

# Decision-Making: The Essence of the Manager's Job

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# OUTLINE

## ☐ **The Decision-Making Process**

- **Define decision**
- **Describe the eight steps in the decision-making process.**

## ☐ **The Manager as Decision Maker**

**Four ways managers make decision**

## ☐ **Types Of decision and its Conditions**

## ☐ **Decision Making Styles**

# Decision Making

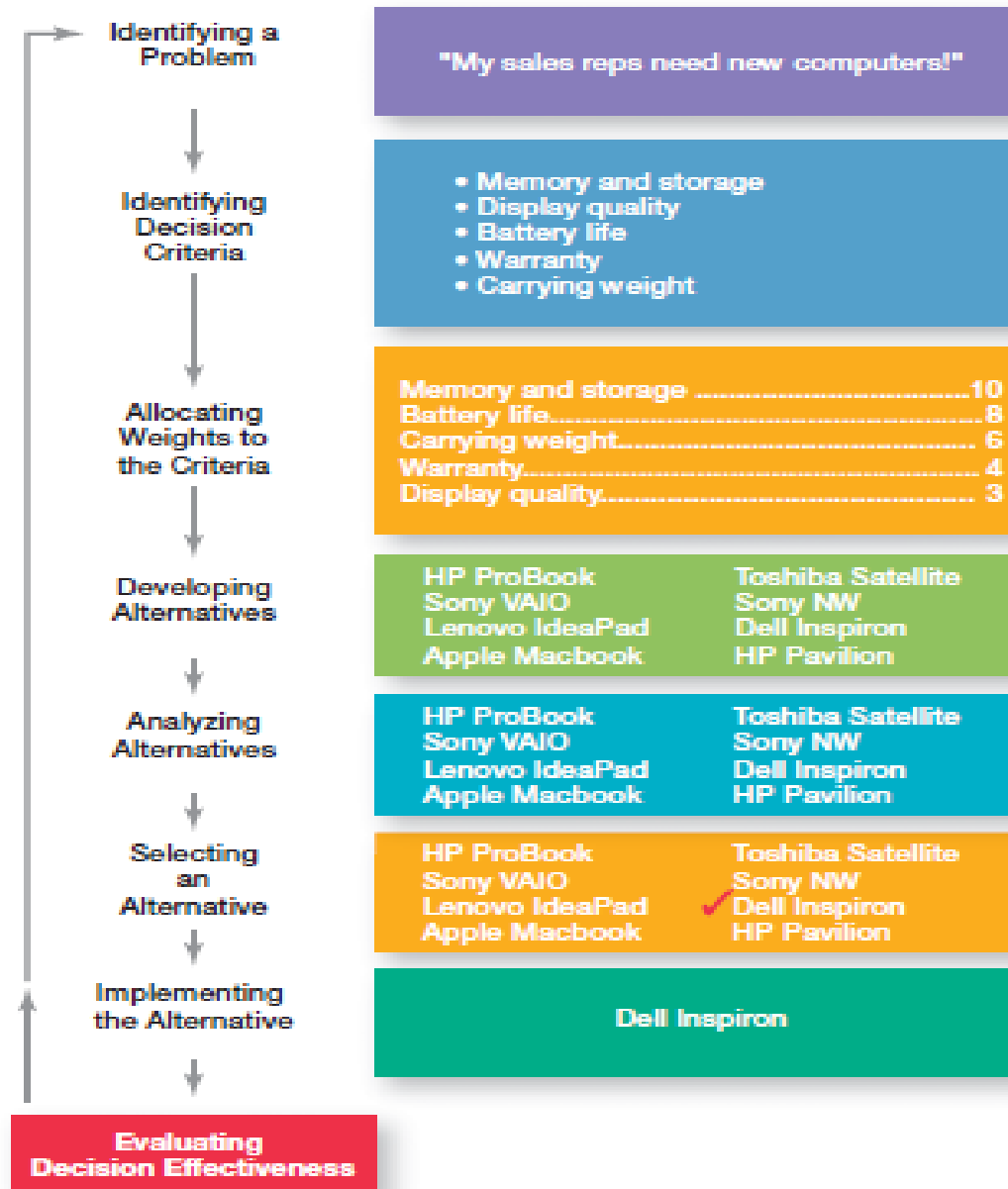
## ■ Decision

- Making a choice from two or more alternatives.

