

DECISION MAKING

MGT213

MANAGEMENT PRACTICES AND
ORGANIZATIONAL BEHAVIOR

Topic 4 | Week 4

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TOPICS TO LEARN

- Decision Making Defined
- Programmed vs Non-Programmed Decisions
- Decision Making Conditions
- Rational Model of Decision Making

INTRODUCTION

Decision making is the essence of management.

It's what managers do (or try to avoid). And all managers would like to make good decisions because they're judged on the outcomes of those decisions.

DECISION MAKING

Decision making per se is the act of choosing one alternative from among a set of alternatives.

DECISION MAKING DEFINED

Effective decision making requires that the decision maker understand the situation driving the decision.

- ❑ Most people would consider an effective decision to be one that **optimizes** some set of factors, such as profits, sales, employee welfare, and market share.
- ❑ In some situations, though, an effective decision may be one that **minimizes** losses, expenses, or employee turnover.
- ❑ It may even mean **selecting the best method** for going out of business, laying off employees, or terminating a strategic alliance.

DECISION MAKING DEFINED

Managers Make Decisions About Both Problems and Opportunities

Making decisions about how to cut costs by 10 percent reflects a **problem** — an undesirable situation that requires a solution.

But decisions are also necessary in situations of **opportunity**.

Learning that the firm is earning higher-than-projected profits, for example, requires a subsequent decision. Should the extra funds be used to increase shareholder dividends, reinvest in current operations, or expand into new markets?

DECISION MAKING DEFINED

Your fast-food restaurant business has been consistently earning higher-than-projected profits for six months now. In this situation, it is not necessary to make a subsequent decision since there is no problem here.

True/False?

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Programmed Decisions

A **programmed decision** is one that is relatively structured or recurs with some frequency (or both).

Many decisions regarding **basic operating systems** and **procedures** and **standard organizational transactions** are of this variety and can therefore be programmed.

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Programmed Decisions

North End Coffee Roasters uses programmed decisions to roast and supply new batches of coffee beans and to purchase cups and napkins.

North End baristas are trained to make their customers feel at ease.

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Nonprogrammed Decisions

Nonprogrammed decisions, on the other hand, are relatively unstructured and occur much less often.

Intuition and **experience** are major factors in nonprogrammed decisions.

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Nonprogrammed Decisions

Most of the decisions made by top managers involving **strategy** (including **mergers**, **acquisitions**, and **takeovers**) and **organization design** are nonprogrammed.

The first ever merger in Bangladesh's telecommunication sector between Robi and Airtel was a nonprogrammed decision.

PROGRAMMED VS NON-PROGRAMMED DECISIONS

**Few managerial decisions in
the real world are either fully
programmed or
nonprogrammed.**

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Potterhead Inc. regularly orders office supplies like paper, pens, and printer ink every month by following a standard protocol. The company makes programmed decisions in this case.

True/False?

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Potterhead Inc. wants to introduce an entirely new marketing campaign on Instagram to boost sales for their new product. The company is making a programmed decision in this case.

True/False?

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Potterhead Inc. follows a standard procedure for monitoring employee attendance, including clocking in and out and monthly attendance reports. The company makes non-programmed decisions in this case.

True/False?

PROGRAMMED VS NON-PROGRAMMED DECISIONS

Potterhead Inc. experiences a severe storm that damages its manufactured products and disrupts productions and regular operations. They need to make quick decisions to address the crisis. The company will make non-programmed decisions in this case.

True/False?

PROGRAMMED VS NON-PROGRAMMED DECISIONS

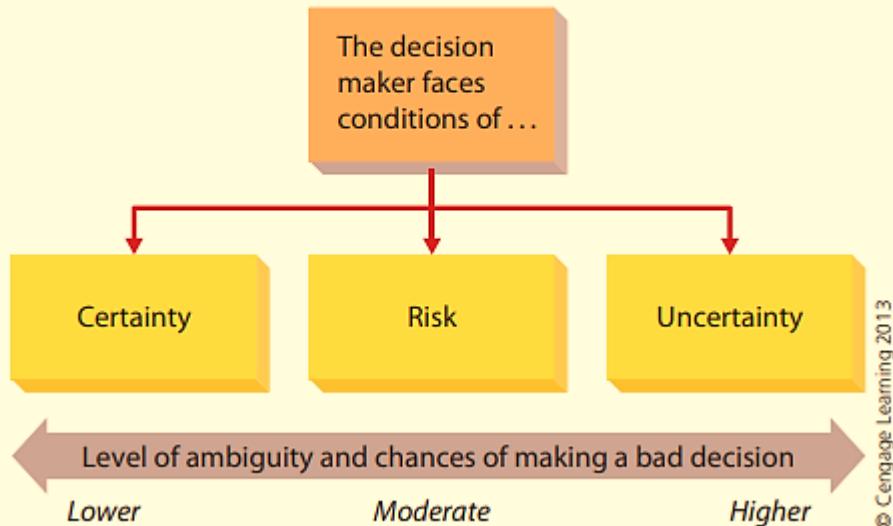
Which of the following is an example of a nonprogrammed decision?

