

Decision making

- Why decision processes matter
- Tasks in making decisions
- Types of decision – e.g. programmed or not?
- Decision-making conditions – e.g. certainty and risk?
- Decision-making models

Decision making

- What is a decision?
- A decision is a specific commitment to action (usually a commitment of resource).

Decision making

- What is a decision making?
- It is the process of identifying problems and opportunities and then resolving them.

Why study decision making

- Activity affects the value an organization adds to resources
- Methods used reflect ideas about the process and context of managing
- Knowledge enables us to question
 - does a decision-making method suit the context?
 - alternative methods that could be used

How decisions affect value

- People make choices about limited resources
 - Inputs (where to raise capital, who to employ)
 - Transformation (how to make a product)
 - Outputs (what price to charge)
- These choices affect the value added
- Significant choices are usually opaque, ambiguous and shaped by subjective interpretations

(Iterative) tasks in making decisions

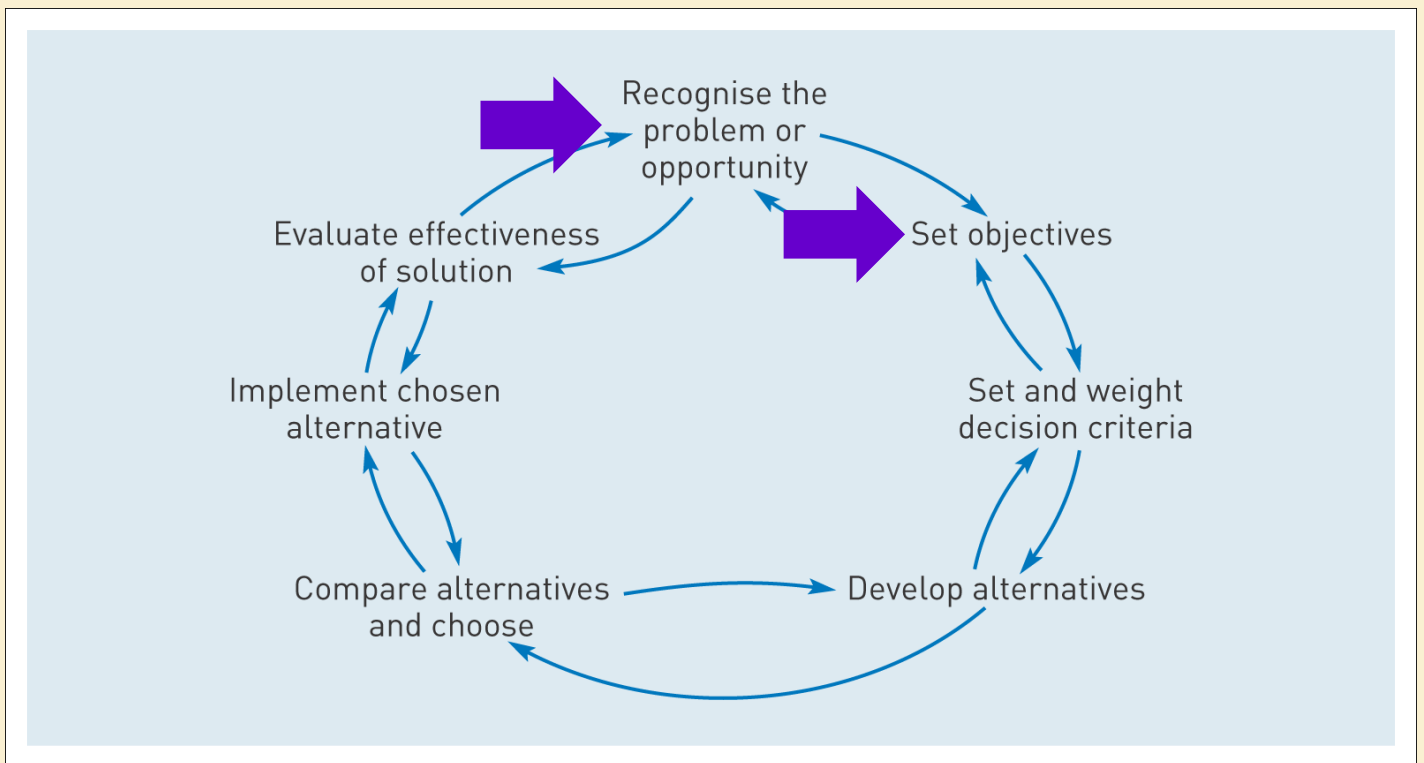


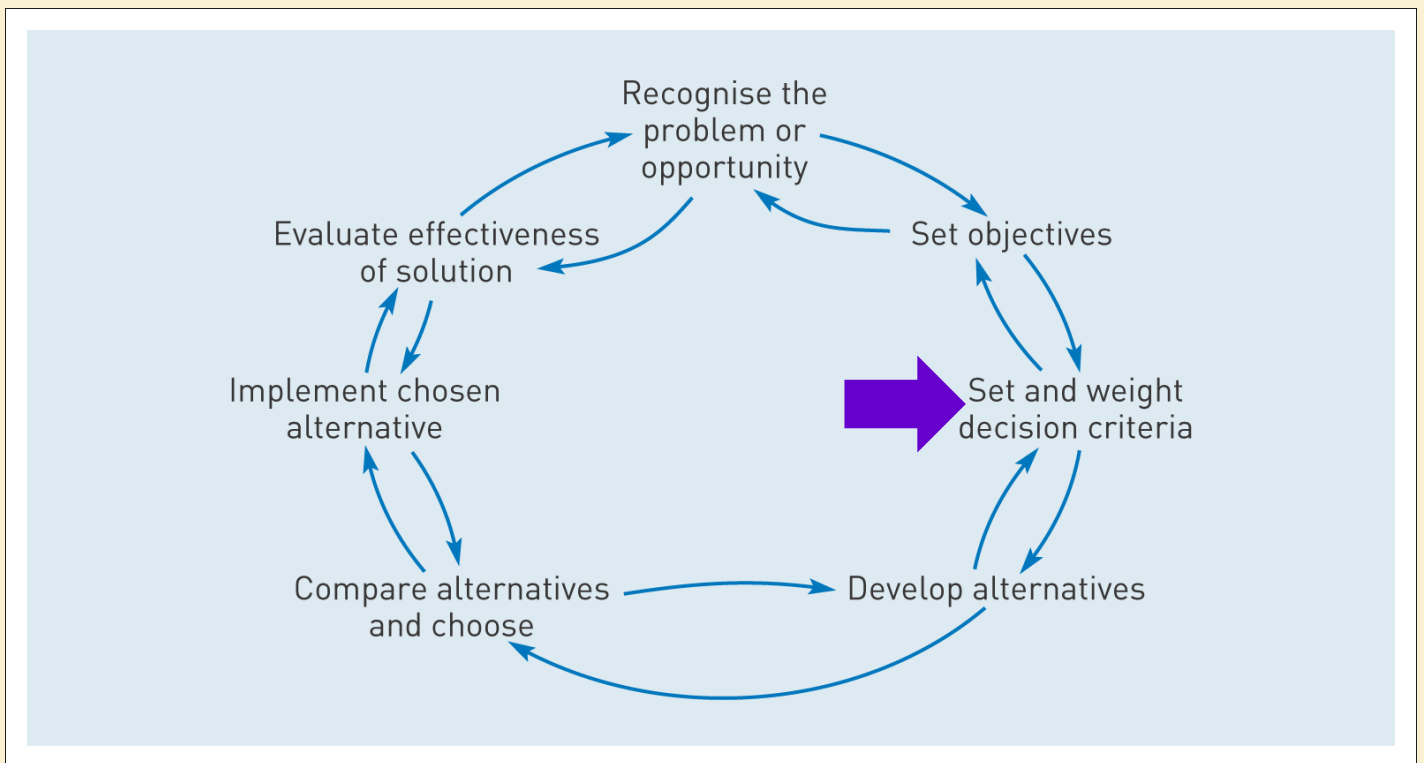
Figure 7.2 Tasks in making decisions

Recognizing a problem and setting objectives

- People make decisions when they become aware of:
 - problem – a gap between an existing and a desired state of affairs, or
 - Opportunity – the chance to do something not previously expected

Recognizing a problem and setting objectives

- Before a problem gets on to the agenda, “enough” people have to be aware of it and feel sufficient pressure to act.



Setting and weighting the decision criteria

- To decide between two or more options people need some decision criteria - such as price, delivery, warranty.
- Sometime, setting criteria is subjective. People vary in the factors they wish to include, and the weights they assign to them.
- People may also have private and unexpressed criteria – such as ‘will cause least trouble’, ‘will help my career’.

