INTRODUCTION TO **BUSINESS DECISION MAKING**

Business Decision making

Prof. Nina Begičević Ređep

foi

FACULTY OF **ORGANIZATION** AND **INFORMATICS**

THE STRUCTURE

- What is decision-making?
- Basic decision types
- Decision makers
- Decision-making conditions
- The decision-making process
- Basic decision-making theories
- Group versus individual decision making
- Decision-making styles

WHAT IS **DECISION MAKING?**

- Decision making is a part of our everyday lives – both, professional and private

- Each activity implemented by people is a product of earlier decision-making process, or it is a decision-making process itself

- Ability to make decisions increases with experiences during the time

foi

WHAT IS **DECISION MAKING?**

- Decision making can be defined as 'the selection of a course of action from among alternatives'

- decision making is at the heart of planning. but despite the link with planning, decision making is a fundamental element of the entire management process

- Decision making, which takes place at all levels of the organisation, is therefore a central part of the manager's role

BASIC **DECISION TYPES**

- **Programmed decisions** tend to be well structured, routine and repetitive, occurring on a regular basis.
    - They are usually made at lower levels in the organisation,
    - They have short-term consequences and
    - Theyare based on readily available information
    - Frequently simple formulae can be applied to the situation
    - Examples of programmed decisions include ordering raw materials or office supplies and calculating holiday pay, sick pay...

BASIC **DECISION TYPES**

- **Non-programmed decisions**, in contrast, are new and unstructured and consequently a previously established decision rule cannot be applied:
  - The organisation has no established procedures or records for dealing with the decision
  - They tend to occur at higher levels in the organisation,
  - have long-term consequences and require a degree of judgement and creativity.
  - Examples of nonprogrammed decisions include the decision to try an unproven technology or to expand into a previously unknown market.

BASIC **DECISION TYPES**
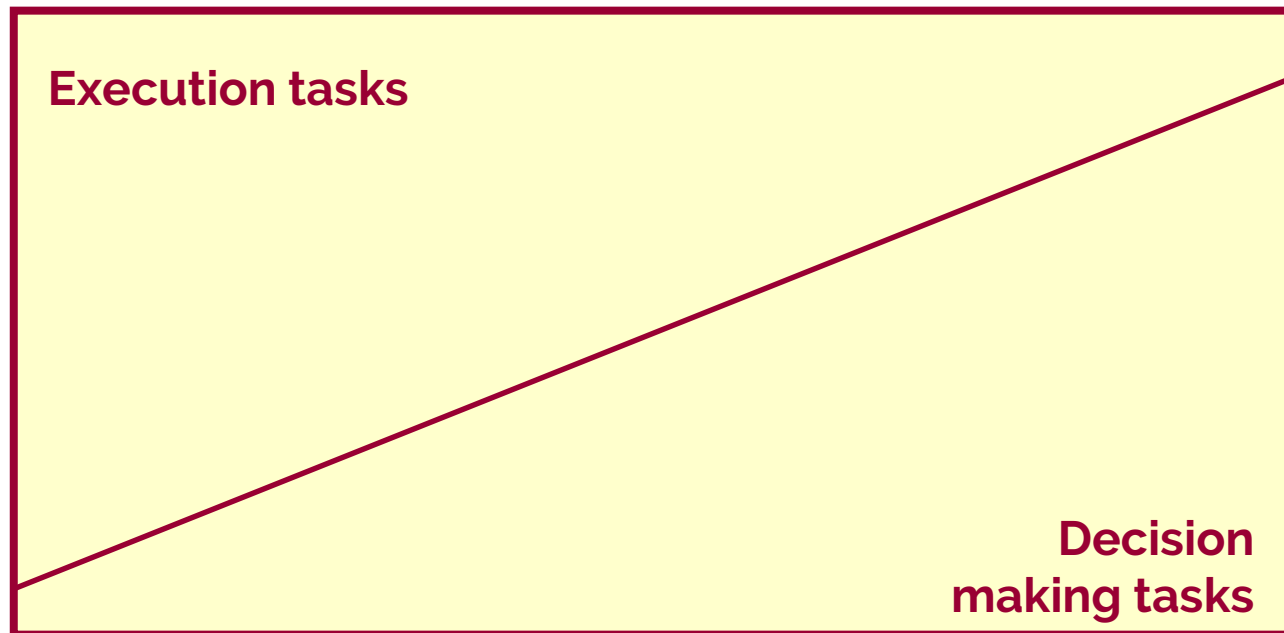
- **Programmed decisions**
  - Well structured
  - Routine
  - Information available
  - Taken at lower levels
  - Short time frame
  - Decision rules and set procedures used

