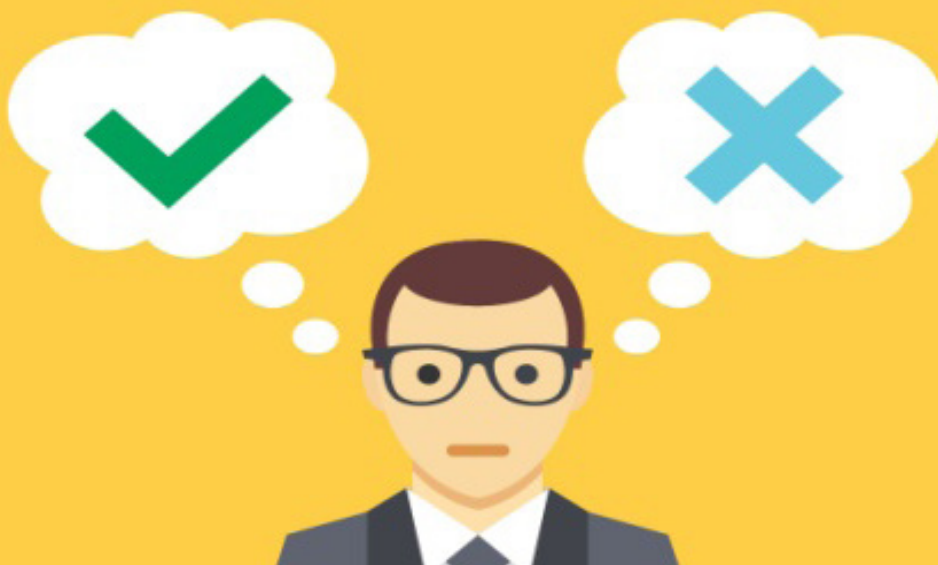


4

CHAPTER



Decision Making



LEARNING OBJECTIVE

Through this chapter the students can learn about the following:

- To know what is decision making and its importance in business
- To understand the characteristics of decision making
- Analyse the process of decision making
- To learn the types of decision making
- To apply decision making in practical business case.

CONTENT

- | | |
|---|--|
| 4.1 Introduction | 4.7 Process of Decision Making (or) Steps Involved in Decision Making |
| 4.2 Meaning | 4.8 Types of Managerial Decision |
| 4.3 Definition of Decision Making | 4.9 Case Study: Decision Making for Successful Startup Business |
| 4.4 Characteristics of Decision Making | |
| 4.5 Importance of Decision Making | |
| 4.6 Factors Affecting Decision Making | |

4.1 Introduction

In every organisation, decision making is an important task which should be taken by all the employers and workers irrespective of their rank and levels. Organisations face many problems during their course of business and a manager is bound to take

rational and ethical decisions in order to maximize the utility of the enterprise business. Almost all workers requires to take decision as to what is to be done, when it is to be done, where it is to be done, who is going to do it and how it is to be done. It is observed that whatever a manager does, he does through making decisions and

hence every manager can be viewed as a specialist in the art of decision making. It is by decision making all the plans and policies are translated in to action.

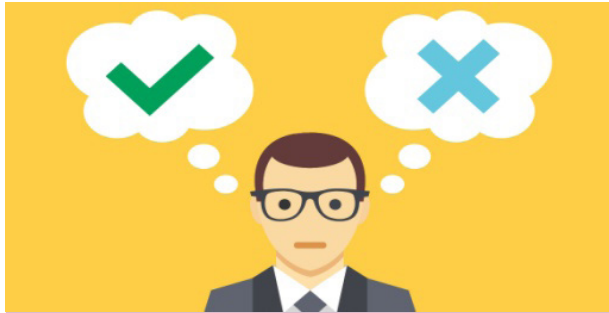


Figure 4.1 Decision Making

4.2 Meaning

The word decision has been derived from the Latin word “DECIDERE” which means “Cutting Off”. Thus decision making involves cutting off of alternatives between those that are desirable and those that are not desirable. So decision making is a kind of choice of a desirable alternative. Generally decision making is a psychological process resulting in the selection of a belief (or) a course of action among several alternative possibilities. It is a problem solving activity followed by an optimal solution to the business problem or situation.

