as profitability, the organisational structure, research and development, financial policy, and market share. These factors should be measured on a regular basis, providing feedback to management that can be used as input for the next cycle of strategic planning. The strategic management process is therefore an on-going process, with the output of strategic control used as an input for the following strategic management process.

The formulation and implementation of successful strategies is a complex managerial task, which is affected by numerous factors and variables. This chapter identified a logical process for conducting the strategic management process, which is summarised in Figure 11.9.

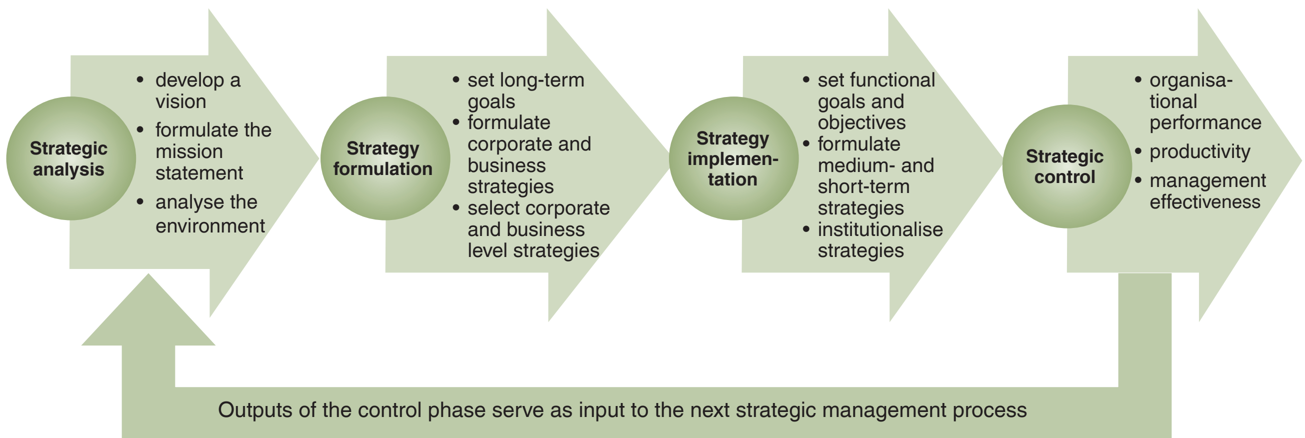

Figure 11.9: Summary of strategic management process

CHAPTER SUMMARY

1. **Differentiate between the terms 'strategy' and 'strategic management'.**
   - A strategy is a means to an end.
   - Strategic management is a process that entails various phases, namely strategic analysis, strategy formulation, strategy implementation and strategic control.

2. **Discuss the various phases in the strategic management process.**
   - Strategic analysis. Determine the current position of the organisation by formulating a vision, mission statement and analysing the external and internal environment of the organisation.
   - Strategy formulation. Involves the setting of long-term goals and objectives and the selection of corporate and business strategies. A generic strategy is the core idea about how the organisation can best compete in the marketplace. Porter identified generic strategies, namely cost leadership strategy, differentiation strategy, focused low cost strategy and a focused differentiation strategy. After the identification of a generic strategy, the organisation needs to select a grand strategy. A grand strategy is the overall corporate-level strategy of growth and decline. With a corporate growth strategy, the organisation makes aggressive attempts to increase its size through increased sales by implementing one, or a combination of more than one of the following strategies: concentration growth, market development, product development, innovation, integration, diversification or corporate combination. A corporate decline strategy is the appropriate strategy to follow when the organisation needs to regroup its activities to improve efficiency. Corporate decline strategies can be categorised as turnaround, divestiture and liquidation strategies. Various techniques are available to assist management in the selection of a corporate strategy or a combination of corporate strategies, namely the SWOT analysis, the business portfolio analysis, the product portfolio analysis and the Boston Consulting Group growth-share matrix. Once corporate-level strategies are formulated, business-level strategies need to be developed for each business unit.
   - Strategy implementation. Involves the formulation of medium- and short-term goals and the institutionalisation of the strategy, where the latter refers to strategic leadership, organisational culture and organisational architecture.
   - Strategic control. This phase involves the determination of the total effectiveness, productivity and management effectiveness of the organisation.

