

management

Leading and Collaborating in Competitive World

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Chapter
3 Managerial
Decision Making

LEARNING OUTLINE

Follow this Learning Outline as you read and study this chapter.

Types of decisions

- **Describe the types of decisions you will face as a manager**

Steps in decision making

- **Summarize the steps in rational decision making**

Pitfalls in decision making

- **Recognize the pitfalls in decision making process**

LEARNING OUTLINE (cont'd)

Follow this Learning Outline as you read and study this chapter.

Group decision making

- Pros and cons of group decision making
- Procedure in leading group decision making
- How to encourage creative thinking

Organizational decision making

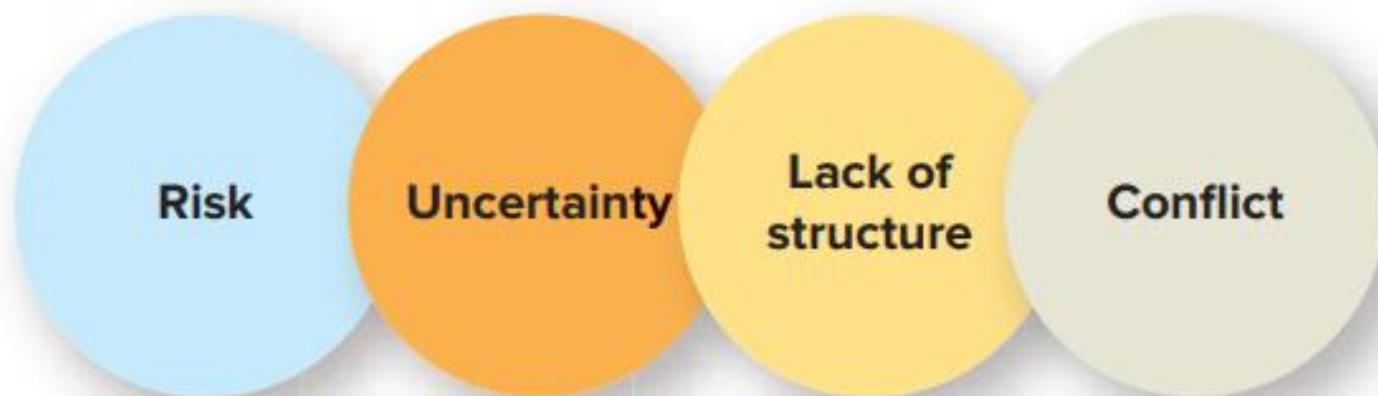
- Process of organizational decision making
- Decision making in crisis

Decision Making

- What is a decision?



Characteristics of managerial decision making



Lack of structure

- Problems may be novel leaving the decision maker in an uncertain situation
 - Some decision making may be routine, clear-cut and requires a predefined procedure to be followed
- Programmed VS non-programmed decisions

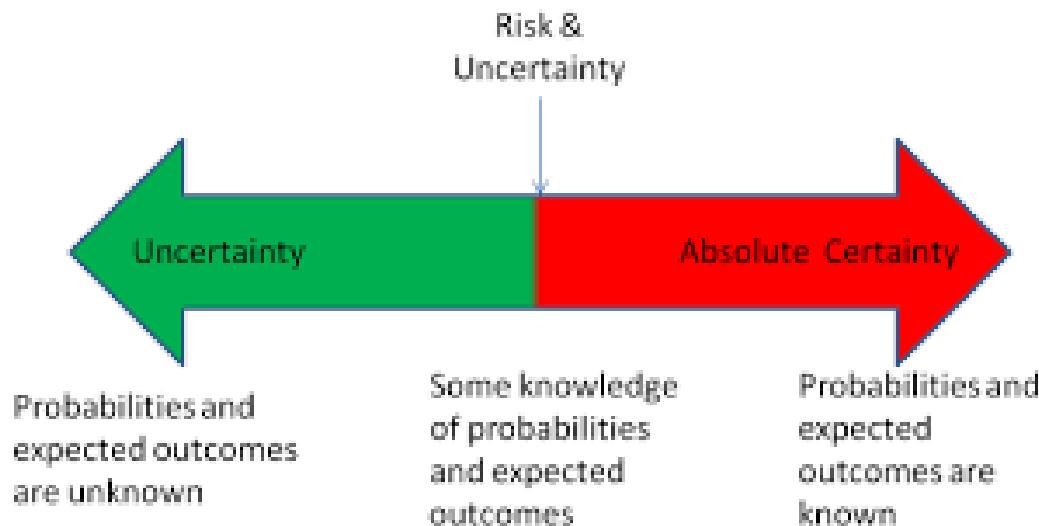
Lack of structure

- Programmed VS non-programmed decisions

	Programmed Decisions	Nonprogrammed Decisions
Problem	Frequent, repetitive, routine. Much certainty regarding cause-and-effect relationships.	Novel, unstructured. Much uncertainty regarding cause-and-effect relationships.
Procedure	Dependence on policies, rules, and definite procedures.	Necessity for creativity, intuition, tolerance for ambiguity, creative problem solving.
Examples		
Business firm	Policies to follow when posting about the company on social media.	Developing a new service for different market.
University	Number of course credits that must be accumulated to graduate.	Raising funds to add new technology to classrooms.
Health care	Procedure for admitting patients.	Purchase of experimental equipment.
Government	Merit system for promotion of state employees.	Reorganization of state government agencies.

