

Decision making



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- **Decision making is one of the most important functions of the management in an organization. Decisions are the essence of management since they have a high impact on all the organizational plans of activities and results**
- **Decision-making is the selection of alternative course of action from available alternatives in order to achieve a given objective. Decision making is a matter of huge responsibility for the management since the performance of the organization heavily depends on the quality of the decisions made**
- **Decision making is an important tool in every organization which affects the performance of the organization. Effective decisions are those decisions which produce the intended results**
- **Management of the organization is saddled with the responsibility of leading the organization to achieve the objectives and the stated goals. This does not only require versatility and expertise, but also needs capability to make those decisions which provide effective outcome**

- **Decision making is a fundamental activity of the management. It is one of the most important, if not the most important, of all management activities**
- **The decision making role is the heart of the executive activities of the management. The quality of the decisions and the way these are been made is highly dependent on the organizational management**
- **Decisions reflect the success and failure of the management and the rise or decline of the organization mainly hinges upon the quality of decisions being made. It is the management which sets the decision making process in motion and decides its direction and speed**
- **The decisions decide the organizational strategies, and have a strong reflection of the way it operates. In fact, decisions being made are the barometer of the health of the organizational culture**

- **A decision can be defined as the ‘the act of reaching a conclusion or making up one’s mind. As per another definition the decision is a position or opinion or judgment reached after consideration**
- **Organizational decision making is the ‘process of responding to a problem by searching for and selecting a solution or course of action which creates the most value for organizational stakeholders’. It is ‘the process of identifying and solving of problems’**
- **Decision can be tactical decision or strategic decision. In comparison with tactical decisions which affect the day-to-day implementation of steps needed to reach the goals, strategic decisions are ‘chosen alternatives that affect key factors which determine the success of the organizational strategy’**
- **Effective decisions need a solid understanding of realities and social environment. Organizational management is confronted with various decisions to make on a daily basis**
- **Some are small and have minor consequence, while others are big with a huge implication on the functioning of the organization**

- **The decision making is a very important aspect of his work since the decisions he makes by virtue of his position, knowledge or experience have significant impact on the entire organization, its performance, and the results. Hence, executives to be effective are to make wise decisions. They are to make the decisions as a systematic process with clearly defined elements and in a distinct sequence of steps**
- **For an effective decision making, the executive is to normally concentrate on those important and strategic decisions which have big impact for the organization. These strategic decisions need to have the highest level of conceptual understanding**
- **Making a decision is comparable to giving a verdict. It is a choice between different alternatives. It is seldom a choice between wrong and right. It is mostly a choice between 'almost right' and 'perhaps wrong'. It is very often a choice between two courses of action neither of which can be considered more correct than the other**

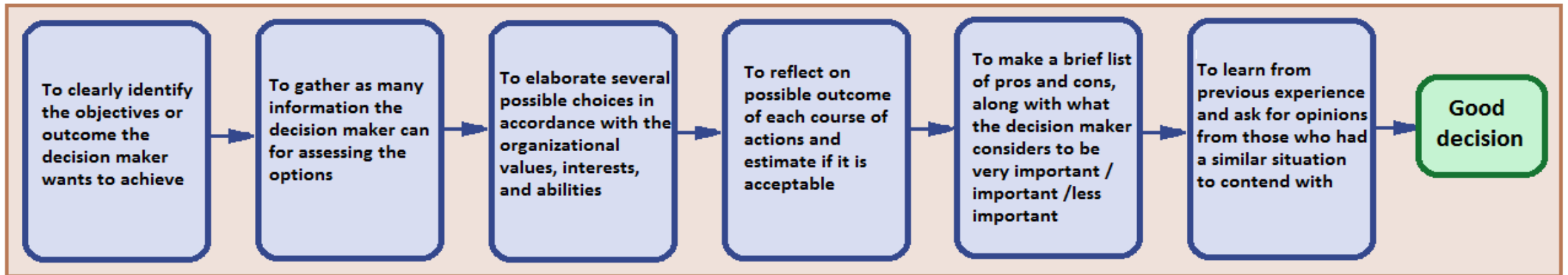
- **The quality decisions, when implemented correctly, provide an opportunity for the organization to reposition and realign to better 'fit' in the environment in which it is functioning**
- **Successful decision making enables the organization to maintain competitive position, align internal operations with external environment and survive threats and challenges**
- **Conversely, because of their magnitude, a single, poorly made decision can lead to the speedy deterioration of the organization and result in corporate embarrassment, large economic losses for stakeholders or even bankruptcy**
- **There are decisions of all kinds such as financing decisions, investment decisions, or operating decisions etc. which are made regularly in the organization**
- **Decisions are mainly classified into three types according to the purpose of the decision or according to the importance of the problem. These are strategic decisions, tactical decisions, and operational decisions**