(Iterative) tasks in making decisions

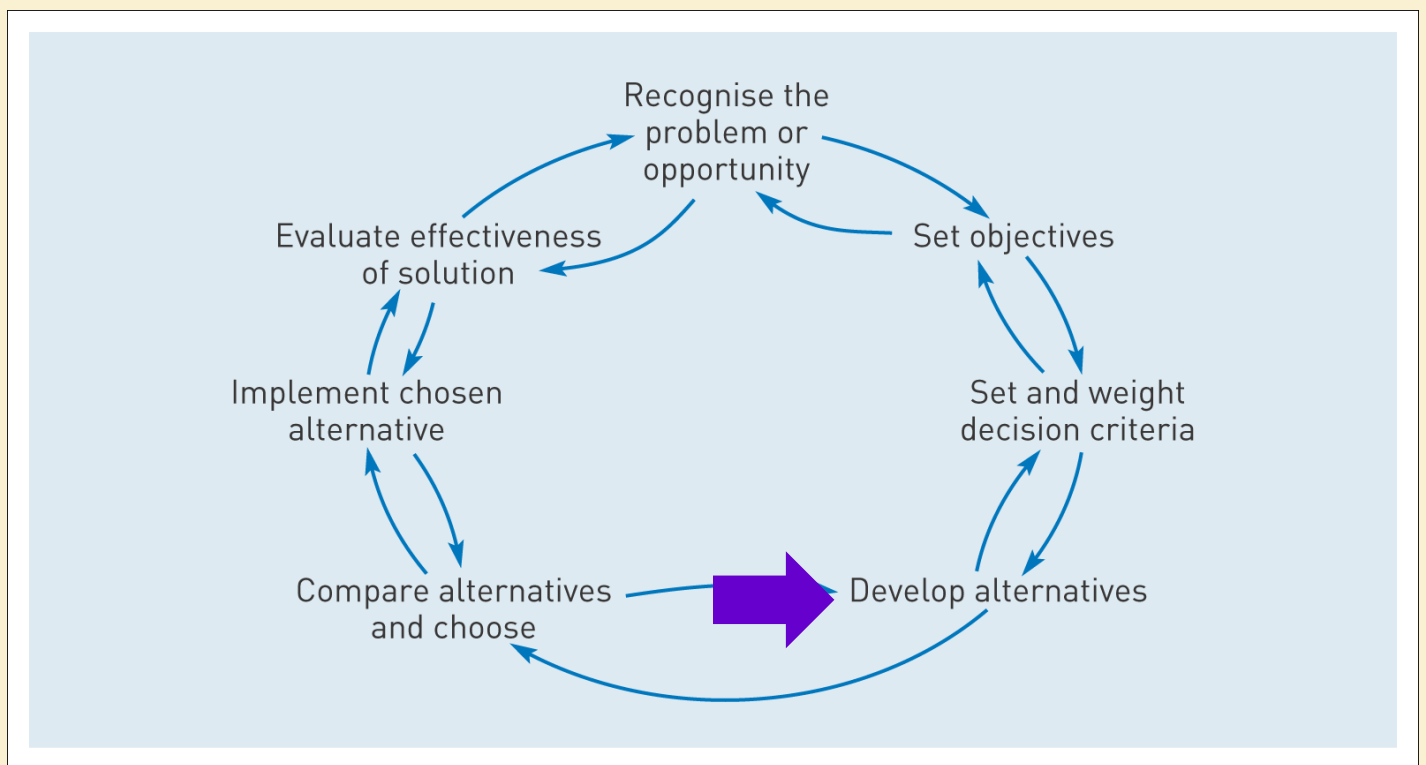


Figure 7.2 Tasks in making decisions

Developing alternatives

- Another task is to identify several alternative solutions to the problem.
- A practical issue is how many alternatives to develop – and how much time and effort to put into the process.
- Opinions?

