DECISION MAKING

Sunny Wadhwaniya

Research Associate

Indian Institute of Management Ahmedabad

E mail: sunny.cug@gmail.com

Concept of decision making

- Decision making is a process by which an individual or organization selects one position or action from several alternatives.
- The decision is a choice of desirable alternatives.

Features of decision making

- There are various alternatives
- Decision maker has a freedom to choose among the alternatives.
- Decision making may not be completely rational
- Decision making is goal directed.

Types of decisions

- Programmed and nonprogrammed decision
- Programmed decision-
  - Programmed decision are routine and repetitive and are made within the framework of organizational policies and rules.
  - Programmed decision are easy to make
  - Problems are solved considering the internal organizational factors.
  - Programmed decision are made by personnel's at lower level.
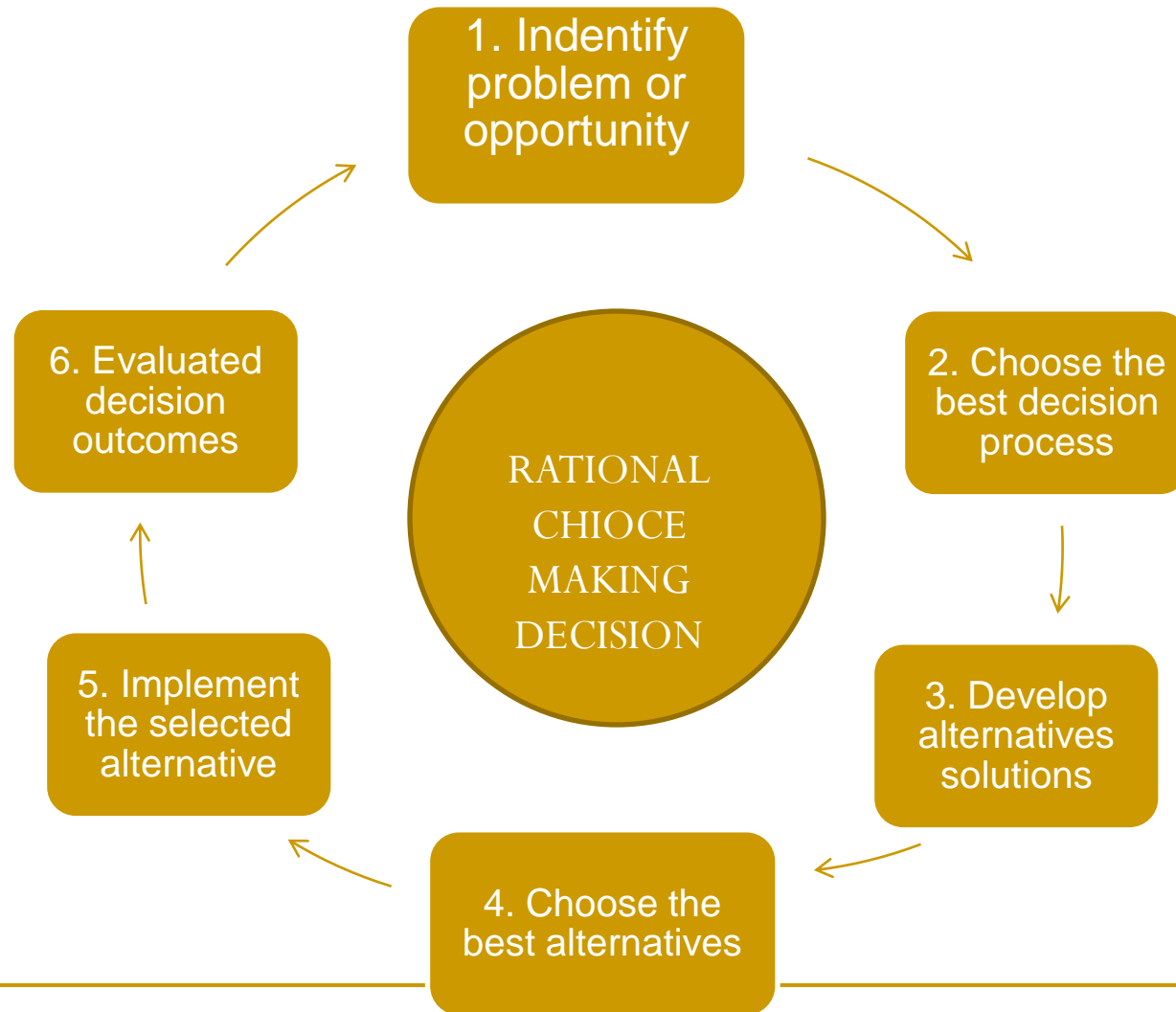 - Programmed decision are static and well structured.

