

DECISION MAKING UNDER THE CONDITIONS OF RISK AND UNCERTAINTY IN SOME ENTERPRISES OF PRISHTINA AND FERIZAJ

Aferdita Dervishi, PhD Candidate

Department of Management and Economy, University College “Biznesi”, Kosovo

Ibish Kadriu, Doc. Dr.

Faculty of Philosophy, State University of Tetovo, Macedonia

Abstract

Managers take decisions in all levels but they are often faced with uncertainty and risk. In the field of management it is not done much to study the attitude of managers behave in relation to their decision they take in risk circumstances. The purpose of this paper is to reflect decision taking as one of very important managerial concepts, with attention to conditions of uncertainty analyse on some private and public enterprises of country. The aim of this paper is to identify criteria, types and process of decision taking under conditions of uncertainty and risk in organisations that is in reality reflection of respective image of organisation.

It is used normative method using primary and secondary data. The qualitative research is based in the sample of 20 managers of enterprises in two municipalities of Kosovo. As a technique for collection of primary data is used direct interview with managers.

Based on the findings is ascertained that assessment of risk and uncertainty on decision taking is made mainly based on intuition. Such decisions are made without taking sufficient information, without precise analyse and without going through 8 steps of decision taking. It is also not paid needed importance to experts of respective fields while IT tools were not used to analyse the risk.

Keywords: Decision making, risk, uncertainty, intuition, probability

Introduction

Decision making

Decision taking is a multidimensional process and it is not simply to make one choice. Decision taking as an integral part of management is one of determining characteristics of leadership. The quality of taken decisions has main impact on the success of non-success of organisation. The decision taking is considered managerial function and organisation process because in most cases this action requires not only quality but also readiness to face with effects, those it passes individual and becomes concern of determined group of people. According to Richard L. Daft⁸⁵, *Decision represents the process of problem identification and the process of solving it.* John R. Shcermeron⁸⁶ defines decision as the process of selection of best possible action, from the entirety of alternatives. Decision taking is the process of

⁸⁵ Richard L. Daft, “Organization Theory and Design”, Fourth edition, West Publishing Company, Saint Paul, page. 346

⁸⁶ John R. Shcermeron jr. “Management and Organization Behaviour”, John Wiley and Sons, Yew York, 1996, page 194

problem introduction, formulation of alternatives, analyse of alternatives and selection of best alternative, than continues with the implementation of alternative and its control.

The decision making process is constituted from eight steps:

1. Identification of problem: This process starts with existence of problem and the difference between existing and desired state. The managers are good if they are able to understand three main characteristics of problem: to be in flow about the problem, to be in pressure to act

2. Identification of criteria for decision making: After identification of problem it should be identified the criteria for solution of problem. The criteria should be based on the importance and weight depending from issue or problem for which is needed decision.

3. Distribution of importance / weight of criteria: The decision maker should weight the importance of criteria and classify them by giving priority according to its importance.

4. Development of alternatives: Decision maker must be creative, thus in cooperation with team should list the alternatives based on which certain problem could be solved.

5. Analyse of alternatives: The selected alternatives are put into analyse in this step. There will be carried out the investigation of information and additional material in order to identify the priorities and weaknesses for each presented alternative.

6. Selection of alternative: After carrying the weight of presented alternatives, in this step is chosen the best alternative which generates the highest amount calculated at previous step.

7. Execution of decision: In this step is placed the decision on action, and the decision has to be followed to the persons of concern as well as their engagement is accepted for the work which follows. In the cases people who execute decision participate in the process they are enthusiast to support the implementation of decision.

8. Evaluation of effectiveness of decision: It is evaluation of result where may be seen if the problem is solved. In the cases where the problem still exist than the manager have to see what was going wrong and to return to previous steps.