(Iterative) tasks in making decisions

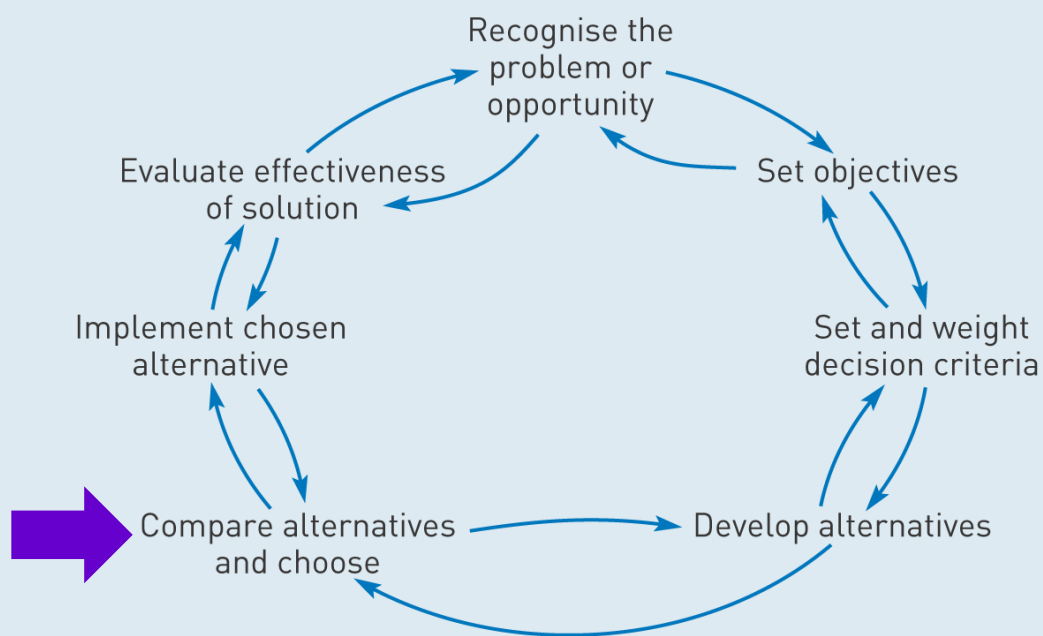


Figure 7.2 Tasks in making decisions

Comparing alternatives and making a choice

- Management decisions depend on a system for comparing alternatives and making a choice.
- A decision tree helps someone to make a choice by progressively eliminating options as additional criteria or events are added to the tree. (Figure)

Recognise the problem or opportunity

Your partner has offered to give you a new mobile phone as a special gift

Set objectives

To identify a model that meets the budget and gives best value

Set and weight decision criteria

	Weight
Features (specify)	7
Screen colour	6
Picture quality	5
Warranty	7
Initial cost	3
Monthly cost	8
Fashionable?	9

