Non-rational and rational decision making in organisations

To what extent do you agree or disagree with the following statement?

It is more common for organisations and individuals to engage in non-rational rather than rational decision-making

Introduction

Managerial decisions involve making or participating in the communication, monitoring and the directional process of a decision which assist in solving an organisational problem in both programmed and non-programmed situations. Individuals and organisation have two identified models for decision making; these methods are called rational decision making and non-rational decision making (Rue & Byars 2005). For a further understanding of these models, the essay will contrast and compare both methods to identify use and effectiveness on an organisational and individual level, which can be defined as a systemic process (rational) or an emotive process (non-rational).

Based on research the assumption that managers make both rational and nonrational decisions is dependent on the nature of the organisation and job, type of problem, their experience and cognitive ability. For example, in structured problems programmed decisions which are structured, straightforward and familiar are easily solved by previous solutions which have proven successful. Thus, a nonrational approach is adopted. For example, in Hospitality if a customer is unhappy with his room the manager is able to rely on a structured procedure or policy to satisfy the customer's need. As a quick response is made the non-rational model allows the develop alternatives step to be eliminated thus saving time (Robbins, Coutler, Bergman, & Stagg, 2012).

On the contrary, in unstructured problems which are either new, unusual or information is incomplete or ambiguous the type of decision required is non-programmed as a custom-made solution is required (Robbins, Coutler, Bergman, & Stagg, 2012). This requires a rational decision-making model as the solution is not programmed and unique and requires considerable thought into the alternatives such as the closure of a chain of stores which are unprofitable (Robbins, Coutler, Bergman, & Stagg, 2012).

Therefore, the type of organisation, problem and decision will affect whether one model is utilised more than another. What is common with both models however is that the intention or purpose of the problem-solving solution is to benefit the organisation.

It is paramount for managers to understand the significance of effective decision making and its link to organisational success. However, decision making whether complicated or straightforward can be categorised as either rational or non-rational. Rational decision making (RDM) is a systematic process that utilises reason and facts when making a choice. RDM focuses on using objective data and analysis over subjection and instinct as a tool when making a decision (Attribution-ShareAlike, 2019). Decision-making goals are calculated with a holistic approach with knowledge of alternatives, assuming the decision is time conscious, using a cognitive ability and resource techniques that allow for comparisons. The RDM method exhausts the possibilities of benefits while performing at a minimised cost.

Non-rational Decision making (NDM) model on the other hand, is defined as a judgmental process and is made when a response is needed urgently or is routine or when one doesn't have time to carry out a systematic process and when it is hard to obtain information regarding the issue or problem resulting in uncertainty (Bartol et al. 2006). An individual adopting the NDM process can relate such innate decisions to experience factors. These factors namely physiological influences such as physical and social environmental impacts are intrinsic without conscious awareness of the individual's part.

Positive effects of rational decision making

RDM seeks information in a methodical process resulting in a decision-making model which minimises the amount of risk due to errors, uncertainties and personal assumption being left out of the process. The use of logic within the selection and evaluation process allows for complicated problems to be dealt with on an individual and organisational level (Barros, 2010). RDM model uses a step by step methodology with the final decision made after a possible solution has been thoroughly investigated ensuring the satisfaction of characterised goals. As RDM is a clinical and mathematical process, it easily fosters ongoing improvement as information is quantified and codified making analysing and access to the information determining improvement.

However, Tolbert and Hall (2009, p. 111) state " real individuals have a very constrained cognitive capacity that is a limited ability to think of the range of possibilities options", therefore organisations when making economic decisions can benefit from an RDM style method process, whereby they label individuals under a characterisation of “ bounded rationality”. Managers when faced with an organisation that is not risk takers or faced with time constraints or cost restraints they make rational decisions which are limited by their information processing ability (Robbins, Coutler, Bergman, & Stagg, 2012). This term means that humans have a limit to what they are cognitively capable of addressing minimal criteria, resulting in a satisfactory result but not the optimal result for an organisation especially within an economic climate (Tolbert & Hall, 2009).