4.3 Definition of Decision Making

According to George Terry **“Decision-Making” is the selection of an alternative, from two or more alternatives to determine an opinion or a course of action**

According to Philip Kotler **“A decision may be defined as a conscious choice among alternative courses of action”**

According to Henry Sisk and Clifton Williams **“A decision is the selection of a course of action from two or more alternatives, the decision making process is a sequence of steps leading to that selection”**

According to Herbert A. Simon **“Whatever a manager does is nothing but decision making”**

4.4 Characteristics of Decision Making



Figure 4.2 How to select Best Decision

1. Decision making is a goal-oriented process. It aims at achieving certain specified goals of the organisation.
2. Decision making is a selection process in which best alternative course of action is chosen from amongst alternative courses of action.
3. Decision making is a continuous process because a manager is required to take decisions continuously for different activities.
4. Decision making is considered both an art and a science.
5. Decision making is the responsibility of managers at different levels of management.
6. Decision making involves deep and careful thinking and hence it is a mental process.

7. Decision making can be both positive and negative (i.e) It may be positive to perform certain activities or negative not to perform certain activities.
8. Decisions are made for future course of action based on the past experiences and present conditions.
9. It may also be a decision not to decide for a problem.
10. It may be voluntary or induced
11. It is an ongoing activity.

DO YOU KNOW? Decision with facts will give more results. In Law courts decision of the judge is decided by the facts of the case.

4.5 Importance of Decision Making

1. Decision Making Makes it possible to adopt the best course of action in carrying out a given task.
2. By choosing the best method for doing any work, decision making ensures optimum use of the enterprise resources, namely, men, machines, materials and money.
3. Decision making helps to find a solution to any problem in a work place.
4. Decision making helps to identify the best course of action in each given situation and thereby promotes efficiency.
5. Decision is making an important aspect of planning
6. Correct Decision Making leads to more profitable business
7. Decision making helps in the prevention of wastage of time, resources, man power and money invested in business.

DO YOU KNOW? India took strong decision in conducting Pokhran nuclear test. The Pokhran-II tests were a series of five nuclear bomb test explosions conducted by India at the Indian Army's Pokhran Test Range in May 1998. It was the second instance of nuclear testing conducted by India; the first test, code-named Smiling Buddha, was conducted in May 1974.

4.6 Factors Affecting Decision Making

There are some factors which affect decision making negatively. They are also called as problems in decision making.

1. The decision taken by management should be a sound one. The soundness of the decision refers to its quality and reliability. If the decisions taken are not sound then it will mean waste of efforts and funds. The soundness of decision depends upon the sophistication of the decision maker, the information available to him and the techniques that he can make use of.
2. Another problem is timing of decision. If not properly timed, there is no use in taking a useful decision.
3. The physical and psychological environments have their influence on decision making. If the environment is satisfactory then there will be co-operation, proper understanding among the members of the organisation. It will provide better scope for research and analysis.
4. Effective communication of the decision is another important administrative problem of the management. Decisions taken should be clear, simple and unambiguous. Decisions made should be communicated to the

concerned persons in the language understandable by the receiver.

5. All members of an organisation should be encouraged to give their opinion on various aspects while arriving at important decisions. In most cases the top executive will not get opinion from the low rank executive because they think it is below their dignity. But this is not a good practice.
6. Some decisions taken by the top management is not accepted by the subordinates, hence democratic style of leadership is required to deal with such kind of employees and making them participative in the decision making process.
7. Just making correct decision will not solve the problem. Implementation of the decision and periodical review alone can produce the expected results.

DO YOU KNOW? On 8th November 2016, the Government of India announced the demonetization of all ₹500 and ₹1000 banknotes of the Mahatma Gandhi Series. It also announced the issuance of new ₹500 and ₹2000 banknotes in exchange for the demonetized banknotes. It is a big critical and strategic decision taken by government of India to eradicate black money circulation in India.

