

Functions of Management Process: Decision Making

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Business Management

Decision Making

Functions of Management

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Decision Making

What is Decision Making

Decision making is the process of making choices by identifying a decision, gathering information, and assessing alternative resolutions.



Problem Vs opportunity

Problem

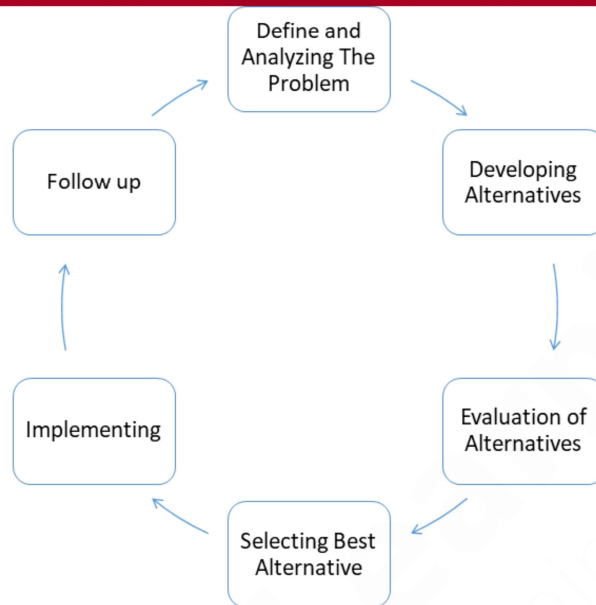
Is the difference between current and expected situations

Opportunity

Is the influence from external environment which offer a benefit



Rational Decision Making Process



Classical Approach to Decision Making

Assumptions

- The decision maker has clear and well-defined goal to be achieved.
- All the problems are precisely defined.
- All alternative courses of action and their potential consequences are known.
- The decision maker can rank the entire alternatives on the basis of their preferred consequences.
- The decision maker can select the alternative that maximizes outcome.

Classical Approach to Decision Making

Classical approach is also known as prescriptive, rational or normative model. It specifies how decision should be made to achieve the desired outcome. Under classical approach, decisions are made rationally and directed toward a single and stable goal. It is applied in certainty condition which the decision maker has full information relating to the problem and also knows all the alternative solutions. It is an ideal way in making decision. It is rational in the sense that it is scientific, systematic and step-by-step process.

There are four main assumptions behind the classical model:

First is a clearly defined problem. The model assumes that the decision-maker has clearly set goals and knows what is expected from him.

Next is a certain environment. The model further suggests that it is in the power of the decision-maker to eliminate any uncertainty that might impact the decision. As a result, there are no risks to account for.

The third assumption is full information. The decision-maker is able to identify all alternatives available to him and to evaluate and rank them objectively.

The final assumption is rational decisions. The decision-maker is believed to always be acting in the best interests of the organization.

This model assumes the manager as a rational economic man who makes decisions to meet the economic interest of the organization. Classical approach is based on the following assumptions:

The decision maker has clear and well-defined goal to be achieved.

All the problems are precisely defined.

All alternative courses of action and their potential consequences are known.

The decision maker can rank the entire alternatives on the basis of their preferred consequences.

The decision maker can select the alternative that maximizes outcome.

The classical model is supposed to be idealistic and rational but it is rarely found in practice. Therefore, this approach has many criticisms. It is known by normative theory rather than descriptive theory. Generally, managers operate under the condition of risk and uncertainty rather than the certainty condition. In many situations, complete goal stability can never be realized due to continuous environmental changes. It is applied only in the close system and not practicable in real life situations where environment is changing rapidly.

Steps in the Classical Model

The classical model proposes three main steps for decision-making:

First is listing all available alternatives. Under the classical model, the decision-maker is not limited by time or resources and can continue looking for alternatives until he identifies the one that maximizes the utility from the decision.

The second step is ranking listed alternatives. The decision-maker is believed to possess not only all required information but also the cognitive ability to prioritize the alternatives accurately and objectively.

The last step of the classical model is selecting the best-suited alternative.

Classical Approach to Decision Making

STEP 01

Listing all available alternatives. Under the classical model, the decision-maker is not limited by time or resources and can continue looking for alternatives until he identifies the one that maximizes the utility from the decision.

STEP 02

Ranking listed alternatives. The decision-maker is believed to possess not only all required information but also the cognitive ability to prioritize the alternatives accurately and objectively.

STEP 03

selecting the best-suited alternative

This approach also known as Perspective Model

Behavioral Approach

Behavioral approach is also known as descriptive approach and administrative model. This theory is proposed by Herbert A Simon
this model is based on two concepts: **bounded rationality and satisfying.**

Bounded rationality

Manager is unable to make perfect decision due to capacity limitation

Satisfying.

Managers selecting Satisfactory alternative

Behavioral 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 behavior.

