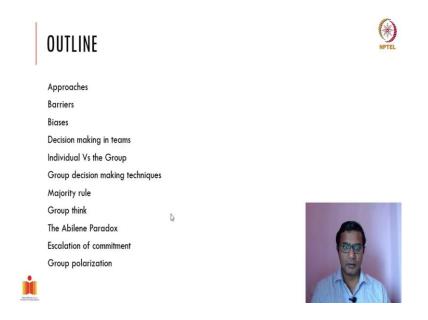**Organizational Behaviour**
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Lecture – 39
Decision Making – Part 1

Warm welcome to this lecture series on Organizational Behaviour. This is our 10th chapter, which is on Decision Making. I am Dr. M. P. Ganesh from IIT Hyderabad.

This is the outline of the chapter. We will start with different approaches in decision making. We will understand the barriers and the biases involved in decision making. We will also look at decision making process in teams and we will compare the pros and cons of individual decision making and group decision making.

We will also look at few decision-making techniques which are used in group context. We will also look at some of the problems in group decision making or the kind of problems, which groups may encounter when they make decisions. These are majority rule, group think, the Abilene paradox, escalation of commitment and group polarization.

APPROACHES IN DECISION MAKING

- ☑ Rational approach: making optimal decisions by gathering all possible information and analyzing them rationally.
- ☑ Bounded rationality
- ☑ Non-rational approach: making decisions under the limitations of information gathering and processing.
  - ▪ Satisficing approach: finding a solution which is satisfactory rather than optimal
  - ▪ Incremental approach: making the smallest response possible that will reduce the problem to at least a tolerable level
  - ▪ Garbage-can approach: behaving in virtually a random pattern in making decisions

Decision making is a very crucial aspect of any individual and also organizations. So, organizations at every given point in time they have to make decisions. Similarly, individuals in our day to day life we make decisions without even knowing that we are making those decisions. Organizational context when decisions are made, the influence of those decisions have a strong influence on many stakeholders. So, the organization decisions have to be made very carefully.

In organizations, managers are the ones who make important decisions, which influence many stakeholders. These decisions are made either at individual level or at group level. Some decisions which has to be made with consensus are made with group decision making processes which may also have members of different levels or at same level.

So, the point of explaining this is to make you understand the complexities and importance of decision making in organizations. So, decision making at as a phenomenon can be studied as an individual phenomenon as well. But in this chapter, we are going to look at decision making mostly from a group decision making point of view; because in organizations, most decisions are made at a group level, ok.

So, when you say decision making, decision making is in most cases picking up the right option among various options available or resolving a problem by choosing the right kind of the solution in which the solution can be already pre-existing options available or combination of different solutions together. So, when you say decision making, there are

different approaches we use as individuals and also organizations use different approaches in making decisions.

The most desired approach in decision making by organizations is rational approach. When you say rational approach, it means listing down or collecting all the possible information and then weighing the pros and cons of all the options available and using a systematic method to understand and probe more into that information. If required maybe combine that information and make sense out of them through some mechanism and then finally, make the decision or pick up pick the right option.

So, this is what is rational approach in very simple terms which and organizations use many methods to collect information, to analyze information, to collate information. In fact, there is a separate field in management called decision sciences where scientific methods or very systematic methods are used to make decisions by collecting different information and analyzing them scientifically.

So, rational approach is considered to be the best approach because, it uses all the possible information and uses a very systematic method. When you say systematic method, it means it is less subjective. In other words, it means it involves less bias because there is a clear cut description in terms of how decision should be made and in a way it is also considered to be fool proof.

But, the challenge here in rational approaches in many situations rational approach is not possible even in organizational context; why because one we may not have all the possible information or we may not have all the required information.

For example, let us say you want to market a product a soft drink to a group of customers, your customer base is let us say young adults and you want to sell this particular soft drink. You want to know which flavour will they like, should it be sweeter or should it be tangier, should it be you know stronger; so, there are multiple questions which may arise. For that you may need to collect information to understand the taste of the young adults.