Cont..

- [Non-programmed decision](#)

- Non-programmed decisions are relevant for solving unique problems.

- They are novel and non-recurring and therefore readymade solutions are not available

THE RATIONAL CHOICE PROCESS

- The first step of the process is to identify the problem or recognize an opportunity. A problem is a deviation between the current and the desired situation- the gap between "WHAT IS" and "WHAT OUGHT TO BE" .

- In other word, DECISION makers realize that some decisions may produce results beyond current goals or expectations.

THE RATIONAL CHOICE PROCESS

RATIONAL CHIOCE MAKING DECISION

1. Indentify problem or opportunity

2. Choose the best decision process

3. Develop alternatives solutions

4. Choose the best alternatives

5. Implement the selected alternative

6. Evaluated decision outcomes

THE RATIONAL CHOICE PROCESS

- The second step involves deciding how to process the decision.

- One issue is whether the decision makers has enough information or needs to involves others in the process.

- How much others should be involved in the decision. Another issue is whether the decision is programmed or non-programmed.

THE RATIONAL CHOICE PROCESS

- The third step is to develop a list of possible solutions.

- This usually begins by searching for ready made solutions, such as practices that have worked well on similar problem.

- If an acceptable solution cannot be found, then decision makers need to design a custom solution or modify an existing one.

- The fourth step is to chose from among the alternatives. The rational choice paradigm assumes that people naturally select the alternatives with the highest SUBJECTIVE EXPECTED UTILITY.

THE RATIONAL CHOICE PROCESS

- Subjective expected utility refers to how much the selected alternative benefits or satisfy the decision maker.

- The fifth step is to implement the selected alternatives.

- The sixth step is evaluating whether the gap has narrowed between "WHAT IS" and "WHAT OUGHT TO BE"

PROBLEMS WITH RATIONAL CHOICE PARADIGM-

- Model assumes that people are efficient and logical information processing machine.
- Decision maker has complete information's .
- Decision maker is able to identify all the relevant options in an unbiased manner.
- Model focuses on logical thinking and completely ignores the fact that emotions also influences the DM.

1. IDENTIFYING PROBLEMS AND OPPORTUNITIES

- Instead decision makers translate information into evidence that something is wrong or that an opportunity is available.

- This discovery process occurs through conscious evaluation of the facts and persuasive arguments by other people.

- Problem recognition is actually unconscious process

- specifically we evaluate information as soon as we perceive it by attaching emotional maker (anger, caution delight) to that information

