

# DECISION-MAKING PROCESS

## INTRODUCTION

In management, Decision-Making is defined as the process of selecting a specific course of action from two or more available alternatives to solve a problem or achieve a specific goal.

It is considered the "core" of management because every managerial function planning, organizing, leading, and controlling requires a continuous stream of decisions.

## DEFINITIONS

\* George R. Terry: "Decision-making is the selection based on certain criteria from two or more alternatives."

\* Harold Koontz & Heinz Weihrich: "Decision-making is the selection of a course of action from among alternatives; it is the core of planning."

## NATURE AND CHARACTERISTICS

- Goal-Oriented
- Intellectual Process
- Selection Process
- Continuous Activity
- Pervasive
- Commitment

## IMPORTANCE

- Better Resource Utilization
- Facilitates Planning

- Increases Efficiency
- Motivation

## **7 STEPS OF DECISION-MAKING**

1. **Identify the Decision:** Recognize that a problem exists or an opportunity has arisen. Clearly define what you are trying to achieve.
2. **Gather Information:** Collect relevant data from internal (company records) and external (market research, experts) sources.
3. **Identify Alternatives:** Brainstorm a wide range of possible solutions.
4. **Weigh the Evidence:** Evaluate each alternative based on feasibility, cost, risk, and impact. Tools like a SWOT Analysis are often used here.
5. **Choose the Best Option:** Select the alternative that best meets your objectives after comparing the pros and cons.
6. **Take Action:** Develop an implementation plan.
7. **Review the Decision:** Assess the results.

## **HERBERT SIMON'S PHASES OF DECISION-MAKING**

Herbert Simon, a Nobel Prize winner, simplified the process into three core phases (later expanded to four). These are more conceptual and explain how the human mind approaches a problem.

### **1. Intelligence**

Searching the environment for conditions that require a decision.

Identifying symptoms, defining the problem, and data

## 2. Design

Inventing, developing, and analyzing possible courses of action.

Generating alternatives and testing them for feasibility.

## 3. Choice

Selecting a specific course of action from those available.

Evaluating alternatives against criteria and making the final pick.

## 4. Implementation

Putting the decision into practice.

Communicating the choice and monitoring progress.

# **DECISION MAKING UNDER VARIOUS CONDITIONS**

## 1. Decision Making Under Certainty

This is the ideal situation where the manager has perfect knowledge. In a situation involving certainty, people are reasonably sure about what will happen when they make a decision. The information is available and is considered to be reliable.

## 2. Decision Making Under Risk

The manager knows the possible outcomes and can assign probabilities to them based on historical data, market research, or mathematical models. In a situation with risks, factual information may exist, but it may be incomplete. One may estimate the objective probability of an outcome by using, for example, mathematical models. On the other hand, subjective probability, based on judgment and experience may be used.

### 3. Decision Making Under Uncertainty

There is no historical data to rely on. In a situation of uncertainty, on the other hand, people have only a mere database, they do not know whether or not the data are reliable, and they are very unsure about whether or not the situation may change.

## **BARRIERS OF DECISION-MAKING**

### 1. Cognitive & Psychological Barriers

These are the way our brains process information, often referred to as cognitive biases.

- \* Bounded Rationality
- \* Confirmation Bias
- \* Anchoring Bias
- \* Overconfidence Bias
- \* Escalation of Commitment

### 2. Organizational & Process Barriers

Even a rational individual can be hindered by the structures and cultures of their workplace.

- \* Information Overload
- \* Groupthink
- \* Time Constraints
- \* Ambiguous Authority

### 3. Emotional & Personal Barriers

Our internal state significantly impacts the quality of our choices.

- \* Fear of Failure
- \* Stress and Fatigue
- \* Mistaking Symptoms for Problems