

## Introduction

In this module we will present the ability to make decisions as a basic skill in life and in the work place, we will see the process of decision making, and a basic tool to help you to choose between different options. You would also learn how to make good decisions as part of a group of people with differing opinions. We hope you enjoy learning these skills, and becoming an effective decision maker!

## UNDERSTANDING DECISION MAKING AND PROBLEM SOLVING

*“The higher we climb, the more comprehensive the view. Each new vantage point yields a better understanding of the interconnection of things. What is more, gradual accumulation of understanding is punctuated by sudden and startling enlargements of the horizon, as when we reach the brow of a hill and see things never conceived of in the ascent. Once we have found our bearings in the new landscape, our path to the most recently attained summit is laid bare and takes its honorable place in the new world”.*

*Julian Barbour*

### What is the ability to make decisions?

Decision-making is a key skill in the workplace, and is particularly important if you want to be an effective entrepreneur.

Whether you're deciding which person to hire, which supplier to use, or which strategy to pursue, the ability to make a good decision with available information is vital. It would be easy if there were one formula you could use in any situation, but there isn't. Each decision presents its own challenges, and we all have different ways of approaching problems.

So, how do you avoid making bad decisions, or leaving decisions to chance? You need a systematic approach to decision-making so that, no matter what type of decision you have to make, you can take decisions with confidence.

### Decision Making—What it is And Why it Matters

Decision making is important for many reasons but one of the most important is the fact that it is

Module 4: Ability to make decisions.



the route to progress. Whether a decision succeeds or fails, we can learn and benefit. Decision making also highlights the complexity and interconnectedness of things; a vital point to remember and one that makes it so challenging—and interesting.

Problem solving and decision making are central to leadership, work, life, and success. It would not be a stretch to claim that these fundamental human skills define who we are and are what allows us to get things done. Any human endeavor requires someone, first, to overcome a difficulty, make a choice, deal with the consequences, and maintain control over changing circumstances.

For example, America's triumph in the space race is often cited as building upon technical know-how and ingenuity. In fact, it derived from:

- A comparative advantage (relative to the Soviet Union's moon efforts) in making decisions
- An ability to overcome seemingly insurmountable obstacles
- The capacity to deal efficiently with any mistakes made

Most importantly, success in landing the first people on the moon relied on a confidence in eventual victory and an unwillingness to be fazed by the difficulties. This lesson is crucial: most problems persist and most decisions fail to meet aspirations because of a fear of failure, which manifests itself in many different ways.

At a time of increasing interdependence, opportunity, change, competition, and complexity, the importance of making good decisions and solving difficult problems is paramount. And while we hear on a regular basis how important these skills are, we are rarely told what they mean to us on a personal level.

### **The Personal Nature of Decision Making**

People can no longer build personal success around simple solutions and decisions. Considering how much progress mankind has made over the last few centuries, it seems that the only way for an organization or individual to succeed is to have the confidence to leap into the unknown.

The fear of failure must be removed and people must learn to make radical decisions. Mistakenly, decisions are often seen as being either right or wrong, ignoring that what matters is making the best decision from a constellation of choices. All of the available decisions may be right, or may be flawed—the trick is to select the best one.

The ability to make decisions will help you in life and in business. More than anything, learning

Module 4: Ability to make decisions.



these skills will increase your scarcity—and so your value to society, markets, and employers.

Good decision makers and problem solvers are hard to find. By explaining a key aspect of problem solving or decision making, by examining each issue and then including an audit of how you would approach and improve it, you should be able to improve your skills painlessly in these critical areas.

Some of the concepts discussed here are self-evident, whether or not they are practiced, while others are less obvious, and are rarely practiced well or critically. Many of the ideas are novel and a constant theme is the importance of psychology and a corresponding awareness of how we resolve important decisions and problems.

### **THE PROCESS OF DECISION MAKING**

This module treats decisions and problems almost interchangeably, with good reason. Whether an innocuous business decision or a persistent problem—a “wrong” that demands “righting”—it represents an event where one must:

- Generate and appraise multiple options (potential paths that may be taken)
- Evaluate and select the best option
- Implement it in a complex, changing environment subject to the prevailing external forces

The techniques to make this process a success and avoid the inevitable pitfalls are common to all decisions and problems.

