# Decision Making

Decision-making can be defined as the process of selecting a right and effective course of action from two or more alternatives for achieving the desired result. Decision-making is the essence of management.

## Importance

Management is essentially a bundle of the decision-making process. The managers of an enterprise are responsible for making decisions and ascertaining that the decisions made are carried out in accordance with defined objectives or goals.

Decision-making plays a vital role in management. Decision-making is perhaps the most important component of a manager’s activities. It plays the most important role in the planning process. When the managers plan, they decide on many matters as what goals their organization will pursue, what resources they will use, and who will perform each required task.

When plans go wrong or off-track, the managers have to decide what to do to correct the deviation. In fact, the whole planning process involves managers constantly in a series of decision-making situations. The quality of managerial decisions largely affects the effectiveness of the plans made by them. In the organizing process, the manager is to decide upon the structure, division of work, nature of responsibility and relationships, the procedure of establishing such responsibility and relationship and so on.

## Types of Decision Making

### Programmed & Non-Programmed

Programmed decisions are concerned with the problems of repetitive nature or routine type matters. A standard procedure is followed for tackling such problems. Generally, lower-level managers take these decisions. Decisions of this type may pertain to e.g. purchase of raw material, granting leave to an employee and supply of goods and implements to the employees, etc.

Non-programmed decisions relate to difficult situations for which there is no easy solution. These matters are very important for the organization. For example, the opening of a new branch of the organization or a large number of employees absenting from the organization or introducing a new product in the market, etc., are the decisions, which are normally taken at the higher level.

### Routine & Strategic

Routine decisions are related to the general functioning of the organization. They do not require much evaluation and analysis and can be taken quickly. Ample powers are delegated to lower ranks to take these decisions within the broad policy structure of the organization.

Strategic decisions are important which affect objectives, organizational goals and other important policy matters. These decisions usually involve huge investments or funds. These are non-repetitive in nature and are taken after careful analysis and evaluation of many alternatives. These decisions are taken at a higher level of management.

### Organizational & Personal

When an individual takes decision as an executive in the official capacity, it is known as an organizational decision. If a decision is taken by the executive in the personal capacity (thereby affecting his personal life), it is known as a personal decision.

Sometimes these decisions may affect the functioning of the organisation. For example, if an executive leaves the organisation, it may affect the organisation. The authority of taking organizational decisions may be delegated, whereas personal decisions cannot be delegated.

### Major & Minor

Another classification of decisions is major and minor. Decision pertaining to purchase of new factory premises is a major decision. Top management takes major decisions. Purchase of office stationery is a minor decision, which can be taken by the office superintendent.

### Individual & Group

When a single individual takes the decision, it is known as an individual decision. Usually, routine type decisions are taken by individuals within the broad policy framework of the organization.

Group decisions are taken by a group of individuals constituted in the form of a standing committee. Generally, very important and pertinent matters for the organization are referred to this committee. The main aim of making group decisions is the involvement of the maximum number of individuals in the process of decision-making.

## Steps in Decision Making

#### Define the problem

The first and the foremost step in the decision-making process are to define the real problem. A problem can be explained as a question for an appropriate solution. The manager should consider critical or strategic factors in defining the problem. These factors are, in fact, obstacles in the way of finding proper solution. These are also known as limiting factors. For example, if a machine stops working due to non-availability of a screw, the screw is the limiting factor in this case. Similarly, a fuse is a limiting or critical factor in house lighting.

While selecting an alternative or probable solution to the problem, the more the decision-making takes into account those factors that are limiting or critical to the alternative solutions, the easier it becomes to make the best decision.

#### Analysing the problem

After defining the problem, the next important step is a systematic analysis of the available data. Sound decisions are based on proper collection, classification and analysis of data. There are three principles relating to the analysis and classification:

* The futurity of the decision. This means to what length of time, the decision will be applicable to a course of action.
* The impact of a decision on other functions and areas of the business.
* The qualitative considerations that appear.