Within an organisation with the presence of a visible hierarchy, rational decision making also becomes far more beneficial due to its specific organisational process. RDM as observed in an organisation hierarchy through a top-down ripple effect, for example, in a business manufacturing a new item to sell, the decision on the process of operations and marketing is delegated to heads of that area. The head of operations then split this area into three management sections in the form of micromanaging for example supply chain management, production and quality control. Necessitating three different operational managers to conduct decisions on how best to carry out these tasks. Each subordinate authority can make decisions to accomplish the goal of the higher authority objectives. By having these sectors within the organisation generate a more thoughtful, thorough and systematic approach to decision making, rather than the reliance of an individual to make it on their own.

Negative effect of rational decision making

However, the RDM model is not without its faults. When conducting research, the process can generate errors within decision making that correlate with many different factors. If an individual or a business is lacking information due to non-existence or unavailability, then making the appropriately informed decision becomes reasonably difficult (Attribution-ShareAlike, 2019). Within today's ever-growing technological advances decision making has become more face-paced to keep up with competitive markets, communication and political demands; therefore quick decision making can be a reason for success. The RDM model implementation is a long-term process based around having a cautious and conservative approach, as such does not satisfy this demand by not allowing for a decisional task to happen from gut instinct or a gamble (Project, 2012). As RDM is heavily reliant on analytic resources and systematic procedures without this occurrence, it causes cognitive limitation resulting in as previously stated arriving at a satisfactory rather than an optimal decision, consequently hindering an individual or organisations ability to be a pioneer in their field and hindering success. RDM also can lead to unpopular and autocratic perceived management, due to it being a planned and informed process to decision making, resulting in human relationships becoming secondary within the process. This can lead to unhappy work morale and the erosion of the organisations intellectual capital and pliability leading to unsatisfactory outcomes for the business (Project, 2012).

An example is evident when a business pursuing the most cost productive decision to minimise company expenditure, which could be a highly emotive problem especially if it involves staff redundancy. Managers are relied upon to make an acceptable optimal decision attributed to their ability and experience to conduct analysis and thinking through competing alternatives whether time poor or without information. While this would have been a challenging process for individuals (employees) to measure or assess factors amongst criteria with limited information, the process generates a less favourable response or compliance to the outcome and failure to develop individual decision-making capacity.

Positive effects of Non-rational Decision Making

NRM model states that making a decision can involve an area of uncertainty and achieving optimal decisions can be a complicated process. The model can be broken up under different categories incremental, satisficing and intuition which are managerial and realistic when making a decision. The incremental style of NRM aims for decision making based around short-term perspectives, not long-term, these immediate decisions involve individuals or managers to make decisions with a lack of information and resulting in a minimal response only possible by reducing the problem to the least most tolerable level. Satisficing model involves managers seeking alternatives until they find one that is satisfactory, with the pressure of limited time and resources this model becomes ideal when making short-term decisions and allows for decision-making postponement while a better alternative is established (Rue and Byars, 2005). Intuition model relies heavily on a level of expertise and accumulated judgement when carrying out the decision-making process, but maximises the probability of success when under a time constraint and lack of information, however with such high risk comes a higher rate of success when using the NRM intuition model. Non-rational decision making is a necessary part of how a person or organization carries out the process of making a decision whether it be incremental, satisficing or intuition, for example, a stockbroker investing in shares of a company doesn't have time to make a decision, as share prices can fluctuate from external pressures, therefore, a person or company wanting to capitalize on the current economic situation needs to make a short-term decision. This then involves a non-rational decision to be made on experience or gut feeling due to the significance of the timeframe.

