TOPIC 7: MANAGERIAL DECISION MAKING
Meaning
Decision making process; Levels of managerial decision making; Types of decisions

Meaning- this is the selection of a course of action from among many alternatives

It is the core of planning which entails committing resources and direction

It is the act of making a choice. There are so many alternatives found in the organization and departments. Before making decisions all alternatives should be evaluated from which advantages and disadvantages are known. It helps to make the best decisions. It is also one of the important functions of management. Without other management functions such as planning, Organizing, directing, controlling, staffing can't be conducted because in this managerial function decision is very important (Stephen P. Robbins).

Importance of decision making

1. **Implementation of managerial function**: Without decision making different managerial function such as planning, organizing, directing, controlling, staffing can't be conducted. It is an important element to implement the managerial function.

2. **Pervasiveness of decision making:** the decision is made in all managerial activities and in all functions of the organization. It must be taken by all staff. Without decision making any kinds of function is not possible. So it is pervasive.

3. **Evaluation of managerial performance:** Decisions can evaluate managerial performance. When a decision is correct it is understood that the manager is qualified, able and efficient. When the decision is wrong, it is understood that the manager is disqualified.

4. **Policy formulation:** Any policy or plan is established through decision making. Without decision making, no plans and policies are performed. In the process of making plans, appropriate decisions must be made from so many alternatives.

5. **Selecting the best alternatives:** Decision making is the process of selecting the best alternatives. It is necessary in every organization because there are many alternatives. So decision makers evaluate various advantages and disadvantages of every alternative and select the best alternative.

6. **Successful; operation of business:** Every individual, departments and organization make the decisions. In this competitive world; organization can exist when the correct and appropriate decisions are made.

Characteristics of decision making

1. It is a continuous process

2. Has several alternatives
3. It is purposive in nature
4. It is intellectual in nature and entails making sound judgment and reasoning
5. It all pervasive- involves all levels of management
6. It involves several steps to its effectiveness

Types of decision making

They are classified as per scope, importance and impact to organization

1. *Programmed or non- programmed*- programmed are repetitive in nature, easy to make, follow policies and laid down procedures. E.g. making purchase orders, paying salaries, sanctioning leave etc

   Non- programmed- they are non routine and related to exceptional cases. They do not have methods of handling such situations. E.g. declining market share, increasing competition etc

2. *Operational and Strategic decisions*- *Operational (tactical)* decisions relate to the present moment and the purpose is to achieve high degree of efficiency at the work place. Their aim is to achieve efficiency at the work place e.g. better working conditions, effective supervision and better use of equipment among others. *Strategic decision making*; describes the process of creating a company's mission and objectives and deciding upon the courses of action a company should pursue to achieve those goals. Some strategic decisions include: expanding to new markets, shifting a branch, changing product mix etc

3. *Organizational and Personal decisions*- *organizational* are decisions taken by managers relating to organizational issues e.g. introducing a new incentive scheme or transfer of an employee. *Personal-* these are purely personal in nature but may affect the organization in one way e.g. resigning from a job

4. *Rational and irrational* – rational – explains that people make decisions by determining the likelihood of a potential outcome, the value of the outcome and then multiplying the two. For example, with a 50% chance of winning $20 or a 100% chance of winning $10, people more likely to choose the first option

   Irrational decisions- use availability bias which is the tendency for some items that are more readily available in memory to be judged as more frequently occurring than others. For example, someone who watches a lot of movies about terrorist attacks may think the frequency of terrorism to be higher than it actually is.

5. Individual and group decision making- individual decisions concern routine issues while group decisions are strategic in nature

Decision-making process

- Define the problem
- Analyze the problem
- Set objectives
- Objectives must be classified and placed in order of importance
- Alternative actions must be developed
- The alternative must be evaluated against all the objectives. The alternative that is able to achieve all the objectives is the tentative decision which is then evaluated for more possible consequences
- Implementation- The decisive actions are taken, and additional actions are taken to prevent any adverse consequences from becoming problems and starting both systems (problem analysis and decision-making) all over again
- Follow up and monitoring- it enables decisions made to be grouped into programmed decisions so that future managers can use them.