- These automatic emotional responses, together with logical analysis determine whether you perceive something as a problem, as an opportunity, or as irrelevant.
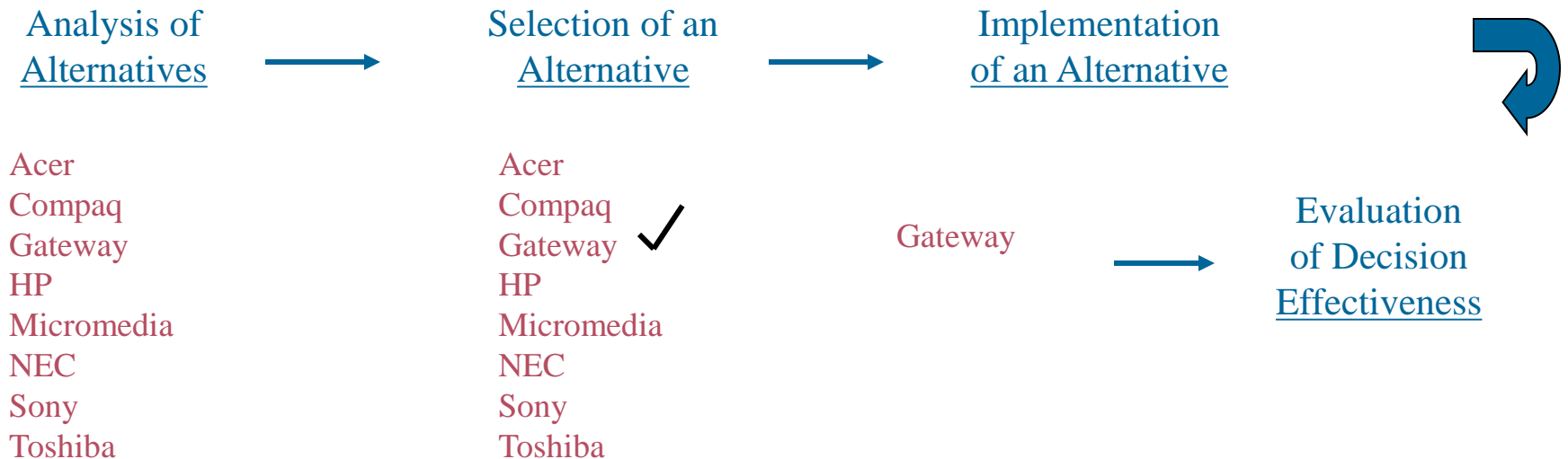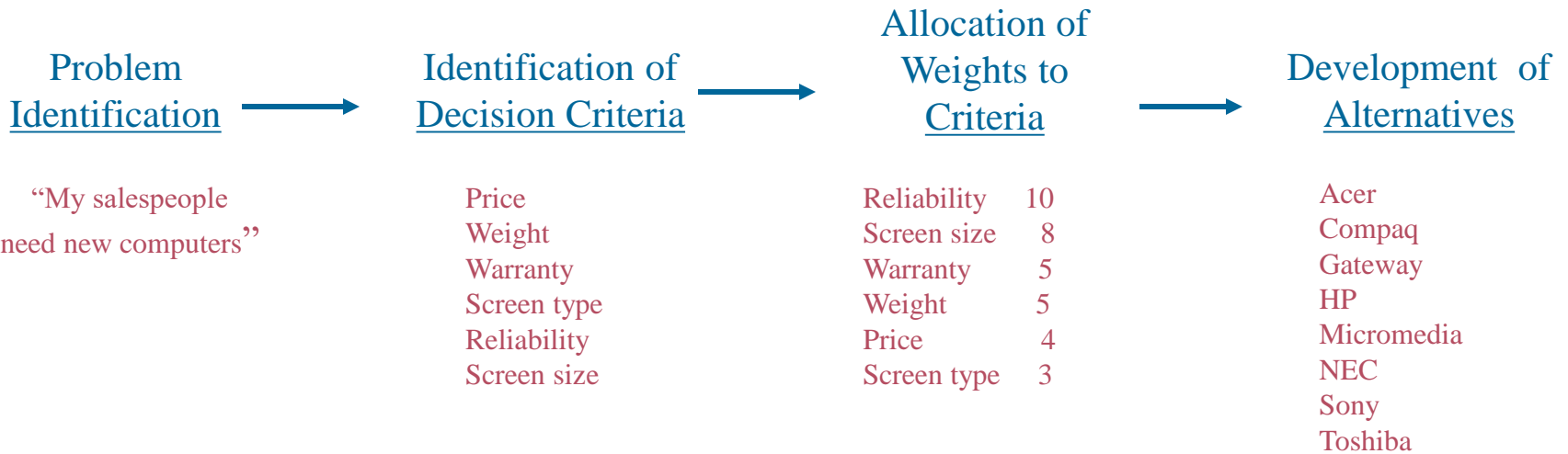
PROBLEMS WITH PROBLEM IDENTIFICATION

- The problem identification stage is itself filled with problems.

  - ❖ Five widely recognized concerns.
    1. Stakeholder framing
    2. Perceptual defense
    3. Mental models
    4. Decisive leadership
    5. Solution focused problems.

2.Search for alternatives-

- A problem can be solved in many ways, however there can not be equally satisfying solution.

- Decision maker must try to find out the various alternatives available in order to get the most satisfactory result of a decision.

- All alternatives can not be considered for selection because of obvious limitation of the decision maker or information about all alternatives.

- Decision maker can use several sources for identifying alternatives.

- Past experience.

- practices followed by others.

- Using creative techniques.

