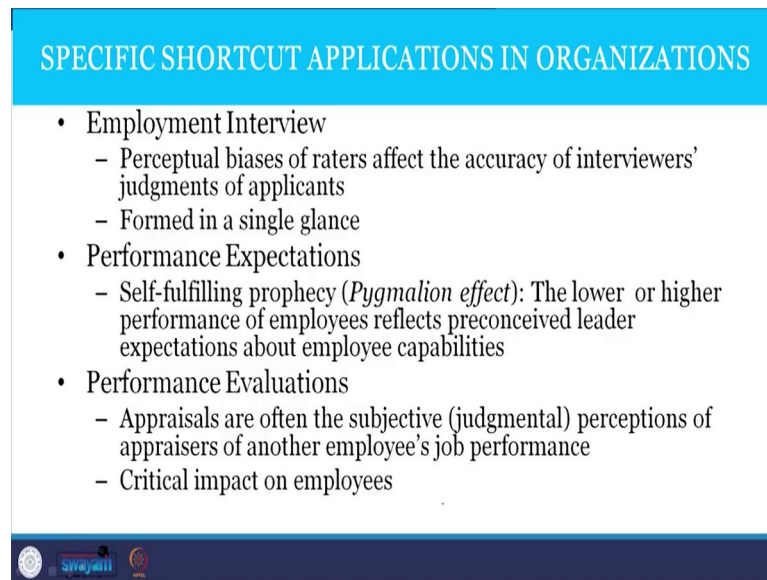**Lecture - 19**
Decision Making - II

In the previous lecture on Decision Making, we discussed about perception and its influence on decision making. And then we discussed about the frequently used shortcuts in judging others, stereotyping, profiling and selective perception, hallow effect, contrast effect. And here we will be discussing specific shortcut applications in organizations, and then we will discuss about perception and its influence on decision making.

So, I will start with the discussion on specific shortcut applications in organizations. During employment interviews, perceptual biases operators affect the accuracy of interviewers, judgment of applicants. In a single glance they can just judge whether the person is suitable or not. This generally happens. And during the performance interview or performance review, performance expectations also, there is self fulfilling prophecy or Pygmalion effect.

Lower or higher performance weightage is given or performance of employees reflects preconceived leader expectation about employee capabilities. Generally, it happens in organizations, an employee may be very good or he may be highly proficient, but if he is perceived as an underperformer by the supervisor, so that reflects in the performance or performance expectation, and he is always perceived higher or lower performer by the supervisor.
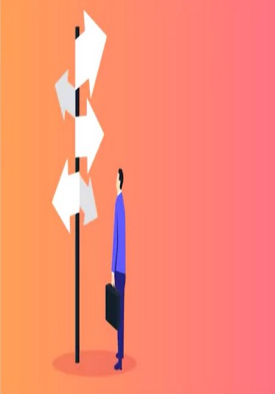
Performance evaluation or during performance appraisals, often the subjective perceptions of appraisers of another employee's job performance and critical impact on employees. During performance appraisal review or performance evaluation also, there are some problems or this perception plays a major role or shortcuts in judgment of others, interfere in decision making, perceptions and individual decision making.

What is a common problem? A perceived discrepancy between the current state of affairs and a desired state, there is a discrepancy in what we perceive the individual to be and his actual performance. So, an individual is never estimated on the basis of how he performs. And decisions are basically choices made among the alternatives developed from the data.

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And what is the linkage – perception linkage? All elements of problem identification the decision-making process is generally influenced by the perception, as discussed in the previous section, previous lecture. Problem must be recognized, and data must be selected and evaluated.

So, if we want to take an accurate decision, we also need to understand what are the problems, the problem recognition should be done, and we must collect the right data and remove any kind of perception biases in decision making. The data must be selected.

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So, now let us come to the discussion on decision making, how managers take decisions, what is decision making, and how the managers see decision making as the core activity in the organization. As all of you know that there are several problems in the organizations, and the problems can be sometimes unknown. The problems can be sometimes very small problems or larger problems.

And some complex problems need a rational decision making. So, decision making is very important activity in the organization. And managers at all levels make decisions. It is not that only the top managers make decisions; managers at all levels – the top, the middle and the lower level of management, they are involved in decision making.

