Managerial Decision-Making Process/Steps

- Decision-making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.
- Using a step-by-step decision-making process can help you make more deliberate, thoughtful decisions by organizing relevant information and defining alternatives. This approach increases the chances that you will choose the most satisfying alternative possible.
- Decision-making is crucial for running a business enterprise that faces a large number of problems requiring decisions.
- Which product to be produced, what price to be charged, what quantity of the product to be produced, what and how much advertisement expenditure to be made to promote the sales, and how much investment expenditure to be incurred are some of the problems which require decisions to be made by managers.

The five steps involved in the managerial decision-making process are explained below:

1. Establishing the Objective:

- The first step in the decision-making process is to establish the objective of the business enterprise. The important objective of a private business enterprise is to maximize profits.
- However, a business firm may have some other objectives such as maximization of sales or growth of the firm.
- But the objective of a public enterprise is normally not maximization of profits but to follow benefit-cost criterion.
- According to this criterion, a public enterprise should evaluate all social costs and benefits when deciding whether to build an airport, a power plant, a steel plant, etc.

2. Defining the Problem:

- The second step in the decision-making process is one of defining or identifying the problem. Defining the nature of the problem is important because decision-making is after all meant for the solution of the problem.
- For instance, a cotton textile firm may find that its profits are declining. It needs to be investigated what are the causes of the problem of decreasing profits. Whether it is the wrong pricing policy, bad labor-management relations, or the use of outdated technology which is causing the problem of declining profits. Once the source or reason for falling profits has been found, the problem has been identified and defined.

3. Identifying Possible Alternative Solutions (i.e. Alternative Courses of Action):

- Once the problem has been identified, the next step is to find out alternative solutions to the problem. This will require considering the variables that have an impact on the problem.
- In this way, relationships among the variables and with the problems have to be established.
- Regarding this, various hypotheses can be developed which will become alternative courses for the solution of the problem.
- For example, in the case of the problem mentioned above, if it is identified that the problem of declining profits is due to be use of technologically

inefficient and outdated machinery in production.

The two possible solutions to the problem are:

(1) Updating and replacing only the old machinery.

(2) Building an entirely new plant equipped with the latest machinery.

The choice between these alternative courses of action depends on which will bring about a larger increase in profits.

4. Evaluating Alternative Courses of Action:

- The next step in business decision-making is to evaluate the alternative courses of action. This requires the collection and analysis of the relevant data.
- Some data will be available within the various departments of the firm itself, the other may be obtained from the industry and government.
- The data and information obtained can be used to evaluate the outcome or results expected from each possible course of action.
- Methods such as regression analysis, differential calculus, linear programming, and cost-benefit analysis are used to arrive at the optimal course. The optimum solution will help to achieve the established objective of the firm.
- The course of action which is optimum will be chosen. It may be further noted that for the choice of an optimal solution to the problem, a manager works under certain constraints.
- The constraints may be legal such as laws regarding pollution and disposal of harmful wastes; they may be financial (i.e. limited financial resources); they may relate to the availability of physical infrastructure and raw materials, and they may be technological which set limits to the possible output to be produced per unit of time.

5. Implementing the Decision:

- After the alternative courses of action have been evaluated and the optimal course of action selected, the final step is to implement the decision.
- The implementation of the decision requires constant monitoring so that expected results from the optimal course of action are obtained. Thus, if it is found that expected results are not forthcoming due to the wrong implementation of the decision, then corrective measures should be taken.
- However, it should be noted that once a course of action is implemented to achieve the established objective, changes in it may become necessary from time to time in response to changes in conditions or the firm's operating environment based on which decisions were taken.

