

Principle of Management

MGM111

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Making decisions

Organizational Structure

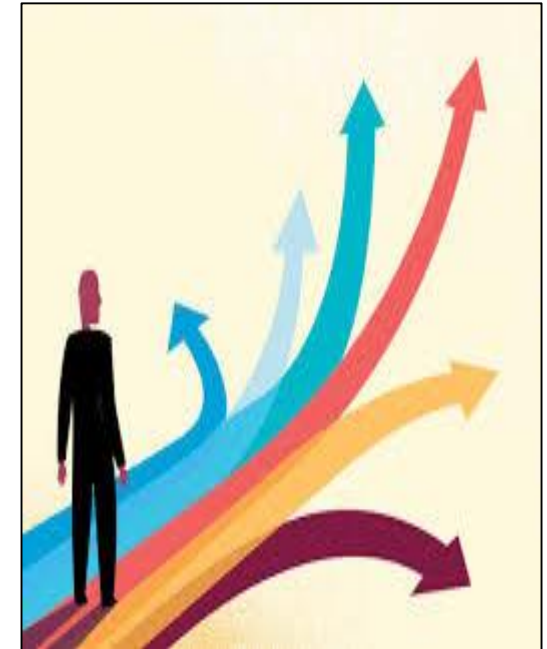


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CHAPTER 6

Lecture objective

- ***Making Decision define***
- ***Making Decision theory***
- ***Type of decision***
- ***Rationality in Making Decision***
- ***Strategic Making Decision***
- ***Techniques that Enhance Quality in Making Decision***
- ***Making Decision Process***



Making decisions

Managers are faced with decisions when a problem occurs or when an opportunity arises.



Making decisions



- ✓ **Problem** – A situation in which some aspect of organizational performance is less than desirable.
- ✓ **Opportunity** – A situation that has the potential to provide additional beneficial outcomes.



Making Decision define

❖ ***Making Decision :***

a process of choosing among alternative courses of action for the purpose of attaining a goal or goals

❖ ***Managerial Decision Making :***

is synonymous with the whole process of management



What is Making Decision???

- ❖ **Making Decision is at the heart of organizational effectiveness.**
- ❖ **Two dominant issues affect how decisions are made in organizations;**
 - ✓ **Stability (application of existing practices and maintenance of existing performance levels)**
 - ✓ **Change (environmental demands for quick response and emerging problems that are ambiguous)**



What is Making Decision con..?

- ❖ **Participative making decision structures are required to effectively manage change.**
- ❖ **Empowering people to participate in important decisions is highly motivating to them.**
- ❖ **Broad participation infuses the making decision process with the full spectrum of knowledge and good ideas that people throughout the organization have to contribute**

Making Decision Theory

➤ Daniel Griffith's Theory of Leadership is About Decision Making :

- ✓ Administration is making decision.**
- ✓ Organization's structure is determined by the nature of its making decision process.**

Griffith (continued)

- **An individual's rank equals his or her degree of control of the making decision process.**
- **Effectiveness of the leader is inversely proportional to the number of decisions made personally.**
- **The major differences between types of organizations are related to differences in the making decision process.**

Making Decision versus Problem Solving

Simon's 4 Phases of Decision Making

- 1. Intelligence**
- 2. Design**
- 3. Choice**
- 4. Implementation**

**making Decision and problem solving
are interchangeable**

Making
Decisions



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Type of decision



- ✓ **Programmed decisions** – Decisions made in response to routine situations that have occurred in the past.
- ✓ **Non programmed decisions** – Decisions made in response to situations that are unique, unstructured, or poorly defined.

Responses to Decision Situations

Programmed decisions

- **Alternatives are familiar to decision makers**
- **Responses are routine**

Non Programmed decisions

- **Alternatives are not familiar to decision makers**
- **Responses require creativity**



