

UMUC Business and Executive Programs Podcasts
Essential Competencies for the 21st Century Manager

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Podcast Title: Decision Making and Executing Decisions - Beyond Theories, Concepts, and Methods to Competent Application

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Livingstone: Hello, everyone. My name is Les Livingstone and I am a professor at UMUC and the program director for our MBA course on the economics of management decisions. I earned MBA and PhD degrees at Stanford University and I've spent about half of my career in the academic world and the other half, first as a partner in PricewaterhouseCoopers, which is now the largest accounting firm in the world, and later as president of my own national consulting firm. Having both practical and academic experience, I can speak from both perspectives.

Now, what can our MBA program do for you? Our MBA program is focused on providing the competencies to be successful executives in all kinds of organizations. One very important competency for a successful executive is decision making, and decision making is the topic of this Podcast.

We teach effective management decision making by using powerful tools of analysis and careful comparison of the costs and benefits of alternative actions. For example, all organizations face decisions like: Should we make or buy the various components used in our line of products? Should we employ our own sales force or should we distribute our products through independent manufacturers' representatives? Should we open new branches or should we franchise them out to individual branch owners? Should we expand into India on our own or do we need a joint venture partner? Should we grow our own technology and new products internally or should we obtain them by acquiring other companies? And the list goes on and on.

Given so many different and difficult decisions, how do we teach our MBAs to make effective decisions? Like all first-rate business schools, we teach the theories, concepts, and methods of analyzing problems. But, unlike most business schools, we do not stop with teaching the theories, concepts, and methods. We realize that MBAs must be able to competently apply these tools of analysis to solve actual real world problems in practical situations. We build and reinforce this ability in our MBA students by giving them continuous practice on examples drawn directly from real world business situations. Therefore, our MBA program includes many practical projects.

Examples from our course on the economics of management decisions are the following: (1) Assessing the price sensitivity of customers of a pizza parlor in order to determine the most profitable pricing for its pizzas. Based on this exercise, we can explain why many businesses have different prices for different classes of customer, such as senior discounts, student discounts, discounted early bird dinners, cheap stand-by airfares, low price movie matinees, happy hour low prices for drinks, off-season hotel rates, and the like. By using this kind of market segmentation, businesses can charge higher prices to less price-sensitive customers and lower prices to more price-sensitive customers.

Another example: Learning what to pick out and concentrate on when reading financial statements by using the financial statements of a major airline as our real world practical laboratory. Another example: Analyzing the financial statements of two closely competing

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companies to learn the strengths and weaknesses of each and to determine which is the more successful competitor and why. Another example: Practicing all the concepts and methods previously studied by using a challenging case involving valuation of a patent. This realistic case was written by two UMUC MBA professors and is based on an actual consulting assignment. It requires students to identify the key issues and to solve those issues by correctly using virtually every concept method and technique that they have learned so far in the course.

We also use other cases written by UMUC MBA faculty and based on actual experience to provide practice to MBA students in product costing and product pricing, making capital expenditure decisions, dealing with foreign currency risks, evaluating a foreign joint venture project, measuring the financial performance of entire organizations, measuring the financial performance of internal company divisions or business units, and valuing a private business that has become an acquisition target of a larger corporation.

One point that we always stress is that assumptions are a critical part of any decision. Because we can't collect all of the information we need to make a decision, assumptions fill in the missing information. The quality of the decision is a function of the quality of the assumptions. Therefore, these assumptions must be realistic and reasonable. Further, one must consider best case and worst case for each assumption in order to understand the consequences if assumptions turn out to be better or worse than expected. All organizations face a scarcity of resources. No organization has unlimited money, people, or time. Any organization that did have unlimited money, people, and time would not have much need for decision making. It could simply do whatever it wanted whenever it wished with its unlimited choices.

It is scarcity that creates the need for effective decision making. Under scarcity, resources must be assigned to their best uses and hard choices are necessary, which makes effective decisions critically important. All decisions have costs and benefits. And effective decision making ensures that the benefits will exceed the costs. The costs are of two kinds. First, explicit costs: these are sacrifices of resources in order to earn benefits. For example, a company pays out cash to hire workers. It sacrifices cash in order to benefit from the efforts put out by its workers. The other kinds of costs are implicit costs. These are sacrifices of opportunities, because taking one opportunity means giving up the next best opportunity. For example, if a company invests \$400 million to build a plant in Peoria, it cannot use that same \$400 million to build a plant in China. So, the opportunity of using that same \$400 million to build the China plant is sacrificed to build the Peoria plant. That sacrifice is also known as opportunity cost.

We also deal with the challenge of executing decisions, the need to develop the interpersonal skills necessary to implement a decision. The success of a decision is in its implementation. No one can implement a decision without the cooperation of others. Therefore, the human element required to successfully implement any decision must be considered as an integral part of the decision process. In fact, it may be better to have first-rate implementation of a second-rate decision than second-rate implementation of a first-rate decision. In short, we don't just teach theory. We teach practical applications of the methods and techniques of analysis in order to prepare our MBA students to make better and smarter management decisions on the job.

Don't just take my word for it. In our course on the economics of management decisions, MBA students typically give us feedback along the following themes. One theme: These students went into the program with little knowledge of finance and accounting and ended up acquiring much valuable knowledge in both areas. Another theme: These students were particularly pleased with several sections of the course that emphasized the importance of ethics and personal integrity in decision making. They appreciate that we provide a practical method to

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ensure that any kind of decision is ethical. Another theme: These students have an above-average amount of case studies and practical applications and felt that this class was very beneficial, because it was hands-on and practical. Another theme: Before starting the seminar, they felt that their decision making and executing skills were not fully developed, but by the end of the course, their confidence in making and executing decisions was the strongest it had ever been.

In our increasingly complex world, the tasks of decision makers are becoming more challenging each day. The decision maker must respond quickly to events that seem to take place at an ever-increasing pace. In addition, a decision maker must incorporate a sometimes bewildering array of choices and consequences into his or her decisions. Routine decisions are often made quickly, perhaps unconsciously, without the need for detailed consideration. However, for complex, critical, or important management decisions it is necessary to take time to decide systematically. Being a manager means making critical decisions that cannot and must not be wrong or fail. One must accept responsibility for continuously improving and refining one's decision making skills. Decisions are at the heart of any organization. These decisions can be difficult, perplexing, and complex. Doubling the difficulty are factors such as uncertainty, having multiple objectives, having conflicting goals, and complexity. The future of your organization and the progress of your career might be profoundly affected by what you decide. To make strategic decisions requires taking a structured approach in following a format and a formal decision making process. Otherwise, it'll be difficult to be sure that one has considered all the key aspects of the decision. Making good strategic decisions is learnable and teachable through an effective, efficient, and systematic process. This structured and well-focused approach to decision making demands critical thinking, which in turn requires careful and thorough reflection on the decisions before taking any actions. One must evaluate the various courses of actions within the controllable factors. One must consider various scenarios for uncontrollable factors and then decide the best course of action. Decision making is at the core of all managerial functions.

In concluding, I hope that you have found this Podcast informative. I truly enjoy working at UMUC and I can confidently tell you that it is a wonderful learning environment. I hope I've helped to explain what our MBA program can do for you. Thank you for your attention and I recommend you to the next Podcast in this series. It is entitled, Ethical Leadership, and the speaker is Professor Chuck Newman.

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