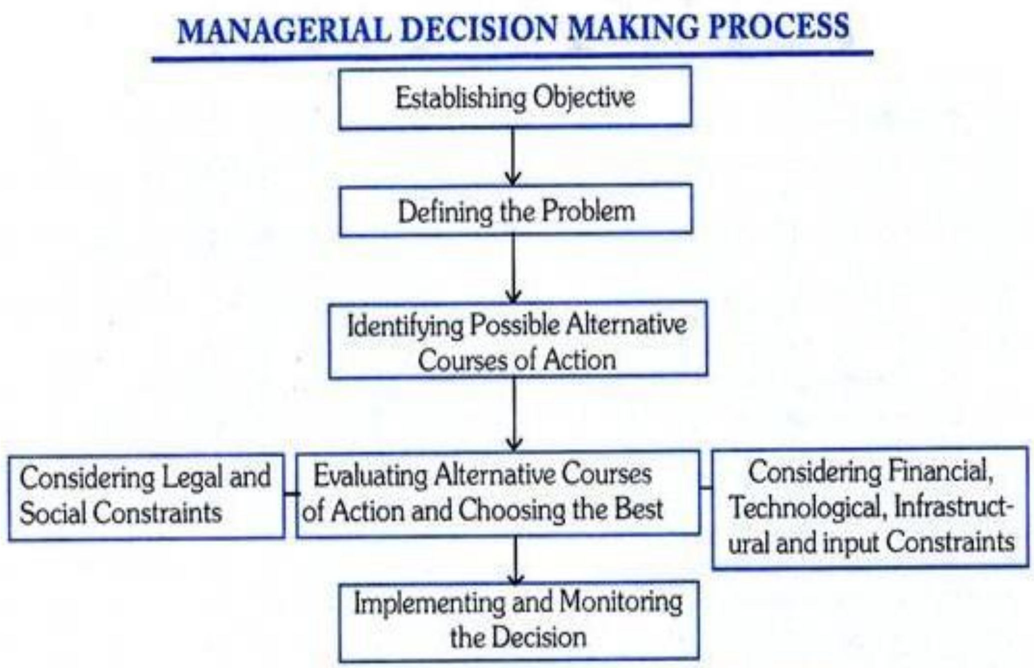
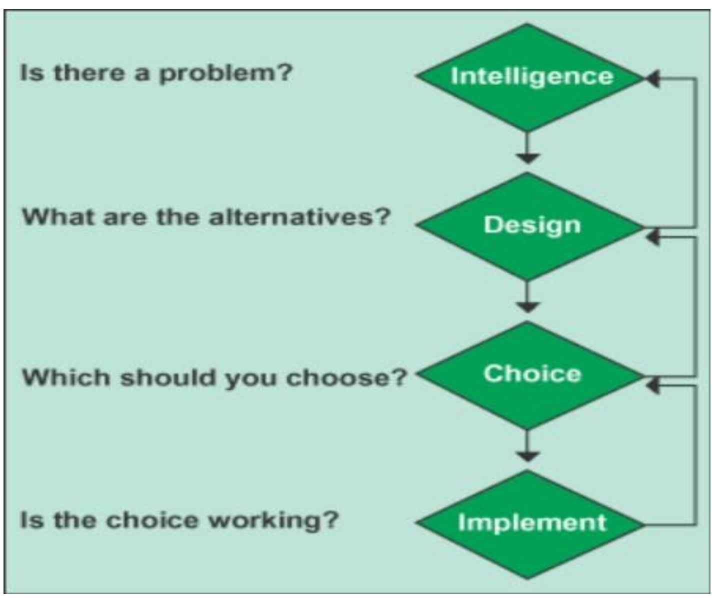


Fig. 1.2. *Managerial Decision Making Process : Various Steps*

Phases of Decision Making



Types of Decision-Making in Management

1. **Routine and Basic Decision-making**

- **Routine decision-making,** refers to the process of making decisions that are made regularly and involve choosing between a few options that the decision-maker is familiar with.
  - Examples of routine decision-making include setting work schedules, ordering supplies, and approving routine expenses. Managers make routine decisions in the daily functioning of the organization, and they often delegate these decisions to their subordinates.
- **Basic decision-making** refers to the process of making simple decisions that do not require much evaluation or analysis.
  - Examples of basic decision-making include setting work schedules, ordering supplies, and approving routine expenses. Managers make basic decisions in the daily functioning of the organization, and they often delegate these decisions to their subordinates.