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.

Group Decision Making

Group decision making is a type of participatory process in which multiple individuals acting collectively, analyze problems or situations, consider and evaluate alternative courses of action, and select from among the alternatives a solution or solutions.

Group Decision Making Methods

BRAINSTORMING

DIALECTICAL INQUIRY

NOMINAL GROUP TECHNIQUE

DELPHI TECHNIQUE

Group decision making is a type of participatory process in which multiple individuals acting collectively, analyze problems or situations, consider and evaluate alternative courses of action, and select from among the alternatives a solution or solutions. The number of people involved in group decision-making varies greatly, but often ranges from two to seven. The individuals in a group may be demographically similar or quite diverse. Decision-making groups may be relatively informal in nature, or formally designated and charged with a specific goal. The process used to arrive at decisions may be unstructured or structured. The nature and composition of groups, their size, demographic makeup, structure, and purpose, all affect their functioning to some degree. The external contingencies faced by groups (time pressure and conflicting goals) impact the development and effectiveness of decision-making groups as well.

In organizations many decisions of consequence are made after some form of group decision-making process is undertaken. However, groups are not the only form of collective work arrangement. Group decision-making should be distinguished from the concepts of teams, teamwork, and self managed teams. Although the words teams and groups are often used interchangeably, scholars increasingly differentiate between the two. The basis for the distinction seems to be that teams act more collectively and achieve greater synergy of effort. Katzenback and Smith spell out specific differences between decision making groups and teams:

The group has a definite leader, but the team has shared leadership roles

Members of a group have individual accountability; the team has both individual and

collective accountability.

The group measures effectiveness indirectly, but the team measures performance directly through their collective work product.

The group discusses, decides, and delegates, but the team discusses, decides, and does real work.

GROUP DECISION MAKING METHODS

There are many methods or procedures that can be used by groups. Each is designed to improve the decision-making process in some way. Some of the more common group decision-making methods are brainstorming, dialectical inquiry, nominal group technique, and the delphi technique.

BRAINSTORMING.

Brainstorming involves group members verbally suggesting ideas or alternative courses of action. The "brainstorming session" is usually relatively unstructured. The situation at hand is described in as much detail as necessary so that group members have a complete understanding of the issue or problem. The group leader or facilitator then solicits ideas from all members of the group. Usually, the group leader or facilitator will record the ideas presented on a flip chart or marker board. The "generation of alternatives" stage is clearly differentiated from the "alternative evaluation" stage, as group members are not allowed to evaluate suggestions until all ideas have been presented. Once the ideas of the group members have been exhausted, the group members then begin the process of evaluating the utility of the different suggestions presented. Brainstorming is a useful means by which to generate alternatives, but does not offer much in the way of process for the evaluation of alternatives or the selection of a proposed course of action.

One of the difficulties with brainstorming is that despite the prohibition against judging ideas until all group members have had their say, some individuals are hesitant to propose ideas because they fear the judgment or ridicule of other group members. In recent years, some decision-making groups have utilized electronic brainstorming, which allows group members to propose alternatives by means of e-mail or another electronic means, such as an online posting board or discussion room. Members could conceivably offer their ideas anonymously, which should increase the likelihood that individuals will offer unique and creative ideas without fear of the harsh judgment of others.

DIALECTICAL INQUIRY.

Dialectical inquiry is a group decision-making technique that focuses on ensuring full consideration of alternatives. Essentially, it involves dividing the group into opposing sides, which debate the advantages and disadvantages of proposed solutions or decisions. A similar group decision-making method, devil's advocacy, requires that one member of the group highlight the potential problems with a proposed decision. Both of these techniques are designed to try and make sure that the group considers all possible ramifications of its decision.

NOMINAL GROUP TECHNIQUE.

The nominal group technique is a structured decision making process in which group members are required to compose a comprehensive list of their ideas or proposed alternatives in writing. The group members usually record their ideas privately. Once finished, each group member is asked, in turn, to provide one item from their list until all ideas or alternatives have been publicly recorded on a flip chart or marker board. Usually, at this stage of the process verbal exchanges are limited to requests for clarification—no evaluation or criticism of listed ideas is permitted. Once all proposals are listed publicly,

the group engages in a discussion of the listed alternatives, which ends in some form of ranking or rating in order of preference. As with brainstorming, the prohibition against criticizing proposals as they are presented is designed to overcome individuals' reluctance to share their ideas. Empirical research conducted on group decision making offers some evidence that the nominal group technique succeeds in generating a greater number of decision alternatives that are of relatively high quality.

DELPHI TECHNIQUE.

