

Managerial decision making - rational decision-making within organisations

Case duration (Min):	45-60
Principles of Management (PoM)	
Organizational Behaviour (OB)	
Managerial decision making	
Communication and decision making	

Worldwide

Case summary:

This case study can be used to investigate rational decision making within organisations. The case makes use of a film clip where a business owner is interviewed and discusses an office relocation decision. Students are encouraged to apply the rational decision making process and discuss how the decision was made. Key decision making concepts are explored and types of decision considered. Case study activities include problem definition, determining and weighting decision criteria and evaluating alternatives.

Learning objectives:

Explain what is meant by rational decision making and the steps of the process.

Case problem:

How are decisions made within organisations?

Company
Retail

The Pure Package

Jennifer Irvine launched The Pure Package in 2003. From a humble beginning (in Jennifer's kitchen!) this unique concept has developed into an award winning business. The Pure Package is a daily food delivery service, delivering freshly prepared, highly nutritious meals and snacks around London and the M25 area.

<http://www.purepackage.com/>

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

Title/ Media type	URL/ Media description
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Choose the right premises for your business.

<http://www.nibusinessinfo.co.uk/bdotg/action/detail?type=CASESTUDIES&itemId=1081922071&site=191>

Film

Founder Jennifer Irvine recognised the importance of having fresh and seasonal ingredients close to her kitchen so she moved The Pure Package to the UK's largest fruit and vegetable market. Here she talks about the issues that affected her decision.

NOTES:

Case study questions...

Action	Pre/During/After class
<p>1 KEY CONCEPTS :</p> <p>What is rational decision making? In your answer you should identify and briefly discuss the stages associated with the rational decision making process.</p>	During
<p>2 CLASSIFYING DECISIONS :</p> <p>Classify the overall decision at the centre of the film clip-you should consider decision categories such as operational, tactical and strategic; structured, semi structured and unstructured and subjective or intuitive versus rational and objective.</p>	During
<p>3 APPLYING THE RATIONAL DECISION MAKING PROCESS TO THE CASE STUDY :</p> <p>Choosing the right premises is a key business decision. Premises are required that help the business operate effectively (enable it to do what needs to be done correctly) without excessive costs (efficiency). At the same time there is a need to avoid being tied to premises that might not suit the business in the future. How did Jennifer Irvine chose the right premises for her business?</p> <p>(1) Define the problem faced by Jennifer Irvine; you should discuss the existing situation and what was requires at a high level and comment upon the major choices (options) that needed to be considered.</p> <p>(2) Decision constraints and criteria - identify and describe the criteria (requirements specification) a potential solution would need to meet. You should also identify the factors that might determine whether Jennifer Irvine should rent, buy or continue working from home? Present your answer in the form of the table of requirements</p> <p>(3) How to choose - weight the criteria. Consider each requirement in your table and imagining you were Jennifer Irvine, decide which requirements/criteria are most important-categorise the requirement as either essential or desirable. Next, discuss how this might help you improve the quality of your decision and make the best choice for the organisation</p>	During
<p>4 DECISION MAKING :</p> <p>Mintzberg (1989) felt that decision making was possibly the most important of all of the managerial activities. Consider Mintzberg's comment. Do you feel he is right?</p>	During
<p>5 DECISIONS :</p> <p>Decisions are made at all organizational levels – from strategic to operational. Identify possible strategic decisions typically made within organizations.</p>	During

RATIONAL DECISION MAKING MODEL

This assumes that decisions are made in the best interests of the organization on the basis of data collection and analysis, along with evaluation of alternatives.

RATIONAL DECISIONS

choices based on rationality, that is, on a rational mode of thinking.

DECISION

commitment of resources

DECISION ALTERNATIVES

the choices that the decision maker can make

DECISION MAKING

the process of making choices from among several options

DECISION OBJECTIVES

Aim/goal of a decision and the criteria through which outcomes can be evaluated.

DECISION PROCESS

Sequential processes and structures involved in the deliberation of a decision.

DECISION VARIABLES

Within the context of optimization modeling, those variables that will be manipulated to find the best solution.

DECISION-MAKING APPROACH

An approach to management that focuses on managerial decision-making and how organisations process and use information in making decisions.

ROUTINE DECISION

decision that is made according to established procedures and rules.

SEMI STRUCTURED DECISIONS

Decisions where only part of the problem has a clear-cut answer provided by an accepted procedure

Question/ Answer

1 KEY CONCEPTS :

What is rational decision making? In your answer you should identify and briefly discuss the stages associated with the rational decision making process.

Decision making is the process of making choices from amongst several options. Rational decisions are choices based on rationality, that is, on a rational mode of thinking. Rational decision making assumes that decisions are made in the best interests of the organization on the basis of data collection and analysis, along with evaluation of alternatives.

Classical decision theory assumes that decision makers are objective, have complete information and consider all possible alternatives and other consequences before selecting the optimal solution. The traditional approach to understanding individual decision making is based upon classical decision theory and the rational economic model. The rational economic model assumes that decision making is and should be a rational process, consisting of a sequence of steps that enhance the probability of attaining a desired outcome.