KEY TERMS

acquisition	divestiture
Boston Consulting Group growth-share matrix	environmental analysis
business portfolio analysis	focus strategy
concentration growth strategy	generic strategy
corporate combination	goal
corporate decline strategy	grand strategy
corporate growth strategy	harvesting
cost leadership strategy	innovation strategy
differentiation strategy	integration strategy
diversification strategy	liquidation

management effectiveness	strategic control
market development strategy	strategic leadership
merger	strategic management
mission	strategy
objective	strategy formulation
opportunity	strategy implementation
organisational architecture	strength
organisational culture	takeover
overall effectiveness	threat
product development strategy	turnaround
product portfolio matrix	vision
productivity	weakness
strategic analysis	winning strategy
strategic business unit	

REVIEW QUESTIONS

1. Differentiate between the terms ‘strategy’ and ‘strategic management’.
2. Identify the characteristics of a winning strategy.
3. Define ‘strategic analysis’ and discuss the various steps involved in it.
4. Explain the term ‘strategy formulation’.
5. Differentiate between the terms ‘goal’ and ‘objective’.
6. Discuss the various generic strategies developed by Michael Porter.
7. Define the term ‘grand strategy’.
8. Explain the various corporate growth strategies that an organisation can follow.
9. Discuss the various corporate decline strategies that an organisation can implement.
10. Various techniques are available to assist management in the selection of a corporate strategy or a selection of strategies. Discuss these techniques.
11. Explain the various steps to follow when institutionalising organisational strategies.
12. Discuss strategic control.

END NOTES

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Chapter 12

Decision-making

Tersia Brevis

OPENING CASE

Disney's Euro Disneyland venture[1]

The Walt Disney Company (Disney) is known around the world for bringing decades of entertainment, fun and fantasy to families through amusement parks, television series and numerous classic live-action and animated motion pictures. The founder of the company, Walt Disney, was born in 1901 in Chicago and raised in a humble, middle-class family. Together with Ub Iwerks, Walt Disney formed Iwerks-Disney Commercial Artists in 1919, and in 1923 Walt created Disney Bros. Studios with his brother Roy. In 1955, the first theme park was opened by the company in Anaheim, California. In 1966, Walt Disney died of lung cancer. Shortly after Walt's death, his brother Roy issued a statement pledging that Walt Disney's philosophy and genius would be carried on by his employees – a pledge that was fulfilled. In 1971, Walt Disney World opened near Orlando, Florida. In 1983, Disney was one of many American organisations to expand on foreign soil by opening Tokyo Disney. This theme park was an instant success. In fact, Disney's executives believed that they had learned so much about opening a theme park in another country, and since Tokyo Disneyland was an instant success, they immediately began to search for a site for a fourth park. Disney decided on Paris, France and opened Euro Disney (later named Disneyland Paris) in 1992.

Why Paris?

To find a site for their fourth theme park, Disney considered Europe where Disney films historically had done better than in the United States. From 1983 until 1987, Disney searched for sites in the United Kingdom, France, Germany, Spain and Italy. Finally, they decided on Paris, France for various reasons.

France had a large population with a spectacular transportation network. The very successful Tokyo Disneyland was located in a cold-weather climate and virtually the same latitude as Paris. For this reason, Disney executives assumed they would be able to operate in similar weather conditions in Paris.

The French government sold Disney the 4 400-acre site at a fraction of its market value in a region called Marne-la-VallŽe. Marne-la-VallŽe is located in an ideal geographical location since it is 32 kilometers due east of the centre of Paris, and halfway between the two international airports Orly and Roissy-Charles-de-Gaulle. Disney assumed that Paris would offer Euro Disneyland a wealth of potential guests and employees.

The agreement

In the agreement between Disney and the French government, the latter promised Disney favourable loan terms, an extended railway system from Paris to the theme park, two additional interchanges linking Euro Disney with a main highway and a special station for high-speed trains at the theme park. Disney agreed to offer new jobs and contracts to local suppliers. In a region that suffered from a high unemployment rate, Disney executives believed that they could provide economic benefits to the region.

Once the decision had been taken to open Euro Disney in Paris, Disney executives had to integrate American risk management techniques into a French environment. They needed to cope with language barriers and an unfamiliar French legal framework.

Opening day

Euro Disney opened its doors on April 12, 1992, with the hope of attracting eleven million guests per year, more than twice the number that visits the Eiffel Tower. Half were expected to be French.

