Decision Making
Video 7A
Learning Objectives

- Discuss decision making from a management perspective
- Define two types of decisions which managers likely make each day.

Decisions! Decisions! Decisions!

- What types of decisions do you make each day?
  - What to eat for breakfast, what to wear to school, what your plans will be for the day.
- Managers must also make decisions EVERY day
  - Decisions are made from available choices
    - If only one choice is available, there is no decision to make.
    - Ex: You have only one outfit to wear.
  - Decisions can be made to:
    - Solve problems
      - Difference between what is and what should have been
    - Take advantage of opportunities
      - A chance, event which could provide a good return on investment
      - Ex: Should I invest in technology stocks?

Decision Making and the Functions of Management

- Decision-making is not a separate function of management, rather a common core to all of the functions
  - Decisions about planning
    - What should our mission be?
    - What are the company's strengths, weaknesses, threats, opportunities (SWOT)
    - What goals and objectives should we set?
  - Decisions about organizing
    - What type of departmental structure should we use?
    - How many employees should report to a manager?
  - Decisions about staffing
    - How many employees will we need?
    - What skills are necessary for each job?
    - What type of incentive systems should we use?
Decision Making and the Functions of Management

- Decisions about leading
  - What can we do to motivate employees?
  - How should we deal with conflict?
  - How can we build team spirit?

- Decisions about controlling
  - What tasks need to be controlled?
  - How does controlling employees affect productivity?
  - How can we establish acceptable standards of performance?

Types of Decisions

- Programmed Decisions...
  - Are decisions with high certainty and low risk
  - Certainty: A situation in which a manager can make a decision because all outcomes are known
  - Risk: A situation in which alternatives may be known but the consequences are not known
  - Usually rely on a policy or standing plan since alternatives are known
    - Ex: Deciding how employees should answer the phone
    - Ex: When to reorder office supplies
  - Rely more on habits than intuition
    - Less thinking is required

- Non-programmed Decisions
  - Are decisions with a higher degree of uncertainty and risk
  - Require acting as a pioneer Ex: Columbus sails
    - Outcomes cannot be as easily determined
    - So many variables at play
    - Probabilities (of success) are harder to define
  - Rely more on experience, intuition, rules of thumb
Example of Non-programmed Decision

You are pondering adding another lift at your ski resort but are unsure if you will be able to recover your cost and make a profit. In addition, it is difficult to predict how much snowfall you will receive next season. You decide to calculate the expected value, the conditional return for each possible outcome by multiplying expected revenues by snowfall probabilities. The lift will cost $500,000 dollars. What should you do?

<table>
<thead>
<tr>
<th>Event</th>
<th>Expected Revenue</th>
<th>Times Probability</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heavy Snowfall</td>
<td>$850,000</td>
<td>0.3</td>
<td>$255,000</td>
</tr>
<tr>
<td>Normal Snowfall</td>
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<td>$362,500</td>
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<tr>
<td>Light Snowfall</td>
<td>$350,000</td>
<td>0.2</td>
<td>$70,000</td>
</tr>
</tbody>
</table>

$687,500