LECTURE-8

The Art of Decision-Making

Objectives of the session

- Understanding the concept of decision making
- Defining the typology of decision making
- Describing the importance and necessity of decision making
- Revealing the process of decision making
- Understanding the concept 'rational and bounded' decision making
- Evaluating the conditions of a good decision
- Identifying the barriers of decision making
- Finding out the major biases and errors of the decision making

Decision making: Understanding

Decision making is the process of identifying a set of feasible alternatives and choosing a course of action from them.

Weihrich and koontz defined decision making as the selection of a course of action from among alternatives. According to them, “it is the core of planning. A plan cannot be said to exist unless a decision ---a commitment of resources, direction or reputation- has been made”.

Types of Decision Making

- Major and minor decisions
- Policy and Operating Decisions
- Individual and Group Decisions
- Routine and Strategic Decisions
- Organizational and Personal Decisions
- Programmed and Non-programmed Decisions

Routine and Strategic Decisions

Routine decision making is a system or process used to make **decisions** that are consistent or lacking in involvement. **Decisions** that ***people make on a daily basis and that require little research or time investment*** are often considered **routine**.

Strategic decisions are the **decisions** that are concerned with whole environment in which the firm operates, the entire resources and the people who form the company and the interface between the two.

Exhibit 6–5 Programmed versus Nonprogrammed Decisions

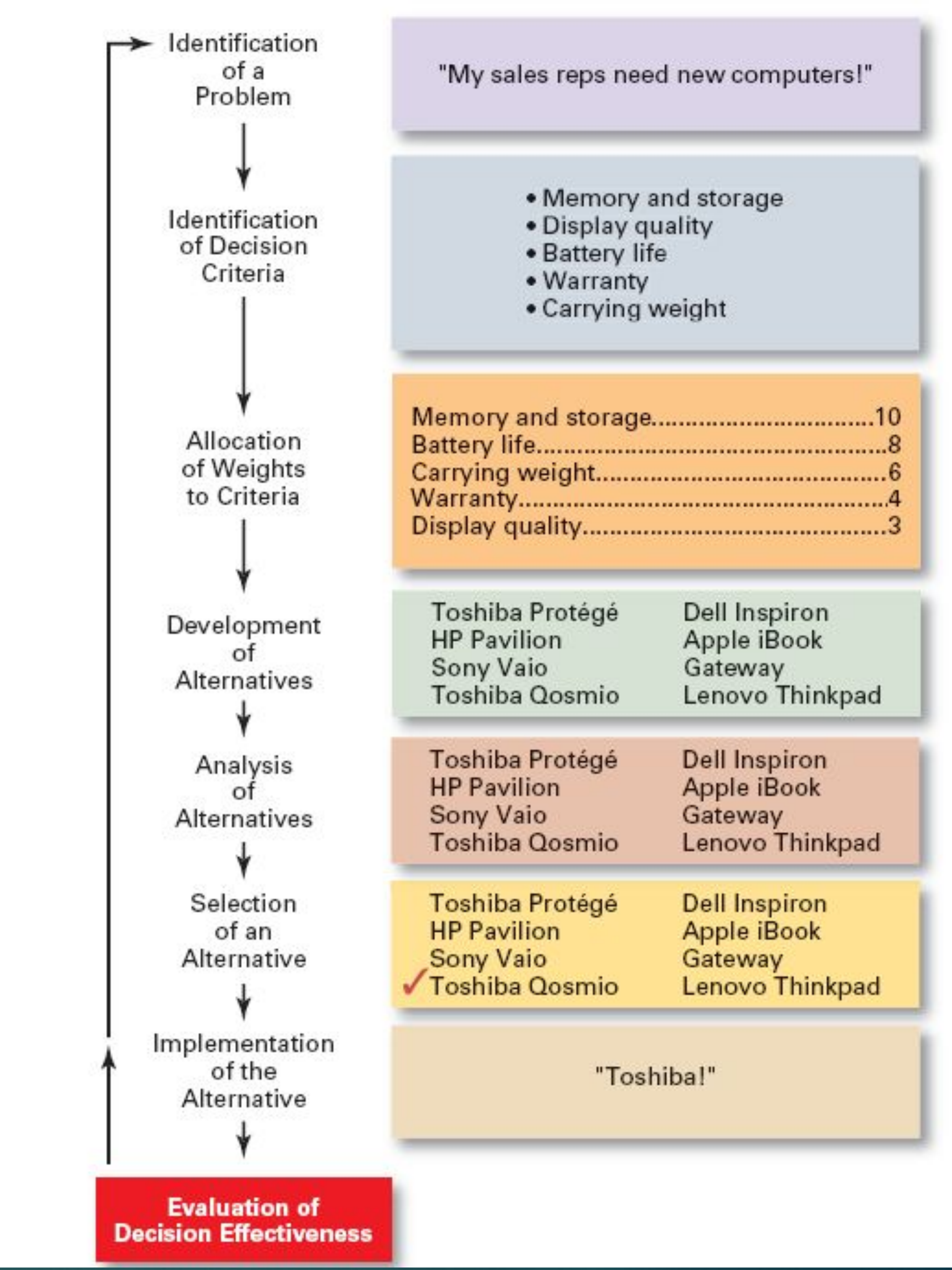
Characteristics	Programmed Decisions	Nonprogrammed Decisions
Type of problem	Structured	Unstructured
Managerial level	Lower levels	Upper levels
Frequency	Repetitive, routine	New, unusual
Information	Readily available	Ambiguous or incomplete
Goals	Clear, specific	Vague
Time frame for solution	Short	Relatively long
Solution relies on	Procedures, rules, policies	Judgment and creativity

Importance and Necessity

- To solve problems
- Creation of dynamism
- Development of relation
- Increasing efficiency
- Ensuring participation
- Achievement of objectives

Exhibit 6–1
The Decision-Making Process

Decision: Making a choice from two or more alternatives.



