Decision Making
Types of Decisions

Structure

1. Objectives
2. Introduction
3. Types of decisions
4. Approaches to decision making
5. How to approach decisions?
6. Techniques of decision making

1. Objectives

At the end of the session learners will be able to-

- List type of decisions

- Explain the approaches to decision making

- Analyze techniques of decision making

2. Introduction

A decision is a choice made between two or more available alternatives. Decision making is the process of choosing the best alternative for reaching objectives. Managers make decisions affecting the organization daily and communicate those decisions to other organizational members. Some decisions affect large number of organizational members, cost great deal of money to carry out, or have long term effect on the organization. Such significant decisions can have a major impact not only on the management system but also on the career of the manager who makes them. Other decisions are fairly insignificant, affecting only a small number of organization members, costing little to carry out and producing only a short term effect on organization.

There are four basic standards that can be used deciding the nature of decision and also the level of authority that should make the decision.

These are -

a) The degree of futurity in the decision

b) The impact of decision on whole organization

c) The number of factors involved in decision

d) The frequency of decision whether rarely or periodically taken

3. Types of decisions

Following are the main types of decisions an organization needs to take.

- Programmed and Non programmed decisions

- Organizational and Personal decisions

- Operational and Policy decisions

- Opportunity and Problem solving decision

- Routine and Strategic decisions

- Research based and Interactive decision

- Individual and Group decisions

- Major and minor decisions

❖ **Programmed and Non Programmed decisions-** Programmed decisions are taken in structured situation. These decisions are fairly structured and occur with some frequency and are concerned with the problems of repetitive nature or routine type matters. A standard procedure is followed for tackling such problems. Decisions of this type may pertain to purchase of raw material, granting leave to an employee, supply of goods to the employee etc. These decisions are generally taken by lower level managers.

Non programmed decisions are pertaining to difficult situations of which there is no easy solution. These are decisions which are taken in unstructured situation. Non Programmed decisions occurs much less often than programmed decisions. These are non repetitive and uncertainty involved decisions. These decisions are unique and novel. It requires thought and creativity. These decisions are taken by top level managers. Intuition and experience plays major role in taking these types of decisions. Non-programmed decisions relate to difficult situations for which there is no easy solution.

For example, opening a new branch of organization, decision regarding large number of employees' absenteeism, or offering education in another medium of instruction is non programmed decisions.

❖ **Organizational and Personal decisions-** When an individual takes decision as an executive in the official capacity it is known as organizational decision. Manager takes the decision in the organization. The manager has to take decision in the organization to pursue organization's vision, mission and goals. The manager gives direction to the employees on how to prioritize effort, which resources can be employed and the delegation of responsibility for activities.

When the individual is taking decision in his personal capacity it is known as personal or individual decision. Personal decisions are taken by the individual in his day to day life. One has to take lots of decisions every day, right from what to eat, what to wear, which stream to choose, which career to choose etc.

When an individual take decisions as an executive in the official capacity, it is organizational decision. If decision is taken by an executive in his personal capacity, thereby affecting his personal life, it is a personal decision. The authority of taking organizational decisions may be delegated, whereas individual decisions cannot be delegated.

❖ **Operational and Policy decisions–** Decisions pertaining to various policy matters of the organization are policy decisions. These are taken by top managers and have long term impact on the functioning of the organization. For e.g. decisions regarding location of the school, Board of the school are examples of policy decisions.

Policy decisions are long term in impact. They affect and shape the direction of whole business. They are generally made by top level managers. The Principal (managers) of the school need to take a strategic decision about whether to offer education in vernacular medium or offer it in English medium as per the need of the society will be strategic decision.

Operational decisions are related to day to day functioning or operations of organization. Middle or lower level managers take these decisions. These decisions have short term horizon as they are taken repetitively. These decisions are based on facts regarding the events and do not require much of organizational judgment.

An example may be taken to distinguish these decisions. Decisions concerning payment of bonus to employee are a policy decision. On the other hand, if bonus is to be given to the employees, calculation of bonus in respect of each employee is an operational decision. Other types of operational decisions are calculation of salary of each employee, calculating working days for the academic year.

❖ **Opportunity and Problem Solving decision-** Many a times, decisions are taken by the manager to grab the opportunity. These decisions are known as Opportunity decisions. These decisions are taken by the manager for growth and development of the organization.