Develop/identify alternatives

Nokia, Sony Ericsson, Vodafone, Motorola

Compare alternatives and choose

Nokia, Sony Ericsson, Vodafone, Motorola

Implement chosen alternative

Obtain from store

Evaluate effectiveness of solution

As you use it

Figure 7.3 Illustrating the decision-making tasks – a new mobile phone

(Iterative) tasks in making decisions

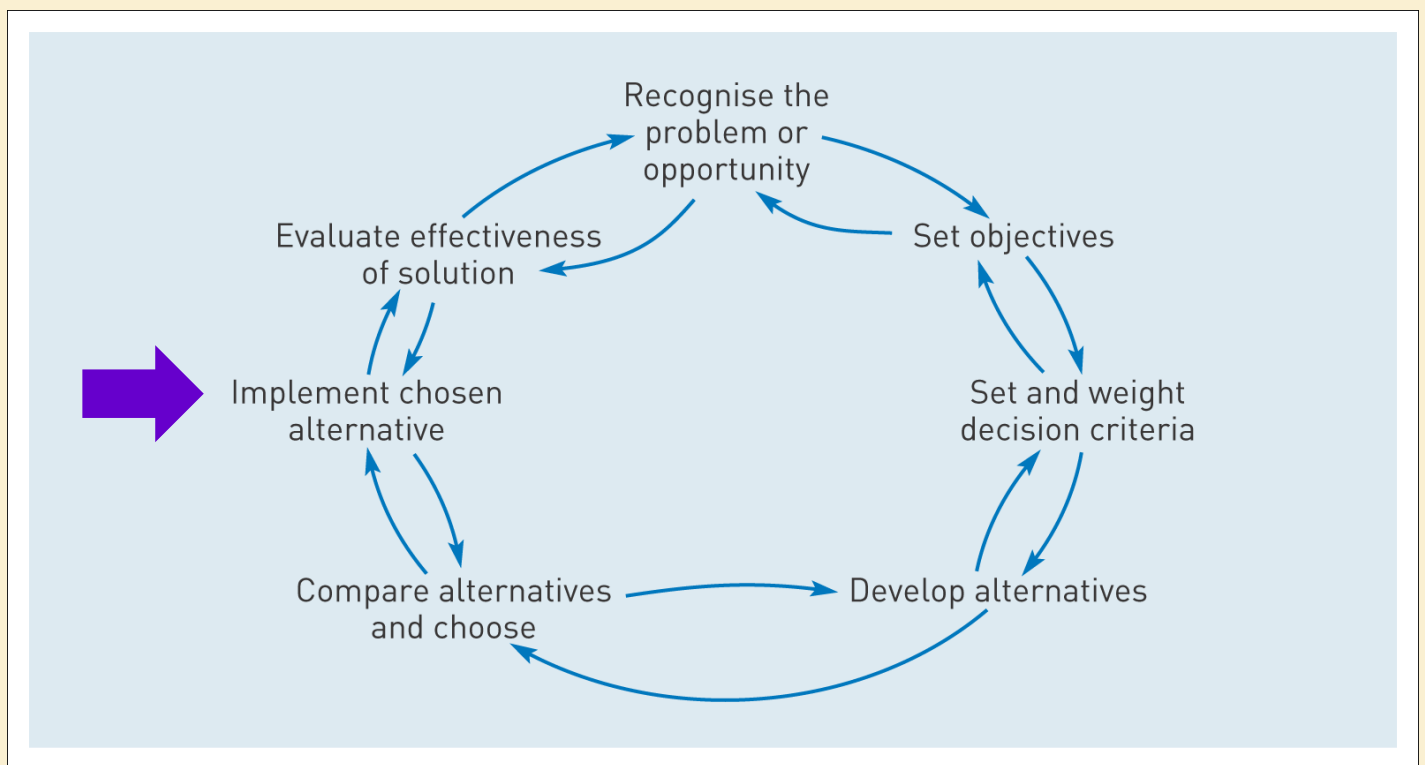


Figure 7.2 Tasks in making decisions

Implementing the chosen alternative

- Telling the decision to those affected by it and getting their commitment to it
 - participation in decision-making process inclines people to support the decision
 - decision may fail if it is not implemented properly

(Iterative) tasks in making decisions

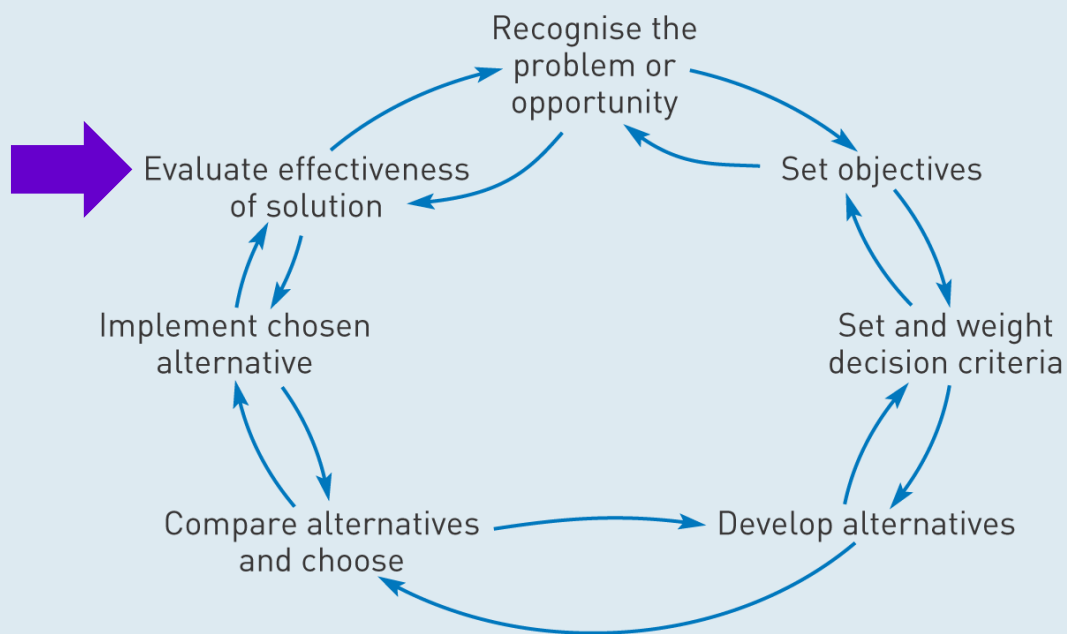


Figure 7.2 Tasks in making decisions

Evaluating the decision

- Looking back to see if the decision has resolved the problem, and what can be learned.
- This is a form of control.

Decisions in the Management Functions

Planning

What are the organization's long-term objectives?
What strategies will best achieve those objectives?
What should the organization's short-term objectives be?
How difficult should individual goals be?

Organizing

How many employees should I have report directly to me?
How much centralization should there be in the organization?
How should jobs be designed?
When should the organization implement a different structure?

