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PRINCIPLES

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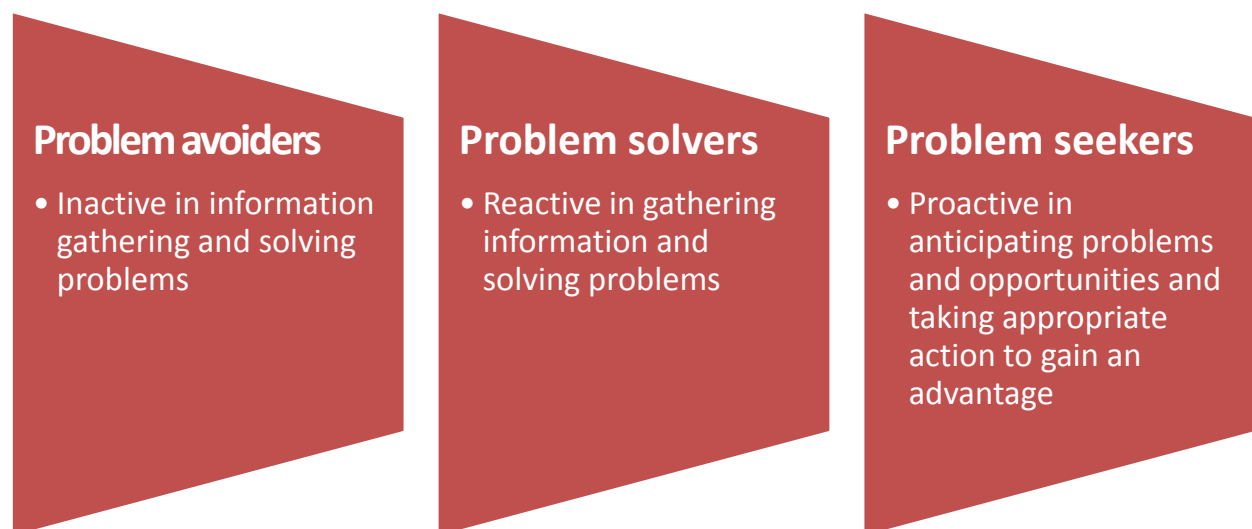
MANAGEMENT

UNIT II
PLANNING

How do managers use information to make decisions?

Problem solving

The process of identifying a discrepancy between actual and desired performance and taking action to resolve it

Decision	Performance threat	Performance opportunity
A choice among possible alternative courses of action	Something is wrong or has the potential to go wrong	Situation offers the chance for a better future if the right steps are taken

▪ **Problem-solving approaches or styles:**

Problem avoiders
- Inactive in information gathering and solving problems

Problem solvers
- Reactive in gathering information and solving problems

Problem seekers
- Proactive in anticipating problems and opportunities and taking appropriate action to gain an advantage
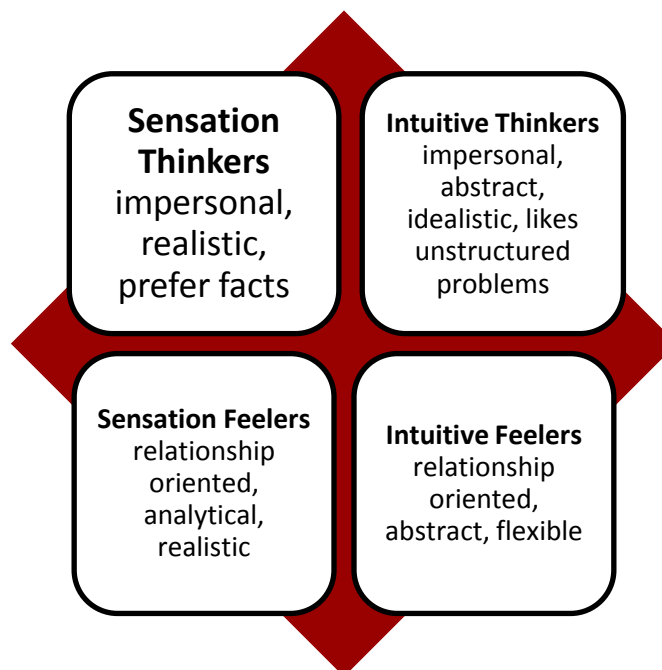
▪ **Systematic versus intuitive thinking**

Systematic thinking	Intuitive thinking
• approaches problems in a rational, step-by-step, and analytical fashion	• approaches problems in a flexible and spontaneous fashion

Managers use different cognitive styles

Sensation Thinkers
impersonal, realistic, prefer facts

Intuitive Thinkers
impersonal, abstract, idealistic, likes unstructured problems

Sensation Feelers
relationship oriented, analytical, realistic

Intuitive Feelers
relationship oriented, abstract, flexible

Types of problems

- Structured problems are ones that are familiar, straightforward, and clear with respect to information needs
- Programmed decisions apply solutions that are readily available from past experiences to solve structured problems
- Unstructured problems are ones that are full of ambiguities and information deficiencies
- Non programmed decisions apply a specific solution to meet the demands of a unique problem
- Commonly faced by higher-level management

Crisis decision making

A crisis involves an unexpected problem that can lead to disaster if not resolved quickly and appropriately

Five-step decision-making process:

- Identify and define the problem
- Generate and evaluate alternative solutions
- Make decision
- Implement the decision
- Evaluate results

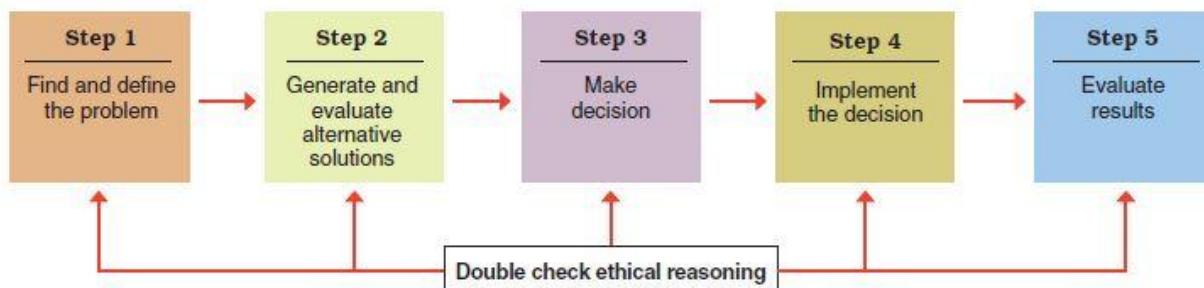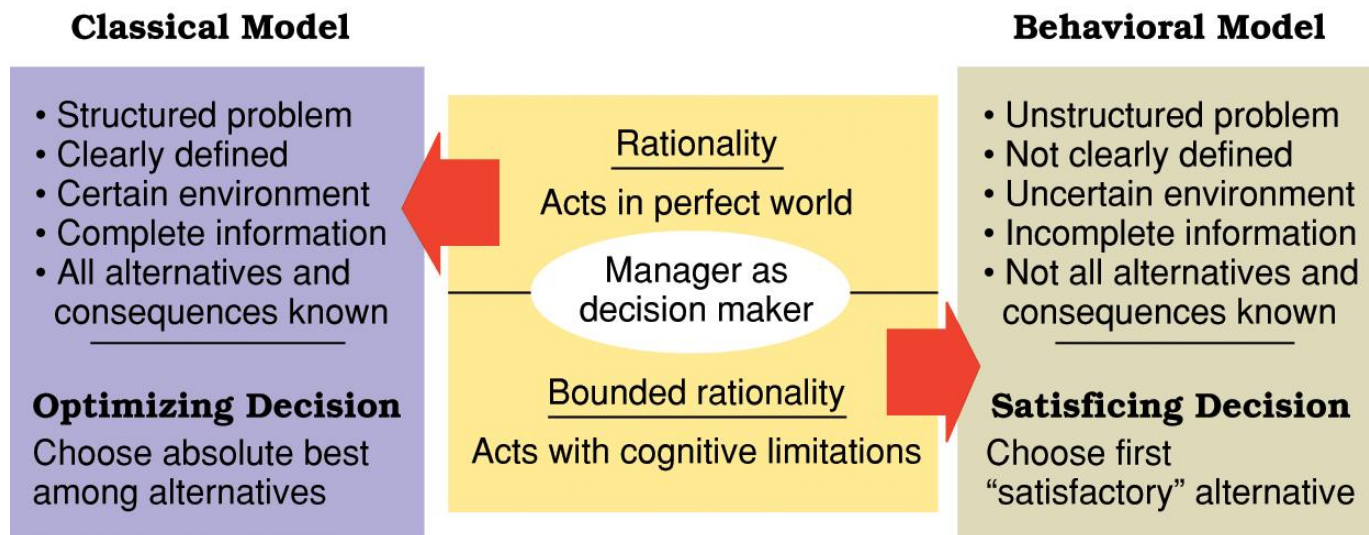| Step 1	Step 2	Step 3	Step 4	Step 5
Find and define the problem	Generate and evaluate alternative solutions	Make decision	Implement the decision	Evaluate results

Double check ethical reasoning

FIGURE 7.5 Steps in the decision-making process.

- **Step 1 — Find and define the problem**
  - Focuses on information gathering, information processing, and deliberation
  - Decision objectives should be established
  - Common mistakes in defining problems:
    - Defining the problem too broadly or too narrowly
    - Focusing on symptoms instead of causes
    - Choosing the wrong problem

- **Step 2 — generate and evaluate alternative courses of action**
  - Potential solutions are formulated and more information is gathered, data are analyzed , the advantages and disadvantages of alternative solutions are identified
  - Approaches for evaluating alternatives:
    - Stakeholder analysis
    - Cost-benefit analysis
  - Criteria for evaluating alternatives:
    - Benefits
    - Costs
    - Timeliness
    - Acceptability
    - Ethical soundness
- **Common mistakes:**
  - Selecting a particular solution too quickly
  - Choosing a convenient alternative that may have damaging side effects or may not be as good as other alternatives

- **Step 3 — decide on a preferred course of action**
  - Two different approaches
    - Behavioral model leads to satisficing decisions
    - Classical model leads to optimizing decisions

Classical Model

- Structured problem
- Clearly defined
- Certain environment
- Complete information
- All alternatives and consequences known

Optimizing Decision

Choose absolute best among alternatives

Rationality

Acts in perfect world

Manager as decision maker

Bounded rationality

Acts with cognitive limitations

Behavioral Model

- Unstructured problem
- Not clearly defined
- Uncertain environment
- Incomplete information
- Not all alternatives and consequences known

Satisficing Decision

Choose first "satisfactory" alternative

- **Step 4 — implement the decision solution**
  - Involves taking action to make sure the solution decided upon becomes a reality
  - Managers need to have willingness and ability to implement action plans
  - Lack-of-participation error should be avoided

- **Step 5 — evaluate results**
  - Involves comparing actual and desired results
  - Positive and negative consequences of chosen course of action should be examined
  - If actual results fall short of desired results, the manager returns to earlier steps in the decision-making process

- **Issues in decision making**
  - How do decision errors happen?
  - Hueristics are strategies for simplifying decision making

Availability Bias
- Bases a decision on recent information or events

Representativeness Bias
- Bases a decision on similarity to other situations

Anchoring and Adjustment Bias
- Bases a decision on incremental adjustment from a prior decision point

Framing Error
- Trying to solve a problem in the context in a positive or negative context

Confirmation Error
- Focusing on information that confirms a decision already made

Escalating Commitment
- Continuing a course of action even though it is not working

Reference:

1. Harold Koontz, and Weihrich, 'Essential of Management' 8th Edition, Tata Mc Graw Hill Education, Delhi, (2010).
2. John R. Schermerhorn, Jr. Management. 12th Edition, John Wiley and Sons, (2012)