

CHAPTER THREE DECISION MAKING

3.1 WHAT IS DECISION MAKING?

Decision making is defined as a **rational choice among alternatives**. “If there is no option, there is no choice & no decision.” In decision making, manager is making judgments - reaching conclusion- from a list of known activities. Decision making is universal. It is the main part of all managers job. A management makes decisions constantly while performing management functions. Decision making is not a separate, isolated function of management, but the common core to other functions.

Managers at all levels are engaged in decision making and make big & small decisions daily. They make decisions while

- Planning a budget
- Organizing a work schedule
- Interviewing a prospective employee
- Watching a worker on the assembly line
- Making adjustment to projects, etc.

3.2 CHARACTERISTICS OF DECISION -MAKING

The important characteristics or features of decision-making are given below:

1. It is a goal-oriented activity

The objective of decision-making is always to attain a specific goal. For example, a student, whose goal is to become a Commerce graduate, has to be admitted in a college. He may be admitted either in the Day College or in the Evening College depending upon his credentials. It is also possible that he may study by correspondence. There again, he can choose the University from among the various Universities that offer correspondence courses. Thus, a series of decisions needs to be taken by the student.

2. Existence of alternative courses of action

As mentioned earlier, the need for decision-making would arise only when there are alternative ways of performing a task. If there is only one course of action available there is nothing to decide. For example, an outdated product, which cannot be updated, has to be abandoned by a business enterprise and there are no alternatives. Similarly, a worker, who is inefficient and without, commitment has to be sent out of the organization. In both these cases, there is no scope for decision-making at all. On the other hand, a product, that offers scope for alteration or modification, may be altered and thereby updated. Likewise, a worker, who is showing

commitment for work, but is not picking up things fast, may be given additional training to enable him to do better.

3. It may be positive or negative

Another interesting feature of decision-making is that the decision made may be either positive or negative. For example, if the employees in an organization want their pay scales revised and decide to go on strike if their demand is not conceded, the decision of the management may either be positive or negative. It is positive, if it decides to consider or concede the demands. It is negative, if the management is not prepared to concede the demands or decides to take disciplinary action against the employees for resorting to strike.

4. It may also be a decision not to decide

It is always difficult to take a quick decision on a sensitive issue. An immediate 'yes' or 'no' is not always possible in all matters. In such a case, the tendency will be to defer the decision to the extent possible. The decision, therefore, is 'no decision'.

5. Decision-making is both a science and an art

As a science, decision-making requires knowledge of method, rule or principle concerning the problem. As an art, it requires skill for making the decision a success. For example, a revision of pay scales of employees in an organization has to be done by evolving or following a suitable method, formula or principle. But it requires skill to make the employees accept the revised pay scales.

6. It is situational

It means that the decision-maker may make different decisions for the same problem under different situations. For example, a teacher may permit a student coming late to enter the class on a particular day but may not allow him on another day. Likewise, a worker may be sanctioned leave on a particular day but may be refused leave on another day.

7. It may be voluntary or induced

When the decision-maker makes the decision himself and is not pressurized by anyone, such a decision is known as a voluntary decision. He makes the decision spontaneously and with an open mind. On the other hand, when he is pressurized either by individuals or by the situation to evolve a decision to solve a problem, the decision becomes induced. For example, if a manufacturer, whose production activity pollutes the environment, comes forward to install a pollution control device on his own, such a decision is a voluntary one. If he is careless about the adverse effect his production process has on the environment, he may be required by the Pollution Control Authority to install a pollution control device. The decision then becomes an induced one.

8. It is a complex mental exercise

Decision-making involves careful consideration of the alternative courses of action, evaluation of the same and selection of the best course of action. The entire process of decision-making requires application of mind and intelligence. Then only, he can take best decision.

9. It is an ongoing activity

Decision-making is a continuous process. Decisions are to be taken in everyone's life right from cradle to grave. In a business organization too several decisions need to be taken right from its inception to dissolution.

3.3. TYPES OF DECISIONS

Manager in organizations may be separated by their background; lifestyle & distance, they all sooner or later must share common experience of decision making. They all face situations involving several alternatives & an evaluation of the outcome.

