem



# Problem solving and decision taking



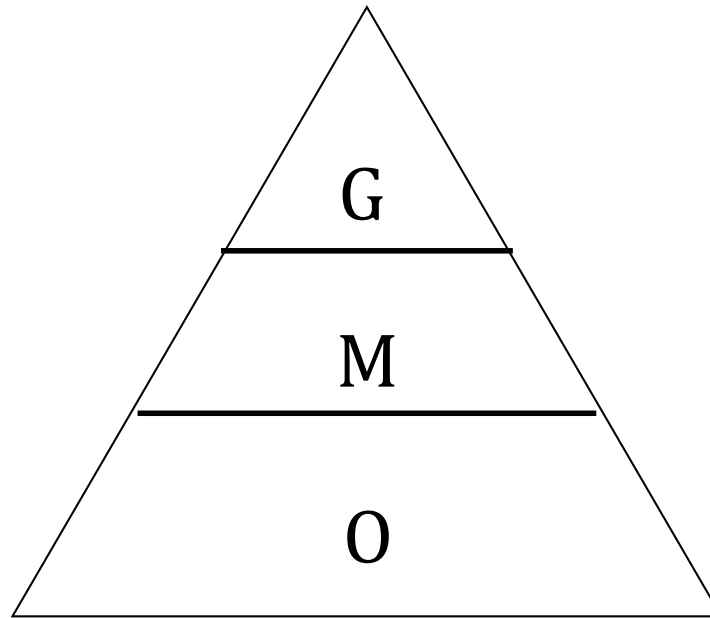


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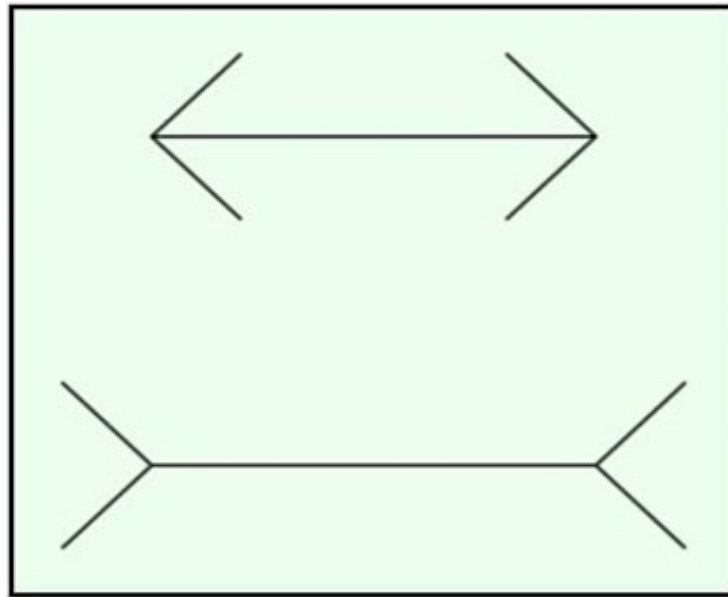
## Hierarchy of decisions



## Heuristics and traps

Managers, but, more generally the human being, who must make a decision, can make use - unconsciously or consciously - of the so-called heuristics (from the Latin heuretikos, which means 'find'), that is, "rough rules of thumb" to simplify their decision process. In this case we speak of heuristic decision making. These rules are mostly automatic in our reasoning as they derive from the so-called System 1 of our thinking, the automatic and spontaneous one. System 2, the most logical and reflective one, is mostly 'dormant' and only wakes up if complex problems are faced.

## Example of heuristic



## Classification of heuristics

Judgmental heuristics: the decision maker incamera and processes information to evaluate a problem. Among the main heuristics of this type: representativeness heuristics; availability heuristic.

Heuristics or selection rules: decision maker directs his/her final choice through these rules.

Representativeness heuristics: it exists when in judging an individual, an object or an event, people tend to look for traits that can correspond to previously formed stereotypes (Kahneman and Tversky, 1974).

Availability heuristic: it exists when people evaluate the frequency, probability, or probable causes of an event from the degree to which the occurrences of that event are easily available in memory (Tversky and Kahneman, 1973).

