



# Managerial Decision Making

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- Decision making is not easy
- It must be done amid
  - ever-changing factors
  - unclear information
  - conflicting points of view

# Decisions and Decision Making

- Decision = choice made from available alternatives
- Decision Making = process of identifying problems and opportunities and resolving them

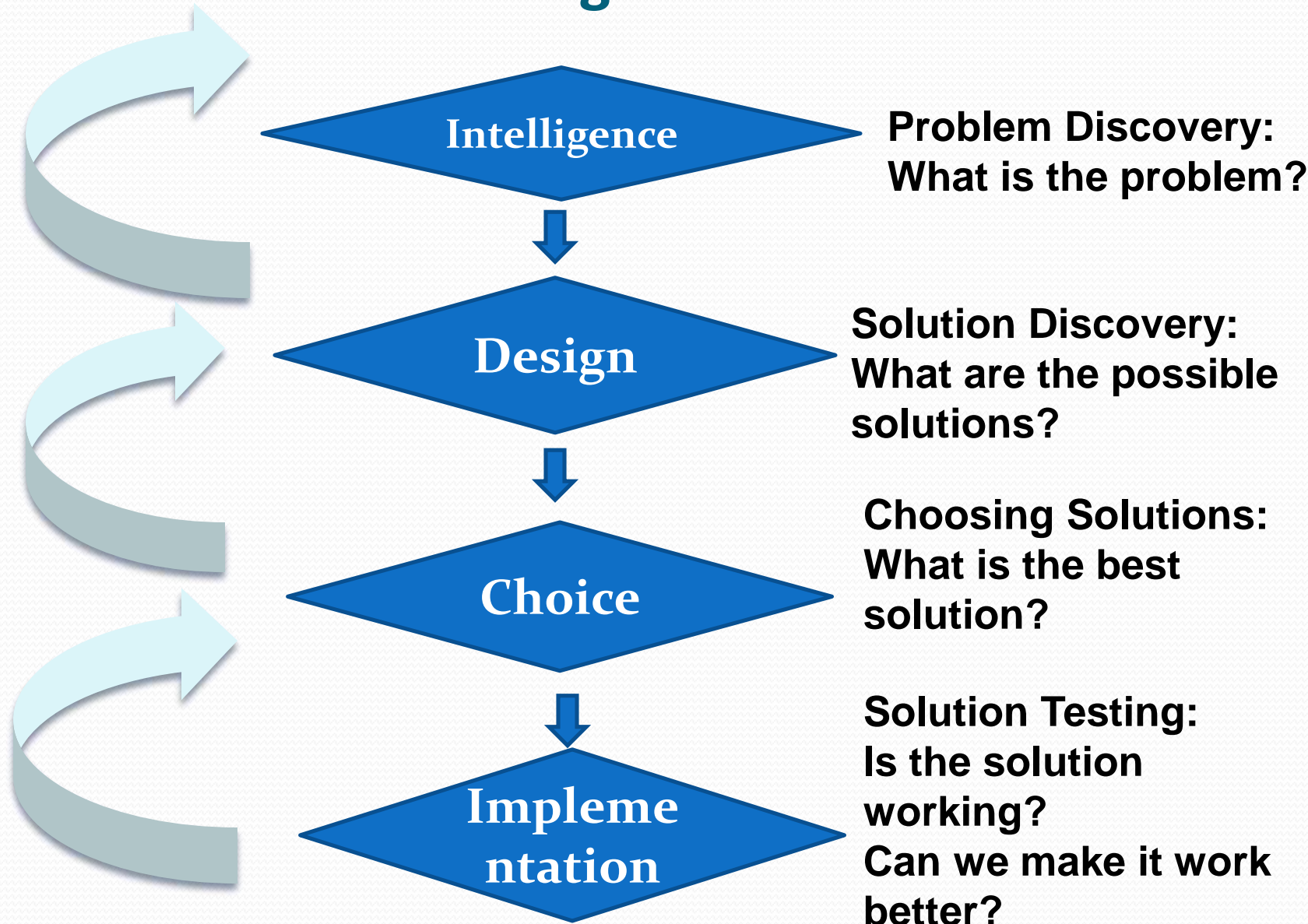
# Categories of Decisions

- Programmed Decisions
  - Situations occur often enough to enable decision rules to be developed and applied in the future
  - Made in response to recurring organizational problems
- Nonprogrammed Decisions – in response to unique, poorly defined and largely unstructured, and have important consequences to the organization

# Situations in which manager's take decisions

- **Certainty**
  - all the information the decision maker needs is fully available
- **Risk**
  - decision has clear-cut goals
  - good information is available
  - future outcomes associated with each alternative are subject to chance
- **Uncertainty**
  - managers know which goals they wish to achieve
  - information about alternatives and future events is incomplete
  - managers may have to come up with creative approaches to alternatives
- **Ambiguity**
  - by far the most difficult decision situation
  - goals to be achieved or the problem to be solved is unclear
  - alternatives are difficult to define
  - information about outcomes is unavailable

# Simon's Decision Making Process



# Three Decision-Making Models

① **Classical Model**



② **Administrative Model**

③ **Political Model**

# Classical Model

**Logical decision in the organization's best economic interests**

## Assumptions

- Decision maker operates to accomplish goals that are known and agreed upon
- Decision maker strives for condition of certainty – gathers complete information
- Criteria for evaluating alternatives are known
- Decision maker is rational and uses logic

**Normative** = describes how a manager should and provides guidelines for reaching an ideal decision



# Administrative Model

Herbert A. Simon

How nonprogrammed decisions are made--uncertainty/ambiguity

Two concepts are instrumental in shaping the administrative model

- Bounded rationality: people have limits or boundaries on how rational they can be
- Satisficing: means that decision makers choose the first solution alternative that satisfies minimal decision criteria