Leading

How do I handle employees who appear to be low in motivation?
What is the most effective leadership style in a given situation?
How will a specific change affect worker productivity?
When is the right time to stimulate conflict?

Controlling

What activities in the organization need to be controlled?
How should those activities be controlled?
When is a performance deviation significant?
What type of management information system should the organization have?

Types of decisions

- Strategic or operational decisions
 - Strategic decisions have greater implications for the organization than operational ones.
 - Strategic decisions affect the future of large parts of the organization.
 - Operational decisions are short term, often on day-to-day matters.

Types of decisions

- Programmed or non-programmed
 - Programmed decisions deal with problems that are familiar, and where the information required is easy to define and obtain – the situation is well structured.
 - Non-programmed decisions involve to deal with situations that are unstructured, and so require a unique solution. Most issues of strategy are of this type, because they involve great uncertainty.

Types of decision and organizational level

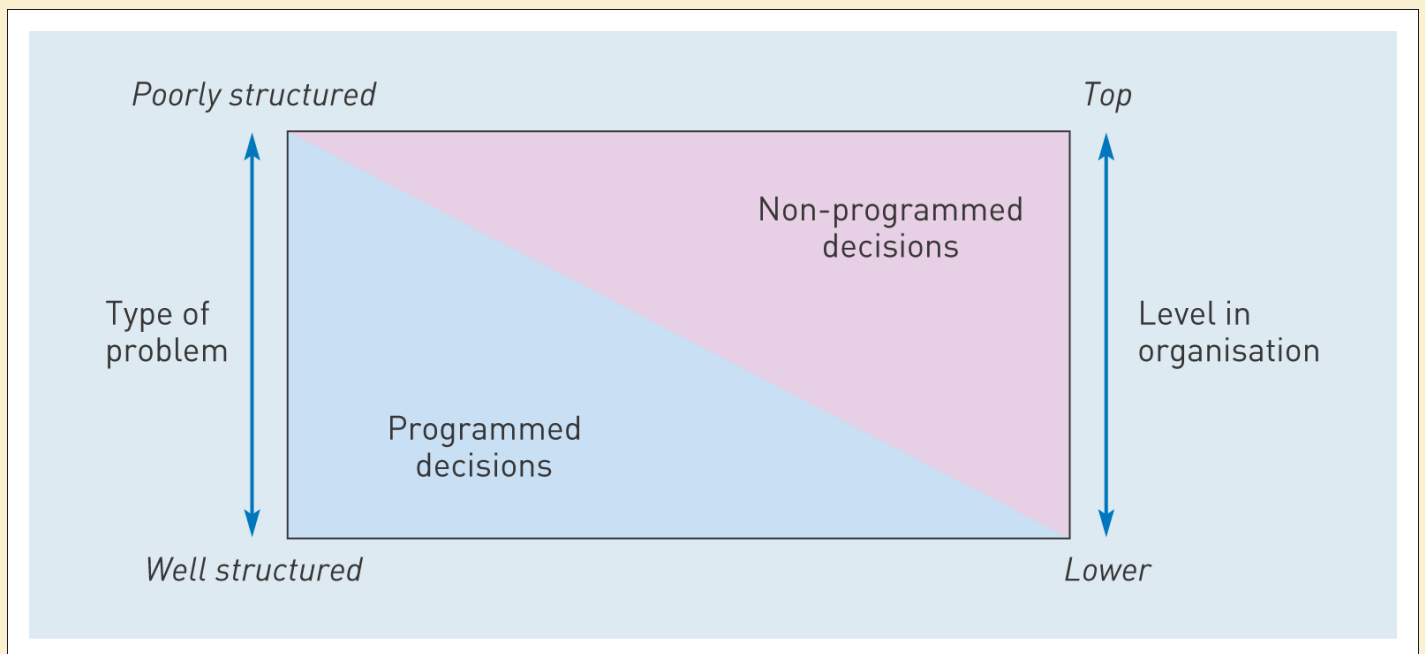


Figure 7.4 Types of decision, types of problem and level in the organisation

Source: Robbins, Stephen p., Coulter, Mary, *Management*, 8th edition, © 2005. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ

Types of decisions

- Dependent or independent
 - Influence of history and consequential links.
People make decisions in a historical and social context and so are influenced by past and possible future decisions and the influence of other parts of the organization.

