Lesson 6.11

RATIONAL DECISION MAKING

Managers as decision makers

Although we know about the decision-making process, we still don't know much about the manager as a decision maker. In this session, we'll look at how decisions are made, the types of problems and decisions managers face, the conditions under which managers make decisions, and decision-making styles.

The nature of managerial decision making:

A. **Decision making** is the process through which managers identify organizational problems and attempt to resolve them. Decision makers face three types of problems.

1. A **crisis problem** is a serious difficulty requiring immediate action.
2. A **non-crisis** problem is an issue that requires resolution, but does not simultaneously have the importance and immediacy characteristics of crises.
3. An **opportunity problem** is a situation that offers a strong potential for significant organizational gain if appropriate actions are taken.
    a. Opportunities involve ideas that could be sued, rather than difficulties that must be resolved.
    b. Non-innovative managers tend to focus on problems rather than upon opportunities.

Models of Decision Making: Rational Model:

According to the **rational model** of decision making, managers engage in completely rational decision processes, ultimately make optimal decisions, and possess and understand all information relevant to their decisions at the time they make them (including all possible alternatives and all potential outcomes and ramifications).

Rational Model Step by Step:

Defining Problem by gathering relevant information:

Step 1 is *identifying a problem.* A **problem** is defined as a discrepancy between an existing and a desired state of affairs. Some cautions about problem identification include the following:

1. Make sure it's a problem and not just a symptom of a problem.
2. Problem identification is subjective.
3. Before a problem can be determined, a manager must be aware of any discrepancies.
4. Discrepancies can be found by comparing current results with some standard.
5. Pressure must be exerted on the manager to correct the discrepancy.
6. Managers aren't likely to characterize some discrepancy as a problem if they perceive that they don't have the authority, money, information, or other resources needed to act on it.

Step 2 is identifying the decision criteria. **Decision criteria** are criteria that define what is relevant and important in making a decision.

Step 3 is allocating weights to the criteria. The criteria identified in Step 2 of the decision-making process aren't all equally important, so the decision maker must weight the items in order to give them correct priority in the decision.

Step 4 involves developing alternatives. The decision maker now needs to identify viable alternatives for resolving the problem.

Step 5 is analyzing alternatives. Each of the alternatives must now be critically analyzed. Each alternative

is evaluated by appraising it against the criteria.

Step 6 involves selecting an alternative. The act of selecting the best alternative from among those identified and assessed is critical. If criteria weights have been used, the decision maker simply selects the alternative with the highest score from Step 5.

Step 7 is choosing a course of action and implementing the alternative. The chosen alternative must be implemented. Implementation is conveying a decision to those affected by it and getting their commitment to it.

Step 8 involves evaluating the decision effectiveness. This last step in the decision-making process assesses the result of the decision to see whether or not the problem has been resolved.

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