Lesson 12

ANALYZING ORGANIZATIONAL ENVIRONMENT AND UNDERSTANDING ORGANIZATIONAL CULTURE

This lecture discusses the components and complexities of an organization's culture and the external /internal environment and how these may constrain managers. Managers are also responsible for improving stakeholder involvement in decisions making and actions taking. Managers must be aware that organizational culture and organizational environments will influence both the way an organization is managed as well as its effectiveness. How can an understanding of organizational culture and the external environment help the manager? Let us learn.

THE ENVIRONMENT:

The impact of the external environment on a manager's actions and behaviors cannot be overemphasized. There are forces in the environment that play a major role in shaping managers' endeavors.

The **environment** is defined as outside institutions and forces outside the organization that potentially affect an organization's performance.

Types of Environment:

1) **External Environment**
2) **Internal Environment**

External Environment

'Major forces outside the organization with potential to influence significantly a product or service's likely success is called its external environment.'

Types of External Environments:

The insights derived from systems theory have helped to highlight the importance of a managed interaction between an organization and its external environment. Two major divisions have been made in the external environment:

1) **The Mega Environment**
2) **The Task Environment**

The Mega Environment

The **mega-environment,** or general environment as it is sometimes called, is that segment of the **external environment** that reflects the broad conditions and trends in the societies within which an organization operates.

Major Elements of the Mega Environment

1. The **technological element** of the mega-environment reflects the current state of knowledge regarding the production of products and services.
   a. Technology is a particular state of knowledge. It is not "things." A computer, for instance, is an artifact or an example of technology and is not technology itself.
   b. Research indicates that technology tends to evolve through periods of incremental change punctuated by technological breakthroughs that either enhance or destroy the competence of firms in an industry.
   c. Numerous publications (such as Business Week, Forbes, etc.) and on-line services (such as LEXIS/NEXIS) provide information regarding technological and other environmental elements.

2. The **economic element** of the mega-environment encompasses the systems of producing, distributing, and consuming wealth.
    a. In a **capitalist economy,** economic activity is governed by market forces and the means of production are privately owned by individuals, either directly or through corporations.
    b. In a **socialist economy,** the means of production are owned by the state and economic activity is coordinated by state plan.
    c. In practice, countries tend to have hybrid economies, incorporating elements of capitalism and socialism.
    d. Organizations are influenced in any given economic system by a variety of economic conditions over which they have little control, such as inflation and interest rates.

3. The **legal-political element** of the mega-environment includes the legal and governmental systems within which an organization must function.
    a. Organizations must operate within the general legal framework of the countries in which they do business.
    b. Organizations are subject to an increase in lawsuits filed by customers or employees.
    c. The political issues which affect organizations include those which influence the extent of government regulation.

4. The **socio-cultural element** of the mega-environment includes the attitudes, values, norms, beliefs, behaviors, and associated demographic trends that are characteristic of a given geographic area.
    a. The socio-cultural element is of particular importance to multinational corporations.
    b. Socio-cultural trends can result in important shifts in demand for products.

5. The **international element** of the mega-environment includes the developments in countries outside an organization's home country that have the potential impact to the organization. International factors far beyond the direct influence of a particular organization can have profound effects on its ability to operate successfully.
    a. Fluctuations of the dollar against foreign currencies influence the ability of an organization to compete in international markets.
    b. Free-trade agreement, such as the NAFTA, GATT can affect an organization either positively or negatively.

The Task Environment

The **task environment** is that segment of the external environment made up of specific outside elements (usually organizations) with which an organization interfaces in the course of conducting its business. The task environment depends on the products and services the organization offers and the locations where it conducts business. The organization may be more successful in affecting its task environment than it is its mega-environment.

Elements of the Task Environment:

1. An organization's **customers and clients** are those individuals and organizations that purchase its products and/or services. It is becoming increasingly important to stay in touch with customers' needs.
2. An organization's **competitors** are other organizations that either offers of have a high potential of offering rival products or services.
    a. Organization needs to keep abreast of who their competitors are and what they are doing.
    b. Ways to track what competitors are doing include obtaining information from commercial data bases, specialty trade publications, news clippings from local newspaper, help-wanted ads, published market research reports, business reports, trade shows, public filings, advertisements, and personal contacts.