## ■ The Decision-Making Process

- Identifying a problem and decision criteria and allocating weights to the criteria.
- Developing, analyzing, and selecting an alternative that can resolve the problem.
- Implementing the selected alternative.
- Evaluating the decision's effectiveness.

## The Decision-Making Process



*A manager deciding what laptop computers to purchase—to illustrate the steps in the process using as example.*

## **Step 1: Identifying the Problem**

- **Problem:**  
An obstacle that makes it difficult to achieve a desired goal or purpose .
- **Characteristics of Problems**
  - A problem becomes a problem when a manager becomes aware of it.
  - There is pressure to solve the problem.
  - The manager must have the authority, information, or resources needed to solve the problem.

## Step 2: Identifying Decision Criteria

*Decision criteria are factors that are important (relevant) to resolving the problem.*

In our example manager decides after careful consideration that following factors are the relevant criteria in her decision

Memory

Display quality

Battery life

Warranty

Carrying weight

## Step 3: Allocating Weights to the Criteria

- Decision criteria are not of equal importance:

Assigning a weight to each item places the items in the correct priority order of their importance in the decision making process.

Criterion	Weight
Memory and Storage	10
Battery life	8
Carrying Weight	6
Warranty	4
Display Quality	3

## Step 4: Developing Alternatives

- Identifying viable alternatives

Alternatives are just listed and not evaluated that can resolve the problem.

In this step decision maker needs to be creative.

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality
Toshiba Protégé S100	10	3	10	8	5
Dell Inspiron 700m	8	7	7	8	7
HP Pavilion zd8000	8	5	7	10	10
Apple iBook	8	7	7	8	7
Sony Vaio VGN-FS790	7	8	7	8	7
Gateway NX850X	8	3	6	10	8
Toshiba QosmioG15-AV501	10	7	8	6	7
Lenovo Thinkpad R52	4	10	4	8	10



## Step 5: Analyzing Alternatives

- Once alternatives have been identified, decision maker must evaluate each one
- Appraising (evaluate) each alternative's strengths and weaknesses based on its ability to resolve the issues identified in steps 2 and 3. (multiply each alternative by the assigned weight )

	Memory and Storage	Battery Life	Carrying Weight	Warranty	Display Quality	Total
Toshiba Protégé S100	100	24	60	32	15	231
Dell Inspiron 700m	80	56	42	32	21	231
HP Pavilion zd8000	80	40	42	40	30	232
Apple iBook	80	56	42	32	21	231
Sony Vaio VGN-FS790	70	64	42	32	21	229
Gateway NX850X	80	24	36	40	24	204
Toshiba QosmioG15-AV501	100	56	48	24	21	249
Lenovo Thinkpad R52	40	80	24	32	30	206

## Step 6: Selecting an Alternative

- **Choosing the best alternative** or the one that generated the highest total.  
In our example manager would choose the Toshiba because it scored higher than all other alternatives (249 total).

## Step 7: Implementing the Alternative

- **Putting the chosen alternative into action.**  
Conveying the decision to and gaining commitment from those who will carry out the decision.

# Step 8: Evaluating the Decision's Effectiveness

The soundness of the decision is judged by its outcomes.

- How effectively was the problem resolved by outcomes resulting from the chosen alternatives?
- If the problem was not resolved, what went wrong?
- Was the right alternative selected but poorly implemented?

## ❑ Managers Making Decisions:

- When managers plan, organize, lead, and control—they called decision makers.
- Decision making is the part of managerial functions that's why we say decision making is the essence of management.

**There are Four perspectives that how managers make decisions..**

- Rationality
- Bounded Rationality
- The Role of Intuition
- The Role of Evidence-Based Management

- **Rationality**

Making logical and consistent choices to maximize value would be called rational decision making.

