

Module 4

Organizing for decision making



DECISION MAKING

“Making decisions is selecting one alternative from different alternatives”

- Decision is a choice whereby a person comes to a conclusion about given circumstances/situation.
- It involves choice making
- It is core of managerial activities in organization

STEPS IN DECISION MAKING

1. Recognizing and defining the situation	Some stimulus indicates that a decision must be made. The stimulus may be positive or negative.	A plant manager sees that employee turnover has increased by 5 percent.
2. Identifying alternatives	Both obvious and creative alternatives are desired. In general, the more significant the decision, the more alternatives should be generated.	The plant manager can increase wages, increase benefits, or change hiring standards.
3. Evaluating alternatives	Each alternative is evaluated to determine its feasibility, its satisfactoriness, and its consequences.	Increasing benefits may not be feasible. Increasing wages and changing hiring standards may satisfy all conditions.
4. Selecting the best alternative	Consider all situational factors, and choose the alternative that best fits the manager's situation.	Changing hiring standards will take an extended period of time to cut turnover, so increase wages.
5. Implementing the chosen alternative	The chosen alternative is implemented into the organizational system.	The plant manager may need permission of corporate headquarters. The human resource department establishes a new wage structure.
6. Follow-up and evaluation	At some time in the future, the manager should ascertain the extent to which the alternative chosen in step 4 and implemented in step 5 has worked.	The plant manager notes that, six months later, turnover has dropped to its previous level.

LIMITATIONS OF DECISION MAKING

1. Time Consuming

A lot of precious time is consumed for decision making:- Individual decisions ,studying the merits and demerits of all the alternatives, taking advice from many people.

Group decisions are also time consuming:-

2. Compromised Decisions

In group decisions, there is a difference of opinion. This results in a compromised decision. A compromised decision is made to please all the members. The quality of this decision is inferior. So it will not give good results on implementation.

LIMITATIONS OF DECISION MAKING

3. Subjective Decisions

Individual decisions are **not objective**. They are subjective. This is because the decisions **depend** on the **knowledge, education, experience, perception, beliefs, moral, attitude**, etc., of the manager. Subjective decisions are **not good** decisions.

4. Biased Decisions

Sometimes decisions are biased. That is, the manager makes decisions, which **only benefit himself and his group**. These decisions have a **bad effect on the workers**, consumer or the society.

LIMITATIONS OF DECISION MAKING

5. Limited Analysis

Before making a decision the manager must **analyze** all the alternatives:-study the **merit and demerits** of each alternative--**select the best** alternative.

However, most managers **do not do this**:- **limited time, inexperienced researchers and wrong sampling**. This limited analysis results in bad decisions.

6. Uncontrollable Environmental Factors

Environmental factors include **political, social, technological** and other factors. These factors are **dynamic in nature** and **keeps on changing** everyday. The manager **has no control** over

LIMITATIONS OF DECISION MAKING

7. Uncertain Future

Decisions are made for the future. However, the future is very uncertain. Therefore, it is very difficult to take decisions for the future.

8. Responsibility is Diluted

In an individual decision, only one manager is responsible for the decision. However, in a group decision, all managers are responsible for the decision. That is, everybody's responsibility is nobody's responsibility. So, the responsibility is diluted.

EVALUATION OF ALTERNATIVES

Once appropriate alternatives have been found, the next step in planning is to **evaluate them** and **select the best** one. This is the *point of ultimate decision making*

While evaluating , the managers must compare the alternative plans or decisions.

The manager must consider the **quantitative** factors and **qualitative** factors

EVALUATION OF ALTERNATIVES

Quantitative factors:- can be measured numerically.

Eg: no. of units sold, cost in rupees etc.

These are tangible and people are likely to think exclusively.

Qualitative factors:- Intangible and difficult to measure numerically.

Eg: quality of labor relations, the risk of technological change etc.

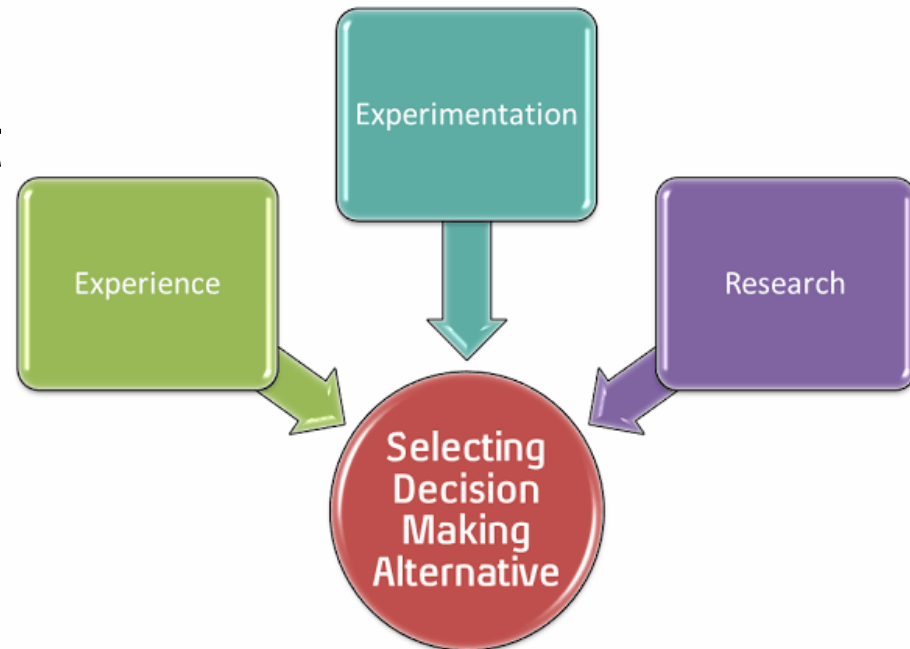
Rate them in terms of importance, compare their probable influence on the outcome

SELECTING FROM ALTERNATIVES

1. Experience

Experience is a great guide.