The Decision-Making Process

Problem Identification → **Identification of Decision Criteria** → **Allocation of Weights to Criteria** → **Development of Alternatives**

"My salespeople need new computers"

Identification of Decision Criteria:
Price
Weight
Warranty
Screen type
Reliability
Screen size

Allocation of Weights to Criteria:
Reliability   10
Screen size   8
Warranty   5
Weight   5
Price   4
Screen type   3

Development of Alternatives:
Acer
Compaq
Gateway
HP
Micromedia
NEC
Sony
Toshiba

Analysis of Alternatives → **Selection of an Alternative** → **Implementation of an Alternative**

Analysis of Alternatives:
Acer
Compaq
Gateway
HP
Micromedia
NEC
Sony
Toshiba

Selection of an Alternative:
Acer
Compaq
Gateway ✓
HP
Micromedia
NEC
Sony
Toshiba

Implementation of an Alternative:
Gateway

→ **Evaluation of Decision Effectiveness**

3. EVALUATING AND CHOOSING ALTERNATIVES

- In narrowing down the number of alternatives, two approaches can be followed;

  1.constraints on alternatives

  2.grouping of alternatives of similar nature.

- People rely on logic to evaluate and choose alternatives.

- People engage in **BOUNDED RATIONALITY** because they process limited and imperfect information and rarely select the best choice.

- Look at the these differences in terms of goals, information processing, and maximization.

Cont…

- Simon and other experts demonstrated that how people evaluate and choose alternatives differs from the rational choice paradigm in several ways, as in the table.

- A comparison is made among the likely outcomes of various alternatives and best one is chosen.

- This concept is based upon satisfying approach rather than maximizing approach.

- In making choice decision maker can go through three approaches.

  - Experience

  - Experimentation

  - Research and analysis

Rational Choice Assumption versus Organizational Behavior Findings About Choosing

Rational Choice Paradigm Assumption

Goals are clear, compatible, and a greed upon

Decision makers can calculate all alternatives and their outcomes.

Decision makers evaluate all alternatives simultaneously.

Decision makers use absolute standards to evaluate alternatives .

Decision makers use factual information to choose alternatives.

Decision makers choose the alternatives with the highest payoff.

Observations From Organizational Behavior

Goals are ambiguous, in conflict, and lack support.

Decision makers have limited information processing abilities.

Decision makers evaluate alternatives sequentially

Decision makers evaluate alternatives against an implicit favorite.

Decision makers process perceptually resorted information.

Decision makers choose the alternatives that is good enough

Cont…

Organizations have shifted from rational choices to bounded rationality

- Problem with goal
- Problem with information processing
- Problem with maximization
- Evaluating opportunities (opportunities is experienced as exiting)
- Emotions and making choice (emotional marker, mood.)
- Intuitions and making choices (ability to know problem exist, & select best course of action without any reason)
- Making choice more effective. (revisit the selected alternatives in light of diff mood and emotions.)

EVALUATING DECISION OUTCOME-

- Post decisional justification- after making a choice a decision maker tend to support their choice by forgetting the negative futures of the selected alternatives and emphasizing positive features.

- Escalation of commitment- the tendency to repeat an apparently bad decision or allocate more resources to a failing course of action.

Causes of Escalating commitment- self justification

- **self justification-** individual is more motivated to maintain their course of action when they need to justify their decision.
- **prospect theory effect-** losing is more disliked than gaining
- **perceptual blinder-** decision maker do not see the problem soon enough
- **closing cost-** cost of ending the project is high enough and includes large penalties, a bad public image, etc…

Evaluating decision outcomes more effectively-

- One of the most effective ways to minimize escalation of commitment and post decisional justification is to separate decision chooser from decision evaluator.

- A second strategy is to publicly establish a preset level at which the decision will be abandoned and reevaluated.

- A third strategy is to find a source of systematic and clear feedback.

Intuition

- Perhaps the least rational way of making decisions is to rely on intuition.
- Intuitive decision making is a nonconscious process created from distilled experience.
- Intuitive is not rational, but that doesn't necessarily make it wrong.
- Intuitive doesn't necessarily operate in opposition to rational analysis; rather, the two can complement each other.

- Intuition can be powerful force in decision making.
- For most of the twentieth century, experts believed that decision makers' use of intuition was irrational or ineffective.
- There is growing recognition that rational analysis has been overemphasized and that, in certain instances, relying on intuition can improve decision making.
- But while intuition can be invaluable in making good decisions, we can't rely on it too much.
- Because it is so unquantifiable, it's hard to know when our hunches are right or wrong.

Common Biases and Errors in Decision Making

- Overconfidence Bias
- Anchoring Bias (tendency relay on initial information)
- Confirmation Bias (we selectively gather information)
- Availability Bias (judgment on the basis of information which are readily available)
- Escalation of Commitment (increased commitment to previous decision)
- Randomness Error (tendency of a people to believe the they can control the outcome of a random event.)
- Hindsight Bias (showing after outcome is already known that he have accurately predicted that outcome.)