#### **Both rational and intuitive**

Another common theme is the importance of being both rational and creative and intuitive. The tension and balance between these two styles not only defines our style, but it also colors the outcome of the decision.

#### **Individuality matters**

The third theme is the importance of developing an individual style of making decisions and approaching problems. This is preferable to forcing oneself to adopt approaches, styles, and techniques that others value, but which are not appropriate given either the person in question or their unique predicament.

Module 4: Ability to make decisions.



It is important to understand the different ways decisions are actually made.

### **The benefit of experience—and its problems**

Society is built around the principle that experience is the most valuable asset: a good reason why older firms tend to be more respected. However, this only holds up as long as the future resembles the past. The real importance of experience is quite different, and not so often considered. Experience is a valuable asset not because the future closely resembles the past, but because it helps us to understand and cope with change and the unknown.

History teaches us that rather than take lessons from the past into our radically different world, we must learn to cope with uncertainty, with the unknown and be able to act independently. When taking decisions and solving problems, we must be empowered to do so without the comfort of thinking it is easy or that the solution has already been found. People must have the confidence to move beyond “off the shelf” answers and develop their own shelf of solutions.

### **Decisions and Business**

In a commercial context, decision making means finding new ways to grow revenues and minimize costs so profits are increased, the long-term value of the business is enhanced, and the competitive position of the business is strengthened. These priorities should constantly guide management decisions, influencing the choices that are made throughout the organization.

### **The benefits of entrepreneurial decisions**

An entrepreneurial decision or solution to a problem is one that creates an opportunity in an original and inventive way. Good entrepreneurial decisions provide organizations with:

- Certainty and decisiveness, preferable to vacillation and drift, as it clarifies what is being done to move toward key goals
- A focus on priority issues, as a proactive approach is being taken
- A competitive advantage by turning a challenging new situation into a unique opportunity to differentiate and excel
- Opportunities—decisions open doors, motivate and energize all the people in the organization

Module 4: Ability to make decisions.



- The means to progress toward strategic objectives
- Greater revenues, fewer costs, increased shareholder value, and long-term prosperity

They also provide the individual with:

- A framework for action, so that effort is not misguided or wasted
- Security and relief from the fear of inaction, indecision, and uncertainty
- An opportunity to display flexibility and ingenuity

### **Six Steps in Decision Making and Problem Solving**

Success in these areas depends on many things, not least the circumstances and available opportunities. However, it is possible to outline a basic framework that may be followed when making decisions and solving problems. This can be perfected and additional considerations and techniques built in to the process to suit your unique requirements, but the framework should help to clarify the general approach to problems and decisions.

Developing a system so that decisions are based on this framework will allow more advanced ideas and tools to be added in later. The framework is built on six sequential steps or best practices.

There are six essential steps in the decision-making process:

1. Establishing a positive decision-making environment.
2. Develop different options or generating potential solutions.
3. Weight the pros and cons of each option / solutions.
4. Commit a decision.
5. Checking the decision.
6. Communicating and implementing.

If you're aware of these six basic elements and improve the way you structure them, this will help you develop a better overall decision-making system. Let's look at the six elements individually.

### 1. Establishing a Positive Decision-Making Environment

If you've ever been in a meeting where people seem to be discussing different issues, then you've seen what happens when the decision-making environment hasn't been established. It's so important for everyone to understand the issue before preparing to make a decision. This includes agreeing on an objective, making sure the right issue is being discussed, and agreeing on a process to move the decision forward.

You also must address key interpersonal considerations at the very beginning. Have you included all the stakeholders? And do the people involved in the decision agree to respect one another and engage in an open and honest discussion? After all, if only the strongest opinions are heard, you risk not considering some of the best solutions available.

### 2. Develop Different Options or Generating Potential Solutions

Another important part of a good decision process is generating as many good alternatives as sensibly possible to consider. If you simply adopt the first solution you encounter, then you're probably missing a great many even better alternatives.

