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PRINCIPLES OF MANAGEMENT: THEORIES OF DECISION-MAKING (THE ECONOMIC MAN MODEL & THE ADMINISTRATIVE MAN MODEL)

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ABSTRACT

Success or failure in our life, be it personal, professional or social, are the results of the actions initiated by us depending upon our decisions. The quality of our life and destiny are directly connected with our decisions. Nobody's life is ever all balanced. It's a conscious decision to choose your priorities every day. But the most difficult and hardest thing in life is to make a smart decision because it involves many tangible and intangible things which many times are beyond our control. The fear of the unknown result always lingers in us which comes as an impediment to take decision which leads us to seek outside opinions and help to take decisions.

1. INTRODUCTION

Decision-making is generally characterized as a process or series of operations involving phases of problem detection, search for details, description of alternatives and the selection of one of two or more alternatives that are compatible with the preferences ranked. The theory of decision-making is a theory of how rational people can conduct themselves under risk and uncertainty. It utilizes a collection of axioms that have been extensively questioned on both empirical and theoretical grounds about how rational people behave. In summary, decision-making implies the successful adoption and execution of reasonable decisions for the management of private, company or governmental organizations.

Essentially, management is a bundle of decision-making processes. A company's managers are responsible for decision-making and determining that the actions taken are carried out in accordance with established priorities or objectives. Decision-making plays a key role in management. Perhaps the most critical aspect of the tasks of a manager is decision-making. It plays the most important role in the planning process. When managers prepare, they determine on several topics as to what goals their company will follow, what tools they will use, and who will perform any role they need. When plans go wrong or out of track, managers must decide what to do to fix the deviation.

In reality, in a series of decision-making scenarios, the entire planning process constantly includes the managers. The success of the plans made by them is largely influenced by the consistency of management decisions. The manager must decide in the organizational process on the structure, division of work, nature of responsibility and relationships, the method of establishing such responsibility and relationships, and so on. Decision-making is essential in coordination to provide unity of action. In power, it will have to decide how to lay down the standard, how to rectify the deviations from the standard, how to determine the values, how to issue orders and so on.

2. CORE CONTENT

Under multiple circumstances and scenarios, a boss needs to make decisions. When assessing how a manager perceives things, how he reacts, and how he attempts to fix them, all this is human action. The secret to effective management results is the willingness to make sound decisions. The administrators in most profit-seeking firms are also forced to make a wide variety of crucial decisions in the fields of sales, inventory choice, expense control, promotion, capital spending, dividend strategy, personnel issues, etc. Similarly, on several important topics, non-profit management and public companies are now facing the responsibility of taking critical decisions.

Two models or approaches explain the behavior of the decision maker.

1. Economic Man Model
2. Administrative Man Model

Economic Man Model

Under conditions of certainty, the classical approach to decision making has used the 'economic man' paradigm. From economic philosophy and utilitarianism, the central concept of the rational actor model is derived. The theory's central premise is based on the concept of a "economic man" who makes all types of actions on the basis of logic and utility. It notes how a manager can act in the decision-making process. The economic man or the rational man prefers to follow a clear method that believes rational in his decision and that will guarantee optimum benefit. So, the two essential principles at the core of the decision-making process are logic and utility.

This approach, besides rational, is also idealistic because it cannot be fully applied to a practical situation. This approach is supported by scientific and logical methods.

The process of rational decision-making comprises a number of steps, such as those given by Simon (1977):

1. Intelligence: finding occasions for making a decision;
2. Design: inventing, developing and analyzing possible courses of action;
3. Choice: selecting a particular course of action from those available; and
4. Review: assessing past choices.

Methods of decision analysis are used in classical or ideal rationality to apply numerical values or utilities at the "choice" stage to any of the alternatives. The highest-utility option (or overall arbitrary predicted utility) is chosen.

When applying the logical model in this context, it is believed that executives:

1. "Awareness of all potential options;
2. Know the ramifications of each alternative's implementation;
3. For certain effects, have a well-organized set of preferences; and
4. Have the computational capacity to compare and assess which results are favored.