Disney's dream of achieving at least the same success that they had in Japan did not become a reality. Why?

The problems

Euro Disney reported a loss of $905 million in their first year in operation and by December 1993, they had accumulated a loss of $1.03 billion. Various factors can be attributed to their poor financial performance. First and foremost, Disney was overly ambitious in their estimated sales and profit figures. Strategic and financial miscalculations were made and they relied on debt during a period when European interest rates were beginning to increase. Disney also miscalculated European habits which impacted negatively on their sales and profit figures. Disney also displayed no regard for bottom-line construction cost – over expenditure also impacted negatively on sales and profit figures. Labour costs were also underestimated – Disney Executives estimated that labour costs would be 13 per cent of revenue. In 1992, the actual figure was 24 per cent and in 1993 it increased to 40 per cent, contributing even further to Euro Disney's debt. Furthermore, Euro Disney opened during a European economic recession, where the real estate market collapsed.

Operational problems were also experienced. For example, Euro Disney had difficulty in allocating staff effectively and efficiently, problems were experienced with bus drivers in terms of the size of the designated space for buses and insufficient restroom facilities for bus drivers. To add to the operational problem is the difference in employee acceptance of conditions of employment. In Orlando, cast members are accustomed to and have learned to accept being sent home if they are not needed. However, French cast members feel irritated by and have a very difficult time accepting flexible time schedules. Lastly, operational errors were also made by Disney that involved the computer stations at the hotels. Disney executives estimated that guests would stay at the park for several days but this did not happen. Many guests arrived early in the morning, spent the day at the park, checked into the hotel late night, and then checked out early the next morning. Since so many guests checked in and out, additional computer stations had to be installed at the hotels to decrease the time the guests stood in lines.

Human resources estimates were made and Disney needed to recruit, hire, train and house 12 000 cast members 12 months before the opening of the park. This is a challenge for any company, but even more complex for Disney, whose cast members become more like members of a theatre troupe. Language and cultural barriers complicated the process even further.

Miscalculations in terms of per capita spending are probably the biggest detrimental factor to Euro Disney's poor financial performance. Disney had assumed that guests visiting Euro Disneyland would spend large amounts of money as they did in the US and Tokyo. Actual spending was 12 per cent less than predicted. Further, European's per capita income is lower than the Japanese, and they are likely to spread their money over long vacations, not four-day spending sprees.

The total construction cost of Euro Disney was $4 billion, of which $2.9 billion was borrowed at high interest rates. Thus, from the offset, the project was highly leveraged. Euro Disney made a huge mistake not considering the views of the French when developing their marketing strategies. The Walt Disney Company agrees there may have been marketing mistakes, but they blame the mistakes on a lack of data on how Europeans would react to the 'Disney Magic'. Investors, on the other hand, believe that they are the victims of Euro Disney since the Walt Disney Company communicated its difficulties poorly.

Paris winters also contributed to the financial difficulties of Euro Disney. Lastly, the Magic Kingdom concept, successful in California and Tokyo, is apparently not compelling enough for Europe.

The future

The park's future will be shaped by many outside influences over time, requiring Disney executives to learn from past mistakes and closely monitor the main events that will impact on its future performance and success.

LEARNING OBJECTIVES

The purpose of this chapter is to provide an overview of creative problem solving and managerial decision-making. The objective of studying this chapter is to enable you to:

1. Contextualise decision-making in terms of the management process.
2. Explain the relationship between problems, problem-solving and decision-making.
3. Compare the different types of managerial decisions.
4. Compare the various decision-making conditions.
5. Explain the various decision-making models.
6. Discuss group decision-making.
7. Suggest techniques for improving group decision-making.
8. Recommend tools for decision-making under the various decision-making conditions.

12.1 DECISION-MAKING AND THE MANAGEMENT PROCESS

LEARNING OBJECTIVE 1

Contextualise decision-making in terms of the management process.

Managers at all levels of an organisation are constantly faced with problems, opportunities and threats and they need to evaluate alternative courses of action to deal with them. In other words, they need to make decisions. This chapter explores creative problem-solving and managerial decision-making as well as models and techniques that can assist managers in these processes.