- **The strategic decision is normally taken by the top management. It concerns the main axes of development of the organization, and the relations of the organization with the external environment. This type of decision determines the future of the organization by setting the fundamental orientations which commit it in the long term**
- **The tactical decision is normally taken by the intermediate hierarchy. It aims at implementing the strategy, drawing up action plans, and correcting dysfunctions and, as a result, it concerns resource management and the effectiveness of their use in order to be able to monitor in the medium term development, for example, the improvement of a product**
- **The operational decision is normally taken by the operational managers and covers all the unforeseen events, particular situations which arise during the execution of the operations. The operational decision relates to the day-to-day operation with the aim of making the process of resource transformation to the products and / or services as efficiently as possible. These decisions are very frequent and their impact is short-term. It is to be noted that these decisions are not independent, but only hierarchical. Operational decisions, which are the most frequent in nature, concretize tactical decisions, themselves resulting from strategic decisions**

- **There are occasions where management can make use of rational principles as an ideal and yet arrive at prompt and vigorous action**
- **The rational principles normally assume that (i) the management is aware of all the options, (ii) management is aware of the consequences of all the options, at least in terms of probabilities, (iii) management has a consistent preference order for all the options, and (iv) management decision rules from which a single action can be selected**
- **In real life, management frequently uses a model where it scans for information in two or more layers. This is done in order to eliminate alternatives**
- **Rational techniques can normally be used as an ideal in situations where the political dimension is not so significant**

- **Some of the prerequisites for making a good decision are (i) to clearly identify the objectives or outcome the decision maker wants to achieve, (ii) to gather as many information the decision maker can for assessing the options, (iii) to elaborate several possible choices in accordance with the organizational values, interests and abilities, (iv) to reflect on possible outcome of each course of actions and estimate if it is acceptable, (v) to make a brief list of pros and cons, along with what the decision maker considers to be very important / important /less important, and (vi) to learn from previous experience and ask for opinions from those who have knowledge and experience and who had a similar situation to contend with**
- **It is preferable that only after all these steps are completed, the decision maker makes the decision and monitors the results, to make sure the desired outcome is achieved**

Prerequisites for making a good decision



- **There is a profound misunderstanding about the link between decision making and the organizational performance. Contrary to popular belief, performance is not determined solely by the nature, scale, and disposition of resources, though they are important. The organizational success depends as much on the quality of the decisions its management and employees make and execute on the ground as it does on the operational facilities**
- **Value of the organization is no more (and no less) than the sum of the decisions it makes and executes. Its assets, capabilities, and structure are useless unless its people throughout the organization make the essential decisions and get those decisions right more often than not**
- **Effective at decision making and execution generate an excellent performance in the organization**

- **All the organizations have two types of critical decisions. They are (i) big, one-off decisions which individually have a significant impact, and (ii) small, routine decisions which cumulatively have a significant impact. It is important to identify which decisions are critical**
- **Decision-making has never been an easy job. It is increasingly challenging, especially, in the present day fast changing environment. In an era of revolutionary changes taking place in almost all the fields, the pace of decision making has assumed considerable speed and precision**
- **Present day decision maker faces a host of tough challenges in addition to having to cope with high speed demanded by decision making in this digital age**
- **Some of these challenges include (i) demand for making complex streams of decisions almost at the same time, (ii) the problem of making decisions on the face of uncertainties, and (iii) the making of complex decisions under perceptual decision traps**

- **Decision making is a mental process which forces the decision maker to analyze the situation in order to master it or increase his knowledge in the area in which decision is to be made**
- **Decision makers are required to develop the skills they need to make decisions quickly and translate them into action consistently**
- **Good organizations mesh individuals' capabilities with the organization's decision making demands. They invest as needed to ensure that people have the skills required to be better decision makers over time**
- **There are eight different types of decisions which a decision maker is required to make. Each of these types tries to depict the nature, importance or duration of each decision**

