

CHAPTER THREE

DECISION MAKING

Chapter Objectives

At the end of this chapter you will be able to

- Define what decision making is
- Identify decision making process
- Compare programmed and non programmed decisions

Definition

- **Decision making** is defined as a **rational choice among alternatives**.
“If there is no option, there is no choice & no decision.”
- In decision making, manager is making judgments – reaching conclusion- from a list of known activities.
- Decision making is universal.
- It is the main part of all managers job.
- Decision making is not a separate, isolated function of management, but the common core to other functions.

- Managers at all levels are engaged in decision making and make big & few decisions daily.
- They make decisions while
 - Planning a budget
 - Organizing a work schedule
 - Interviewing a prospective employee
 - Watching a worker on the assembly line
 - Making adjustment to projects,

TYPES OF DECISIONS

- Types of decisions are:

1. Programmed decisions

- Programmed decisions are **decision managers make in response to repetitive & routine problems.**
- If a **particular situation occurs often, managers will develop a routine procedure for handling it.**
- In **most organizations, programmed decisions are handled through policies.**

2. Non - programmed decisions

- Non - programmed decisions are decisions made for novel and unstructured problems.
- Non programmed decisions are more complicated.
- They require the expenditure of lots of money, worth of resources every year.
- They are usually handled by general problem solving processes, judgments, intuitions, and creativity.