3. An organization's **suppliers** are those individual organizations that supply the resources (such as raw materials, products, or services) the organization needs to conduct its operations.
4. An organization's **labor supply** consists of those individuals who are potentially employable by the organization.
   – Organization may have to shift their location if labor supplies dry up in some areas and increase in others.
5. Various **government agencies** provide services and monitor compliance with laws and regulations at local (e.g., consumer affairs), state or regional (e.g., health department), and national (e.g., CBR) levels.

Organization's Relationships with Stakeholders:

1. Stakeholders are any constituencies in the organization's external environment that are affected by, or have a vested interest in, the organization's decisions and actions
2. Stakeholder relationship management is important for two reasons:
   a. It can lead to improved predictability of environmental changes, more successful innovation, greater degrees of trust, and greater organizational flexibility to reduce the impact of change.
   b. It is the "right" thing to do, because organizations are dependent on external stakeholders as sources of inputs and outlets for outputs and should be considered when making and implementing decisions.
3. Stakeholder relationships are managed using four steps:
   a. Identify external stakeholders
   b. Determine the specific interests of each stakeholder group
   c. Decide how critical these interests are to the organization
   d. Determine what specific approach managers should use to manage each relationship.

The Organization's Culture

Just as individuals have a personality, so, too, do organizations. We refer to an organization's personality as its culture.

Organizational culture is a system of shared meaning and beliefs within an organization that determines, in large degree, how employees act. This definition implies several things.

1. Culture is a perception that exists in the organization, not in the individual.
2. Organizational culture is a descriptive term. It describes rather than evaluates.
3. Seven dimensions of an organization's culture have been proposed:
   a. **Innovation and risk taking** (the degree to which employees are encouraged to be innovative and take risks)
   b. **Attention to detail** (the degree to which employees are expected to exhibit precision, analysis, and attention to detail)
   c. **Outcome orientation** (the degree to which managers focus on results or outcomes rather than on the techniques and processes used to achieve those outcomes)
   d. **People orientation** (the degree to which management decisions take into consideration the effect on people within the organization)
   e. **Team orientation** (the degree to which work activities are organized around teams rather than individuals)
   f. **Aggressiveness** (the degree to which people are aggressive and competitive rather than easygoing and cooperative)
   g. **Stability** (the degree to which organizational activities emphasize maintaining the status quo in contrast to growth)

Employees "learn" an organization's culture in different ways:

1. Organizational stories are one way that employees learn the culture. These stories typically involve a narrative of significant events or people.
2. Rituals are repetitive sequences of activities that express and reinforce the key values of the organization, what goals are most important, which people are important.

Lesson 13

21st CENTURY MANAGEMENT TRENDS

Where are we today? What current management concepts and practices are shaping "tomorrow's history"? This session establishes first a framework for understanding social responsibility and managerial ethics. Then, in this session, we'll attempt to answer those above stated questions by introducing several trends and issues that we believe are changing the way managers do their jobs: globalization, entrepreneurship, managing in an e-business world.

Organizational Social Responsibility

What is Social Responsibility?

Before the 1960s, few people questioned the role of business organizations in social responsibility. However, times have changed. Now it's important to get an understanding of *what* social responsibility is.

There are two opposing views of what social responsibility is.

1. The **classical view** is the view that management's only social responsibility is to maximize profits.
   a. Milton Friedman is the most outspoken advocate of this view.
   b. He argues that managers' primary responsibility is to operate the business in the best interests of the stockholders—the true owners of the organization.

2. The **socioeconomic view** is the view that management's social responsibility goes well beyond the making of profits to include protecting and improving society's welfare.
   a. The argument behind this view is that corporations are not independent entities responsible only to stockholders.
   b. Also, modern organizations are no longer just economic institutions.

There are 10 major arguments *for* social responsibility, and they include the following:

a. Public expectations
b. Long-run profits
c. Ethical obligation
d. Public image
e. Better environment
f. Discouragement of further government regulation
g. Balance of responsibility and power
h. Stockholder interests
i. Possession of resources
j. Superiority of prevention over cures

There are six major arguments *against* social responsibility. These include:

a. Violation of profit maximization
b. Dilution of purpose
c. Costs
d. Too much power
e. Lack of skills
f. Lack of accountability

Social responsibility is an obligation, beyond that required by the law and economics, for a firm to pursue long-term goals that are good for society.

Social obligation is the obligation of a business to meet its economic and legal responsibilities.

Social responsiveness is the capacity of a firm to adapt to changing societal conditions.

Social Responsibility and Economic Performance

The question of whether socially responsible activities lower a company's economic performance has been addressed in numerous studies. The majority of studies found a positive relationship between corporate social involvement and economic performance, but some caution is necessary because of methodological questions associated with trying to measure social responsibility and economic performance.

