Organizational Behaviour - II
Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology – Kharagpur

Lecture – 32
Decision Making (cont.)

Namskar. Today, we will be continuing with our discussion on the topic "Decision Making". This is Module VII, Lecture II. In the previous lecture, we have discussed the Concept of Decision Making, the Definition of Decision Making and the Types of Decisions. In today's lecture, we will be talking about Organizational Decision Making, Employee Involvement in Decision Making, and we shall also be discussing an Analytical model of Decision Making. So, let us begin with the lecture.

(Refer Slide Time: 00:56)

So, we will be discussing Organizational Decision Making, Employee Involvement in Decision Making and an Analytical Model of Decision making.

(Refer Slide Time: 01:05)

Organizational Decision Making

- Decision making happens when people in organizations are faced with a problem, and must respond to it.
- Every organization grows and succeeds as a result of decisions made by the employees either as individuals or as groups, irrespective of whether they are the lower, middle or the higher level rungs of the organizations.
- Decisions are often complex and risky, without any surety that they are the right decisions and would lead to success.

Now, when we talk of decision making, as we discussed yesterday, it is choosing amongst alternatives to solve a problem, or to take advantage of an opportunity. So, going by that, decision making happens when people in an organization either as individuals, or as a team, or as a group, or as a department, or the organization as a whole, faces a problem and so, people must respond to it.

So, decision making happens when people either as individuals, or as a team, or as a group, or as a department, or as an organization as a whole, faces a problem which must be addressed. So, every organization grows and succeeds as a result of decisions made by the employees, either as individuals, or as groups, and irrespective of the level at which they are, irrespective of whether they are at the lower level, or at the middle level, or at the higher levels, of the organization.

So, decision making happens when people in an organization are faced with a problem and people either as individuals, or as groups, irrespective of whether they are at the lower level or the middle level, or the senior level, they actually take decisions and implement them so that they can solve the problem, or they can take advantage of the opportunities.

Now, decisions are often complex and risky, without any surety that the decisions are right decisions, and would lead to success. In the previous lecture, I spoke about the VUCA environment, and therein I said the whatever decisions we take today, you know, there is very little surety, that those decisions are right decisions or when a decision maker takes a decision, he is very unsure about the outcome of that decision, or the consequences of the decision that he takes.

So, in a VUCA world, when we operate in conditions of a Volatile, Uncertain, Complex and Ambiguous environment, the decisions that we need to take are very complex and risky without any surety that they are the right decisions, and that they would lead to success.

(Refer Slide Time: 03:09)

So, as I said, decision making in organizations because of the VUCA factor, , you know, there are a lot of complex issues that need to be addressed. There is too little and too much of information; information gets stale and out-dated very quickly; constantly changing information; and when people make decisions in groups, there are conflicting viewpoints; they are conflicting perspectives; there are time constraints which require quick decisions with less certainty about the outcome as I just said; so decision making overall requires both individual effort as well as team and group effort. And whenever decisions are taken in a group, those decisions arise either as a majority decision, or as a consensus amongst group members. What this means is that supposing there is a group of 7 people and amongst these 7, you know, there is a divergence of opinion; and while 3 of them support one decision, the other 4 support another alternative as a decision; so if a vote is done, and it is 4 : 3 so, that is a decision based on the majority vote. On the other hand, if all of them decide to arrive at a compromise, all of them decide to cooperate and arrive at a compromise, then it is a consensus. So decision making in organizations, is often done in VUCA environments, as we have said earlier. Complex issues; information from multiple sources may be reliable; may not be reliable, gets outdated very quickly; constantly changing information; divergence of viewpoints of group members, who are supposed to take a decision if it is a group decision making; there are huge time constraints; you require quick decisions and you cannot be sure

620

about the consequences of these decisions; so decision making in organizations is very, very complex.

(Refer Slide Time: 05:11)

Now, according to Herbert Simon, according to Herbert A. Simon, there are 3 phases in the decision making process. There is an intelligence activity; there is a design activity; and there is a choice activity; Intelligence activity pertains to searching the environment for conditions requiring decision making. Design activities - conceiving, developing and evaluating possible alternatives; and Choice activities, is selecting a particular alternative.