Individual v. Organizational Making Decision

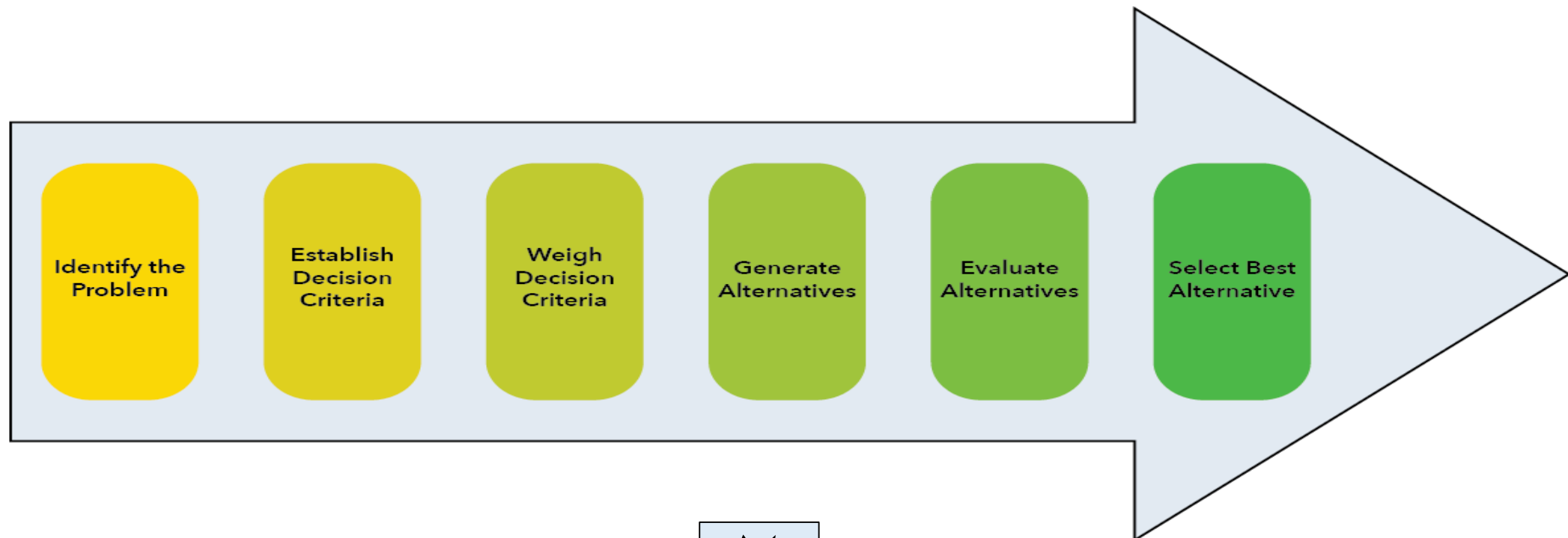
- ✓ **What is meant by the expectation that administrators should be “decisive”?**
- ✓ **How is this different from “organizational decisions”?**
- ✓ **It is the responsibility of administrators to establish making decision processes that establish a positive culture.**

Rationality in Making Decision



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The Rational Decision-Making Process



Rationality in Making Decision

- ***Herbert Simon's three phases of making decision :***
 - **Intelligence activity - gathering information regarding the need for a decision to be made**
 - **Design activity - alternatives are envisioned, developed and analyzed**
 - **Choice activity - selecting a course of action**

Rationality in Making Decision cont..



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- **Peter Drucker's rational steps in making decision :**
 - **Define the Problem**
 - **Analyze the Problem**
 - **Develop Alternative Solutions**
 - **Decide on the Best Solution**
 - **Convert decisions into Effective Actions**



Rationality in Making Decision cont..

- ☐ The above models assume that making decision is an orderly, rational process that possesses an inner logic.
- ☐ The steps in the process follow one another in an orderly, logical and sequential flow

Rational Making Decision Models

- ☐ Some models add a “feedback loop” to make successively better decisions eventually reaching “optimal” decisions.
- ☐ We must recognize that we generally make decisions that are called “satisficing”, that is, they are a solution that is satisfactory, but not necessarily the optimal solution.

Strategic Making Decision

- ☐ **Strategic making decision occurs at the highest levels in organizations:**
 - **This strategy defines the long-term direction of the firm.**
 - **Two important areas for strategic decision making are:**
- ✓ **Strategy selection.**
- ✓ **Evaluation of portfolios.**

Strategy Selection: The Strategic Making Decision Matrix

- ✓ **A two-dimensional grid used to select the best strategic alternative in light of multiple organizational objectives.**

Operational Making Decision



✓ **Operational making decision relates to decision situations that cover much shorter time spans. These decisions are typically made at lower levels within the organization, but that need not always be the case.**

Applying Structure to the Making Decision Process



□ Alternative Courses of Action

– Strategies that might be implemented in a making decision situation.

□ States of Nature

– Conditions over which the decision maker has little or no control.

□ Payoffs

– The outcomes of decision situations.

Applying Structure to the Making Decision Process

□ Payoff Table

A matrix that organizes the alternative courses of action, states of nature, and payoffs for a decision situation.

