Concept and Definition of Decision-Making

All human activities revolve around making choices or taking decisions. Decision-making may be defined as the process of deciding to adopt a certain course of action from various alternatives, to achieve a set of pre- determined goals. Decision-making is future oriented, as the sole objective of making a decision is to guide organisational and human activities towards achieving the future objectives. Decision-making process involves investing the organisational resources in realising a predetermined goal or solving a problem by following a specific course of action.

According to George R. Terry, "Decision-making is the selection based on certain criteria from two or more alternatives”

According to Mary Cushing Niles, "Decision-making takes place in adopting the objectives and choosing the means and again when a change in the situation creates a necessity for adjustments.”

According to Heinz Weihrich and Harold Koontz, "Decision-making is defined as the selection of a coun of action among alternatives: it is the care of planning".

In organisations, decisions are required to be taken to either solve problems or achieve certain results. Decision-making is judgmental in nature. A decision is an end result that achieved by analysing the situation, formulating alternative solutions and selecting the best one for achieving the desired results

Characteristics of Decision-Making

1) **Process of Selecting Courses of Action:** Decision-making involves selection of a particular course of action among the available options. The process of decision-making is carried-out only when a problem has more than one solution.
2) **Looks for Best Possible Path:** Decision-making involves evaluating all options and choosing the most appropriate one. It is a rational process and its steps are directed towards the achievement of organisational objectives. Decision-making process always has a purpose to achieve, and to realise the purpose, it involves a series of steps to select the best course of action by analysing the available alternatives.

3) **Intellectual Process:** Decision-making is an intellectual process involving careful evaluation, deliberation and selection. Hence, it is a logical and intellectual exercise. The success of the decision-making process depends on the reasoning ability and sound judgement of the manager.
4) **Involves a Level of Commitment:** Decision-making involves a level of commitment from the organisation on following a particular course of action. As the decision-making process is a time based process, the term of commitment (short or long) may depend upon the nature of the decision.

5) **Related to Situation or Environment:** Environmental factors and situations have a great bearing on decision-making. The nature of decisions is also altered by the changes in business situations. The decision that is suitable for one situation may not be appropriate for the other
6) **Pervasive Function:** Decision-making is a pervasive activity of all employees engaged in

an organisation. The complexity of decisions varies from level to level, but there is no alternative to the decision-making process. It is an on-going and all pervasive process

7) **Human Process:** Although decision-making is considered to be an intellectual process, it is conditioned by several other human factors like-individual perception, bias and prejudice, cultural and social background and its influences, educational and intellectual level of the decision-maker, his knowledge and experience and so on. The techniques of decision-making are helpful to a certain extent, but no tool or technique can undermine the importance of perception, experience, judgement and knowledge of the decision-maker.

8) **Freedom of Selecting a Specific Course of Action:** Judicious decision-making requires the freedom to choose the best course of action from the available alternatives without any pressure and influence. However, uncertainty is inherent in all decisions as the outcome can only be anticipated but never known for sure.

Types of Decisions

Although decision-making is one of the most significant functions of a manager, not all decisions are equally important or significant. Some have a limited impact, while others have far reaching consequences. Different types of management decisions are as follows:

1) **Programmed and Non-Programmed** Decisions: Some experts have broadly classified all decisions into following two classes:

- Programmed Decisions: Theses decisions are taken while formulating the policies of the organisation and are repetitive in nature. The problems and choices related to programmed decisions are predictable and hence responses or outcomes are also as per the plans. There are templates in the form of standard operating procedures, rules, etc., which lay down the decisions that are needed to be taken in a particular situation, e.g., employee orientation and verification procedures. These decisions have low impact and are taken by low level management without the involvement of the top level management
- Non-Programmed Decisions: Non-programmed decisions are unique and unpredictable. They are taken according to particular problems or situations. They are based on logical thinking with sound judgement and are hence normally taken by the top level managers, eg, decisions related to business expansion, adopting a new technology, launching of new products, etc.

2. **Major and Minor Decisions:** Decisions can also be major or minor. Major decisions are those that carry a high risk or involve a heavy cost, e.g., opening a new factory. Decisions are termed as minor when they involve low risk or low cost, e.g., replenishment of cleaning supplies in the organisation. They are generally taken by the low level management.

3. **Routine and Strategic Decisions:** Routine decisions are those common day to day decisions that do not require any great evaluation or deliberation. Being low on risk, they also do not involve any substantial cost. They do not require a lot of time and are monotonous in nature. Strategic decisions are also known as basic decisions and involve high risk and cost. They are related to the formulation and implementation of strategies and policies. They are non-monotonous in nature and are taken keeping in mind a particular problem or situation. Such vital decisions are in the hands of the top management and require higher level expertise,

knowledge, evaluation and experience. For example, the decision taken by Reliance Industries to set up Asia's largest Refinery in Jamnagar was one such strategic decision.
4. **Policy and Operative Decisions:** The primary task of the top management is to set goals and formulate policies Policy decisions give direction to the organisation and have great significance in the long-term functioning of the organisation. Every large corporation has a policy manual that acts as a base for the operative decisions. Operative decisions are taken within the ambit of the policy decisions. They relate to daily operations and are generally taken by the executive and supervisory level management as they are responsible for the day to day functioning of the business.