All managers, regardless of their skills or the level at which they are involved perform the four fundamental management functions of planning, organising, leading and controlling. While performing these functions, managers are constantly faced with opportunities and threats that need to be addressed and decisions that need to be made. When planning, a manager must make decisions about goals and when, where and how they will be realised. When controlling, the manager may notice that these goals have not been realised. Thus a problem exists that needs to be solved and the manager needs to decide on the most appropriate corrective action to take. When organising, managers must make decisions that involve the creation of an organisational structure and the deployment of resources that will enable the organisation to attain its goals. When leading, a manager must decide how to influence and direct the behaviour of subordinates so that they will work willingly to pursue the goals of the organisation. Decision-making is therefore a central aspect of all four fundamental management functions. When managers perform these functions with skilled decision-making, they will have fewer problems to solve[2].

Regardless of its goals, the organisation's long-term survival depends on its managers' ability to solve problems and make decisions. It depends on their **decision-making skills**. The decision-making skills of managers refers to their ability to make better decisions than their competitors, to make these decisions faster than their competitors and have the ability to implement their decisions effectively and efficiently.

decision-making skills
the ability of managers to make better decisions than their competitors, make decisions faster than competitors and implement decisions effectively and efficiently

A decision implies that managers are faced with a threat, a problem or an opportunity. Various courses of action are proposed and analysed,

and a choice is made that is likely to move the organisation in the direction of its mission and goals. In making a choice, a manager comes to a conclusion and selects a particular course of action that he or she feels might enhance the success of the organisation.

In our opening case, the Walt Disney Company saw an opportunity to open a fourth theme park in Europe, mainly based on their successes in the US and Japan. Disney executives needed to take extremely important decisions with vast consequences. First, they needed to decide on the most appropriate location for the park. They also needed to decide on the agreement entered into and between the Walt Disney Company and the French government. Important decisions also needed to be made in terms of the management of risk in a foreign country and projections needed to be made in terms of the financial performance of the European theme park. Environmental influences needed to be taken into account. The success of the new venture depended mostly on the effectiveness of the decisions taken by executives and top management of the Walt Disney Company.

Certain principles can be applied to help managers, such as the management of the Walt Disney Company, when they are faced with a problem or opportunity and need to make a major decision. These principles will be addressed later in this chapter. First, we need to make a distinction between problems, problem-solving and decision-making.

LEARNING OBJECTIVE 2

Explain the relationship between problems, problem-solving and decision-making.

12.2 THE RELATIONSHIP BETWEEN PROBLEMS, PROBLEM-SOLVING AND DECISION-MAKING

Managers at all managerial levels are responsible for setting goals. Whenever these goals are not being met, a **problem** exists. In other words, a problem exists whenever managers perceive a difference between what has actually happened and what they planned to happen. **Problem-solving** is the process of taking corrective action that will solve a problem and it realigns the organisation with its goals. **Decision-making** is the process of selecting an alternative course of action that will solve a problem. Managers need to make a decision whenever they are faced with a problem. Although certain problems cannot be solved and others do not deserve the time it would take to solve them, managers are responsible for achieving the goals of the organisation. Therefore, they need to attempt to solve most problems. This can be done by applying a decision-making model, which is discussed in Section 12.5.

problem

whenever managers perceive a difference between what has actually happened and what they planned to happen

problem-solving

the process of taking corrective action that will solve a problem

decision-making

a process of selecting an alternative course of action that will solve a problem

LEARNING OBJECTIVE 3

Compare the different types of managerial decisions.

12.3 TYPES OF MANAGERIAL DECISIONS

Although managers in large organisations, government offices, hospitals and schools may be separated by background, lifestyle and distance, they must all make decisions involving several options and outcomes. These decisions vary in terms of their content and uniqueness. In general, the decisions made by managers are either programmed or non-programmed. Rather than being distinct categories, these types of decisions represent a continuum, with highly programmed decisions at one end and highly non-programmed decisions at the other.

12.3.1 Programmed decisions

The managers of most organisations face large numbers of repetitive and routine **programmed decisions** in their daily operations. These decisions do not have to be investigated anew each time they occur as there are usually definite methods for obtaining a solution. Such decisions should be made without spending unnecessary time and effort on them. Examples of programmed decisions include the processing of payroll vouchers in an organisation, the processing of graduation candidates at a university, and processing the admission of athletes to a sports club.

programmed decisions
programmed decisions are repetitive and routine

Managers can usually handle programmed decisions by means of policies, standard operating procedures and rules. These enable the decision-maker to eliminate the process of identifying and evaluating options and making a new choice each time a decision is required. While programmed decisions do, to some extent, limit the flexibility of managers, they free the decision-maker to devote attention to other, more important decisions.

