

Herbert Simon – 2

NATURE OF DECISION-MAKING & FACT-VALUE DICHOTOMY

Learning outcome

PREVIOUS LESSON

- ✓ Simon's views on administrative science
- ✓ Why decision making has been made the basis for an administrative science?
- ✓ Importance of descriptive theories

PRESENT LESSON

- ✓ Simon's critique of classical theory
- ✓ Nature of decision-making in organizations
- ✓ Fact-value dichotomy in decision-making

Simon's critique of classical theory

- Traditional approach is narrow and has very little scope for productive research
- Principles are **proverbs**
 - They are myths and do not have empirical evidence
 - Lead to mutually contradictory positions. Ex – span of control and number of hierarchical levels
- It is not possible to have prescriptions/principles unless the descriptive framework is in place. The classical school of thought jumped the gun and went ahead with giving principles without much thought given to the descriptive elements.

Simon's critique of classical theory

- What is needed?
 - Basic vocabulary that is satisfactory for many scholars
 - Analysis of decision-making and doing aspects
 - Imposition of limits to rationality
- Only after all these aspects have been explored can one have principles
- Lack of detailed research into real situations(non-empirical)
- **There is a gap between principles and practice.** No compatibility between principles given in POSDCORB and their utility in achieving objectives.
- **The missing factor? - optimal rational choice between alternative courses of actions /correct decision making**

Nature of decision-making in an organization

- Organization is a structure of decision-makers
 - Decisions are made at all levels
 - Importance and impact of decisions made at different levels may vary
- Each decision is based on **premises**. A premise is a previous statement or proposition from which another is inferred or follows as a conclusion.
 - Ex – a person is trying to decide which car to buy. The premises, then, are cost, model, mileage, seating capacity, visual appeal etc.
- How are premises determined? Simon gives several factors
 - Decision-maker's preferences
 - Social conditioning
 - Communications received from other components of the organization

Decision-making process – 3 stages

There are three phases in decision making

- Intelligence activity
 - Finding the situations/occasions where decision-making is required
 - Analysis of the organizational environment and identifying conditions which need fresh action
- Design activity
 - Finding possible courses of action
 - Identifying, developing and analyzing all possible courses of action – A,B,C...
- Choice activity
 - Choosing among the courses of actions – A or B or C...

Fact and value in decision-making

- Any decision is made on the basis of premises. A premise is of two types – factual premises and value premises.
- Fact – how things are; something that is a statement of truth and has empirical evidence
- Value – how things should be; preferences of someone
- In order to build a universal theory of administration, only factual statements have to be considered, and value judgements have to be excluded.
- However, Simon is aware that purely factual or purely value premises are rare. **Every premise is composed of both facts and values.**
- The differentiation between facts and values is to **analyze the degree of 'correctness'** that may be applied when evaluating decisions

Fact and value in decision-making

- Hierarchy of decisions
 - Organization is a complex network of decision process
 - Each decision involves the selection of a goal and a behavior relevant to it
 - This goal may in turn be mediate to a more distant goal; and so on, until a final goal is reached



Fact-value dichotomy in decision-making

- In order bring out the difference between facts and values, Simon uses the means-ends distinction.
- **Means-Ends distinction**
 - Ends – final goals
 - Means – implementation in pursuit of the final goals
 - Decisions that lead to selection of final goals - 'value judgements' predominate
 - Decisions related to implementation of such goals - 'factual judgements' predominate
- However, Simon doesn't refer to 'factual' and 'value' decisions. There are only 'factual' and 'value' premises. **The relationship of a decision to a set of ends remains a factual proposition**