

Study and Analysis of Various Decision Making Models in an Organization

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Abstract: *Decision making is an important process in any business organization. Lots of resources are involved in it. Incorrect decisions may lead to downfall of the organization, that's why the process followed needs to be correct. In this study, various Decision Making Models are elaborated and discussed for the organization. The pros and cons are discussed and appropriate model's aptness is presented. The implication of the study revolves around the management committee involved in decision making to choose the correct model for the Business House. The research is descriptive and informative in nature and it involves the usage of secondary data available.*

Keywords: *Business Ethics, Decision Making Model, Group Decision Making, Individual Decision Making, Strategic Management*

I. INTRODUCTION

Decision making is an intellectual process of selecting optimal and best option among many alternative choices. It results in an outcome which can be in form of action or an opinion [1].

Decision making process can be categorized into four processes:-

- Group decision making process
- Individual decision making process
- Organizational decision making process
- Meta organizational decision making process

There are various steps in decision making process like recognition of problem, setting of the objective, collection of the data, developing all the alternative options, analyzing their positive and negative points and then making a decision, implementing decision, learn from it[2].

Decision making is very important for an organization as it results in a best course of action by a cognitive process. It is significant because of following reasons:-

- a. Implementing managerial functions: - Many managerial functions like planning, organizing, controlling, staffing, etc. cannot be managed and directed properly.
- b. Without decision making any function cannot be performed. It should be taken by all staff and it is pervasive.
- c. It evaluates managerial performance. If it is right then it means an efficient and capable workforce.
- d. It is helpful in making plans and policies.
- e. It helps in selection of best outcome out of several alternatives by evaluating their advantages and disadvantages.
- f. Right decisions help in successful operation of organization.

A decision making model can be judged and evaluated on various parameters. On the basis of this an appropriate model can be chosen. Characteristics of proper decision making model are following:-

- Resource utilization: Amount of resources it utilize to achieve the objectives and goals of an organization. Available resources are men, materials, capital, markets, machinery and various methods.
- Second parameter is real time application of decision making model. Whether it can be applied in practical and complex situation at that particular time.
- Impact of model on growth of a business: Correct decision making model results in efficient allocation of resources. Helps the firm to face new challenges and thereby foster its growth.
- Next characteristic is how much risk is involved in implementing it and in its application. Lower the risk, more correct and effective is the model.
- Profitability of decision making model. Whether it increases the profitability of an organization or not.
- Complexity of model. How much complicated it is to apply.

The subsequent sections discuss about various Decision Making Models with their features, Most effective decision making model, Organizational case study, and Implication & Conclusion.

II. VARIOUS DECISION MAKING MODELS

There are various types of decision making models [3] as discussed below.

- **Rational model**

This model is based on logic of choice that would maximize the value and profitability of an organization [4]. According to this model, people follow a rationale method while making any decision. The sequences of various steps in this model are:-

- a. Identification of problem.
- b. Generation of solutions and alternatives.
- c. Selection of best alternative.
- d. Implementing the desired solution.

It is generally assumed that people are able enough to choose the most efficient outcome. Every alternative has its own consequences only after evaluating them right outcome is chosen. Rationality among members results in coherent and unified organization that tries to maximize the value and meet the unique set of goals without giving rise to nay internal conflict in organization and makes it rational policy making entity. This type of organization will have centralized power, harmony among its members, and consistency among goals of firm, members who are efficient to choose the best alternative that would maximize the value of common and unique set of objectives of the organization. It tells how the organization makes its decisions by giving sanitized vision of it.

Model suffers from several limitations like not having sufficient amount of information which is crucial and relevant to problem, problems can also change during short period of time.

In reality, goals of an organization are not the same of those of complex groups working in it. As there are different individuals in affirm they have their own views, desires and objectives which might not be relevant and crucial for an organization. In fact they can work against the firm; those individuals will try to maximize their own set of goals rather than those which hold relevance for the firm.

- **Normative model**

This model assumes that managers and leaders face certain set of constraints and obstacles while making decisions [4]. These constraints can be personal or environmental factors such as time, complexity, uncertainty and risk, limited availability of resources etc. these factors will reduce the rationality of the model.

According to this model, decision making is depicted by

- a. Limited processing of information which means there is a boundary or a threshold limit which manages the extent to which information can be managed and processed by a person.
- b. Judgmental strategies like many shortcuts are used while making decisions.
- c. Selection of those solutions or alternative that would require minimum inputs and resources but are good enough.

It enables the leader to analyze the situation and determine level of engagement. It is a splendid example of decoction of knowledge. Normative decision making model is considered as a best option for making quantitative judgments [5].

- **Administrative model**

This model is more realistic description of decision making of an organization. According to this model, decision makers have different motivations, incentives, demands but they try to go for shortcuts to find solutions which are acceptable by everyone due to lack of time. Here the decision maker does not focus on optimization but rather on Satisficing i.e. choosing an alternative with a value above the minimum acceptable value on a particular constraint. Satisficing has a shortcoming that it leads to reduction in decision quality but advantage is that it saves time and effort.