Types of decisions are:

1. Programmed decisions

Programmed decisions are decision managers make in response to repetitive & routing problems. If a particular situation occurs often, managers will develop a routine procedure for handling it.

Most management faces a great number of programmed decisions in their daily operations. Programmed decisions should be made without expending unnecessary time & effort. In most organizations, programmed decisions are handled through policies; in some management scientists have developed mathematical models.

2. Non - programmed decisions

Non - programmed decisions are decisions made for novel and unstructured problems. When a problem hasn't arisen in exactly the same manner before, or is complex or extremely important, it requires a non programmed decision. Non programmed decisions are more complicated. They require the expenditure of lots of money, worth of resources every year. Very little is known about this type of decision making. They are usually handled by general problem solving processes, judgments, intuitions, and creativity.

These two types/ classifications of decisions are broad. It is important to differentiate between them clearly.

Types of decisions & level of management

The nature of the problem how frequently it occurs, and the degree of certainty surrounding it should dictate at in what level of management the decision should be taken/ made.

Problems that **arise infrequently** & having a great deal of uncertainty surrounding them are often strategic in nature and should be the concern of top management. Problems that **arise frequently** & have fairly certain

outcomes should be the concern of lower level management. Middle managers in most organizations concentrate on programmed decisions.

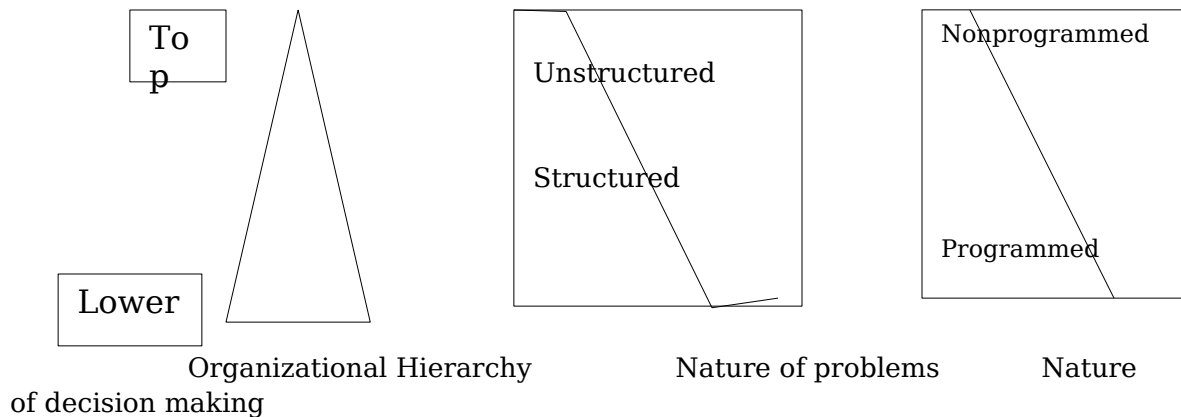


Fig: The relationship between levels of managers & kinds of decision

3.4. THE DECISION MAKING PROCESS

Decision making is a process which an important part of a manager's job. It is necessary to find anything that can improve the quality of decision making. The effective measure is to follow conscious, rational decision making process. The decision making process are logical & simple and all are essential to the process.

Decision making process has seven (7) steps.

Step 1: Define the problem

Defining the problem is the critical step. There is a particular problem you have to solve. The accurate definition of a problem affects all steps that follow. If the problem is inaccurately defined, every step in the decision making process will be based on that incorrect point.

The good method for manager to define the problem is to focus on the problem but not on the symptoms. This is accomplished by asking the right question & developing a sound questioning process.

As to Peter Drucker, "The most common source of mistake in management decision is the emphasis on finding the right answers rather than the right questions."

Finding a solution to the problem will be greatly aided by its proper identification. The consequence of not properly defining the problems is wasted time & energy.

Step 2: Identify the limiting or critical factors

Once the problem is defined, the manager needs to develop the limiting or critical factors of the problem.

Limiting factors are the constraints those rule out certain alternative solutions. The common limitations are time, resources, personnel, money, facilities, and equipment. They narrow down the range of possible alternatives.