Dependent or independent

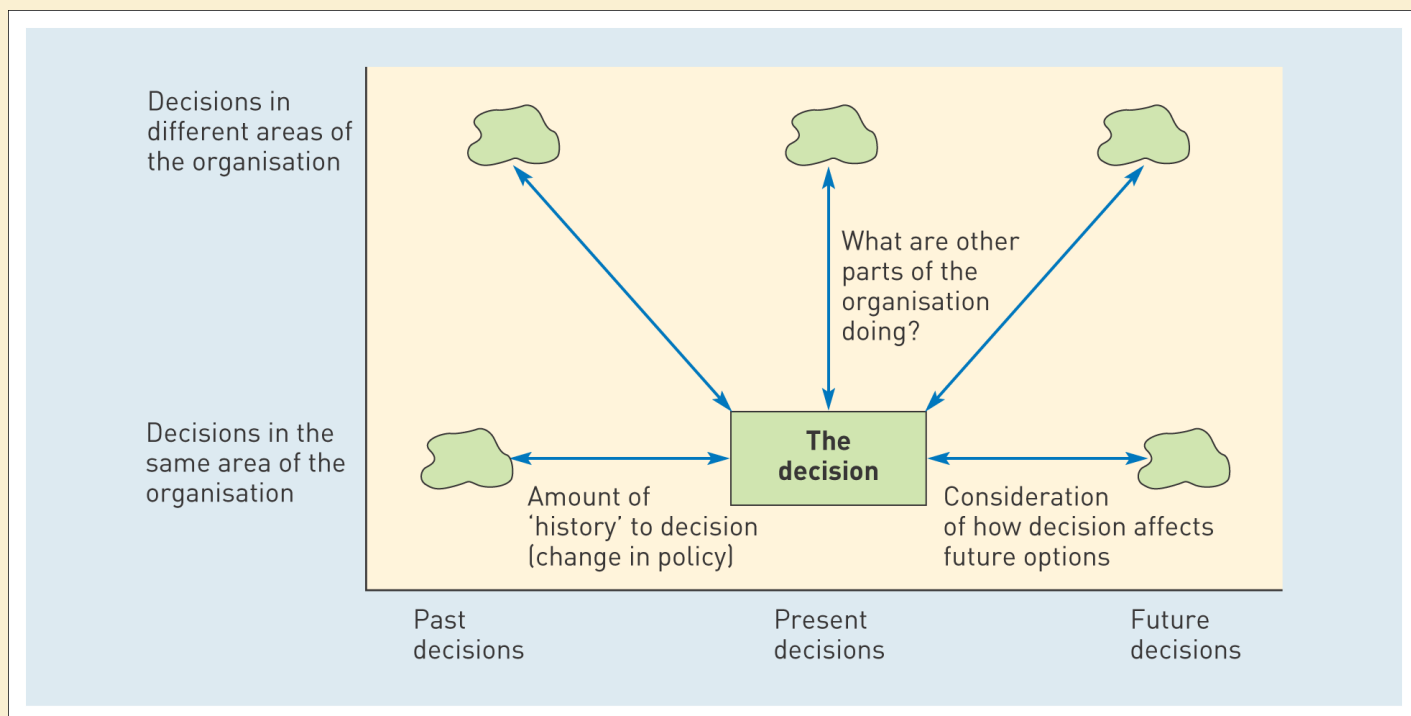


Figure 7.5 Possible relationships between decisions

Source: Cooke and Slack (1991), p.24

Decision-making conditions

- Certainty
 - It describes the situation when all the information the decision maker needs is available.
- Risk
 - It refers to situations in which the decision maker is able to estimate the likelihood of the alternative outcomes.

Decision-making conditions

- Uncertainty
 - It is when people are clear about their goals but have little information about which course of action is most likely to succeed.
- Ambiguity
 - It is when people are uncertain about their goals and how best to achieve them.

