LEARNING PLAN 3: MANAGERIAL CONTROL AND DECISION MAKING

OVERVIEW

Managers are responsible for determining where an organization is now, where it needs to go and how it will get there. Therefore, planning must be completed before the other managerial functions are performed. Whether a company is large or small and the planning process is formal or informal, a basic mission statement must be created and goals and strategic plans developed in order to achieve the mission. Because the future is uncertain, the planning process must also be flexible to accommodate for change and allow businesses to meet new, unforeseen events in its internal and external environments.

Managers are required to make decisions about every aspect of an organization. It is the manager's job to identify problems, make the decisions that will help to solve them, and review the outcomes of these decisions to determine whether other options must be pursued. Decision making can be challenging, especially if environmental uncertainty is high, information is unclear or people hold conflicting points of view. Good decision making and good management go hand in hand because the decisions that managers make will determine how a business solves problems, distributes resources and achieves its goals. In this unit on managerial decision making, students will learn about appropriate decision-making models for different types of decisions, and how to use specific tools to improve the efficiency and effectiveness of their decisions.

COMPETENCY

USE BASIC MANAGERIAL PLANNING TOOLS.

This learning plan addresses the following learning objectives to help you master the competency:

a) Identify terms used in organizational planning and goal setting.
b) Develop effective goal statements.
c) Utilize SWOT analysis to describe an organization's strategic situation.
d) Apply the Shewhart cycle to a specific scenario.
USE GIVEN DECISION-MAKING APPROACHES.

This learning plan addresses the following learning objectives to help you master the competency:

a) Distinguish between types of decisions.
b) Distinguish among different decision-making models.
c) Apply the decision-making process to given situations.
d) Identify decision approaches for the new workplace.
e) Identify the four major decision styles.
f) Identify the advantages and disadvantages of participative decision making.
g) Identify techniques managers can use to improve decision making creativity.
Managers are responsible for determining where an organization is now, where it needs to go, and how it will get there. Therefore, planning must be completed before the other managerial functions are performed. Whether a company is large or small and the planning process is formal or informal, a basic mission statement must be created, and goals and strategic plans must be developed to achieve this mission. Because the future is uncertain, the planning process must also be flexible to accommodate change and allow businesses to meet new, unforeseen events in their internal and external environments.

Strategic planning is the process we use as managers and leaders of organizations to determine the destination and plan the way we will get there. It is a fundamental part of management organization and direction-setting, and it is critical to success. In the readings and activities for this objective, we will cover the core elements of strategy, planning, and implementation. There are a number of ways to organize the strategic planning process, and no one is the best in all situations. So, as you move through this objective, concentrate on concepts and principles more than the specific sequences of details.

One suggested first step is to develop a vision for the program or organization for which you are doing the planning. This is a guiding principle or philosophy that will keep the process on target. The written documentation of the vision is often called the vision statement. The strategic plan then becomes the road map or blueprint to achieving this vision. Closely related to the vision statement is the mission statement. The vision tends to be more abstract, but the mission is a more defined statement of purpose that will mold the strategic planning process. From the mission statement, the strategic planning process derives a set of specific statements known as goals and objectives. Typically, there are more global goals for the organization, and these are translated into actionable items as department-specific goals and objectives and developed in a manner that they link to and are consistent with organization-wide goals and objectives.

An organization measures itself against goals that represent its desired future states. This process is often part of the long-range planning or forecasting activity that organizations undertake each quarter or more frequently. Firms often compare their actual performance against that of their forecasted performance to determine if they are on target with their initial goals or if corrective action is needed. This is how an organization stays on track with its performance goals and ensures that it is performing as intended. Goals are the levels that a firm and its stakeholders want to reach. Plans are often the
blueprint drawn up to take initial goals from simple thoughts to an actionable activity to make them happen.

Stakeholders place a certain value on the achievement of these goals over a period of time. Frequently, this takes the form of financial measures. However, goals can consist of many areas within an organization. Goals act as boundaries that allow an organization to set a course for the future and then execute its plans to meet this course of action to obtain the goals. An organization, much like an individual, without goals or well-defined goals, will drift aimlessly without understanding their true intent in operation.

Goals also facilitate planning and control within an organization. They provide a certain motivational value to the work force because they get an immediate measure of how the organization is performing. Goals are an effective way to benchmark the organization in a multitude of ways.

Firms use a detailed process to incorporate goals into their planning process that are measurable over both the short-term and long-term horizon.