### 3. Weight the pros and cons of each option / solutions

The stage of exploring alternatives is often the most time-consuming part of the decision-making process. This stage sometimes takes so long that a decision is never made! To make this step efficient, be clear about the factors you want to include in your analysis. There are three key factors to consider:

- **Risk:** most decisions involve some risk. However, you need to uncover and understand the risks to make the best choice possible.
- **Consequences:** you can't predict the implications of a decision with 100% accuracy. But you can be careful and systematic in the way that you identify and evaluate possible consequences.
- **Feasibility:** is the choice realistic and implementable? This factor is often ignored. You usually have to consider certain constraints when making a decision. As part of this evaluation stage, ensure that the alternative you've selected is significantly better than the status quo.

### 4. Commit a decision

Making the decision by itself can be exciting and stressful. To help you deal with these emotions as objectively as possible, it is useful a structured approached to the decision. This means taking a look at what's most important in a good decision.

Take the time to think ahead and determine exactly what will make the decision “right.” This will significantly improve your decision accuracy.

### 5. Checking the Decision

Remember that some things about a decision are not objective. The decision has to make sense on an intuitive, instinctive level as well. The entire process we have discussed so far has been based on the perspectives and experiences of all the people involved. Now it's time to check the alternative you've chosen for validity and "making sense."

If the decision is a significant one, it's also worth auditing it to make sure that your assumptions are correct, and that the logical structure you've used to make the decision is sound.

### 6. Communicating and Implementing

The last stage in the decision-making process involves communicating your choice and preparing to implement it. You can try to force your decision on others by demanding their acceptance. Or you can gain their acceptance by explaining how and why you reached your decision. For most decisions, particularly those that need participant buy-in before implementation, it's more effective to gather support by explaining your decision.

Having a plan for implementing your decision will help you. People usually respond positively to a clear plan that tells them what to expect and what they need to do.

#### Key Points

Decision-making is a skill, and skills can usually be improved. As you gain more experience making decisions, and as you become more familiar with the tools and structures needed for effective decision-making, you'll improve your confidence. Use this opportunity to think about how you can improve your decision-making and take your skills to the next level.

Ultimately, improving your decision-making skills will benefit you and your organization.

## Handling Decision-Making Challenges

There are several fundamental difficulties with decision making:

- Decisions are rarely straightforward or simple. This is because they frequently rely upon intangible forces, such as people's attitudes and perceptions, and they may rest upon assumptions
- Decisions invariably involve value judgments, risks, and uncertainties
- There are difficulties involved in evaluating the long-term consequences of decisions

The need to solve problems quickly and effectively arises throughout organizations and it is closely related to decision making. Both involve a logical and systematic approach to defining the problem, generating possible solutions, choosing, and then implementing the best option. However, there are difficulties and hidden traps within problem solving, such as the danger of over-analysis. Often, what is really required is nothing more than a pen, paper, and a period of quiet thought and discussion.

Decisions that involve customers and markets are among the most complicated and demanding of all. Markets, customers, and competitors all constantly develop and change, yet the vital importance of marketing decisions for the health and prosperity of the organization remains unaltered.

### Understanding Significant Decisions

Often, what matters with significant decisions is not only what is actually decided, but also how the decision is reached and implemented. Military decisions provide a case in point: clearly any decision to go to war needs careful, sensitive analysis. All options should be considered and there is necessarily a detailed process leading up to the final, transparent decision. And this is not the end: the most critical phase of a decision is its implementation. It is essential to pay constant attention to detail throughout the process, always keeping in mind the final objective. With some decisions, mistakes can be rectified later; with critical decisions, mistakes are usually much, much harder to recover from.

- **CHOOSING BETWEEN OPTIONS**

Module 4: Ability to make decisions.



Imagine that your boss has put you in charge of taking on a new outsourced IT supplier. You've already identified several different suppliers, and you now need to decide which one to use.

You could decide to go with the low-cost option. But you don't want to make your decision on cost alone. You think that factors such as contract length, underlying technology, and service levels need to be taken into consideration. So how can you make sure you make the best decision, while taking all of these different factors into account?

Decision Matrix Analysis is a useful technique to use for making a decision. It's particularly powerful where you have a number of good alternatives to choose from, and many different factors to take into account. This makes it a great technique to use in almost any important decision where there isn't a clear and obvious preferred option.