Techniques that Enhance Quality in Making Decision

- ❑ The manner in which the information in the payoff table is analyzed is a function of the making decision environment.**
- ❑ Three different making decision environments are generally identified depending on the amount of knowledge that exists about future conditions that might occur.**

Techniques that Enhance Quality in Making Decision



Types of Making Decision Environments:

□ making Decision under certainty

- In making decision under certainty, the decision maker knows with certainty what conditions will subsequently occur and affect the decision outcomes.

□ making Decision under risk

- In making decision under risk, the probabilities are used to obtain expected values of outcomes for each decision alternative.

Techniques that Enhance Quality in Making Decision

Types of Making Decision Environments:

❑ making Decision under risk (topics)

- Expected value
- ❑ The product of a payoff and its probability of occurrence.
 - Expected monetary value (EMV)
- ❑ The sum of each expected value for an alternative.
 - Decision tree
- ❑ A branching diagram that illustrates the alternatives.

states of nature for a decision situation.

Techniques that Enhance Quality in Making Decision

- **Types of Decision Making Environments:**

- ☐ ***making Decision under uncertainty***

- ✓ In some cases a decision maker cannot assess the probability of occurrence for the various states of nature.
- ✓ When no probabilities are available, the situation is referred to as making decision under uncertainty.



Making Decision Under Uncertainty

- ❖ **Several outcomes possible for each course of action**
- ❖ **but the decision maker does not know, or cannot estimate the probability of occurrence**
- ❖ **More difficult - insufficient information**
- ❖ **Assessing the decision maker's (and/or the organizational) attitude toward risk**

Making Decision *Under Risk* (Risk Analysis)

- ✓ **Probabilistic or stochastic decision situation**
- ✓ **Must consider several possible outcomes for each alternative, each with a probability**
- ✓ **Long-run probabilities of the occurrences of the given outcomes are assumed known or estimated**
- ✓ **Assess the (*calculated*) degree of risk associated with each alternative**

Risk Analysis



Calculate the expected value of each alternative

Select the alternative with the best expected value

Ethical and Social Implications in Making Decision

What are the ethical and social implications of my decision?

How will the decision affect the personal lives of my employees?

How do I balance economic and social considerations?

Participative Making Decision

Potential benefits:

- ☐ **Make better decisions**

- ☐ **Enhance the growth and development of participants**

Participative or Democratic



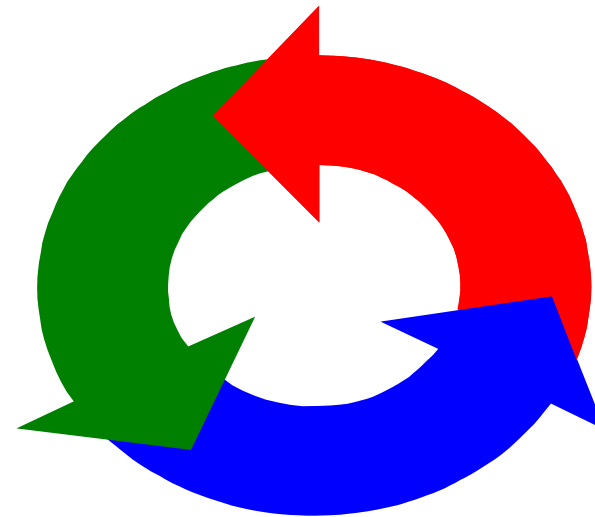
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- ☐ Democratic making decision may involve a vote, with the majority winning.
- ☐ The leader should work with participants in the organization to establish a *process for making decisions*.
- ☐ Participants should evaluate how the process is working and suggest changes for making the process better.

Making Decision Process

Systematic Making Decision Process (Simon, 1977)

- ☐ Intelligence
- ☐ Design
- ☐ Choice
- ☐ Implementation



Modeling is Essential to the Process

Making Decision Process cont..

❑ Intelligence phase

- Reality is examined
- The problem is identified and defined

❑ Design phase

- Representative model is constructed
- The model is validated and evaluation criteria are set

❑ Choice phase

- Includes a proposed solution to the *model*
- If reasonable, move on to the

❑ Implementation phase

- Solution to the original problem

Failure: Return to the modeling process

Making Decision Process cont..



Measuring Outcomes

- **Goal attainment**
- **Maximize profit**
- **Minimize cost**
- **Customer satisfaction level (minimize number of complaints)**
- **Maximize quality or satisfaction ratings (surveys)**