So, for that one you may not even have access to all the young adults in that particular country or in that particular region. Even if you take sample study, your sample may not represent all the possible subgroups in that age group. For example, in that young adults

age group, there might be men, women, different socio-economic status, different professions, different interests so, you need to have a sample which represents all of these subgroups.

So, one you may not be able to do that also in fact, you may not be able to identify the subgroups also. Even within a particular subgroup like gender male, female, in men there might be different categories in terms of you know their upbringing, their socioeconomic status and all those stuff. So, all these possible combinations collecting data from it is very difficult. So, that restricts your availability of information.

In fact, like I said earlier, defining the problem itself is the biggest challenge in rational decision making. You may not even be able to define your problem. Only when you define your problem correctly, you will be able to decide what kind of information you want. So, let us say if you define your problem correctly, deciding the information and collecting information itself is a challenge. So, even at that level, there are issues.

Let us assume you collected data, collected information. Certain information it is very difficult to quantify information especially in organizational context, in business context many of these information is difficult to be quantified or in other words, this information is subjective information, these are based on perception of people ok.

So for example, when you have a questionnaire to collect data from these young adults for understanding what kind of soft drink they like, you give them a certain option, but there are certain options which may not be in the list. So, when you say tangier or when you say sweeter, what is sweet changes from one individual to another individual.

Even if you give a rating scale of very sweet to less sweet, what is very sweet might be different from one person to another person. So, quantifying the information becomes difficult because most information is subjective information. Let us say even if you quantify, there might be lot of other information, which you may miss out. Assuming you collect all the information, analysing them becomes a problem, analysing them in terms of giving weightage which information should have more weightage.

Even if you know certain algorithm to you know give weightage, you may not be able to analyse all of them because you may not have the right kind of technology or the statistical tool or the analysis tool to do the analysis. So, you may have computers which

are very fast but with the quantum of information that, that might also become very difficult. So, let us say even organizations find it very difficult to use rational approach what about individuals.

Individual decision-making people may not even have that kind of a support, technical support to make decisions. So, rational approach even though it is desirable, there might be limitations in using rational approach. So, that is why our it is considered that our rationality is bounded ok. So, this idea is proposed by a behavioural economist named Herbert Simon.

So, Professor Simon, he came up with this idea that any decision even if it is rational decision is bounded by certain limitations. Limitations in terms of capacity to analyse the problem, limitations in terms of collecting information, limitations in terms of understanding the problem. So, any decision cannot be 100 percent rational. It is always bounded by some restrictions.

So, the other extreme of rational approaches intuitive approach. Intuitive approach means listening to gut feeling. Many times managerial decisions you have a choice whether to collect data, do a research and then come up with the solution or you might be following your gut feeling. The second option is just listen what your heart says.

For example, let us say there is an interview process for selecting people. So, there are many candidates. One approach is quantifying everything in terms of their qualification, their aptitude, their attitude, their personality, their you know their potential and all those stuff. But again, the problem is so, it becomes very difficult to define most of those constructs itself.

What I mean to say when you say personality, how will you define personality, when you say aptitude, how will you define aptitude. So, one understanding those variables to be measured becomes difficult to measuring them also can be challenging. Many of them it is very difficult to measure them also, you know you cannot ask certain information ask for certain information because people may lie.

So, the second option available is just as a interview; interviewer, the person whose who does the interview you can listen to your gut feeling you know just take certain factors into consideration, but make the decision based on what you feel. In fact, many

decisions, managerial decisions like employee selection or through interviews especially or marketing decisions are made by intuitive decisions.

If you see there is always this argument between in managerial decision making which kind of decisions are more effective, is it by data collection and scientific methods or is it by following the gut feeling? In fact, there are proofs for both the effectiveness of both these approaches. So, the other form of decision-making is gut taking decisions through gut feeling or intuitive decision making.

