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Chapter 3.2

Decision Making

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Aim

To impart students with the decision making skills and strategies in decision making approaches to solve problems, both individually and in organisation



Instructional Objectives

After completing this chapter, you should be able to:

- Discuss the concept of decision making
- List the steps in decision making
- Distinguish the different types of decision making
- Identify the different problems in decision making



Learning Outcomes

At the end of this chapter, you are expected to:

- Analyse the concept of administration
- Explain the differences between administration and management.
- Recognise the importance of managerial functions
- Apply the 5 managerial functions into real life situations

3.2.1. Meaning of Decision Making

Decision making is the essence of management. Managers life is filled with decision making one after another as they have to choose what is to be done, who is to do when to do, where to do and how to do. Decision making thus permeates all managerial functions, is at the core of planning because it is the plan where significant decisions are made which sets the organisations tone. All managers would like to make good decisions since they are judged on the outcomes of these decisions.

The word ‘decision’ is derived from the Latin word ‘decidere’ which means cutting away or cutting off, or in a practical sense. Thus, decision making is the elimination of alternatives which are not desirable. It may be considered as a kind of choice of a desirable alternative.

Decision making is a cognitive process that involves selecting a course of action from several options. Three aspects of human behaviour are include decision making: (1) cognition - activities of mind associated with knowledge, (2) conation - the action of the mind implied by such words as willing , desire, aversion and (3) affection - the aspect of mind associated with emotion, feelings, mood and temperament.

The main features of decision making are:

1. Decision making is the selection of best possible alternative among the different options available to us.
2. The existence of alternatives suggests that the decision maker has autonomy to choose an alternative of his liking through which his purpose is served.
3. Decision making may not be entirely rational but may be judgemental and emotional in which personal preferences and values of the decision maker play a significant role.
4. Decision making is goal-oriented, which means that the decision maker attempts to achieve some results through decision making.

Definition of Decision Making

The two main definitions of decision making are:

- Robert L. Trewatha and Gene M. Newport define the decision making the process as, “Decision making involves the selection of a course of action from among the two or more possible alternatives to arrive at a solution for a given problem.”

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- Decision making is the process of reducing any hesitation or uncertainty about the available options to attain a practical and sensible choice. Part of making decisions is gathering information before making the best option. Sometimes, people can still be unsure of the decisions made due to lack of sufficient research and knowledge of alternatives. With a right amount of experience, the risk probability of one's choice is reduced. Also, uncertainty is lessened yet not eliminated.

3.2.2. Steps in Decision Making

Managers at all levels and all areas of organisation makes decisions. *For example*, top level managers make decisions about their group's goals, where to locate manufacturing facilities, or what new markets to venture into. Middle and lower level managers make a decision about production schedules, problems regarding product quality, pay hikes and employee discipline. Likewise, all employees make decisions that affect their jobs and the organisations they work for.

Decision making is a process, not just a simple act of choosing alternatives. We make decisions in our daily life as well, like selecting a restaurant to go for lunch. Once you choose the restaurant according to your convenience and budget, then you want the food. Here also you have some choices, like Indian, Chinese, Thai, Mexican, Italian, etc. In this process, you spend a lot of time in decision making, but you still go through the process. This process is as relevant to personal decisions as it is to corporate decisions.

Steps in Decision Making

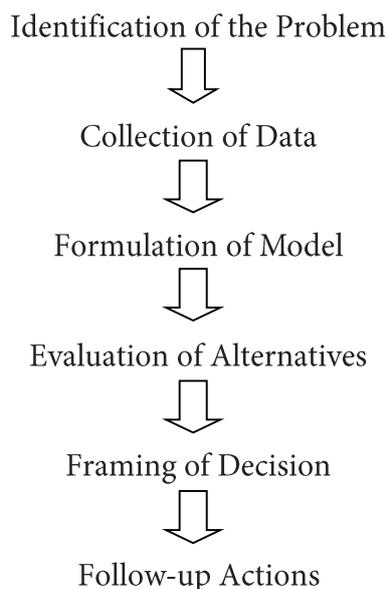


Figure 3.2.1: Steps in Decision Making

The main steps in decision making are as follows:

1. IDENTIFICATION OF THE PROBLEM

Every decision starts with a problem. Where a decision is a choice between two or more alternatives and a problem is an obstacle that makes achieving a desired goal or purpose difficult. Since a particular decision is made in the context of an indeed given objective, identification of the problem is the real beginning of decision making process. Example: When a doctor diagnoses a patient, he assumes a healthy person in his mind. With this model as the desired result, he looks for disparities in the patient's actual state of health or factors which indicate that his future health will fall short of the standard. In the case of management, the objective if set precisely and accurately on the subject matter of decision will provide a hint for identifying the problem and its possible solution. The problem exists whenever one faces a question whose answer involves doubt and uncertainty. If there is no solution to a problem, then it cannot be treated as a problem from a decision point of view. A problem can be identified much apparently if the managers go through the diagnosis and analysis of the problem.