Managers make decisions about both problems (undesirable situations) and opportunities (desirable situations). If there is any emergency or problem occurs in the organization, then manager has to take quick decision to come out from that situation. These decisions are known as problem solving decisions. For this, the manager must be a good problem solver.

❖ **Routine and Strategic decision–** Routine decisions are related to the general functioning of the organization. The decisions are repetitive in nature. They do not require much evaluation and analysis and can be taken quickly.

Strategic decisions affect organizational objectives, goals and other important policy matters. These decisions usually involves huge amount of investments or funds. These decisions are taken after careful analysis and evaluation of many alternatives. These decisions are taken by top level managers. These decisions have a long term implication on the organization. The manager needs to be good visionary for taking strategic decisions. Strategic decisions look ahead to the longer term and direct the company to its destiny. They tend to be at high risk and high stakes. They are complex and rely on intuition supported by information based on analysis and experience.

❖ **Research based and Interactive decision-** Research based decisions requires lots of evidences to be collected before actual action to be taken. For this one has to do lot of research for finding out the alternatives and asses the consequences of those alternatives. In the context of crisis the manager has to do lot of research to come out of that crisis.

Most of the time it is the manager who take the decisions in the organization but there are situations where the manager alone cannot take decisions. He has to consult, interact with other team members in this regard. These are interactive decisions. Interactive decisions, are easier, faster, and can be more accurate.

❖ **Individual and group decisions–** When the decision is taken by single individual it is known as individual decision. Usually routine type decisions are taken by individuals within the broad policy framework of the organization.

Group decisions are taken by group of individuals constituted in the form of committee. Generally, very important and pertinent matters for the organization are referred to this committee. The main aim in taking group decision is the involvement of maximum numbers of individuals in the process of decision making. For instance, decisions pertaining to NAAC visit to the college can be taken in group and suggestions, views and opinions of the faculties can be taken in group decision. Different committees will be formed by the principal and work will be delegated to different teams.

4

❖ **Major and Minor decisions-** Major decisions are taken by top management. Decision
pertaining to purchase of new land for a new branch of school is a major decision. Decision
pertaining to purchase of office stationary is a minor decision which can be taken by office
superintendent.

4.   Approaches to Decision Making

There are several approaches to decision making which offers insight into the process by
which managers arrive at their decisions.

✓   Centralized and Decentralized approach

✓   Group and Individual approach

✓   Participatory and Non Participatory approach

✓   Democratic and Consensus based approach

Centralized and Decentralized Approach

In centralized decision making, decision making is concentrated in few hands. All the
important decisions and actions at the lower level are subject to approval of top
management, other levels are at implementation as per the direction of top level.

Centralized decision making is easier, quicker decision making. It is easier to coordinate
and control from centre. It is more bureaucratic in nature.

In decentralized approach there is systematic delegation of authority at all levels of
management. Authority is delegated to middle and lower level of management. The
degree of centralization or decentralization depends on amount of authority delegated to
various levels of management.

Decentralized approach is a good way of training and developing junior management. It
aims to flatter hierarchy.

When all the decisions are taken by the school principal, it is centralized approach. When
the tasks are delegated and authority is given to take decision related to that task, it is
decentralized approach.

Fast food businesses like Burger King, Pizza Hut and Mc Donald's use centralized approach
to ensure that control is maintained over thousands of their outlets. The need to ensure
consistency of customer experience and quality of food at every location are the main
reason for this choice.

Hotel chains particularly use decentralized approach so that local hotel managers are empowered to make on the spot decisions to handle customer problems or complaints.

Group and Individual approach

There are several methods of group decision making that one can employ. Two examples are consensus and consultation. Consensus decisions are taken by making use of most popular option to make a decision. Consultation takes the opinion of the group into consideration while making a decision. Both the methods require group participation and call for a manager who respects the opinion of the group in decision making.

In individual approach decisions are taken regardless of the group's opinion. This is more traditional decision making approach and can work effectively for a manager when the group's input is not required.

Participatory and Non-Participatory approach

In participatory approach employers allows or encourage employees to share or participate in organizational decision making. Whereas in non-participatory approach, employee's participation is not taken in decision making process.

Participatory decisions are based on shared leadership, employee empowerment, employee involvement, dispersed leadership. The basic concept involves any power sharing arrangement in which workplace influence is shared among individuals who are otherwise hierarchical unequal's. Such power sharing arrangements may result in codetermination of working conditions, problem solving among the employees. The primary aim of participatory decision making is for the organization to benefit from perceived motivational effect of increased employee involvement.