- A. Company A scheduling routine maintenance for its fleet of delivery trucks every three months following a predetermined checklist
- B. Company B planning to launch a new gadget in an emerging market where they have no prior experience
- C. Company C launching a new line of solar-powered smartphones
- D. Both B and C

DECISION MAKING CONDITIONS

Figure 9.1 Decision-Making Conditions

Most major decisions in organizations today are made under a state of uncertainty. Managers making decisions in these circumstances must be sure to learn as much as possible about the situation and approach the decision from a logical and rational perspective.



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DECISION MAKING CONDITIONS

Decision Making Under Certainty

When the decision maker knows with reasonable **certainty** what the alternatives are and what conditions are associated with each alternative, a state of certainty exists.

Few organizational decisions, however, are made under conditions of true certainty.

DECISION MAKING CONDITIONS

Decision Making Under Risk

A more common decision-making condition is a state of **risk**. Under a state of risk, the availability of each alternative and its potential payoffs and costs are all associated with probability estimates.

Decision making under conditions of risk is accompanied by **moderate ambiguity** and **chances of a bad decision**.

DECISION MAKING CONDITIONS

Decision Making Under Uncertainty

Most of the major decision making in contemporary organizations is done under a state of **uncertainty**.

The decision maker does not know all the alternatives, the risks associated with each, or the likely consequences of each alternative.

DECISION MAKING CONDITIONS

Decision Making Under Uncertainty

Intuition, judgment, and experience always play major roles in the decision-making process under conditions of uncertainty.

Even so, uncertainty is the most ambiguous condition for managers and the one most prone to error.

DECISION MAKING CONDITIONS

Potterhead Inc. plans to launch a new model of a smartphone that is a slight upgrade from its previous successful model. The demand for the previous model was well-documented, and market conditions have remained stable. This decision-making scenario is considered to be one of –

- A. certainty
- B. risk
- C. uncertainty
- D. None of them

DECISION MAKING CONDITIONS

Potterhead Inc. wants to expand its operations into a new international market where it has no prior experience and little market data is available. The political and economic conditions are unpredictable. This decision-making scenario is considered to be one of –