Success and **mistakes** from past experience provide almost a fool proof guide to future



- should not **blind dependence** on old experience
- **Recognize** the underlying reasons for mistakes and failures
- **Check** whether the **new situation** is applicable for past experience?

SELECTING FROM ALTERNATIVES

2. Experimentation

- Trying one of the alternatives and see how it goes
- Often used in **scientific** inquiry
- Best way can be find out only by trying various alternatives
- **Very expensive**
- Doubts may remain even after carrying the experiment about certainty and real nature.



SELECTING FROM ALTERNATIVES

3. Research and Analysis

- One of the best techniques for selecting from alternatives.
- **Solving** a problem by **understanding** it:- pen and paper approach to decision making
- **Break up and analyze** the quantitative and qualitative aspects
- Much cheaper than experimentation but require time consuming
- **Prototype** modeling



TYPES OF DECISIONS

Programmed decision

- Concerned with the relatively routine problems. decisions are taken in the regular course of any business operations
- Occur at a day-to-day frequency.
- Decisions are repetitive and structured in nature.
- Small and have a low scope of impact.
- The Information are readily available and can be processed in a pre-determined manner.
- Demand very little time and effort as there are pre-determined decision rules and procedures.

TYPES OF DECISIONS

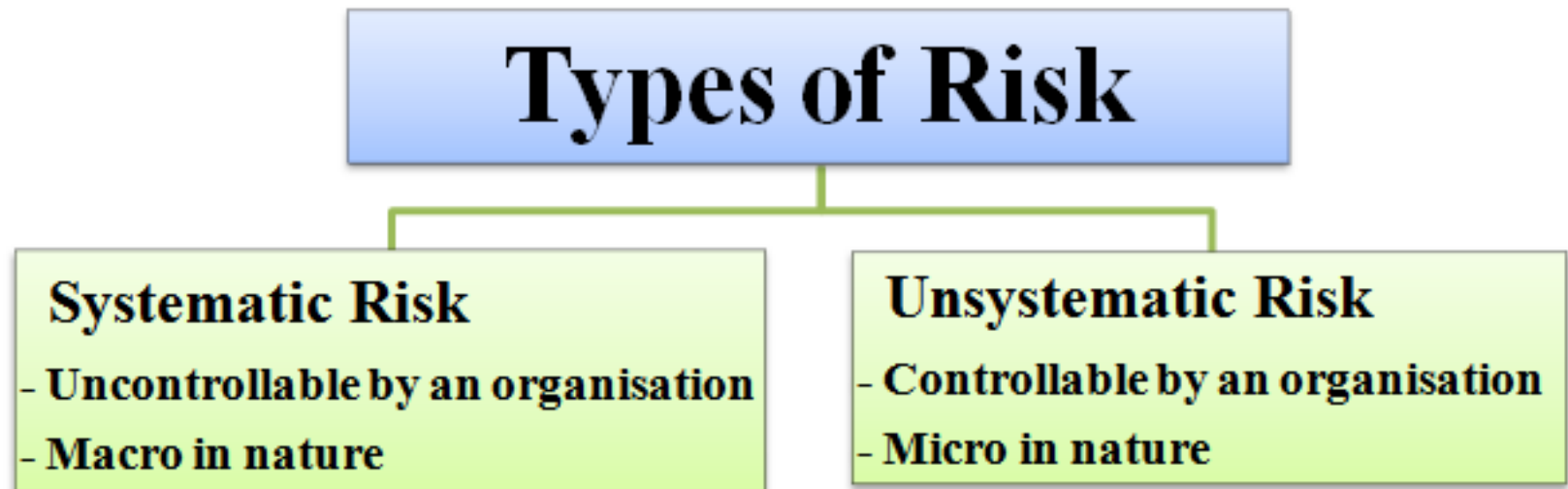
Non-programmed decision

- Concerned with **unique or unusual** problems.
- Encountered in a **very non-frequent** manner.
- Decisions are **unstructured, non-recurring** and ill-defined in nature.
- **Relatively complex** and have a long-term impact.
- The Information regarding these problems are not easily available
- Require **high degree of executive judgment** and deliberation.
- Intuition and experience also play large roles in the making of non programmed decisions

Risk

Risk implies the **extend to** which any **chosen action** or **an inaction** that may **lead to a loss** or some unwanted outcome.

A manager investing a new product development, adoption of new technology or a new market entry faces various risks.



Risk



1. Interest rate risk

Interest-rate risk arises due to **variability in the interest rates** from time to time. It particularly affects debt securities as they carry the fixed rate of interest.