12.3.2 Non-programmed decisions

Decisions are non-programmed to the extent that they are novel and unstructured. **Non-programmed decisions** have never occurred before, they are complex and elusive, and there is no established method for dealing with them. Managers at all levels of an organisation make non-programmed decisions. Non-programmed decisions made by lower management in an organisation will include firing an employee or changing the workflow procedures in a section. Decisions such as these are complex to make and require the use of creative problem-solving. Techniques to encourage creative problem-solving are discussed in Section 12.7.

non-programmed decisions
non-programmed decisions are novel, unstructured and have not occurred before

In our opening case, a number of problems were identified that caused a barrier to Disney's dream of achieving the same degree of success in Europe as they had in Japan. Miscalculations in terms of per capita spending in Europe are stated as the biggest detrimental factor to Euro Disney's performance. Furthermore, a huge amount of capital was borrowed at high interest rates, the views of the French were not taken into consideration when marketing strategies were developed, Disney displayed no regard for bottom-line construction cost, labour costs were underestimated and operational problems were experienced. These are examples of non-programmed decisions taken by Disney's executives in an uncertain environment. Disney's Euro Disneyland venture illustrates the complexity of the management environment and the difficulty that top management often face when taking decisions in such an environment.

12.4 DECISION-MAKING CONDITIONS

LEARNING OBJECTIVE 4
Compare the various decision-making conditions.

By identifying the type of decision (programmed or non-programmed), as well as the conditions under which it will be made, managers should be in a position to make better decisions. **Decision-making conditions** such as certainty, risk and uncertainty are depicted in Figure 12.1 on the next page.

decision-making conditions
certainty, risk and uncertainty

Figure 12.1: Decision-making conditions

Source: Smit, P.J., Cronje G.E., Brevis T. & Vrba M.J. 2011. *Management Principles: A contemporary edition for Africa.* 5th edition. Cape Town: Juta Publishers.

12.4.1 Certainty

certainty
available options and the benefits and costs associated with each option are known

A decision is made under conditions of **certainty** when the available options and the benefits and costs associated with each option are known. No element of change intervenes between the option and its outcome. Under conditions of certainty, managers are simply faced with identifying the consequences of available options and selecting the outcome with the greatest potential benefit. As we may expect, managers rarely make decisions under conditions of certainty, because the future is rarely known with perfect reliability. The purchase of a government treasury bill, however, is made under at least near certainty. Barring the fall of the government, R1 000 invested in a treasury bill for one year at ten per cent will yield R100 in interest. Similarly, knowing that income taxes are due on 15 April, a financial manager can also make decisions under conditions of near certainty.

12.4.2 Risk

risk
when managers make decisions under conditions of risk, the outcomes of alternatives are not known in advance, but a probability can be assigned to each

Decisions under conditions of **risk** are perhaps most common when the outcomes of alternatives are not known in advance, but a probability can be assigned to each. Probability falls into two categories: objective and subjective. Objective probability is based on historical evidence. It refers to the likelihood that a particular state of things will occur, based on hard facts and figures. Managers cannot be sure that certain events will occur, but, by examining past records, they can determine the likely outcome of an event. The probability of obtaining either heads or tails on the toss of a fair coin is 50 per cent: the coin is equally likely to land face up or face down. Thus, there is a condition of risk. In many cases, historical evidence is not available, so a manager must rely on a personal estimate and belief, or subjective probability, of the situation outcome.

12.4.3 Uncertainty

uncertainty
when managers make decisions under conditions of uncertainty, the outcomes of alternatives are unpredictable and probabilities cannot be determined

A decision is made under conditions of **uncertainty** when there is a lack of information, the outcomes of alternatives are unpredictable and probabilities cannot be determined. Decisions made under conditions of uncertainty are unquestionably the most difficult. In such situations, a

manager has no knowledge on which to base an estimate of the likelihood of various outcomes. No historical data are available from which to infer probabilities, or the circumstances are so novel and complex that it is impossible to make comparative judgements. Although managerial intelligence and competence are widely available, the ability to deal with uncertainty is rare[3]. Perhaps the most common occasions for decisions to be made under conditions of uncertainty are those involving the introduction of new technology or new markets, as in the case of the Walt Disney Company. In such instances, management has to rely on its 'gut feelings'.

