



Unit 3

Decision Making

Learning Outcomes

By the end of this unit the learner will be able to:

- ✓ Make better financial decisions
- ✓ Get your budget approved
- ✓ Perform basic ratio analysis

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Task Explanation

In essence, preparing a budget comes down to making financial decisions that will affect all members of the company. This exercise will test the decision-making capacity of the group.

About Decision Making

Your team will be playing the role of a manager who has been challenged to turn an unprofitable operation into a profitable one. Each decision requires thoughtful analysis of the information available so that you can evolve and/or evaluate alternatives. Your objective is to make the best decisions, and your pay-off, naturally, will be in profit dollars. We will make five decisions one at a time and debrief after each decision.

Decision-making is one of the most important measures of your ability as a manager. Decisions don't just happen. Good decisions require planning and thinking through. They are an integral part of your job, the price you pay for leadership.

In your workday you deal with two kinds of decisions: the routine and the strategic. In the first, the conditions of the situation which the solution has to satisfy are known, and the job is simply to choose between a few obvious alternatives. The routine decision is often governed by which alternative will accomplish the goal with the minimum effort and disturbance. Not so for the strategic. Strategic decisions are more complex. They involve either finding out what the situation is or changing it. The ramifications of strategic decisions are broader: they can affect productivity, organization, capital expenditures, and so forth.

Decision-making, in brief, is about selecting a course of action from alternatives. In actual practice, decision-making should be thought of as a process which includes five steps:



Define the problem.

When we are examining our business closely, it can be very challenging to identify the problems we are having; often, the symptoms are more apparent than causes. Symptoms will offer valuable clues to underlying problems, so they are important, but until you have identified the real problem, or problems, you're not ready for Step 2.

Staff Training Solutions

Gather the facts and data.

Do the analysis and gather all the data that could possibly be contributing to the problem. Data can comprise facts, opinions, assumptions, records, reports, and information from other people. If key information is not available, delay your decision until you get it. In some cases, however, decisions have to be made on the basis of incomplete knowledge, either because the information is not obtainable or because it would be too costly to get.

Organize the information.

Organize the information so it can be compared and analyzed in a straightforward manner. If you are working with a lot of information, an early task will include sorting what's important from what isn't. To simplify things a little, look for relationships between different factors such as like pros and cons, costs across departments, growth and so on.

Develop options.

This is the guts of the decision-making process: developing as many good options as possible. Quality and quantity are equally important. It is rare for a problem to have only one solution, so don't be deceived. The important thing is to keep an open mind, let your imagination roam freely over the facts you've collected, and jot down the possible solutions that occur to you.

Analyze the choices and make your decision.

With the previous groundwork laid, you are now in a position to compare the different options generated, and make decisions based on what is available. Making the best decision you can relies upon testing the options against specific, strong criteria, including the risk involved, permanent nature of the remedy, timing, achievability, your strategic plan, etc. Sometimes you can quickly eliminate the unacceptable options and focus on a few alternatives with fewer shortcomings. Ultimately, you will arrive at the best possible decision.

Background

Congratulations! You have just been promoted to Operations Director and assigned to the Bigtown office of the Peerless Data Corp. Previous to this move you held a similar position in a smaller office. You're now ready to move into this more challenging job with higher pay and increased responsibility. "Challenging" is hardly the word to describe the Bigtown office. You've been warned that it's a can of worms; the lowest performing operation of its kind in the country. You've been given a mandate to make this unit profitable.

Peerless Data Corp. is a service organization. Its main service is providing information on companies and organizations of every size and type. Each regional office serves as a center for collecting and processing data. Information is collected from field reporters, credit agencies, the companies and their customers, and various research sources. All of this data is then organized and processed and eventually packaged in its own file. Your office is therefore involved in producing research files as efficiently as possible. Each office (yours included) operates as a profit center with the Operations Director making all decisions independently.

You have inherited a staff of ten people. Morale is low, that's obvious. Supervision has been neglected in the past. The office itself is inadequate and overcrowded. Staff and equipment are not being used efficiently. As a result of these problems, production is at a low of 40 files per day (where it should be 60 per day), growth is stagnant, and the office is operating at a loss.

Your objective is to build annual profits to \$100,000 within a year's time. You can only accomplish this by increasing file production from 40 units per day to 75 per day, while keeping expenditures at minimum.

As a secondary, long-term objective, you should give adequate consideration to growth, making sure that none of your decisions provide immediate gains at the expense of future profits.