- **Non-programmed decisions**
  - Poorly structured
  - New
  - Little information
  - Taken at higher levels
  - Long time frame
  - Judgements and creativity used

While these two types of decision are clearly distinguishable, they represent a **continuum** from programmed to non-programmed, rather than being exclusive categories. Many decisions will contain elements of each category.
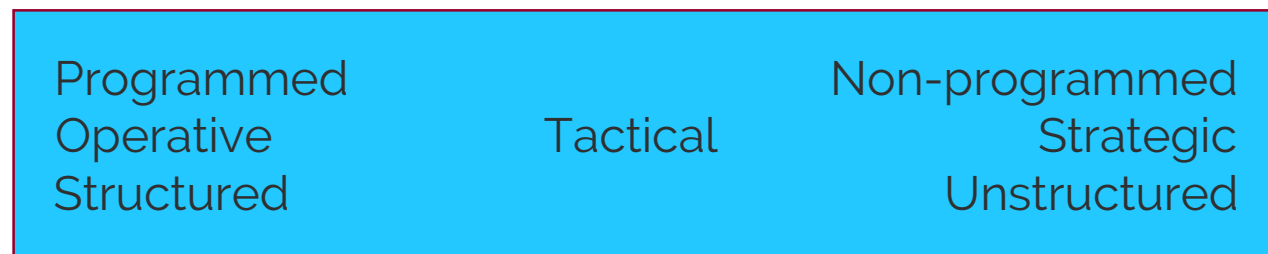
RELATION BETWEEN **LEVEL** OF MANAGEMENT AND **TASK TYPES**

Execution tasks

Decision making tasks

Executive working places

Menagerial working places

Decisions

Programmed
Operative
Structured

Tactical

Non-programmed
Strategic
Unstructured

DECISION **MAKERS**

- Considering the abilites of decision makers, there are four decision makers types
  - Decision maker which does not know that (s)he does not know
  - Decision maker which knows that (s)he does not know
  - Decision maker which does not know that (s)he knows
  - Decision maker which knows that he knows

- Think:
  - Which decision maker type is the most dangereous?
  - Which decision maker type is the most wanted?
  - Which decision maker type is the most insecure?

foi

LEADERSHIP

HIERARCHICAL STRUCTURE

ASSOCIATIONS
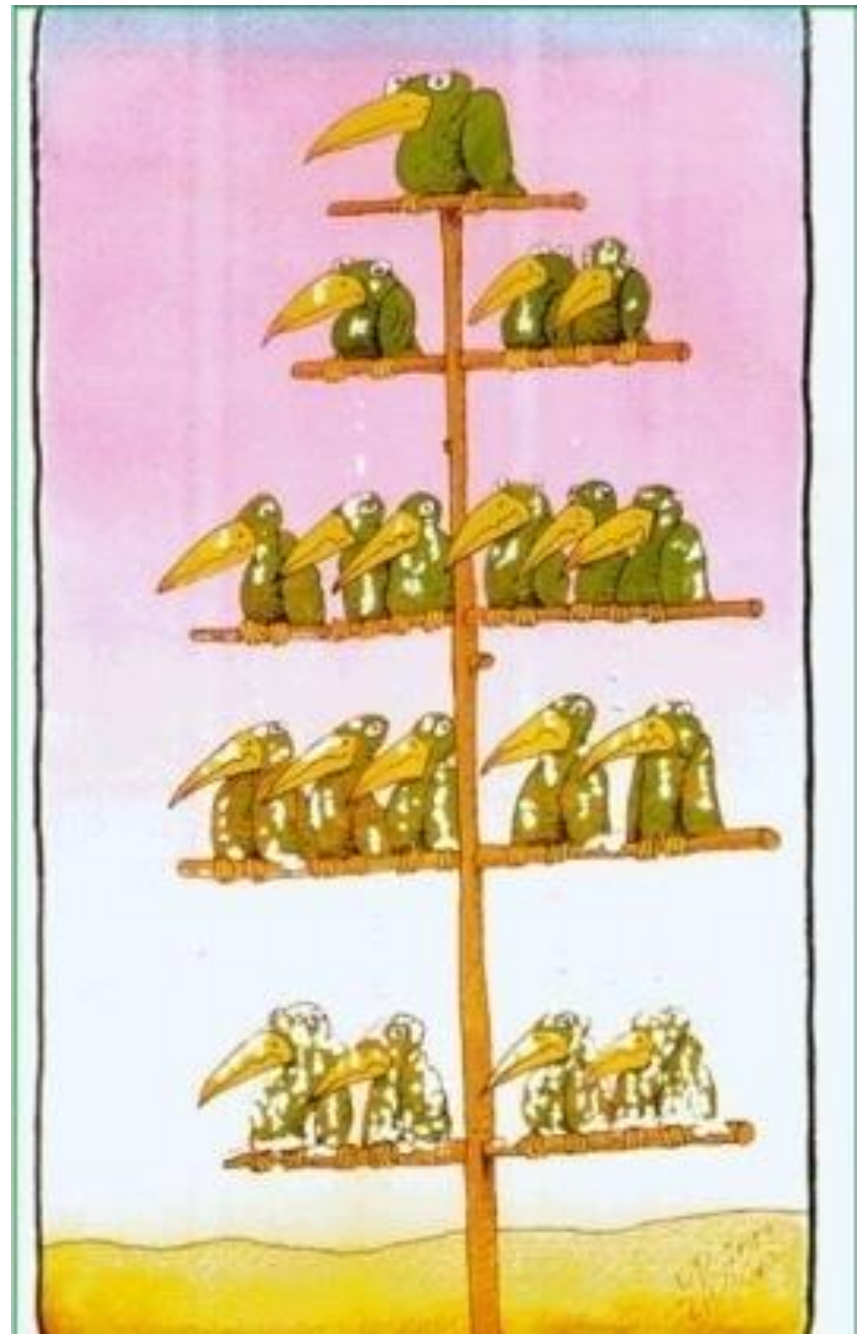
DECISION MAKING **CONDITIONS**

