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<b>COMMERCE</b>	<b>1: Management Concepts &amp; Organizational Behaviour</b>
	<b>24: Individual Decision Making</b>

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## 1. Learning Outcomes

After studying this module, we shall be able to:

- Learn about Decision Making and its characteristics
- Identify the process of decision making
- Learn about various types of managerial decisions
- Understand the techniques of decision making
  - Delphi technique
  - Brainstorming
  - Simulation
  - Linear programming
  - Operations Research

## 2. Introduction to Decision Making

### Introduction

To decide is to select an alternative out of various alternatives. The manager task in the organization involves taking decisions continuously for various tasks. So, decision is a kind of choice of an alternative, and the process which is adopted for reaching to a particular decision is a decision making process. All functions of management starting from planning, organizing, staffing, directing, and controlling cannot be performed without decision making. Business decisions cannot be taken unless some systematic procedure is followed.

A decision may relate to an end or means or both, meaning thereby, if end is known or targets are aware of, then decision has to be taken on the means to achieve it; and if end is also not known, then through systematic and logical process of reasoning and analysis, an end may also need to be developed.

Decision making is a process of analyzing various alternatives and to arrive at a desirable action. Decision making is in the form of planning. Like planning, decision making involves choosing a future course of action among the available alternatives. Planning and deciding both involves mental exercise and both have perpetual existence. Because of this situation, decision making is regarded by many writers as type of planning.

In individual decisions making, a decision is taken by an individual or a single person and good decision making is a skill to be learned by the managers to manage their teams.

## 3. Definition of Decision Making

According to Koontz and O'Donnell "Decision making is the actual selection from among alternatives course of action".

According to George R. Terry “Decision making is the selection based on some criteria from two or more possible alternatives.

#### 4. Characteristics of Decision Making

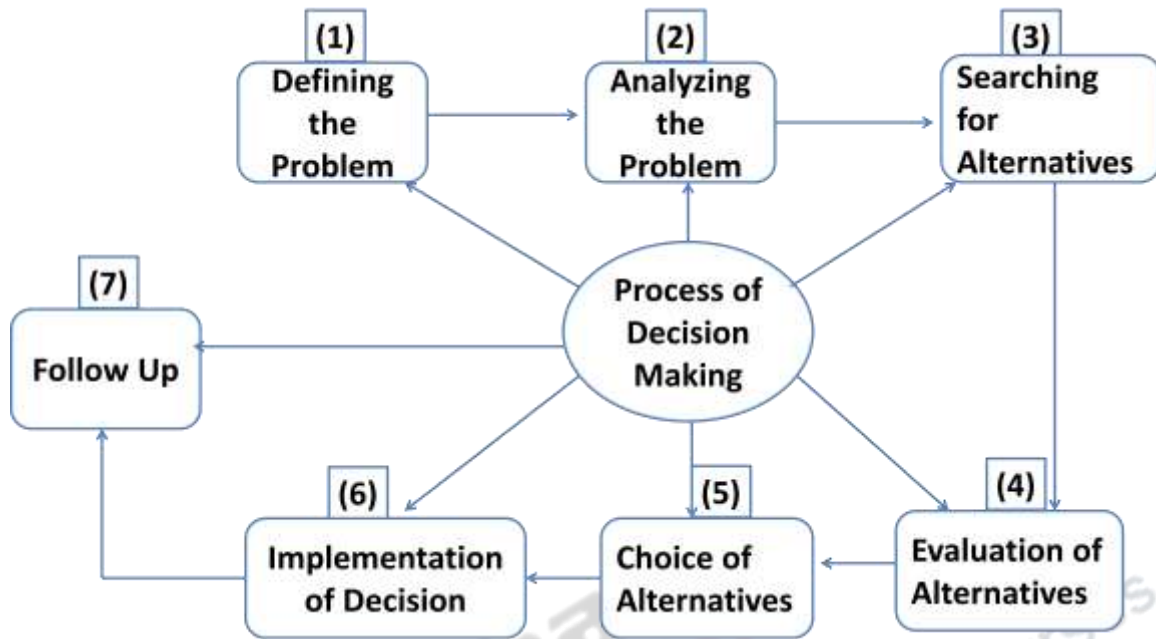
The characteristics of decision making are stated as follows:

- Decision making is a selection process of best alternative out of various available alternatives.
- Decision making is based on the goals of the organization.
- It is a continuous process because each and every task of the organization continuously involves in taking decisions.
- Decision making is a core of planning because to plan is to determine the future course of action which involves a decision making. All the components of planning, like, objectives, different policies, procedures are the result of decision making process only.
- Decision making is both managerial function and an organization process because it is the responsibility of the managers that involves a continuous process of decision making either as individual or as a group or team members together.
- Decision making is an intellectual process because skills are required with mental exercise as to reasoning, analyzing, judgment, etc.
- Decision making involves commitment; as manager is committed to the organization and so, he has to take decisions on time with best efforts so as to give best solution to the problem.
- Decisions may be wrong because they are based on future which is uncertain. Therefore, it may happen that though, decisions created are based on analysis, may prove wrong.

#### 5. Process of Decision Making

Decision making is a process that involves selecting best alternative out of various available alternatives. It means certain steps have to follow before finalizing the solution or taking an ultimate decision. In case of traditional approach to decision making, use of experience, judgment, intuition, etc are used.

In case of scientific approach of making decisions, modern techniques are used such as analysis, arguments, reasoning based on logics etc. A rational decision making process based on scientific methods is discussed here as under:



1. **Defining the Problem-** Decisions are taken for the problems. It is important to identify the problem first because what at times might appear to be the problem may only be the symptoms of that problem. It is important to diagnose and find out the real problem and then to define it.
2. **Analyzing the Problem-** After defining a real problem, analyzing a problem in detail requires getting facts. Analyzing involves the following questions:
  - What type of problem it is?
  - What is the main root cause of the problem?
  - How important it is?
  - When is the solution required?
  - Who would solve it? The manager will do well here as also to think of intangible factors in addition to getting all the facts feasible under the circumstances
3. **Searching for Alternatives-** Various alternatives are found out to choose from so that one of the best solutions for the problem can later be selected. These alternatives may be the past practices, techniques followed in the organization. No search is required if one and only one solution is there. It is important to note that there may be some limiting factors that may affect the generation of the alternatives, e.g., if the organization has limitations in raising funds, a project involving large projects cannot be considered.
4. **Evaluation of Alternatives-** The evaluation of alternatives on the basis its merits and demerits, cost of implementation, of risk involved, time taken, etc, is the next step to select one of the best alternatives for the defined problem. The best alternative should provide greatest amount of benefits and for which each alternative is tested. A probable desirable and undesirable consequence of every alternative, he should be



able to foresee before actually adopting it. It is better to not to take solution. (i.e., no action at all) rather than taking an unpleasant decision.

5. **Choice of Alternatives-** The extent to which every alternative contributes its best towards the problem, that alternative can be selected. It is possible after comparing the results obtained of all the possible alternatives selected. The experience and knowledge and the intellectual ability of the managers allow him to select the best alternatives easily.
6. **Implementation of Decision-** This is the time to convert the decision taken into action for achieving the targets. But it should be ensured that the desired results are achieved with the alternative chosen. Hence, putting the decision into action is an integral part of decision making. Whatever decisions are taken, they should be communicated clearly to all the employs and their acceptance should also be ensured for its successful implementation and getting factorable results.
7. **Follow-Up-** To follow up is to see that whether the selected decision is giving the desired result or not. It is the job of the manager to have a close look on the results of the decision taken and review his decision according to the changes; whether decisions are good or not, it can be seen through results; favorable or unfavorable.

## 6. Types of Managerial Decision

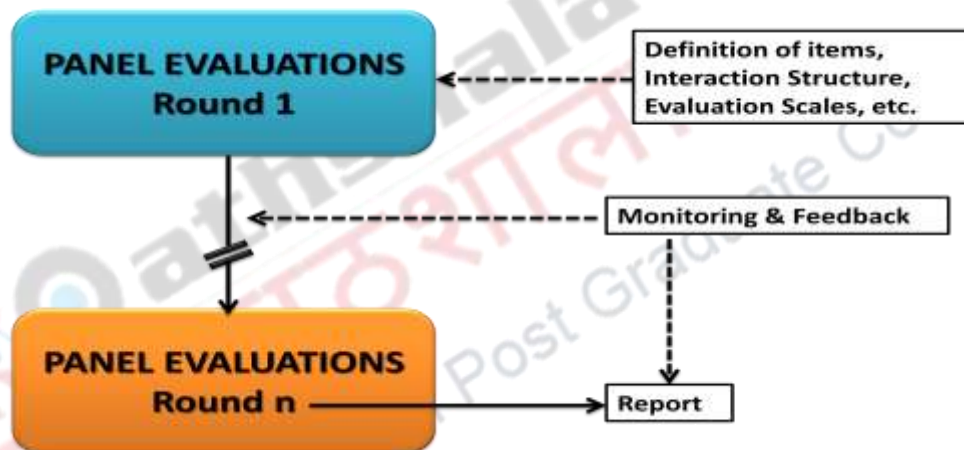
The different types of decisions can be taken up by the mangers stated as follows:

1. **Programmed Decisions-**These types of decisions are made for routine and repetitive nature tasks or problems. These are programmed on the basis of rules, policies, procedures already determined, e.g., a promotion of an employee is done through a promotion policy.
2. **Non- Programmed Decisions** –These decisions are taken by the top management for unexpected problems that are unique in nature and for which there are standards, policies, or procedures are set. They are non-recurring in nature, e.g., purchasing machinery, etc.
3. **Strategic Decisions-** Strategy is a long range plan and is formulated at top level. Strategy involves choices that determine the nature and directions of the organizations activities towards the attainment of goals. Strategic decisions may be related to internal and external growth. Internal growth strategy decisions would include market penetration, development, product development and external growth strategy decisions such as joint ventures, mergers, etc. strategic decisions are generally non-programmed decisions, i.e., they are not routine decisions.
4. **Tactical Decisions-** Such decisions are related to routine problems and are generally taken at lower level on the basis of procedures and policies laid out by the top management.
5. **Administrative decisions-** Every divisional area has a plan to proceed towards organizational objectives and administrative decisions are related with the implementation and development of such divisional plans. E.g., finance, materials, training and development related plans.

6. **Individual Decisions-** A decision taken up by individual or a single person is an individual decision and is taken on the basis of defined policies etc. they are generally related to routine problems.
7. **Group Decisions-** When decisions are taken by the board of directors, departmental committees or by any other group, is called a group decision. They are not related to group problems rather complex and unique. It is observed that decisions taken by group are better than decisions taken by the individuals.

## 8. Techniques of Decision Making

1. **Delphi Technique-** In this technique, suggestions are invited from a panel of experts who are physically separated and unknown to each other. After collecting all suggestions, they are again sent for panel suggestions and the process of taking and giving suggestion continuous till convergence takes place. This helps to improve the quality of decisions.



2. **Brainstorming-** In this method, to a particular group of persons, problems is given and from them ideas and suggestions is noted. This method leads to creative thinking through various novel ideas and provides unique solution. The ideas so received are critically examined and the best ideas are selected. During the entire discussion, enriching ideas are encouraged and generated without any interruption.
3. **Simulation-** It is a technique of reproducing a phenomenon likely to occur in actual practice. Probability plays an important role in this technique where random number is assigned to each likely event depending on the probability of its happening. The outcome is tested on the basis of cost and benefits of each course of action.
4. **Linear Programming-** This technique is based on linear relationship between the variables involved. It aims at optimally utilizing the limited resources to minimize cost or to maximize profits. Particularly used in case of managerial decision making for production plans, warehouse location, transport routing, etc.
5. **Operations Research-** This method deals with scientific analysis o decision problems. It facilitates decision making by supplying quantitative information to

the decision maker. Operations research involves the construction and testing of model, e.g., probability theory, games theory, network analysis, queuing theory, etc., for analysis of problems.

## 5. Summary

- The manager task in the organization involves taking decisions continuously for various tasks. So, decision is a kind of choice out of available alternatives and it involves a process to be adopted for reaching to a particular decision which is called a decision making process.
- Decision making is based on the goals of the organization.
- It is a continuous process because each and every task of the organization continuously involves in taking decisions.
- The process of decision making starts with defining a problem, analyzing it, searching for alternatives, evaluation of alternatives, choice of alternative, implementation of decision and follow-up.
- The various types of managerial decisions are programmed and non- programmed decisions, strategic decisions, tactical, administrative, and individual and group decisions.
- The decision making techniques are Delphi, brainstorming, simulation, linear programming, and operations research.