Company Information

This is general information designed to give you a better grasp of your operation. You won't use all the information, but you may need to refer to some segments of it during the game.

The Home Office activates the process by requesting data compilation on a specific account. When the request is received, the Coordinator sets up a file, directs the appropriate field office to visit the account and collect local information. (Field Offices are not under your control.) While the Field Office is completing its assignment, the new file is forwarded to the Researcher where a search for pertinent data is made in the library and existing records. Relative information is combined with the input from the field office; the data is organized, and a variety of calculations, ratings, and adjustments are made. The file is then passed on to the Reporter, where a formal report is dictated, summarizing all findings. (The Reporter has two secretaries who transcribe reports.) The final report and file then go to the Quality Controller for review. The Q.C. verifies accuracy and completeness, and then forwards everything to the Reproduction Aid. The RA copies every item in the file (copy goes to home office, original remains here). Before the original is filed it goes to Data Entry Clerks who transfer data to the Computer. The Computer stores the information for demand availability. The Expediter follows files from station to station, controls movement, and fills in when employees are absent. Here is the list of employees you have inherited, shown by title and salary.

| Position | Salary |
|--------------------|----------|
| Coordinator | \$45,600 |
| Researcher | \$46,000 |
| Adjuster | \$48,000 |
| Reporter | \$48,000 |
| Steno 1 | \$42,000 |
| Steno 2 | \$43,500 |
| Quality Controller | \$50,000 |
| Reproduction Aid | \$42,000 |
| Data Entry Clerk | \$48,000 |

| | |
|-----------|----------|
| Expediter | \$50,000 |
|-----------|----------|

Your salary is \$75,000.

Peerless Data has established four different salary grades which are reflected in the figures given above.

| Grade | Salary Range | Description |
|---------|----------------------|---|
| Grade 1 | \$40,000 to \$45,000 | Clerical jobs |
| Grade 2 | \$45,001 to \$48,000 | Staff performing one function |
| Grade 3 | \$48,001 to \$52,000 | Staff performing more than one function |
| Grade 4 | \$52,001 and up | Supervisor or executive |

Employees cannot move from one pay level to another unless they are promoted or a job is broadened to include more than one function.

Decision One: Office Relocation

You currently occupy 4,000 square feet of office space which is barely adequate for your staff, files, and operating equipment. There's no doubt that the cramped quarters contribute to the low level of production. With your present lease about to expire (in 60 days), you commissioned a local real estate broker to find the four best locations available, according to guidelines you provided.

You would like to meet your needs for at least three years, preferably five. The normal rate of business growth is about 20% a year with a commensurate increase in personnel and space; your office should eventually conform to this pattern. As a rule of thumb, total space usually allocated is 500 square feet (per employee). Your current lease will revert to a month-to-month basis at the end of the 60 days. Right now, you pay \$6,000 a year; when your lease expires, your monthly rent will be \$700. A recent poll of your employees indicated that all of them would stay with your company if the move didn't increase the commute from your present location more than 15 minutes each way.

Below are the four locations recommended by the real estate broker.

Location A

This location offers 9,000 square feet of operating space at an annual rental of \$10,000. The owner requires a five-year lease. He will provide required painting and renovation work at no cost. You like this space because it's adjacent to your present location, so the staff would not be inconvenienced. The cost

of your move to Location A would be \$1,500. This space is available in 30 days, at which time you'll be committed to paying rent (assuming you decide on this spot).

Location B

This site is on the opposite side of town from your existing office, about eight miles away, and will take ten extra minutes each way during rush hour traffic. The space consists of 12,000 square feet. A three-year lease is required at \$10,000, with an option for two additional years at \$10,500 a year. Location B will be available in 90 days for you to move in. Refurbishing costs run about \$2,000. The move itself will require an estimated \$2,000. Since your present lease will expire before Location B is available, the owner has offered to pay the extra month's rent at your current location.

Location C

Location C is 6,000 square feet and costs \$8,000 per year. It will be available in 60 days. You can sign any length lease you want, up to ten years. The move here will cost \$1,500, but the landlord has offered to absorb the cost of the move if you sign a five-year lease. You'll have to pay for your own refurbishing, however; a cost of \$1,200. This location is a five minutes' drive from your present facility.

Location D

This location is a good buy and close to the airport, which is a plus for you. The space available is 12,000 square feet. You estimate your refurbishing costs at \$3,000. Location D is in reasonable proximity to your present site (about five minutes away). The cost of the space is \$9,500 a year. The owner can only give you a three-year lease since the entire area will be torn down and redeveloped by the city at that time. The cost of the move is \$1,500.