# Administrative Model

How nonprogrammed decisions are made--uncertainty/ambiguity

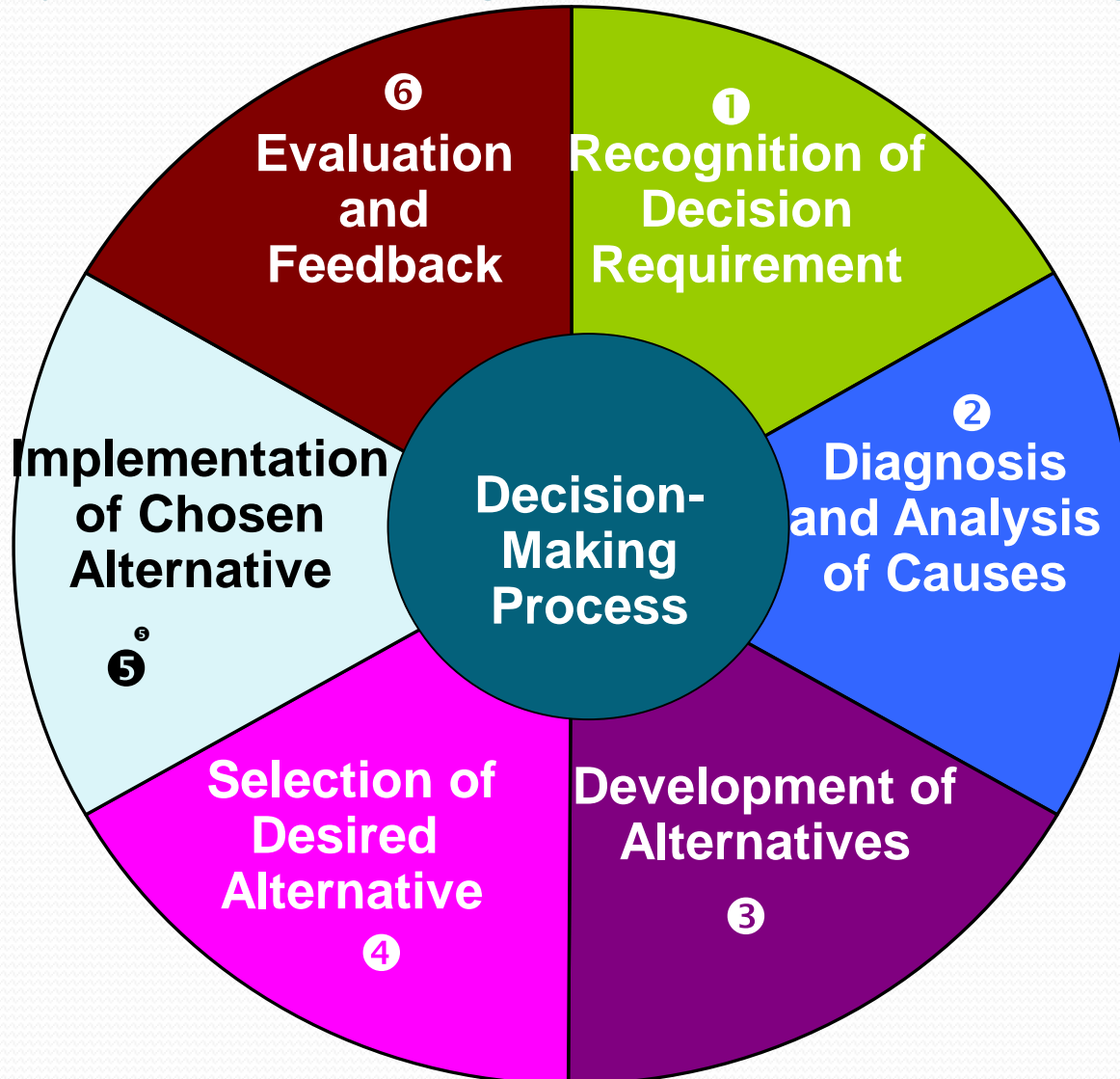
- **Managers actually make decisions in difficult situations characterized by non-programmed decisions, uncertainty, and ambiguity**
- Decision goals often are vague, conflicting and lack consensus among managers;
- Rational procedures are not always used
- Managers' searches for alternatives are limited
- Managers settle for a satisficing rather than a maximizing solution
- intuition, looks to past experience
- **Descriptive** = how managers actually make decisions--not how they should

# Political Model

Closely resembles the real environment

- Closely resembles the real environment in which most managers and decision makers operate
- Useful in making non-programmed decisions
- Decisions are complex
- Disagreement and conflict over problems and solutions are normal
- **Coalition = informal** alliance among managers who support a specific goal

# Six Steps in the Managerial Decision-Making Process



# Decision Making Styles

- Differences among people with respect to how they perceive problems and make decisions
- Not all managers make decisions the same
  - Directive style
  - Analytical style
  - Conceptual style
  - Behavioral style

# Directive Style

- People who prefer simple, clear-cut solutions to problems
- Make decisions quickly
- May consider only one or two alternatives
- Efficient and rational
- Prefer rules or procedures

# Analytical Style

- Complex solutions based on as much data as they can gather
- Carefully consider alternatives
- Base decision on objective, rational data from management control systems and other sources
- Search for best possible decision based on information available

# Conceptual Style

- Consider a broad amount of information
- More socially oriented than analytical style
- Like to talk to others about the problem and possible solutions
- Consider many broad alternatives
- Relay on information from people and systems
- Solve problems creatively



# Behavioral Style

- Have a deep concern for others as individuals
- Like to talk to people one-on-one
- Understand their feelings about the problem and the effect of a given decision upon them
- Concerned with the personal development of others
- May make decisions to help others achieve their goals