Risk

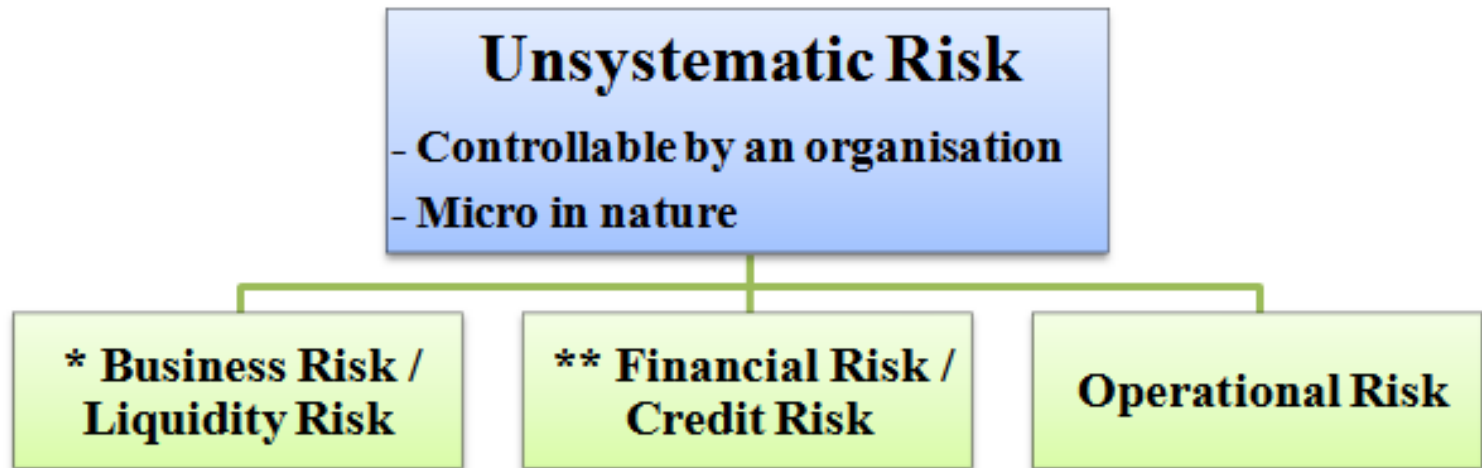
2. Market risk

Market risk is associated with consistent **fluctuations** seen in the trading price of any particular **shares or securities**. That is, it arises due to rise or fall in the trading price of listed shares or securities in the stock market.

3. Purchasing power or inflationary risk

Purchasing power risk is also known as inflation risk. It is so, since it emanates (originates) from the fact that it affects a purchasing power adversely. It is **not desirable to invest in securities during an inflationary period**.

Risk



1. Business or liquidity risk

Business risk is also known as liquidity risk. It is so, since it emanates (originates) from the sale and purchase of securities affected by business cycles, technological changes, etc.(selling at low price).

2. Financial or credit risk

Financial risk is also known as credit risk. It arises due to change in the capital structure of the organization.

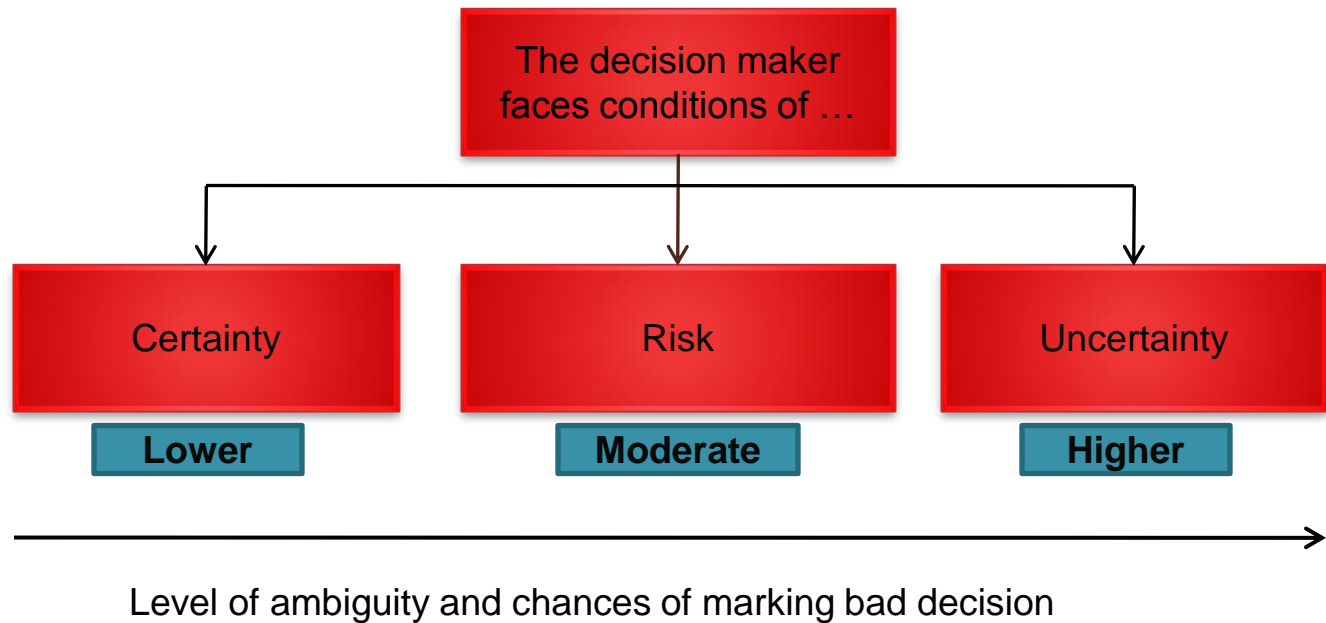
Eg: share capital, loan fund etc.

Risk

3. Operational risk

Operational risks are the business process risks failing due to human errors. This risk will change from industry to industry. It occurs due to breakdowns in the internal procedures, people, policies and systems.

