

Decision Making Skills- Session 4

How to make Decisions



Two levels of decision making:

- Individual decision making: In individual decision making managers are mostly concerned with the rational or normative decision making process. This is a series of steps involving: recognizing issues and potential problems; generating alternatives, comparing, etc.
- Organizational decision making: here the manager is concerned with creating an environment such that best decisions are made.

Normative Decision Making process

- 1. Classifying and defining the problem: diagnosis or finding the underlying causes of problems
- 2. Developing goals and criteria for a successful solution: the results managers wish to achieve
- 3. Alternatives generated
- 4. Alternatives are evaluated by comparing them with the success criteria decided in step 2
- 5. Implementation
- 6. Monitoring and feedback.



Step 1: classifying problems:

- Classification determines the amount of effort , procedure, kind of person (s) committed to solving the problem
- Issues: Unique problems and Recurring (generic) problems
- E.g.s of recurring problems: inventory decisions; hiring employees; customer complaints
- E.g of unique problems that are recurring in nature: job choices; merger with another company; installation of computerized inventory system; union related actions
- Unique problems: plant burned down; financial problems-our bank became bankrupt; we produced a dangerous product ; a war results in disruptions in supplies or markets
- Unique problems that will become recurring: employee complaints of a new manager; sudden increase in quality defects on Fridays; an overload on plant power system.

RECURRING DECISIONS

1. Problem definition :
programmable, routine,
generic, computational,
negotiated, open to
compromise
2. Search for solution:
proceduralized; predictable;
certainty regarding
cause/effect relationships;
well-defined information;
definite decision making
criteria; outcome preferences
mostly certain
3. Decision choice: reliance on
rules and principles; habitual
reactions; prefabricated
response; uniform
information processing;
computational techniques;
accepted methods

UNIQUE DECISIONS

1. Problem definition: Non-
programmable; unique;
judgmental; creative; adaptive;
innovative; inspirational
2. Search for solution: novel,
unstructured, complex,
uncertain cause/effect
relationships, information
undefined, incomplete
knowledge, decision criteria
unknown
3. Choice of decision: reliance on
judgment , creativity, individual
processing, general problem
solving processes



Step 2: Defining the problem:

- “ what is happening here?”; “ have I considered all possible causes of the problem?”; “what is actually the cause?”
- Problem classification and definition allow managers to rank problems according to their priorities.
- Deciding which problems to work on: how done by individual managers:
 1. The consequences of the problem: how expensive is the problem likely to be? What effects would it have in the long run? On employees/on assets?
 2. Impact of problem to the organization: is it going to lead to a series of problems?
 3. Time pressures and urgency
 4. Best utilization of manager’s skills and time: does this make the best use of individual’s skills and time?
 5. Problem attractiveness: is this a problem an individual would like to solve depending on his/her skills
 6. Lifespan of the problem

Developing criteria for a successful solution

- Specification of a standard against which alternatives would be compared.

Generating alternatives:

- Depends on type of problem-unique or routine (classification of decisions)
- Comparing Alternatives:

Must Criteria	Choice A	Choice B
Must generate revenues exceeding Rs. 20 lakhs	yes	yes
Must take max. 3 years to complete	Yes	No

Want Criteria (importance of 1 to 10)	Choice A – how well it matches want criteria	Weighted score for choice A	Choice B– how well it matches want criteria	Weighted score for choice B
Makes our market position stronger 9	3	27	2	18
Costs us less 8	4	32	4	32
Helps compete better 8	5	40	3	24
Total weighted score		99		74



Case: