MANAGEMENT

Using Practice and Theory to Develop Skill

DAVID BODDY

8TH EDITION

Pearson

Pearson

At Pearson, we have a simple mission: to help people make more of their lives through learning.

We combine innovative learning technology with trusted content and educational expertise to provide engaging and effective learning experiences that serve people wherever and whenever they are learning.

From classroom to boardroom, our curriculum materials, digital learning tools and testing programmes help to educate millions of people worldwide – more than any other private enterprise.

Every day our work helps learning flourish, and wherever learning flourishes, so do people.

To learn more, please visit us at **www.pearson.com/uk**

6.3 Nature of a decision

People at all levels and in all areas of an enterprise make decisions. Some deal with strategy – whether to commit significant resources to develop a new line of products, acquire another business or build a new factory. In 2018, Alison Brittain, chief executive of Whitbread (www.whitbread.co.uk), owner of the Premier Inn budget hotel chain, was trying to increase profits from the international business. To achieve that, she decided to focus investment on fewer locations – withdrawing from loss-making operations in India and South-East Asia, and adding capacity in the profitable German business, where it has ten hotels: 'If we could find a hotel company with 15 or 20 hotels we would definitely be interested' (*The Times*, 9 December 2017, p.65). Entrepreneurs face strategically important decisions about whether to accept capital from this investor or that one: investors face equally daunting decisions about which new businesses to put their money in (see 'Management in practice' on page 151).

Operational decisions include how to allocate resources between departments, how to use them more efficiently and how to manage relations with suppliers. Work groups and individuals decide how to organise their work, allocate responsibilities, how to monitor progress. Wherever a decision arises, a useful generic distinction is whether it is 'programmed' or 'non-programmed'.

Programmed decisions

A **programmed (or structured) decision** is a repetitive decision that can be handled by a routine approach.

A **procedure** is a series of related steps to deal with a structured problem.

A **rule** sets out what someone can or cannot do in a given situation.

A **policy** is a guideline that establishes some general principles for making a decision.

Programmed (or structured) decisions (Simon, 1960) deal with problems that are familiar, and where information is easy to define and obtain. If a store manager notices a product is selling well, they use a routine procedure to decide how much new stock to order. Decisions are 'structured' if they arise frequently and people deal with them by following a **procedure** – a series of steps, often online, to deal with that problem. The procedure may use a **rule** setting out what to do, or not do, in a given situation or refer to a **policy** describing general principles to follow.

Programmed decisions deal with routine matters – ordering supplies, appointing junior staff, lending money to a retail bank customer. Once managers formulate procedures, rules or policies, others can usually make the decisions. Computers handle many decisions of this type – the checkout systems in supermarkets link to systems recording sales and ordering stock.

Non-programmed decisions

A **non-programmed (unstructured) decision** is a unique decision that requires a custom-made solution when information is lacking or unclear.

Simon (1960) also observed that people make **non-programmed (unstructured) decisions** to deal with situations that are novel or unusual, and so require a unique solution. The issue has not arisen in quite that form, and the information required is unclear, vague or open to several interpretations. Major management decisions are of this type – such as the choice which managers at Marks & Spencer faced in 2010 in deciding whether to launch their programme to become the world's most sustainable retailer by 2015. Whatever benefits this may bring, it will be challenging and time-consuming to introduce as it involves changing the way suppliers work. While the company will have done a lot of research before making the decision, they could not know how customers and competitors would respond, or how long any benefit would last. Most issues of strategy are of this type, as they involve great uncertainty and many interests.

While analytical techniques are good for programmed decisions, non-programmed decisions depend on judgement and intuition. Many decisions have elements of each type – complex non-programmed decisions probably contain elements that can be handled in a programmed way.

Management in practice Inamo – choosing a designer www.inamo-restaurant.com

Inamo has three London restaurants where customers place their order directly to the kitchen from an interactive ordering system on their table. Selecting the designer for such a novel idea was a big step. Noel Hunwick, Chief Operating Officer:

> **An early and crucial decision we had to make was to select our interior design company. The way we've always worked is to make sure that we always [have] options from which to choose so, based on recommendations and on web research, and going to various shows and events, I put together a large portfolio of work … to get a rough price per square foot that these companies generally charged.**
>
> **We then selected eight companies to give us a full design brief, and then cut that down to three – who came out with three entirely different concepts so we narrowed it down to two for final showdown. [Given that our ordering system was so novel] I think that was a crucial decision – we had to make sure it didn't overload the customer, so I think that was a very delicate and difficult business decision. We always want options. Every single decision, everything, we want three options at least. I think that's very important.**

Source: Interview with Noel Hunwick.