While the decision is going to be made the following procedures are strictly adhered to:

1. The topic or region on which the policy is to be carried out is defined.
2. The policy goal is decided: the policy maker dictates with what reason the policy is to be made.
3. For making a policy, materials or means need to be gathered.
4. It could be that it was not possible to use all the means or resources and so only the appropriate materials were chosen by the decision-maker in that situation.

The above study shows clearly that both criteria are present in the whole decision-making phase - rationality and usefulness. Taking these two conditions into account, the politician continues and proceeds with great care. Nothing is left to chance. He needs to make the strategy he would follow as useful as possible.

Reasonable actor model can fairly be contrasted with a well-known principle in economics or business management, and it is the cost-benefit approach that suggests that, when a businessman wishes to follow a policy, he can first see how much it will cost to enforce the policy and then how much it hopes to receive.

Political leaders and policy makers fall into this category because of transparency. They assume that if the program does not produce the desired benefits or outcomes, they do not enforce or make any decisions. A decision must always be objective or benefit-oriented. Borrowing from economists, political scientists used the rational actor paradigm of political science for decision-making, and immediately gained admiration from many quarters.

This economic man model has the following features:

1. The method is rational, full of reasoning,
2. Economic man often clearly defines the ends that he wants to accomplish and the means that are available for that purpose;
3. The manager is aware of the different alternatives available and will be in a position to analyze them rationally,
4. The manager should be impartial, not allow any prejudice, desire, liking or dissension in the decision-making process,
5. Manager should strive to accomplish goals with a good mindset.
6. The manager has to have a good view of the existing climate.

The economic man model is applicable to routine and repeated decisions that are programmed. Pre-determined rules and procedures are used to make routine decisions. Economic man is still searching for an optional solution or the best way to do it to maximize his benefits. It is governed by economic considerations and uses mathematical and computational methods to solve problems.

Administrative Man Model

The logic solution could not necessarily be applicable to realistic circumstances. Management professionals have established a 'compartmental strategy' that is practical in terms of the need for the situation. This perspective is realistic and takes the view that a boss is a human being and cannot be entirely rational when he is faced with multiple limits, challenges, shortcomings and inadequacies. The belief that decision-makers often opt for a less than optimal solution due to time and motivation shortages lies at the core of the administrative model of decision-making. Instead of finding the optimal solution that maximizes the worth of a decision, the decision-maker accepts the first available 'reasonable enough' option that generates a value above the minimum reasonable value. Satisfying is called the principle of opting with a less than optimal solution. Because of the limited rationality of the decision maker, the model is additionally referred to as the bounded rationality model. The limited rationality entails that the decision maker has

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a limited number of criteria and considers a limited number of alternatives. The degree to which the choice will be limited will depend upon the values and skills of the decision maker. This model is predicated on ideas first expressed by Herbert Simon. He called the decision maker with limited rationality an Administrative Man and opposed him to an ideal Economic Man, who is takes into consideration all possible criteria and evaluates all possible alternatives. This model does not assume individual rationality in the decision process.

The manager's rationality is bounded by the subsequent major limitations:

1. A manager may not be able to access all forms of information needed or information may not be accessible,
2. Before arriving at a conclusion, sound decision-making involves the search and review of possible options. Time available to a decision maker in actual cases cannot be adequate to go through the logical process. Without going through separate formalities, a decision will have to be made quickly,
3. There may be a scenario where several and competing priorities may be involved, a consensus and change mechanism becomes important rather than logic for decision-making,
4. Decisions are taken for potential execution. The potential world is full of contradictions and uncertainty, and a high degree of precision cannot be expected. In decision-making processes, a manager can have to respond to evolving circumstances,
5. The dilemma requiring a solution may be complex and unstructured, but logic may not describe it. In such situations a manager may rely on intuition than on rationality,
6. It is possible to take into account organizational factors such as ideology, multiplicity of objectives, presence of informal goals, power dynamics before taking decisions. When taking decisions, a manager can have to make some changes, often defying the principles of reason.