Decision-making Conditions

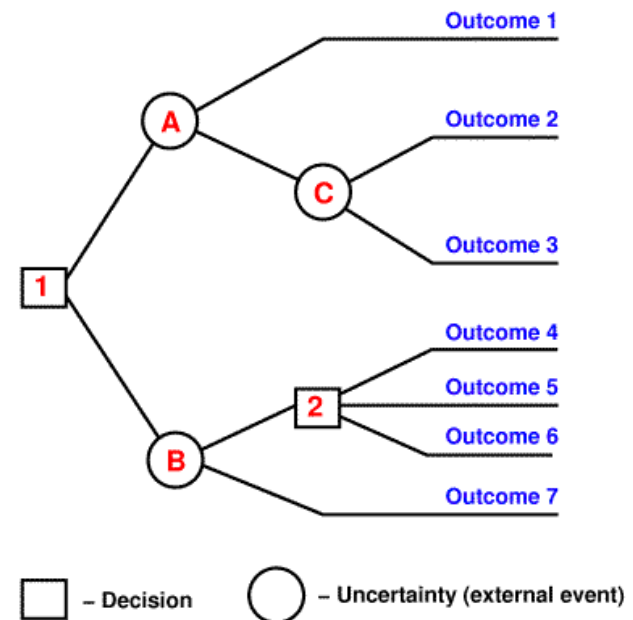


Decision Making Under Certainty

- Conditions under certainty are in which the decision maker **has full and needed information** to make decision.
- In organizational settings, **few decisions** are made under conditions of true certainty.
- The complexity and turbulence of the contemporary business world make such situations rare.
- One common technique is **linear programming**
 - Desired benefit can be expressed as a mathematical function of several objectives

Decision Making Under Risk

- This is a situation wherein all the possible outcomes and the probability of occurrence are known, even as one does not know which outcome shall surely occur.
- Important methods used for taking investment decisions under risk are
 - Sensitivity Analysis
 - Decision tree analysis



Decision Making Under Uncertainty

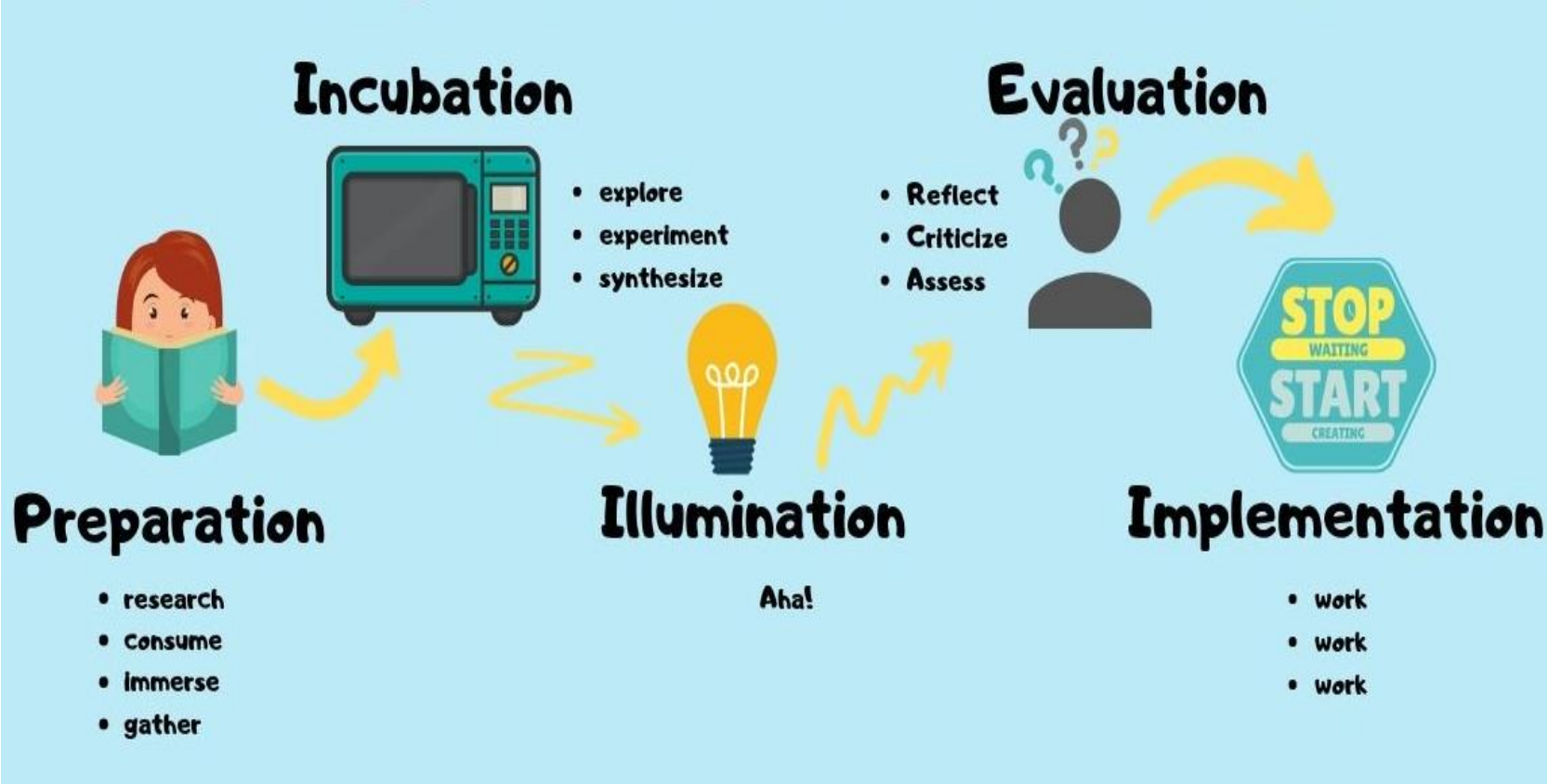
- The decision maker **does not know all the alternatives**, the risks associated with each, or the consequences each alternative is likely to have.
- Approach the situation from a **logical and rational perspective**.
- **Intuition, judgment, and experience** always play major roles in the decision-making process under conditions of uncertainty.
- Different approaches are
 - The maxi-max solution
 - The maxi-min solution
 - The mini-max solution
 - The Laplace criteria