4.7 Process of Decision Making (or) Steps Involved In Decision Making

The decision making involves certain logical process which should be followed in the sequence by the manager. A decision to a business problem cannot be arrived immediately without any effort. It is a step by step process and involves mental work also.



Figure 4.3 Process of Decision Making

STEP 1 Identifying the Problem

The first step in the decision making process is recognising a problem. It involves defining and formulating the problem clearly and completely. Understanding and correct diagnosing of the problem will help in immediate solution. For example: A company product may witness decrease in sales. In a broad sense it will be presumed that due to increase in price may lead the problem to come down. But the actual problem is that customers may not like the quality of the product. Therefore the manager should clearly define for what problem they need a solution. That's why defining the problem may be a time consuming task but it is time well spent. Defining and analysing the problem involves identifying the critical factors and data which may be obtained from internal such as sales report, profit statements and external sources such as customer feedback etc.

STEP 2: Analysing the Problem

It involves the collection and classification of as many facts as possible. This is done because the quality of decision is depending on the quality of data used. By studying all the information in detail the manager can able to diagnose where the problem got emerged, what is the cause of the problem and what is the present and future damage of the problem.

STEP 3: Identifying and Developing Alternative Solution for the Problem

Majority of problems will have alternatives. A course of action does not become the best merely because it has been in use for a long time. Hence, the sound decision necessitates the consideration of all alternatives. In an organisation there will be some factors that stand in the way of accomplishing a desired objective. This is called limiting factor. So a manager should recognize these limiting factors so that he can develop many alternatives which can be used to overcome the limited factors.

STEP 4: Evaluating the Alternatives

After having developed the appropriate alternatives, the next step is evaluating them so as to choose the best one. Every alternative will have a merit and a demerit. So the manager wants to evaluate (assign weights) to the most suitable alternative. This can be done by comparing the alternatives with each other. While evaluating three factors should be considered. (a) Quantitative factors- Factors which can be measured (e.g) fixed cost such as building rent, Labour wages etc (b) Qualitative factors – Intangible factors which cannot be measured such as loss of reputation and goodwill (c) Cost Benefit analysis- finding the least costly way of reaching an objective or getting the greatest benefit out of less expenditure.

STEP 5: Selecting and Deciding the Best Course of Action

After the evaluation of various alternatives the next step is deciding the best alternative. The manager should take into account the economy, risk factors, the limitation of resources, and feasibility of its implementation etc, at the time

of deciding the best course of action. Selecting the best course by a manager will be by his past experience in a similar problem, experimenting by applying the alternative to some other problem and he may arrive by doing some research on the problem.

STEP 6: Implementing the Decision

After the best course of action or alternative option is decided the next step is to implement that to the situation and the same should be communicated to all the team subordinates.

STEP 7: Review and Follow Up of the Decisions

The action implemented must be evaluated by comparing the actual results arrived with the expected results. Any deviations must be noticed and corrective action should be taken. Certain alteration or modification in the decision can be made accordingly.



In 1991 the LPG policy adopted by Govt. of India is the biggest decision movie. Liberalization Privatization Globalization (LPG). The economy of India had undergone significant policy shifts in the beginning of the 1990s. This new model of economic reform is commonly known as the LPG or Liberalization, Privatization and Globalization model.

4.8 Types of Managerial Decision

- 1. Routine and Strategic Decisions:** Tactical or routine decisions are made repetitively following certain established rules, procedures and policies. They neither require



collection of new data nor conferring with people. Thus they can be taken without much deliberation. They may be complicated but are always one dimensional. They do not require any special effort by the manager. Such decisions are generally taken by the managers at the middle and lower management level.

2. Strategic or Basic Decisions:

On the other hand are important and so they are taken generally by the top management and middle management. The higher the level of a manager, the more strategic decisions he is required to take. The strategic decisions relate to policy matters and so require a through fact finding and analysis of the possible alternatives. Finding the correct problem in such decisions assumes great importance. The managers are more serious about such decisions as they influence the decision making at the lower levels.