## **ASSUMPTIONS OF RATIONALITY**

Rational decision maker would be:

- Fully objective and logical .
- Have carefully defined the problem and identified all viable alternatives.
- Have a clear and specific goal
- Will select the alternative that maximizes outcomes in the organization's interests rather than in their personal interests.

- **Bounded Rationality**

Managers make decisions rationally, but are limited (bounded) by their ability to process information.

## **ASSUMPTIONS OF RATIONALITY**

Managers **satisfice**, they choose first alternative that is satisfactory enough to solve the problem \_ rather than analyze other alternatives to choose the best one.

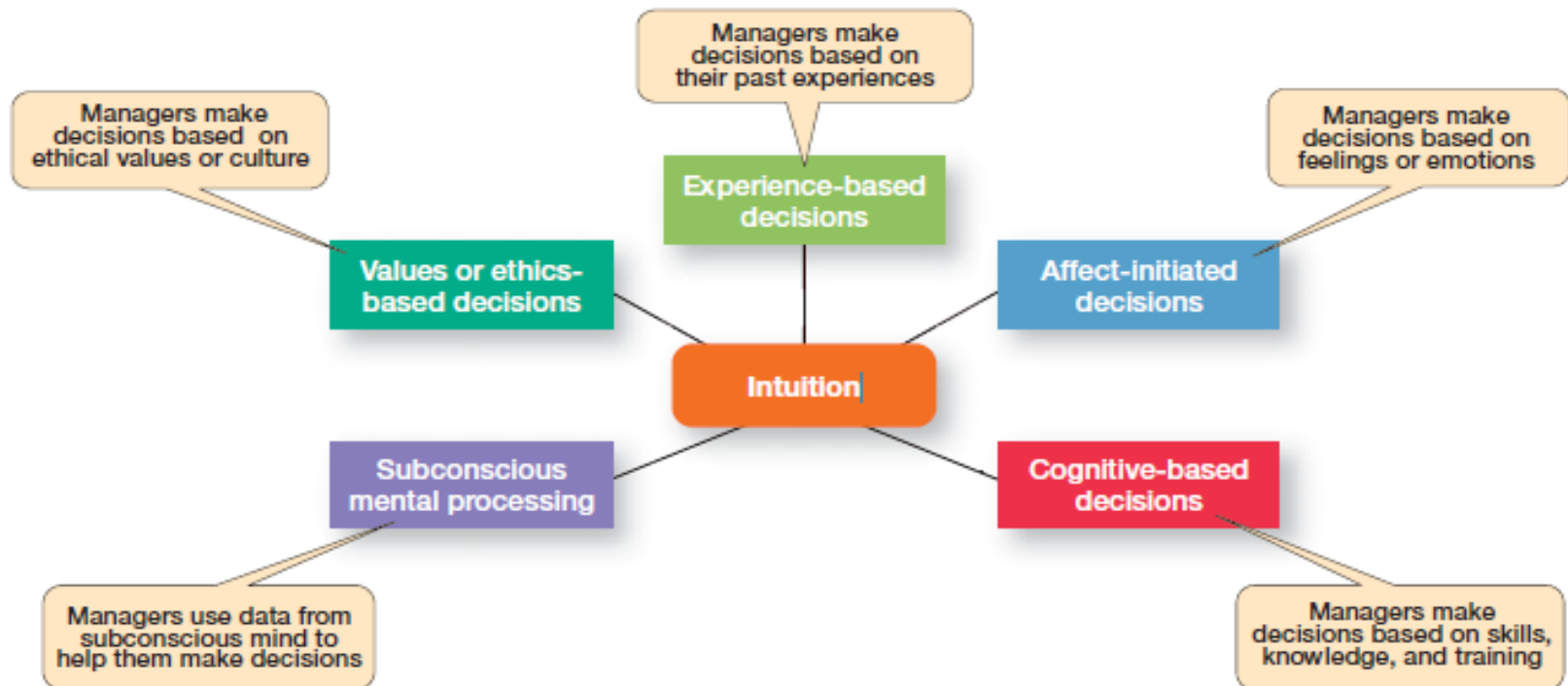
## **Influence on decision making**

Decision making is likely influenced by the organization's culture, internal politics, power considerations, and by a phenomenon called **escalation of commitment**, which is an increased commitment to a previous decision despite evidence that it may have been wrong.