2. **Personal and Organizational Decision-making**

- **An organizational decision** is made on behalf of the organization and is related to the organization's operations, policies, or strategic plans. These decisions can be delegated to subordinates and usually have a significant impact on the organization's success.
  - **Examples** of organizational decisions include setting production targets, choosing suppliers, or investing in new technology.
- **In contrast, a personal decision** is a decision made by a manager that is not related to the organization in any way. These decisions are related to the manager's personal life within the organization and cannot be delegated to subordinates.
  - **Examples** of personal decisions include what to eat for lunch, what mode of transportation to use for commuting, or what hobby to pursue outside of work.

3. **Individual and Group Decision-making**

- **Individual decision-making** is when one person decides an official capacity, often in smaller organizations or with an autocratic management style.
  - Examples include a CEO investing in a new product or a manager firing an employee.

- **Group decision-making** involves a collective of employees and managers making decisions through a collaborative process. Multiple viewpoints and perspectives are considered.
    - Examples include a team of managers deciding on a marketing strategy or a board of directors deciding on a merger or acquisition.

4. Programmed and Non-Programmed Decision-making

- Programmed decision-making refers to decisions that are repetitive and follow a specific set of procedures. These decisions are typically made by lower-level managers and are implemented daily.
    - **Examples of programmed decisions** include setting work schedules, granting employee leave, and ordering routine supplies. These decisions are not typically long-term and can be changed at any time.
- Non-programmed decision-making, on the other hand, relates to decisions that are not routine and arise from unstructured problems. These decisions are usually made by upper-level management and have a long-term impact on the organization.
    - **Examples** of non-programmed decisions include launching a new product line, entering a new market, or responding to a crisis situation.

5. Policy and Operating Decision-making

- **Policy decision-making** is the process of making decisions that establish the overall direction, goals, and objectives of an organization. These decisions are made by top-level executives and have a long-term impact on the organization as a whole.
    - **Examples of policy decisions** include setting strategic goals, defining the company's mission, and determining the organizational structure.
- **Operating decision-making**, on the other hand, relates to the day-to-day operations of an organization. These decisions are made by lower-level managers and employees and are focused on implementing the policies and plans established by the top-level executives.
    - **Examples of operating decisions** include managing inventory, scheduling production, and addressing customer service issues.

6. Tactical and Strategic Decision-making

- **Tactical decision-making** refers to the process of making decisions that help implement the plans and policies established by higher-level management.

These decisions are more short-term in nature and are usually made by middle and lower-level managers.

  - Examples of tactical decisions include scheduling production, managing inventory, and resolving customer service issues.
- **Strategic decision-making**, on the other hand, refers to decisions that have a significant impact on the long-term success of the organization. These decisions are usually made by upper and middle-level management and require careful analysis and evaluation.
  - Examples of strategic decisions include entering a new market, developing new products or services, and investing in new technology.

7. Planned and Unplanned Decision-making

- Planned decision-making refers to decisions that are made in advance and are part of an established process. These decisions are based on predetermined criteria and often involve a systematic approach to problem-solving.
  - Examples of planned decision-making include budgeting, project planning, and performance evaluations.
- Unplanned decision-making, on the other hand, refers to decisions that are made in response to unexpected events or situations. These decisions may not follow a predetermined process or have established criteria.
  - Examples of unplanned decision-making include crisis management, responding to customer complaints, and adapting to changes in the market or industry.

	Management by Objectives (MBO)	**Management by Exception (MBE)**
Definition	A management approach in which managers and employees work together to set and achieve specific goals.	A management approach in which managers monitor performance and take action only when deviations from established standards occur.

Goals	Specific and measurable goals are set in advance and agreed upon by all parties.	Standards are set in advance and managers monitor performance to ensure they are met.
Emphasis	Emphasis is placed on setting and achieving goals.	Emphasis is placed on monitoring and controlling performance.
Role of Managers	Managers actively participate in setting and achieving goals.	Managers primarily monitor performance and take action when necessary.
Role of Employees	Employees are involved in setting goals and take responsibility for achieving them.	Employees are responsible for meeting established standards.
Decision-Making	Decisions are made based on goal attainment.	Decisions are made based on deviation from established standards.
Feedback and Communication	Regular feedback and communication is necessary to ensure progress towards goals.	Feedback and communication primarily occur when deviations from standards are identified.
Implementation and Evaluation	Implementation and evaluation of progress toward goals is ongoing.	Implementation and evaluation primarily occur when deviations from standards are identified.