Managerial Ethics

Ethics refers to the rules and principles that define right and wrong conduct. There are ethical dimensions to managerial decisions and actions.

Four Views of Ethics:

1. The **utilitarian view of ethics** states that ethical decisions are made solely on the basis of their outcomes or consequences.
2. The **rights view of ethics** says that ethical decisions are concerned with respecting and protecting individual liberties and privileges such as the rights of privacy, freedom of conscience, free speech, life and safety, and due process.
3. The **theory of justice view of ethics** states that decision makers seek to impose and enforce rules fairly and impartially.
4. Finally, the **integrative social contracts theory** proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view is based on the integration of two "contracts"—the general social contract and a more specific contract among members of a specific community that might be affected by a decision.

Toward Improving Ethical Behavior

What can be done to improve ethical behavior? There are a number of things organizations can do to cultivate ethical behavior among members. Eight suggestions will be explored.

1. The selection process for bringing new employees into organizations should be viewed as an opportunity to learn about an individual's level of moral development, personal values, ego strength, and locus of control.
2. A **code of ethics** is a formal statement of an organization's primary values and the ethical rules it expects employees to follow. Also, decision rules can be developed to guide managers in handling ethical dilemmas in decision making. Top management's leadership and commitment to ethical behavior is extremely important because it's the top managers who set the cultural tone.
3. Employees' job goals should be tangible and realistic, because when goals are clear and realistic, they reduce ambiguity and motivate rather than punish. Job goals are usually a key issue in performance appraisal.
4. If an organization wants it employees to uphold high ethical standards, it must include this dimension in its appraisal process. Performance appraisals should be comprehensive and not just focus on economic outcomes.
5. Ethics training should be used to help teach ethical problem solving and to present simulations of ethical situations that might arise. If it does nothing else, ethics training should increase awareness of ethical issues
6. Independent social audits evaluate decisions and management practices in terms of the organization's code of ethics and can be used to deter unethical behavior.
7. Finally, organizations can provide formal protective mechanisms so that employees with ethical dilemmas can do something about them without fear of reprisal.

Entrepreneurship:

Practically everywhere you turn these days you'll read or hear about entrepreneurs. If you pick up a current newspaper or general news magazine or log on to one of the Internet's news sites, chances are you'll find at least one story (and probably many more) about an entrepreneur or an entrepreneurial business. Entrepreneurship is a popular topic! But what exactly is it?

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Entrepreneurship is the process whereby an individual or a group of individuals uses organized effort and means to pursue opportunities to create value and grow by fulfilling wants and needs through innovation and uniqueness, no matter what resources are currently controlled. It involves the discovery of opportunities and the resources to exploit them. Three important themes stick out in this definition of entrepreneurship. First is the **pursuit of opportunities**. Entrepreneurship is about pursuing environmental trends and changes that no one else has seen or paid attention to. For example, Jeff Bezos, founder of Amazon.com, was a successful programmer at an investment firm on Wall Street in the mid -1990s. However, statistics on the explosive growth in the use of the Internet and World Wide Web (at that time, it was growing about 2,300 percent a month) kept nagging at him. He decided to quit his job and pursue what he felt were going to be enormous retailing opportunities on the Internet. And the rest, as they say, is history. Today, Amazon sells books, music, home improvement products, cameras, cars, furniture, jewelry, and numerous other items from its popular Web site.

The second important theme in entrepreneurship is **innovation**. Entrepreneurship involves changing, revolutionizing, transforming, and introducing new approaches–that is, new products or services or new ways of doing business.

The final important theme in entrepreneurship is **growth**. Entrepreneurs pursue growth. They are not content to stay small or to stay the same in size. Entrepreneurs want their business to grow and work very hard to pursue growth as they continually look for trends and continue innovating new products and new approaches.

Entrepreneurship will continue to be important to societies around the world. For-profit and even not-for-profit organizations will need to be entrepreneurial–that is, pursuing opportunities, innovations, and growth–if they want to be successful.

Managing in an E-Business World

Few years ago the Internet and World Wide Web were a novelty to most managers and organizations. E-mail as a form of communication was gaining in popularity, and occasionally you saw Web addresses in company advertisements. Those days are long, gone! Now, everywhere you look, organizations (small to large, all types, global and domestic, and in all industries) are becoming e- businesses. Today's managers must manage in an e-business world! In fact, as a student, your learning may increasingly be taking place in an electronic environment. What do we know about this e-business world?

