

T1- INTRODUCTION TO BUSINESS DECISION MAKING

Course lecture
Business Decision Making

foi



COLLEGE
ORGANIZATIONS
AND INFORMATICS



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CONTENT **OF TODAY'S LECTURE**

- Introduction
- Skills
- The concept and definition of decision-making
- Definition of decision
- A scientific view of decision-making
- Decision-making in a turbulent environment
- Decision-making errors
- Contingency approach to decision-making
- Stages of the decision-making process (steps and integral process)

MANAGERS – KNOWLEDGE AND SKILLS

WHAT SKILLS SHOULD THEY HAVE?



MANAGERS – KNOWLEDGE AND SKILLS

WHAT SKILLS SHOULD GOOD MANAGERS HAVE?

- Communication skills
- Professionalism
- Decision-making
- Analytical skills
- Adaptability
- Strategic skills
- Innovation
- Motivation
- Leadership
- Organizational skills
- Productivity
- Integrity



ARTIFICIAL INTELLIGENCE AND DECISION MAKING

Artificial Intelligence : Amazing and frightening ChatGPT

<https://lidermedia.hr/komentari/miodrag-sajatovic-umjetna-inteligencija-zadivljujuci-i-zastrasujuci-chatgpt-147124>

Synthetic politician

"in Denmark already works Synthetic party , whose ' leader ' is Leader Lars, form artificial intelligence programmed on policies Danish small , marginal Leader Lars shoots on about twenty since Danish voters who don't turn out on elections . Lars cannot (for now) enter parliament , but members parties , once they enter it , follow will instructions your AI leader "

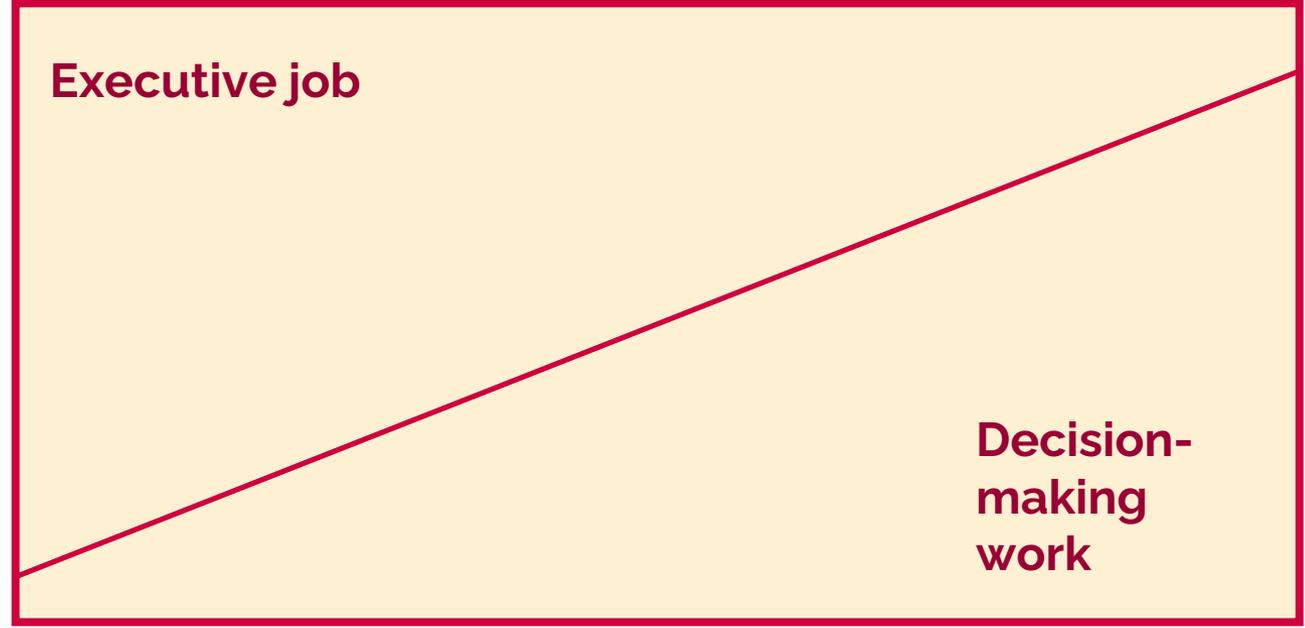


CONCEPT AND DEFINITION OF DECISION- MAKING

- Decision-making is present in **everyday** life, both professionally and privately.
- Every human activity is **the consequence** of some earlier **decision-making process** or is itself a decision-making process.
- Decision-making **ability is learned** and **improved** with time and experience.



