

MANAGERIAL DECISION MAKING

1. The impact of managerial decision?

- Commits resources and time.
- Affect whole organization or small segment.
- May be irrevocable or inflexible.
- Has degree of risk.

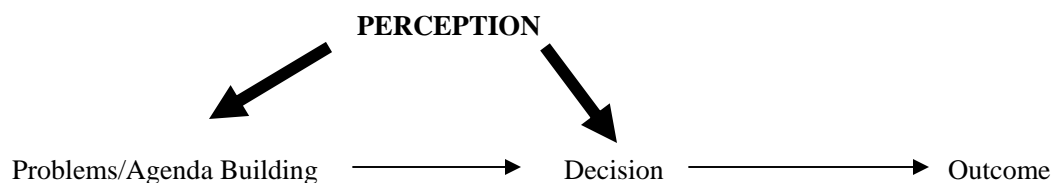
2. Definition:

- Decision making is study of identifying and choosing alternatives based on the values and preferences of the decision maker
 - Information gathering on alternatives
 - Choose the best alternatives (goals)
 - Minimize uncertainties (risk involve)

3. Types of decision making

- Decision whether (go or not go)
- Decision which (decision based on alternatives)
- Contingent decision (decision making based on alternative with conditions)
- Single decision maker
- Majority rules
- Consensus

4. Perception affect on decision making



5. What is perception?

- Perception is a process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment.
- Some errors in perception of judging others
 - Self-serving bias
 - Success due to internal factor and if failures due to external factors.
 - Selective perception
 - Based on personal experience
 - Halo effect
 - Based on single characteristics
 - Contrast effect
 - Compare with other or we can call it norm-reference
 - Projection
 - Based on what the perceiver likes
 - Stereotyping
 - Based on group

6. Decision making methods

- Weighted pros and cons
 - E.g. decision option: should I buy a new car?

Pros	Cons
Comfort (3)	Cost outlay will mean making sacrifices (5)
Lower fuel (3)	Higher insurance (3)
Better for family use (4)	Time and hassle to choose it (2)
It will be a load of my mind (5)	Sale or disposal of old car (2)
Better reliability (2)	Scare and upset me (4)
Total score = 20	Total score = 16

7. Determine importance of decision by priority matrix:

	Urgent	Not so urgent
Important	A	B
Not so Important	C	D

A priority = need to be resolved soon

B priority = time to think and plan

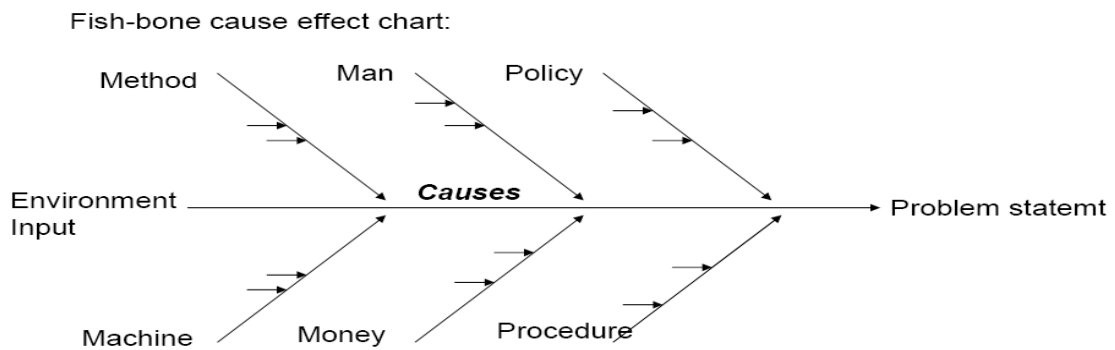
C priority = must be handled or will turn bad

D priority = issues that can be delegated

8. Steps in rational decision making

- Identify and verify problem
- Identify the decision criteria
- Allocate weights for the criteria
- Develop alternatives
- Evaluate alternative
- Select best alternatives
- Implementing alternatives
- Evaluating alternatives

9. Problem identification and verification



10. Criteria identification

- Example equipment purchase

Criteria	Brand A	Brand B	Brand C
Cost			
Compatibility			
Availability of service			
Safety features			
Trade in value			
Training for use			
Lease option			

11. Developing alternatives

- 6 thinking hats (Edward de Bono)
 - White: objective facts
 - Red: view without explanation; hunches
 - Black: logical negative view
 - Yellow: logical positive view
 - Green: creative thinking, possibilities
 - Blue: chairperson, thinking about thinking

12. Cost-benefit analysis

- Work out how much the change will cost to make and the negative possibilities
- Then calculate the benefits you get from it
- Compute pay back time (break even point)
- Input, process and output are measure \$ - cost per unit output

13. Cost-effective analysis

- More efficient alternative
- Better alternatives of input and process that produce the same output
- Cost per unit input