3. Programmed/Structured Decision and Non Programmed/Unstructured Decisions:

They are routine and repetitive nature which is to be dealt with according to specific procedure. If an employee takes leave the manager can grant leave by approving the formal leave procedure. But if a majority employee takes leave the manager cannot take a routine procedure because all the employees taking leave at a time is not a routine problem.

These decisions are taken because of unstructured problem. There is no standard procedure for handling such problems. When all the employees take leave without any permission on a particular day is an unstructured problem. These non programmed

decisions require through study of the problem and scientific study of the situational factors.

4. Policy and Operating Decisions:

Policy decisions are of vital importance and are taken by the top management. They affect the entire enterprise. But operating decisions are taken by the lower management in order to put in to action the policy decisions. For example, a bonus issue is a policy matter which is decided by the top management, but the calculations of bonus issue is an operating decision which is taken at the lower levels to execute the policy decisions.

5. Organisational and Personal Decisions:

Organisational decisions are those which a manager takes in his official capacity. Such decisions can be delegated. But personal decisions, which relate to the manager as an individual and not as a member of the organisation, cannot be delegated.

6. Individual and Group Decisions:

When a decision is taken by an individual in the organisation, it is known as individual decision. Such decisions are generally taken in small organisations and in those organisations where autocratic style of management prevails. Group or collective decisions refer to the decisions which are taken by a group of organisational members, say board of directors (or) committee.

7. Strategic Decisions:

Strategic decisions (or) Basic decisions are complex in nature and are always taken after deep deliberations. Any mistake in such decisions will prove to be dangerous for the concern. These decisions can determine the very fate



of the organisations. Implementation of strategic decisions would require heavy investments and also greater commitment on the part of the staff. The decision to introduce a new product in the market or install very expensive machinery is an example of a strategic decision.

8. Routine Decisions:

Are taken for the functioning of the organisations. Much evaluation is not required. So it can be taken quickly. Though the decision is taken for routine activity powers are given to lower level management to take this kind of decision within their limit.

4.9 Case Study: Decision Making for Successful Startup Business

CASE STUDY

The Tamil Nadu Handloom weavers cooperative society, popularly known as Co-optex, is a cooperative traditional handloom and weavers of the Indian state of Tamil Nadu. This is under the control of Department of Handlooms, Handicrafts, Textiles and Khadi (Tamil Nadu) of Government of Tamil Nadu. The organisation owns a number of shopping outlets in Tamil Nadu. Co-optex also has an international presence, Co-optex International which exports its products to Germany, France, Netherlands, Belgium, Spain, Switzerland, Canada, Greece, Hong Kong, U.K, South Africa and the U.A.E. First time in 13 years, the state-owned handloom textile marketer Co-optex came out of record earning Rs 2 Crore profit during 2012-13. It recorded a sale turnover of Rs.245 crore and made a profit of Rs 2 crore as explained by its Managing Director on April 13, 2013 in a press statement. He said Co-optex, which has 203 showrooms, including around 70 outside Tamil Nadu had set a sales target of Rs 400crore for the current fiscal. To boost the sales, new varieties would be launched and a fashion show would be held in Chennai. He said adding similar event would be held in other cities.

Question

1. Evaluate the success story of co-optex and its record earning profits.

(Students refer co-optex and Tamil nadu govt official website and identify what key decisions made co-optex success to a new path particularly in the year 2013).

This case was taken in the context of co-optex success in the year of 2013.

Points to Remember

- Decision Making is the important task for managers irrespective of ranks and levels.
- Decision making is selecting a course of action from the available alternatives.
- Decision making is a continuous and mental process.
- Decision making should be done by proper timing, with correct information and with clarity.
- Every decision should be communicated to all executive in the organization.
- The process of decision making involves identification of the problem, analyzing the problem, developing alternative solution to the problem, evaluating the alternatives, selecting and deciding the best course of action, implementation of the action, review and follow up decisions.
- Types of decision making includes routine and strategic decisions, programmed and structured decision, Non programmed and unstructured decision, routine and strategic decisions, policy and operating decision, organizational and personal decision, individual and group decision.
- Programmed decisions are routine decisions in day to day business operations.
- Non programmed decisions are taken in an emergency.
- Policy decisions are taken by the top management.
- Operating decisions are taken at lower level employees.
- Decision making is essential in order to implement the plans.
- Decision can be made not to decide also.