The process may be depicted graphically like this:

Planning starts with the development of the firm's mission. This is the basic statement of purpose or reason for existence of the organization. An effective mission statement is one that creates unification of purpose, upholds values, and challenges the level of status quo within an entity. Without a clearly defined purpose, an organization faces a risk of disaster because of constant ambiguity and conflict.

Strategic goals are established to support this overarching mission statement. These high-level goals often relate to core areas of the firm, such as profitability, quality, market share, and societal aspects of their environment. These goals are often used as a bellwether of performance efficiency and effectiveness. This is done with relation to both internal and external operations. Both of these are building blocks for overall firm success, and without them, success is but a mere thought.

As this process continues, goals and objectives get more detailed. Often, this is due to the trickle-down effect of moving from upper management or a conceptual stance to the operational management levels where the activities drive the goals and objectives.
In today's environment, the mere existence of long-term planning is not enough. Firms must have a strategy to create a continual competitive advantage in every facet of their existence. This often translates into making the company or its products and services stand out from its competition.

### SMART GOALS

When a firm establishes its Goals and Objectives or revisits these items during periodic reviews, it is very important that it retains these in S.M.A.R.T. parameters to ensure they are doable. Select a colored tab below to review what S.M.A.R.T. stands for:

<table>
<thead>
<tr>
<th>SPECIFIC</th>
<th>Goals and Objectives should be specific enough in nature that they stand alone and are clearly distinguishable to those that are viewing them and evaluating them.</th>
</tr>
</thead>
<tbody>
<tr>
<td>MEASURABLE</td>
<td>Goals and Objectives must be able to be clearly measured to determine success, failure, or needed corrective actions individually.</td>
</tr>
<tr>
<td>ATTAINABLE</td>
<td>Goals or Objectives that are attainable are ones that the firm could reach with the current means.</td>
</tr>
<tr>
<td>REALISTIC</td>
<td>Realistic Goals and/or Objectives are ones that not only make sense but have a true chance of being met by the firm. If a goal or objective is not realistic, it will diminish the overall performance of the firm.</td>
</tr>
<tr>
<td>TIME-SENSITIVE</td>
<td>There must be an element of time involved with each Goal or Objective. For example: <em>We want sales to increase by 10 percent this calendar year.</em></td>
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### MANAGING BY OBJECTIVE

Managing By Objective (MBO) is a structure in which a specific set of measurable goals are created by a set of individuals in correspondence with their superiors. Routine reviews are performed, and the reward process is triggered based on the output of each review cycle. There are several guiding principles that oversee this process. They are:
Single-use plans are those devised by management for stand-alone events or triggers to be executed when the event happens. These are often related to planning processes and events that have been anticipated or planned for. An example of this might be a plan for a nuclear attack on the facility. This would be theoretically a one-time or single-use plan.

Standing plans include policies or guidelines for use when an event evolves from another action or process. This might be a plan for how to evacuate the building in the event of a fire. This plan would be in place for most events similar to this or when the need for evacuation is called for.

SWOT Analysis

Now that we have an overview of the structure of the process; let’s look at a few tools that we can use in the analysis and planning stage of strategy. One of the more commonly used is SWOT analysis. There is also a link to SWOT analysis below. The acronym stands for Strengths, Weaknesses, Opportunities, and Threats. Strengths are things that the organization does or things that it has that give it an advantage. Weaknesses are the opposite. These are things that the organization is lacking or doesn’t do as well as it could. Strengths and weaknesses are both part of the analysis of the internal environment of the organization. Opportunities and threats, in contrast, are factors in the external environment in which the organization exists. Opportunities are things that the organization might pursue that would place it in a stronger competitive position or assist in ensuring its future success. Threats are factors in the environment that represent a real or potential risk to the organization because they negatively affect the competitive position or may place the organization in a position to fail.

Evaluating a firm’s internal strengths and weaknesses as well as its external opportunities and threats is typically referred to as SWOT Analysis. This technique easily provides an overview of the firm’s situation quickly. This makes a good fit between a firm’s strategy and the fit of this strategy to its internal and external environments.