Step 3: Develop potential alternatives

At this point, it is necessary to look for, develop & list as many possible alternative solutions to the problem as you can. These alternatives should eliminate, correct, or neutralize the problem. Doing nothing about a problem sometimes is the proper alternative at least until the situation has been thoroughly analyzed. Occasionally, just the passing of time provides a cure. Censorship/ restriction limits the number of alternatives developed. Alternatives should be separate solutions to the problems. In developing alternatives, the goal has to be creative and wide-ranging as possible. Sources for alternatives include:

- o Experience
- o
- o Persons (whose opinions & judgments are respected)
- o The practice of successful manager
- o Group opinions through the use of task forces & committee
- o The use of outside sources, including managers in other organizations.

Step 4: Analyze the alternatives

This step is to decide the relative merits and demerits of each of the alternatives. If the alternatives conflict with critical (limiting) factors, they must be automatically discarded. Depending on the type of problem, the potential solutions developed. The manager might need to make a more thorough analysis by applying specific decision making aids.

Step5: Select the best alternative

Here all the alternatives are listed along with their corresponding advantages and disadvantages. To select the alternatives, you must find a solution that appears to offer the fewest serious disadvantages & the most advantages. Take care not to solve one problem & create another with your choice.

Step 6: Implement the solution

Managers are paid to make decisions and to get results from these decisions. A decision has to be put into effect. Everyone involved with it must know what s/he must do; how to do it; why & when.

A good alternative that half-heartedly applied by uncommitted person will often create problems. Like plans, decisions need effective implementation to yield the desired results. People must be sold on their roles & must know exactly what they must do & why. Programs, procedures, rules or policies must be thoughtfully put into effect.

Step 7: Establish a control & evaluation system

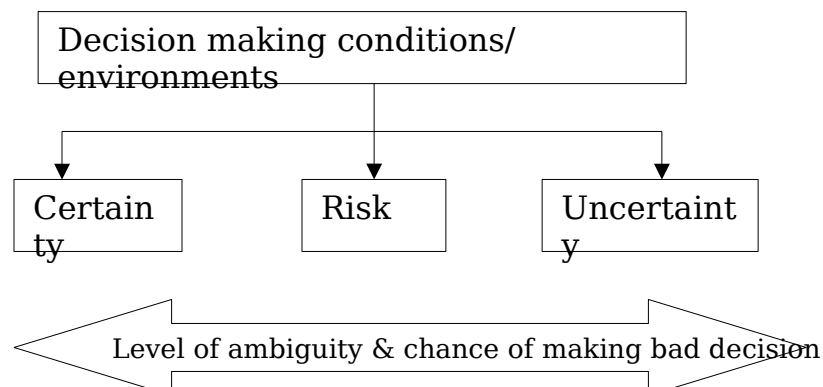
This is the final stage of decision - making process. Ongoing actions need to be monitored. It should provide feedback on

- how well the decision was implemented
- what results are positive & negative , and
- what adjustments are necessary to get the results that were wanted & when the solution was chosen.

If a manager uses this decision making process, the probability for success in decision would be improved, because it provides a step-by-step roadmap for the manager to move logically through decision making.

3.5.THE DECISION MAKING ENVIRONMENT

As there are different kinds of decisions, there are also different conditions in which decisions must be made. The manager must be aware of the environment in which s/he makes decisions. Decision making like other management functions doesn't take place in vacuum. Decisions are made under the conditions of certainty, risk & uncertainty. These different decision making environments/ circumstances require different responses from a manager.



Lower moderate higher

Fig: The decision making condition

1. Decision making under conditions of certainty

This situation means the manager has what is known as perfect knowledge, i.e. the manager had had this decision before; the alternatives are known; and the consequences of each alternative are fully understood. It can mean a manager can rely on standing plans; the decisions will be made routinely.

2. Decision making under conditions of risk

This situation provides a more difficult decision making environment than the certainty situation. In this situation, the manager knows what the problem is; what the alternative are; but doesn't know how each alternative will work out even though s/he knows the odds (probabilities) of Possible outcomes. Manager is faced with dilemma of choosing the best alternative available.