But, the problem in intuitive decision-making is it is a huge risk which you are taking. You know you may not be able to define why you take the why you took the decision and if it fails, the price you pay might be very high. So, there is always a middle path which is you try to make rational decisions at the same time you understand there are limitations in rational decision making; because there are few barriers which stop you from making those rational decisions.

Why do you have to understand those limitations? This is like knowing what you do not know. So, it is very important to know what you do not know. Knowing is important, but more than that you should know what you do not know. Bounded rationality is understanding that the boundaries of your rationality, knowing what are the areas which you do not have information, what are the areas your you have limitations in terms of collecting data.

What are the areas in which you have limitations in analysing the data so, this will help you define the success rate of your decision or you will know what is the risk you are taking. In non-rational decision making, you are not even knowing what is the risk you are taking ok. So, you should in organization decision making, it is very important to understand the boundaries of your rational decision making ok.

Having said that there are some forms of non-rational decision making, which may not necessarily completely ineffective, but like I said there is a risk involved in these kind of approaches. The first approach is satisficing approach. Again, Professor Herbert Simon has proposed this idea. So, satisficing approaches; satisficing is a combination of two words: satisfactory and sufficing.

Which means it will the solution will satisfy as a solution or the solution which are coming up is good, but not necessarily the best. Suffice means it is sufficient and satisfactory may not be the best possible solution, which is like workable solution it may not be the technically sound decision, but it is a workable solution. So, the advantage is you do not need to like worry too much about making it as a best solution; because sometimes the best solution may involve lot of cost involved, lot of effort involved.

A workable solution will make it work, but may not necessarily be a sustainable solution in very long run, but it will run this is like our Indian Jugaad so, which will work, but you do not know when it may fail or it may not fail also ok. So, this is satisficing approach. Incremental approach is doing something at a very small level so that the problem is solved at the at that given point in time.

Again, this is kind of you know jugaad where a tap is leaking instead of changing the tap, you do something for the time being so that the leakage comes down. So, at that point you are doing that so that the problem is not becoming big or the problem is solved temporarily ok. So, that is incremental approach. But again, the problem is it is not a long-term solution, it is not a perfect solution.

The third approach is garbage-can approach which is like do something if it works it works, if it does not work it does not work. So, if you see you know many of the problems in electronic items especially in India, what we do is we do something irrelevant, but it may work. It may sound very logical, but it may work.

For example, you know if the phone has some if your smartphone has some problem, restart it or if the TV does not work or if the audio player does not work, just pat it on its head you know just pat it on it on the body of it, it may work. We do not know why it is working or why it is not working, but sometimes it may work. So, these are some of the non-rational approaches; many individuals follow in fact, organizations also do such kind of you know jugaads which may work and be effective.

BARRIERS TO EFFECTIVE DECISION MAKING

Not accepting the problem
- Complacency
- Defensive avoidance
  - Rationalization
  - Procrastination
  - Buck passing
- Panic
- Not deciding to decide

So, the earlier slide we spoke about rational and non-rational approaches. Here, we are going to talk about what are the barriers which stop people from making decisions. So, it is about many times we do not even get into the situation where you have to take decisions. So, this is like avoiding or not taking decision. Avoiding to take decision or trying not to take decision, there is a difference between that.

Avoiding decision making is you postpone taking the decision. You think you understand there is a situation, which will come later so, let us wait for that particular point in time; that is avoiding taking decisions. Not taking decision is the situation is right front of your eyes you have to take decision, but you are not taking decision.

So, why do people do not want to take decision? There are many reasons; one, fear of failure. You if you do not want to take decision because if you take decision, if it fails people will blame you, so it is better than not taking a decision. Two, risk involved. Any decision making involves huge risk and many a times people are risk aversive, they do not want to take that risk, they are willing to forego the benefits of taking decision, but they do not want to take risk.

In fact, you these are some of the kind of biases which we will look at in the next slide, but the point I am trying to make is decision making is not an easy task. Many individuals, many organizations they find it very difficult to get into a decision-making situation; why is it so? The first reason is not accepting the problem. You do not want to accept that there is a problem.