Creative Process

- Creativity is a way of thinking that generates new ideas. Creativity is the driver that **leads to innovation**.
- Often called **thinking outside the box**, and coming up with novel and useful ways to solve problems or come up with opportunities
- Creativity obviously leads to innovation, but it can be **costly**, and there is always the **risk of failure**.

The three stages in the creative process are (1) preparation, (2) incubation and illumination, and (3) evaluation.

Creative Process



1. Preparation - Define the problem by getting **others'** **opinions, feelings, and ideas**, as well as the facts. Look for new angles, use imagination and invention, and **don't limit yourself** to the boundaries of past thinking.

Creative Process

2. Incubation and illumination - After generating alternatives, take a break; **sleep on the problem.** During the incubation stage, as **your subconscious works on the problem**, you may gain an insight into the solution illumination. Illumination can also happen while working on the problem.

3. Evaluation - Before implementing a solution, you should **evaluate the alternative** to make sure the idea is practical. A **good approach** is to become the **devil's advocate**. With the devil's advocate approach, group members focus on defending a solution while others try to come up with reasons the solution will not work.

ORGANIZING

Definition

Organizing is the process of identifying and grouping the work to be performed, defining and delegating responsibility and authority, and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives.

- Louis Allen



Nature of Organizing

1. **Goal directed activity-** common purpose of organizing
2. **Differentiating activity-** involved identification and classification of activities
3. **Grouping activity-** involves department, teams
4. **Assigning or delegation activity-** assignment of groups and individuals to different competent authorities
5. **Integrating activity-** proper co-ordination of the efforts of various units
6. **Dynamic and constantly evolving activity-** to adapt changes in an organizing environment

Importance of Organizing

- Benefits of specialization
- Clarity in working relationships
- Optimum utilization of resources
- Adaptation to change
- Development of personnel
- Expansion and growth

Span of management

- There is a limit to the number of persons an individual can effectively manage .
- Span of control is the number of subordinates which are directly under their supervisors
- Span of management is normally expressed as a ratio of manager to employees.

Span of management

Factors affecting span of management

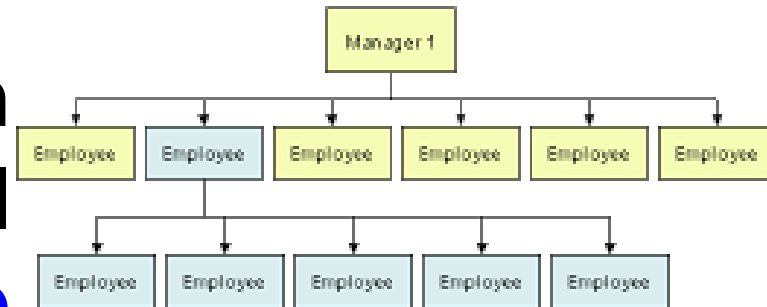
- Nature of work
- Clarity of plans and responsibilities
- Capacity of persons
- Time
- Geographical distribution

Types of Span of management

1. Wide Span of control

A manager can supervise and control effectively a **large group of persons at one time**

Example of a Wide Span of Control



Features

- Less overhead cost of supervision
- Suitable for repetitive jobs
- Clear policies must be made
- Tendency of overloaded
- Requires high level of management skill

Types of Span of management

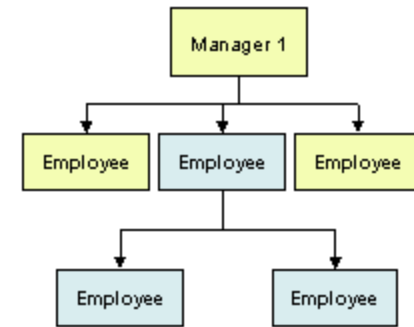
2. Narrow Span of control

A manager can supervise and control effectively a small group of persons at one time

Features

- Specialized work can be achieved
- Close supervision, Close control, Fast communication
- Subordinates tend to get involved in subordinates work
- High Costs due to many levels

Example of a Narrow Span of Control

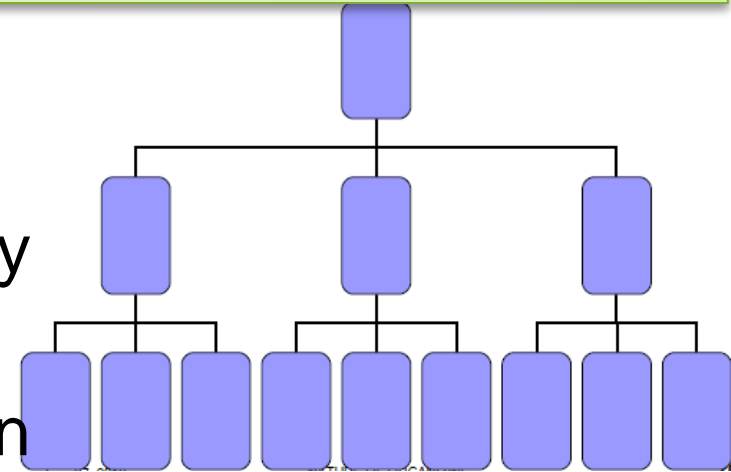


Formal and informal organization

Formal Organization

Features

- It is deliberately designed by the **top management**
- It places more emphasis on **work to be performed** than interpersonal relationships among the employees.
- It specifies the **relationships** among various job positions and the nature of their inter-relationship.
- It **lays down rules** and procedures essential for achievement of objective