So, according to Simon, there are three phases in the decision making process; you start with an intelligence activity, where you are searching the environment for conditions requiring decision making, which means you are searching the environment for either identifying a problem or looking for an opportunity; the design activity is when you are considering, developing and evaluating the different options or the different alternatives that you have to solve the problem, or to take advantage of the opportunity; and the choice activity is when you select a particular option or a particular alternative.

(Refer Slide Time: 06:14)

Now, speaking on similar lines, Mintzberg and his colleagues, proposed the following phases of, you know, decision making. And they said that there are three phases of decision making - the identification phase; the development phase; and the selection phase. And solutions are arrived in three ways either on the basis of judgment of the decision maker, or as an analysis of alternative courses of action on a rational logical basis, or on negotiation and bargaining.

(Refer Slide Time: 06:55)
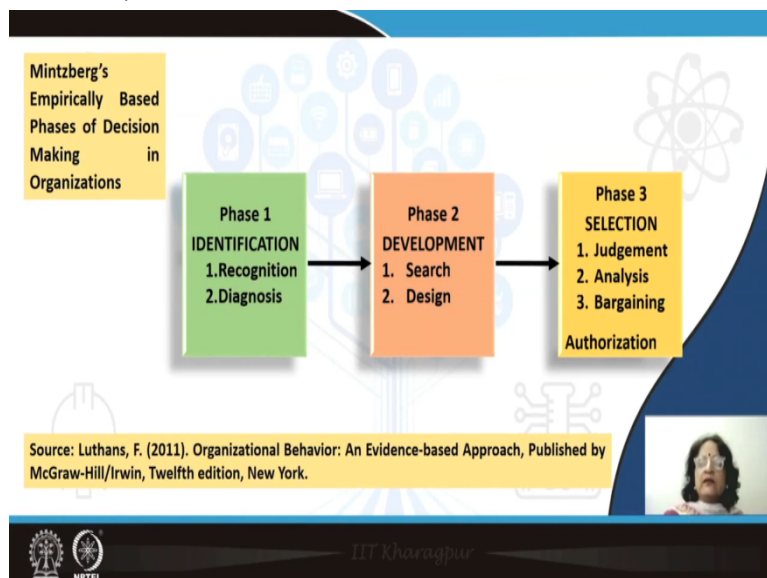
So, I will explain this to you through this figure here, if you see. This is Henry Mintzberg's Empirically based Phases of Decision Making in Organizations that is borrowed from Fred Luthans's 2011 book, Organizational Behaviour, published by McGraw Hill/Irwin 12th edition, New York and the name of the book, title of the book is Organizational Behaviour: An Evidence Based Approach which was published in 2011.

So, this figure is borrowed from the book by Fred Luthans published in 2011. I mean the 2011 edition, which is the 12th edition. Now, if you look at this framework here, there is phase I, which talks about Identification; Phase II is Development; and Phase III is Selection; So, the phase I is an identification phase which has two parts - recognition and diagnosis. So, identification phase involves problem recognition and/or realizing that there is an opportunity and diagnosis. So, phase I the identification phase has two parts. It is recognition of a problem and/or realization of an opportunity and the diagnosis; Phase II is the Development phase, which involves search and design. So, you search for existing solutions and procedures or designing new solutions. So, in case a problem is a programmed decision, which is a routine problem and, you know, Standard Operating Procedures exists to solve such problems, we have discussed this in the previous lecture, if you recall; so in case the problems are programmed decisions, in those cases, you know, you actually search for existing solutions and procedures.

On the other hand, if the decisions are non-programmed ones, which means that the problems are, you know, complex, non-routine, novel, in those cases you have to design new solutions. So, the development phase here, implies searching for existing solutions and procedures, if there are precedents, or designing new solutions as in the case of non-programmed decision making.

So, the development phase according to Mintzberg will mean that you are searching for new solutions, or existing solutions; you are either searching for existing solutions and procedures or designing new solutions. So, you either search, I am repeating, you either search for existing solutions or you design. So, you have here, this Development phase, which implies searching for existing solutions and procedures, or designing new solutions. Often, this would mean a trial-and-error approach.