- **Intuitive decision making**

Making decisions on the basis of experience, feelings, and accumulated judgment, called Intuitive decision making.

Researchers studying managers' use of intuitive decision making have identified five different aspects of intuition, below is fig:



- **Evidence-Based Management**

**A systematic use of the best available evidence to improve management practice, called EBMg.**

### **Examples:**

Suppose you were exhibiting some strange, puzzling physical symptoms. In order to make the best decisions about proper diagnosis and treatment, wouldn't you want your doctor to base her decisions on the best available evidence?

Any decision making process is likely to be enhanced through the use of relevant and reliable evidence, whether it's buying someone a birthday present or wondering which new washing machine to buy.



# □ Types of Decisions

Depending on the nature of the problem, a manager can use one of two different types of decisions.

- I. STRUCTURED PROBLEMS AND PROGRAMMED DECISIONS
- II. UNSTRUCTURED PROBLEMS AND NON-PROGRAMMED DECISIONS.

## I. STRUCTURED PROBLEMS

Problems that are straightforward, familiar, and information about the problem is easily defined and complete.

Decision Maker's goal is clear.

**Examples:** Customer returns a purchase , OR supplier is late with an important delivery

# **PROGRAMMED DECISIONS**

A repetitive decision that can be handled by a routine approach called programmed decisions.

## **Types of Programmed Decisions**

- **Policy**

A general guideline for making a decision about a structured problem.

- **Procedure**

A series of interrelated steps that a manager can use to respond (applying a policy) to a structured problem.

- **Rule**

An explicit ( Clear , leaving no room of doubt) statement that limits what a manager or employee can or cannot do.

# Policy, Procedure, and Rule Examples

- **Policy**

- Accept all customer-returned merchandise.

- **Procedure**

- Follow all steps for completing merchandise return documentation.

- **Rules**

- Managers must approve all refunds over \$50.00.
- No credit purchases are refunded for cash.

## ii- UNSTRUCTURED PROBLEMS

- Problems that are new or unusual and for which information is ambiguous or incomplete.
- Problems that will require custom-made solutions.

***Example :*** Problem facing restaurant managers in New York City who must decide how to modify their businesses to comply with the new law.

## NON-PROGRAMMED DECISIONS

- Unique and nonrecurring decisions, that require custom made solution.
- Decisions that generate unique responses.

# □ Decision-Making Conditions

## ■ Certainty

A situation in which a manager can make an accurate decision because the outcome of every alternative choice is known.

*For example,* when North Dakota's state treasurer decides where to deposit excess state funds, he knows exactly the interest rate being offered by each bank and the amount

## ■ Risk

A situation in which the manager is able to estimate the likelihood (probability) of outcomes that result from the choice of particular alternatives.

*For Example:* A small business identifies a number of competitive risks associated with a plan to open a new location.

## ■ Uncertainty

A situation in which a decision maker has neither certainty nor reasonable probability estimates available .

*For Example:* In choosing a cup of coffee, there will be at least the possibility that the coffee doesn't taste good, is not hot, or will not provide the usual pleasurable feeling.

<http://adminscience.blogspot.com/2012/06/decision-making-under-certainty-risk.html>

# ❑ Decision-Making Biases and Errors:

**Biases:** Prejudice Or decisions that are not fair and balanced..

**Errors:** Business Errors Mistakes that occurs due to poor management

**1- Heuristics** are the straight forward rules of thumbs developed on the base of past experience.

Using “rules of thumb” to simplify decision making.

A rule of thumb is a rule or principle that you follow which is not based on exact calculations, but rather on experience.

- A rule of thumb is that a broker must generate sales of ten times his salary.

## Overconfidence Bias:

When decision makers tend to think **they know more than they do or hold** unrealistically positive views of themselves and their performance, they're exhibiting the overconfidence bias.

A higher confidence of their capabilities and success than their actual skills and experience.