MANAGEMENT

PRINCIPLES AND APPLICATIONS

UNIT-2

PART-XVII

TECHNIQUE OF DECISION-MAKING UNDER BOUNDED RATIONALITY

The concept of bounded rationality suggests that a manager's ability to make completely rational decisions is limited by time constrains and by the cognitive capacity to absorb, retain and analyse a great deal of information. A number of factors contribute to bounded rationality.

1. Managers may have only incomplete information about the problem, the alternatives, the decision criteria, or the impact on the organisation.

2. Time and money constraints often limit the quantity and quality of information available. productively because of the added complexity or because of inexperience.

3. When more information is available, managers may not use it productively because of the added complexity or because of inexperience.

4. Managers may inaccurately assess the importance of the consequences of individual alternatives being considered.

5. Human attention and money are limited, so managers can store only a relatively small amount of information as they consider a problem.

6. The ability to weigh and select the optimal choice from among alternatives are limited by a manager's intelligence and by personal perception

Because of these limitations, managers do not always make rational decisions that represent the optimal choices for their organisations.

Decision-making Process under Administrative Man Model/Bounded Rationality Model

I. Simon has described the following eight stages of decision-making under the Administrative Man Model/Bounded Rationality Model:

   (i) To define the problem.

   (ii) Determining appropriate standard for accepting the solution.

   (iii) To use self-research procedures.

   (iv) In case the solution to be applied is not recognised then lowering the standard of the solution to accept it.

   (v) If the solution to be applied has been recognised, then evaluate the solution.

   (vi) To implement the solution, if it is acceptable.

(vii) To search for the new solution, if it is not acceptable.

(viii) To implement solution.

Causes of Bounded Rationality

The manager is an ordinary human being. It is absolutely incorrect that he knows everything. There are many impediments while taking a decision which check him from taking a rational decision. The rationality of the manager is qualified due to the following causes:

(i) Objects are not static but they are dynamic.

(ii) To forecast each and every alternative is not possible.

(iii) Right valuation of future results is not possible.

(iv) These are limitations of time and cost in the finding of alternatives

(v) To save from environment is not possible.

(vi) To collect all types of information is not possible.

(vii) Management has little knowledge and limited meditation power regarding their organisational work.

(viii) Complete forecast of any problem is not possible,

(ix) Management has to take into consideration the objects and policies of the business while taking decisions.

(x) Every manager has his own tastes, feelings, self-interests and preferences. In conclusion it can be said that decisions cannot be taken with absolute rationality. Thus, the decisions taken by the managers can be very good, but they cannot be absolutely rational.