E-business (electronic business) is a comprehensive term describing the way an organization does its work by using electronic (Internet- based) linkages with its key constituencies (employees, managers, customers, suppliers, and partners) in order to efficiently and effectively achieve its goals. It's more than e-commerce, although e-business can include e-commerce. **E-commerce (electronic commerce)** is any form of business exchange or transaction in which the parties interact electronically.[6] Firms such as Dell (computers), Varsity books (textbooks), and PC Flowers and Gifts (flowers and other gifts) are engaged in e-commerce because they sell products over the Internet. Although e-commerce applications will continue to grow in volume, they are only one part of an e-business.

Not every organization is or needs to be a total e-business. There are three categories of e-business involvement. The first type is what we're going to call an e-business enhanced organization, a traditional organization that sets up e-business capabilities, usually e-commerce, while maintaining its traditional structure. Many Fortune 500 type organizations are evolving into e-business using this approach. They use the Internet to enhance (not to replace) their traditional ways of doing business. For instance, Sears, a traditional bricks-and- mortar retailer with thousands of physical stores worldwide started an Internet division whose goal is to make Sears "the definitive online source for the home." Although Sears Internet division, Sears.com, represents a radical departure for an organization founded in 1886 as a catalog-sales company, it's intended to expand, not replace, the company's main source of revenue.

Managing in an e-world, whether as an e-business enhanced, e-business enabled, or total e-business organization requires new insights and perspectives.

Globalization:

Management is no longer constrained by national borders. BMW, a German firm, builds cars in South Carolina. McDonald's, a U.S. firm, sells hamburgers in China. Toyota, a Japanese firm, makes cars in Kentucky. Australia's leading real estate company, Lend Lease Corporation, built the Blue water shopping complex in Kent, England, and has contracts with Coca-Cola to build all the soft drink maker's bottling plants in Southeast Asia. Swiss company ABB Ltd. has constructed power generating plants in Malaysia, South Korea, China, and Indonesia. The world has definitely become a global village!

Managers in organizations of all sizes and types around the world are faced with the opportunities and challenges of operating in a global market.

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Lesson 14

UNDERSTANDING GLOBAL ENVIRONMENT WTO AND SAARC

Understanding the Global Environment

Several significant forces are reshaping the global environment that managers face. Two important features of the global environment are regional trading alliances and the World Trade Organization.

A. Regional Trading Alliances.

Regional trading alliances are reshaping global competition. It's no longer country versus country, but region against region.

1. The **European Union (EU)** is a union of 15 **(**25 state members are according to December, 2004**)** European nations created to eliminate national barriers to travel employment, investment, and trade.
   a. The primary motivation for the creation of the EU (in February 1992) was to allow these nations to reassert their position against the industrial strength of the United States and Japan.
   b. The EU took an enormous step towards full unification in 1999 when 11 of the 15 countries became part of the **EMU**—the economic and monetary union, the formal name for the system where participating countries share the same currency, the *Euro*.
   c. The original European Union consisted of 12 member nations: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and United Kingdom. It expanded in 1995 taking in Austria, Finland and Sweden. Since then Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Slovakia and Slovenia have been included.

2. The **North American Free Trade Agreement (NAFTA)** is an agreement among the Mexican, Canadian, and U.S. governments in which all barriers to free trade will eventually be eliminated.
   a. NAFTA went into effect on January 1, 1994.
   b. The signing of NAFTA had both critics and champions.
   c. Eliminating the barriers to free trade (tariffs, import licensing requirements, customs user fees) has resulted in a strengthening of the economic power of all three countries.
   d. Colombia, Mexico, and Venezuela signed an economic pact eliminating import duties and tariffs in 1994.
   e. An additional 36 countries in the Caribbean region, South America, and Central America are negotiating a Free Trade Area of the Americas (FTAA) trade agreement.
   f. Also in existence is another free-trade block known as the Southern Cone Common Market.

3. The **Association of Southeast Asian Nations (ASEAN)** is a trading alliance of 10 Asian nations.
   a. In the future, the Asian region promises to be one of the fastest-growing economic regions of the world.
   b. Another significant historical and economic event in this region was the return of Hong Kong from British rule to Chinese rule on July 1, 1997.