5.**Organisational and Personal Decisions**: Organisational decisions are related to the achievement of organisational goals, whereas personal decisions are taken to achieve personal goals. Organisational decisions are taken by the middle level managers on the bases of the organisational policies. These decisions can be delegated to the employees of the organisation. Personal decision cannot be delegated and are taken by the managerial personnel on an individual level. Personal decisions vary from person to person.

6. **Individual and Group Decisions**: As the name implies, individual decisions are taken by individuals on the basis of rules, procedures, policies and standard operating procedures of the organisation. These low risk and low cost decisions can be easily evaluated by the decision-maker. Decisions that require due deliberation and diligence are known as group decisions. They are generally taken by the Board members or a specially formulated committee. They are extremely significant for the success of the organisation and require willing involvement of the group members.
7. **Long-Term, Departmental and Non-Economic Decisions** The decisions that are high in risk and can impact the organisation in the long run are known as long-term decisions Departmental decisions are related to a particular department and do not necessarily influence other departments or the organisation as a whole. Non-economic decisions are related to the conduct of moral and ethical behaviour, technical values, etc. While making decisions the manager should remain unbiased and should make conscious efforts to provide justice to all the members of the organisation

8) **Crisis and Research Decisions**: As the name suggests, crisis decisions are required to be taken in response to a crisis or an unanticipated situation, which inherently carries a threat and demands an immediate response. Hence, such decisions are unexpected, have high risk and require quick response. However, many organisations draw up contingency plans so that they have some protection against the sudden crisis or problem. On the other hand, decisions that involve research and study of a problem are called research decisions. They do not require prompt response and the decision-maker can take time before handing over the results.

9) **Problem and Opportunity Decisions:** Problem decisions are taken in response to a problem that is less severe than a crisis. These decisions are taken by the decision-maker to solve predictable problems. Opportunity decisions are required to be taken in order to create and exploit business opportunities, eg decisions related to cross-selling and up-selling. They are therefore customer-driven and based on a careful study and analysis of customer behaviour. Another example could be the decision to launch a new product

Decision-Making Process Decision-making is a process which involves the following steps:
Process of Decision-Making

Definition of the Problems
Collection of Data
Formation of a Model
Evaluation
Framing & Decision
Follow-up Actions

Step 1: Definition of the Problem: Decision-making process is conducted either to solve a problem or to achieve some goal. Hence, identifying the problem or the objective is the starting point of arriving at a decision. While defining the problem, it is the responsibility of the decision-maker to identify in detail the possible alternatives to the problem in structured format.
Step 2: Collection of Data: After the problem has been defined, the next step is to collect the required data for evaluating the problem. Correct and accurate data is the basis of sound decision-making. Data on the issue at hand gives a total and complete picture and enables correct and proper evaluation and the tight choice of alternatives. Data is either obtained from internal sources or external sources like reports, journals, sales trends, etc. However, it has to be ensured that the data collected is relevant, reliable and up-to-date. There are certain problems for which relevant data may not be available. In such cases, primary data should be collected for proper analysis of the problem.

Step 3: Formulation of a Model: Models help in evaluating alternatives. Based on the data available and possible scenarios, various alternative models are prepared to get a real life feel and arrive at the best choice. The decision-maker must try to establish a relationship between several alternatives for visualising different outcomes. In several scenarios, models are a very effective tool for arriving at a decision.

Step 4: Evaluation: In the previous step the models were formulated and evaluated on the basis of hypothetical variables. But in this step the decision-maker must analyse the model on the basis of realistic components. Here the model and its assumptions are put to a reality check for evaluating their utility and feasibility.
Step 5: Framing a Decision: Evaluation of various models and the data at hand help in arriving at a decision for a particular problem. The quality of decision depends on the reliability of the available data and also on the validity of the various developed models. Framing a decision may not be possible in the absence of authentic data and flexible decision models.

Step 6: Follow-up Actions: Perhaps the most important consideration in arriving at a decision is anticipating its likely impact or reaction on the concerned areas. Hence, the decision-maker must have follow-up plans or strategies for dealing with the reactions of implementing the selected decision. Strategies to counter the reactions, both immediate and long term have to be put in place. Decision-making is termed as a continuous process as one decision often leads to a state where further decisions are required to be made.

Techniques of Decision-Making
The techniques of decision-making are as follows:

1) **Marginal Analysis**: Marginal analysis is an important decision-making technique as it helps in determining the level of increase in the output by addition of a variable like-machine, material, man, etc, Put simply, it seeks to find out the difference that one extra unit of a specific input would make to the output, while other inputs remain the same. This technique is extensively used by decision-makers to analyse the impact of various alternatives on the decision-making procedure.