This model is based on certain basic concepts.

a. Sequential Attention to alternative solution: Normally it is the tendency for people to examine possible solution one at a time instead of identifying all possible solutions and stop searching once an acceptable (though not necessarily the best) solution is found.
b. Heuristic: These are the assumptions that guide the search for alternatives into areas that have a high probability for yielding success.
c. Satisficing: Herbert Simon called this "satisficing" that is picking a course of action that is satisfactory or "good enough" under the circumstances. It is the tendency for decision makers to simply accept the primary alternative that meets their minimally acceptable requirements instead of pushing them further for an alternate that produces the best results.

Satisficing is preferred for decisions of small significance when time is the major constraint or where most of the alternatives are essentially similar. We frequently use those methods in our crowded daily lives without thought twice. Imagine sitting in the office one day on a weekday and unexpectedly remembering that you have to attend a birthday party later the same day. You would have spent the entire Sunday wandering the stores in search of a great present if you had recalled the party earlier. Now, the possibilities are very small. Next to your office, you have just one shop and search the shelves easily on your way to the party, settling for the first present that remotely suits the curiosity of your mate. Will it be your friend's greatest present that day? Unlikely. Did you spare yourself from the discomfort of an empty-handed show up? Definitely. Of course, the key downside of this strategy is the decrease in the consistency of the final decision. This model still has a range of advantages, however. These can well substitute for the reduction of efficiency under such conditions. Second, in order to make a conclusion, this strategy takes less time. Settling on a 'fair enough' alternative may be a successful tactic in a scenario where time is expensive or scarce. Second, reaching for an optimal solution also ensures that more time have to be committed to the processing of information. So, it is possible that a compromise reached with the administrative model in mind would be cheaper. Therefore, although the rational or classical model illustrates how choices can be made (i.e., it acts as a prescriptive model), it is far short on how decisions are currently taken (i.e., as a descriptive model).

3. RESEARCH PAPER FINDINGS

RESEARCH PAPER 1

Link: https://www.researchgate.net/publication/289142649_Strategic_Decision-Making_Models_and_Methods_in_the_Face_of_Complexity_and_Time_Pressure

Citation:

Rahman, N. a. (2009, December). Strategic Decision-Making: Models and Methods in the Face of Complexitiy and Time Pressure. Journal of General Management, 43-59

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Preview:

This research paper has explored the potential of four decision-making models and four decision-making approaches to deal with uncertainty and time constraints. When the characteristics of the environment change, the required model or process must change as well. The proposed structure can be used to test decision-making models and approaches in a systematic way. The four decision-making structures are as follows: Rational Model, Garbage Can Model, Incremental Model and Boundedly Rational Model.

The Rational Model:

The Rational Model's beginnings can be traced back to Frederick Taylor and Henry Fayol's ideas. Decision-makers in the rational model make decisions based on all available knowledge. Rational decision-makers identify the objective, create potential alternatives, analyze the alternatives, and choose the best choice. Clearly, few business challenges come with a full, well-defined framework in which to function. As a result, academics claim that under ambiguous circumstances, the rational decision-making model is less accurate. The applicability of a rational decision-making model, as Heracleous correctly points out, is limited to reasonably simple issues, where goals are straightforward, unambiguous, and agreed upon, and cause-effect relationships are well understood. In certain business cases, the conditions can be simplified to the point that data on variables within the simplified framework is well understood. Within the rational model's confines, Simon has advocated the use of satisficing, in which satisfactory (but not optimal) solutions can be sought in a more practical setting.