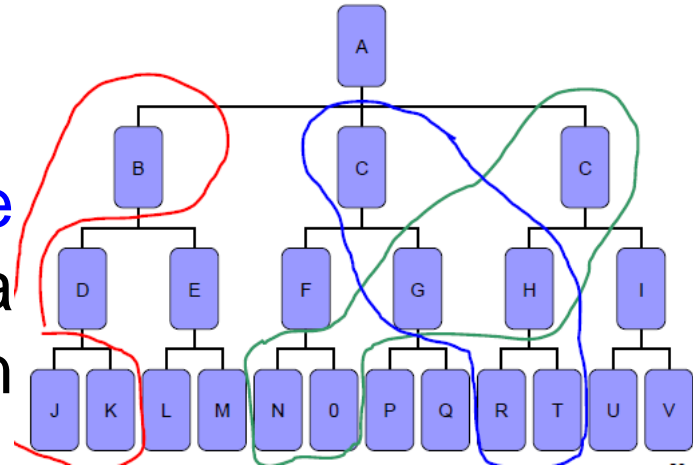


Formal and informal organization

Informal Organization

Features

- Originates from within the formal organization as a result of personal interaction among employees.
- The standards of behavior evolve from group norms.
- Independent channels of communication without specified direction of flow of information are developed by group members.
- Emerges spontaneously and is not deliberately created by the management.



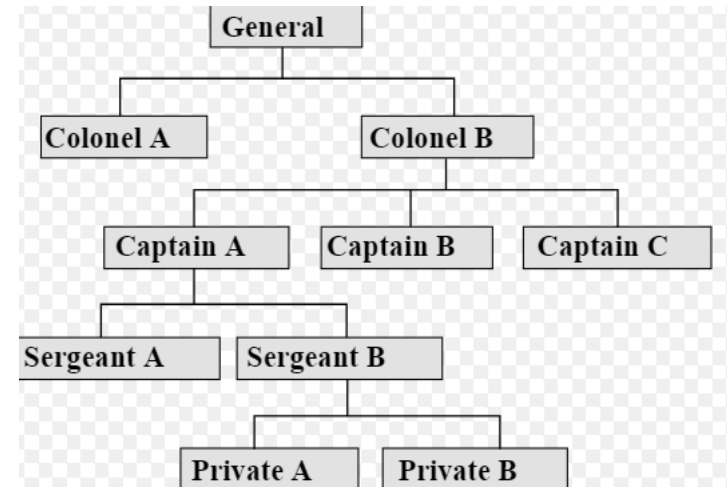
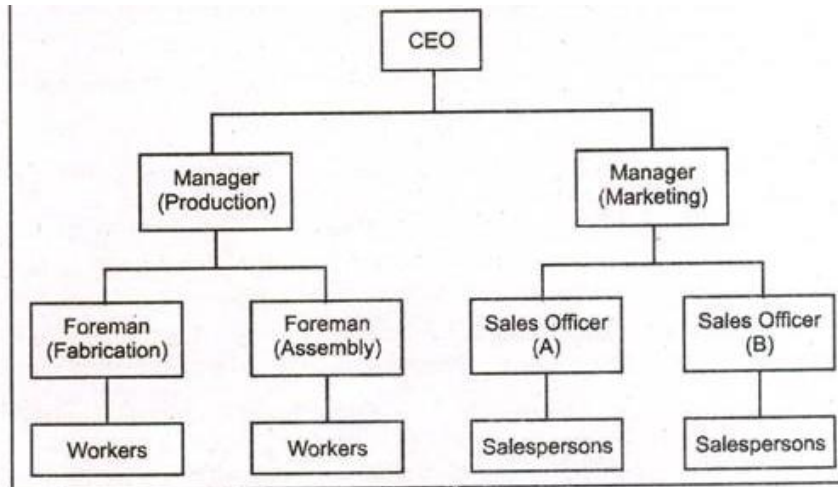
Forms of organization

- Organization is **designed** on the basic of principles of **labor** and **span of management**.
- **Nature, scale** and **size** of the business are the normal factors which determine forms of internal organization
- Important organizational structures are:
 1. Line, Military or scalar organisation
 2. Line and staff organisation
 3. Functional organisation
 4. Project organisation
 5. Matrix organisation

Forms of organization

Line Organisation

- Line organisation is the **simple** and **oldest** type of organisation followed in an organisation. Under line organisation, each department is generally a **complete self-contained unit**.



Forms of organization

- The same level executives do not give or receive orders amongst themselves. But they receive orders from their immediate boss and give orders to their subordinates.
- This type of organisation is followed in the army on the same pattern. So, it is called military organisation.
- This type of organisation, the line of authority flows from the top to bottom vertically. So it is called line organisation.

Forms of organization

Characteristics of line organisation

- It consists of **direct vertical** relationships.
- Authority flows from **top-level** to level **to bottom** level.
- Departmental heads are given **full freedom** to control **their departments**.
- Each member knows from whom he would get orders and to whom he should give his orders.
- A senior member has **direct command** over his subordinates.
- Operation of this system is **very easy**.
- Existence of **direct relationship** between superiors and subordinates.