4. The **South Asian Alliance for Regional Cooperation (SAARC)**
   a. The South Asian Association for Regional Cooperation (SAARC) was established when its Charter was formally adopted on December 8, 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
   b. SAARC provides a platform for the peoples of South Asia to work together in a spirit of friendship, trust and understanding. It aims to accelerate the process of economic and social development in Member States.
   c. In 2005 Afghanistan became the 8^{th} member of SAARC.

5. **World Trade Organization (WTO)** is an international body of which more than 100 countries are members. Several trade treaties have been agreed and worked out so far for regulation of world trade. It is a body which helps in promoting global, regional and trade with most favored nation states.

Test your answers!

1. *How does a global economy create both opportunities and challenges for managers?*
The global economy creates opportunities because, with the entire world as a marketplace and national borders becoming irrelevant, the potential for organizations to grow and expand increases dramatically. It can create challenges in that new competitors can suddenly appear anytime, anywhere, and managers who don't respond quickly to changes are likely to find their organizations' survival in doubt.

2. *Describe the four major regional trading alliances including what it is, why it was formed, and what challenges it is facing.*
The **EU** was formed to allow its 15 member nations to reassert their position against the industrial strength of the United States and Japan. Its ultimate goal, to have common customs duties and unified industrial and commercial policies, as well as a single currency and regional central bank, faces problems particularly over the establishment of a single currency.

The **North American Free Trade Agreement (NAFTA**) united Mexico, Canada, and the United States in dropping all barriers to free trade such as tariffs, import licensing requirements, and customs user fees. It was formed to provide such long-term benefits as job creation, market development, and an increased standard of living for all three countries. Studies have reported both positive and negative effects on employment to date. It faces continued opposition from labor advocates and environmentalists and competition from other regional trade alliances and trading blocs.

The **Association of Southeast Asian Nations (ASEAN)** includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Burma, Cambodia, and Laos in a trading entity. Another significant development in Asia was the return of Hong Kong from British Rule to Chinese rule in July 1997.

South Asian Alliance for Regional Cooperation (SAARC) is a body comprising of Pakistan, India, Bangladesh, Sri Lanka, and Nepal, Bhutan and Afghanistan. It is a trading as well as collaborative entity for dialogue on concerns of mutual interest.

3. *What are the legal-political and economic factors that managers need to be aware of in managing globally?*
The legal-political environment consists of legal-political systems and legal-political procedures. Managers must understand the legal-political environment in a foreign country in order to understand the constraints under which they operate and the opportunities that exist.
The primary economic factors that managers must be aware of in global management are fluctuating currency exchange rates, inflation rates, and diverse tax policies.

4. *Compare and contrast national culture and organizational culture.*
Like organizational culture, national culture is shared by all or most inhabitants of a country and shapes their behavior and the way they see the world. As compared to organizational culture, national culture has a greater effect on employees of the organization.

5. *Describe Hofstede's four characteristics of national culture.*
Geert Hofstede found that national cultures differed on four dimensions: (a) individualism vs. collectivism, which describes who it's believed is responsible for caring for people—the individual or the group; (b) power distance, or the extent to which a society accepts the fact that power is distributed unequally; (c) uncertainty avoidance, or the degree to which people are tolerant of

 behavior and opinions that differ from their own; and (d) quantity of life (assertiveness and the acquisition of money and material goods) vs. quality of life (importance of relationships and concern for the welfare of others).

6. *How can an understanding of Hofstede's four dimensions help managers be more effective in managing in a global marketplace?*
   Understanding these four dimensions helps managers be more effective in managing in the global marketplace by identifying those countries that are most like and least like the United States, where U.S. managers would be likely to fit best, and where they would have the biggest adjustment problems.

Let us now learn about the first management function in POLCA i.e. Planning.

Planning; Why and what?

Planning is one of the four functions of management.

Why do Managers plan?

Purposes of Planning

1. Planning is important and serves many significant purposes.
2. Planning gives direction to the organization.
3. Planning reduces the impact of change.
4. Planning establishes a coordinated effort.
5. Planning reduces uncertainty.
6. Planning reduces overlapping and wasteful activities.
7. Planning establishes objectives or standards that are used in controlling.

WHAT IS PLANNING?

Planning involves defining the organization's goals, establishing an overall strategy for achieving these goals, and developing a comprehensive set of plans to integrate and coordinate organizational work. Planning is in fact the advance decision making by managers. Keeping in mind that decision making and decision taking, may it be for present or for future is always required and is very much a managerial job.