The third phase which we have is the selection phase which is choice of a solution. Now, when we talk of choice of a solution, solution may be arrived in three ways - Judgment of the decision maker based on his experience, based on his intuition; Analysis of the alternative courses of action on a rational, logical, systematic basis, or negotiating and bargaining in case of group decision making, and after a decision is taken, an authorization is made.

So, according to Henry Mintzberg, there are three phases of the decision making process - the identification phase, which involves identification of the problem or recognition of the problem or realization of an opportunity and diagnosis; Second is a development

phase, which means searching for existing solutions and procedures or designing new solutions, and the third is the selection phase which is choice of an alternative, choice of a solution; and these solutions may be arrived in three ways - either as a judgment of the decision maker based on his intuition, based on his gut feeling, based on his experience, or through analysis of the alternative course of action on a rational and logical or systematic basis, or it could be through negotiation and bargaining in case of group decision making, and after a decision is taken, an authorization is made. Fine.

(Refer Slide Time: 11:52)

Now, decision making, if we see is a dynamic process with feedback loops in each of the phases, and decision making has both strategic and behavioural implications for organizations.

(Refer Slide Time: 12:06)

Now, as we all know, organizations are made up of people who make decisions both in their individual capacity, as well as in the team, or in the group, and they make use of both rational approaches as well as intuitive approaches based on past experience, based on gut feeling, based on their, you know, something which is there in the unconscious.

So, organizations have people, and people often make decisions either as individuals, or as groups, and they make use of both rational approaches to decision making as well as intuitive approaches to decision making. So, we emphasize upon individual decision making and group decision making, and we shall be discussing both individual decision making and group decision making in the subsequent lectures.

So, decision making will involve individuals and teams within departments, across departments, and even across strategic business units of the organization. And when a decision has to be made by a single person, a judgment form of decision is used, but in case, the number of people involved in the decision making are few, or decision making is being done by a group, in that case bargaining comes into play; in that case, either there is a majority or there is some kind of consensus, or there is some kind of compromise, some kind of a bargaining that happens and a compromise is arrived at.

(Refer Slide Time: 13:34)

Now, so, in organizations today, what we see, as I said in my previous lecture also, decisions are taken both rationally, as well as intuitively, and, you know, today's scenario is that the decision maker has complete information; he or she can identify alternatives in an unbiased manner, and choose a particular alternative which is of highest utility; but the problem that happens is that this complete information can get out-dated very quickly. Nevertheless, you know, when decision makers make a decision based on complete

information, it would require individuals to think and solve a problem logically and rationally. So, when a decision maker makes decisions based on complete information, he actually identifies the alternatives and then chooses the alternative which provides maximum benefit, or which provides maximum utility. And this requires individuals to think and solve a problem rationally, logically. So rationality is regarded as a means to an end. But what we see today, is also the fact that many times decisions cannot be solved through a logical analysis and evaluation of all alternatives. As I said, information sources are multiple; so, we cannot be sure about reliable sources; also information gets outdated very quickly.

So, decisions may not be arrived solely on the basis of logic, and cannot be solved through a logical analysis, or through perfect evaluation of alternatives. So, emphasis today is upon, reasonable rather than logical and rational decisions, and this is actually termed as 'satisficing' decision choice. This is also something which we will discuss when we do bounded rationality.
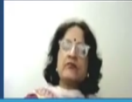
So, the emphasis today is upon reasonable, rather than on logical and rational decisions, and this is termed as a 'satisficing' decision choice. So, decisions are arrived not only on information and facts, but also on past experience, judgment, gut feeling, you know, intuition, etcetera. And so, decisions are arrived not on just information, logic and facts. Decisions are arrived on information and facts, gut feeling, based on past experience and judgment, intuition as well as our unconscious. So, this leads to the importance of behavioural decision making.

While we as decision makers try to gather all information, and arrive at a solution, you know, logically and rationally, that is not always possible. So, the emphasis is upon reasonable rather than logical and rational decisions, and this is known as satisficing decision choice where decisions are arrived on information and facts as well as gut feeling, based on past experience and judgment, intuition and the unconscious. So, this leads to the importance of behavioural decision making.