- A. certainty
- B. risk
- C. uncertainty
- D. None of them

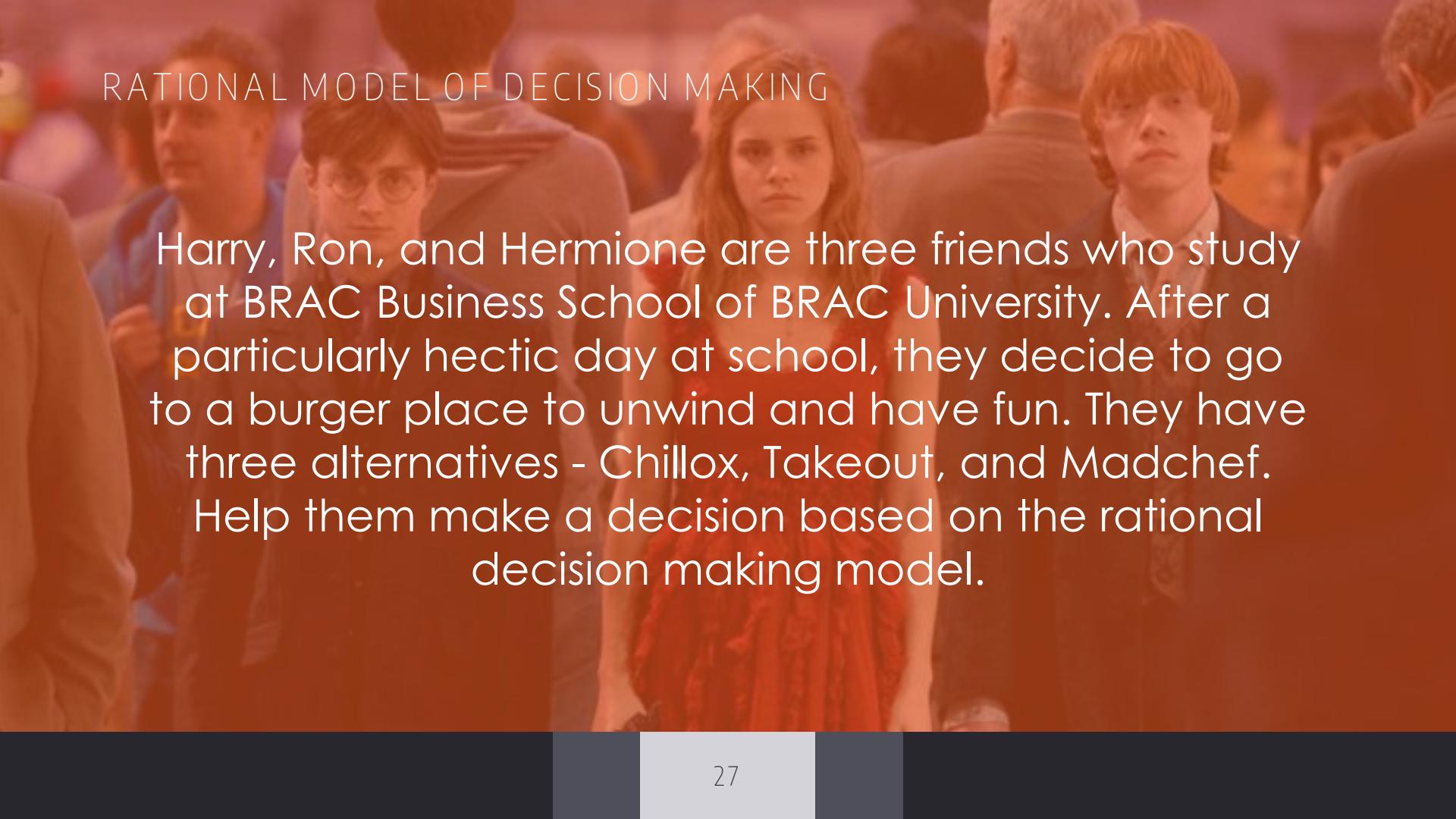
DECISION MAKING CONDITIONS

Potterhead Inc. is developing a new clothing line for the next season. They have conducted market research and trend analysis, but customer preferences can be unpredictable. This decision-making scenario is considered to be one of –

- A. certainty
- B. risk
- C. uncertainty
- D. None of them



RATIONAL MODEL OF DECISION MAKING



Harry, Ron, and Hermione are three friends who study at BRAC Business School of BRAC University. After a particularly hectic day at school, they decide to go to a burger place to unwind and have fun. They have three alternatives - Chillox, Takeout, and Madchef. Help them make a decision based on the rational decision making model.

RATIONAL MODEL OF DECISION MAKING

Figure: Steps in the Rational Decision-Making Process



RATIONAL MODEL OF DECISION MAKING

1. Recognizing and Defining the Decision Situation

The first step in rational decision making is recognizing that a decision is necessary — that is, there must be some stimulus or spark to initiate the process.

Inherent in problem recognition is the **need to define precisely what the problem is.**

RATIONAL MODEL OF DECISION MAKING

2. Identifying Alternatives

Once the decision situation has been recognized and defined, the second step is to identify alternative courses of effective action.

In general, **the more important the decision, the more attention is directed to developing alternatives.**

Managers must recognize that various constraints often limit their alternatives.

