

MANAGEMENT

PRINCIPLES AND APPLICATIONS

UNIT-2

PART-XIV

PROCESS OF DECISION-MAKING OR STEPS IN DECISION-MAKING

Decision-making now-a-days is not a guess-work but a scientific process of observations, investigation and interpretation of facts relating to the problem, situation, issue, line of action or an objective in order to formulate the required decisions. Rational thinking and logical reasoning to settle the matters and evolve definite or precise course of action is the essence of decision-making. Following steps are involved in decision-making:

1. **Perception:** The primary step in decision-making is to identify the issues implied in the problem or situation or objective to be decided upon. Precise decision depends on precise understanding of the critical factors involved in the problem. The decision-maker should sort out the strategic points underlying the subject matter of the potential decision. For example, in deciding about production targets, the critical factor is plant capacity; in sales targets, the marketability; in fixing wages or salaries, productivity and financial capacity are the factors of decisive nature. The entire problem has to be viewed in all its aspects through study and survey and the basic and subsidiary issues of material

significance are to be clearly identified. On such factors, the decision is to be focussed.

Grasping the problem is a prelude to clinching the decision thereon.

- 2. Investigation or Analysis:** After the problem is correctly grasped the next step is to collect the facts and figures essential to analyse the currents and under-currents of the problem or situation to be decided upon. Facts and figures facilitate rational analysis of the problem. The Cost-structure, Sales potential, financial position, Price factors, Labour-matters, other administrative matters can be analysed on the basis of the observed facts. Information gathering and data-processing are important steps to arrive at logical decisions intended to resolve any issue.

Past records, professional advice, independent surveys by competent investigators, published statistics, market reports, etc., would be the sources for collecting information. Discussions, survey interview, questionnaires, etc., would help in creating the infrastructure for eventual decision-making. Facts collected should be classified area-wise, customer-wise, function-wise, product wise, period-wise as the case may be. Tables, charts, diagrams, short-reports, project-report, market reports, technical reports, etc., may be compiled to reveal the trends of investigation. They serve as indicators for decision-making.

- 3. Development of Alternatives:** Next step in decision-making is the quest' for alternatives from amongst the analysed facts and figures. Objective decision-making implies consideration of several alternatives before a final decision is arrived at. Alternate approaches to solve problem are to be thought of on the basis of facts and factors investigated, e.g., deciding on issue of increasing the capital, alternatives by

issue of shares, debentures, loans, etc. Increasing the sales-alternatives, more advertising or more role for salesman, or product design etc. The alternatives must be relevant to the issue and indicate the ways of resolving the matters. As **Koontz and O'Donnell** observe, *"ability to develop alternative is as important as making a right decision. Ingenuity, research, etc., are acquired to ensure that best alternatives are considered."* These alternatives indicate the importance of strategic factors and also the significance of complementary factors in formulating a decisive course of action to solve a problem or face a situation.

4. **Evaluating the Alternatives:** The decision-making process perhaps culminates into ultimate evaluation of the alternative solutions and choosing the best out of them. Determining the most apt solution that would assist in achieving the objectives of the management is the substance of decision-making. As **Koontz and O'Donnell** observe, *"once the appropriate alternatives are isolated, the next step is to evaluate them and select the one that will best contribute to the goal."* Choosing the most suitable alternative is the most important task calling for shrewd-imaginative and intelligent approach on the part of the management. Evaluating means judging the relative worth, impact and utility of the different alternatives through reasoning so that the right course of decision would unfold itself. Following factors should govern the evaluative and selective process:

- a. The solution to be adopted finally should contribute to the attainment of goals in view.
- b. It should involve minimum cost when it is put through action.
- c. It should be free from the risk and uncertainty regarding its implementation.
- d. It should be capable of yielding best results-profit or benefit.

- e. It should be realistic and capable of being applied with least delay within the overall framework of policies of the firm.
- f. If necessary, two or more alternatives can be combined to formulate composite decision.
- g. If none of the alternatives is suitable, the decision may be dropped or deferred. New alternatives should be thought of by fresh study and analysis.

Tangible factors in evaluation: Tangible factors are those which can be assessed in quantitative terms, viz., money, men, materials. Amount of money or capital, number of men and magnitude of materials and output of goods and services are given weightage in evaluating the relative worth of the alternatives. Expected levels of demand and supply and expected rate of profitability would influence the process of evaluation. Income and expenditure statements, material consumption charts, input-output ratios, man-hours involved, potential returns on investment, balance sheets reflecting the various alternatives are to be compiled to pinpoint the best among them.

Intangible factors: Decision-making is not mere mathematical calculation of cost-profit. These calculations are subject to influence or intangible factors. These have to be visualised with reference to each alternative. Instances of intangible factors are strikes or lock-outs, changes in tax policies of the Government, invention of a new machine, tool, which would make old one obsolete, war, natural calamities, political situation, trade cycles, etc. The possible impact should be studied before selecting the final course of decision. Such alternative which in totality is more profitable and practicable should be selected.

Markets, material costs, prices, labour-cost, plant-utilisation, personnel efficiency, industrial relations, Government fiscal policy, inventions, technological changes, etc.,

are to be weighed in the process of relative analysis and selective interpretation of alternative course of decision-pointers. In evaluating, process managers should reflect on following reasoning:

Principle of expansion. Applying the present idea, or existing idea, device, process or system.

Principle of substitution. Evolving new idea, device or process.

Principle of synthesis. Combining past and current ideas, talents and other factors to reach a final course of decision.

5. **Selecting the best alternative:** The decider is now ready to clinch the decision. Each option is evaluated and put to acid test to cost-benefit choice. That which would hold out the prospect of maximum benefit is selected. In the selection process, the technique of 'marginal analysis' is usually adopted. In marginal analysis additional revenues and cost for each alternative are analysed and optimum results are ascertained. Least cost and maximum benefit would guide the manager in projecting the final decision. Maximum benefit should be in terms of economic, social and human factors.

6. **Communicating the decision:** Decision made should be relayed to the concerned officers and the personnel for implementation. Decisions are the mental images of the decision-makers. They have to be put into concrete shape and all their aspects and impact have to be clearly spelt out and channelised to the concerned persons or departments. "Skill in communication is an essential talent for a good decision-maker." Decision should, therefore, be communicated in clear terms so that it can be implemented easily and early.

7. **Adjustment of the decision:** The decision made should be adjusted if necessary to meet the objective of any group-workers, customers, or to remove the difficulties likely to be encountered in implementation, suggestions made by superiors, representations by subordinates, advice tendered by professional experts, should be accommodated before the decision is finally put into action. As Mervin Kahn says, "the solution may have to be modified to make it palatable to the individual or goals."

8. **Implementing the decision:** Administratively speaking, it is essential to ensure that decision arrived at is to be put into action. The decision should not be kept on hanging for long. It should be got implemented through right channels and in right time by right interpretation, instruction, training and demonstration. "Observing the decision as it becomes operative, modifying further whenever necessary and coaching the people to carry out effectively and generally perfecting it once it is in action are necessary." Management should seek the co-operation of the concerned people in implementing the decision. They should be motivated and directed to work out the decision in practice through formal channels of authority, informal persuasion, suitable incentives and influence of effective leadership.