Lesson 6.12

NATURE AND TYPES OF MANAGERIAL DECISIONS

Nature of Managerial Decision-making:

The situations in which managers have to act differ according to the types of problems that must be handled.

Programmed decisions are those made in routine, repetitive, well-structured situations through the use of predetermined decision rules.

Many programmed decisions are derived from established practices and procedures or habit. Computers are an ideal tool for dealing with several kinds of complex programmed decisions.

Most of the decisions made by first-line managers and many by middle managers are Programmed decisions.

Non-programmed decisions are those for which predetermined decision rules are impractical because the situations are novel and/or ill-structured.

Types of Problems and Decisions:

Managers will be faced with different types of problems and will use different types of decisions.

1. **Well-structured problems** are straightforward, familiar, and easily defined. In handling this situation, a manager can use a **programmed decision,** which is a repetitive decision that can be handled by a routine approach. There are three possible programmed decisions.

a. A **procedure** is a series of interrelated sequential steps that can be used to respond to a structured problem.

b. A **rule** is an explicit statement that tells managers what they ought or ought not to do.

c. A **policy** is a guide that establishes parameters for making decisions rather than specifically stating what should or should not be done

2. **Poorly structured problems** are new or unusual problems in which information is ambiguous or incomplete. These problems are best handled by a **non-programmed decision** that is a unique decision that requires a custom-made solution.

General Organizational Situations:

a. At the higher levels of the organization, managers are dealing with poorly structured problems and using non-programmed decisions.

b. At lower levels, managers are dealing with well-structured problems by using programmed decisions.

Since managers can make decisions on the basis of rationality, bounded rationality, or intuition, let us try to understand them one by one:

1. Assumptions of Rationality.
   Managerial decision making is assumed to be **rational**; that is, choices that is consistent and value maximizing within specified constraints. The assumptions of rationality are summarized below.

a. These assumptions are problem clarity (the problem is clear and unambiguous); goal orientation (a single, well-defined goal is to be achieved); known options (all alternatives and consequences are known); clear preferences; constant preferences (preferences are constant and stable); no time or cost constraints; and maximum pay off.

b. The assumption of rationality is that decisions are made in the best economic interests of the *organization,* not in the manager's interests.

c. The assumptions of rationality can be met *if:* the manager is faced with a simple problem in which goals are clear and alternatives limited, in which time pressures are minimal and the cost of finding and evaluating alternatives is low, for which the organizational culture supports innovation and risk taking, and in which outcomes are concrete and measurable.

The rational model is flawed in that it does not apply to actual decision aiming for two reasons.

a. Perfect information is not available.

b. Manager's values and personality factors enter into their decisions. The rational model presents an ideal against which actual decision-making patterns can be measured

Decision-Making Styles

Managers have different styles when it comes to making decisions and solving problems. One perspective proposes that people differ along two dimensions in the way they approach decision making.

1. One dimension is an individual's way of thinking—rational or intuitive. The other is the individual's tolerance for ambiguity—low or high.
2. These two dimensions lead to a two by two matrix with four different decision-making styles.

a. The **directive style** is one that's characterized by low tolerance for ambiguity and a rational way of thinking.

b. The **analytic style** is one characterized by a high tolerance for ambiguity and a rational way of thinking

.

c. The **conceptual style** is characterized by an intuitive way of thinking and a high tolerance for ambiguity.

d. The **behavioral style** is one characterized by a low tolerance for ambiguity and an intuitive way of thinking

.

3. Most managers realistically probably have a dominant style and alternate styles, with some relying almost exclusively on their dominant style and others being more flexible depending on the situation.