The Delphi technique is a group decision-making process that can be used by decision-making groups when the individual members are in different physical locations. The technique was developed at the Rand Corporation. The individuals in the Delphi "group" are usually selected because of the specific knowledge or expertise of the problem they possess. In the Delphi technique, each group member is asked to independently provide ideas, input, and/or alternative solutions to the decision problem in successive stages. These inputs may be provided in a variety of ways, such as e-mail, fax, or online in a discussion room or electronic bulletin board. After each stage in the process, other group members ask questions and alternatives are ranked or rated in some fashion. After an indefinite number of rounds, the group eventually arrives at a consensus decision on the best course of action.

ADVANTAGES AND DISADVANTAGES OF GROUP DECISION MAKING

The effectiveness of decision-making groups can be affected by a variety of factors. Thus, it is not possible to suggest that "group decision making is always better" or "group decision making is always worse" than individual decision-making. For example, due to the increased demographic diversity in the workforce, a considerable amount of research has focused on diversity's effect on the effectiveness of group functioning. In general, this research suggests that demographic diversity can sometimes have positive or negative effects, depending on the specific situation. Demographically diverse group may have to over-come social barriers and difficulties in the early stages of group formation and this may slow down the group. However, some research indicates that diverse groups, if effectively managed, tend to generate a wider variety and higher quality of decision alternatives than demographically homogeneous groups.

Despite the fact that there are many situational factors that affect the functioning of groups, research through the years does offer some general guidance about the relative strengths and weaknesses inherent in group decision making. The following section summarizes the major pros and cons of decision making in groups.

ADVANTAGES.

Group decision-making, ideally, takes advantage of the diverse strengths and expertise of its members. By tapping the unique qualities of group members, it is possible that the group can generate a greater number of alternatives that are of higher quality than the individual. If a greater number of higher quality alternatives are generated, then it is likely that the group will eventually reach a superior problem solution than the individual. Group decision-making may also lead to a greater collective understanding of the eventual course of action chosen, since it is possible that many affected by the decision implementation actually had input into the decision. This may promote a sense of "ownership" of the decision, which is likely to contribute to a greater acceptance of the course of action selected and greater commitment on the part of the affected individuals to make the course of action successful.

DISADVANTAGES.

There are many potential disadvantages to group decision-making. Groups are generally slower to arrive at decisions than individuals, so sometimes it is difficult to utilize them in situations where decisions must be made very quickly. One of the most often cited problems is groupthink. Irving Janis, in his 1972 book *Victims of Groupthink*, defined the phenomenon as the "deterioration of mental efficiency, reality testing, and moral judgment resulting from in-group pressure." Groupthink occurs when individuals in a group feel pressure to conform to what seems to be the dominant view in the group. Dissenting views of the majority opinion are suppressed and alternative courses of action are not fully explored.

Research suggests that certain characteristics of groups contribute to groupthink. In the first place, if the group does not have an agreed upon process for developing and evaluating alternatives, it is possible that an incomplete set of alternatives will be considered and that different courses of action will not be fully explored. Many of the formal decision-making processes (e.g., nominal group technique and brain-storming) are designed, in part, to reduce the potential for groupthink by ensuring that group members offer and consider a large number of decision alternatives. Secondly, if a powerful leader dominates the group, other group members may quickly conform to the dominant view. Additionally, if the group is under stress and/or time pressure, groupthink may occur. Finally, studies suggest that highly cohesive groups are more susceptible to groupthink. Group polarization is another potential disadvantage of group decision-making. This is the tendency of the group to converge on more extreme solutions to a problem. The "risky shift" phenomenon is an example of polarization; it occurs when the group decision is a riskier one than any of the group members would have made individually. This may result because individuals in a group sometimes do not feel as much responsibility and accountability for the actions of the group as they would if they were making the decision alone.

Decision-making in groups is a fact of organizational life for many individuals. Because so many individuals spend at least some of their work time in decision-making groups, groups are the subjects of hundreds of research studies each year. Despite this, there is still much to learn about the development and functioning of groups. Research is likely to continue to focus on identifying processes that will make group decision-making more efficient and effective. It is also likely to examine how the internal characteristics of groups (demographic and cognitive diversity) and the external contingencies faced by groups affect their functioning.

Group Decision Making

- GROUP Vs TEAM

- The group has a definite leader, but the team has shared leadership roles
- Members of a group have individual accountability; the team has both individual and collective accountability.
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Information in Decision Making

Stages of Decision-making	Role of Information
Identification and structuring of problem/opportunity	One needs information to identify a problem and put it in a structured manner. Without information about a problem or opportunity, the decision-making process does not even start.
Putting the problem/opportunity in context	Without information about the context in which the problem has occurred, one cannot take any decision on it. In a way, the information about the context defines the problem.
Generation of alternatives	Information is a key ingredient in the generation of alternatives for decision-making. One has to have information about possible solutions to generate alternatives.
Choice of best alternative	Based on the information about the suitability of the alternatives, a choice is made to select the best alternative.