Many factors may be sources of uncertainty and high risk for organisations and its management. These factors may fall into seven categories, namely[4]:

- economic recessions, stock market crashes, hostile takeovers
- physical industrial accidents, supply breakdowns, product failure
- personnel strikes, workplace violence
- criminal theft of money and goods, product tampering
- theft of information, tampering with company records, cyber attacks
- reputation rumour mongering, defamation
- natural disasters: fires, floods, earthquakes.

The Walt Disney Company mainly used historical evidence of their existing parks in making decisions in terms of the envisaged European park. Disney's executives believe they should learn from past mistakes and not to repeat them. Tokyo Disneyland presented them with one past mistake to learn from. When a Japanese company first proposed this park to Disney, Disney opted for the security of royalty payments in lieu of the risks of ownership. In 1992, Tokyo Disneyland earned more than $200 million during the worst recession in modern Japanese history. That same year, the entire Walt Disney Company earned only $299 million. From this one misstep, Disney has possibly sacrificed billions of dollars in profits to date. Thus in France, Disney bought far more land than it needed to eventually build 700 000 square meters of office space, a 750 000 square meter corporate park, 2 500 individual homes, a 95 000 square meter shopping mall, 2 400 apartments and 3 000 time share apartments. Euro Disney planned to develop the land and then sell it to prospective buyers, making a huge profit. Unfortunately, this revenue generating plan never materialised due to the collapse of the real estate market. This example may lead us to the conclusion that the more successful a company, the greater the need to ensure objectivity in new venture calculations. Success can in some cases breed a false sense of security, especially when a whole new operating environment can radically change the game, as Disney unfortunately discovered[5].

Table 12.1 on the next page summarises decision-making conditions and the various levels of certainty.

Table 12.1: Summary of decision-making conditions and levels of certainty

Certainty	Risk	Uncertainty
Decision-maker has complete certainty	Decision-maker has some certainty	Decision-maker has complete uncertainty
Available options and the benefits or costs of each are known	Outcome of each alternative is not known in advance	Outcome of each alternative is unpredictable
No element of change intervenes between the option and its outcome	Probability can be assigned to each alternative outcome	Probability cannot be assigned to each alternative outcome
Decision is a sure thing	Decision is a 'gamble'	Decision requires 'guts'

LEARNING OBJECTIVE 5

Explain the various decision-making models.

optimising

decision-maker selects the best possible solution to a problem

satisficing

decision-maker selects the first possible solution to a problem that meets the minimal criteria

12.5 DECISION-MAKING MODELS

After looking at the type of decision and the conditions under which the decision has to be made, managers also need to consider the two primary decision-making models: the rational model and the bounded-rationality model. In the case of the rational model, the decision-maker should select the best possible solution. This is known as **optimising**. In the case of the bounded-rationality model, the decision-maker uses **satisficing** and selects the first possible solution to a problem that meets the minimal criteria.

Managers need to know which model to use, and when. They should optimise – apply the rational model – when they are making non-programmed, high-risk decisions (caused by the factors identified in Section 12.4.3) in conditions of uncertainty. This process is explained in the section below. When managers are making programmed low-risk, or certain decisions, they should select the first option that meets the minimal criteria, in other words, they should satisfice.

12.5.1 The decision-making process

The decision-making process describes a set of phases that individual decision-makers or decision-making teams should follow in order to increase the probability that their decisions will be optimal. Optimal decisions will lead to maximum achievement of goals and objectives.

In most decision-making situations, managers go through a number of stages that help them think through the problem and develop alternative solutions. Figure 12.2 on the next page summarises each stage in the normal progression that leads to an optimal decision. Note that these steps are more applicable to non-programmed decisions than to programmed decisions. Problems that occur infrequently with a great deal of uncertainty require the manager to utilise the entire process. In contrast, problems that occur frequently with a great deal of certainty are often handled by policies, standard operating procedures, and rules, making it unnecessary to develop and evaluate alternatives each time these situations arise.

