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PERSPECTIVES ON DECISION-MAKING AMONG THE ROMANIAN MANAGERS

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Abstract: This paper examines, in the tradition of descriptive approaches of decision-making, how Romanian executives actually make decisions. It is based on an investigation in which managers from Romania were interrogated about some aspects of the decision-making. The conclusion of this study is that the Romanian managers don't follow all the recommendations of classical decision theory when they make decisions. That situation is caused not only by the high instability of business environment, but also by some elements of the managerial culture.

Keywords: descriptive approaches of decision-making, business environment, investigation

Introduction

The perspective of this study is the so-called „descriptive approaches of decision-making” identifying and analyzing the discrepancies between the actual behavior of decision makers and the recommendations of classical decision theory [Cyert, March, 1963; Simon and Associates, 1986; Simon, 1993]. In that tradition there were published a lot of studies which analyze, for different circumstances the impact made by some characteristics of business environment and by some elements of managerial culture over the decision making processes [Huczynsky, Buchanon, 1991; Saget, 1999]. However, for Romania, the actual behavior of executives remains an insufficient explored area, so that study is meant to contribute to the identification of some particularities of decision-making processes from this country.

The structure of this paper consists in five parts: the methods used in the empirical study of decision-making processes, the impact of uncertainty over the decision-making processes, the organization of decision-making, the optimization of decisions and the conclusions.

The methods used in the empirical study of decision-making processes

The studies inspired by the descriptive approaches of decision-making are usually based on investigations among the managers which are interrogated about how they actually make decisions. In order to identify some characteristics of the decision-making processes from Romania, in the period 2001-2003 it was made an investigation which implied interviews with fifty Romanian executives.

It is very difficult to appreciate how much it is the representative sample for the whole community of Romanian managers. In fact, the aim of this study wasn't to characterize all of the decision-making processes from Romania, but to analyze the impact made by the business environment and managerial culture to some decisions of the Romanian executives. The fifty interviews were concerned over three aspects: the impact of uncertainty over the decision-making processes, the organizing of decision-making, the optimization of decisions.

The impact of uncertainty over the decision-making processes

In the classical decision theory it was developed a framework for a rational approach to the uncertainty; there were defined the main forms of uncertainty: risk, proper uncertainty and ignorance; there were established rules to

characterize these forms of uncertainty; there were developed methods to appreciate the attitude toward risk of a decision maker [Pratt, 1964] which can be used to evaluate the alternatives utility under uncertainty [Neumann, Morgenstern, 1953].

However, some empirical investigations of decision-making in organizations reveal that decision theoretic conceptions of uncertainty are not identical with conceptions of uncertainty held by managers. Managers consider that the separation between the different form of uncertainty is too difficult and very often it has no use, so they apply it only seldom [March, Shapira, 1988]. Moreover, some studies revealed the

instability of decision makers attitude toward risk, which make very difficult the evaluation of alternatives utility under uncertainty [March, Shapira, 1988].

The complexity of the appreciation of the attitude toward risk of a decision maker is increased by the situation that in the economic activity, for different types of risk, there were developed different types of methods which could reduce the potential losses. The risk management process, consisting in choosing and applying the optimum techniques to reduce exposures, has a lot of influence over the attitudes toward risk of the managers [Cooke, Slack, 1991; Rejda, 2001].

Table 1 – The frequency of the main forms of the uncertainty in Romanian managers decisions

Forms of uncertainty	Certainty	Risk	Proper uncertainty	Ignorance
Low frequency	45	43	2	1
Medium frequency	5	7	16	28
High frequency	-	-	32	21
Total	50	50	50	50

The fifty interviews with the Romanian executives revealed a strong impact of the uncertainty over the decision-making processes. The managers were questioned about the frequency of the main forms of uncertainty in their decisions. The answers presented in the Table 1 indicate, even considering the subjectivity of their perceptions, a high level of uncertainty in their activity. This situation is caused, in their opinion, by the high instability of the business environment from Romania which is almost unpredictable.

However, the interviews revealed other facts that could increase the level of uncertainty. The executives admitted, in unanimity, that very often they prefer to act under a high uncertainty rather than to spend money for information that could have improved the knowledge. This attitude was justified by the argument that anyway the information obtained wouldn't have much accuracy.

The low frequency of the risk in their decisions could be related not only with the difficulties of obtaining information, but also with reticence, expressed by ninety-four per cent of the interviewed managers to deal with probabilities.