(Refer Slide Time: 16:43)

Behavioural Decision Making

- While the classical decision theory believes in decision making as rational and in conditions of certainty, behavioural decision theory does not.

- Behavioural researchers argue that people differ with respect to cognitive abilities, and possess limitations; managers must operate in situations of uncertainty, and wherein information may be incomplete, out of date and ambiguous.

- While companies use advanced information technology tools and techniques for decision making, behaviourally oriented decision-making techniques need to be used.

Now, what is behavioural decision making? So, we see that while the classical decision theory believed that decision making is rational, and in conditions of certainty, behavioural decision making does not believe in that. The classical decision theory was that decisions should be based on logic, and facts, and figures, and decision should be very logical, very rational, very pragmatic. So, while the classical decision theory believes in decision making as a rational activity, and something that happens in conditions of certainty, the behavioural decision making counters that. It does not believe in that. Behavioural researchers argue that people differ with respect to their cognitive abilities, thinking capacities and people possess different kinds of limitations. So, managers must operate in situations of uncertainty and information can be incomplete, out-of-date, and ambiguous.

So, even if companies use, you know, advanced information technology tools, behavioural oriented decision making techniques must be used. So, while the classical decision theory approach was on facts, figures, rational and logical problem solving, that happens in certain environments, or that happens in conditions of certainty. Behavioural decision making does not believe in that. Behavioural researchers argue that most decision making which happens, is in environments of uncertainty. People differ with respect to their cognitive abilities and thinking processes and capacities, and managers must operate in conditions of high uncertainty. Information may be incomplete or gets out of date very quickly. And so, you know, only rational decisions are not always possible. And so, while companies use advanced information tools and techniques for decision making today, behaviourally oriented decision techniques are also required.

And that lays focus on the use of behaviourally oriented decision making tools and techniques. So, behavioural decision making is considered to be very relevant, you know, for organizations.

(Refer Slide Time: 19:11)

So, also with the gradual elimination of hierarchical relationships, hierarchical organizational structures with traditional superior-subordinate relationships, also with the rise of teams, horizontal structures, and the growing trend towards boundary spanning information technologies, participation in decision making is on the rise.

Companies lay a huge emphasis on participative decision making, whether it is with respect to goal setting, or it is with respect to, you know, designing strategies and developing plans for implementation and execution, you know, managers try to enlist the support of, you know, of the subordinates who are going to implement those plans, and so participative decision making is on the rise.

In all organizations where we see that it has been hugely understood that decision making should be participative, and whether it is to do with goal setting, or it has to do with, you know, developing plans for implementation or execution, the participation of the subordinates is sought during planning and conceptualizing.

So, with gradual elimination of hierarchical structures with traditional superior-subordinate relationships, where the superiors ordered and the subordinates complied , you know, with the gradual elimination of that, as well as with the rise of teams, horizontal structures and growing importance of boundary spanning information technologies, participation in decision making is on the rise, and the behaviourally oriented techniques make use of participation, which can be formal, which can be informal, and which

can again range on a scale from non-participation of subordinates to full participation of the subordinates, or non-participation to full participation of many. So, behaviourally oriented techniques make use of participation, which may be formal or informal, and which may range across a continuum from no participation to full participation by employees.

(Refer Slide Time: 21:35)

- There are both pros and cons of participative decision making, and the degree and nature of participative decision making may have different outcomes.

- Nevertheless, the pros of participative decision making far outweigh the cons.

- One of the problems that is faced in participative decision making is pseudo-participation.
  - this happens when managers ask for suggestions or opinions, and when the subordinates provide inputs, these are never recorded or considered by the management, and no feedback is provided. This can have a negative impact on employee satisfaction.

So, there are both pros and cons of participative decision making, and the degree and extent of participation will have varied outcomes. Nevertheless, the benefits that emerge from participative decision making are much more than the costs involved. So, there are both pros and cons of participative decision making, and the degree and nature of participative decision making will have different results.

