

Types of decision making environment commerce essay



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In our daily life we often face situation where we need to make decision. It could be a personal decision on getting a new car or even a work decision to launch a new product. What can we do to fix this? How will this affect my children, my spouse? When will this project be completed? How much does it cost? To certain people, decision making is something that seems very difficult and complicated for them to do. Some decisions are made to solve certain problem where some decisions are made for better changes. Making a decision is not an easy task, a wrong decision will impact you badly while making a good decision will benefits and helps you. This report will discuss the types of decision making environments and several examples that describe those environments.

2.0 DEFINITION OF DECISION MAKING

Decision making is the thinking process of picking a choice between few of the available options. It serves as a purpose to remove any uncertainty and hesitation before we decide on something. The best decisions usually are the decision that can bring success and effective results. When doing decision making, we must look at both positives and negatives of each option. We should always think and consider all the alternatives before making up a decision. Sometimes there might be a better alternative choice that we did not put under consideration, therefore it is important for us to always keep track and record down the reason why decision are made. These tracks and record can be used in the future for reference and improvements purpose, and saves us a lot of time by preventing any past mistakes. Wikipedia (2012) explains that:

Decision making can be regarded as the mental processes (cognitive process) resulting in the selection of a course of action among several alternative scenarios. Every decision making process produces a final choice. [1] The output can be an action or an opinion of choice.

To make a good decision, the ability to forecast the outcome of the available options is very important. According to Al-Tarawneh, Hussien A. (2012) Usually decision making process involved the steps below:

Define the Problem

Determine Requirements

Establish Goals

Identify Alternatives

Step 1. Define the Problem

The first step of defining a problem is to collect all the necessary data and identify the purpose and root causes of a problem. At this stage, our purpose is to obtain a conceptual definition. This conceptual definition will be use as a base that we can redefine and shape later. However it does not mean that we are looking at just a part of picture or just a wild guess.

Step 2. Determine Requirements

At this stage, we determine the requirements and conditions that are required to resolve the problem. Just like a software installation, there are certain requirements that required to be meeting before it can be

successfully installed. This is to ensure the solution we are applying is still protecting our shareholder values.

Step 3. Establish Goals

Goals are the desirable result that we would want to see in the decision making outcome.

Determine the goals are actually setting up a target far compare to the minimum desires.

Example, the requirement of solving problem “ A” is that we do not lost any of our existing customers in the process. In the other hand, establish goals that we are aiming for is to increases and get new customer. It always drives us to archive something better.

Step 4. Identify Alternatives

And lastly we identify all the alternatives. Any of these alternatives must at least meet the minimum condition of requirements we have determine earlier. We must look at all the alternatives to see does it meet the requirements or not. Those alternatives that do not meet the requirement are removed. By doing these filtering, we will end up with few of the best options. From there we can compare and decide which the best alternative to choose from is.

3. 0 Types of Decision Making Environment

In decision making, we may encounter time where we just do not have the required information to make a decision and keep having hesitation.

Sometimes it's a decision that we have a lot of information with and very certain with the conditions. There are 3 types of decision making environment that we can classify. There are:

Decision Making in Certain Conditions

Decision Making in Uncertain Conditions

Decision Making in Risky Conditions

3. 1. 0 Decision Making in Certain Conditions

Decision making under a certain conditions means that the person who makes the decision have all the complete and necessary information for him to make the decision. With all the information available, that person is able to predict what the decision result will will lead into. By able to predict the outcome we can easily make a certain decision with certainty. The outcome that gives the best result will usually be used and carried out. If we are given 2 choices and first choices are better than the 2nd choice, surely we can decide easily which option to choose from. Several examples of Decision Making in Certain Conditions are as below:

3. 1. 1 Example 1 (Personal)

Jason just moves to KL to work and he is looking for place to rent. He had been offered with two alternative rental places. Rental A and Rental B. Rental A is near to Jason's workplace and is within walking distance. Rental B is a bit far from his working place and required him to drive to walk. Both rental fees are RM500 per room. With the complete information above, Jason will be able to make decision in a very certain condition.