The executives were also questioned about the methods they use to characterize the main forms of uncertainty, especially the risk and about the

evaluation of alternatives utility under uncertainty. Their answers confirm some ideas of the descriptive approaches to the decision-making. The managers affirmed they are not much interested in characterizing the main forms of uncertainty. They prefer to define the risk in terms of potential losses rather than to use probabilistic distributions.

When the interviewed executives were invited to describe their attitudes toward risk, they explained that in the past they exhibited different attitudes under different conditions: sometimes they took high risks and other times they acted very prudently.

Regarding the risk management the answers of the executives indicate that generally they are not accustomed to that process. They argued that many techniques used largely in the developed countries for hedging the risks (swap operations, future and option contracts, factoring a.s.o.) are in fact unworkable for them.

The organization of decision-making processes

In the classical decision theory it was revealed the importance of the organization of decision-making process [Butler, 1991; Cooke, Slack, 1991]. It is recommended to organize the operative identification of the problems that have to be

solved [Drucker, 1985] and the programming of decisions [Butler, 1991; Cooke, Slack, 1991] which allow managers to make decisions with no time constraint.

The interviewed executives consider as very important to identify operatively the problems that have to be solved. However, they admitted that many times they were surprised unprepared by unexpected problems that had to be solved under time pressure. According to them, such situations were caused mainly by the high instability of the business environment from Romania. However they also admitted they didn't supervise systematically all components of the business environment.

The interviewed managers underlined the advantages of decision programming, but they also admitted to do that only seldom. In their opinion, this situation was caused by the difficulties in making forecasts under the high instability of the business environment. Most of them indicated that, because of the low accuracy of long term forecasting, they are no able to make strategic planning for a long period of time (Table 2).

Table 2 – The maximum period of time for which the managers realize the strategic planning

The maximum period of time of the strategic planning	Number of managers
Less than 6 months	32
Between 6 and 12 months	9
Between 12 and 18 months	5
Between 18 and 24 months	4
Total	50

The optimization of decisions

In the classical decision theory there were developed a lot of optimization techniques in order to offer objectivity and rationality for various types of decisions. However, in the descriptive approaches of decision-making there are identified some aspects that limit the rationality of decisions [March, Simon, 1958]. According to the Nobel Prize laureate Herbert A. Simon, managers attempt to reach satisfactory solutions rather than to seek the optimum solutions [Simon, 2004].

The answers of the interviewed executives indicate a bounded rationality for decision-making

processes. All of them admitted that quite often they applied satisfactory solutions rather than to seek the optimum solutions. They explained that many times they had to make decisions under the pressure of time and with incomplete information.

The answers to questions, regarding the preferred techniques for the main decision types, indicate that very often the managers sacrifice the accuracy in favor to the simplicity. Thus, no one of them optimized multi-criteria decisions with complex, but accurate techniques, such as ELECTRE or TOPSIS. Moreover, the executives are less favorable to optimize decision under risk by the expected value of possible outcomes. It is remarkable that no one of the interviewed managers used until present the decision tree technique for optimizing the multiphase decisions.

To the reticence regarding the complex optimization techniques it is added the quite frequent use of intuition. Thus, when they make decisions, fifty-six per cent managers use intuition with a medium frequency, while sixteen per cent use it even with a high frequency (Table 3). They explain this situation arguing that intuition is more adequate than the quantitative techniques, in case of an insufficient information, as it happens for many of their decisions.

Table 3 – Using the intuition in decision-making

Frequency of intuition use	Number of managers
Low frequency	14
Medium frequency	28
High frequency	8
Total	50

Conclusions

This study examined some particularities of decision-making processes from Romania. The results of the investigation among fifty Romanian executives revealed significant differences between the recommendations of the classical decision theory and the actual behavior of managers. They are not very interested in characterizing the main forms of uncertainty, in using probabilistic distributions or in accurate methods for evaluating alternatives utility under uncertainty. Moreover, they apply quite often satisfactory solutions and prefer to optimize decisions by techniques that are simple, but not

very accurate. It is true that many studies from the descriptive approaches of decision-making revealed a bounded rationality for decision-making processes from every country.

However there are some aspects which particularize the decision-making processes from Romania: a high level of uncertainty and the lack of decision programming. It can't be neglected the impact of business environment's high instability over these aspects. However, there are other significant factors, such as the reticence in obtaining new information or in supervising systematically the business environment – factors due to a managerial culture, inadequate for the present context.

The particularities of the decision-making processes from Romania may be also approached from the perspective of a probable integration into the European Union in a near future. Since the Romanian companies will have to face the competition of some companies from the developed countries, it would be desirable for the Romanian executives to accustom fast at the modern management techniques.

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