The top-level managers make decisions about organizational goals and decisions of expansion of business, having a kind of strategic alliance with an alliance partner, and initiating a new business or launching a new product. So, such decisions are being taken by the top-level managers.
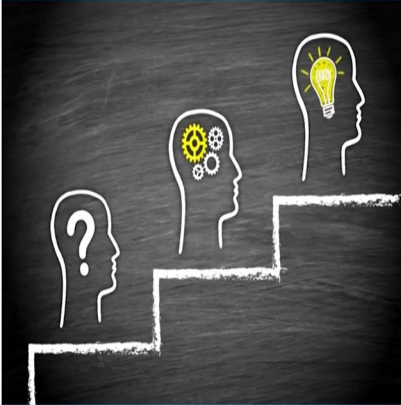
Middle-level managers make decisions about production schedules. As we have discussed in the previous section that production forecasting techniques, the production schedules, employee compensation, improving the quality of the product, cost minimization and optimization, or say improving performance, how to give compensation to employees, product and production scheduling, so such decisions are being taken by middle-level managers.

So, decision making is very important activity, and it is a core of planning process. Planning is incomplete unless decision is made about commitment of resources/ allocation of resources. So, moving on to the next topic like decision making, how it is defined, and decision-making process, we will discuss each one of them in more details.

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Decision making is defined as the act of choosing one alternative from a set of alternatives. The definition is being given by Koontz and Weihrich, but this is a simplistic view of decision making. But decision making is a process and not just a simple act of choosing the right alternative or selection of the best possible alternatives. Decision making process involves certain steps or eight steps are there in decision making.

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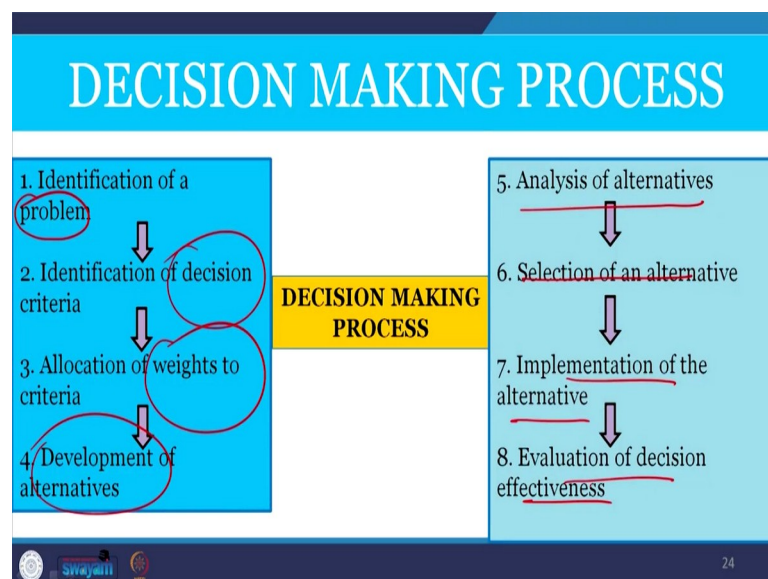
What are those? Let us discuss about the decision-making process. Identification of problem, then identification of a decision criteria or decision criteria, allocation of weights to those criteria, development of alternatives, and analysis of alternatives, selection of alternatives, implementation of an alternative, and evaluation of decision effectiveness.

Earlier, what we learnt is decision making is defined as *an act of choosing the best possible alternatives among the set of alternatives.* But, however, we see that it is a complete process involving different steps. Let us go by each of them in more details. Step 1 is identification of a problem. What is a problem in the organization?

As we discussed about the first section of decision making that an organization has complex problems, an organization has several wicked problems, that means, some problems may be of enormous intensity, some problems very complex which do not have a shortcut or which cannot have a very clear alternative.

So, problems like selection or selection problem, recruitment say selecting a right candidate or say taking decisions about promotion, taking decisions about say, transfer of an individual to another department or section or it can be problems of a new product development or it could be product improvisation or providing a better service or

It could be as complex as dealing with a situation of pandemic which we are presently encountering and which will have large repercussions on the organization structure, the staffing, and compensation and so on, overall the performance of organization. So, many organizations have encountered several wicked problems very often and those problems need solutions. The managers need to take appropriate decisions in each situation.

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So, we will be learning about the step 1, that is how to identify a problem. Awareness of a problem is the first step of decision making. How can we be aware about a problem? Managers need to be under constant vigil to understand where the problem lies. And what is the definition of a problem? There is a status quo of an organization when there is an external influence or internal disturbance, there would be a disturbance in the status quo.

And a problem is considered to be one where there is a **discrepancy between existing and desired condition.** I would like to put it in another way, like say, suppose an organization intends to grow/expand in a different geographical territory or it intends to expand or include more number of products to its existing line of business.

So, the existing technology, infrastructure, the number of employees or the skill and competencies of employees, the resources allocated to the business may not be adequate for an organization to perform with a new set of objectives. So, there is a problem. The problem is defined as a discrepancy between existing and the desired condition or desired status quo, desired state of affairs.