Lesson 15

DECISION MAKING AND DECISION TAKING

Intelligent computer software is helping managers and other decision makers to be more effective and efficient. Several diverse industries such as energy, health care, transportation, and telecommunications are relying on applied intelligence software to help make decisions by computers that were previously left to humans. Can any*thing* ever replace the decision-making process utilized by humans? In this session, we'll look at the decision making process and see that there is nothing that will ever replace the manager's need to make decisions. Making good decisions is something that every manager strives to do because the overall quality of managerial decisions has a major influence on organizational success or failure.
Decision making is part of all four managerial functions. In performing these functions, managers are often called decision makers.

The Decision-Making Process:

A **decision** is a choice made from two or more alternatives. The **decision-making process** is defined as a set of different steps that begins with identifying a problem and decision criteria and allocating weights to those criteria; moves to developing, analyzing, and selecting an alternative that can resolve the problem; implements the alternative; and concludes with evaluating the decision's effectiveness.
Models of decision making can be either descriptive or normative.

1. **Descriptive decision-making models** attempt to prescribe how managers actually do make decisions.
2. **Normative decision-making models** attempt to prescribe how managers should process.
   a Following the prescription should lead to a more effective decision-making process.
   b The models usually incorporate four steps.

Steps in an Effective Decision-Making Process

A. The first step is to identify **the organizational problem,** i.e., discrepancies between a current state and condition and what is desired.
   1. The scanning state involves monitoring the work situation for changing circumstances that may signal the emergence of a problem.
   2. The categorization stage entails attempting to understand and verify signs that there is some type of discrepancy between a current state and what is desired.
   3. The diagnosis stage involves gathering additional information and specifying both the nature and the causes of the problem.

B. The generation of alternative solutions step is facilitated by using the four principles associated with brainstorming.
   1. Don't criticize ideas while generating possible solutions
   2. Freewheel, i.e., offer even seemingly wild and outrageous ideas in an effort to trigger more usable ideas from others.
   3. Offer as many ideas as possible to increase the probability of coming up with an effective solution.
   4. Combine and improve on ideas that have been offered.

C. **The choice of an alternative** step comes only after the alternatives are evaluated systematically according to six general criteria:
   1. Feasibility is the extent to which an alternative can be accomplished within related organizational constraints, such as time, budgets, technology, and policies.
   2. Quality is the extent to which an alternative effectively solves the problem under consideration.
   3. Acceptability is the degree to which the decision makers and others who will be affected by the implementation of the alternative are willing to support it.

4. Costs are the resource levels required and the extent to which the alternative is likely to have undesirable side effects.
5. Reversibility is the extent to which the alternative can be reversed, if at all.
6. The ethics criterion refers to the extent to which an alternative is compatible with the social responsibilities of the organization and with ethical standards.

D. Finally, **the implementing and monitoring** the chosen solution step must be planned to avoid failure of the entire effort.
   1. Implementation requires careful planning.
      a. The amount of planning depends upon whether the projected changes are minor or major.
      b. Irreversible changes require a great deal of planning.

   2. Implementation requires sensitivity to those involved in or affected by the implementation.
      a Affected individuals are more likely to support a decision when they are able to participate in its implementation.
      b If Participation is not feasible, individuals should be kept informed of the changes.

   3. Monitoring is necessary to ensure that things are progressing as planned and that the problem that triggered the planning process has been resolved.

Decision Making Situation:

Decision-making situations differ according to the types of problems that must be handled.

Certainty is a situation in which a manager can make accurate decisions because the outcome of every alternative is known. However, this isn't characteristic of most managerial decisions.

Uncertainty is a condition in which the decision maker chooses a course of action without complete knowledge of the consequences that will follow implementation.

Risk is the possibility that a chosen action could lead to losses rather than the intended results.
a. Uncertainty is seen as the reason why situation is risky.
b. A rapidly changing environment is a major cause of uncertainty.

Lesson 16

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:

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 weigh 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.

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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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Lesson 17

NATURE AND TYPES OF MANAGERIAL DECISIONS

Nature of Managerial Decision-making:

Decision making is the act of choosing one alternative from among a set of alternatives. There are two types of decisions.

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. Another dimension of problem is its structure. A problem can be well-structured or poorly structured.

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 types of plans for 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:

1. At the higher levels of the organization, managers are dealing with poorly structured problems and using non-programmed decisions.
2. 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:

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.

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.

One dimension is an individual's way of thinking—rational or intuitive. The other is the individual's tolerance for ambiguity—low or high.

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.

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.