2. COLLECTION OF DATA

The problem at hand may impact many people / groups involved. Therefore, the information related to all the factors and individuals involved needs to be gathered. Data can assist decision makers in educated guesses about the causes and therefore the probable effects of certain characteristics in the given situations. Also, knowledge of trends from experience can enable concerned people to be aware of potential outcomes and to plan in advance. When data are arranged in compact, usable forms, decision makers can take reliable information from the environment and used it to make intelligent decisions. Managers must be very careful to be sure that the data they are using are based on correct assumptions and interpretations. Tools such as 'Check Sheets' can be used for collecting information.

3. FORMULATION OF MODEL

The next step in decision making process is the development of the model. The decision maker lists the number of viable alternatives that could resolve the problem. While generating options, the concept of limiting factor should be applied. A limiting factor is one which stands in the way of accomplishing the desired objective. If these factors are identified managers will confine their search for alternatives to those which will overcome the limiting factors. *For example*, if a firm has a limitation in raising sizable finances, it cannot consider

projects involving high investment. A decision maker can use several sources for identifying alternatives: his past experience, practices followed by others and using creative techniques. Here the decision maker needs to be creative. At this point, the alternatives are only listed, not evaluated.

4. EVALUATION OF ALTERNATIVES

Once the options have been identified, a decision maker must evaluate each one and select the one that will meet the choice criteria. Managers prefer to work on alternatives that have a real prospect of being carried out. Two approaches can be followed while narrowing down the options. These may be the constraint on choices and grouping of alternatives of the similar nature. The decision maker has to set the limits to arrive at a particular solution. Proposed alternatives are tested against the limits and if there is any discrepancy, then he can discard it. In the second approach, the decision maker groups the various options into classes based on certain specific criterion critical to decision making. Here a representative alternative from one group may be selected for future analysis. Then after finding out the group that performs the best, the decision maker can concentrate on options within the group. This method is helpful in making decisions regarding the plant location etc. narrowing down on alternatives the decision maker will go on making evaluations of how each option may contribute towards the objectives supposed to be achieved by implementing the decision. The impact of a factor can be determined through various quantitative techniques.

5. FRAMING A DECISION

The actual process of decision making ends with the choice of alternative through which the replacement can be achieved. As decision making is a continuous and ongoing process must ensure that the selection has been made by selecting the best possible alternative. Implementation of the decision is an integral part of decision making. Implementation of a decision requires the communication to subordinates, convincing them and getting their acceptance and support for putting the decision into action. The decision should be implemented at the appropriate time and in the proper way to make the work more efficient. The effectiveness of the action is critical because it is only the effective action through which organisational objectives can be achieved. Finally, right decision helps in effective action.

6. FOLLOW UP ACTIONS

The last step in the decision making process is the evaluation of the outcome or results of the decisions to see if the problems are resolved. The resultant must correspond with the

objectives, the starting point of the decision making process if a right decision has been achieved and implemented correctly. Managers should take up a follow-up action based on the feedback received from the result of the decision. If the evaluation shows that there is any deviation between the objective and the result, this should be analysed and the factors responsible for such differences should be found out. The feedback helps in reviewing the decisions made and whether these decisions need to be changed with the change in conditions. Ideally, a manager has to keep an eye on the objective and the result of the decision and make necessary modifications in the arrangement according to the variations in the circumstances.



Self-assessment Questions

- 1) Managers are judged based on the outcomes of good _____.
 - a) Action
 - b) Decision
 - c) Presentation
 - d) Speeches

- 2) Decision making is the elimination of _____ which are not desirable.
 - a) Action
 - b) Association
 - c) Alternatives
 - d) Alteration

- 3) In any decision making process, identification of the problem comes at--
 - a) First
 - b) Middle
 - c) Last
 - d) None of these

- 4) _____ making is a continuous and ongoing process.
 - a) Decision
 - b) Action
 - c) Presentation
 - d) Orientation

- 5) Last step in decision making is the evaluation of the _____.
 - a) Action
 - b) Process
 - c) Steps
 - d) Outcomes

3.2.3. Types of Decisions

Decision making is an important aspect of our everyday life. It is relevant in organisational as well as non-organisational context. In organisations decision making differs from major ones like the determination of the corporate objectives or deciding about the major task to be done in the current year to accurate decisions about the day to day operations. Managers take different types of decisions in organisations and for each type of decisions, there are different kinds of decision making variables. These organisational decisions can be classified in some ways. There are different types of decision making like programmed and non-programmed, strategic and tactical, individual and group, policy and operative, organisational and personal decision making, etc. understanding these different types of decision making is necessary for managers to enhance their decision making skills.