Certainty

The available alternatives and their costs or benefits are certain. Managers know with certainty that particular alternatives will lead to definite outcomes and there is no element of doubt.
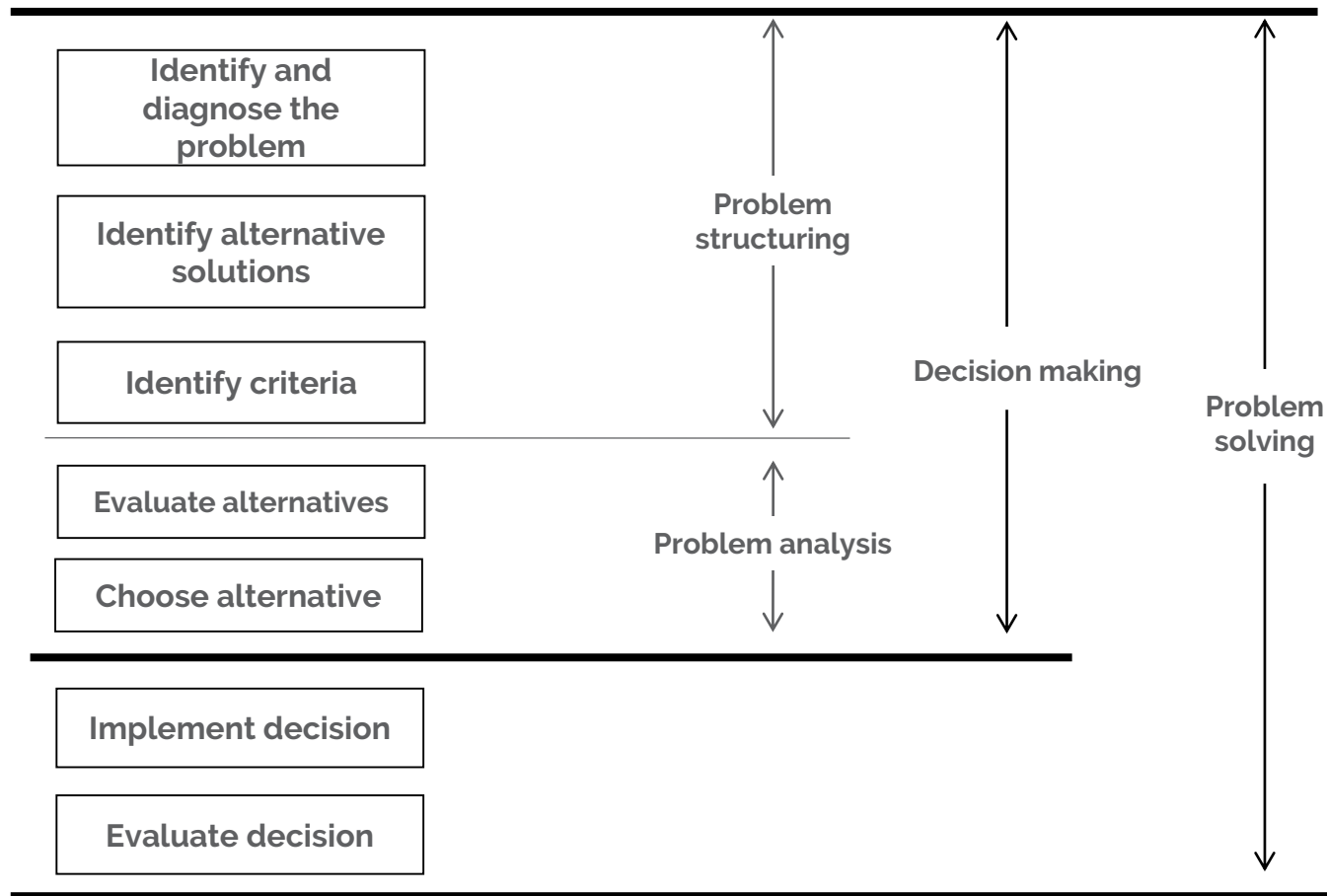A very few decisions can be made with certainty.