Key steps in the decision-making process start typically with a definition of the problem (problem structuring) and decision criteria (the important factors and requirements) may be formulated to guide the selection of an alternative solution. After identifying decision criteria, the next step is deciding which criteria are more or less important. Once the problem and attributes of a desirable solution have been formulated, the alternative (options/choices) solutions are generated and identified. Data is gathered about possible alternatives which can then be evaluated using the decision criteria in order to compute the optimal decision.

2 CLASSIFYING DECISIONS :

Classify the overall decision at the centre of the film clip-you should consider decision categories such as operational, tactical and strategic; structured, semi structured and unstructured and subjective or intuitive versus rational and objective.

Decisions may be classified or categorised in many ways such as by the organisational level and the degree of structure to the decision i.e. repetitive, routine, and require judgments. Some decisions are semi structured - in such cases, only part of the problem has a clear-cut answer provided by an accepted procedure. Decisions (selecting the right action from a series of choices) can be structured (decision rules are known) or unstructured (not known – highly uncertain/ ambiguous situations) and may be made/ taken at a variety of levels (operational/ tactical/ strategic) within the organization. In the case of structured decision making the organization may formulate decision/ business rules specifying what action is required in a given situation. Decision trees may be used to show the sequence of events, decisions and consequent actions that occur in a decision making process. Decision tables are another tool to show the alternative outcomes of different decisions. Operational decisions tend to be structured and frequent, with more certainty, often relying on data/ information from within the organization. Strategic decisions, on the other hand, are unstructured, made less frequently and may use more information sourced from outside the organization.

We might describe this decision as primarily rational and objective (using various facts and figures, most people would come to the same logical choice) though the decision maker may also have drawn upon their personal values, beliefs and feelings during the process of making choices. This was a strategic decision, aimed to meet the long-term objectives of the company (the outcome of the decision would impact upon performance for several years at least). It was not the kind of decision that was made frequently within this organisation and, as a result, little experience and knowledge could be used to create rules for the decision-making process. The decision had to be made in the face of uncertainty as future needs could not easily be quantified. Students may therefore classify this as a semi-structured decision.

STRATEGIC DECISION MAKING

Determining the long-term objectives, resources, and policies of an organization.

STRUCTURED DECISIONS

Decisions that are repetitive, routine, and have a definite procedure for handling them

UNSTRUCTURED DECISIONS

Nonroutine decisions in which the decision maker must provide judgment, evaluation, and insights into the problem definition; there is no agreed-upon procedure for making such decisions.

PROBLEM DEFINITION

The process of uncovering the nature and boundaries of a situation or question

3 APPLYING THE RATIONAL DECISION MAKING PROCESS TO THE CASE STUDY :

Choosing the right premises is a key business decision. Premises are required that help the business operate effectively (enable it to do what needs to be done correctly) without excessive costs (efficiency). At the same time there is a need to avoid being tied to premises that might not suit the business in the future. How did Jennifer Irvine chose the right premises for her business?

(1) Define the problem faced by Jennifer Irvine; you should discuss the existing situation and what was requires at a high level and comment upon the major choices (options) that needed to be considered.

(2) Decision constraints and criteria - identify and describe the criteria (requirements specification) a potential solution would need to meet. You should also identify the factors that might determine whether Jennifer Irvine should rent, buy or continue working from home? Present your answer in the form of the table of requirements

(3) How to choose - weight the criteria. Consider each requirement in your table and imagining you were Jennifer Irvine, decide which requirements/criteria are most important-categorise the requirement as either essential or desirable. Next, discuss how this might help you improve the quality of your decision and make the best choice for the organisation

(1) Triggered by growth and a need to expand, Jennifer Irvine was looking for a location close to clients, ingredients - the raw materials, and staff. Options: where to locate, acquisition and selection from alternative (available) properties

The acquisition type: to rent, buy (existing or custom built) or work from home (the best option for you?)

Location :

Choice of different alternative properties in the acquisition type.

(2) Your requirements - Search for premises (Decision constraints and criteria)

The advice Jennifer Irvine would give to somebody looking for new premises is "to write a list of the requirements you want from your premises...it's really important to decide what you're looking for." Drawing up a list of what you need (a specification) from your premises is a good way to start your search.

Size and layout of the premises,

Structure and appearance, both internally and externally,

Any special structural requirements, such as high ceilings,

Facilities and comfort for employees and visitors - including lighting, toilets and kitchen facilities,

Utilities, such as power and drainage, and any special requirements - for example, three-phase electricity,

Permission, including planning permission, to use the premises for your type of business,

Access and parking space - for deliveries or customers, including disabled customers,

Whether you need the flexibility to alter or expand the premises,

Whether the premises are suitable for your long-term needs,

Thought needs to be given regarding where you want your premises to be (location),

Other factors influencing the decision:

Important legal and practical issues which must be taken into account.