The cost of moving and/or repairs in all cases will be charged against your first year's lease.

Based on the above information, decide which of the office sites is the best move.

Score: _____

Decision Three: Improving Supervision

One of your more urgent situations is related to supervising staff appropriately. Your personal preference is to look after day-to-day operations and supervision yourself, but you obviously don't have the time to do an adequate job of it. The person previously in your role tried to do it all and it didn't work because they spread themselves too thin. Your staff really need a personable, high quality, full-time supervisor, and this need for someone strong will become more important as the operation grows and the staff numbers increase.

There are lots of ways that you can fulfill this need. You could promote Brad Matters to the role of Supervisor; he has been working as your Expediter. Brad knows all the staff well, and also has a strong working knowledge of the different roles within the warehouse. Brad has been with the company for five years and is well liked by his colleagues. He's trustworthy, reliable, and would probably enjoy the raise in salary that comes with the job (\$6000 per year). When you initially interviewed Brad before the take-over, you noted that he was quite content with his job, and though he didn't have any clear career goals that he shared with you, he has a good knowledge of the operation, and got along well with his peers. Brad is in his late forties, a committed family man, and active member of the community.

A second option would be to hire a suitable candidate from an outside source. The human resources department keeps a list of people who have appropriate strengths and could be candidates, including Peter Hunt who works as an Assistant Supervisor at a large and successful operation although is at quite a distance being over 2,000 miles away. Peter is 40, and comes with good recommendations. You met him once at a conference and were impressed by his experience, personality, and ambition. If you decide to hire Peter, you'll have to wait about two months before he can start so that he can get moved to a new city with his family, plus you'll have to be prepared to pay his \$5000 in relocation expenses. Since he's already at the supervisory level he'll also want a raise from \$53,000 to \$59,000 for his new job.

A third option available is for you to hire someone locally. There is a possibility that you could find a suitable supervisor with some experience that you could poach from another company. The chance you take with this includes a limited number of competitors in the region, so you'd be more likely to find someone in a related field who would require training, but there are probably some great potential

Decision Four: Job Enrichment

The morale problem that plagued you when you first took over has improved, but it's far from being solved. Part of it, no doubt, stems from the specialized and often monotonous nature of the jobs. You would like to cross-train certain staffers so that instead of handling a piece of a process, they can get more involved in different activities; this will provide greater responsibility and sense of achievement. You feel that job enrichment will also provide substantial production gains. You have now reached a level of 50 files per day (1,000 per month) and estimate that a successfully implemented job enrichment program will enable you to reach 60 a day at a gross profit of \$15 each. As a result, you are planning to combine four jobs (Coordinator, Researcher, Adjuster, and Reporter) into one new position called Programmer. The four programmers would do their own coordinating, researching, adjusting, and reporting; they would also share the two secretaries, who will transcribe their reports on an equal-time basis.

In implementing this new program, one of your major problems will be training. A number of alternatives are available. One would be to have your new supervisor, Peter Hunt, do it. Peter did a study and came up with the following projections. It will take him three months of on-the-job training to accomplish the transition; production can be expected to drop by 10% during this period. After the training phase, he estimates that it will take three months of adjustment, during which time production will function at current levels (50 per day). After six months, a permanent increase of 60 files per day should be achieved.

On the other hand, you can have the home office staff do the training for you. They could accomplish the training faster since they are running intensive one-day schools continuously. For example, on Monday of each week they conduct a Coordinator's school, on Tuesday they cover the Researcher's job, Wednesday is devoted to Adjusters, and on Thursday they concentrate on the Reporter's function. You could only send one staffer at a time to the appropriate schools.

During the week you have incomplete staff on hand; you can expect a 25% drop in productivity. When your four staffers are trained, the production level should rise to normal in a week, maintain that level for a month, and then gradually improve at a rate of 40 files a month until you reach your objective of 60 files per day.

A third alternative would involve handing off the job to a consulting firm specializing in job enrichment. Their fee for taking care of the entire job would be \$6,000. To accomplish the task, they plan to make a study of the jobs involved, and then construct a program that would permit the involved employees to learn on the job. By using their own personnel as backup during the training period, the consulting firm will guarantee to maintain the current production level. Their timetable is as follows: one month to make the study and preparations (they can start immediately), one month to accomplish the training, and then a 20% increase in production (which will be permanently maintained).