RATIONAL MODEL OF DECISION MAKING

2. Identifying Alternatives

Common constraints include –

Legal Restrictions

Moral and Ethical
Norms

Authority
Constraints

Constraints
Imposed by the
Power and
Authority of the
Manager

Available
Technology

Economic
Consideration

Unofficial Social
Norms

RATIONAL MODEL OF DECISION MAKING

3. Evaluating Alternatives

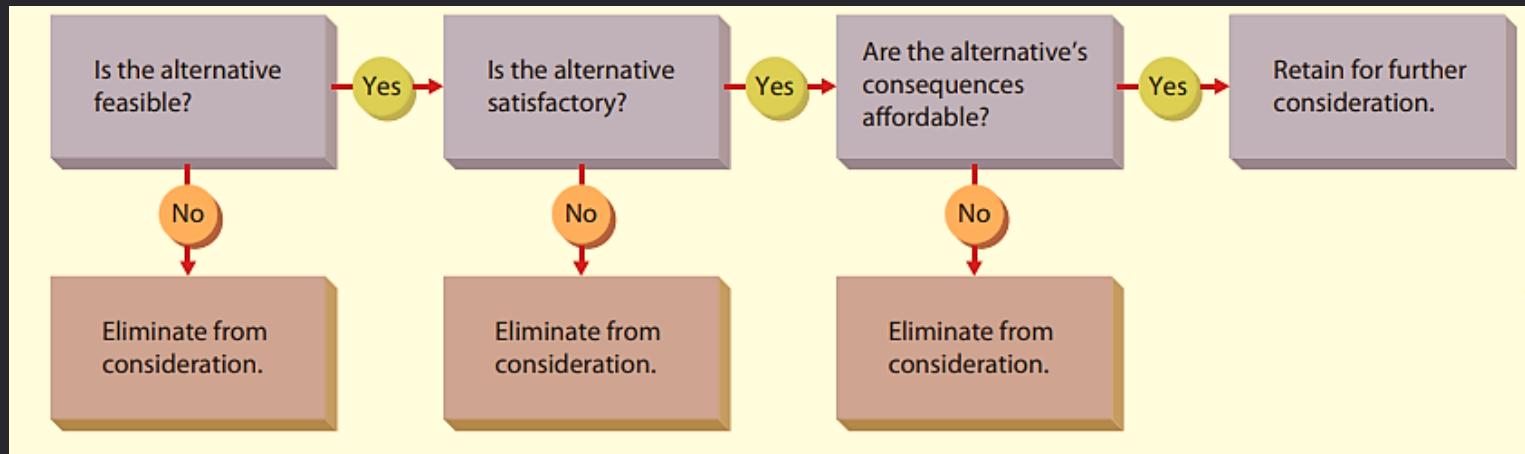
The third step in the decision-making process is evaluating each of the alternatives.

Figure 9.3 presents a decision tree that can be used to judge different alternatives. The figure suggests that each alternative be evaluated in terms of its feasibility, its satisfactoriness, and its consequences.

RATIONAL MODEL OF DECISION MAKING

3. Evaluating Alternatives

Figure 9.3 Evaluating Alternatives in the Decision-Making Process



3. Evaluating Alternatives

Feasibility Test: The first question to ask is whether an alternative is feasible. Is it within the realm of probability and practicality?

Satisfactoriness Test: When an alternative has passed the test of feasibility, it must next be examined to see how well it satisfies the conditions of the decision situation.

3. Evaluating Alternatives

Consequence Test: Finally, when an alternative has proven both feasible and satisfactory, its probable consequences must still be assessed.

To what extent will a particular alternative influence other parts of the organization?

What financial and nonfinancial costs will be associated with such influences?

RATIONAL MODEL OF DECISION MAKING

4. Selecting an Alternative

Even though many alternatives fail to pass the triple tests of feasibility, satisfactoriness, and affordable consequences, two or more alternatives may remain.

Choosing the best of these is the real crux of decision making.

5. Implementing the Chosen Alternative

After an alternative has been selected, the manager must put it into effect.

Managers should anticipate potential resistance at various stages of the implementation process.

6. Following Up and Evaluating the Results

The final step in the decision-making process requires that managers evaluate the effectiveness of their decision — that is, they should make sure that the chosen alternative has served its original purpose.

Failure to evaluate decision effectiveness may have serious consequences.

RATIONAL MODEL OF DECISION MAKING

You and three of your friends have just finished your summer semester at university and are eager to go on a trip outside Dhaka to unwind and relax. There are several conditions that must be met while planning the trip such as -

- The trip should provide a break from the academic stress.
- The trip should be within a reasonable budget for all participants.
- The location should be easily accessible from Dhaka.
- The trip should fit within the semester break period (1 week).
- The destination should offer a variety of activities that everyone will enjoy.

Use the rational decision-making model to plan the trip, ensuring that the decision is well thought out and everyone's preferences are considered.

THANK YOU



CONSULTATION HOURS

Sunday and Tuesday

12:20 PM - 2:35 PM

Monday and Wednesday

10:50 AM - 2:35 PM



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