Degree and nature determines how much of participation is required, and what kind of participation is required. So, there are advantages and disadvantages associated with participative decision making, and the extent to which people participate and the kind of participation that they are allowed, will have different results. While participative decision making, you know, may involve, you know, costs, yet the benefits that emerge are much more. So, the pros of participative decision making far outweigh the cons.

One of the problems that is faced in participative decision making is pseudo-participation. Pseudo-participation happens when managers ask for suggestions or opinions from their subordinates, and the subordinates provide these inputs, but these inputs are never recorded, or never considered by the management, and no feedback is provided. So, this is what we call it a pseudo-participation. So, managers asked for suggestions or opinions, and when subordinates provide their inputs, these are never recorded or they never considered

by the management. So, this can have a negative impact on the subordinates, and on the morale, and it can have a negative impact on employee satisfaction.

So, participative decision making has its pros and cons, but the pros of participatory decision making far outweigh the cons of participative decision making.

(Refer Slide Time: 23:30)

And so participative decision making should be encouraged.

Then we come to employee involvement in decision making. As I said a little while ago, employee involvement in decision making is useful for organizations; it leads to cooperation; it leads to poor determination; it leads to workers participation; you know, problems can be better identified; realistic and practical alternatives or choices can be generated because very often employees have actually experienced the real picture, you know, and they know the ins and outs of business at the grass root level. So, they would be able to provide a better and a realistic picture, and so they will be able to not only identify problems in a better manner, but they will be also able to offer realistic and practical alternatives and choices, and the best alternative can be selected. Also, when people are involved in decision making, you know, it leads to greater involvement and commitment from the employees and, you know, with respect to the implementation. So, once employees are involved in decision making or in planning, there will be greater involvement and stronger commitment to implement the decision. So when we talk of, you know, the decisions earlier traditionally, going by the hierarchical structured, superior-subordinate relationships, most decisions were top-down decisions, where the upper level managers made decisions, and imposed them on the workers, on the lower management, or on the lower level workers. But today, things have changed. When decision making is very, very participative, when

employees are involved in decision making, it leads to cooperation, co-determination, worker's participation, and it can be highly useful for organizations. So, there is what we call, what is happening now, is termed as empowered decisions, where lower level workers make decisions for themselves, and can be a part of decision making.

So, while the goal or the major goals are set by the top management, the implementation and execution at the ground level, is left to the workers, and they can plan out or work out on their day-to-day plans, you know, and make decisions for themselves.

(Refer Slide Time: 25:58)

So, while top-down decision making involves decision making being vested with the upper level management, wherein decisions were made by the superiors, and followed and implemented by employees at the lower level,

(Refer Slide Time: 26:12)
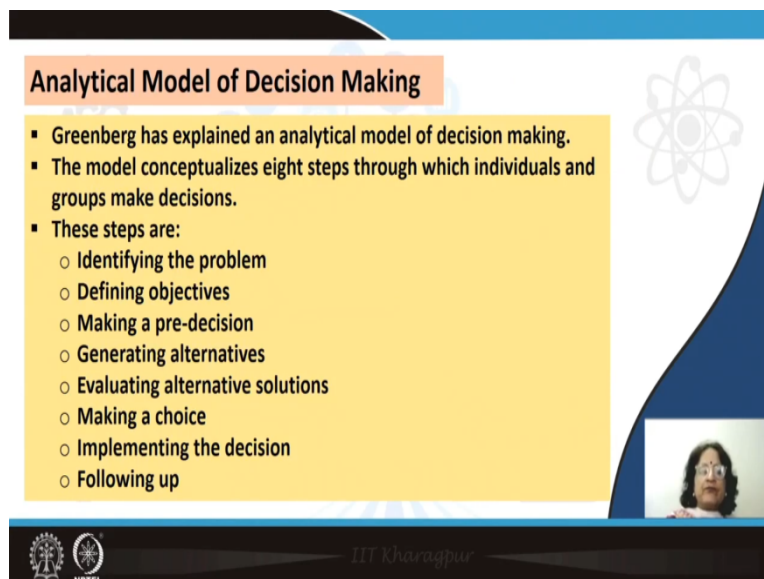
today, what we find is empowered decision making. So, decision making lies in the hands of the employees. They are given the power to take decisions which will help them solve problems quickly at the lower levels, and help them solve the problems that they are facing at the lower levels and help them work effectively. So, when people are empowered to take the decisions for matters which concern them, there is higher satisfaction and greater commitment to work. And they would also be taking responsibility of the consequences that follow. Like for example, if you see this figure, which has been borrowed from Greenberg's book, you know, on Behaviour in Organizations, you can see here - higher levels of the organization and the lower levels of the organization. In the higher levels of the organization, you have the Upper level, Manager A, or Upper Level Manager B, and he instructs worker A and worker B.