Key differences between MBO and MBE

- **Focus:** MBO focuses on setting and achieving specific, measurable goals, while MBE focuses on identifying and addressing exceptions or deviations from established standards or goals.
- **Proactivity vs reactivity:** MBO is a proactive management approach, while MBE is a reactive management approach.
- **Participation:** In MBO, managers and employees work together to set and achieve goals, while in MBE, managers focus on identifying and addressing exceptions or deviations.
- **Emphasis**: MBO emphasizes goal setting and achievement, while MBE emphasizes problem identification and resolution.
- **Time frame:** MBO focuses on long-term goals and objectives, while MBE focuses on identifying and addressing short-term exceptions or deviations.
- **Feedback:** MBO includes regular feedback and evaluation to measure progress towards goals, while MBE focuses on identifying and addressing exceptions or deviations as they occur.
- **Management level:** MBO is typically implemented at the organizational level, while MBE is typically implemented at the operational level.
- **Outcome:** The outcome of MBO is achieving specific, measurable goals, while the outcome of MBE is identifying and addressing problems or inefficiencies in the organization.

Managerial Functions- Organising

Organising is a management function that involves arranging and structuring work to accomplish the organisation's goals

Purposes of organising:

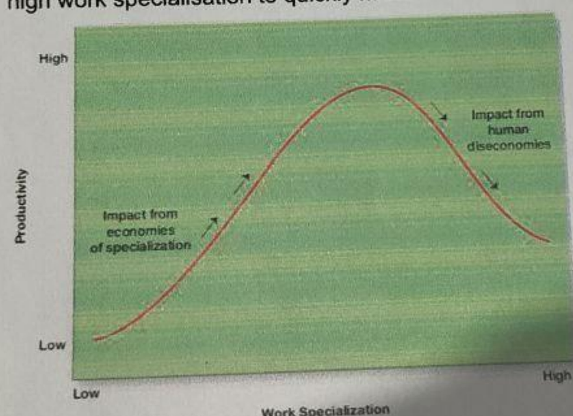
1. Divides work to be done in specific jobs and requirements
2. Assigns tasks and responsibility associated with each job
3. Coordinates diverse organisational tasks
4. Clusters jobs into units
5. Establishes relationships among individuals, groups and departments
6. Establishes formal lines of authority
7. Allocates and deploys organisational resources

Organisational Design

Organisational structure is the formal arrangement of jobs within an organisation

Organisational design is creating or changing an organisational structure, that involves decisions about 6 elements:

1. Work specialisation: dividing work into separate jobs and tasks, e.g., McDonalds uses high work specialisation to quickly make and deliver its food to customers



2. Departmentalisation: basis of grouping work together. It is done in 5 common ways:
    a. Functional
    b. Geographical
    c. Product
    d. Process
    e. Customer

3. Chain of command: line of authority extending from upper organisational levels to the lowest levels, which clarifies who reports to whom
    a. Unity of command: one of Fayol's 14 management principles, each person should report to only one manager
    b. However chain of command are less important in today's organisations
4. Span of control: the number of employees a manager can efficiently and effectively manage
    a. Apple CEO Tim Cook has 17 direct reports, it seems like a lot. But Cook indicates otherwise: "If you have smart people, a strong organizational culture, and a well-defined and articulated strategy that everyone understands, you can [have] numerous direct reports because your job isn't to tell people what to do."
5. Centralisation and decentralisation:
    a. Centralisation: degree to which decision making is concentrated at upper levels
    b. Decentralisation: degree to which lower level employees provide input or actually make decisions

More Centralization	More Decentralization
• Environment is stable.	• Environment is complex, uncertain.
• Lower-level managers are not as capable or experienced at making decisions as upper-level managers.	• Lower-level managers are capable and experienced at making decisions.
• Lower-level managers do not want a say in decisions.	• Lower-level managers want a voice in decisions.
• Decisions are relatively minor.	• Decisions are significant.
• Organization is facing a crisis or the risk of company failure.	• Corporate culture is open to allowing managers a say in what happens.
• Company is large.	• Company is geographically dispersed.
• Effective implementation of company strategies depends on managers retaining say over what happens.	• Effective implementation of company strategies depends on managers having involvement and flexibility to make decisions.

