Unit 3

Decision Making

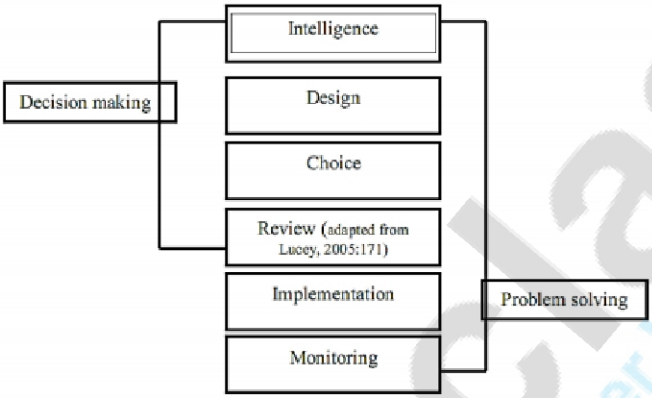
Decision making concepts, Decision Analysis by analytical modelling, Behavioural concepts in decision making, Organizational decision making, MIS and Decision Making, Case Study

DECISION MAKING:

- Decision-making is an integral part of modern management. Essentially, Rational or sound decision making is taken as primary function of management.
- Every manager takes hundreds and hundreds of decisions subconsciously or consciously making it as the key component in the role of a manager.
- Decisions play important roles as they determine both organizational and managerial activities.
- **A decision can be defined as a course of action purposely chosen from a set of alternatives to achieve organizational or managerial objectives or goals.**
- Decision making process is continuous and indispensable component of managing any organization or business activities.
- Decisions are made to sustain the activities of all business activities and organizational functioning.
- Decisions are made at every level of management to ensure organizational or business goals are achieved. Further, the decisions make up one of core functional values that every organization adopts and implements to ensure optimum growth and drivability in terms of services and or products offered.
- A lot of time is consumed while decisions are taken. In a management setting, decision cannot be taken abruptly. It should follow the steps such as:

  a. Defining the problem
  b. Gathering information and collecting data
  c. Developing and weighing the options
  d. Choosing best possible option
  e. Plan and execute
  f. Take follow up action

- Since decision making process follows the above sequential steps, a lot of time is spent in this process.
- This is the case with every decision taken to solve management and administrative problems in a business setting.
- Though the whole process is time consuming, the result of such process in a professional organization is magnanimous.



DECISION ANALYSIS BY ANALYTICAL MODELLING:

- Decisions needs to be analysed for conditions and assumptions considered in the decision model. The process is executed through analytical modelling of problem and solution. The model is analysed in four ways:

1. **What if analysis** – Decisions are made using a model of the problem for developing various solution alternatives & testing them for best choice. The model is built with some variables and relationship between variables. In reality, the considered values of variables and relationships may not hold good and therefore solution needs to be tested for an outcome, if considered values of variables or relationship change. This method of analysis is called 'what if analysis'.

2. **Sensitivity analysis** – It is a special case of what if analysis in which only one variable is changed and rest are kept unchanged. It helps to understand the significance of variable in decision making and improves the quality of decision making.

3. **Goal achieving analysis** – in this, the problem is analyzed in exactly reverse way as that of what if analysis or sensitivity analysis. In goal seeking analysis, the goal is fixed and the variables and values are analyzed, which would help to seek that goal. The work is done backward from the goal.

4. **Goal seeking analysis** - in this, the goal is not fixed but the decision maker tries to achieve a goal of an optimum value arrived at after satisfying all constraints operating in the problem. The decision maker can use this analysis to work on constraints and resources and find ways to improve upon solution to seek highest goal.

BEHAVIOUR DECISION MAKING:

- Behavioural approach is also known as descriptive approach and administrative model.
- This theory is proposed by Herbert A Simon, a well known economist, in which he attempts to explain how decisions are made in real life situations.
- A manager has to make decisions under different conditions and situations. While taking a decision how a manager perceives the things, how does he react and how does he try to resolve, all this is human behaviour.
- Managers have limited and simplified view of problems because they do not have full information about the problems, do not possess knowledge of all possible alternative solutions, do not have the ability to process environmental and technological information and do not have sufficient time and resources to conduct an exhaustive search for alternative solutions to the problems. Therefore, this model is based on two concepts: bounded rationality and satisfying.

- **Task-Oriented Behaviour**
- A professional using a task-oriented approach to business management focuses on planning, coordinating and assigning employee tasks. This type of manager focuses on employee behaviour in terms of assignments and what’s best for the business.
- **Employee-Oriented Approach**
- An employee-oriented approach to business management places emphasis on the interpersonal relationships of workers. A manager using this behavioural method doesn’t place great emphasis on

production where it increases employee anxiety and damages the ability of employees to establish strong bonds. This type of manager wants employees to have positive working relationships and strives to create a welcoming office environment.

ORGANIZATIONAL DECISION MAKING:

- Organizational Decision Making always involves making a choice to alter some existing condition. It is choosing one course of action in preference to others.
- When the decision is being by management on behalf of the organization, it is expending some amount of organizational or individual resources to implement the organizational decision making.
- It is not a single, self-contained event: it is a complex process that extends over some period of time.
- Decision making always includes uncertainty and risk. Humans have bounded rationality. We do not know all of the consequences of our actions. Sometimes a policy organizational decision making can lead to an externality, or unintended side effect. These externalities can be positive or negative.
- In organisation decision takes place according to situation and ability of individual.
- There are 2 ways where decision making process directly effected in organisation which are:
  1. Dealing with uncertainty.
     - First deal with market uncertainty
     - Price uncertainty.
     - Change in government policy.
     - Moves of competitor.
     - Technological Change.
     - Uncertainty with business environment.
     - Behaviour of organisation.
     - Risk avoidance trends of organisation.
  2. Organisational learning.
     - It is dependent on additional knowledge and experience of decision makers.
     - Also decision makers should have expert trainer and wide range of experience with implement process of decision.
     - Decision makers should have known latest technology.

- Result of this process brings huge change in organisation infrastructure to make all decision rational, which can be effective to achieve the objective

MIS & DECISION MAKING:

- Herbert and Simon model provides a conceptual design of MIS and decision making.
- Decision alternative help decision maker to take vital decision.
- MIS should provide decision support system to handle variability in decision making.
- Decision making system helps designer to provide design flexibility in organisation.
- The methods of decision making provide solving ability in decision making process to decision maker.
- The concept of behavioural and organisational aspects provide insight to designer to handle organizational culture and constraints in MIS.
- The MIS design addressing these significant factor turns out to be best design.