A-Z GLOSSARY

Decidere	To cut off.
Quantitative factors	which can be measured like wages paid.
Qualitative factors	Which can be felt (or) Opinion (Example) Good will or Happiness.
Experimentation	Analysis of a fact scientifically.
Strategic Decision	A mix of long term and short term planning.
Programmed Decision	Routine and Repetitive action.
Policy Decision	Taken by top management.
Limiting Factor	Things which are preventing effective decision making.
Cognitive Thinking	Thinking through mind.
Review	To look back once again.

QUESTIONS

PART- A

Objective type Questions (1 Mark)

Choose the correct answer:

1. A decision to launch a new product plant is
 - a. Programmed Decision
 - b. Non-Routine decision
 - c. Personal decisions
 - d. Organizational decisions
2. Which decisions are repetitive and routine in nature?
 - a. Basic decisions
 - b. Personal decisions
 - c. Programmed decisions
 - d. Non-programmed decisions.
3. What strategic factors should a manager has to consider while evaluating alternatives?
 - a. Tangible
 - b. Intangible
 - c. Both (a) and (b)
 - d. Either (a) or (b)
4. The final step in decision making process is:
 - a. Selective of alternative
 - b. Developing alternative
 - c. Evaluation of Alternative
 - d. Implementation and follow up of decision
5. Strategic Decisions are made at which level.
 - a. Middle level
 - b. Lower level
 - c. Top level
 - d. At all levels.
6. Tactical decisions are also known as
 - a. operational decisions.



- b. programmed decisions
 - c. Acquisition of outside enterprises
 - d. All of the above
7. The first step in decision making process is
 - a. Identification and diagnosing the real problem
 - b. Evaluation of alternatives
 - c. Developing alternatives
 - d. Selection of an alternative
8. The word Decision is derived from the word.
 - a. DECIDERE
 - b. DECIDERE
 - c. DECIDAUS
 - d. DECICARE
9. Who equated management with decision making because whatever a manager does is nothing but decision making?
 - a. Felix M.Lopez
 - b. John Mc Donald
 - c. Andrew Szliagyl
 - d. Herbert A. Simon
10. Which factor is, failure of decision making?
 - a. Poor communication
 - b. Lack of quality data
 - c. Implementation in wrong timing
 - d. All the above.

PART –B

Very Short Answer (3 Marks)

Answer in Five lines:

1. Define Decision Making.
2. What is mean by DECIDERE?
3. What is Strategic Decision?
4. Define Unstructured Decision.
5. Explain Cost Benefit Analysis.



6. What is Intangible Factors?
7. Explain Limiting factor.
8. What is an alternative?
9. Review and follow up.
10. Group Decision: Explain.

PART- C

Short Answer (5 Marks)

Answer in one page:

1. Explain the important of decision making.
2. What are the characteristics of decision making?
3. Explain the problems of decision making.
4. Whether ethics should be followed in decision making or not Discuss.
5. What are various decision making alternatives?
6. Explain Factors affecting decision making process.
7. Describe the effects of poor decision making.

PART- D

Essay type Questions (10 Marks)

Answer within three pages:

1. Explain the Process of Decision Making.

2. Discuss in detail the various types of decision making.
3. Explain in detail factors affecting decision making.
4. AB Pvt ltd has appointed you as general manager and decided to increase a profit of 1lakh rupees per month. What decision you will take to increase the profit?

ACTIVITY

Teachers Activity:

1. Give them any business case study and ask them to identify key decisions taken.
2. Explain with chart several alternatives for a problem and how rational decision can be taken.

Students Activity:

1. Can ask the students to write examples for types of decision making.
2. Ask the students to prepare a chart for the decision taken by them in a day.
3. Prepare a list of decisions you want to do after completing their +2 exam.
4. You should prepare a routine structured decision for every day class.

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