Being able to use Decision Matrix Analysis means that you can take decisions confidently and rationally, at a time when other people might be struggling to make a decision.

**How to Use the “Decision Matrix Analysis Tool”?**

Decision Matrix Analysis works by getting you to list your options as rows on a table, and the factors you need consider as columns. You then score each option/factor combination, weight this score by the relative importance of the factor, and add these scores up to give an overall score for each option.

While this sounds complex, this technique is actually quite easy to use. Here's a step-by-step guide.

**Step 1:** List all of your options as the row labels on the table, and list the factors that you need to consider as the column headings. For example, if you were buying a new laptop, factors to consider might be cost, dimensions, and hard disk size.

**Step 2:** Next, work your way down the columns of your table, scoring each option for each of the factors in your decision. Score each option from 0 (poor) to 5 (very good). Note that you do not have to have a different score for each option. If none of them are good for a particular factor in your decision, then all options should score 0

**Step 3:** The next step is to work out the relative importance of the factors in your decision. Show these as numbers from, say, 0 to 5, where 0 means that the factor is absolutely

Module 4: Ability to make decisions.

unimportant in the final decision, and 5 means that it is very important. (It's perfectly acceptable to have factors with the same importance.)

**Step 4:** Now multiply each of your scores from step 2 by the values for relative importance of the factor that you calculated in step 3. This will give you weighted scores for each option/factor combination.

**Step 5:** Finally, add up these weighted scores for each of your options. The option that scores the highest wins!

### Key Points

Decision Matrix Analysis helps you to decide between several options, where you need to take many different factors into account.

To use the tool, lay out your options as rows on a table. Set up the columns to show the factors you need to consider. Score each choice for each factor using numbers from 0 (poor) to 5 (very good), and then allocate weights to show the importance of each of these factors.

Multiply each score by the weight of the factor, to show its contribution to the overall selection. Finally add up the total scores for each option. The highest scoring option will be the best option.

**Example:** A caterer needs to find a new supplier for his basic ingredients. Factors that he wants to consider are: cost, quality, location, reliability and payment options.

He has four options, so firstly he draws up the *worksheet* and scores each option by how well it satisfies each factor:

FACTORS:	Cost	Quality	Location	Reliability	Payment	TOTAL:
WEIGHTS:	4	5	1	2	3	
Supplier 1	1	2	0	3	2	22

Module 4: Ability to make decisions.



Supplier 2	5	2	0	1	2	<b>41</b>
Supplier 3	2	3	0	2	1	<b>30</b>
Supplier 4	4	5	4	2	0	<b>48</b>

The best option in the example it is supplier 4.

### GROUP DECISION MAKING

Big decisions usually come after a considerable amount of research: discussions about the options available, about the criteria for choosing between them, and about the pros and cons of each possible choice.

These kinds of investigations can take months. After you and others have invested so much time in choosing the best option, the last thing you'll often want to do is reject the whole idea, and stay with things as they are now. But is going ahead actually the best thing to do? Or has the environment changed since you first started considering the change, so that your preferred option is no longer worth going ahead with? Is the cost of making the change greater than the benefit you would receive from it? Or has your organization's cash flow recently suffered, so that you now can't afford to make the change, even if it's valuable and useful?

When deciding whether to go ahead, you have to realize that the time and money you've already spent on the project are "sunk costs": costs that cannot be recovered, and that you need to put behind you for decision-making purposes. You must evaluate whether or not you should go forward objectively, dispassionately, and on the basis of where you are now. It can take a lot of intellectual maturity to do this!

Uncertainty is one of the largest obstacles you face when making a decision. After all, very few decisions are made with full knowledge of the consequences. With this in mind, it's important to have a methodical process for making the decision, and to use solid decision-making tools. With these in place, it's much easier to do what needs to be done each step of the way.

To make your decisions in a team environment you need to pay as much attention to collaboration and participation among team members as you do to evaluating the options, if you're going to avoid the many potential problems that go with group decision-making.

Module 4: Ability to make decisions.



### **Bibliography**

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