



Decision Making Theory

Hayek Global College
Professor Oto Morato
Patricia Mesquita and Pedro Mutzig



Decision Making Theory: Process & Definition

- It was first addressed by by Herbert Simon in 1948 on his book about **Administrative Behaviour**: “A Study of Decision-Making Process in Administrative Organisation”.
- “Decision making is usually defined as a process or sequence of activities involving stages of problem recognition, search for information, the definition of alternatives and the selection of an actor of one from two or more alternatives consistent with the ranked preferences”.
- Many theories were formulated since then - besides Simon, the most important researches are Richard Synder and Chester Bernard.



Various models of decision-making

The Rational Actor Model

- ★ This is based on **Economic Theory and Utilitarianism**. Considered the best form for business organisations that seek maximum benefit.

The Model of Bounded Rationality

- ★ Admits that the rational manager does not always have complete information.
- ★ It is characterised by the activities of searching and satisficing: alternatives are searched for and evaluated sequentially.

Various models of decision-making

The incremental Model



- ★ The policies should be formulated with a strategy that always allows for **review and adjustments** whenever required.
- ★ Splits the decision-making process into **smaller steps**.
- ★ The decision-makers are **not fully rational** and consider only a limited number of alternatives during each step.
- ★ The process relies on the decision-makers' **experience and intuition**, rather than on formal procedures.

Various models of decision-making

The Bureaucratic or Governmental Politics Model

- ★ Says that there are certain **ideal inclinations** and long cherished **values** which impact the process of decision making (unavoidable at times)
- ★ Proposes that decisions are not made from rational, collective and cohesive decision-making. Instead they are made through **conflict, negotiation and personalized bargaining process** between members of the bureaucracy

Assumptions:

1. Bureaucrats enter the conflicts with their own goals and concepts
2. Success is not necessarily measured by rational outcomes, but by the ability of bureaucrats to persuade others to their cause.
3. Bureaucrats enter the conflicts with different personnel, budgets and positions within the government hierarchy
4. As the vast majority of foreign policy decisions are made in groups, these conflicts are a constant and play a major role in the decision making of the bureaucracy.



Various models of decision-making

The Belief System & Political Model

- ★ The decisions are taken within the decision-makers' **ideological and deep-rooted beliefs**.
- ★ Ex: A communist country, in theory, cannot make a decision that is against the welfare of its citizens. No matter how rational a decision is, it is made by keeping their deep values.
- ★ Decisions made by conscious beliefs are based on **prior knowledge, analysis of indicators, use of management tools and statistics** - thus evaluating the rationality of the **consequence** and possible **alternatives**.



Various models of decision-making

The garbage can mode

The garbage can view describes decision-making in an “organised anarchy”.

The garbage can model emphasises the fragmentedness and chaotic nature of decision-making in organisations, rather than the deliberate manipulations implied by the political view.

In the garbage can model, “a decision is an outcome or interpretation of several relatively independent streams in an organisation”

The streams of problems, solutions and participants meet each other at a choice opportunity, symbolised as a garbage can.

When a decision is made, the garbage can is removed. This might happen without having solved all or some of the associated problems in the garbage can.



Various models of decision-making

Naturalistic decision-making

Investigating and understanding decisionmaking in its natural context.

Research: decisions made by people in life-or-death situations, such as firemen, nurses and soldiers.

Core element: the ability to recognise a situation as being similar to that of a previous experience.

Decision-makers also recognise a course of action that is likely to succeed. All this can happen in a few seconds.

One of the key factors leading to good decisions is experience, which will increase the person's ability to recognise a situation.



Inputs from decision-makers

Interviews: researches conducted 6 interviews with decision-makers in government, third sector and private sector.

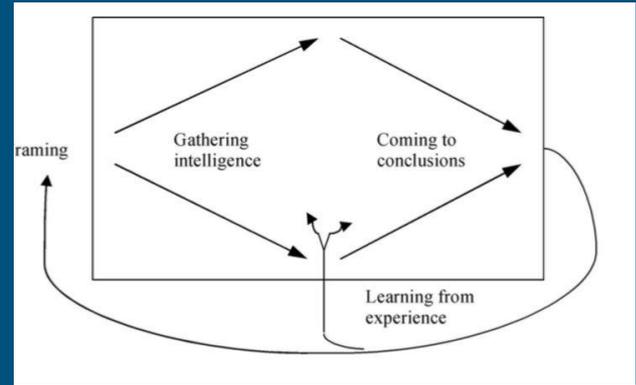
Comparing theory and practice:

- The rational model was supported by only one person and explicitly criticised for its failure to resolve issues in a politicised environment where personal interests are favored.
- The naturalistic model was supported in the sense that decision-making is a process strongly influenced by intuition, experience and situation awareness.

Personal style vs. the decision making environment

- Often, decision-makers respond to what happens in their environment and

Inputs from decision-makers



The use of technology in decision-making:

- The message that emerged most strongly was the decision-makers reliance on simpler tools, such as MS Office, instead of other more sophisticated tools.
- Even though the later can be more precise and advanced, they may slow the process of decision making.

Insights into the process of decision-making:

- It may be described broadly as having two phases: a divergent, exploratory phase and a covergent phase where the focus is to reduce the number of alternatives and then make a decision.

Key lessons from the decision-makers

Understanding the context

- Successful hints: classification of people, situations or organisational processes into existing frameworks, being sensitive to people's value systems, and the use of gut feel or intuition.

Packaging of information

- Packaging of information in more visually appealing and digestible formats can assist in getting across a written message. However, the verbal communication process should also receive attention. Communication is a two-way process.

Self-help technology

- It needs to be acknowledged that tools, such as the MS Office suite, are more readily available and understood than most analytical decision support tools. Spreadsheets are the best option.

Key lessons from the decision-makers

Conclusion - Part 1

- Although analytical decision support tools may be extremely useful in solving problems in a complex and industrialised environment, the same tools or methods cannot necessarily be applied to human decision-making.
- Even the seasoned decision-makers surveyed, most of whom had a highly analytical background, do not rely on formal decision support tools to a large extent;
- Although a number of the decision-makers had formal training in sophisticated decision support methods and technology, they found limited use for it in their own environments

Key lessons from the decision-makers

Conclusion - Part 2

- Attention to aspects such as the context, the nature of the decision-making processes, people's personal styles, as well as the agendas', may significantly improve the decision;
- One of the models that received relatively strong support, in principle, was the naturalistic decision-making, because it recognises the use of gut feel and intuition.
- One suggestion for further research would be to investigate how the naturalistic model could be adapted for organisational decision-makers who might have more time to reflect and consult, but where the impact of decisions is still severe.

Thank you for your
time!

Patrícia & Pedro