#### Developing alternative solutions

After defining and analyzing the problem, the next step is to develop alternative solutions. The main aim of developing alternative solutions is to have the best possible decision out of the available alternative courses of action. In developing alternative solutions, the manager comes across creative or original solutions to the problems. In modern times, the techniques of operations research and computer applications are immensely helpful in the development of alternative courses of action.

#### Selecting the best type of alternative

After developing various alternatives, the manager has to select the best alternative. It is not an easy task. The following are the four important points to be kept in mind in selecting the best from various alternatives:

* Risk element involved in each course of action against the expected gain.
* The economy of effort involved in each alternative, i.e. securing desired results with the least efforts.
* Proper timing of the decision and action.
* The limited resources available at our disposal also affect the final selection of decision. Human resources are always limited. We must have the right type of people to carry out our decisions. Their caliber, understanding, intelligence and skill will finally determine what they can and cannot do.

#### Implementation of the decision

Under this step, a manager has to put the selected decision into action. For proper and effective execution of the decision, the following three things are very important:

* Proper and effective communication of decisions to the subordinates. Decisions should be communicated in a clear, concise and understandable manner.
* Acceptance of decision by the subordinates is important. Group participation and involvement of the employees will facilitate the smooth execution of decisions.
* Correct timing in the execution of decision minimizes the resistance to change. Almost every decision introduces a change and people are hesitant to accept a change. Implementation of the decision at the proper time plays an important role in the execution of the decision.

#### Follow up

A follow-up system ensures the achievement of the objectives. It is exercised through control. Simply stated it is concerned with the process of checking the proper implementation of a decision. Follow up is indispensable as to modify and improve upon the decisions at the earliest opportunity.

#### Monitoring and feedback

Feedback provides the means of determining the effectiveness of the implemented decision. If possible, a mechanism should be built which would give periodic reports on the success of the implementation. In addition, the mechanisms should also serve as an instrument of “preventive maintenance”, so that the problems can be prevented before they occur.

According to Peter Drucker, the monitoring system should be such that the manager can go and look for himself for first-hand information, which is always better than the written reports or other second-hand sources. In many situations, however, computers are very successfully used in monitoring since the information retrieval process is very quick and accurate and in some instances the self-correcting is instantaneous.

## Limitations

1. **Time-Consuming** – A lot of precious time is consumed for decision-making. Individual decisions take a lot of time because the manager has to study the merits and demerits of all the alternatives. He also has to take advice from many people before making a decision. All this consumes a lot of time. Group decisions are also time-consuming. This is because it involves many meetings and each member has to give his opinion. This results in delayed decisions or no decisions.
2. **Compromised Decisions** – In group decisions, there is a difference of opinion. This results in a compromised decision. A compromised decision is made to please all the members. It may not be a correct and bold decision. The quality of this decision is inferior. Therefore, it will not give good results on implementation.
3. **Subjective Decisions** – Individual decisions are not objective. They are subjective. This is because the decisions depend on the knowledge, education, experience, perception, beliefs, morals, attitude, etc., of the manager. Subjective decisions are not good decisions.
4. **Biased Decisions** – Sometimes decisions are biased. That is, the manager makes decisions, which only benefit himself and his group. These decisions have a bad effect on the workers, consumer and society.
5. **Limited Analysis** – Before making a decision, the manager must analyse all the alternatives. He must study the merit and demerits of each alternative. Then only he must select the best alternative. However, most managers do not do this because they do not get an accurate date, and they have limited time. Inexperienced researchers and wrong sampling also result in limited analysis. This limited analysis results in bad decisions.
6. **Uncontrollable Environmental Factors** – Environmental factors include political, social, technological and other factors. These factors are dynamic in nature and keep on changing every day. The manager has no control over environmental factors. If these factors change in the wrong direction, his decisions will also divert and go wrong.
7. **Uncertain Future** – Decisions are made for the future. However, the future is very uncertain. Therefore, it is very difficult to make decisions for the future.
8. **Responsibility is Diluted** – In an individual decision, only one manager is responsible for the decision. However, in a group decision, all managers are responsible for the decision. That is, everybody's responsibility is nobody's responsibility. So, the responsibility is diluted.