Types of decisions



Programmed decisions



Non-programmed decisions



Minor decisions



Major decisions



Routine decisions



Strategic decisions



Individual decisions



Group decisions

- **In real life situation, many decisions are made with less than perfect information, inaccuracies and inadequacies of the information available**
- **There can be situations where the decision maker has to face outside interference (political, social, or regulatory etc.) while making the decisions. Due to these reasons, several times the decisions, which are made, are not effective decisions. These decisions have a substantial negative effect on the organizational performance**
- **For effective decision making, it is necessary that all necessary factors which are needed for the decision making are available and they are adequate in order to make a sound decision to deal with the situation that warrants it**
- **All the decisions have both the positive effect as well as the negative effects. A decision maker is to make such decisions which have minimal negative effect on the organization and its effective operation**

- **Effective decision making has two aspects. The first relates to the quality of the decision making, while the second relates to the implementation of the decision made**
- **Many a times, the decision maker has made the right decision but due to the lack of manpower or proper communication channel to carry out the decision made the implementation of the decision suffers and the right decision becomes an in-effective decision**
- **The quality and speed of decision making is the key determinant for the effectiveness of the decisions and the success or failure of the decision maker**
- **The goals identification, providing alternatives for solving the problems and the weighing and balancing the values and interest are crucial for the quality of decision making. This requires the risk analyses to discriminate between alternatives**

- **Time and decision making has a relationship. There are three elements of time which impacts the decision making process. The first relates to the timing of making decisions. The second is the availability of time for making the decision. The third is the time for implementation of the decision. The successful outcome of the decisions take place when these three timings are properly considered in the decision making process.**
- **Decision making has a time factor. There are several interactions between time and decision making. Time is always present and is a prominent dimension in all decision making actions. Decisions take time to make. They are made to be implemented in future time. The consequences of decisions develop over time, and these consequences are sometimes thought about and debated for a long time afterwards.**

- **Knowledge and experience of the decision maker has a big influence on the time taken for the decision making. While knowledge plays a major role in speedier decision making, the same cannot be applicable in case of experience**
- **In case of experience, the memories can be distorted, or the environment for decision making may have undergone certain changes and may include certain different aspects. The longer is the timing of previous experience the higher is the distortion expected**
- **Decision making done based on the experience of the decision made on a similar event earlier can be erroneous since the earlier event had a different setting. With time, the environment changes and it does not allow a decision maker to depend totally on the previous experience. At best, earlier experience can show a decision maker a pathway for making a decision**

- **Decisions made today are for action in future. The consequences of today's decisions lie in future. Decision making always has its future orientation. Hence, it can be seen as somewhat hazardous to base decisions on the past. Yet, the past can influence the current decision making process in many ways. One way is, naturally, learning from the past and not to repeat what is perceived as erroneous decisions**
- **Time pressure (that is, a decision must be made by a certain point in time) has been shown to be one of the most important decision task variables. Errors in judgement can be made from either deciding too soon (rush-to-judgement) or from delaying decisions too long. An important effect of time pressure on decision making is that it changes the decision strategies. If the decision maker is not sensitive to the duration in which he can execute his decision, he tries to apply normal strategies under time pressure, but due to shortage of time and mental resources the decision maker is not able to complete all the steps or makes reasoning errors**

- **Decision making is normally influenced by different factors**
- **The factors affecting the decision-making can be classified into four major categories namely (i) decision-specific characteristics, (ii) internal organizational characteristics, (iii) external environmental characteristics, and (iv) the characteristics of the management team**
- **In most of the cases in an organization, decision makers (i) are normally assumed to be rational in certain given frameworks, (ii) normally lack complete information with regard to options, decision consequences and future preferences, (iii) are likely to have limitations in terms of both time and mental capacity, (iv) are assumed to have a limited capacity to process information, (v) are assumed to be influenced by emotions when making their decisions, and (vi) perception is assumed to be important in the sense that decision makers frequently operate along what they perceive**

- **An important challenge for effective decisions is to evaluate to what extent the managers utilize quantitative and qualitative criteria in decision making. For doing these actions the decision makers need to have skills of (i) to have the courage, (ii) to be rational, (iii) to have knowledge, (iv) to have creativity, and (v) to have balance judgment.**
- **A decision maker tries to be rational while making a decision**
- **Rational decision making needs several conditions which include (i) the decision maker knows the objectives in the order of importance, (ii) the problem to be solved is important and unambiguous, (iii) the possible alternatives and consequences are known, (iv) the preferences are clear, (v) there are no constraints in terms of time or cost, and (vi) the final choice maximizes the attainment of the objectives. However, for many decisions, the decision maker does not have these conditions available to him**