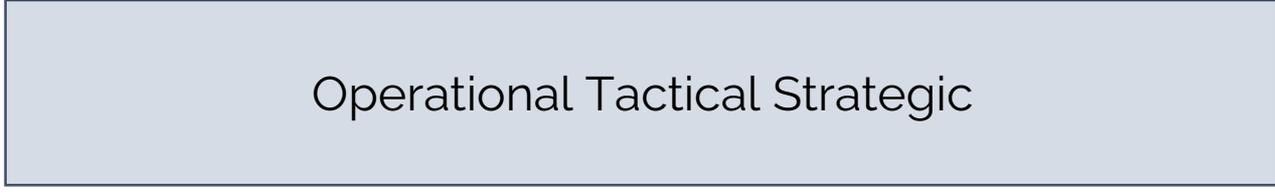
RELATIONSHIP
BETWEEN
 MANAGEMENT
 LEVEL AND **TYPE**
OF WORK THEY
 PRIMARILY
 PERFORM



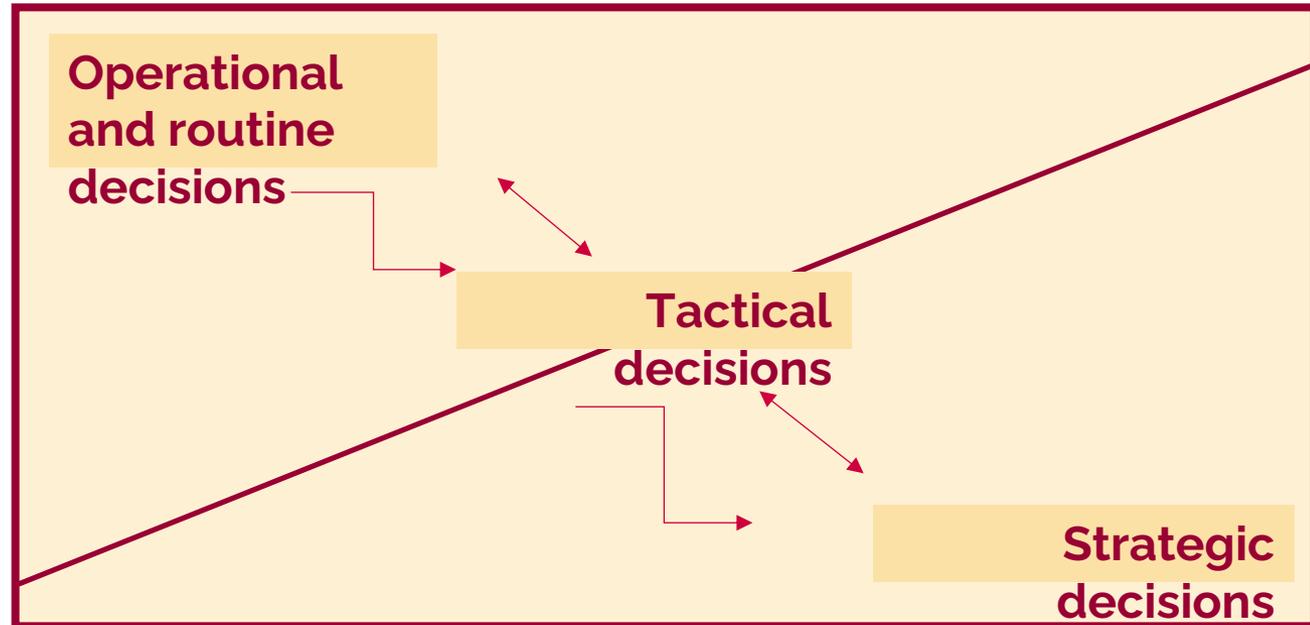
Executive
positions

Managerial
positions

Decisions



TYPES OF
DECISIONS MADE
AT **INDIVIDUAL**
MANAGEMENT
LEVELS



The lowest
level of
management

Top level
management

DECISION MAKERS

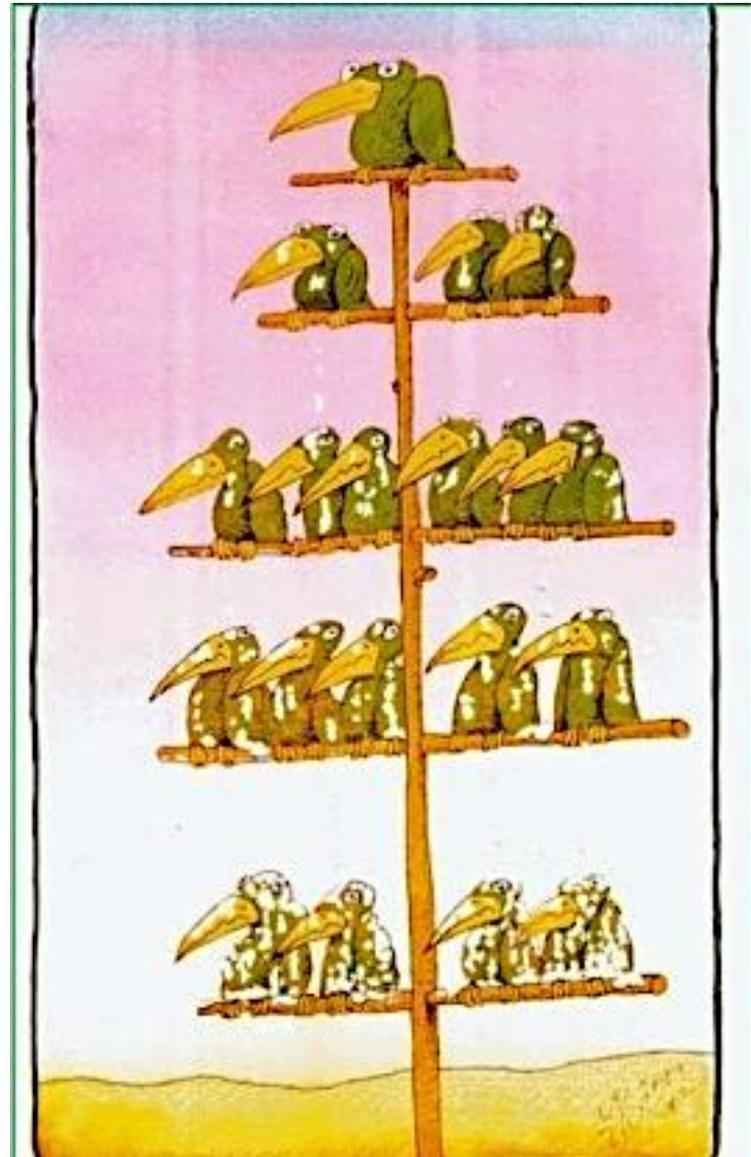
- With regard to decision-making ability, decision-makers can belong to the following types of decision-makers:
 - “The guy who doesn't know he doesn't know”
 - “The guy who knows he doesn't know”
 - “The guy who doesn't know he knows”
 - “The guy who knows he knows”
- Consider:
 - Which type is the most dangerous for decision-making?
 - Which type is most desirable?
 - What type is insecure in decision-making?



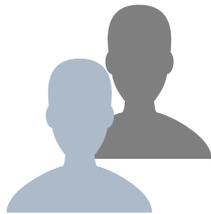
LEADERSHIP

HIERARCHICAL STRUCTURE

ASSOCIATIONS



DECISION-MAKING



Weichrich and Koontz

Process decision-making is a choice way action between more version .



Bass and Simon

Process identifications groups possible version and choice the most favorable of them .



Daft

Process Decision-making is a process identifications problem and process solving problems .



THINK!

The difference between decision-making in private and business life?

MAIN ELEMENTS OF THE DECISION

- Alternatives → decision problems with explicitly known alternatives
 - Election problems
 - Ranking
 - Sorting (clustering)
- Criteria
 - Qualitative
 - Quantitative
 - Min (cost criteria)
 - Max (benefit criteria)
- Goals



A SCIENTIFIC VIEW OF **DECISION - MAKING**



- Behavior according to the model of "economic man"
 - The most important assumption is that decision makers are completely **rational in the decision-making process** = they choose the option that will achieve the best result under the existing conditions.
 - " **Objective** rationality" is based on the assumption of knowing all options in decision-making.
 - The model is based on **normative** or mathematical decision-making theory
 - The most influential representative was **Max Weber**.

A SCIENTIFIC VIEW OF **DECISION - MAKING**



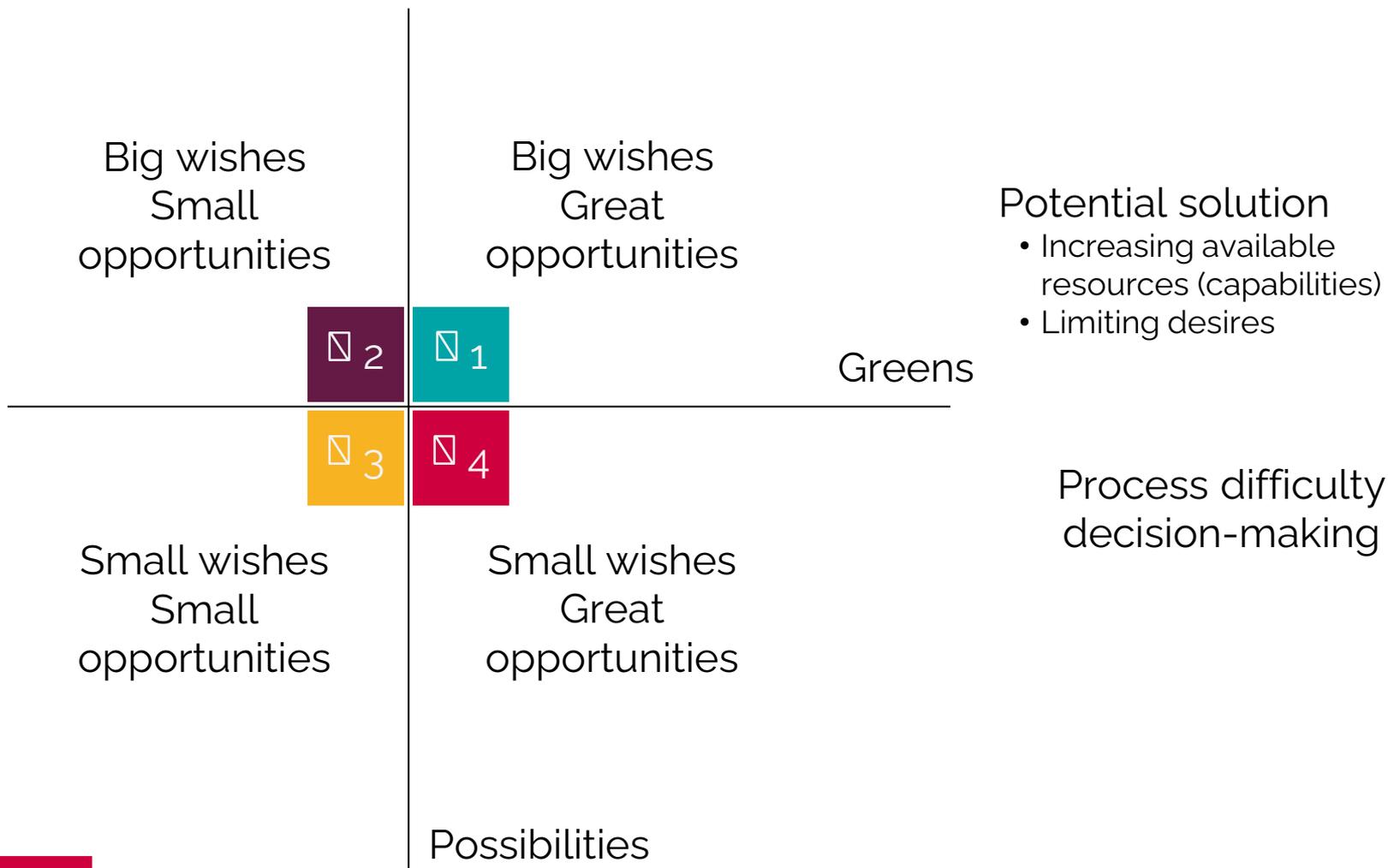
- Behavior according to the model of an "administrative" person
 - It starts from the model of economic man as the foundation, i.e. the way in which a decision maker should make decisions, but perceives, accepts and interprets the way of making decisions in **real** conditions which is usually not based on complete rationality in decision-making.
 - "**Subjective** rationality" is based on the assumption that decision makers make choices in a way that depends on their personal qualities, and they make choices according to **an approximate**, successful model of the real situation, taking into account all the limitations in decision-making.
 - The most influential advocate and introducer was **Herbert Simon**.

A SCIENTIFIC VIEW OF **DECISION -MAKING**

- Business decision-making is predominantly carried out according to the model of the administrative man in circumstances **of subjective** rationality.
- The decision maker seeks the best possible solution given the parameters he possesses - **a satisfactory** solution
- One way to simplify the problem of converting subjective rationality into objective rationality is to find critical success factors that help decision makers become more rational, thereby reducing the number of factors that need to be considered when making decisions.



THE RELATIONSHIP BETWEEN DESIRE AND CAPABILITY IN **DECISION-MAKING**



DECISION MAKING IN A TURBULENT ENVIRONMENT

- Turbulent environment – an environment of rapid change
- Successful managers in a rapidly changing environment have the following characteristics:
 - They capture information at **the right** moment.
 - They have a good intuitive understanding of problems
 - Generate **a larger** number of alternative solutions to the problem (variations)
 - They seek **advice** and **consultation** from their closest associates (if the situation does not require immediate "firefighting")
 - They consult **a wider** circle of organization members, but only **if this does not slow down** the decision-making process (it will be easier to implement the decision if the implementers were involved in the decision-making process)



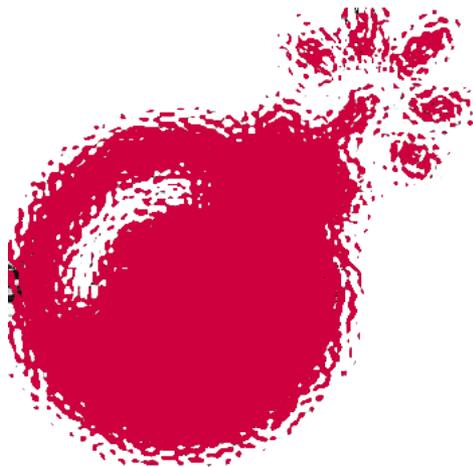
DECISION



- The manager in these circumstances must be supported by higher levels of management or administration.
- R. Townsend describes such a situation as follows:

“Babies learn to walk by falling. If you spank a baby every time they fall, they won’t really want to walk.”

DECISION



1. Number of versions
2. Available time
3. An environment of rapid change and great uncertainty
4. Inappropriate decision-making style
5. Insisting on implementing wrong decisions
6. Psychological characteristics (cognition, emotions, intuition, morality, values, attitudes, etc.)

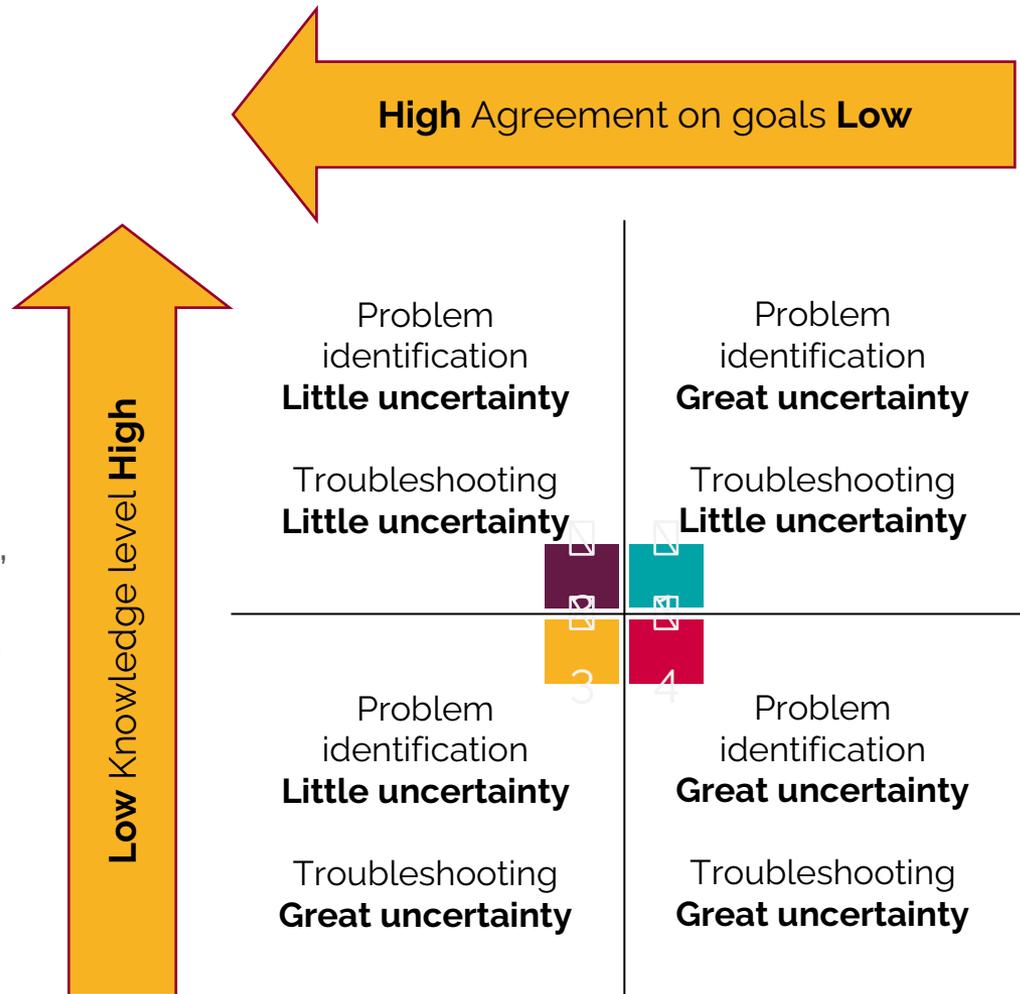
DECISION



- More dangerous than the decision-making error itself is the decision-maker's **insistence** on **implementing** the wrong decision.
- Managers' fear of making risky decisions in order not to **lose** their reputation and position in the organization
- The phenomenon called “**Sweeping the Trash Under the Carpet**”