Figure 6.3 relates the type of decision to the levels of the organisation. People at lower levels typically deal with routine, structured problems by applying procedures. As they move to senior work, they face more unstructured decisions – junior staff hand decisions that do not fit the rules to someone above them, while the latter pass routine matters to junior staff.

Activity 6.3 Programmed and non-programmed decisions

Identify examples of the types of decision set out above. Try to identify one example of your own to add to those below or that illustrates the point specifically within your institution:

- **Programmed decision:** whether to reorder stock
- **Non-programmed decision:** whether to launch a new service.

Compare your examples with those of other students and consider how those responsible made each decision. How easy is it to divide decisions between these categories?

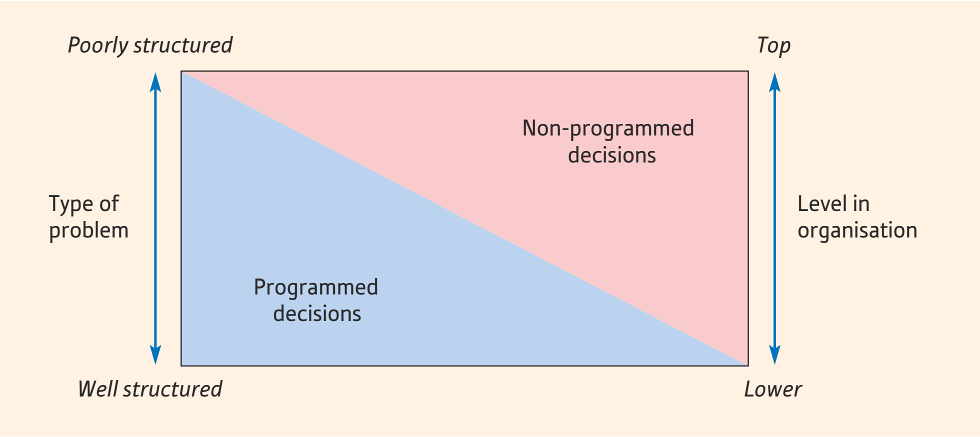

Figure 6.3 Types of decision, types of problem and level in the organisation

Source: Robbins, S.P. and Coulter, M. *Management*, 8th edition, © 2005. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

6.4 The context of decisions

Decisions arise within an organisational, competitive and general context: this section is about a further contextual dimension – measured by the degree of *certainty, risk, uncertainty and ambiguity*. These materially affect the decision task and processes. Figure 6.4 relates the nature of the problem to the type of decision. We can deal with conditions of certainty by making programmed decisions. Many situations are both uncertain and ambiguous; for these we need a non-programmed approach.

Certainty

Certainty describes the situation when all the information the decision maker needs is available.

Certainty is when the decision maker has all the information they need – they are fully informed about the costs and benefits of each alternative. A company treasurer wanting to invest reserve funds can easily compare rates of interest from several banks, and calculate the return from each. Few decisions are that certain, and most contain risk and/or uncertainty.

Risk

Risk refers to situations in which the decision maker is able to estimate the likelihood of the alternative outcomes.

Risk refers to situations where the decision maker can estimate the likelihood of the alternative outcomes, possibly using statistical methods. Banks have developed tools to assess credit risk, and so reduce the risk that the borrower will not repay the loan. The questions on an application form for a loan (home ownership, time at this address, employer's name, etc.) enable the bank to assess the risk of lending money to that person. Yet, after the 2008 financial crisis, much blame was attributed to banks misjudging credit and market risks, and making bad loans:

> A move away from professional exams in favour of narrow quantitative and sales data has … created a cultural inability by some banks to recognize and [deal with] risk (Carolyn Williams, technical director at the Institute of Risk Management, quoted in *Financial Times*, 28 April 2015, Special Report on Risk Management, p.2).

CWS More on managing risk

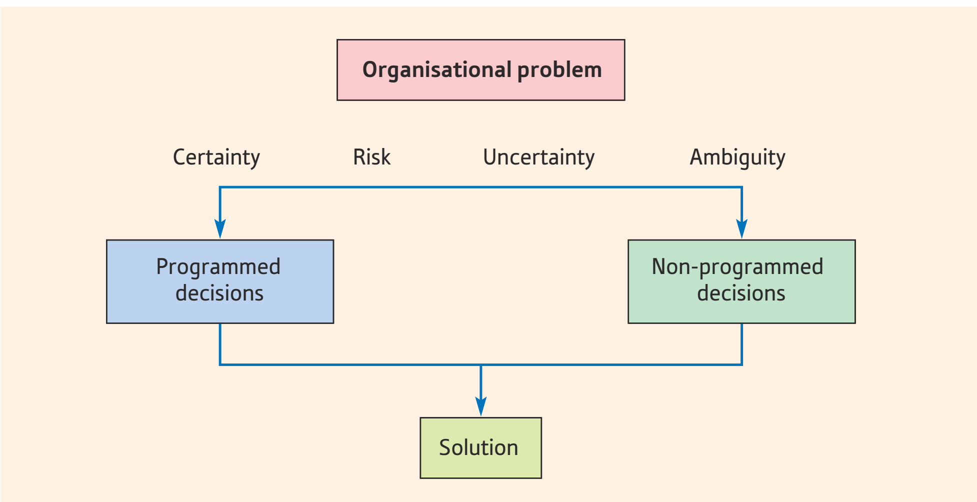

Figure 6.4 Degree of uncertainty and decision-making type

Uncertainty

Uncertainty means that people know what they wish to achieve, but do not have enough information about alternatives and future events to estimate the risk confidently. Factors that may affect the outcomes of deciding to launch a new product (future growth in the market, changes in customer interests, competitors' actions) are impossible to predict. Entrepreneurs live with very high levels of uncertainty: they cannot know if their venture will succeed, and it is not in their nature to allow that to deter them.

Uncertainty is when people are clear about their goals, but have little information about which course of action is most likely to succeed.

Management in practice — How angel investors decide who to back

Huang and Pearce (2015) assess the criteria which 'angel investors' used when deciding which early-stage entrepreneurs to support. Angel investors participate in the earliest stages of new ventures, when the entrepreneur has used their personal savings and that from friends and family. They need more money to build the business, and present their plans to angel investors – rich private individuals (distinct from venture capitalists who may make larger investments later). Such investors have clear objectives – to invest small stakes in new ventures in the hope of finding those that are very profitable.

They make such decisions in conditions of extreme uncertainty, and fully expect to lose their entire investment. They pay attention to the formal plans and analysis the entrepreneur provides, but are aware of their limitations – they are inherently based on very little performance information, and are always presented optimistically. Angels give greater weight to another criterion – the personal credibility of the entrepreneur. They form this judgement by looking for signs of preparedness, commitment and trustworthiness:

> **You notice right away, sometimes within five seconds of meeting the entrepreneur, how you feel about them, and what your overall sense is for them as a person (p.11).**

The authors found that investors combine business viability data with their perception of the entrepreneur to assess the proposal. If both look positive, that will encourage investment. If one is positive and the other negative, the investor will rely on 'gut-feel' – a combination of analysis and intuition based on their experience.

Source: Huang and Pearce (2015).

Managers at GlaxoSmithKline, the pharmaceutical group, experience great uncertainty in allocating research funds. Scientists who wish to develop new vaccines have to persuade the board to back them. Uncertainties include rapid change in the relevant science, what competitors are doing, and how many years will pass before the vaccines begin to earn revenue (if any).

Ambiguity

Ambiguity describes a situation in which the intended goals are unclear, and so the alternative ways of reaching them are equally fluid – leading to stress. Students would experience ambiguity if their teacher created student groups, told each group to complete a project, but gave them no topic, direction, or guidelines. Ambiguous problems are often associated with rapidly changing circumstances, and unclear links between decision elements – see 'Management in practice' on the following page.