- **Several times, decisions are made not by an individual but by a group of people**
- **Group decisions are usually majority decisions. They are mostly compromised decisions**
- **It is not necessary that group decisions are always the effective decisions**
- **Despite its popularity, team decision making frequently fails to yield the expected gains in decision accuracy, and the process often results in lower effectiveness**
- **The consideration of minority opinions when making team decisions is an important factor which contributes to effectiveness of the decisions.**

- **Stability of environment has its influence on the effective decision making process**
- **There is a negative relationship between strategic decision-making process and performance in unstable environment and positive relationship in stable environment**
- **In a highly unstable environment, for effective decisions, it is necessary to follow the rational decision making process**
- **The need for achievement directs a decision maker towards making effective decision making**

- **People normally rely on their intuition because of the following reasons.**
 - * **They are facing a time-urgent situation. In extreme situations, such as in emergency situations, even short delays caused by reasoning through a formal decision-making process can result in disastrous outcomes.**
 - * **Conditions are dynamic or goals are ambiguous. If a situation is changing rapidly, then it makes sense to focus on a satisfying solution which can be quickly found. One can re-evaluate the situation when it changes and identify a new solution if needed.**
 - * **They have a great deal of relevant experience. Because intuitive decision-making relies on a person's ability to match a given situation to previous situations one has seen, the more relevant experience one has, the more likely one is to use intuition and use it effectively.**
 - * **The problem can be modeled in mental simulations. Intuitive decision-making needs people to run mental simulations on what might happen if a given option is chosen. People can do this for a wide range of problems, some of which are fairly complex.**

- **In contrast, people normally use a rational process because of the following reasons**
 - * **People are not under heavy time pressure. Stepping through a rational decision-making process takes more time than simply following a flash of insight. With more time, people are more likely to follow the rational approach, if only to verify an initial gut feeling**
 - * **Conditions are relatively stable and goals are clear. If a situation is not changing rapidly relative to the time needed to make a decision, then a rational approach for finding an optimal solution to the problem can be used**
 - * **People do not have a great deal of relevant experience. If decision makers' experiences are not applicable to a given situation or insufficient to provide a basis for pattern matching, people resort to a more rational model to guide them through problem formulation, option identification analysis, and selection of a solution**
 - * **The problem is computationally complex. Although human beings have a remarkable ability to use intuition in complex circumstances, at some point complexity overwhelms the ability to grasp a given situation. At that point, the quality of decisions erodes along with the ability to recognize situations or run mental simulations**

- **Effective decision making conjures up the image of choice among alternative courses of action in a way appropriate to the demand of the situation**
- **The ability of the decision maker to choose the best option that is capable of achieving the set objective or solving the problem demands structured decision guidelines**
- **These guidelines put together are referred to as decision making strategies and are necessary for effective decision making**
- **The decision making strategies are required to be followed by the decision maker to achieve the set goals of an organization**
- **High quality and speedy decision making enhance the performance of the organization**

- **Only inexperienced organizational management makes all the decisions itself no matter how small they are. Management needs to make only strategical decisions which have got significant impact on the organization**
- **For effective decision making, management is to delegate the power of decision making down the line. Also, it is to be ensured that the decision making is not dumped on the management by the people who have the expertise and authority to make decisions**
- **When executives want to discuss a decision with the management, they are to come up with a well-considered position. Executives are expected to have expertise in their field and hence are better placed for making an effective decision in their field. Their ideas and expertize count a lot in effective decision making**

- **Several occasions, decision makers has to take swift action for making decisions sometimes with incomplete information. Waiting for all the information to be complete before making a decision means risking of losing valuable opportunities. In such cases experience and the knowledge of the decision maker helps him in making effective decisions**
- **Admitting failure is difficult but refusing to change bad decisions is dangerous. For maintaining of the credibility and efficacy, quick reversal of bad decisions is essential before it is too late. Patching up a bad decision is like patching a broken glass ware.**
- **Patching of bad decisions means wasting organizational resources for a long time.**