6. Formalisation: how standardised are organisation's jobs and the extent to which employee's behaviour is guided by rules and procedures.

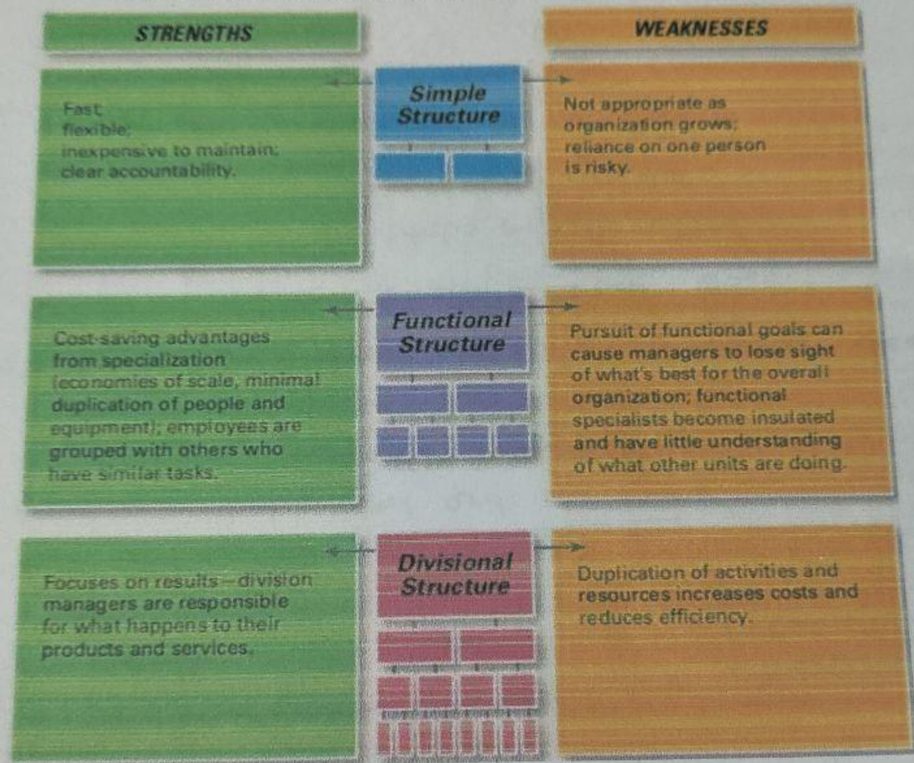
Mechanistic (Bureaucratic) Vs Organic organisation

Mechanistic	Organic
• High specialization	• Cross-functional teams
• Rigid departmentalization	• Cross-hierarchical teams
• Clear chain of command	• Free flow of information
• Narrow spans of control	• Wide spans of control
• Centralization	• Decentralization
• High formalization	• Low formalization

Traditional Organisational design options

These structures tend to be more mechanistic in nature. Three common types are:

1. Simple structure: little departmentalisation, with wide spans of control, centralised authority, little formalisation
2. Functional structure: groups together similar or related occupational specialities
3. Divisional structure: made up of separate, semiautonomous units or divisions



Organising for flexibility

1. Team structures: organisational structure in which entire organisation is made up of work teams, e.g., Google's corporate structure organised projects around "small, tightly focused teams"
2. **Matrix** and product structures:

Staffing

Staffing includes recruitment, selection, training, development, promotion, and compensation of personnel. It is the process of hiring and developing the required personnel to fill various positions in the organization. It involves estimating the number and type of personnel required, recruiting and developing them, and maintaining and improving their competence and performance.