Ambiguity is when people are uncertain about their goals and how best to achieve them.

Dependency

Another way to sort decisions is by their dependency (or not) on other decisions. People make decisions in a historical and social context, influenced by past and possible future decisions, and by events elsewhere. Legacy computer systems (the result of earlier decisions) frequently constrain how quickly a company can adopt new systems.

Management in practice

Different conditions, different ways to decide
www.mcdonalds.co.uk

Rosenzweig (2013) shows how the context of a decision affects how to reach it, by contrasting two decisions (amongst many) that McDonald's, and similar fast-food outlets, faces.

1. **Where to locate a new outlet.** They have done this many times, and have developed a sophisticated database of the factors that affect the profitability of a store – traffic patterns, incomes, demography and many more. These data are readily available, and it is a routine calculation to compare which of several possible locations would be most profitable. This decision is in a 'certain' context, which routine calculations will answer.
2. **How to respond to obesity.** The public is critical of the fast-food industry's role in obesity, and is expecting it to respond. But McDonald's has little or no information on how the public will respond to new, healthier products, nor about competitor responses. It cannot anticipate medical advances that may allay, or aggravate, health concerns, nor the lawsuits it may face if litigants claim that by offering new products it is admitting there was something wrong with the old ones. This a highly ambiguous and uncertain context, requiring a very different approach to decisions.

Source: Rosenzweig (2013).

Some decisions have few implications beyond their immediate area, but others have significant ripples around and beyond the organisation. Changes in technology usually require consistent, supportive changes in structures and processes if they are to be effective – but decisions on these areas are harder to make than those on technology. Figure 6.5 illustrates this.

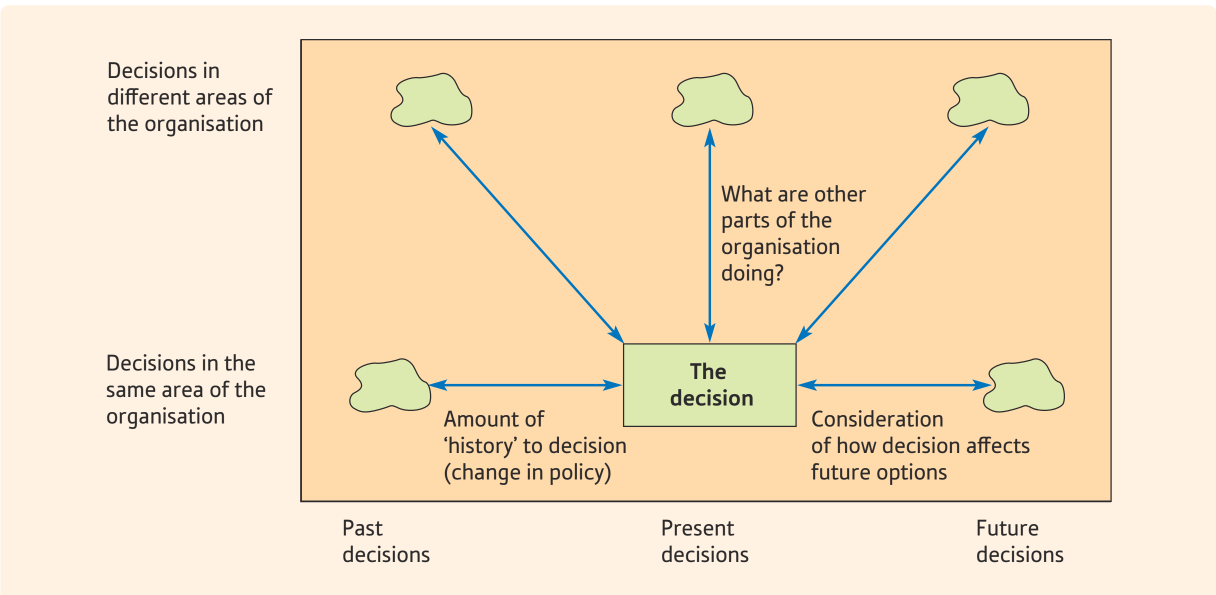

Figure 6.5 Possible relationships between decisions

Source: Cooke and Slack (1991), p.24.