Advantages: speed

Disadvantages: inaccurate  
choices

Traps:

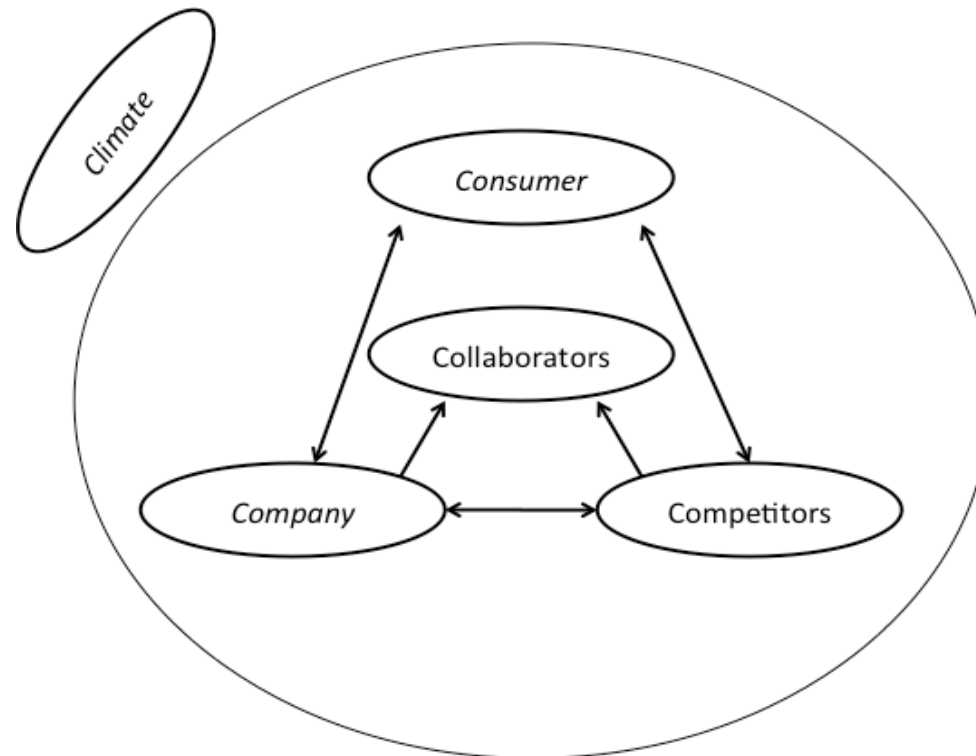
- a) Anchor trap
- b) Status quo trap
- c) Submerged costs trap
- d) Evidence confirmation trap
- e) Framing trap
- f) Impulsivity
- g) Choosing the wrong target
- h) Absence of a control scheme
- i) Excessive confidence in one's judgment
- j) Short-sighted shortcuts
- k) Lack of systemicity
- l) Group failure
- m) Insufficient consideration of feedback
- n) Lack of monitoring in the post-decision phase
- o) Inability to verify one's decision-making process

## Problem solving cycle

Definition of the problem → Identification of  
criteria and goals → analysis → Spread of  
alternatives → Identification of the alternative →  
Intervention → Implementation →  
Feedback → Ridefinition of the problem