Staffing may also be defined as the process of identifying, assessing, placing, developing, and evaluating individuals at work.

Definitions of staffing as given by various management thinkers are as follows:

Koontz and O'Donnell define staffing as "The managerial function of staffing involves manuring the organizational structure through proper and effective selection, appraisal and development of personnel to fill the roles designed into the structure."

Theo Haimann defines staffing as "Staffing pertains to recruitment, selection, development, and compensation of subordinate.

According to Mc Farland, " Staffing is the function by which managers build an organization through the recruitment, selection, and development of individuals as capable employees".

Human resources are the most important resource of any organization. They supply talent, skills, knowledge, and experience to achieve the organization's objectives. Other resources of production remain useless without manpower. The result provided by other resources depends on the ability of humans to use them. So, human resources is very important. If an organization has enough manpower or the right man on the right job then achieving the targets of the organization becomes easy.

Nature of Staffing

Staffing is an integral part of human resource management. It helps in procuring and placing of right persons in the right jobs. The nature of staffing has been discussed below:

1. Staffing relates to people: Staffing is people-centric i.e. it relates to people. Manpower is required in all types of organizations. It is concerned with all categories of personnel from top to bottom. Whether it is upper level or lower level human resources is necessary. Broadly an organization requires blue collared employees i.e. those working on the machines, white collared workers i.e., clerical employees, Blue collar workers (i.e) Managerial and non-managerial personnel, and Professionals such as Chartered Accountant, Company Secretaries, Lawyers, etc.

2. Staffing is pervasive: Staffing is a basic function of management and is the responsibility of every manager. Every manager is continuously engaged in performing the staffing function of recruiting, selecting, training, and appraisal of his subordinates. These activities are performed by the chief executive, departmental managers, and foremen with their subordinates. Thus, staffing is a pervasive function of management and is performed by managers at all levels. Staffing is such an important function that in many enterprises, a Personnel Department is created to perform these activities. But still, managers at different levels are not relieved of the responsibility concerned with staffing. The Personnel Department assists the managers in performing their staffing functions. Thus, every manager has to share the responsibility of staffing.

3. Human Skills: Staffing relates to human resources. Every manager should use the humanistic approach in providing guidance and training to the subordinates. Human relations skills are also required in performance appraisal, transfer, and promotion of subordinates. If the staffing function is performed properly, the human relations in the organization will always be cordial.

4. Continuous Function: Staffing is a continuous function. It is equally important in the established organizations and the new organizations. In a new organization, managers are engaged in the recruitment, selection, and training, etc. of personnel. In a running organization, every manager guides and trains the workers, evaluating their performance, filling vacancies, promotions, etc. continuously.

Importance of Staffing

Human resources are the most important resources of any organization. It is imperative for organizations that the right kind of people are employed in the right positions. They should be given adequate training and motivated continuously so that productivity gets increased and waste is minimal. Effective performance of the staffing function is necessary to realize the following benefits:

1. Efficient Performance of Managerial Functions:

Staffing is the key to the efficient performance of other functions of management. If people are not competent, functions such as planning, organization, directing, and controlling can’t be performed effectively.

2. Effective Use of Technology and Other Resources:

Men and materials remain useless in the absence of human resources. It is the human factor that makes use of these resources. They are instrumental in the effective utilization of the latest technology, capital, material, etc.

3 Development of Human Capital:

The management is required to determine the manpower requirements well in advance. Once employed they also need to be imparted training for their development and career advancement and also to meet the requirements of the company in future.

4. Motivation of Human Resources:

The behavior of individuals is shaped by many factors such as education level, needs, socio-cultural factors, etc. That is why, the human aspect of organization has become very important. The workers can be motivated through financial and non-financialincentives.

5. Building Higher Morale:

The right type of climate should be created for the workers to contribute to the achievement of the organizational objectives. By performing the staffing function effectively, management can show the significance it attaches to the personnel workingin the enterprise. This will increase the morale of the employees.