Risk

All available choices and their potential costs and benefits are known, but the outcomes are sometimes in doubt.
An example of a risk condition is the throw of a die.
The probability of certain events can be calculated by the organisation using statistical techniques. In contrast, subjective probability is a personal judgement of the likelihood of an event occurring.

Uncertainty

The available alternatives, the likelihood of their occurrence and the outcomes are all unknown.
Decisions made under uncertainty are the most difficult to take. When making decisions under uncertain conditions, managers require intuition and judgement.

foi

DECISION MAKING **PROCESS**

| Identify and diagnose the problem |
| Identify alternative solutions |
| Identify criteria |

Problem structuring

| Evaluate alternatives |
| Choose alternative |

Problem analysis

Decision making

Problem solving

| Implement decision |
| Evaluate decision |

DECISION MAKING **THEORIES**

Normative

The normative theory has something to do with how idealized, rational, super-intelligent people should think and should act. Axioms, basic principles, and fundamental desiderata are motivated by what some investigator thinks is logical, rational, intelligent behavior.
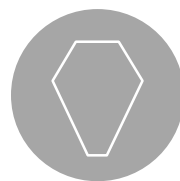
Descriptive

How do real people think and behave? How do they perceive uncertainties, accumulate evidence, learn and update perceptions? How do they learn? What are their hang-ups, biases, internal conflicts? How do they talk about their perceptions and choices? Do they really do as they say they do? Can they articulate the reasons for their actions? How do they resolve their internal conflicts? Do they decompose complex problems? Or do they think more holistically and intuitively?

Prescriptive

What should an individual do to make better choices? What modes of thought, decision aids, conceptual schemes are useful? And since real people are different, with differing psyches and emotions, capabilities, and needs, good advice has to be tuned to the needs, capabilities, and emotional makeups of the individuals for whom the prescriptive advice is intended.

foi

DECISION MAKING **THEORIES**

	normative	descriptive	prescriptive
focus	how people should decide with logical consistency	how and why people decide the way they do	help people make good decisions prepare people to decide
criterion	theoretical adequacy	empirical validity	efficacy and usefulness
scope	all decisions	classes of decisions tested	specific decisions for specific problems
theoretical foundations	utility theory axioms	cognitive sciences psychology about beliefs and preferences	normative and descriptive theories decision analysis axioms
operational focus	analysis of alternatives determining preferences	prevention of systematic human errors in inference and decision-making	processes and procedures end-end decision life-cycle
judges	theoretical sages	experimental researchers	applied analysts

GROUP **DECISION MAKING**

- Generally the diversity of groups facilitates better-quality decisions

- However, a group can be inferior to the best individual in the group.

- In some cases, groups will provide the best-quality decisions and in others the individual will do better.

foi

GROUP **DECISION MAKING**

- **Advantages**
  - Group decision making allows a greater number of perspectives and approaches to be considered, thereby increasing the number of alternatives that can be drawn up.
  - Groups generally facilitate a larger pool of information to be processed. Individuals from different areas can bring varied information to the decision-making setting.
  - By increasing the number of people involved in the process it is more likely that a greater number of people will understand why the decision was made, and this facilitates implementation.
  - Group decision making allows people to become involved and produces a sense of ownership of the final decision, which means that people will be more committed to the decision.
  - Using a group to arrive at a decision means that less co-ordination and communication is required when implementing the decision.