The perspective of decision making

The decision making process involves evaluating a scenario from different angles, or perspectives, in order to identify solutions that will lead to the desired outcome.⁸⁷ Three main perspectives on decision making are rationality, limited rationality and intuition. Rational decision making means managers make sustainable solution that maximizes value under the conditions of specific limitations. When managers take rational decisions but are limited from their ability to process information, this presents rational limited decision taking. Whereas intuitive decision making is when the decisions are taken based on experience, feeling and accumulated judgment. The right solving of problems is mainly intuitive and decision taking results from the unclear mixture of experience, imagination, intelligence and feeling joined with conscience.⁸⁸

Depending from the nature of problem, the manager may take different type of decisions. When we have to deal with structural problems the decision making is programmed while when we have to deal with unstructured problems it is not programmed. Managers try to take good decisions because they will be judged based on the results of those decisions. It is known that managers often disregard regulations and norms when they have to take decisions under risk and uncertainty. An attention also must be paid to the context of decisions that means to analyse the structure of organisation and its organisation culture.

⁸⁷ <http://www.wikihow.com/Develop-Alternative-Perspectives-for-Decision-Making>

⁸⁸ Manaxhimi, Dr. Shyqyri Laci, Tirane, 2008, faqe 178

Attitude to risk on decision making

Risk management is difficult process and its purpose is to save property, capital or profit of organisation by decreasing the potential of losses. Risk management may be defined as making decision for the activities by which would be decreased the probability and the consequences of unpleasant effects that may be done only through identifying and assessing risk. Researches tried to study the role of risk in their field of interest. According to researches P. Slivic⁸⁹ (2000) and P. More (1983)⁹⁰ people percept the risk in different ways depending from the field of work. One valuable definition for risk in the decision making field introduced authors H. Raiffa and R.D Luce⁹¹, who make the distinction of three conditions that managers are faced with while taking decisions:

1. **Security** -accurate decision making because results of each alternative are known therefore managers may take secure decisions.
2. **Risk** – each action leads to one of specific results, where results of alternatives cannot be evaluated. The ability of determining probability may be the result of previous experience or of secondary information.
3. **Unsecurity** -actions may lead to a group of consequences, but where the probability of result is completely unknown. For decision maker the security and justification for settling an alternative is missing.

In generally managers are not inclined to accept risk. Some studies showed that managers do not accept that risk by which they are faced with is inseparable with situation and they simply move its acceptance by considering it as controllable issue.

Description of study and results

The study work is carried in Prishtina and Ferizaj municipalities of Kosovo and includes direct interviews with 20 managers of enterprises. The enterprises are from private and public sector situated in two municipalities of Kosovo, respectively 16 enterprises from private sector and 4 from public sector. From managers is requested to define what is risk and how they deal with it, how risk influences on decision making and how they manage it, how the organization influences at the decision making process and the use of information technology to manage risk. Protocol with questions is previously delivered to managers who have not been selected by random sample. They were asked to describe one decision taken under risk situation during the last year. Taking into account the small number of managers who accepted to participate in the study, we cannot state the results of this study may be applicable. However, it is considered that it is done some effort to cast light on relation to decision taking under the conditions of risk and uncertainty, which is not much explored.

Results of study

Based on the literature analyses and after careful elaboration of the received replies from managers, the results of study are presented as following:

Question no.1: What is risk and how it is defined?

Majority of managers' point out financial, commercial and investment risk, while the situation when the result is unknown for decision taker is a risky situation that may led to a mistaken solution. Around 68% of them consider as risk decisions the ones they take for investments. Here is included the investment on new constructions, purchase of new equipments, development of new products and introduction of goods in new markets. They were not sure if the investment done for new machinery will for a shorter time bring bigger

⁸⁹ P.slovic. "The Perception of Riskt". London, Sterling, VA: Earth, 2000.

⁹⁰ P.Moore, "The business of risk", Cambridge University Press, 1983

⁹¹ H.Raiffa & E.S. Luce "Games and Decisions", John Wiley and Sons, 1957, faqe 13

product after comparing it with the amount invested in them. The majority of managers say they are not able to calculate properly the types of risk they are faced with therefore they concentrate on investment of projects they believe to be good investment and profitable. Around 18% of them were convinced that it is necessity to undertake risk and the uncertainty is in fact the reason of risk existence.