It has an additional benefit when the cost of delaying in decision or looking for other alternatives is high and expected pay off from other best or superior alternative is comparatively low.

After taking the decision and implementing it, if it is found to be acceptable then organization establishes the given procedure in to Standard Operating Procedures (SOPs). These SOPs are rules and regulations run by managers to save the time while solving a problem from elementary level. Managers also use them when organization encounters similar problem to that of original.

But in reality, SOPs are not time savers always. Organizations cannot be considered as a single entity. Problems are different according to several departments in an organization which forms their own goals and objectives. These goals and priorities do not match with overall objectives of the firm.

Therefore organization can be considered as a group of loosely attached sub units having distinct goals and priorities, different SOPs and each of them having different measures to solve them. Over the time these sub units become more detached and their goals become more excavated. These divergences are due to distinct perceptions and priorities and get strengthened by recruitment and rewards. This results in formation of different groups and coalitions with distinct interests.

- **Political model**

This term is important not only for government or public sector but for firm in any industry. According to this model, decision makers concentrate on many problems within an organization reflecting personal goals of different sub units rather than focusing on a single issue unlike rational model. As in administrative model, we assumed that there are standard operating procedures but there is nothing such in political model. There are no standard procedures, rules to apply. Decisions are taken after bargaining and discussing among coalitions and different groups. Unlike other model, here power is decentralized. It lays emphasis on multiple goals, priorities, interest in a complex working environment. This model considers decision making as a process of distinct resolution and building agreement and decisions as a consequence and result of compromise among subunits.

Whenever organization encounters a problem which demands a change in policy, it assumes that managers consider only few alternatives which are similar to those of existing policy. The political model views that managers or decision makers recommends only small changes in policy and plan in response to immediate problem pressure rather than making a set of programs and exhaustive plan. This procedure is called incremental approach. This method is a form of satisficing.

It has an advantage of reducing the time in searching for information and in definition stages of problem. In this model, stakeholders have different perceptions, ideas, interests and each of them has right to give their proposals. No particular policy can win if it is posing harm to any stakeholder even if it is consider as a best and optimum solution. Here access to information can be a quite sensitive issue because in politics, information signifies power.

- **Ethical model**

It is a logical procedure which is required to reduce the emotional impact on capability of decision makers to think rationally. It is important to include client in ethical decision making process so that they realize you are not imposing your decisions on them and not deciding on their behalf. One should remain open to all the information and keep oneself updated with new knowledge and skills. It should be a collaborative and cooperative process between clients and counselor.

There are several steps in ethical decision making model [6].

- a. Identification of the problem. Firstly enquire whether the problem actually exists. If it does then is it ethical, legal, moral, etc. or combination of any two. One needs to identify the nature of the problem and whether it is in beginning stages or not.
- b. Next step is to look out for the potential issues. Analyze the rights, duties, welfare of all those who are involved and influenced by the decision. Evaluating decisions that can enhance the welfare of clients or those which pose harm to them. Creating an environment where clients can find the solutions to their queries. Demonstrate the measures used to rank the potential issues and involve the client in identifying the issues.
- c. Third step is to evaluate and review the significant ethical codes.
- d. Next level is to understand the laws and regulations relevant to the situation.
- e. Acquiring consultation from professionals who are equipped with knowledge about ethical issues. One can involve the client in consultation process.
- f. Take into account all the possible and probable course of action. Evaluate ethical obligations and all possible alternatives systematically. Client involvement is necessary.
- g. Analyze the possible consequences of decisions before implementing them. Evaluate the consequences for yourself, client and for organization as a whole. Ethical principles must be used for evaluation.
- h. After gathering all the information and evaluating it, choose the best alternative out of many. At this level one must consider client input or solution. Ask for feedback.

It is not essential and necessary that every decision maker will implement the same course of action in a particular situation [7]. Following a systematic model will help in to provide professional explanation for the chosen plan. Counselor must maintain their personal and professional relationships with the clients without malice and keep in mind their interests and choose plan accordingly. They should not look out for their personal profit.

III. MOST EFFECTIVE MODEL

The most effective model from above mentioned decision making models seems to be Ethical decision making model. Business ethics are an essential part of work and management at all levels in an organization [8, page 5]. It is necessary for companies to establish code of ethics for more clarity and transparency in financial reports [8, page 15]. Ethical culture is used as a mechanism to check whether the response an ethical issue is right or wrong by an organization.

Business ethics are linked to performance of a corporation. It has several benefits like improvement in operations of firm, increased commitment of employees, gaining customer trust and satisfaction, improvement in financial performance and positive attitude of investors. Offering competitive salaries, safe working

environment and fulfilling other obligations and commitments support ethical values and culture. When an organization has ethical culture, employees will be more positive, satisfied with their job, will be committed towards their work and organization. It decreases turnover rate. Trusting relationships between different management levels, within departments, groups, among employees improve efficiency in decision making [8, page 18].