- **Disadvantages**
  - Group decisions take longer to arrive at and this can be problematic when speed of action is key.
  - Groups can be indecisive and opt for satisficing rather then maximising. Indecision can arise from lack of agreement among members. Satisficing occurs when individuals grow tired of the process and want it brought to a conclusion, leading to satisficing rather than maximisation.
  - Individuals who have either a strong personality or a strong position can dominate groups. The result is that a particular individual can exert more influence than others.
  - Groups inevitably have to compromise to reach a decision and this can lead to mediocre decisions.
  - Groups can lead to group think, which can be defined as 'a mode of thinking that people engage in when they are deeply involved in a cohesive group, when members' strivings for unanimity override their motivation to realistically appraise alternative courses of action'.

BASIC **DECISION MAKING STYLES**

- **Directive**
  - **"I decide"**

- **Consultative**
  - **"I decide with input from you"**

- **Democratic**
  - **"One person, one vote"**

- **Consensus**
  - **"We decide and we support the decision"**

- **When to use each of 4 styles?**
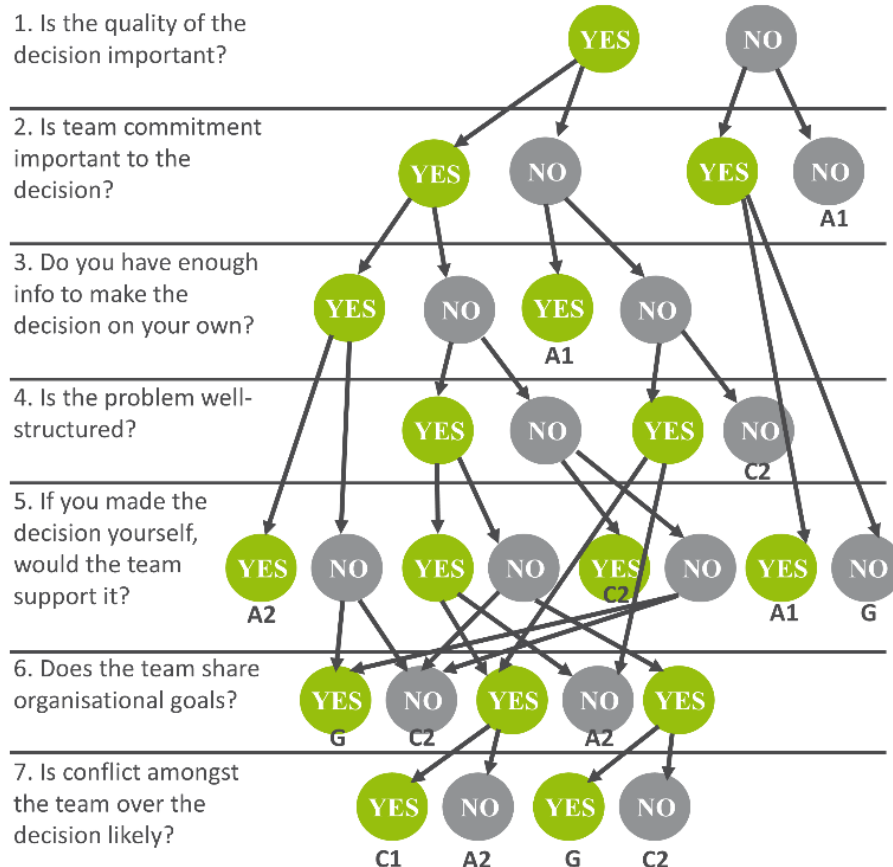 **(see document basic DM styles)**

VROOM, YETTON, JAGO DECISTION STYLES

- **Autocratic 1 (A1):** The leader uses the information that they already have to make the decision themselves;

- **Autocratic 2 (A2):** The leader asks team members for specific pieces of information, but may not inform the team about the decision to be made;

- **Consultative 1 (C1):** The leader informs the team about the decision to be made, but will make the decision in isolation;

- **Consultative 2 (C2):** The leader is responsible for the decision, but the team discuss the situation together; and

- **Group (G):** The team make the decision together. The leader's role is as a facilitator and to support the team during this process.

VROOM, YETTON, JAGO DECISTION STYLES

- **Autocratic 1 (A1):** The leader uses the information that they already have to make the decision themselves;

- **Autocratic 2 (A2):** The leader asks team members for specific pieces of information, but may not inform the team about the decision to be made;

- **Consultative 1 (C1):** The leader informs the team about the decision to be made, but will make the decision in isolation;

- **Consultative 2 (C2):** The leader is responsible for the decision, but the team discuss the situation together; and

- **Group (G):** The team make the decision together. The leader's role is as a facilitator and to support the team during this process.

VROOM, YETTON, JAGO DECISTION STYLES

- In the next three weeks
  - Detailed analysis of theoretical concepts presented today
  - Assignments for points