3. Decision making under conditions of uncertainty

This is the most difficult situation for managers. It is like being a pioneer/ breaking new ground. In this situation, the manager is not able to determine the exact odds (probabilities) of the potential alternatives available. S/he may be dealing with too many variables, or perhaps there are too many unknown facts. The management is unable to accurately predict the probable results of choosing anyone of the alternatives. Reliance on experience, judgment & other people's experience can assist the manager in assessing the value of the alternatives.

e Programmed decisions in Management of an organization are concerned with the relatively routine problems. These decisions are taken in the regular course of any business operations and occur at a day-to-day frequency.

These decisions are repetitive and structured in nature. They are small and have a low scope of impact.

The **Information** related to these types of decisions are **readily**

available and can be processed in a pre-determined manner. These demand very little time and effort as there are pre-determined decision rules and procedures.

These are taken at **lower levels of management**

For example, a decision regarding a personnel coming late regularly.

	PROGRAMMED DECISIONS	NON-PROGRAMMED DECISIONS
1.	Concerned with relatively routine problems. They are structured and repetitive.	Concerned with unique or unusual problems. They are unstructured, non-repetitive and ill defined.
2.	Such decisions are relatively simple and have a small impact.	Such decisions are relatively complex and have a long-term impact.
3.	The information related to these problems is readily available and can be processed in a pre-determined manner.	The information related to these problems is not readily available.
4.	It takes very little time and effort, as there are pre-determined decision rules and procedures.	They demand a high degree of executive judgment and deliberation.
5.	Taken at lower levels of management.	Taken at higher levels in the organization.
6.	Eg- Personnel coming in late habitually.	Eg- Expansion of business.

Non- Programmed Decisions

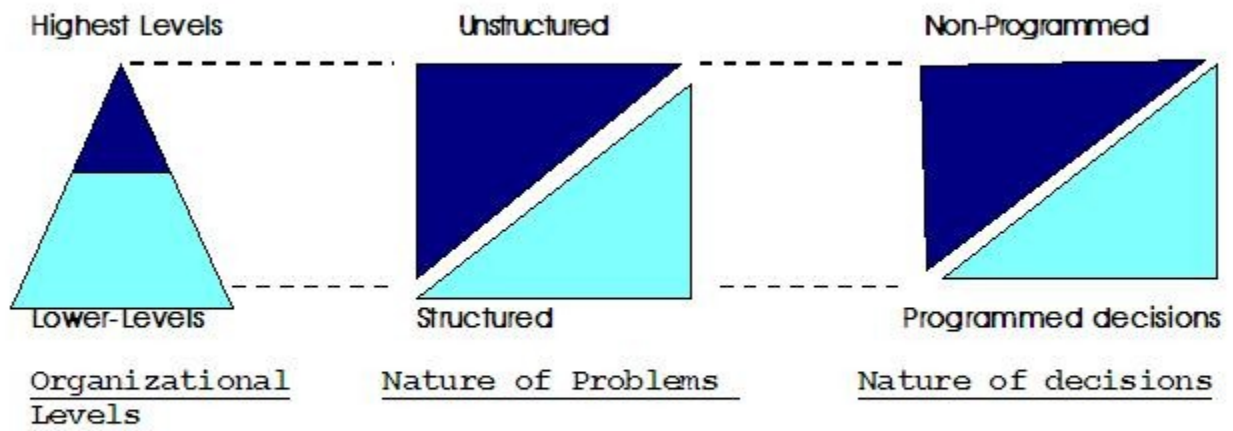
The Non-programmed decisions in management are concerned with unique

or unusual problems. They are encountered in a very non-frequent manner.

These decisions are **unstructured, non-recurring and ill-defined** in nature. Such decisions are relatively complex and have a long-term impact. The **Information** regarding these problems are not easily available. As such, they require **high degree of executive judgement** and deliberation.

These are generally taken at higher levels in the organization.

Eg-Decisions regarding the expansion of business.



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Programmed decisions are those which are repeatative and routine in nature. The solution of which can be arrived with the help of an algorithm. As these decisions can be programmed, the chances of errors are very less. For example, 1) taking a decision to go to office by driving our own vehicle. 2) The decision to purchase a mobile phone of a known brand.

Non programmed decisions are to be taken in a new situation, which is non repeatative. The outcome of which is not known

and can not be predicted by means of any rules or procedures. Example 1) Ordering an item in a menu in a hotel, which we

are taking first time. 2) purchase of a mobile phone with a new brand which we have not used earlier.