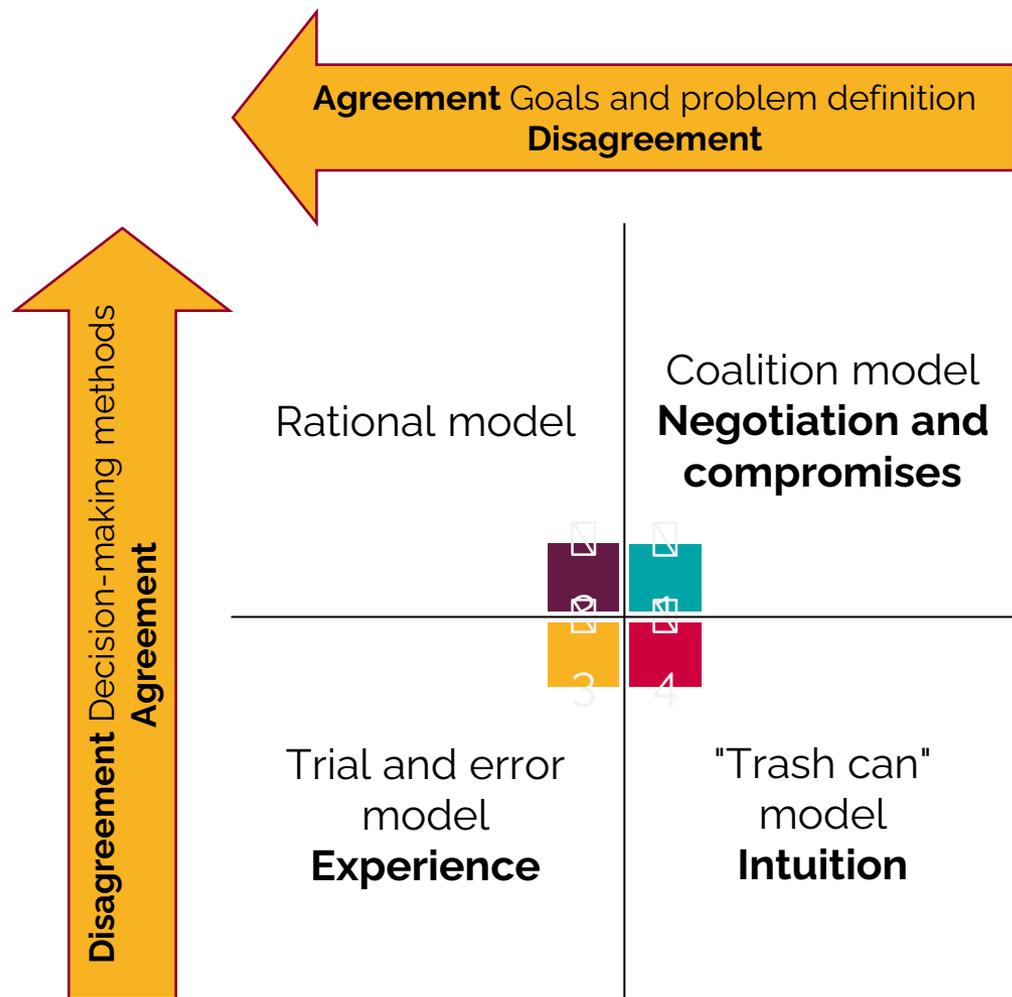
CONTINGENCY APPROACH TO DECISION-MAKING

- In the contingency (situational) approach to decision-making, two ORGANIZATIONAL DIMENSIONS are combined:
 - Agreement on goals**
 - Knowledge about how to achieve goals**
- For a **SUCCESSFUL BUSINESS**, it is necessary to reach agreement on the goals and to have the knowledge of how to achieve the goals
- 4 situations

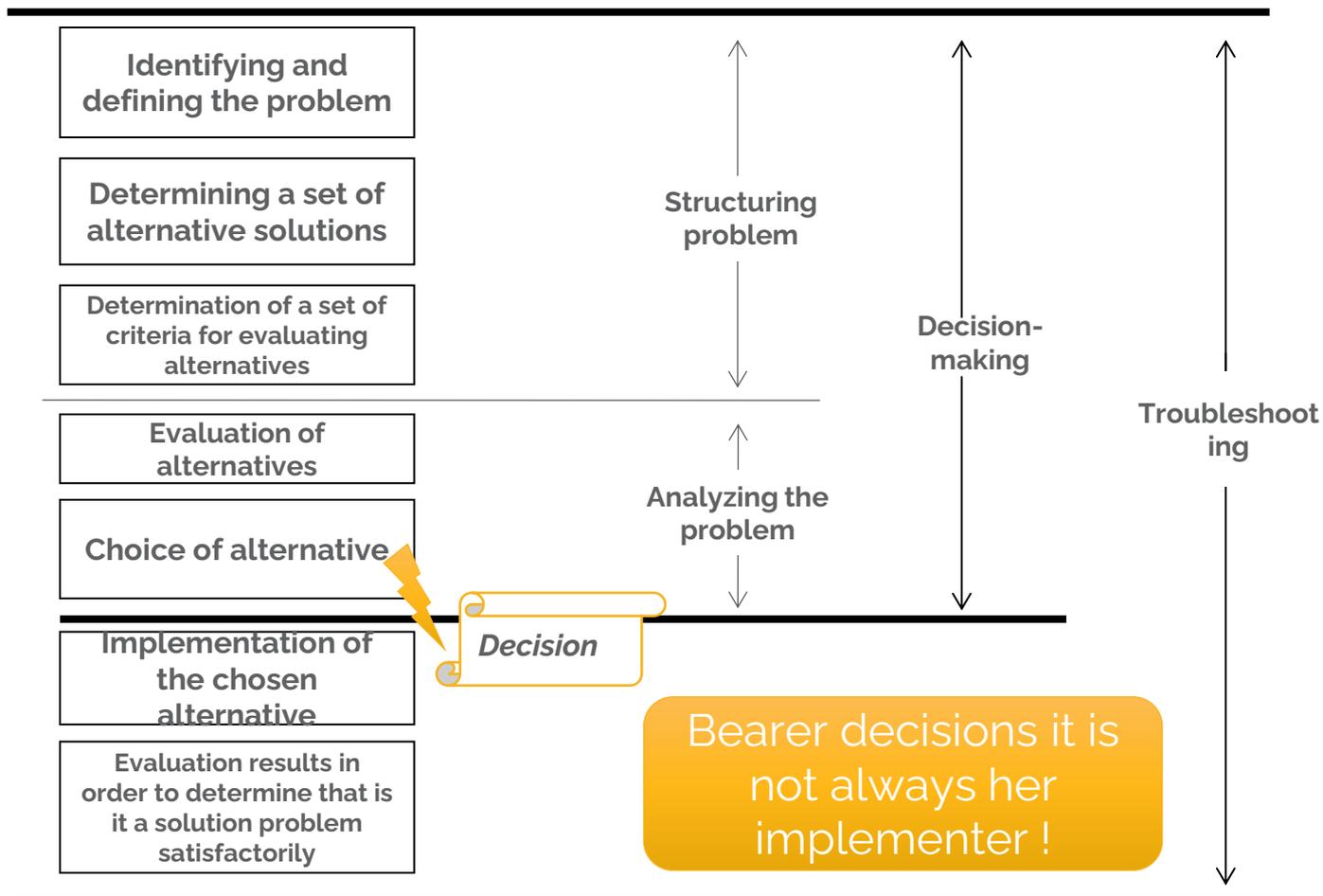


CONDITIONS THAT SUIT DIFFERENT DECISION- MAKING

- There is no better/worse decision-making model, only an appropriate/inappropriate decision-making model for a specific situation