How to identify problems in an enterprise
Four situations have been described which alert entrepreneurs to possible problems.
These include situations when:
• There is a deviation from past experience
• There is a deviation from a set plan
• When other people present problems to the entrepreneur

• When competitors out perform the entrepreneur‘s organization

Levels of decision making in organizations

Decisions are made at different levels in an organization's hierarchy:

- *Strategic decisions* – are made by top management such as board of directors, managing director, and general managers who possess *conceptual skills*. The decisions are long-term in their impact. They affect and shape the direction of the whole business. They include: policy framing, determining objectives of the organization, mobilization of resources, motivation of personnel, coordination and communication, and control of operations.
- *Tactical decisions*- help to implement the strategy. They are usually made by middle management who apply *human skills* to the work place. These are departmental heads, and section officers. They run detailed activities of the organization, coordinate departments, build up staff and build company spirit.

- *Operational decisions*-relate to the day-to-day running of the business. They are mainly routine in nature and may be taken by middle or junior managers, supervisors and foremen. Plan day to day activities, issue instructions to workers, provide on job training, solve problems in the department and maintain discipline in the work place. For example, a simple operational decision for a business would be whether to order more stationery or not

DECISION MAKING TECHNIQUES

Decision-making techniques can be separated into two broad categories: Group decision-making and individual decision-making techniques.

a) **Group decision-making techniques**

- Voting methods
- Group Consensus
- Delphi method -self reading but discussed
- The nominal group teaching- Self study
- Brainstorming- many ideas are shared by participants and openly discussed
- Dotmocracy is a facilitation method that relies on the use of special forms called Dotmocracy Sheets to allow large groups to collectively brainstorm and recognize agreement on an unlimited number of ideas they have authored.

b) **Individual decision-making techniques**

- Pros and cons: listing the advantages and disadvantages of each option
- Simple prioritization: choosing the alternative with the highest probability-weighted utility for each alternative
- Satisficing: examining alternatives only until an acceptable one is found.
- Elimination by aspects: choosing between alternatives using Mathematical psychology; the decision-maker chooses an aspect; any alternatives without that aspect are then eliminated. The decision-maker repeats this process with as many aspects as needed until there remains only one suitable alternative
- Preference trees: This technique compares the alternatives by presenting the aspects in a decided and sequential order.
- Flipism: flipping a coin, cutting a deck of playing cards, and other random or coincidence methods

- Taking the most opposite action compared to the advice of mistrusted authorities (parents, police officers, partners...)
- Opportunity cost: calculating the opportunity cost of each options and decide the decision.
- Bureaucratic: set up criteria for automated decisions.
- Political: negotiate choices among interest groups.
- Participative decision-making (PDM): a methodology in which a single decision-maker, in order to take advantage of additional input, opens up the decision-making process to a group for a collaborative effort.
- Use of a structured decision-making method.
- Decision support system- Is a computer based for individuals and businesses. This is due to increasing decision complexity and an increase in the need to consider additional stakeholders, categories and elements

Individual verses group decision making

1. Groups tend to take long to reach a decision unlike individuals
2. There is pressure to conform to decisions made groups even when they may seem outrageous
3. There is the influence of a dominant character in group decisions
4. Lower status participants may not voice their ideas in groups

Problem identification

Types of problems- Opportunity, Crisis and routine (read and differentiate the three)

To locate problems, managers rely on several indicators such as:

5. Deviation from past performance
6. Deviation from the plan
7. Outside criticism- e.g. customers, suppliers etc

Risks in Entrepreneurship/Self Employment

Entrepreneurs make decisions in the present for actions in the future and all decisions contain elements that cannot be known or predicted e.g. a competitor's reaction, inflation rates in future etc. Decisions are therefore made either under conditions of certainty, uncertainty or risk. How can an entrepreneur manage the risks below?

Types of risks

Financial risk

Personal risks

Career risks

Health/physical risks

Psychological/mental risks

MARKET ANALYSIS MODELS

SWOT ANALYSIS (THE MICRO MARKET)

SWOT analysis involves looking at the internal strengths and weaknesses of a business and external opportunities and threats.
In other word, it is used to analyze the possible internal advantages and problems that a business has, and to determines the external factors of the business which may affect its strategy.
The purpose of a SWOT analysis is to conduct a general and quick examination of a business's current position so that it can help the business to develop or plan a direction of development or a proper strategy in future.

