

Decision Making

Lecture 15

Decision Making

- Decision Making – Selection of a course of action from among alternatives
- Do decisions that we make follow the rules of rationality?
 - Bounded rationality – Managers draw boundaries/limits before making decisions. *Why?*
 - Limitations of information and time coerce managers to take the best decision that is good enough under the circumstances - *Satisficing*

Steps involved in Decision Making

- Identify, diagnose and precisely define the problem
- Work out alternative solutions
- Evaluate each alternative solution
- Choose the best alternative (Reliance on past, Research and analysis, Experimentation)
- Implement the decision
- Evaluate the decision
- Review and learn lessons for future

Types of Decisions

	Programmed Decisions	Non-programmed Decisions
Type of Problem	Frequent, repetitive, routine, much certainty regarding cause and effect relationships	Novel, unstructured, much uncertainty regarding cause and effect relationships
Procedure	Dependence on policies, rules and definite procedures	Necessity for creativity, intuition, tolerance for ambiguity, creative problem solving
Examples	Business firm: Periodic reorders of inventory	Business firm: Diversification into new products and markets

Strategic Decisions: Decisions that have long term implications

Tactical Decisions: They are dynamic and operational in nature

Creativity in Decision Making

- Creativity – ability and power to develop new ideas
- Creative Process (4 Phases)
 - Unconscious Scanning
 - Intuition
 - Insight
 - Logical Formulation