The Decision-Making Process

- Define the problem.
- Clarify your objectives.
- Identify alternatives.
- Analyze the consequences.
- Make a choice.

Step 1. Define the Problem

1. Start by writing down your initial assessment of the problem.
2. Dissect the problem.
   - What triggered this problem (as I've assessed it)?
   - Why am I even thinking about solving this problem?
   - What is the connection between the trigger and the problem?

Step 2. Clarify Your Objectives

1. Write down all the concerns you hope to address through your decision.
2. Convert your concerns into specific, concrete objectives.
3. Separate ends from means to establish your fundamental objectives.
4. Clarify what you mean by each objective.
5. Test your objectives to see if they capture your interests.

Step 3. Identify Alternatives

1. Generate as many alternatives as you can yourself.
2. Expand your search, by checking with other people, including experts.
3. Look at each of your objectives and ask, “how?”
4. Know when to stop.

Step 4. Analyze the Consequences

1. Mentally put yourself into the future.
   - Process Analysis
     - Solving problems by thinking through the process involved from beginning to end, imagining, at each step, what actually would happen.
2. Eliminate any clearly inferior alternatives.
3. Organize your remaining alternatives into a table (matrix) that provides a concise, bird's-eye view of the consequences of pursuing each alternative.

Step 5. Make a Choice

- Analyses are useless the right choice is made.
  - Under perfect conditions, simply review the consequences of each alternative, and choose the alternative that maximizes benefits.
  - In practice, making a decision—even a relatively simple one like choosing a computer—usually can't be done so accurately or rationally.

Exhibit 6–2 Decisions in the Management Functions

Planning

- What are the organization's long-term objectives?
- What strategies will best achieve those objectives?
- What should the organization's short-term objectives be?
- How difficult should individual goals be?

Leading

- How do I handle employees who appear to be low in motivation?
- What is the most effective leadership style in a given situation?
- How will a specific change affect worker productivity?
- When is the right time to stimulate conflict?

Organizing

- How many employees should I have report directly to me?
- How much centralization should there be in the organization?
- How should jobs be designed?
- When should the organization implement a different structure?

Controlling

- What activities in the organization need to be controlled?
- How should those activities be controlled?
- When is a performance deviation significant?
- What type of management information system should the organization have?

Making Decisions

- Rationality
  - Managers make consistent, value-maximizing choices with specified constraints.
  - **Assumptions are that decision makers:**
    - Are perfectly rational, fully objective, and logical.
    - Have carefully defined the problem and identified all viable alternatives.
    - Have a clear and specific goal
    - Will select the alternative that maximizes outcomes in the organization's interests rather than in their personal interests.

Exhibit 6–3 Assumptions of Rationality

- The problem is clear and unambiguous.
- A single, well-defined goal is to be achieved.
- All alternatives and consequences are known.
- Preferences are clear.
- Preferences are constant and stable.
- No time or cost constraints exist.
- Final choice will maximize payoff.

Lead to

Rational Decision Making

Making Decisions (cont’d)

- **Bounded Rationality**
  - Managers make decisions rationally, but are limited (bounded) by their ability to process information (limited information, limited human mind capacity and limited amount of time)
  - **Assumptions are that decision makers:**
    - Will not seek out or have knowledge of all alternatives
    - Will *satisfice*—choose the first alternative encountered that satisfactorily solves the problem—rather than maximize the outcome of their decision by considering all alternatives and choosing the best.
  - **Influence on decision making**
    - Escalation of commitment: an increased commitment to a previous decision despite evidence that it may have been wrong.

Conditions for a good decision making

- Information
- Setting of the goal
- Participation of the members
- Avoid group think

Barriers of decision making

- Scarcity of capital
- Lack of raw materials
- Un-skilled management
- Labor unrest
- Risk aversion
- Lack of sufficient data
- Lack of efficient manpower etc.

Exhibit 6–6 Common Decision-Making Errors and Biases

Decision-Making Biases and Errors (1)

- Heuristics
  - Using “rules of thumb” to simplify decision making.
- Overconfidence Bias
  - Holding unrealistically positive views of one’s self and one’s performance.
- Immediate Gratification Bias
  - Choosing alternatives that offer immediate rewards and that to avoid immediate costs.

Decision-Making Biases and Errors (2)

- Anchoring Effect
  - Fixating on initial information and ignoring subsequent information.
- Selective Perception Bias
  - Selecting organizing and interpreting events based on the decision maker's biased perceptions.
- Confirmation Bias
  - Seeking out information that reaffirms past choices and discounting contradictory information.

Decision-Making Biases and Errors (3)

- Framing Bias
  - Selecting and highlighting certain aspects of a situation while ignoring other aspects.
- Availability Bias
  - Losing decision-making objectivity by focusing on the most recent events.
- Representation Bias
  - Drawing analogies and seeing identical situations when none exist.
- Randomness Bias
  - Creating unfounded meaning out of random events.

Decision-Making Biases and Errors (4)

- Sunk Costs Errors
  - Forgetting that current actions cannot influence past events and relate only to future consequences.
- Self-Serving Bias
  - Taking quick credit for successes and blaming outside factors for failures.
- Hindsight Bias
  - Mistakenly believing that an event could have been predicted once the actual outcome is known (after-the-fact).

Thank You