So, the problem can be identified through scanning of the business environment. In the section 4, we discussed about environmental scanning. Environmental scanning, global scanning, we have discussed about the scanning of business environment. So, what is business environment, and how does how does it influence decision making?

So, the manager must be aware about the various aspects of the business environment – the competitors, the competitor's intelligence, the knowledge about the competitors, various strengths, the business practices, the methods, the current technology, the core competency of the competitor need to be known by the manager, they also need to know what are the substitute products available in the market and which can pose a threat to the existing business.

And they must also have an assessment of the rules, existing government rules, the existing laws which may have an influence on the business decisions. And the current influence of the economic conditions and the political factors, the technology – the current technology which is adopted.

So, the entire scanning of business environment is important from periodic financial reports and performance reports also need to be known. Talking to other managers and seek advice on which problem should be tackled first.

So, this is the first point or identification of a problem which includes awareness of the problem, discrepancy between existing and a desired condition, problems can be identified through environmental scanning and various from periodic financial reports and performance reports can be scanned, can be reviewed and talking to other managers, give the manager an assessment of what the problem is and how it can be tackled.

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The 2nd step is <u>identification of decision criteria</u>. Identify the criteria that is important to resolve the problem. What are the criteria? What are the various attributes? Criteria guide manager's decisions. Like, I would say if the decision has to be made regarding selection of an individual for a particular position. So, identification of a decision criteria as a manager need to know like what is the position,

Which position the person has applied, which position has a vacancy and how many candidates have applied. So, the decision criteria will be for the position what are the attributes required, what is the criteria or attribute which is criteria or you can say what is the attribute required for selection of candidates, selection of candidates to the desired position.

Let us talk about one specific position say, person is a chief executive chief executive officer of a MNC. So, what is the criteria required? He should have strategic thinking, should have leadership ability, he should be having networking skills, he should be having excellent should be good in communication, should also have decision making ability decision making ability.

And so, these are some criteria, he should be able to connect network with others, connect decision making, should be having a ability to take to negotiate, then conflict resolution skills, conflict resolutions. So, these are some skills. Say suppose, if these are certain criteria for selection of a candidate as a chief executive officer of a multinational company. So, then out of the candidates who have applied, out of the 20 candidates who have applied, how will you take decision, how will you make a right choice or have an alternative or select the candidates who are suitable for this position?

So, in this case we have taken some decisions like strategic thinking, leadership ability or leadership style, networking skills, networking skills, communication, decision making, negotiation, conflict resolution.

And each one can be given some weight in a scale of 1 to 10. So, the candidates can be selected – the 20 applicants who have applied can be given a rating of 1 to 10. And the so we can take an objective decision, identify the criteria that is important to resolve the problem. Criteria will guide the manager to take decisions.

Example, that before purchasing for example, I will also give another example regarding purchasing a laptop. So, somebody wants to buy a laptop and you can identify memory, battery life, and the weight to be one of the important criteria. Today, because the laptop market is a flooded with lot of opportunities or say there are several alternative options available. We have the best of laptops from Apple and HP, then Samsung, Lenovo and so on.

And there are also substitute products available. So, we some while taking decisions, we always have to think which laptop is whether to buy a laptop or an iPad what would be most viable decision. While purchasing we acquired some decision criteria, identify the criteria that is important, attributes that are important. Those attributes could be the memory. First while selecting we look at what is the cost as a customer, I would first see the cost, does it suit my budget or not.

The second thing that would I would look at is the memory of the memory, then what is the battery life and what is the weight. And further after this you can still expand your decision criteria like whether what is a style, what is the size, whether it or other added accessories are provided or not, where the accessories are provided by the manufacturer. And after sales service the dealers then availability of dealers or so these factors also influence our decision-making ability.

So, concluding this part, what I wanted to say is identification of decision criteria is important. Identify the criteria that is important to resolve the problem. These criteria guide managers to take decisions. Example, before purchasing a laptop, one can take decisions, while selecting a candidate for an interview for a specific position like a chief executive officer in the MNC, you will have certain strengths and weaknesses.

You want to evaluate the person on the basis of certain criteria like strategic thinking, leadership ability or leadership style, negotiation skills, communication ability, decision making and say, conflict resolution skills, networking, say analytical capability and so on.

So, you can take decisions based on the criteria that you have accorded to selection for a particular position and they can be selected on the basis of a ranking scale and so on. So, this is how the decisions can be or identification of a decision criteria is very important.