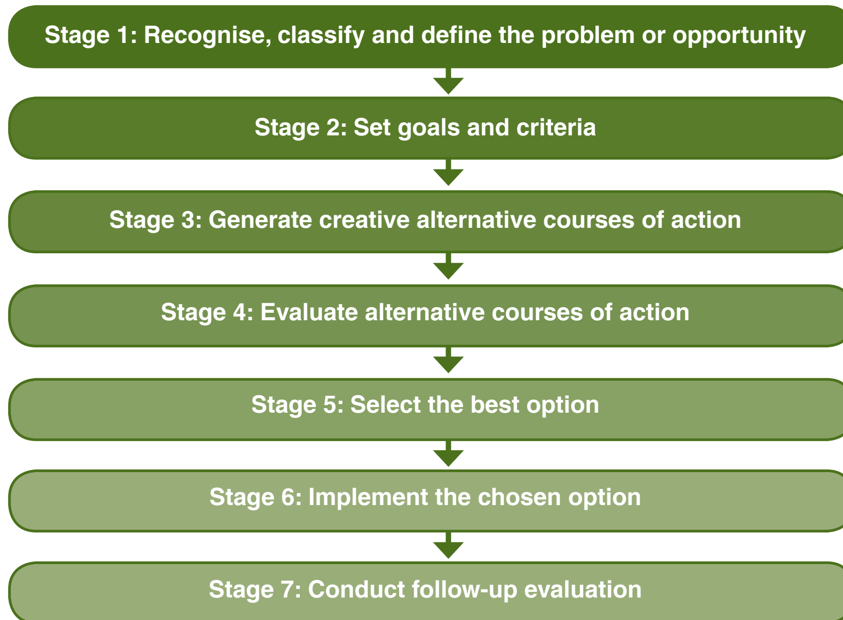

Figure 12.2: The decision-making process

Stage 1: Recognise, classify and define the problem or opportunity. The first stage in decision-making is recognising that there is a problem/ threat or an opportunity. The problem or opportunity may be classified in terms of the type of decision (programmed or non-programmed) that needs to be made, the decision-making condition (certainty, risk or uncertainty) and the decision-making model (the rational or bounded-rationality model) used[6]. After the problem or opportunity has been classified, it should be accurately defined. An important part of defining the problem or opportunity is to distinguish the symptoms from the cause of the problem. For example, a conscientious worker who suddenly starts arriving late for work should not be defined as an 'absenteeism situation'. Being late is a symptom of the problem, not the cause. The cause could be illness, personal problems, transport problems, or something else entirely. Management should recognise and look into the cause. If the situation is incorrectly classified or defined, any decisions made will be directed towards solving the wrong problem. A lack of motivation is not always the cause of poor work performance. Poor work performance may be a symptom of poor training, of a mismatch between the organisation's culture and the values of its employees, or of outdated equipment, and so on.

Stage 2: Set goals and criteria. Generally, in programmed decisions, Stages 2 to 5 need not be followed as criteria have been set for these decisions. However, in the case of non-programmed decisions, no goals or criteria have been set. The manager will be responsible for this task. He or she can make an individual decision or involve a group in decision-making (group decision-making and the techniques associated with it, will be discussed in Sections 12.6 and 12.7).

The foundation of the decision-making process lies in the organisational goals that give it purpose, direction and continuity. A given goal represents an end point towards which management directs its decision-making. Several recent studies place the setting of well-defined goals at the top of the list of chief executives' responsibilities[7]. A goal should state what the decision should accomplish.

Stage 3: Generate creative alternative courses of action. Once a problem or an opportunity has been recognised and goals and criteria have been set, the next stage is to identify various courses of action to deal with the situation. Bear in mind that it is impossible to identify all available options. However, a systematic effort should be made to identify as many courses of action as possible.

Innovation and creativity play a major part in generating various courses of action. Using groups to generate solutions could enhance this process. The availability of information (see Chapter 13) and technology should also be considered. South African managers are fortunate in that they can tap into the creativity of a diverse workforce.

The number of available options identified is limited by certain constraints – mainly time and the cost associated with the decision. Rarely do managers have enough time or money to identify, let alone evaluate, an unlimited number of options. Indeed, there may be times when doing something immediately may be more important than taking a different course of action at a later date. Managers often need to balance time and expense against identifying additional options. During this stage managers need to decide whether they want to consider all options and optimise their decision (rational model) or search only until a satisficing option (bounded rationality) has been reached.

