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## Getting to Right: How Do Managers Make Good Decisions About Customers?

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## RESEARCH BRIEFS

# GETTING TO RIGHT: HOW DO MANAGERS MAKE GOOD DECISIONS ABOUT CUSTOMERS?

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### RESEARCH QUESTIONS

Good customer relationships are more critical than ever to business strategy and success. As such, the maxim “the customer is always right” is valued by managers who understand the benefits of acquiring and retaining quality customers. But how do these managers get it right when it comes to making important, tactical decisions about their customers? That was the general question that Johannes Bauer (University of St. Gallen), Philipp Schmitt (Goethe University Frankfurt), and their New York University colleagues Vicki Morwitz and Russell Winer, set out to answer in their investigation of the decision-making behaviors of sales managers. The team acknowledged that companies are fine-tuning their efforts to collect and process massive amounts of customer data aimed at increasing the lifetime value of individual customers to their firms and maximizing the overall asset value of their customers, yet they asserted that there is still much to learn about how managers actually make decisions about customers, particularly the steps involved and the factors that shape their decision making.

Their study was guided by the concept of bounded rationality—the idea that individuals make decisions based on a limited amount of information about the task at hand, using their own limited mental capabilities, and according to the environmental constraints in which the task is undertaken (Simon, 1955). Bauer and his colleagues surmised that managers typically rely on their experience, tend to be over confident, and employ rule-of-thumb approaches that may result in a faster, acceptable decision. However, this may come at the expense of decision accuracy while foregoing optimal returns on the resources invested in the task.

Bauer and his colleagues compared two approaches to decision making that illuminate bounded rationality: (a) adaptive decision making, which suggests that managers would respond differently

and flexibly to a task depending on the variables in the environment in which the decision is being made (Payne et al., 1993); and (b) fast and frugal decision making, where the managers would prefer a tested, simplified mental calculus based on a limited set of information about the issues at hand (Gigerenzer & Goldstein, 1996).

### STUDY DESIGN AND METHOD

Data were gathered from 49 sales managers working in the consumer retail sales division of a leading German bank. The firm was chosen partly because customer relationship management had become a strategic focus of the bank’s senior executives. Of the managers who participated in the study, the overwhelming majority had at least four years of experience in retail sales, and over half of them had spent at least 10 years working in retail sales. About two-thirds of the managers were over 30 years old, and more than half were female.

The sales managers participated in experiments consisting of three different sets of tasks that required them to make real decisions using data about a selected group of customers. Each task was more complex than the preceding one, but all three tasks used information and steps that were familiar to the managers. Managers were divided into two groups based on the perceived (high and low) complexity of each task. The managers’ actions while completing the tasks were monitored using a web-based program, MouselabWEB, which is designed to unobtrusively capture each step of the managers’ information selection and problem-solving decisions. Which pieces of information the managers used, the order in which the managers accessed the information, and how much time they took to arrive at a decision were all examined by Bauer and his colleagues.

The three tasks were completed in order and rated on their difficulty. First, managers had to

make decisions about cross-selling: predicting which customers would assume a new loan within three months. The managers were able to access information about customers' past and current loan and account profiles, and the high-complexity task managers were given additional information about the customers' children and their credit card usage in the three months prior to the decision making. This task was rated easy. Next, managers had to make decisions regarding customer retention: predicting which customers would cancel their checking accounts within six months based on various transactions in their checking and savings accounts as well as their credit rating for previous months. The high-complexity task managers in this task were also given information about customers' ages and their prior purchase of a featured bank product. This task was rated difficult. The final task, acquisition, involved predicting which customers would refer new customers to the bank within 18 months. In this case, managers were given information about the customers' family size, their total banking products, and the time lapse since their last transaction. The high-complexity task groups were also able to consider the customers' number of children as well as account transactions and number of remittances. This task was rated very difficult.

After collecting and analyzing the data, Bauer and his colleagues had to determine the decision strategies that managers used based on the changes that occurred as the managers moved from task to task as well as how quickly and what amount of available information managers used in completing each task.

### KEY FINDINGS

Bauer and his colleagues found that each of the four decision-making strategies investigated performed well, that adaptive decision making does not negatively impact the quality of decisions, and that fast and frugal heuristics can lead to increases in decision accuracy—which is contrary to previous research (Hutchinson, Alba, & Eisentein, 2010). The majority of managers in the study were adaptive in their decision-making processes, but there were several instances where managers made accurate decisions quickly and on the basis of very limited information. Bauer and his colleagues suggested that the fast and frugal heuristics strategy leads to a significant increase in accuracy due to the manager's learned ability to focus on the most important pieces of information and ignoring irrelevant pieces of information.

These results indicate that experienced managers have learned to ignore extraneous information and

focus on only the most important pieces of information when making customer-management decisions. Moreover, experienced managers may use simple decision-making strategies with good results while reducing cognitive effort without sacrificing the quality of the decision.

### CONCLUSIONS AND IMPLICATIONS

As businesses are presented with increasing amounts of information, understanding the decision-making process is more critical to managers than ever. In that regard, recent studies from a variety of related disciplines have shed light on managerial decision making as a communicative process (Baraldi, 2013); as a way to evaluate entrepreneurial opportunities (Wood & Williams, 2013), as a tool for determining which technology to adopt (Spencer, Buhalis, & Moital, 2013), and as a mechanism for evaluating the impact of social ties and human capital on the choices made by small business owners (Jansen, Curseu, Vermeulen, Geurts, & Gibcus, 2013).

Understanding managerial decision making is important not only for improving customer relationship management but for responding to a wide variety of managerial challenges. This study highlights several key factors to consider if managers are to improve their customer-management decision making. First, the study indicates that being overconfident can negatively affect decision quality. Bauer and his colleagues suggested that identifying and managing overconfidence is a promising strategy for increasing the quality of decisions made by managers. One approach for managing overconfidence is the use of timely and precise feedback (Russo & Shoemaker, 1992). Another way to curb overconfidence is to remind managers to consider both supporting and contradictory reasons for making a decision (Koriat, Lichtenstein, & Fischhoff, 1980).

Second, a common challenge for decision makers is dealing with the overwhelming abundance of data that is often available. The results of this study indicate that leaders should support their managers by helping them to focus on only the most important pieces of information when making a decision. Managers in turn must learn to trust their intuition about which pieces of information are most important and useful.

Finally, while this study focused on decision making in customer-management scenarios, Bauer and his colleagues suggested that their findings may be applicable to a variety of management decision-making settings. While further research should be done in different management decision

contexts to validate this claim, Bauer and his colleagues provided an intriguing anecdote by relating the results of this study to the decision-making practices of venture capital professionals who seem to prefer to reduce the amount of extraneous information when making investment decisions. As organizations collect more and more data about their customers, transactions, and competitors, and as more emphasis is put on the growing field of data mining and business analytics, this study seems to indicate that more information isn't always better for decision making, and managers need to be judicious in their selection and use of information when making decisions.

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