Uncertainty and risk

- Certainty VS Uncertainty



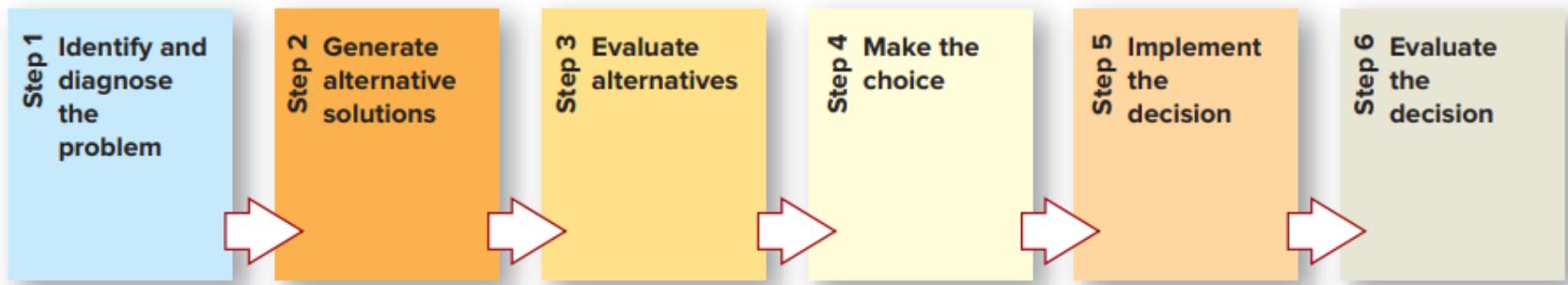
- Think of different situations where you faced uncertainty, risk or certainty.....

Conflict

- Intraindividual VS interindividual



Decision Making Process



Decision Making Process

- Identifying and diagnosing the problem
 - First phase in decision making process
 - Defining a problem:
 - ❖ A discrepancy between existing and desired state
 - ❖ Recognizing the problem as an opportunity
 - ❖ Some questions for problem identification and diagnosis:

How can you best describe the difference between what is actually happening and what should be happening?

What is/are the cause(s) of the deviation?

What short- and long-term goals need to be met?

Which goals are absolutely critical to the success of the decision?

Decision Making Process

- Generating alternative solutions
 - Programmed decision – ready-made solutions
 - Non-programmed decision – custom-made solutions
 - First available – best available?
 - Being a sales/marketing manager, what would you do if competitor reduces price of a competitive product?
 - ❖ Write down your options.....

Decision Making Process

- **Evaluating alternatives**

- Careful, logical, and thoughtful evaluation
- Predict the consequences of each decision alternative (quantifiable and non-quantifiable)
- Some key questions to evaluate alternatives:

Which goals does each alternative meet and fail to meet?

Which alternatives are most acceptable to you and to other important stakeholders?

If several alternatives might solve the problem, which can be implemented at the lowest cost or greatest profit?

If no alternative achieves all your goals, can two or more of the best ones be combined?

- Contingency planning
- Scenario building

Decision Making Process

- Making the choice
 - By the time you arrive at making a choice, the alternatives may have reduced to a small number
 - What-if questions
 - Decision making can be:
 - ❖ Maximizing
 - ❖ Satisficing
 - ❖ Optimizing

Decision Making Process

- Implementing the decision
 - Careful implementation is necessary for achieving the planned benefits of a decision
 - Adequate planning needed for implementation. Some steps involved:
 - ❖ How things will look once decision is fully operational
 - ❖ Develop process map (flow diagram) for fully operationalizing the decision
 - ❖ List resources that will be needed
 - ❖ Estimate time for each step
 - ❖ Assignment of responsibilities

Decision Making Process

- Evaluating the decision
 - Real-time information is needed to see how is the decision is working
 - Feedback
 - ❖ Positive feedback (decision was just perfect – goals achieved)
 - ❖ Negative (either resources were insufficient, or implementation needs more time)
 - Restart the decision process in case decision was not adequate
- The best decision
 - Nothing guarantees a best decision – vigilance is needed