So, that was typically the traditional format. But today, Upper Level Manager A Or Upper Level Manager B, would communicate the goal broadly to A and B, to worker A and B and then worker A and B will get together with worker X and Y, and make their own decisions, you know, which will be more to do with the tasks that have to be performed, and the manner in which they have to be performed so that the overall goals and objectives of the organization can be met.

So, while the top level or the upper level decides on the broad goals and objectives, the lower level planning and implementation is left to the workers. So, worker A, B, X and Y get together and communicate with one another, and take decisions. So, it leaves decision making highly empowered.

(Refer Slide Time: 28:00)

632

Finally, we come to an Analytical model of decision making. Greenberg has explained an Analytical model of decision making which conceptualizes eight steps through which individuals and groups make decisions. So, the steps are - identifying the problem, defining the objectives, making a pre-decision, generating alternatives, evaluating the choices, I mean, evaluating the alternative solutions, making a choice, implementing the decision, and following up.

(Refer Slide Time: 28:29)

And, according to Greenberg, all these all decisions may not follow the eight steps. Some steps may be skipped, some may be combined. So, this particular approach here specifies three important phases: formulation, consideration and implementation. Formulation involves understanding the nature of the problem; Consideration involves determining possible solutions and selecting one of the alternatives to solve the problem; Implementation means executing the decision to solve the problem. So, there is formulation, consideration and implementation.

Formulation is when you understand the nature of the problem. Consideration is when you determine possible solutions and select one of the alternatives, and Implementation is when you execute the decision, and these eight steps can actually be categorized under three phases.

So, decision formulation would mean identifying the problem, defining the objectives, and making a pre-decision; decision consideration would mean generating alternatives, evaluating alternative solutions, making a choice; and decision implementation would be implementing the decision and following up.

(Refer Slide Time: 29:31)

Analytical Model of Decision Making

- Greenberg has explained an analytical model of decision making.
- The model conceptualizes eight steps through which individuals and groups make decisions.
- These steps are:
  - Identifying the problem
  - Defining objectives
  - Making a pre-decision
  - Generating alternatives
  - Evaluating alternative solutions
  - Making a choice
  - Implementing the decision
  - Following up

So, if you see the first three are decision formulation, the next three are decision consideration, and the last two are decision implementation.

(Refer Slide Time: 29:42)

REFERENCES

- Aswathappa, K. (2014). Organisational Behaviour: Text, Cases, Games. Himalaya Publishing House, Mumbai.
- Greenberg, J. (2013), Behavior in Organizations, Tenth Edition, Prentice Hall of India, Delhi.
- Luthans, F. (2011). Organizational Behavior: An Evidence-based Approach, Published by McGraw-Hill/Irwin, Twelfth edition, New York.
- Mintzberg, H., Raisinghani, D. and Theoret, A. (1976), "The structure of" unstructured" decision processes", Administrative Science Quarterly, June, pp. 246-275.
- Prasad, L.M. (2020), Principles and Practice of Management, Sultan Chand & Sons, Delhi.
- Robbins, S.P. and Judge T.A. (2017). Organizational Behavior, Seventeenth edition, Pearson Education UK.
- Robbins, S.P., Judge T.A. and Vohra, N. (2018). Organizational Behavior, Eighteenth edition, Pearson Education India.
- Simon, H.A., The New Science of Management Decision, Harper, New York, 1960, p. 2.

(Refer Slide Time: 29:47)

So, with this, I come to an end of this lecture. We shall be continuing with the topic in the next lecture. Thank you.