Stage 4: Evaluate alternative courses of action. Once various courses of action have been identified, the next step is to evaluate the options. Each option should be evaluated in terms of its strengths and weaknesses, advantages and disadvantages, benefits and costs. Because each option is likely to have both positive and negative features, most evaluations involve balancing anticipated consequences. The evaluation of options may either be intuitive or follow a more scientific approach. Some of these approaches are discussed in Section 12.8.

Stage 5: Select the best option. In the previous two stages, options were identified and evaluated. The next stage is to select the best option. The success rate of the average manager in selecting the best option is rarely more than 50 per cent: this is only slightly better than deciding on the toss of a coin[8]. Therefore, this step requires a manager to evaluate each option carefully against the goals and criteria set during the second stage, with a view to ranking the options in order of priority. In practice, selecting an option is often subjective: the manager's experience, values, internal politics, and so on influence this choice.

Stage 6: Implement the chosen option. Once an option has been selected, appropriate steps should be taken to ensure that it is properly implemented. A decision is only an abstraction and needs to be put into action. It is possible for a good decision to be damaged by poor implementation, while a poor decision may be helped by good

implementation. Therefore, implementation may be just as important as the activity of selecting an option.

Decisions should be explained in such a way that all the relevant parties understand them. Those concerned should understand not only the logic behind a decision, but also what they are supposed to do. A suitable organisational structure, good leadership, a strong organisational culture, and a fair reward system will enhance the implementation of decisions.

Stage 7: Conduct follow-up evaluation. Once a decision has been set in motion, evaluation is necessary to provide feedback on its outcome. Adjustments are invariably needed to ensure that actual results compare favourably with planned results – as determined in Stage 2 of the decision-making process.

The process of evaluation closes the feedback loop shown in Figure 12.2. The soundness of a decision may be evaluated against planned results. If necessary, modifications can be made and further options identified and evaluated. This should be seen as an opportunity for acquiring new knowledge in order to improve future decisions.

12.6 GROUP DECISION-MAKING

LEARNING OBJECTIVE 6

Discuss group decision-making.

Stages 2 and 3 of the decision-making process, namely the setting of goals and criteria and the generation of creative alternative courses of action, rely heavily on creativity and innovation. Group decision-making can enhance this process, especially in the case of non-programmed decisions where there is usually a great deal of uncertainty about the outcome. The complexity of many of these decision-making situations requires specialised knowledge in a number of fields.

Whether groups make better decisions than individuals working alone has been the topic of extensive discussion. Groups are subject to social factors when making decisions. These factors include social conformity, levels of communication skill, dominance by a specific group member, and so on. While groups often make better decisions than those made by the average group member, their decisions consistently fall short of the quality of decisions made by the best individual member. Group decision-making, therefore, has certain advantages and disadvantages. Advantages of group decision-making are the following:

- Group members contribute a variety of skills and specialised knowledge that can be used to define and solve a problem or recognise an opportunity. This will lead to an improvement in the quality of decisions taken.
- Group members may have multiple and conflicting views, which can be taken into account in order to improve the quality of decisions.
- The different beliefs and values of group members can be transmitted and aligned.

- Group decision-making may lead to improved commitment to decisions by organisational members, since they will have participated in the decision-making process.
- Participation in problem-solving and decision-making will improve the morale and motivation of employees.
- Allowing participation in problem-solving and decision-making may contribute to people's ability to work effectively and efficiently in groups and teams.

On the other hand, group decision-making also has some potential disadvantages:

- Group decision-making may be more time-consuming than individual decision-making.
- Groups are more likely to choose the first possible option or solution to a problem that meets the minimal criteria. Individuals tend to put more effort into the decision-making process and work towards the best possible solution to a problem.
- One group member, or a sub-group, may dominate the group's decision-making process and nullify the group decision.
- Group decision-making may inhibit creativity and lead to conformity and 'groupthink'.

We now go on to examine techniques for improving group decision-making.

LEARNING OBJECTIVE 7

Suggest teqniques for improving group decision-making.

12.7 TECHNIQUES FOR IMPROVING GROUP DECISION-MAKING

In order to overcome the disadvantages and to capitalise on the advantages of group decision-making, techniques have been suggested to make group decision-making more creative. We shall discuss four of these techniques, namely brainstorming, the nominal group technique, the Delphi technique, and group-decision support systems (GDSS). These techniques are illustrated in Figure 12.3 on the next page. It indicates where the different techniques are mainly used. However, the techniques can be used at any managerial level.