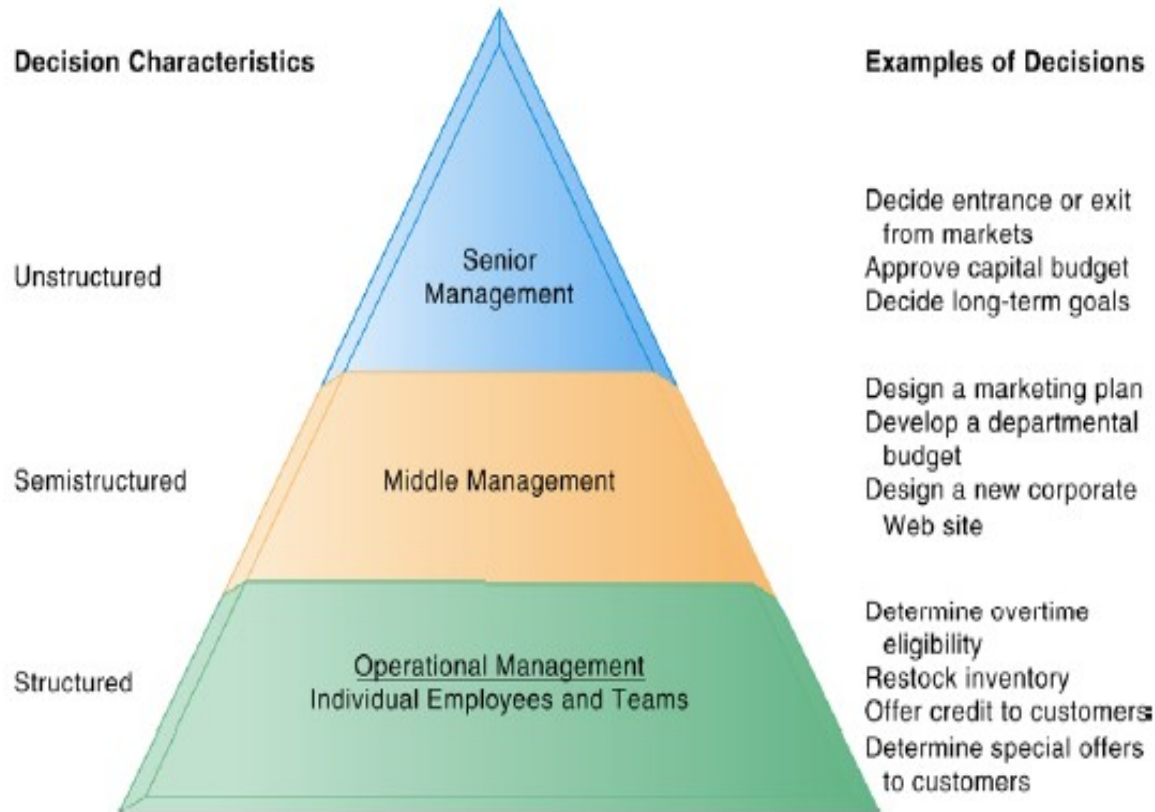
Comparison

- To sum up, Programmed decisions: routine, almost automatic process
- Managers have made decision many times before
- There are rules and guidelines to follow
- **Example- deciding to reorder office supplies**
- Whereas non programmed decisions: unusual situation that have not often addressed.
- No rules to follow since the decision is new
- These decisions are made based on information, and a manager intuition and judgment
- **Example: should the firm invest in a new technology?**

Types of decisions & level of management

- The nature of the problem, **how frequently it occurs, and the degree of certainty surrounding** it should dictate at in what level of management the decision should be taken/ made.
- Problems that **arise infrequently** & having a great deal of uncertainty surrounding them are often **strategic in nature and should be the concern of top management**.
- Problems that **arise frequently** & have fairly certain outcomes **should be the concern of lower level management**.
- **Middle managers in most organizations concentrate on programmed decisions.**

Information Requirements of Key Decision-Making Groups in a Firm



Senior managers, middle managers, operational managers, and employees have different types of decisions and information requirements.

THE DECISION MAKING PROCESS

- **Decision making process has seven (7) steps.**

Step 1: Define the problem

Step 2: Identify the limiting or critical factors

Step 3: Develop potential alternatives

Step 4: Analyze the alternatives

Step 5: Select the best alternative

Step 6: Implement the solution

Step 7: Establish a control & evaluation

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● I. Identifying the problem

- It is critical step in decision making ,as all other steps in the process depend on the nature of the problem.
- The accuracy of this step affects all steps that follow.
- Managers need to assess carefully symptoms of the problems to arrive at real problem.
- This means that the **managers must correctly** define the problem.
- Problem identification is not easy.
- The problem statement can be **too broad or too narrow.**
- ***Example:-Top Manager see that employee turnover is increasing by 5%***

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II. Identify the limiting or critical factors

- Once the problem is defined, the manager needs to develop the limiting or critical factors of the problem.
- Limiting factors are the constraints those rule out certain alternative solutions.
- The common limitations are time, resources, personnel, money, facilities, and equipment. They narrow down the range of possible alternatives.

In our example ***Gather the Information (Gather facts about career problem —Rate of pay, job design, educational level etc.)***

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III. Develop alternative solutions.

- At this point the decision maker lists all of the possible solutions to the problems.
- When developing alternatives, the goal is to be as creative and wide ranging as possible.
- The managers must identify all workable alternative solutions for resolving the problem.
- ***Example:- manager can increase wages, increase benefits or change hiring standards, job assignment etc-***

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- The term *workable* prevents alternative solutions that are too expensive, too time-consuming, or too elaborate.
- The best approach in determining workable solutions is to state all possible alternatives, without evaluating any of the options.
- This helps to ensure that a thorough list of possibilities is created.
- Generating alternative solutions requires divergent thinking (deviating from traditional.)
- Groups can be used to generate alternative solutions.

IV. Analyze the alternatives.

- The purpose of this step is to decide the relative merits of each of the alternatives, to identify the positive and negative or advantage and disadvantage of each.
- **All of the alternative solutions are examined in terms of out come.**
- The managers must judge what would happen with each alternative and its effect on the problem.
- The strengths and weaknesses of each alternative are critically analyzed by comparing the weights assigned and then eliminating the alternatives that are not workable. ***Example: increasing benefits***

V. Select the best alternative solutions.

- Once the set of alternative solutions has been carefully evaluated, the next task is to rank the various alternatives based on each alternative's advantage and disadvantages and choosing best alternative.
- The managers must make a choice among the alternatives.
- The alternative that rates the highest score should be the preferred solution.
- The decision can be assisted by the supervisor's experience, past judgment, advice from others.
- Timing impacts the decision.
- The probable outcome and its advantages versus its disadvantages are affected at any given time. Which alternative is most appropriate at a given time?