Source : <https://ecomputernotes.com/mis/decision-making/role-of-information>

Characteristics of quality information

Accuracy

Information should be fair and free from bias. It should not have any arithmetical and grammatical errors. Information comes directly or in written form likely to be more reliable than it comes from indirectly (from hands to hands) or verbally which can be later retracted

Complete

It should also be complete which means facts and figures should not be missing or concealed. Telling the truth but not wholly is of no use

Cost benefit

Information should be analyzed for its benefits against the cost of obtaining it. In business context, it is not worthwhile to spend money on information that even cannot recover its costs leading to loss each time that information is obtained. In other contexts, such as hospitals it would be useful to get information even it has no financial benefits due to the nature of the business and expectations of society from it.

Characteristics of quality information

User-targeted

Information should be communicated in the style, format, detail and complexity which address the needs of users of the information. Example senior managers need brief reports which enable them to understand the position and performance of the business at a glance, while operational managers need detailed information which enable them to make day to day decisions

Relevant

Information should be communicated to the right person. It means person which has some control over decisions expected to come out from obtaining the information.

Authoritative

Information should come from reliable source. It depends on qualifications and experience and past performance of the person communicating the information

Characteristics of quality information

Timely

Information should be communicated in time so that receiver of the information has enough time to decide appropriate actions based on the information received. Information which communicates details of the past events earlier in time is of less importance than recently issued information like newspapers. What is timely information depends on situation to situation. Selection of appropriate channel of communication is key skill to achieve.

Easy to use

Information should be understandable to the users. Style, sentence structure and jargons should be used keeping the receiver in mind. If report is targeted to new-comer in the field, then it should explain technical jargons used in the report

A C C U R A T E

Barriers in Decision Making

Cognitive Biases

Time Pressure

Group Conflicts

Groupthink

Programmed and non-programmed decisions

Programmed decisions are those that are traditionally made using standard operating procedures or other well-defined methods. These are routines that deal with frequently occurring situations, such as requests for leaves of absence by employees.

Non-programmed decisions are unique. They are often ill-structured, one-shot decisions. Traditionally they have been handled by techniques such as judgment, intuition, and creativity.

Programmed Decision

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In routine situations, it is usually much more desirable for managers to use programmed decisions than to make a new decision for each similar situation.

In programmed decisions, managers make a real decision only once, when the program is created. Subsequently, the program itself specifies procedures to follow when similar circumstances arise.

The creation of these routines results in the formulation of rules, procedures, and policies.

Programmed decisions do not necessarily remain confined to simple issues, such as vacation policies or similar such things; they are also used to deal with very complex issues, such as the types of tests that a doctor needs to conduct before performing major surgery on a patient with diabetes.

To summarize; **programmed decisions features** are;

Programmed decisions made using standard operating procedures.

Deals with frequently occurring situations. (Such as requests for leaves of absence by employees)

Much more appropriate for managers to use programmed decisions for similar and frequent situations.

In programmed decisions, managers make a real decision only once and the program itself specifies procedures to follow when similar circumstances arise.

This leads to the formulatio

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Programmed Decision and Non-Programmed Decision Explained

Programmed decisions and Non-Programmed decisions are the two basic types of decisions that managers make. This depends on their authority, responsibility, and position in the organizational decision-making structure.

Definition, similarities, and differences of Programmed Decision and non-programmed Decision are explained below;

Programmed Decision

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Non-Programmed Decision

Non-programmed decisions are unique. They are often ill-structured, one-shot decisions. Traditionally they have been handled by techniques such as judgment, intuition, and creativity.

More recently decision-makers have turned to heuristic problem-solving approaches in which logic; common sense and trial and error are used to deal with problems that are too large or too complex to be solved through quantitative or computerized approaches.

In fact, [many management training programs](#) on decision-making are designed to help managers think through problems using a logical, non-programmed approach. In this way, they learn how to deal with extraordinary, unexpected, and unique problems.

Non-programmed decision features are;

Situations for Non-programmed decisions are unique, ill-structured.

Non-programmed decisions are one-shot decisions.

Handled by techniques such as judgment, intuition, and creativity.

A logical approach to deal with extraordinary, unexpected, and unique problems.

Managers take heuristic problem-solving approaches in which logic; common sense and trial and error are used.

Similarities of Programmed Decision & Non-Programmed Decision

Both are required to run operations of Business efficiently.

[Complements each other in setting goals](#) and managing resources of the organization. n of rules, procedures, and policies.

Programmed and non-programmed decisions

Programmed Decision	Non-Programmed Decision
Used for frequent situations of the organization; both internal and external.	Used for unique and ill-structured situations of the organization; both internal and external.
Mostly Lower level managers are making these decisions.	Mostly Upper-level managers are making these decisions.
Follows structured and non-creative patterns.	Takes an outside of the box unstructured, logical and creative approach.