So, why organizations do not even want to acknowledge a problem? Because, if they acknowledge your problem, they have to act upon it and acting upon it requires lot of resources. So, better not to; not to worry about the problem, unless or until it becomes a very blaring or you know serious problem.

Not accepting the problem can be because of complacency. Complacency means having a false sense of satisfaction. For example, you know there is some problem in the or there is a dip in the profits, but you say 'no, its not a big issue'; because anyway we are making good profits. This is just a slight dip; you are trying to rationalize the dip in the profit because there are enough profits.

Your profit is pretty high, but in that maybe little bit has come down. So, you do not see it as a problem itself, you are not accepting the problem and you are very complacent because you are already doing better you may not be the best, but you are doing better. So, that is complacency; satisfying with the current state and not even worrying about the future.

The second reason can be defensive avoidance, which means you actively avoid looking at the problem. Complacency is saying no we are doing good; we do not have to worry. Defensive is there is a problem, but you try to push it to the extent that you do not you know call it as a problem. So, you take lot of effort to push that situation and say it is not a problem.

For example, let us say you are this company there is a lot of people are quitting, employee attrition is high or let us say every year many people leave the organization even before completing 1 year, many freshers leave the organization. So, freshers leaving the organization is a serious issue because or people even before completing 1 year; if they leave it is an issue because you have spent money and other resources like time to recruit them.

So, within 1 year if they leave, then it means they are not even you know performing well. Even before performing, you are losing them and that money you spent or the resources you spent on recruitment has gone waste ok. So, if this is the scenario, it is a very important problem, very serious problem that people are leaving your organization even before completing 1 year.

One way organizations can organizations might consider to be a non-issue by saying you know even other organizations in the same sector this is the level of attrition, you rationalize the problem by saying similar companies people leave this is the same kind of statistics so, we do not have to worry about it, it is not our problem, it is the problem with the younger generation or this sector.

So, this is rationalization, rationalizing that you do not have to panic or you do not have to worry it is not your problem, it is somebody if else problem. So, these kind of excuses. The second thing decision in in defensive avoidance organizations or individuals do is procrastination. They say ok, right now we do not have enough funds to address this or maybe we will wait till next quarter.

So, that you know we will change the policies, you know the same problem of attrition level within 1 year. So, you may say right now we do not have to do anything because there are some issues, we will wait for 6 more months and things will change or the market is market will pick up in the next quarter so, we will wait ok. This is procrastination, delaying the decision making.

Buck passing is you try to put the responsibility on somebody else. Let us say your HR department of the particular organization, you say no we cannot do anything, maybe you know the top level management should decide or as a sector, everyone in this particular sector or in the field should decide, me alone cannot make the decision or we alone cannot make the decisions. It is a problem of the government or it is the problem of the you know the educational institutions; trying to push the responsibility to somebody else. So, these are like avoiding the problem and trying to postpone decision making.

There are also some other reasons, where people do not want to make decision because they are genuinely panicked you know they do not want to get into this risk of making the decision because like I said earlier, if you make the decision, you have to pay the price for it if it fails ok. So, people panic to make decisions because they feel it is a huge responsibility on their heads.

So, that is a few people get into that anxiety, they get anxious when they have to make the decision. The last reason is not deciding to decide. You do not even know whether you are the person who want to make decision ok. You are not sure in the organization

who has to make the decision, whose responsibility is this to make the decision. So, there is no clear cut role definition of who handles this problem ok.

So, nobody knows who has to decide. So, these are some of the barriers and decision making at individual level and also at the organizational level.

DECISION-MAKING BIASES

Framing: the tendency to make different decisions depending on how a problem is presented

Prospect theory: decision makers find the prospect of an actual loss more painful than giving up the possibility of the gain

Representativeness: the tendency to be overly influenced by stereotypes in making judgments about the likelihood of occurances

So, I will stop here. In the next lecture, we will talk about the biases which can happen in decision-making.

Till then, take care. We will meet in the next lecture.