Your choice of premises will also depend upon your budget. Whether you rent or buy, costs can include:

Initial purchase costs, including legal costs such as solicitor's fees and professional fees for surveyors,

Initial alterations, fitting out and decoration,

Any alterations required to meet building, health and safety and fire regulations,

Ongoing rent, service and utility charges, including water, electricity and gas,

Business rates ,

Continuing maintenance and repairs,

Building and contents insurance,

Space to grow - Jennifer Irvine's business has grown to five times the size of its relocation into the railway arches, and now it is looking at taking over the railway arch next door.

Decision alternatives:

What factors might determine whether Jennifer Irvine should rent, buy or continue working from home?

Decide whether to RENT your business premises (when renting, you agree to occupy the premises for a fixed period of time and pay an agreed rent - The advantages of renting: Upfront costs for leasing premises are often relatively low; however, there are disadvantages. You may have significant maintenance and repair obligations. The lease may include other obligations and restrictions. You may also have difficulties if your needs change and you want to move before the lease ends.)

Decide whether to BUY your business premises (Most small businesses do not have the financial resources available to purchase their premises outright. Even if you can borrow to finance the purchase, you may feel that you have better uses for your capital. If you do choose to buy, it can have several advantages: you control your own premises and can stay there as long as you like; you can choose to occupy the premises yourself, rent them to someone else, or sell them; your costs are relatively fixed, particularly if you have a fixed-rate mortgage, whereas rents can increase significantly over time; you can alter the premises to suit yourself - subject to legal restrictions and

over the long term, the value of the property may rise. Against this, you have to weigh the disadvantages. Buying property is an expensive and often time-consuming process, involving significant professional fees and stamp duty. You'll also be responsible for all the maintenance and repairs. If your needs change, selling the property can be difficult and expensive, and you might find that the value has fallen).

Decide whether you could work FROM HOME (If you have the choice, working from home may be a much better option than renting or buying business premises. It's a common choice for people who just need a small office, or who spend most of their time working on client premises. However, working from home may not be an option if it significantly changes the use of the building, or affects your local area, for example if you have lots of visitors. Also, if you rent your home, your licence or lease may carry restrictions on using it for business purposes. Drawing up a list of what you need can help you decide whether working from home is a possibility).

(3) Jennifer Irvine chose to rent and took on a lease. At this stage, you may want to involve professional advisers. Business leases contain legal terms, and may be confusing. Irvine asked a solicitor to read it. Check any potential premises against your specification and eliminate any that do not at least meet all your essential requirements. Then you can draw up a shortlist of properties to visit. CHOOSING THE RIGHT LOCATION can be something of a balancing act. Ideally, the location should be convenient for your customers, employees and suppliers - without being too expensive. For shops and other retail businesses, location is of critical importance. Your location must attract customers. If you rely on passing trade, you want to be in an area where enough people who want your product or service can see you. For example, newsagents are often located in or around train stations. You could also benefit from customers who are attracted by other shops in a shopping centre. For employees, the best location will be easy to travel to. Good public transport links make it easier for employees who do not live within walking distance. Employees also tend to prefer working somewhere with good local facilities. You may want to be near SUPPLIERS for a quick, flexible service. Deliveries may be easier if there are good road and transport links. Where are the markets located for fresh fruit and vegetables? You may not want to be too near your COMPETITORS, though clusters of similar businesses sometimes attract more customers. Your neighbours and your location also affect your image.

Location has a major impact upon cost. If you need premises in a prime location, the extra costs may be justified.

Students should recognise that decision criteria are used to judge alternative solutions. A simple way to do this is to create a table, possibly within an Excel spreadsheet, listing the criteria and their weighting in the first two columns and then scoring potential solutions in following columns. The solution with the best fit (score) is often selected. For more complicated and important decisions, this approach may be used to shortlist the best two or three alternatives (this technique is typically used to shortlist candidates for interview in recruitment and selection activities and decisions; to select and choose computer-based IT systems etc)

If your requirements are too specific, you may find that your choice of premises is very limited or you cannot afford them. Think about which requirements are essential and which are desirable, and prioritise them accordingly to make your decision.

4 DECISION MAKING :

Mintzberg (1989) felt that decision making was possibly the most important of all of the managerial activities. Consider Mintzberg's comment. Do you feel he is right?

Various answers may be argued - Decisions can lead a company to success or failure. Other managerial activities include planning/ forecasting, coordination, control, communication.

5 DECISIONS :

Decisions are made at all organizational levels – from strategic to operational. Identify possible strategic decisions typically made within organizations.

- Market selection and targeting,
- New investments,
- Location of factories and offices,
- New product development and launch,
- Pricing and Promotion.

Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Daft, R L. (2009) 'New Era of Management', Ed. 9. South-Western, Div of Thomson Learning; International ed edition.

Kelly, P P. (2009) 'International Business and Management', Cengage Learning EMEA.

Williams, C. (2007) 'MGMT', South-Western College Pub.