Degree of uncertainty and decision-making type

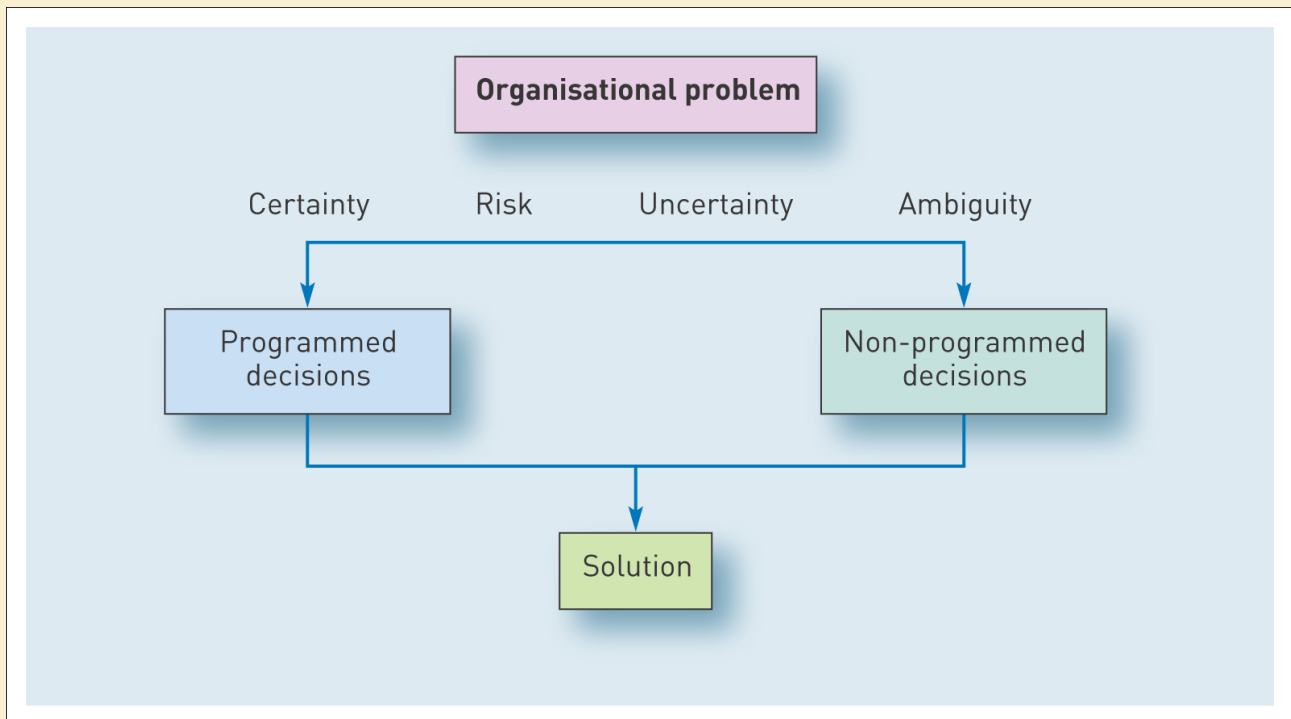


Figure 7.6 Degree of uncertainty and decision-making type

Source: Adapted from Daft (2000), p.271

Decision-making models (1)

- Computational strategy – rational (Thompson, 1967)
 - This model is based on economic assumptions suggesting that the role of a manager was to maximize the economic return to the organization, and that they did this by making decisions on economically rational criteria - maximizing gains, full information, goals known and agreed.

Decision-making models (2)

- Judgmental strategies – administrative/incremental (Simon, 1960)
 - This model aims to describe how managers make decisions in situations that are uncertain and ambiguous.
 - Many management problems are unstructured and not suitable for the precise quantitative analysis implied by the rational model.
 - Satisfying – rather than maximizing, people select the first option that is good enough.
 - Descriptive model of how people deal with non-programmed decisions.

Decision-making models (3)

- Compromise strategy – political (Pfeffer, 1992)
 - This model examines how people make decisions when they disagree over goals and plans
 - Assumes that organizations made up of diverse interest groups (political)
 - A significant decision will enhance the power of some people or units and limit that of others
 - Managers will often try to support their position by building a coalition with those who share their interest. This gives others the opportunity to contribute their ideas and enhances their commitment if the decision is adopted.

Decision-making models (4)

- Inspirational – garbage can (March, 1988)
 - This approach is likely when those concerned are not only unclear about cause-and-effect relationships, but are also uncertain about the outcome they seek.
 - The problems, solutions, participants, and situations are all mixed up together in the "garbage can" of the organization.
 - But when the setting is dynamic, more action than thinking can take place.

Decision-making models (4)

- Solutions often emerge not to solve specific problems but as lessons learned from the experience of other organizations. Many solutions might well be implemented even if they cannot be tied to a specific problem.
- Choice making and implementation may be done by quite different individuals. Often, the job of subordinates is to make the decisions of senior managers. They must interpret the intentions of their bosses as well as solve local problems.

Decision-making models (4)

- Implementation becomes an opportunity to teach many changes related to the choice of more senior executives.
- The link between choice and implementation may become even weaker when senior managers are vague or do not vigorously follow up on implementation.
- Many problems go unsolved. That is, all organizations have chronic, persistent deficiencies that never seem to get much better.