STEPS IN **DECISION -MAKING**



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. PREPARATION OF THE DECISION – sub-phases:

Problem identification

Defining the task

Recording and analysis of the current situation

Searching for alternative solutions to problems

Evaluation of all alternative solutions

2. DECISION-MAKING

3. IMPLEMENTATION OF THE DECISION

4. CONTROL OF IMPLEMENTATION OF THE DECISION



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. DECISION PREPARATION – sub-phase **Problem Identification**

- Problems need to be discovered, recognized and implemented because the success of the entire PO depends on good problem identification.
- “ *A good solution to a well-posed problem is almost always a smarter choice than an excellent solution to a poor “possess one!”* Smart Choices (Hammond, Keeney , Raiffa)
- Example
 - We have identified a problem in a company as a constant decline in sales of our products in a certain market. The question arises: how do we solve this problem, or how do we stop negative trends?



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. DECISION PREPARATION – sub-phase **Defining the task**

- Determining what we have to do, or what is it that we want to achieve through the decision-making process?
- Example
 - At this stage, we must define a task that can be formulated initially as “stopping the further decline in sales of our products”, and later, after stopping the negative trend, as “gradual growth in sales”.



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. DECISION PREPARATION – sub-phase **Recording and analysis of the existing situation**

- We determine what we have at our disposal to solve the problem we want to solve, we analyze the existing material resources, personnel potential and other means at our disposal
- Example
 - In this phase, an analysis of the available sales capacity, an analysis of the sales network, an analysis of the personnel potential and a detailed analysis of sales failure by individual market segments would be carried out.



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. DECISION PREPARATION – sub-phase **Searching, generating alternative solutions to the problem**

- Inventory of possible alternative solutions to the problem
- A larger number of versions represents a greater possibility for choosing the best solution, but also increases the costs in the version evaluation phase
- Example
 - Customer credit
 - Sale at a discount
 - Increased propaganda activity
 - Conquering new markets or new market segments
 - Improving product quality
 - Improving customer service and relationships
 - Combining some of these options to address the problem of declining sales of our products in the market



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

1. DECISION PREPARATION – sub-phase **Evaluation of all alternative solutions to the problem**

- Each version has its own advantages and disadvantages that can be assessed in different ways.
 - Decision table (value matrix)
 - Determining the expected profitability of each individual option with regard to: costs, benefits and the probability that the expected profitability will be achieved
 - Methods for multi-criteria decision making
 - Other methods – eg cost-benefit analysis
- ✓ Customer lending: How much does customer lending cost a company financially and to what extent can a company go into lending?
- ✓ Discounted sales: What does discounted sales mean financially for a company, i.e. what is the relationship between lowering product sales prices and increasing sales volume, and with what probability can an increase in sales be expected?
- ✓ Conquering new markets or new market segments: How much does it cost a company to invest in conquering new markets or new market segments, and how does this relate to the expected increase in sales and with what probability?
- ✓ Product quality improvement: What are the investment costs in increasing product quality, as well as the expected income from sales growth?
- ✓ Improving service and customer relations: How much investment is needed to improve service and customer relations in general, as well as how much sales growth can be expected in this regard?

PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

2. DECISION-MAKING

- In the phase of selecting the most favorable variant, it is not always possible to choose the maximum solution.
- Decisions are often made under time pressure and in crisis situations, which progressively increases the likelihood of error.



PHASES OF THE INTEGRAL DECISION-MAKING PROCESS

3. IMPLEMENTATION OF THE DECISION and 4. CONTROL OF THE IMPLEMENTATION OF THE DECISION

- Successful managers must also take care of the proper implementation of the decision, the implementation of the best solution, because without the implementation of the decision, nothing will come of the best decision.
- In parallel with the implementation of the decision, the control process also runs, as the last stage in the decision-making process



Thanks!

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