As mentioned in the research paper, “Under conditions of low complexity and low time pressure, the rational model is an appropriate decision-making model. “

The Boundedly-Rational Model:

The boundedly-rational model is based on the behavioral assumption of bounded rationality, which identifies decision-makers' cognitive shortcomings. As a consequence, Simon claims that, in addition to the restricted availability of knowledge that makes rational model implementations challenging, decision-makers would be unable to cognitively process all of the subjective data even if it were made available to them. The boundedly rational model gives you plenty of leeway if you don't know what decision criteria to use. The boundedly-rational model aims to "replace the classical model with one that would describe how decisions could be (and probably were) made when the decision maker did not possess a general and consistent utility function for comparing heterogeneous alternatives," as Simon describes it. Decision-makers in this model do not try to optimize the result. Satisfactory results, on the other hand, are deemed adequate. When an organization's goals are abstract, breaking them down into more concrete sub-goals will help boundedly rational decision-makers make more feasible decisions. Finally, the decision-making role can be divided among experts who are most experienced within their narrow band of expertise, eliminating some of the obstacles of a decision-maker having to be an expert across several domains at the same time. Rather, managing specialist work will help solve many circumstances in which individual managers would be unable to make adequate decisions on their own.

As mentioned in the research paper, “Under conditions of low complexity and high time pressure, the boundedly-rational model is an appropriate decision-making model.

RESEARCH PAPER 2

Link:http://www.iosrjournals.org/iosr-jbm/papers/Vol16-issue2/Version-1/X01621171175.pdf

Verma, D. (2014). Study and Analysis of Various Decision Making Models in an Organisation. IOSR Journal of Business and Management (IOSR-JBM), 171-175

Preview: Any business organization's decision-making process is critical. It necessitates a significant number of resources. Incorrect decisions can lead to the organization's failure, which is why the procedure must be followed correctly. Various Decision- Making Models for the Company are elaborated and explored in this research. The advantages and drawbacks are discussed, as well as the model's suitability. This research paper’s implications revolve around the management committee's decision-making process in selecting the best model for the Business House.

The Rational Model

This model is based on a logic of choice that maximizes an organization's value and profitability. People, according to this model, use a reasoning approach when making decisions. The following are the sequences of the different steps in this model:

1. Identification of problem.
2. Generation of solutions and alternatives.
3. Selection of best alternative.
4. Implementing the desired solution.

People are usually thought to be capable of selecting the most effective outcome. Every option has its own set of consequences, and only by weighing them all together can the best outcome be determined.

Rationality among members leads to a coherent and united organization that seeks to optimize value and achieve a particular set of objectives without creating internal conflict, resulting in a rational policy-making body. This form of organization would have centralized control, unity among its members, and continuity among firm goals, as well as members who are efficient in selecting the best option for maximizing the value of the organization's common and specific set of objectives. By offering a sanitized view of the company, it explains how it makes decisions. The model has many drawbacks, including a lack of knowledge that is critical and applicable to the problem, as well as the fact that problems can change over time. In fact, an organization's goals are not the same as those of the complex groups that function within it. Since there are so many people in affirm, they all have their own opinions, interests, and goals, which may or may not be significant or important to the organization. In reality, they can work against the company by attempting to optimize their own set of objectives rather than those that are important to the company.

The Administrative Model

This model is a more objective depiction of an organization's decision-making process. Decision makers, according to this model, have a variety of agendas, rewards, and demands, but they strive to find options that are agreeable to everyone due to a lack of time. The decision maker here is not concerned with optimization, but rather with Satisficing, or selecting an alternative that has a value greater than the minimum appropriate value for a given constraint. Satisficing has a disadvantage in that it reduces decision accuracy, but it has a benefit in that it saves time and effort. It also has an advantage when the cost of delaying a decision or searching for other options is high and the expected payoff from the other better or superior option is low. After making a decision and putting it into action, if it is deemed appropriate, the company converts the practice into Standard Operating Procedures (SOPs). These SOPs are laws and regulations that managers obey in order to save time when solving problems at a simple level. Managers often hire them when their company faces an issue that is identical to the original. However, SOPs are not necessarily time savers. Organizations do not exist as a single body. Problems vary according to the priorities and objectives set by various divisions within an organization. These strategies and targets do not align with the firm's overall goals. As a result, an organization may be thought of as a set of loosely linked subunits with distinct goals and objectives, different SOPs, and different approaches to solving problems. These subunits become more detachable as time passes, and their objectives become more defined. Divergences in expectations and goals are the source of these disparities, which are compounded by recruitment and incentives. As a result, various groups and collaborations emerge. This results in formation of different groups and coalitions with distinct interests.