Factors affecting Decision Making-

❖ **Individual Difference**

➢ **Personality**

personality does influence decision making. Research has considered conscientiousness and self-esteem.

➢ **Gender**

Women, in general, are more likely than men to engage in rumination. They're more likely to overanalyze problems before making a decision

❖ **Organizational Constraints**

Managers shape their decisions to reflect the organization's performance evaluation and reward system, to comply with the organization's formal regulations, and to meet organizationally imposed time constraints.

➢ **Performance Evaluation**

Managers are strongly influenced in their decision making by the criteria on which they are evaluated.

➢ **Reward Systems**

Organization's reward system influences decision makers by suggesting to them what choices are preferable in terms of personal payoff.

- **Formal Regulations**

  " I've got rules and regulations covering almost every decision I make .

- **System-Imposed Time Constraints**

  organizations impose deadlines on decisions. A report on new-product development may have to be ready for the executive committee to review by the first of the month.

- **Historical Precedents**

  choice made today, are therefore largely a result of choices made over the year..

Measures to improve quality of decision making in an organization-

- ➢ Action orientation

- ➢ Goal direction

- ➢ Efficiency in implementation

What about Ethics in Decision Making?

- **Three Ethical Decision Criteria**

1. **Utilitarian**

    The goal of Utilitarianism is to provide the greatest good for the greatest number. This view tends to dominate business decision making.

2.Rights

    This calls on individuals to make decisions consistent with fundamental liberties and privileges, as set forth in documents such as the Constitution of India.

    An emphasis on rights in decision making means respecting and protecting the basic rights of individuals, such as the right to freedom of religion, right to equality, and right against exploitation.

3. **Justice**

   This requires individuals to impose and enforce rules fairly and impartially so that there is an equitable distribution of benefits and costs.

   It justifies paying people the same wage for a given job, regardless of performance differences, and using seniority as the primary determination in making layoff decisions.

Improving Creativity in Decision Making

- A rational decision maker also needs Creativity, that is, the ability to produce novel and useful ideas.

- It allows the decision maker to more fully appraise and understand the problem, including seeing problems others can't see. Such thinking is becoming more important.

Creative Potential

- Most people have creative potential they can use when confronted with a decision-making problem.

- Think about a problem in divergent ways.

- People differ in their inherent creativity, and exceptional creativity is scarce.

- People who score high on openness to experience, for example, are more likely than others to be creative.

- Intelligent people also are more likely than others to be creative.

- Others traits associated with creative people include independence, self-confidence, risk taking, an internal locus of control, tolerance for ambiguity, a low need for structure, and perseverance in the face of frustration.

Three-Component Model of Creativity

- Most people have the capacity to be at least somewhat creative, what can individuals and organizations do to stimulate employee creativity?

- The best answer to this question lies in the three-component model of creativity.

- Individual creativity essentially requires expertise, creative thinking skills, and intrinsic task motivation.

1. **Expertise**

   It is the foundation for all creative work. The potential for creativity is enhanced when individuals have abilities, knowledge, proficiencies, and similar expertise in their field of endeavor.

2. **Creative-thinking skills**

This encompasses personality characteristics associated with creativity, the ability to use analogies, and the talent to see the familiar in a different light.

Research suggests that we are more creative when we're in good moods, so if we need to be creative, we should do things that make us happy, such as listening to music, we enjoy, eating foods we like, watching funny movies, or socializing with others.

- Evidence also suggests that being around others who are creative can actually make us more inspired.

- Some people have developed their creative skills because they are able to see problems in a new way.

- They are able to make the strange familiar and the familiar strange.

3. **Intrinsic task motivation**

This is the desire to work on something because it's interesting involving, exciting, satisfying, or personally challenging.

This motivational component is what turns creativity potential and actual creative ideas.

Creative people often love their work, to the point of seeming obsession.

❖ Stimulants that foster creativity include

➢ a culture that encourages the flow of ideas,

➢ fair and constructive judgment of ideas,

➢ rewards and recognition for creative work,

➢ sufficient financial, material, and information resources,

➢ freedom to decide what work is to be done and how to do it,

➢ a supervisor who communicates effectively,

➢ shows confidence in others, and

➢ supports the work group, and work group members who support and trust each other.