Question no.2: Selection of alternatives to deal with risk

Managers were asked to rank alternatives they will choose once they are faced with problems that involve risk and uncertainty. The managers of enterprises considered to be not enough strong financially would avoid all the decisions with risk. At the table are shown two types of responses. In the first group are managers who take decisions themselves, majority of them select an alternative of avoiding risk in decision, while 2.80% of them gather additional information and only 2.10 % try to decrease the risk upon decision making. In the second group the biggest number of managers declared that they delay with the decision making because they follow it up to other instances, to Board of directors, steering committee or to the owner of enterprise.

FIRST group			SECOND group	
Collects more information	Tries to decrease the risk	Avoids decision with risk	Delays the decision	Proceeds the decision to other organs
2,80	2.10	5,10	4.20	5.80

Table 1: Two types of responses from managers on question two.

Question no. 3: Can risk be managed? What do you think for people dealing with risk? They think risk can be managed if there is needed experience on respective field, sufficient knowledge for an issue and it is worked earlier on reduction of risk. More than half of them said they make subjective evaluations and they get based on their intuition and experience in their efforts trying to manage risk. At public enterprises there are cases where for certain projects involving risk the decision is taken by ordinary directors and not by field experts.

Question no.4: Culture in organisation, including the level of trust by subordinates. In this question about 52% of respondents declared that final decisions are always taken at the higher level of organisation and there is good faith to its subordinates. A number of them with 27% declared that in the organisations where they work prevails autocratic culture that is characterised with low trust to subordinates, and 21% confess that the owners are the ones who decide for everything by themselves and there is no type of democratic culture thus the change of managers in this kind of enterprises is often.

Question no.5: Have you used information technology to evaluate risk? The respondents have said they used information technology only to collect information but not to evaluate the risk. Only three out of all respondents could use Excel application to calculate financial risk.

Conclusion

In modern world decision making is important because it clarifies the understanding of cultural distinctions and acting with courage in the moment it is needed. Characteristics of effective decision making process are: the concentration to important matters; logical and consistent; takes into consideration objective and subjective thinking as well as analytic and intuition thinking; needs information and analyses to solve the dilemmas; ensures collection of relevant information and competent thinking and at the end it is reliable, direct, and usable. Based on findings gained from the study it is ascertained that there are identified problems on decision making under risk and uncertainty conditions. The problems are intercorrelated with the accuracy of data, lack of information, avoiding from the decision taking where risk apparatus and disregarding the risk upon decision making. The risk and probability evaluation carried by managers is mainly based on intuition. The decisions are taken without having enough information, without carrying full analyses and without paying importance to experts

of respective fields as well as without using computer tools to analyse risk and decisions. From other side it is noticed that people who take over the risk are more independent. At private sector owners ar trend toward progress and few of them have capacity to take quick decisions. The overall consideration is that this people have personal courage.

During decision making under the conditions of risk and uncertainty more attention must be paid to details and more information should be collected by both managers the ones from private and public sector. This information will serve during the development and analyses of alternatives. At public enterprises during the process of alternative analyses must be involved the respective experts. Risk must be assessed by ground in order to know exactly about what will be the benefit and profit as well as the loss by taking difficult decisions. To assess the risk, managers should also support their work on the information technology tools.

References:

Stephen P. Robins, Mary Coulter, *Management*, 9-th edition, New Jersey, Prentice Hall, 2006
Shyqyri Laci, *Manaxhimi*, Tirane, Albania, 2008
Richard L. Daft “Organization Theory and Design”, Fourth edition, USA, West Publishing Company, 1992
John R. Shermerhon jr. “Management and Organization Behaviour”, Yew York, John Wiley and Sons, 1996
Janet Gough, *Risk and Uncertainty*, Paper no. 10, Centre for Resource Management, University of Canterbury and Lincoln College, 1988
P. Slovic, *The Perception of Risk*, London, Sterling, VA: Earth, 2000.
P. Moore, *The business of risk*, United Kingdom, Cambridge University Press, 1983
www.learnmanagement2.com
<http://www.decision-making-confidence.com/>
<http://www.wikihow.com/Develop-Alternative-Perspectives-for-Decision-Making>