

DECISION MAKING

WHAT IS A DECISION?

A decision is a choice made from among alternative courses of action that are available. The purpose of making a decision is to establish and achieve organizational goals and objectives. The reason for making a decision is that a problem exists, goals or objectives are wrong, or something is standing in the way of accomplishing them.

Is decision making an event or a process? It is NOT an event. It is a process which is fundamental to management. Almost everything a manager does involve decisions; indeed, some suggest that the management process is decision making. There is always uncertainty in decision making, risk accompanies decisions. Sometimes the consequences of a poor decision are slight; at other times they are serious.

Choice is the opportunity to select among alternatives. If there is no choice, there is no decision to be made. Alternatives are the possible courses of action from which choices can be made. If there are no alternatives, there is no choice and, therefore, no decision. Decision makers must have some way of determining which of several alternatives is best - that is, which contributes the most to the achievement of organizational goals.

People often assume that a decision is an isolated phenomenon. But from a systems point of view, problems have multiple causes, and decisions have intended and unintended consequences. An organization is an ongoing entity, and a decision made today may have consequences far into the future.

SOME OF THE FACTORS THAT CAN INFLUENCE A DECISION:

1. **Values**
 - What is important to your family, others in your culture?
2. **Peers**
 - People you know
 - Pressure for positive or negative behaviors
3. **Habits**
 - You are accustomed to doing it this way
4. **Feelings (love, anger, frustration, ambivalence, rejection)**
 - If you do make a certain decision
 - If you don't make a certain decision
5. **Family**
 - Your family's preference
 - Decisions other family members have made
6. **Risks and consequences**
 - What (or how much) you stand to win
 - What (or how much) you stand to lose
7. **Age**
 - Minor
 - Adult

SOME OF THE COMMON DECISION-MAKING STRATEGIES:

- 1. Spontaneity**
 - Choosing the first option that comes to mind; giving little or no consideration to the consequences of the choice.
- 2. Compliance**
 - Going along with family, school, work, or peer expectations.
- 3. Procrastination**
 - Postponing thought and action until options are limited.
- 4. Agonizing**
 - Accumulating so much information that analyzing the options becomes overwhelming.
- 5. Intention**
 - Choosing an option that will be both intellectually and emotionally satisfying.
- 6. Desire**
 - Choosing the option that might achieve the best result, regardless of the risk involved.
- 7. Avoidance**
 - Choosing the option that is most likely to avoid the worst possible result.
- 8. Security**
 - Choosing the option that will bring some success, offend the fewest people, and pose the least risk.
- 9. Synthesis**
 - Choosing the option that has a good chance to succeed and which you like the best.

ECONOMIC INFLUENCES ON DECISION MAKING:

- 1. Consumer prices**
Changes in the buying power of the dollar, inflation
- 2. Consumer spending**
Demand for goods and services
- 3. Gross domestic product (GDP)**
Total value of goods and services produced within the country
- 4. Housing starts**
The number of new homes being built
- 5. Interest rates**
The cost of borrowing money

6. Money supply

Funds available for spending in the economy

7. Stock market index

(such as the Dow Jones Averages, Standard & Poor's 500)
indicate general trends in the value of U.S. stocks

8. Unemployment

The number of people without employment who are willing to work

RISKS ASSOCIATED WITH DECISION MAKING:

1. Personal risks

Factors that may create a less than desirable situation. Personal risk may be in the form of inconvenience, embarrassment, safety, or health concerns.

2. Inflation risk

Rising prices cause lower buying power. Buying an item later may mean a higher price.

3. Interest-rate risk

Changing interest rates affect your costs (when borrowing) and your benefits (when saving or investing).

4. Income risk

Changing jobs or reduced spending by consumers can result in a lower income or loss of one's employment. Career changes or job loss can result in a lower income and reduced buying power.

5. Liquidity risk

Certain types of savings (certificates of deposit) and investments (real estate) may be difficult to convert to cash quickly.

OPPORTUNITY COSTS AND THE TIME VALUE OF MONEY:

Opportunity cost refers to what a person gives up when a decision is made. This cost, also called a trade-off, may involve one or more of your resources (time, money, and effort).

Personal opportunity costs may involve time, health, or energy. For example, time spent on studying usually means lost time for leisure or working. However, this trade-off may be appropriate since your learning and grades will likely improve.

Financial opportunity costs involve monetary values of decisions made. For example, the purchase of an item with money from your savings means you will no longer obtain interest on those funds.

Time value of money can be used to measure financial opportunity costs using interest calculations.

For example: spending \$1,000 from a savings account paying 4 percent a year means an opportunity cost of \$40 in lost interest.

Calculation: $\$1,000 \times .04$ (4 percent) $\times 1$ year = \$40

Over 10 years, that \$40 a year (saved at 4 percent) would have a value of over \$480 when taking into account compound interest.

TOOLS FOR DECISION-MAKING:

- Flow Charts
- Run Charts
- Pareto Charts
- Fishbone Diagrams
- Scatter Diagrams
- Pie Chart
- Control Chart
- Force Field Analysis
- Affinity Diagram
- Tree Diagram
- Interrelationship Digraph
- Matrix Diagram
- Six Hat Thinking

DECISION ANALYSIS AND RESOLUTION:

1. Establish Guidelines for Decision Analysis: *Establish and maintain guidelines to determine which issues are subject to a formal evaluation process.*
2. Establish Evaluation Criteria: *Establish and maintain the criteria for evaluating alternatives, and the relative ranking of these criteria.*
3. Identify Alternative Solutions: *Identify alternative solutions to address issues.*
4. Select Evaluation Methods: *Select the evaluation methods.*
5. Evaluate Alternatives: *Evaluate alternative solutions using the established criteria and methods.*
6. Select Solutions: *Select solutions from the alternatives based on the evaluation criteria.*