- **Some decisions, such as a major acquisition, are almost impossible to reverse and hence carry a big risk. Careful analysis and thorough discussion are critical. In such a case, a senior person is assigned to play the devil's advocate, testing conclusions and identifying any weaknesses. This aids meaningfully the decision making process**
- **Rumours and distortions get started when the decisions are conveyed through second-hand. Communication of the details of the important decisions directly is very necessary. People are also need to know the basic reasoning behind each decision to facilitate comprehension, support and buy-in. This also helps while making better future decisions**

- **Management is required to support the decisions of the people who have been delegated with the authority of the decision making. They are to be given credit if things go well and are to be supported if things go wrong. However, sometimes, a tough choice of overruling is necessary. In the case of overruling, it is important to explain reasons for overruling**
- **If the decision makers are using organizational strategy, objectives, and goals while making decisions, then most probably they arrive on the right decision. But, in case management finds very often at odds with the decision makers, then there is a problem. Frequent overruling of the decision maker is not desirable. At the same time, the decision maker needs support**

- **Balancing between these two extremes is critical to the success of the organization. At times, there are occasions when management is to make unilateral decision and move on**
- **The best way to know if a decision is the right one needs that a postmortem is conducted. Strategic decisions are needed to be re-examined through the regular review of key metrics and overall performance. Without a formal postmortem process, it is easy to avoid re-examining the issues or learning anything from the decision. With a formal postmortem, the organization can grow in its ability to make decisions**



- **There are many factors which facilitate better decisions and dramatically improve the organizational performance. These factors help the organization to have a process for dealing with decisions at all levels which in turn helps everyone to improve the decision-making abilities and hence, better support the organizational performance**
- **In the present day environment, the decision-making is not a simple process. Instead it is full of complexities and problems. Knowledge of the following factors regarding complexities involved in decision making helps the decision maker to successfully navigate through difficult decision making process**

- **Typically, a decision is required to satisfy a number of criteria. These criteria include representing the interest of different groups, identifying stakeholders and balancing their conflicting interests and representing the interest of customers to retain their patronage. The issue of managing multiple interfaces of conflicting demands and interests is a nightmare for today's decision makers**
- **Intangible factors such as customer goodwill, employee morale, and increasing bureaucracy often determine decision alternatives. Because these factors are intangible, they demand careful thought, tact and diplomacy to navigate through them successfully**

- **Major decisions generally have ripple effect, with one decision taken today and then creating the need for subsequent decisions in future**
- **Decision complexity is greatly increased when specialists from different disciplines are to be part of the decision-making team. The views and fears of these specialists from different disciplines are to be weighed and analyzed before a decision is taken. It is a bit difficult to harmonize the views and expectations of specialists in different fields into one decision-making opinion. The idea of bringing-in many specialists from different fields to make a decision is also not liked many a times since too many cooks can spoil the broth**

- **In some organizations pooled decision making is a normal practice and it is a rare phenomenon that a single person is entirely responsible for the decision making process in totality. This is why there are board of directors, management teams, and various committees to look at specific issues in the organization. This pooled decision making is done for the purpose of sharing of the responsibilities. It is also thought that the knowledge base for making decisions improves in pooled decision making**
- **In the present environment, the decision makers in an organization make decisions under two conditions namely (i) conditions of certainty, and (ii) conditions of uncertainty. A condition of certainty exists when there is no doubt about the factual basis of a particular decision, and its outcome can be predicted with a fair degree of accuracy. The concept of certainty is useful mainly as a theoretical anchor point in a range of likely and unlikely events**

- **In an environment filled with uncertainties, certainty can only be relative rather than absolute. Condition of uncertainty exists when little or no reliable factual information is available. Decision-making under conditions of uncertainty is a great headache for the decision maker. The decision maker is forced to decide on some future event whose outcome cannot be predicted**
- **There is always attached with decision making a certain element of risk and uncertainty. Every decision alternative is having some chance that it may fail in some way. Poor choices can prove costly. Yet the right decision can open up new vista of opportunities**

- **Frankenstein monster effect in decision making**
- **The law of unintended consequences, according to experts on the subject states that ‘one cannot always predict the results of a purposeful action’. Although, unintended consequences can be positive or negative, it is the negative ones which are really troublesome and they are called the ‘Frankenstein monster effect’**
- **This is a situation where an invention goes out of control to harm the inventor. Some decision makers give little or no consideration to the full range of likely consequences of their decisions. Although, unintended consequences cannot be altogether eliminated in today’s complex world of decision making, they can be moderated, to some extent, through creative thinking and careful consideration while making important decisions**

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