Nowadays investors are being highly sensitive to ethics, social responsibility, reputation of firms while investing because they are aware of the fact that ethical culture lays basis for profitability, efficiency and productivity. Any negative publicity about the firm will lead to fall in stock prices, pose a threat on customer loyalty and longevity of company. For the financial stability and profitability firms need to gain trust of investors which can be done by promoting ethical values in the organization. Ethics also play a significant role in creating and enhancing customer satisfaction.

Ethical values and behavior are best way to attract target market and in maintain long term relationships with customers [8, page 42]. Decisions taken should be in favor of firm and its stakeholders. To avoid unethical decisions firms form corporate governance which are formal systems of accountability, oversight etc. It lays down fundamental systems which avoids misconduct. It creates an ethical culture in order to make employees think that rectitude and morality is at the heart of competitiveness.

There are different views of corporate governance structure [8, page 44]. For some organizations, it is profit maximization of shareholders and for others it is following social norms and expectations. There are two models of corporate governance – stakeholder model and shareholder model.

Many ethical issues are emerging in business organizations like mismanagement and misuse of resources of the corporation, offensive behavior, internal conflicts, lying or hidden motives, fraudulent crimes, bribery, partiality or biased behavior, sexual harassment, environmental issues, financial misconduct [8, page 65].

Therefore ethical decision making models are required to solve the issues and maintain an ethical environment and increase the organizational performance.

IV. ORGANIZATIONAL REFERENCE

There are various successful organizations working with the ethical business decision making model and doing well. Some of the organizational cases studied by [9] included the success stories of i-Flex Solutions Ltd., Beans & Intellect financial solutions Pvt. Ltd., Eisodus Networks Pvt. Ltd. And State Bank of India. All the cases have one thing in common i.e. the usage of ethics in Business Practices and following an Ethical Business Decision making model.

V. IMPLICATIONS & CONCLUSION

The study demonstrated the meaning of decision making, scope of decision making and why it is important. It has also explained the various types of decision making models. Ethical decision making model is chosen among them because it helps maintain business ethics while increasing profitability and productivity of business.

There are different strategies for decision making. It is dependent on knowledge about the outcome or output and secondly on the preference for it. If there is high knowledge about the outcome and strong preference for it then the result is computational decision making strategy and if there is weak preference for the outcome then the decision strategy would be compromise decision making strategy. But if there is low level of knowledge and strong preference for the outcome then decision making strategy would be judgmental. Conversely if the low level of knowledge is combined with weak preference for the outcome then there is inspirational decision making strategy.

Decision environment includes risk, certain, uncertain environment. As we have mentioned above that there are certain parameters over which we can judge which decision making model is effective. Characteristics of good decision making model would include factors like resource utilization, risk, profitability, complexity, impact on business, real time application.

Factors of effective decision making are following:-

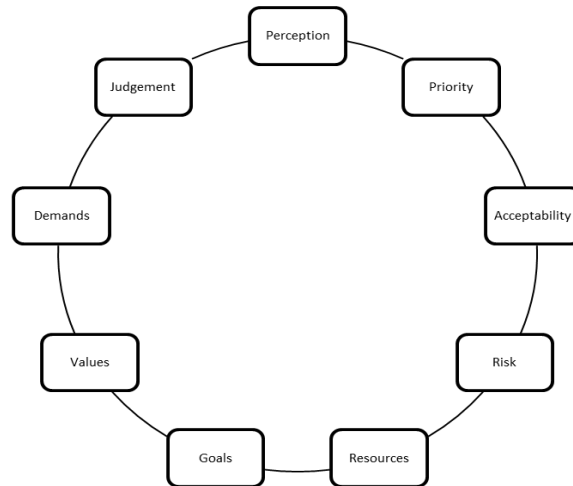


Figure 1 Factors of Effective Decision Making

Making an effective decision can be done by following six Cs

- a. Construct a clear plan of what need to be decided.
- b. Compile a list of all the inputs required
- c. Collect information on alternatives that meet those requirements.
- d. Compare alternatives
- e. Consider the consequences of each alternative.
- f. Commit to a decision and follow it

Ethical decision making model comprises all the characteristics of a good decision making model. As it is mentioned above that the Ethical model is best decision making model because it has no short comings. It results in a fair outcome provided that counselor is following a systematic approach for decision making. This model helps an organization to adhere to its ethical values and prevent misconduct or ethical issues. It creates employee satisfaction by offering good salaries, safe working environment. This helps in increasing their loyalty towards the work when the employees observe that organization is fulfilling its obligations and commitments. Not only this, it also increases the customer satisfaction and loyalty. It helps in maintaining good brand name and increases the willingness of investors to invest in funds.

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