STRENGTHS Expertise Skills Space Reputation Low cost Presence of technology, Excellent services, etc	WEAKNESSES Absence of marketing plan Damaged reputation Lagging in technology Staff problems own known vulnerability Poor location or geographic barriers Poor service or delay
OPPORTUNITIES A market vacated by a competitor Availability of new technology Changes in population profile or need Competitor vulnerabilities Lack of dominant competition New market segment Niche markets	THREATS Competitors Economic shifts loss of key staff or associates seasonality shifts in market demand or referral sources

	etc

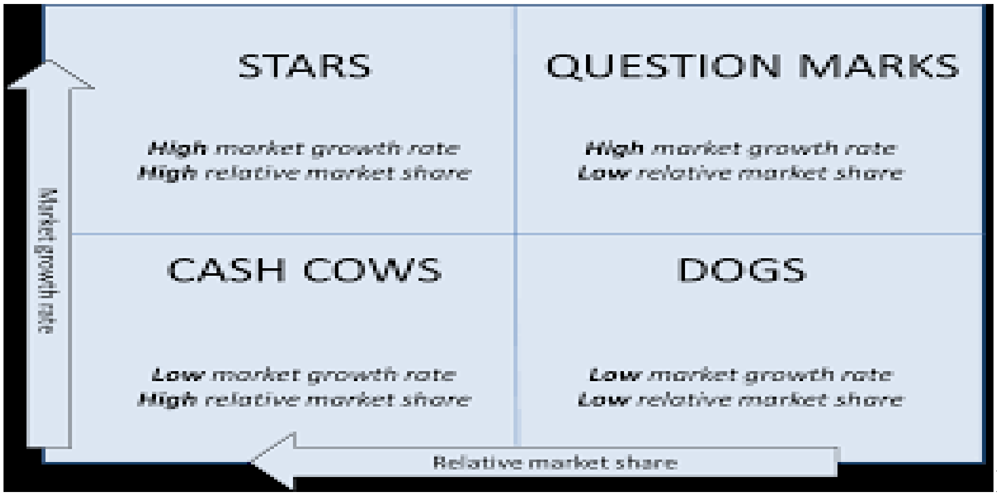
THE PESTEL MODEL- THE MACRO MARKET

This is used to assess the external market/environment as you venture into business.

Typical PESTEL factors to consider include:

Factor	**Could include:**
Political	e.g. international trade, taxation policy, country or region stability
Economic	e.g. interest rates, exchange rates, national income, inflation, unemployment, Stock Market
Social	e.g., ageing population, attitudes to work, income distribution
Technological	e.g., innovation, new product development, rate of technological obsolescence
Environmental	e.g. global warming, environmental issues
Legal	e.g. competition law, health and safety, employment law

THE BCG MATRIX (BUSINESS IDEA SELECTION)



BCG Matrix (also known as the Boston Consulting Group analysis, the Growth-Share matrix, the Boston Box or Product Portfolio matrix) is a tool used in to analyze business units or product lines based on two variables: relative market share and the market growth rate.

Question Marks (or Problem Children) have a low market share in a high growth market. Start-ups usually start off as *Question Marks*. They have the potential to gain market share and become Stars (market leaders) eventually. They however consume a large amount of cash investments. **If Question Marks do not succeed in becoming a market leader, they might degenerate into Dogs** when market growth declines after years of cash consumption. Question marks must therefore be analyzed carefully in order to determine whether they are worth the investment required to grow market share.

Stars are business units with a high market share (potentially market leaders) in a fast-growing industry. Stars generate large amounts of cash due to their high relative market share but also require large investments to fight competitors and maintain their growth rate. **Companies must have some Stars in their portfolio** in order to ensure future cash flows in the long term. They are also very good to have for your corporate's image.

Cash cows- Eventually after years of operating in the industry, market growth might decline and revenues stagnate. At this stage, your Stars are likely to transform into *Cash Cows*. Because they still have a large relative market share in a stagnating (mature) market, profits and cash flows are expected to be high. Because of the lower growth rate, investments needed should also be low. **Cash cows therefore typically generate cash in excess of the amount of cash needed to maintain the business.** This 'excess cash' is supposed to be 'milked' from the Cash Cow for investments in other business units (Stars and Question Marks). Cash Cows ultimately bring balance and stability to a portfolio.

Dogs- These units typically break even (they neither create nor consume a large amount of cash) and generate barely enough cash to maintain the business's market share. These businesses are therefore not so interesting for investors. Since there is still money involved in these business units that could be used in units with more potential, **Dogs are likely to be divested or liquidated**