Barriers to effective decision making

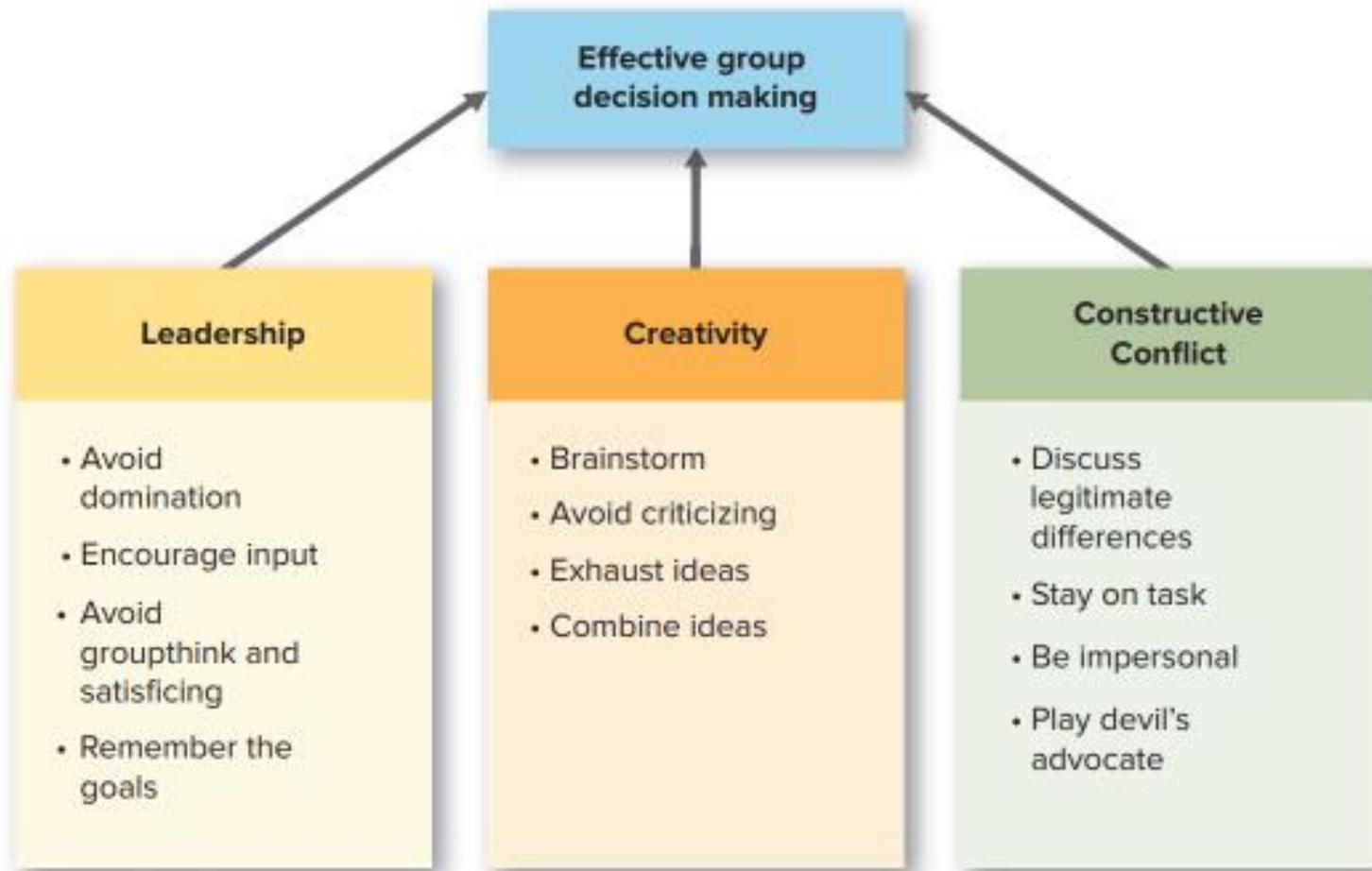
- Psychological biases
 - Illusion of control
 - ❖ Overconfidence
 - ❖ Overoptimistic
 - Framing effect
 - ❖ The way problem or decision alternative is presented
 - ❖ Comparing a problem with past experience
 - Discounting the future
 - ❖ Short-term vs long-term benefits
- Time pressures
 - Too fast (speed trap) or too slow
- Social realities

Group decision making

- “Are two heads better than one?”
- How are groups often inferior to the best individual?

Potential Advantages	Potential Disadvantages
Larger pool of information.	One person dominates.
More perspectives and approaches.	Satisficing.
Intellectual stimulation.	Groupthink.
People understand the decision.	Goal displacement.
People are committed to the decision.	Social loafing.

Managing group decision making



Organizational decision making

- Constraints on decision makers
 - Legal constraints
 - Economic constraints
 - Ethical constraints
- Organizational decision-making process
 - Bounded rationality
 - ❖ Lack of complete information
 - ❖ Complex problems
 - ❖ Lack of time
 - Incremental model
 - ❖ Major solutions arise through a series of small solutions
 - Coalition model
 - ❖ Use of power and negotiation to influence decisions

Decision making in crisis

- What kind of crisis are we facing?
- Was the crisis detected in early stage?
- How to manage the crisis?
- How can we benefit from a crisis once it has passed?

Firms were forced to move towards E-commerce during covid-19 crisis.....