Keep in mind that the strategic planning process is not a static set of events. In the not-too-distant past, managers typically planned for a five-year time horizon. Although long-range planning is still wise, the rapid pace of change and the speed of technology often mean that we must plan for shorter time
horizons, and frequently this becomes a continuous process. Deming is well-known for the paradigm known as CQI, or continuous quality improvement. In short, the approach to management and planning reminds us that we cannot rest despite high levels of quality and productivity. The idea is to continually assess and improve, making ourselves and our organizations ever better than before. Deming promoted a cycle that is sometimes called the Deming cycle but was actually originated by Shewhart and is other times called the Shewhart cycle. The acronym for the cycle is PDCA. This translates to Plan, Do, Check, and Act. After careful planning, the plan is put into practice. This is the do part of the cycle. Once the plan has been implemented, the organization must check the results of the implementation to gather data that is used to determine the success of the plan. Finally, the act part is used to standardize the process if the implementation is successful and to change the process if success expectations are not met. The cycle can be depicted visually like this:

Please go to the article and review the article there by O’Shannassy for a discussion of planning, implementation, and the new face of modern strategic planning. Directions to access this article can be found by clicking on the next link to the left.

DECISION-MAKING APPROACHES

OVERVIEW

Managers are required to make decisions about every aspect of an organization. It is the manager’s job to identify problems, make the decisions that will help solve them, and review the outcomes of these decisions to determine whether other options must be pursued. Decision-making can be challenging, especially if environmental uncertainty is high, information is unclear, or people hold conflicting points of view.

Good decision-making and good management go hand in hand because the decisions that managers make will determine how a business solves problems, distributes resources, and achieves its goals. In this unit on managerial decision-making, you will learn about appropriate decision-making models for different types of decisions and how to use specific tools to increase the efficiency and effectiveness of your decisions.

TYPES OF DECISION MAKING

Decision-making is a central idea to the effectiveness of a social group or firm. We will discuss the aspects of managerial decision-making to include the various types of approaches management uses when
planning, organizing, leading, and controlling the workforce. Effective decision-making is the cornerstone of management’s ability to reach its preset goals for the organization.

Upper management decision-making is the step-by-step methodology of choosing and directing actions to resolve group or firm-wide issues. As you likely have seen in your own life, decision-making is not simply selecting from a list of available choices. The first thing that must be done for effective decision-making to occur is that you must recognize that a decision must be rendered. Decision-making is a detailed methodology that often precedes an actual choice to solve the problem. Some managers will use a very detailed and methodical approach, and others will simply go with gut feeling on what direction seems the right one. The latter is known as intuitive decision-making. Typically, in both approaches, managers use previous decisions they have made for background and baseline information to choose their ultimate decision.

Many managers’ decisions are risky and lack structure, sometimes referred to as nonprogrammable, which also combine with uncertainty and conflict. On the other hand, decisions that are low in risk, have good structure, high certainty, and less conflict are referred to as programmable decisions. The external environment often affects decision-making as it remains in constant flux. This uncertainty increases the nonprogrammable elements of decision-making and reduces the managers’ ability to use previous or historical facts to base their decisions on.

Management often works with missing information about a situation when circling a problem and its ensuing opportunities. Managers cannot evaluate all of their options because of the missing information and therefore cannot fully predict their outcomes. Stress and uncertainty are the result when there is insufficient information available for decision-making.

When evaluating the behavioral aspects of decision-making, we can often dispel the idea that managers act rationally when evaluating, choosing, and directing decisions. The rational decision-making model assumes full understanding and processing ability for information. This means that they have both access and the ability to gather and process unlimited information about an impending action they are evaluating. In a perfect world, this would allow them to make the right decision in most occurrences. However, we know well that this is not reality. In reality, decision-makers have incomplete information that often fails to meet the needed criteria to provide the level of knowledge they need for perfect decisions.

DECISION-MAKING MODELS

The classical decision-making model is based on the assumption that managers should make logical decisions that will be in the organization’s best economic interest. The decision-maker operates to accomplish goals that are known and agreed upon. Problems are precisely formulated and defined. The decision-maker strives for conditions of certainty, gathering complete information. All alternatives and the potential results of each are calculated. Criteria for evaluating alternatives are known. The decision-maker selects the alternative that will maximize the economic return to the organization. The decision-maker is rational and uses logic to assign values, order
preferences, evaluate alternatives, and make the decision that will maximize the attainment of organizational goals.

The administrative decision-making model describes how managers actually make decisions in situations characterized by non-programmed decisions, uncertainty, and ambiguity. The model is based on the work of Herbert A. Simon, who proposed two concepts that were instrumental in its shaping.

- Bounded rationality
- Satisficing

_Bounded rationality_ implies that people have limits to the amount of information and time to process and base a decision. _Satisficing_ means to select the first solution that satisfies the minimum criteria rather than looking at all alternatives.