1. Programmed and Non-Programmed Decision Making

Herbert Simon has grouped organisational decisions into two categories based on the decision factors as programmed and non-programmed decision making.

Programmed decision making is the decision made based on routine and repetitive decisions and is done within the framework of organisational policies and rules. These systems are predetermined and are used in solving recurring problems in the organisation. An example of programmed decision making could be the promotion of the employees. Based on the data received from the performance management team, employees are promoted as per their past performance. Here the performance management team follows the promotion criteria for the employees, which has been determined earlier. Advertising rule has been established by the development policy of the organisation and managers has to decide which employees meet the criteria for promotion and make a decision accordingly. Programmed decisions are comparatively easy to make as these relate to the problems which are solved by considering internal organisational factors. These decisions are made by the lower level managers where the environment affecting decision making is static and well structured.

Non-programmed decisions help in solving unusual problems that arise in the due course of business. These decisions are not planned. Hence, alternative solutions cannot be decided in advance. Example: decisions regarding the development and growth of the organisation, where the company has many choices regarding the options available to achieve the target. Here managers have to evaluate the likely outcomes of each alternative to arrive at a particular decision. These require them to make a choice between various factors some of which may be outside the organisation. Non-programmed decisions are not planned hence it

is difficult to find ready-made solutions to these. These decisions are taken by the high-level management in the institutions.

2. Strategic Decisions

The strategic decision is the primary task of the senior level management. Strategic decision making is the process of selecting a course of action from among many alternatives to adopting one particular course of action which would make the company achieve its objectives and realise its mission. In a strategic decision, the following characteristics are present like the decisions are major and effects whole or significant part of the organisation.

It contributes directly to the achievement of the organisational objective.

Strategic decision making may differ from the earlier ones concerning some organisational practices.

Policy decisions normally have three elements: a course of action or plan which specifies the work to be done to achieve the result, known as action part. The desired result are achieved through the implementation of the decision. There should be a commitment to the course of action.

Strategic decisions is normally a non-programmed decision which is made under uncertainty.

3. Individual and Group Decisions

Owing to a person related factors, there are individual differences among policy makers. These differences matter in strategic decision making. An organisation possessing features operates in a unique environment. Organisational decision makers at the top management level should understand its characteristics and the expected environment which the agency will go through in future. In smaller organisations, entrepreneurs and chief operating officers play a major role in strategic decision making. But in bigger organisations as the complexity increases facing lot of turbulence in the business environment, individuals come together in groups for the purpose of strategic decision making.

4. Policy and Operative Decisions

Operative decisions are also known as tactical decisions. These are programmed decisions which are derived out of the strategic decisions. These relates to the day to day activities of the organisation and are made under predetermined policies and procedures.

The various features of the operative decisions can be stated as:

- Tactical or operational decisions are the day to day decisions which needs to be taken on a regular basis. These decisions are mostly repetitive, *for example*, purchase of raw materials, assigning duties to the employees, etc.
- Operational decisions are mostly programmed based on policies rules procedures etc. Hence, these decisions can be made within the context of these variables. Such prescriptions provide what to do in a particular case. In real time decision making the decision maker applies these orders to arrive at a decision.
- The outcome of the tactical decision is short term in nature. It affects the organisation in a narrower sense. *For example*, the purchase of raw material will effect on the production department for a short period.
- Operational decisions are mostly taken by the lower level managers. It is due to two reasons like as the impact such decision is very narrow and if such decisions are made by the low-level managers then this save the time of the top level management to focus on strategic decision making.