Forms of organization

Advantages and Disadvantages of Line Organisation

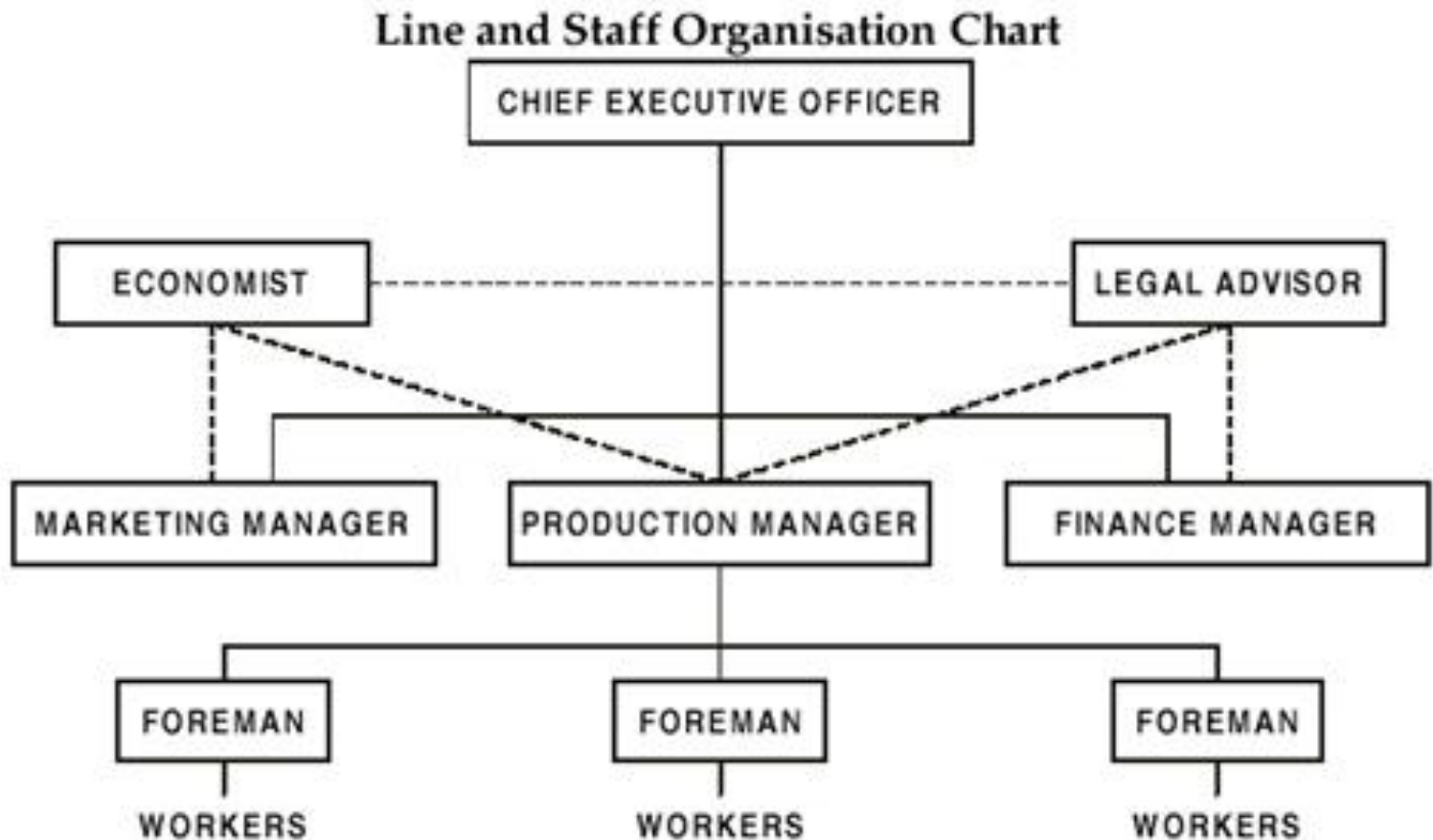
Advantages of line organisation	Disadvantages of line organisation
1. Simplicity	1. Lack of specification
2. Division of authority and responsibility	2. Over loading
3. Unity of control	3. Lack of initiative
4. Speedy action	4. Scope for favoritism
5. Discipline	5. Dictatorial
6. Economical	6. Limited communication
7. Co-ordination	7. United administration
8. Direct communication	8. Subjective approach
9. Flexibility	9. Instability
	10. Lack of co-ordination

Forms of organization

Line and staff organisation

- The line officers have authority to take decisions and implement them to achieve the objectives of the organisation.
- The staff executives are recruited to perform specialized function. They relieve line officers by giving advices and expert opinion
- The staff officers are not in a position to compel the line officers to follow the advice by them
- Each department is headed by a line officer who exercises full authority regarding the planning

Forms of organization



Note: Straight lines represent line and broken lines represent staff.

Forms of organization

Functions of staff officers

- The staff officers **assist** the line officers in the **planning** of business activity.
- The board of directors **frames the policies** of the business on the basis of recommendations given by the staff officers.
- The managers can get the **advice** from the staff officers regarding the **selection**. 'training' placement and **remuneration fixation** the personnel
- Staff officers of a department help the manager in the **preparation** of **budget** of the department.