Another aspect of this model is _Intuition_ (the immediate comprehension of a decision situation based on past experience but without conscious thought).

The political decision-making model is useful for making non-programmed decisions when conditions are uncertain, information is limited, and there is disagreement among managers about what goals to pursue or what course to take. The model assumes the following:

- Organizations are made up of groups with diverse interests, goals, and values.
- Information is ambiguous and incomplete.
- Managers do not have the time, resources, or mental capacity to identify all dimensions of the problem and process all relevant information.
- Managers engage in the push-and-pull of debate to decide goals and discuss alternatives. Decisions are the result of bargaining and discussion among coalition members.

**APPLYING DECISION-MAKING TO SITUATIONS**

Let’s explore how organizations make decisions. Read about [Walt Disney World’s decision-making in its world of entertainment](#). The Walt Disney Corporation knows its customers and what works in its field of entertainment. Disney managers rely on past experiences to make today’s decisions. Read about the decision-making processes of [Ford and Volvo during their merger talks](#). The two car manufacturers had differing decision-making processes coming to the table, but in the end an agreement was reached.

**DECISION-MAKING APPROACHES FOR THE NEW WORKPLACE**

The new workplace is dynamic. It is based on ideas and momentum rather than static structures and methods. Technology has transformed static processes into processes that flow freely and are flexible—many are virtual. Employees are empowered to collaborate with team members, experiment with innovation, and make decisions. Many teams are virtual teams made up of contractors, suppliers, vendors, etc. These virtual team members may be located around the world and may never meet in person.
To lead the new ever-changing workplace, the manager must have approaches to be part of a team, be organized, collaborative, and trusting. The leader must know how to unleash the power of the personnel and teams. The leader must share information for effective decision-making by the teams.

The ability to make quick decisions in these dynamic organizations is imperative for the manager. The manager cannot possibly be a subject matter expert on every point and therefore must rely on the empowered team members for information to make an educated decision. Many decisions must be made in uncertain times and circumstances. To make these quick but informed decisions, the manager and the team must:

Regardless of how the decision is made, there are decision-making steps managers use to make improvements:

1. Recognize the need to adjust to a new situation or condition.
2. Examine the problem.
3. List possible solutions.
4. List the criteria/measures to be used to evaluate the possible solutions.
5. Identify the most efficient and effective solution, based on established criteria/measures.
6. Implement the best solution.
7. Follow up after implementation.
MAJOR DECISION STYLES

Managers come from broad backgrounds and experiences and therefore will have varying styles of decision-making and reasoning. Most managers have a dominant style, but may need to use the other styles when the situation warrants. These basic styles include:

**DIRECTIVE**

People who are proficient and logical tend to desire simple, unambiguous solutions and tend to make quick decisive decisions. These autocratic decisions made with the directive style are usually not open for discussion and have little or no input from others. This style is usually used for policy/procedures, staffing decisions, employee, or politically sensitive decisions.

**CONSULTATIVE**

Consultative style managers consult the team for information and use the available information to make the best possible decision. These people base decisions on data and judge alternative solutions. The manager is the authority. The decision is not open for change.

**DEMOCRATIC**

Democratic style managers collaborate with team members. They believe team members are capable of accepting roles and responsibility. The manager works jointly with the team members, however, the manager retains the right to refuse the decision.

**PARTICIPATIVE**

Participative style decision-making is delegated to the team. Members have the information and background to help make the decision. The leader sets the boundaries, facilitates the process, and entrusts the resolution to the team.

Read the article *Methods for Decision Making*; this material will give you another perspective on the methodology of decision-making.
Effective decision-making can depend on involving the correct team members. Participative decision-making has advantages and disadvantages:

The advantages of group (participative) decision-making are:
- More knowledge and facts.
- More alternatives.
- Greater support of the decision because of involvement.
- Less uncertainty.
- Reduced personal risk.

The disadvantages include:
- The process is time-consuming.
- Compromises can be less than optimal.
- Lack of individual responsibility.
- Coordination costs.
- Free riding.