Self-assessment Questions

- 6) _____ is made based on routine and repetitive decisions.
- a) Programmed decision making
 - b) Non-Programmed decision making
 - c) Grouped decision making
 - d) Operative decision making
- 7) Which level of management takes the strategic decision in an organisation?
- a) Lower
 - b) Middle
 - c) Senior
 - d) None of the above
- 8) In large organisations _____ decisions are given importance.
- a) Individual
 - b) Group
 - c) Operational
 - d) Programmed
- 9) _____ decisions are also known as tactical decisions.
- a) Operative
 - b) Strategic
 - c) Non-Programmed
 - d) Group
- 10) Operational decisions are taken mostly by which level of management?
- a) Lower
 - b) Middle
 - c) Top
 - d) None of the above



Summary

- Decision making is a cognitive process that involves selecting a course of action from several alternatives.
- All managers would like to make good decisions since they are judged on the outcomes of these decisions.
- The existence of alternative, suggests that the decision maker has autonomy to choose an alternative of his liking through which his purpose is served.
- Decision making may not be entirely rational but may be judgemental and emotional in which personal preferences and values of the decision maker play a significant role.
- Decision making is goal-oriented, which means that the decision maker attempts to achieve some results through decision making.
- Six main steps in decision making are Identification of the problem, Collection of data, Formulation of the model, Evaluation of alternatives, Framing a decision and Follow up action.
- Four main types of decision making are Programmed and Non-programmed, Strategic, Individual and Grouped, Policy and Operative decision making.



Terminal Questions

1. Briefly explain decision making.
2. Explain the various steps in decision making.
3. What are the different types of decisions?



Answer Keys

Self-assessment Questions	
Question No.	Answer
1	b
2	c
3	a
4	a
5	d
6	a
7	c
8	b
9	a
10	a



Activity

Activity Type: Offline

Duration: 30 Minutes

Description:

Form a group of 5 to 6 students and visit a nearby laptop store to buy a laptop. Try to identify the different decision making criteria that you will encounter while purchasing a new laptop. Allocate weights to these different decision making criteria based on their importance. Find out the alternatives that you have, analyse and select the best alternative which suits your purpose. Try to find out if your problem of buying the laptop was resolved by taking the best possible decision.

You are required to:

1. Find out what are the different steps involved in decision making?
2. Find out what are the different problems associated in decision making?

Case Study

TSUNAMI

Tamil Nadu witnessed one of the largest catastrophes of nature in the form of Tsunami. On 26th December 2006, Tsunami struck the coast of Tamil Nadu unexpectedly in a matter of hours, 73 habitations were affected along 187.9 km of coastline. It was unexpected and the government machinery was not pre-paired for such a large-scale rescue operation. The situation was grim everywhere and immediate action was required to be taken. Now it was a challenge for the government to restore down things and bring about normalcy. It was expected that doctors and paramedical staff, the deputy collector, electricity board officials, water and drainage board officials, public works department officials, the block development officer, municipal commissioner, highways officials, fisheries inspector, deputy superintendent of police, fire department and the disaster management department come together and work on cohesively to restore down the things to normalcy. Mr Radhakrishnan, an IAS officer, the Collector of Nagapattinam at that time led the team of 1000 officers and staff from Nagapattinam and 380 officers and employees from other districts who worked round the clock. The decisions that Mr Radhakrishnan had to take were about the removal and safe disposal of the dead bodies restoration of water, electricity, roads, communication, transport, distribution of relief material by government NGOs, reduction of panic and building public confidence, building temporary shelters and getting people back, restoration of essential services such as child welfare centres and health posts and opening of schools. He had to continuously motivate the officials to manage stress. Although most decisions managers make do not involve the weather, you can see that decisions play a significant role in what an organisation has to do or can do. Those businesses thrive in the long run, who can spot the unexpected and quickly adapt to the changed environment.

You are required to:

1. In this case study you are required to find out which natural calamity effected the south east cost of India?
2. Was the government machinery prepared beforehand to deal with such a huge disaster?
3. What was the key decision taken by Mr. Radhakrishnan to tackle this situation?
4. How do you think that decision making plays an important role in business?

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- Liphart, J. (2016). *Decision Making Styles: How Do You Decide?.* *Udemy Blog.* Retrieved 8 July 2016, from <https://blog.udemy.com/decision-making-styles-2/>



External Resources

- Koontz, H. & O'Donnell, C. (1972). *Management: A Book of Readings (3rd ed.).* New Delhi: McGraw-Hill.
- Prasad, M. L. (2007). *Principles and Practice of Management (7th ed.).* New Delhi: Sultan Chand and Sons.
- Ramachandra, K. & Sivadurappa, D. (2010). *Business Management (2nd ed.).* New Delhi: Himalaya Publishing House.



Video Links

Topic	Link
The Nature of Planning	https://www.youtube.com/watch?v=8WmVr2LP92c
Importance of Planning	https://www.youtube.com/watch?v=tx128eI8sFY
Planning Process	https://www.youtube.com/watch?v=sU3FLxnDv_A
Strategic, Tactical & Operational Plans	https://www.youtube.com/watch?v=wbdoSZcBkzY



Notes:

