



19MEE312

**PRINCIPLES
OF
MANAGEMENT**

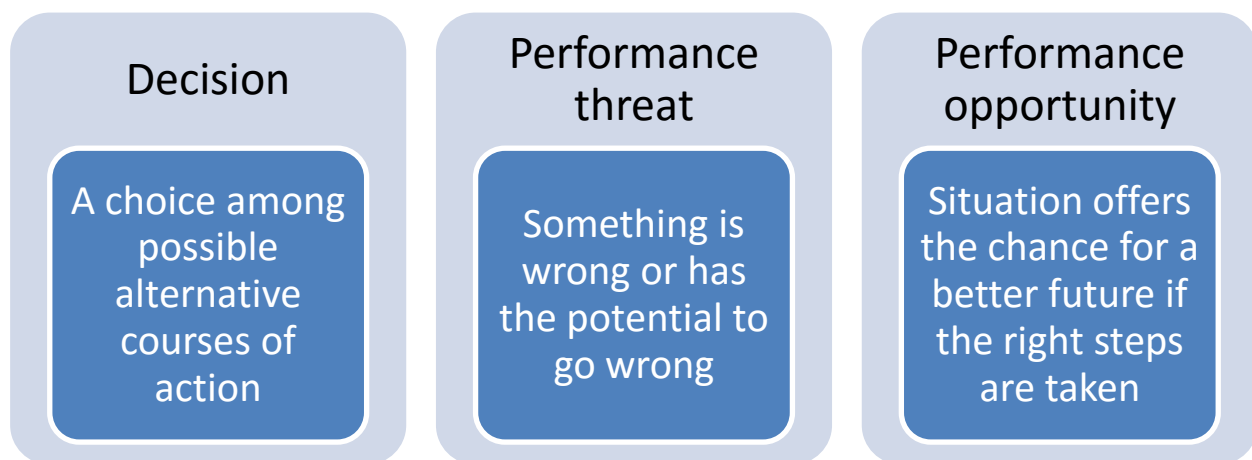


UNIT II PLANNING

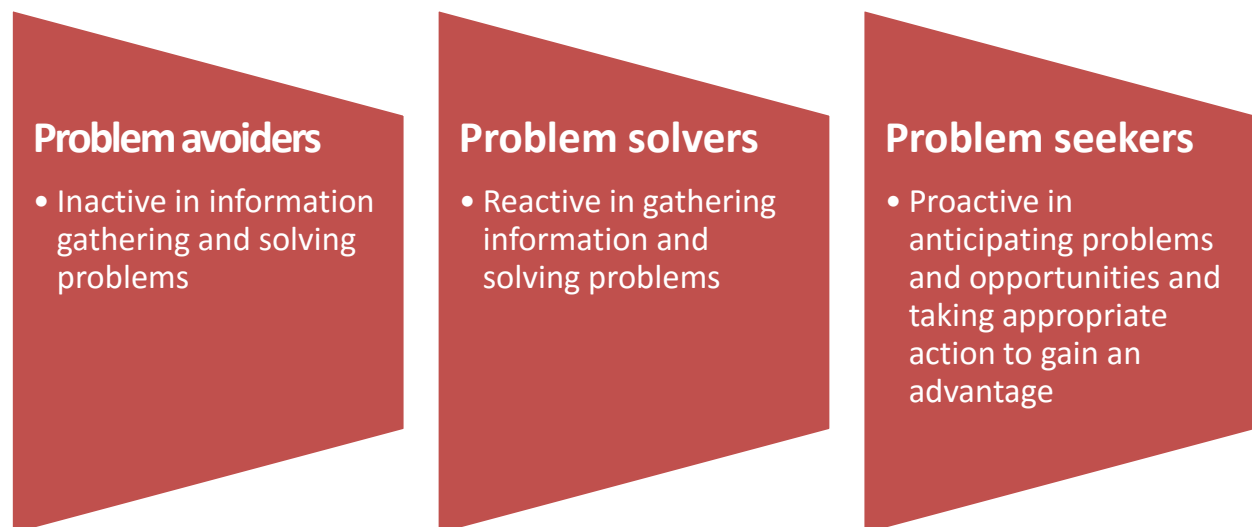
How do managers use information to make decisions?

Problem solving

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



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

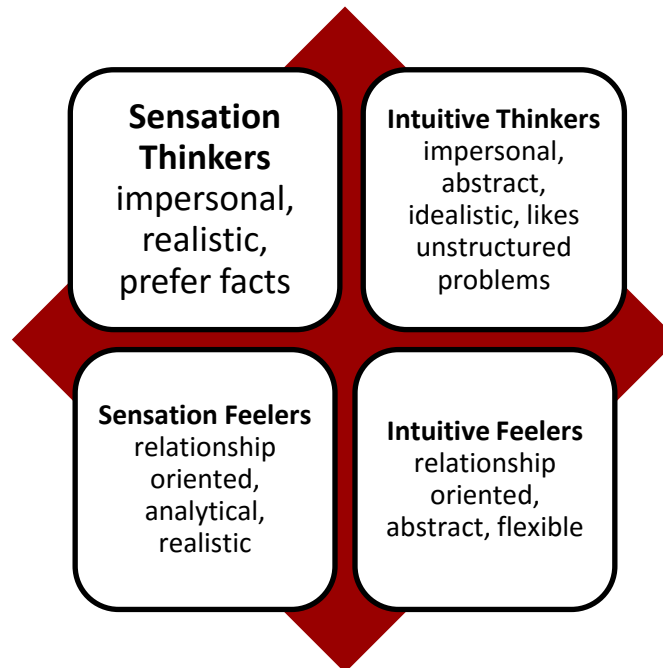




▪ Systematic versus intuitive thinking

Systematic thinking	Intuitive thinking
<ul style="list-style-type: none">• approaches problems in a rational, step-by-step, and analytical fashion	<ul style="list-style-type: none">• approaches problems in a flexible and spontaneous fashion

Managers use different cognitive styles





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

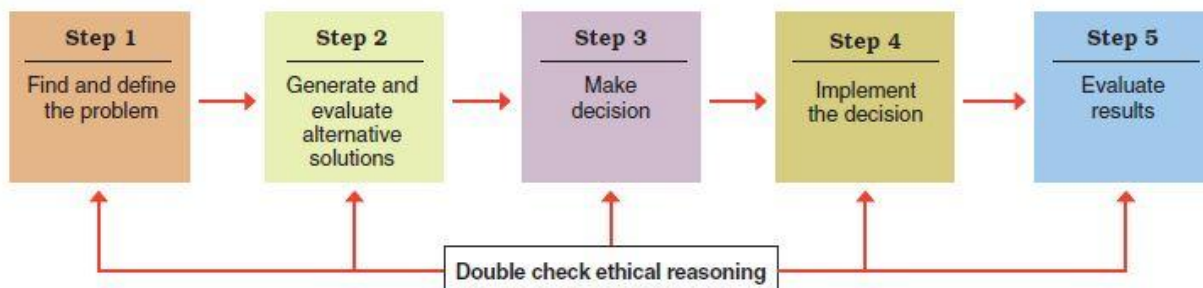


FIGURE 7.5 Steps in the decision-making process.



- **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)