Forms of organization

- The staff officers give advices for the method of improving the product, the technique of reducing the cost of production, increasing the profits.
- The staff officers prescribe the procedures to be followed by the line officers in the execution of policies and programs.
- the staff officers may be called to solve the administrative problems encountered by the line officers in general

Forms of organization

Arguments of staff officers against line officers

- The staff officers have **only theoretical academic knowledge** but not practical knowledge.
- The staff officers go **beyond their sphere of activity** and assume that they have line officer's authority.
- Much of the **advice** given by the staff officers is **impractical**
- Since the staff officers **unnecessary increases the paperwork** of the line officers.

Forms of organization

Solution to the conflict between line officers and staff officers

- Both line officers and staff officers should **clearly understand** the **nature of relationship** prevailing between them.
- A **separate staff member** should be appointed to **bring** about **co-operation** between the line officers and staff officers.
- The **line officers** should be **encouraged** to use the **advice** of staff officers.
- **Only qualified** persons should be selected and **placed as staff officers**.

Forms of organization

Advantages and Disadvantages of Line and Staff Organisation

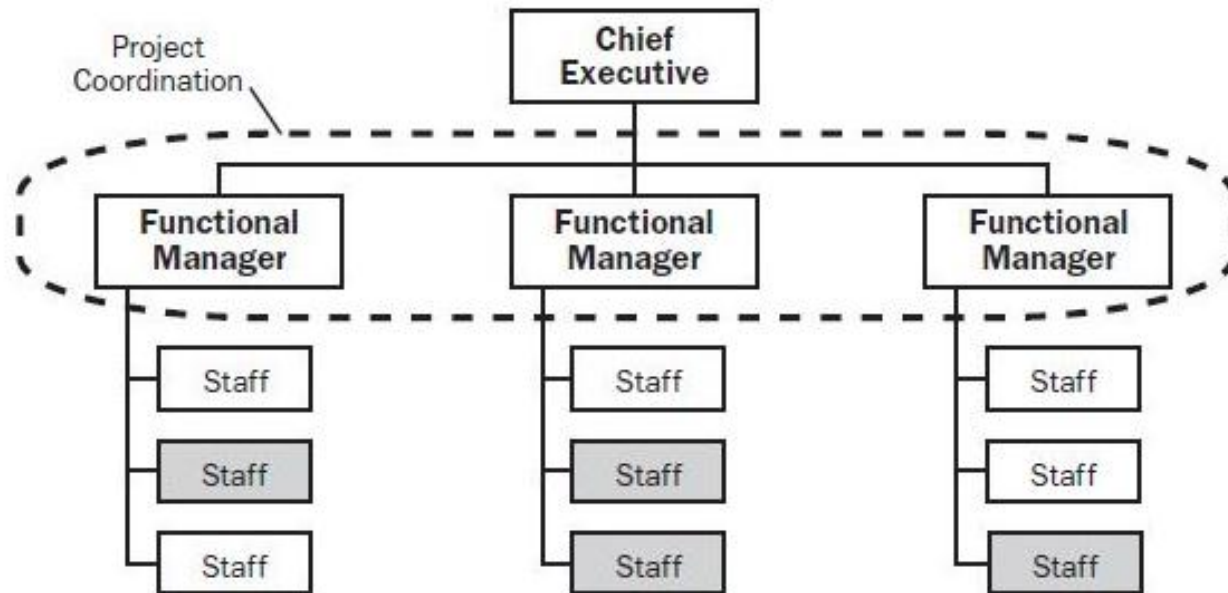
Advantages of line and staff organisation	Disadvantages of line and staff organisation
Facilitates to work faster and better	If powers are not defined then get confusion
Specialization is attained	Line officers may reject advice without any reason for their action
Enables to utilize experience and advice	Staff officers are not responsible if favorable results are not obtained.
Officers can take sound advice	Difference between line and staff officers will defeat the very purpose of specialization
New technology or procedure can be introduced without any dislocation	Line officers blame staff officers for unfavorable results and want to get rewards for favorable results
Promotes efficient functioning of line officers	
Very good opportunity is made available to young person to get training	

Forms of organization

Functional organisation

- Under **line** organisation, **a single person** is in **charge of all the activities** of the concerned department. The person in charge finds it difficult to supervise all the activities efficiently.
- Under functional organisation, various **specialists** are for **various functions** performed in an organisation
- Workers, under functional organisation, receive instructions from various specialists.

Forms of organization



(Gray boxes represent staff engaged in project activities.)

The need for functional organisation arises out of the **complexity of modern and large-scale organisation**

Forms of organization

Characteristics of functional organisation

- The work is **divided** according to **specified functions**.
- **Authority** is given to a **specialist** to give orders and instructions in **relation to specific function**.
- **Functional authority** has right and power to give command throughout the line with reference to his **specified area**.
- The **decision is taken** only after making **consultations** with the **functional authority** relating to his specialized area.

Forms of organization

Advantages and Disadvantages of Functional Organisation

Advantages of functional organisation

- Benefit of specialization
- Application of expert knowledge
- Reducing the work load
- Efficiency
- Adequate supervision
- Relief to line executive
- Co-operation
- Economy
- Flexibility
- Mass production

Disadvantages of functional organisation

- Complex relationship
- Discipline
- Over specialization
- Ineffective co-ordination
- Speed of action
- Centralization
- Lack of responsibility
- Increasing the overhead expenses
- Poor administration
- Suitability of functional organisation

Departmentation

- Departmentation is the foundation of organisation structure.
- Departmentation means division of work into smaller units and their re-grouping into bigger units (departments) on the basis of similarity of features.
- Each department is headed by a person known as departmental manager.
- Division of work into departments leads to specialization as people of one department perform activities related to that department only.