## The model of 5C



## Resources and capabilities of the firm

- 
- Analyzing balance sheets

- 
- Interviewing functions or department responsables

- 
- Sistematization of the information

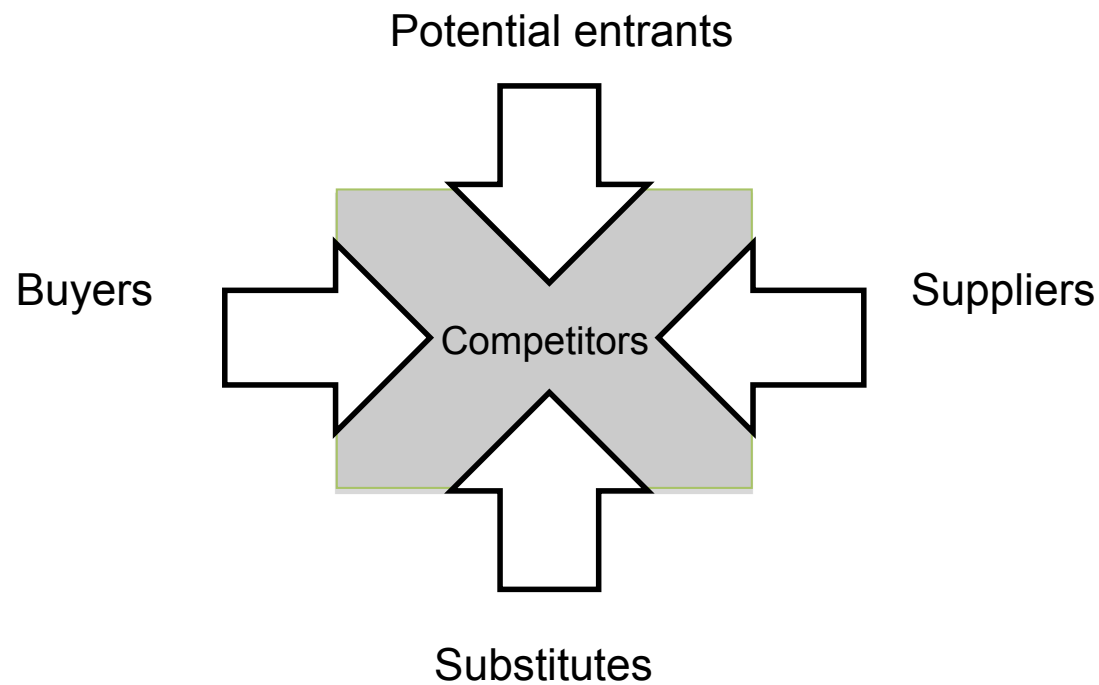
## Example of R&C analysis

	Importance <sup>a</sup>	VW's relative strength <sup>b</sup>	Comments
<b>RESOURCES</b>			
R1. Finance	6	6	Credit rating is above average for the industry but free cash flow remains negative
R2. Technology	7	5	Despite technical strengths, VW is not a leader in automotive technology
R3. Plant and equipment	8	8	Has invested heavily in upgrading plants
R4. Location	4	4	Plants in key low-cost, growth markets (China, Mexico, Brazil) but German manufacturing base is very expensive
R5. Distribution (dealership network)	8	5	Geographically extensive distribution with special strength in emerging markets. Historically weak position within the U.S.
R6. Brands	6	5	VW, Audi, Bentley and Bugatti are strong brands but, together with Skoda and Seat, VW's brand portfolio lacks coherence and clear market positioning
<b>CAPABILITIES</b>			
C1. Product development	9	4	Traditionally weak at VW. Despite a few big hits: Beetle (introduced 1938), Golf (1974), Passat (1974), Vanagon (1979), VW still not an industry leader in new product development
C2. Purchasing	7	5	Traditionally weak—strengthened by senior hires from Opel and elsewhere
C3. Engineering	7	9	The core technical strength of VW
C4. Manufacturing	8	4	VW is a high-cost producer, but struggles to attain above average quality
C5. Financial management	6	4	Has traditionally lacked a strong financial orientation
C6. R&D	5	4	Despite several technical strengths, VW is not a leader in automotive innovation
C7. Marketing and sales	9	4	Despite traditional weakness in recognizing and meeting customer needs in different national markets, VW has increased its sensitivity to the market, improved brand management, and managed its advertising and promotion with increasing dexterity
C8. Government relations	4	8	Important in emerging markets
C9. Strategic management	7	4	Effective restructuring and cost cutting, but lack of consistency and consensus at top management level

<sup>a</sup>Both scales range from 1 to 10 (1 = very low, 10 = very high).  
<sup>b</sup>Volkswagen's resources and capabilities are compared with those of GM, Ford, Toyota, DaimlerChrysler, Nissan, Honda, Fiat, and PSA, where 5 represents parity. The ratings are based on the author's subjective judgment.

Source: Grant (2009)

## Porter's 5 forces



# PEST analysis

Political (incl. Legal)	Economic	Sociocultural	Technological
Environmental regulations and protection	Economic growth	Income distribution	Government research spending
Tax policies	Interest rates & monetary policies	Demographics, Population growth rates, Age distribution	Industry focus on technological effort
International trade regulations and restrictions	Government spending	Labor / social mobility	New inventions and development
Contract enforcement law Consumer protection	Unemployment policy	Lifestyle changes	Rate of technology transfer
Employment laws	Taxation	Work/career and leisure attitudes Entrepreneurial spirit	Life cycle and speed of technological obsolescence
Government organization / attitude	Exchange rates	Education	Energy use and costs
Competition regulation	Inflation rates	Fashion, hypes	(Changes in) Information Technology
Political Stability	Stage of the business cycle	Health consciousness & welfare, feelings on safety	(Changes in) Internet
Safety regulations	Consumer confidence	Living conditions	(Changes in) Mobile Technology

# SWOT analysis and development of strategies

<p><b>Internal factors</b></p> <p><b>External factors</b></p>	<p><b>Internal strengths (S)</b> e.g., strengths in management, operations, finance, marketing, R&amp;D, engineering</p>	<p><b>Internal weaknesses (W)</b> e.g., weaknesses in areas shown in the "strengths" box</p>
<p><b>External opportunities (O):</b> (Consider risks also) e.g., current and future economic conditions, political and social changes, new products, services, and technology</p>	<p><b>SO strategy: Maxi-Maxi</b> Potentially the most successful strategy, utilizing the organization's strengths to take advantage of opportunities</p>	<p><b>WO strategy: Mini-Maxi</b> e.g., developmental strategy to overcome weaknesses in order to take advantage of opportunities</p>
<p><b>External threats (T):</b> e.g., energy shortage, competition, and areas similar to those shown in the "opportunities" box above</p>	<p><b>ST strategy: Maxi-Mini</b> e.g., use of strengths to cope with threats or to avoid threats</p>	<p><b>WT strategy: Mini-Mini</b> e.g., retrenchment, liquidation, or joint venture to minimize both weaknesses and threats</p>

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