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- The combined problem solving/decision making abilities of the group members produce a better decision than that of the individual member.
- Taking action requires self-confidence or courage.
- Only a person who is willing to take risks is able to assume responsibility for a decision involving action.
- The fact remains that the manager is held accountable for the outcome of the decision.

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- Thus, he or she must be confident that the right problem has been defined and the most workable solution has been chosen.
- Self-confidence is the best element for a supervisor to possess at this stage.
- The best choice is the one that offer the fewest serous disadvantage and the most advantages.
- Managers should take care not to solve one problem and create other with their choice.
- ***Example:- increase in wages is the best one because changing hiring standard will take longer period to cut turn over.***

VI. Implement the chosen alternative.

- After a decision has been made or alternatives selected, the alternatives must be put in to action and many subsequent and related decisions must be made.
- Ultimately, human beings will determine whether or not a decision is effectively implemented.
- If this fact is neglected, the solution will fail.
- Thus, implementation is a crucial part of the decision-making process.

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- Including employees who are directly involved in the implementation of a decision, or who are indirectly affected by that decision, will help foster their commitment.
- Without their commitment, gaining support and achieving outcomes becomes increasingly difficult.
- With this commitment, the managers have a reasonable degree of assurance that the decision will be accepted and have the necessary support.

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- In order to implement the decision, the managers must have a plan for communicating it to those directly and indirectly affected.
- Employees must understand how the decision will affect them.
- Communication is most effective when it precedes action and events.

Example:- Now the human resource department establishes a new wage.

VII. Establish a control and evaluation system

- The final step in decision making process is to create a control and evaluation system.
- This system should provide feed back on:-
 - *how well the decision is being implemented?*
 - *what the positive and negative results are? and*
 - *what adjustments are necessary to get the results that were desired when the solution has been chosen.*

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- The main function of the follow up is to determine whether or not the problem has been resolved.
- Usually follow up requires a supervisory visit to the work area affected by the decision.
- The supervisor may have to repeat the entire decision process if a new problem has been generated by the solution.
- It is better to discover this failure during the follow up period rather than remain unaware of a new problem provoked by the implemented solution.
- ***Example:- Manager notes that after six months turnover drops to its previous level.***

THE DECISION MAKING ENVIRONMENT

- As there are different kinds of decisions, there are also different conditions in which decisions must be made.
- Decisions are made under the conditions of **certainty, risk & uncertainty.** These different decision making environments/ circumstances require different responses from a manager.

1. Decision making under conditions of certainty

- **This situation means the manager has what is known as perfect knowledge**, i.e. the manager had had this decision before; the **alternatives are known**; and the consequences of each alternative are fully understood.
- It can mean a manager can rely on standing plans; the decisions will be made routinely.

2. Decision making under conditions of risk

- This situation provides a more difficult decision making environment than the certainty situation.
- The **manager knows what the problem is; what the alternatives are; but doesn't know how each alternative will work out** even though s/he knows the odds (probabilities) of possible outcomes.
- **The manager is faced with dilemma of choosing the best alternative available.**

3. Decision making under conditions of uncertainty

- **This is the most difficult situation for managers. It is like being a pioneer/ breaking new ground.**
- **The manager is not able to determine the exact (probabilities) of the potential alternatives available. S/he may be dealing with too many variables, or perhaps there are too many unknown facts.**
- **The management is unable to accurately predict the probable results of choosing anyone of the alternatives.**
- **Reliance on experience, judgment & other people's experience can assist the manager in assessing the value of the alternatives.**

Decision making conditions/ environments

Certainty

Risk

**Uncertain
ty**

**Level of ambiguity & chance of
making bad decision**

Lower

**moderat
e**

higher

**Thank you!!
Have a nice
day**