Negative effects of Non-rational Decision Making

With greater uncertainty involved around NDM comes a higher risk of an unfavourable result with an individual or organisations decision, as they settle for a satisfactory ideal (Bayt, 2000). As a result of the lack of information obtainable to make a rational decision, an optimal outcome is not insured leading to the possibility of a determinantal effect on an organisation or individual. Having less informative facts to provide evidence and support for a decision, the complexity of the issue arises as variables become uncertain and there are more of them. Indecision is at a higher rate of degree throughout every step of the decision-making process which can involve in being a complex process of trial and error making the issue time poor and expensive (Bayt, 2000). Motorola, the telecommunication company can illustrate evidence of the negative repercussion of a non-rational decision-making model. The company developed an uncoordinated satellite-linked phone that was heavy and unusable within a car or building, costing upwards of $3000. Technology improved without the foresight of the company and instead of assessing the situation with information to improve their phone with such aspects as research and development they made a quick non-rational decision and marketed the phone resulting in a severe economic decision and loss of market share.

Conclusions

Overall the extent to which an individual or organisation use the model of rational or non-rational decision making depends on different aspects such as the identified problem, managerial hierarchy, previous experiences and knowledge. No one standard response can be adopted when a problem arises, and decision making is required, as individuals and organisations are facing ever-growing diversity. The only certainty is trying to pick the most optimal decision-making model that best utilises the skills and information available that results in a beneficial outcome. Therefore, concerning the statement “ It is more common for organisations and individuals to engage in non-rational rather than rational decision-making” we can agree with the statement regarding routine or programmed, structured problems when individuals and organisations do not have the time or resources and short-term decision making is required. This approach is usually adopted by low-level mangers in the form of procedures, policies and rules (Robbins, Coutler, Bergman, & Stagg, 2012). Subsequently, individuals and organisations would rely on experience, expertise and knowledge to implement impulse and gut instinct decision making in order to achieve the most optimal outcome. While evidence supports with this statement in the short-term, it does not support the statement in respect to problems which are significant or new and have a long-term effect. In this situation decision making generally has a more significant impact on a person or organisation thus RDM allows for a higher degree of achieving an optimal outcome due to obtaining the right facts and figures required for the particular situation and is usually performed by upper-level managers.

BIBLIOGRAPHY

- Attribution-ShareAlike. (2019, January 1). *LumenLearning* . Retrieved from boundless management: https://courses. lumenlearning. com/boundless-management/chapter/rational-and-nonrational-decision-making/
- Barros, G. (2010, July/September). Herbert A. Simon and the concept of rationality: boundaries and procedures. *Brazilian Journal of Political Economy, 3* (3).
- Bartol, K., Tein, M., Matthews, G., Ritson, P. & Scott-Ladd, B. (2006). *Management Foundations: A Pacific Rim Focus* , McGraw Hill, North Ryde.
- Bayt. (2000, August 23). *Advantages and Disadvanatges of Decision Making* . Retrieved from Bayt: https://specialties. bayt. com/en/specialties/q/299703/what-are-the-advantages-and-disadvantages-of-decision-making/
- Pamela S, Tolbert and Richard H, Hall. (2009). Decision-Making. *Organizations: structures, process and outcomes* (pp. 111-114). Indiana: Pearson Prentice Hall.
- Project, A. B. (2012, January 1st). *brighthubpm* . Retrieved from Pros and Cons of the Rational Decision Making Approach: https://www.

brighthubpm. com/methods-strategies/121817-is-using-the-rational-decision-making-approach-a-rational-choice/

- Robbins, S., Coutler, M., Bergman, R., & Stagg, I. (2012). In 6th (Ed.), *Management 6* (pp. 262-289). Melbourne, Victoria: Pearson.
- Rue, L. W., & Byars, L. L. (2005). *Management Skills and Application* , 11 th ed, McGraw Hill, New York.
- UK, E. (2016, December 5). Advantages and disadvantages of decision making. *UK Essays* , 1-3. Retrieved from https://www. ukessays. com/essays/business/advantages-and-disadvantages-of-decision-making-business-essay. php