Participatory decision making has positive effect on employees' job satisfaction, organizational commitment, perceived organizational support, organizational citizenship behavior, labour management relations, organizational performance and organizational profit.

Democratic and Consensus based approach

In democratic approach decisions are taken by a majority vote. In this kind of decision discussion on problem or issue is conducted and decisions are taken by majority votes. In this type of decision, a committee may be formed who will take opinion of others regarding the problem and then with majority's view is considered in decision making.

In consensus based approach, decisions are reached with cross functional team. People from different departments provide their views and opinions. One has to get everybody saying ''yes'' before that decision is made. Consensus based decision making is a group decision making process in which group members develop and agree to support decision

in the best interest of the whole. It is acceptable resolution, one that can be supported, even if not the favourite of each individual but is beneficial for the whole organization.

5. How to approach decisions?

Making good decisions is critical to any organization's success. The first step in good decision making is to understand that not all decisions are created equal. Decisions need to be differentiated along two dimensions: Importance and Urgency. An important decision is one that has the potential to have impact on the organization or person's life. An urgent decision is that one must make immediately, there is no time for further consideration.

If one considers these two dimensions together, the results are these four types of decisions and how to approach them:

1. Neither urgent nor important

- Consider taking no action. If decision is neither urgent nor important, you may not need to make it all.

- Delegate to others. Coach subordinates on how to think about decision making.

- Don't delay the decision until it becomes urgent.

2. Urgent but not important

- Don't overanalyze. Because these decisions are not important, going through a lengthy process to make decision simply doesn't make any sense. Many times the cost of time spent analyzing a decision can exceed the cost of making wrong decision.

- Use Principles. Guidelines and principles can provide a great way to make decisions quickly and efficiently. This will ensure that decisions align with organization's values.

3. Both urgent and important

- Beware of urgency. Many decisions that are portrayed as urgent are not urgent.

- Reduce urgency. Consider whether you have time to make this important decision.

- Consider option that will allow you the most flexibility later. If you can avoid it don't get locked in.

- Consult experts. These are the people that are most likely to have immediate insight into the right direction to proceed.

4. Important but not urgent.

- Identify and address the right problem.

- Have the right mindset.

- Utilize appropriate analytical tools.

- Seek the counsel of experts. Seeking help from experts is a good idea.

- Live with your decision before executing.

Good decision making is critical. Understanding the type of decision you are taking and responding appropriately will help you to increase your effectiveness.

6. Techniques of Decision Making

These are following techniques of Decision Making-

❖ **Nominal Group Technique (NGT)**

Nominal Group Technique is a structured method of generating list of ideas. The major feature of NGT is that it controls the amount of personal interaction and adds structure to the group process.

Procedures followed in this technique are-

- Introduce the question

- Ask the group to explain their understanding of question

- Generate ideas

- Ask to read one idea

- Reduce list

Making Decision:

- Select ideas from list

- Rank the idea

- Total it

- Discuss findings. Are there any surprises? Any objections? Is there anybody who wants to change opinion?

Steps of NGT:

✓ Each person writes his ideas, option or solution privately without discussing with others

✓ Individual present his/her ideas to group by round robin procedure

✓ After presentation participant may ask questions to clarify idea or proposal. However there is no evaluation, no discussion, no debate

✓ Each person ranks idea. The results are tallied to determine the relative support for each idea

✓ Example-. Students are not going to practice teaching on time. What action will you take?

❖ **Delphi Technique**

This technique was developed by Rand Corporation to allow the benefit of group decision making without members having to meet face to face. It allows group decision making to be accomplished over large distances and widely scattered members. The Delphi procedure involves series of questionnaire distributed over time to decision making panel:

1. The questionnaire states problem and request potential solution

2. These solutions are summarized by decision co-coordinator

3. The summary is returned to the panel in a second questionnaire

4. Panel member respond again and the process is repeated until consensus is reached and a clear decision emerge. For E.g. How many practice teaching lessons are to be taken?

5. Manager begins the Delphi technique by identifying issues to be investigate. For e.g. Manager wants to inquire about customer demand, or effect of locating certain plant in region.

6. Identify participants and develop questionnaire

7. Send to experts

8. Summarizes responses and send back to participants to

9. Review feedback

10. Prioritize issue

11. Return questionnaire

12. This cycle is repeated until the information is obtained.