4. CASE STUDIES

Case Study 1

The strategic decision made by Procter and Gamble (P&G) about employee benefits is an outstanding example of sound decision-making. P&G Canada made the strategic decision to pursue a new approach to balancing employees' overlapping job and family responsibilities. P&G also provides a catering service that delivers frozen dinners to the workplace so workers can pick up their dinner when they leave, alleviating the concern of employees having time to cook for their children, families, or even themselves. Providing a supportive and welcoming environment and assisting workers in balancing their professional and personal lives is a hallmark of P&G Canada’s HR philosophy, according to Jane Lewis, Director of Human Resources. P&G sought to incorporate a novel advantage for its workers in line with its philosophy of work-family harmony. Given that no other organization offered this service, the concept of providing catering to workers was one-of-a-kind. There are few factors to consider in this strategic decision since the meal/service costs were borne by the employees. As a result, the decision-making environment was easy. This strategic decision did not struggle with any major time constraint, in addition to its low complexity. P&G would have to be more concerned with catching up to the first mover if it had been a follower in providing this special type of employee benefit. P&G may not have been under a considerable amount of time pressure in incorporating this employee compensation policy because it was the first to do so.

Case Study 2

The National Fruit Collection (NFC) in the United Kingdom holds the world's largest collection of apple cultivars. NFC is centered at Brogdale Farm near Kent and is home to almost 2000 named apple varieties (NFC website). The apples will neither taste scrumptious nor appear enticing if NFC members do not follow up with simple production-related activities in a timely manner.

To meet time constraints, NFC farmers tend to rely on only a few main factors when producing apples. NFC farmers emphasize on seven factors in order to get the most out of each orchard: site selection, orchard design, planting and crop establishment, tree management, crop management, crop protection, and crop nutrition (Farm Advisory Services Team website). Farmers can't possibly account for all of the unknown factors that influence apple development. As a result, they opt for a simpler model when making production decisions. This paper argues that apple production is a satisficed outcome for NFC; maybe better apples could be grown in a more regulated environment, but in the face of too many unknown variables that could influence apple production, NFC farmers use the boundedly-rational model to make production decisions.

5. CONCLUSION

Decision making is a critical component of business. It is choosing among alternative courses of action, including inaction. Decision environment includes risk, certain, uncertain environment. Characteristics of good decision-making model would include factors like resource utilization, risk, profitability, complexity, impact on business, real time application.

Some decisions are obvious and can be made quickly, without investing much time and effort in the decision-making process. Others, however, require substantial consideration of the circumstances surrounding the decision, available alternatives, and potential outcomes. Fortunately, there are several methods that can be used when making a difficult decision, depending on various environmental factors.

There are different types of decisions, ranging from automatic, programmed decisions to more intensive nonprogrammed decisions. Structured decision-making processes include rational decision making, bounded rationality, intuitive, and creative decision making. Each of these can be useful, depending on the circumstances and the problem that needs to be solved. It is dependent on knowledge about the outcome or output and secondly on the preference for it.

In order to become a successful decision maker, a person should learn to apply the appropriate decision-making model in each situation, and practice it frequently to master the use of it. More importantly, one should avoid the decision-making traps so that they will not cloud one's judgement. For senior managers whose decisions can impact the lives of hundreds of people, they should invest more time to explore more decision-making tools and techniques to prevent them from falling into those traps and make better decisions

We can thus conclude that, as unchallenging as it may sound, decision making is fundamentally an intricate process requiring a great deal of introspection, reasoning, and deliberation.

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