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Allocation of weights to criteria: The next point that I will try to I will discuss is if all the criteria are equally important or not. While selection of a candidate for a particular position like for a hospital, if you want to select the chief medical officer, chief medical officer of a hospital is how important is this position. In present scenario, the health care and wellness industry are very important, health care segment health care and wellness industry is very important.

And the position of a chief medical officer in a government hospital is very important or you can say the chief executive officer of a health care and wellness center is very important. So, what criteria, what makes this position, what is important and which criteria is more important over the other criteria like what we discussed in the past in the previous example?

So, because decision making is a complex problem, we need to find out which criteria would be more important like the leadership skills, networking skills, communication, decision making, negotiation which out of all these attributes which one is more important than the other. Similarly, in case of laptop, selection of a laptop whether cost is important or the memory or the battery life, the weight, style, design, what is important, which is most important, we need to take decisions.

So, allocation of weights to criteria if all criteria are not equally important, so managers can allocate weights to items in order of priority, in order to prioritize them in decision

making. So, if we can make say, given importance to the criteria 1 or say certain criteria as the most important and then the least important criteria, we can identify that we can allocate some weights.

One way is to allocate the most important criteria a weight of 10 and then assign weights to the rest using a particular standard. For example, buyer of a laptop can assign 10 to memory and 9 to battery life, and 8 to weight and so on.

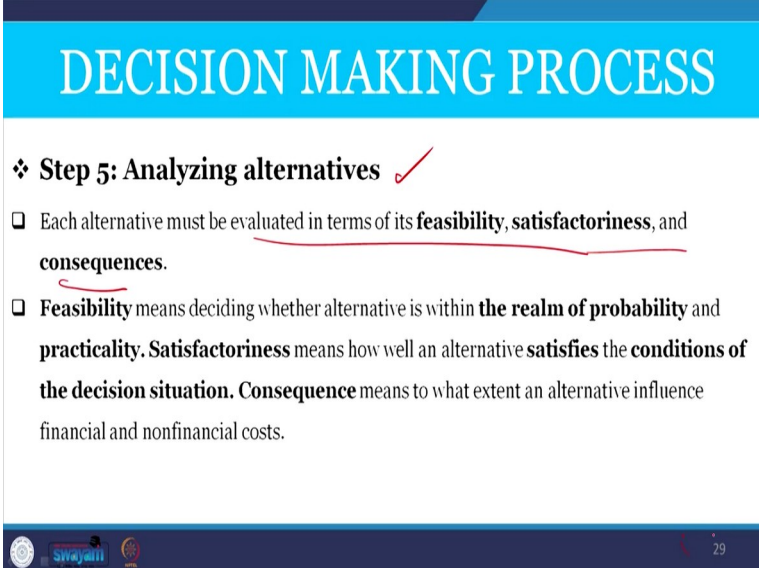(Refer Slide Time: 21:45)

So, next point is <u>development of alternatives</u>. Decision maker lists the alternatives, the viable alternatives that can help solve the problem. Limiting the search for alternatives is primary cause of decision failure in organizations. If we have limited number of limiting the search for alternatives, if we do not generate more alternatives, so this will lead to decision failure.

For a programmed decision, feasible alternatives are easy to identify and already available within the organization rules and procedures. As we already know that every organization has some guided rules and procedures to facilitate decision making. The programmed decisions, feasible alternatives are easy to identify they are already available with the help of the rules and procedures.

You can take straight decisions. Nonprogrammed decisions require developing new courses of actions. When the problem is new or the problem does not have a straight

away, we cannot arrive at a solution. So, we have to develop new courses of action, new alternatives. Alternatives for laptop purchase that is DELL, HP, TOSHIBA, LENOVO, ACER, etcetera.

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And like the next one analyzing the 5th is <u>analyzing alternatives</u>. How do we arrive at an alternative? In this, each alternative must be evaluated in terms of its feasibility, satisfaction, and what would be the consequence. So, suppose we select a laptop, the cost is very high whether it gives me a sense of satisfaction or not, whether it is feasible to buy a laptop within that budget or whether it is what is the consequence do

I get an after-sale service, if I invest an amount of money on buying a laptop which is very costly. So, each alternative must be evaluated in terms of its feasibility, in terms of its satisfaction, and in terms of consequence. Feasibility means deciding whether alternative is within the realm of probability and practicality. Satisfaction, means how well an alternative satisfies the condition of the decision situation. And consequence means to what extent an alternative influence financial and nonfinancial cost.

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Then 6th step is <u>selection of an alternative</u>, which involves choosing the best alternative. The alternative is one in which solution best fits the overall goal and values of the organization, which suits the overall goal and achieves the desired result using the fewest resource. Managers can use three basic approaches in selecting alternatives used based on experience, experimentation, research and analysis.