The following materials sum up the factors and styles that impact our decision-making processes. Click the hyperlinks provided below to review them:

- [http://career.berkeley.edu/Plan/MakeDecisions.stm](http://career.berkeley.edu/Plan/MakeDecisions.stm)
- [http://www.ucsm.ac.uk/careers/student/decisionStyles.php](http://www.ucsm.ac.uk/careers/student/decisionStyles.php)
TECHNIQUES TO IMPROVE DECISION-MAKING CREATIVITY

Change embraces the concept of creativity, the first step to innovation. Managers must encourage the work environment to allow inspiration. Creative organizations have teams who are confident to think out of the box. These organizations are good-natured, challenging, and participative. Some techniques to improve creativity of decision-making are:

- Open communication, internal and external
  Suggestion boxes, brainstorming sessions, and open doors are examples of internal open communication. Keeping in contact with external sources of information (i.e. advisors, competition, benchmarks) keep organizations and managers current with the world and give a sense of freshness.
- Use of heterogeneous teams
  Involving people who are diverse or involving non-specialists to the problem brings a new perspective to the decision-making. These people can bring originality and a new way of looking at the problem.
- Less authority, more acceptance
  Decentralization of authority and acceptance of risk and outcomes expand members’ self-confidence and independence. Acceptance of mistakes can be viewed as growth.
- Flexibility and freedom
  Freedom to select and tackle problems lead to ingenuity and imagination.
- Focus
  Commitment to innovation with persistence, along with resources, project enhancement.

DECISION MAKING APPROACHES

Management often works under extreme time pressure and with limited processing ability and capacity to work with all the available information. This often lends them to make satisfactory decisions rather than the best potential decision. Studies have revealed that decision-makers have bounded rationality. Decision-makers often know of all the options but lack the ability or knowledge to truly evaluate them fully.

Decision-makers often use gut feeling or instinct when choosing among alternatives in high-stress, low-timeframe environments. They do this in an ordered, sequential manner, typically taking into account the political environment within their firms and the repercussions of incorrect moves. Managerial decisions are often categorized by the political environment within the organization through the use of bargaining and trading to complete the process. This actively occurs within the firm, with special note to the environmental and internal influences working in tandem with this process.

The inherent problems of rational (normative) and incremental (descriptive) decision-making approaches can be used to deal with many environmental issues within organizations today. To better deal with issues involving data overload or rapidly changing environments, an adaptive approach called humble decision-making could be employed. Humble decision-making uses parts of both rational and incremental approaches.
Typically, it uses two sets of judgments. The rationally goal-directed judgment recognizes the significance of overarching goals and policy needed to steer the decision-making process. The other method deals with incremental decisions that direct decisions based on the requirements of specific situational events. The second approach is typically less cumbersome and demanding of the organization and its staff. It is also much broader than the first method and somewhat limited to known or familiar choices. Old-fashioned trial-and-error is still the most widely used method for dealing with situations where not all information is known or incomplete data is received for a pending decision.

In summary, the situation for real decision-makers is complex. There is an interesting body of recent studies that examine the decision process, methods of seeking alternatives, and the process for the evaluation of alternatives in actual strategic decisions in a variety of organizations.

**SUGGESTED READINGS**

**MANAGEMENT BY OBJECTIVES (MBO)**


**MISSION STATEMENTS**

Koci, R. (1999, May). Do I need to write a mission statement? There are two kinds of mission statements: ones that remind you of what your business is all about and ones that confuse the heck out of your staff. Hardware Merchandising, 111(3), 30.

**QUALITY MANAGEMENT**

PDCA/PDSA, the Shewhart Cycle or the Deming Cycle

- [Problem Solving Process](#)
- [From Problem-Faced to Problem-Solved](#)


**STRATEGIC PLANNING**

Basic Overview of Various Strategic Planning Models
<table>
<thead>
<tr>
<th>Category</th>
<th>Source</th>
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</table>
**TERMINOLOGY**

**Bounded rationality**: Recognition that there are limits to the rationality of decision makers and that other biases affect one’s ability to be fully rational.

**Contingency plans**: A set of plans developed that are used when the originally chosen plan fails to achieve its goals and objective. This is a backup in case things do not go as planned.

**Decision style**: The manner in which a person or organization makes decisions.

**Decision making**: The process of choosing among various alternatives and courses of action.

**Management by objectives**: A systematic approach toward management that identifies specific goals and objectives and then aligns sub-objectives with the overall objectives. Feedback is used to measure whether the goals were achieved.

**Mission statement**: The statement developed by an organization in its planning process that sets out the purpose of the organization.

**Planning task force**: The group of people who work together to develop a set of plans or procedures, usually brought together for a specific and limited purpose.

**Plan**: A statement of the desired course of action and the defined outcomes.

**Satisfice**: The act of choosing the first acceptable alternative rather than the best possible choice.

**Strategic plans**: The set of documents that sets out the long-term goals and objectives, the purpose of the organization and how it will achieve its goals.