2 Financial Analysis : analysing cash inflows and outflows.

3) Break-Even Analysis: Break-even point is that point of sales at which the investments made and the profits generated by the firm are at equilibrium. Break-even analysis is another powerful tool used by economists to determine the scale of operations required to make a unit cover the costs and start making profits. This helps decision-makers to select and choose the most economical alternative.
4) Ratio Analysis: This technique is used for determining the link between two variables and for achieving a better understanding of accounting information. Ratio analysis technique is used by financial analysts to determine various financial parameters like profitability, debt, financial strength or weakness, etc. This tool also helps in studying the relationship between past and present financial reports.
5) Operation Research: This is perhaps the most scientific technique to understand industrial or commercial operations and predict outcomes. Operations research is a scientific method to understand all the systems and sub-systems involved in an operation.

It uses mathematical tools and modelling to predict outcomes that help in simulating real life situations that may arise as a result of decisions. Operations research theories and models like, decision tree analysis, stimulation models, queuing model, game theory, transportation model, etc., are extremely significant for making sound decisions.

Pareto Analysis: Pareto analysis helps in identifying the areas in the business that will help in rainin maximum profits.

7) Paired Comparison Analysis: Paired comparison analysis is helpful in framing a decision when accurate data is not available to solve a particular problem. Instead of comparing a large number of options, this approach believes in reducing all available alternatives into pairs and then selecting the best option. It is useful tool for making comparison of related as well as unrelated options like decisions regarding purchasing a new machine or adopting latest technology or venturing into new markets. Paired compariso analysis facilitates the decision-maker in setting priorities in case there is a dispute regarding utilisation of limited resources.

8) Grid Analysis Decision Matrix Analysis/ Pagh Matrix Analysis: This analytical tool is especially useful in taking complex decisions when there are a large number of alternatives, the choice is not obvious and there are multiple factors to contend with. It is a highly evolved technique which helps the decision-maker in making decisions where the desired alternatives are not available.

9) Force Field Analysis: This is a technique of weighing all the pros and cons of an issue, ie, the factors and forces in favour or against a particular decision. By comparing the two sets of options decision-makers artive at the decision which would have the least negative or adverse impact

10) Brainstorming: Brainstorming is a creative process that is free from group pressures and traditional decision-making process. This is a time tested technique to broaden the base of the decision-making process by involving a large number of persons and generating as many ideas as possible. This is a technique to generate uninhibited ideas without the fear of rejection or criticism. 11) Nominal Group Technique: In the nominal group technique, any form of communication or information sharing is restricted. Here the members put forth their suggestion on individual basis and finally all the suggestions are put to vote. The most popular suggestion is then accepted. In this technique, individuals contribute their inputs individually and reach an unbiased decision as a group to approve the most favoured idea or solution.

Importance of Decision-Making

Decision-making is one of the most significant tasks of management and its importance can be understood with the help of the following points:

1) Efficient Resources Utilisation: Efficient resource utilisation is essential for the success of the organisation. Decision-making helps the organisation in realising its goals while ensuring the effective use of organisational resources like men, machines, materials, methods, money, and markets (6 Ms). The decision-maker must frame correct decisions in order to efficiently utilise all these resources.

2) Facing Problems and Challenges: All businesses are faced with challenges and problems, either internal or external. Sound and prompt decisions enable the management in successfully facing and resolving problems and challenges

3) Business Growth: The objective of all businesses is to not only to make profits, but also to achieve growth and development. This is possible only by quick, timely and sound decision-making. A business can expand and grow if it is able to exploit available opportunities and earn profits in a time-efficient manner. Sound decision-making helps the organisation to resolve problems and reach new growth avenues.

4) Achieving Organisational Goals: Organisational goals can be achieved by making quick decisions. Rational and logical decisions help the organisation in realising organisational goals by defining the problem and evaluating available alternative solutions.
5. Increases Efficiency: Efficiency means achieving the maximum output with the minimum input. returns with low investments can be achieved only by sound and deliberated decision-making.

6. Facilitates Innovation: Rational and sound decisions help the managers in coming up with innovative and creative solutions to the identified problems. Decision-making aids innovation as it helps in rejecting impractical ideas, generating new ideas, launching new products, etc.

7) Motivates Employees: Sound, rational and transpiration decisions go a long way in motivating employees and in improving their performance. Rational decisions help the organisations in earning higher profits due to which employees develop a sense of faith and trust in the decision-making process.

8. Effective Management: The significance of sound decision-making on management effectiveness can never be undermined. The decisions taken by the management have an immense impact on the thinking and work performance of the employees, While making decisions, the managers should make sure that the organisational resources and time is utilised efficiently and effectively. Management decisions impact the overall policies and culture of the organisation.