So, 6th step which is selection of an alternative involves choosing the best alternative based on what best fits the overall goal of the organization, overall goal and the value of the organization. Like a simple case, I would say selecting the right candidate for a particular position. Whether that objective; when you have a decision criterion and you are allocating weights and selecting a person for a particular specific position like say, what we discussed in the previous example, the chief executive officer for a multinational, chief medical officer for a hospital. And then you see that different weights are given to each criterion and the person who scores a higher weight on all these decision criteria would be finally selected.

So, the while taking a decision, selection of an alternative decision, we must see whether the selection best fits the overall goal and value of the organization. Whether the person who has been selected for a position is willing to execute the goals or will serve the purpose of collective good of the organization, collective goal of the organization.

And it achieves the desired result using the fewest resource, managers use 3 basic approaches in selection of alternative based on experience, based on their past experience, their experimentation, what is right, what is wrong and on the basis of that and research and analysis.

So, it is not decisions are not just taken with only the intuition, but with the help of a rational approach to decisions with the basis of the data which is gathered – the past data or the past available information or through careful research and analysis.

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The 7th step is implementation of alternative. Implementation, it means implementing the alternatives selected in step 6; while implementing, managers must reassess the environment for any change. Like, what we have been discussing about the change in business environment. As we already discussed that environmental scanning is important part in decision making.

During the planning stage the manager must have made a decision regarding a selection of alternative. But while coming to the implementation phase, again it is required to reassess the business environment for any kind of sudden emergence of crisis. For any kind of sudden changes in the business environment, because in a due course of time there are chances that there would be some change in the business environment.

So, assessment of business environment is assessment of environment of business environment. So, consider people's resistance to change. Then the next point is we should see whether there is any kind of resistance, because when there is a change there would be some resistance, the employees would not would resist to change insecurity due to insecurity, inconvenience, fear of unknown factors.

So, the manager needs to see how much is it feasible for bringing in change, say in while changing the structure, changing technology, bringing any strategic change. So, the managers must see the alternatives, see the assess the environment and the required to discuss with people affected by the decisions of communication, motivation and leadership skills.

They must also need to discuss with the people who would face this decision alternatives, who would be affected by the decision. The managers must communicate, they must motivate and they also need to exhibit the leadership skills. I would like to cite one more example. When there is an automation in any organization or when there is a restructuring like the State Bank of India has undergone a massive restructuring. And they have the associate banks of State Bank of India have merged with State Bank of India to become the largest bank of India.

So, in this reorganization, State Bank has tried to understand reassess the environment, they have also understood the resistance; the various areas of resistance to change and whether there is any kind of insecurity in the minds of people regarding the losing of their positions, their inconvenience, and several fear of unknown factors like they would not be they would be missing out the promotion, opportunities and so on.

So, the managers discussed with people who would be affected by the decision through regular communication, by motivating them, encouraging them and exhibiting their leadership skills.

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DECISION MAKING PROCESS

❖ **Step 8: Evaluation of decision effectiveness**

❑ Decision makers **gather information** to know how well the decision was implemented and whether it was effective in achieving its goals.

❑ **Feedback** provides decision makers with this information. Feedback assesses **whether a new decision** needs to be made.

❑ If an implemented alternative is not working, managers can implement alternative **in a different way** OR **adopt another identified alternative.**

Then 8th point that in the decision-making process is <u>evaluation of decision effectiveness</u>, what is, how do we evaluate? Decision makers gather information to know how well the decision was implemented and whether it was an effective decision in achieving its goal. Then the feedback provides decision makers with this information. Feedback assesses whether a new decision needs to be made, whether any kind of new decision is required or the prior decision viable one.

And if an implemented alternative is not working, managers can implement alternatives in a different way or adopt another identified alternative. So, these are various ways through which decision can be taken. So, with in this lecture what we discussed?

We started discussion with specific shortcuts which are applied in organizations in during the employment interview, performance expectation, performance evaluation process and which led to a problem and perception and individual decision making.

Then we discussed about decisions, what is decision making, how managers and middle-level managers, top-level managers take decisions. And then we started with a discussion of decision making is selection of best alternatives, but decision making does not appear to be as simple as in the definition. There is a decision-making process involved which includes: identification of problem, decision criteria, allocation of weights, development of alternatives, analysis of alternatives, and selection of an alternative, implementation and evaluation of decision effectiveness.

With this I would like to conclude; decision making is an important process which is applied in every aspect, every function of management. So, therefore a careful understanding of decision-making process and how an accurate decision can be taken will be understood in more details in the next section.

Thank you.