3. 1. 2 Example 2 (Consumer)

Shop ABC has just opened beside Shop DEF and is selling a wide range of daily consumer products. Consumers around the area now have another alternative place that they can shop from. Shop ABC has better overall price compare to Shop DEF, and Shop ABC employee are friendlier. Both Shop are open from 8am to 10pm. Beside that Shop ABC have their own shop points rewards card where shop DEF do not have any special promotion. With the scenario above, the consumer has enough information to choose over these two places. This is a decision that will be made under certain condition.

3. 1. 3 Example 3 (Business)

ABC Company has been operating for many years, and it is a company that provides data entry as service. The printers that they are using are very outdated and faulty from time to time. The board of the company decided to change and refresh all the existing printers. Since there are wide selections of brand they can choose from, they have come out with the final two alternative brand selections that are popular in the market. The final two alternatives of brand are Canon and HP. With all the info easily collected from the printer's website, they were able to collect all the required info easily and come out with a table to compare the cons & pros to make the final decision of which brand they are going to purchase. With all the information available, predictions are easy to make and this is a decision made under certain condition.

3. 2. 0 Decision Making in Uncertain Conditions

Making a decision when you are uncertain of the condition is similar to lack of information that can help us to decide. Because of insufficient information, the decision maker doesn't know the future and not able to predict the outcome of every alternative he has. In order to make a decision with such conditions, the decision maker would have to judge and made the decision based on their experience. If they do not have such experience, they have to consult and seek advice from people who have more experience. There is a little risk involved there however since we are not able to predict the result however experience from the past would close the gap. The following are some examples when making a decision in an uncertain condition. They are:

3. 2. 1 Example 1 (Personal)

Jason is currently using a very old version of Nokia Phone. Seeing everyone is using a very advanced phone, he decided to change his phone to a smart phone. Smart phones in the market are using window OS, Apple OS and Android OS. Jason never used such interface on a phone before. Which phone OS is more easy to use and which function of the phone is better, he is not that certain. He then seeks advice from his friends and asks for opinions. After getting enough advice, he then bought the smart phone. In this scenario, Jason does not have all the sufficient information, so he gets advices from his friends. Jason is making the decision in an uncertain condition.

3. 2. 2 Example 2 (Consumer)

A new brand of washing detergent has been introduced into the market. It is called "Detergent XYZ" on the advertisement and product claiming it is the most efficient detergent ever in market. Only 1 small cup of detergent would be sufficient to wash all the dirty clothes clean and white. Consumers are attracted to the new product however they are uncertain how well the product is. Will this new detergent clean well? Does it harmful to their skin or hands? The only information that the user know, it can clean but how well they won't know however the price of the detergent is cheap. In this case, consumers are making the decision to buy the detergent in an uncertain condition.

3. 2. 3 Example 3 (Business)

ABC Restaurant is famous for their chicken rice at Kampung ABC. They have been selling chicken rice for the past few years. Business has been good; however they are trying to expand the business. Hence they decided to try out selling Duck Rice, since that would first shop ever in Kampung ABC that serves that. ABC Restaurant is not sure will the people in the village would eat this new menu. Would people in Kampung ABC accept duck as well? How much would they sell Duck Rice? Will the Duck Rice be sold at the same price as Chicken Rice or cheaper? In this case, ABC Restaurant are facing a time where they are making the decision in an uncertain condition.

3. 3. 0 Decision Making in Risky Conditions

Making a decision in risky conditions means that we are making a decision that might result the problem even big or from bad to very bad. Only

minimal information is available to predict the outcome. A wrong evaluation on making the decision under risky conditions might even result the company suffer huge lost of profits or even bankrupt.

3. 3. 1 Example 1 (Personal)

Jason has been in a relationship with Mariah for almost 1 year. They both love each other. Mariah suggested to Jason so both of them get married. Jason now faced with a situation where he has uncertain conditions that can help him to decide. Taking the relation to the next stage or don't get married. Jason is not able to predict the outcome of the marriage either would make him happier or suffer. This is because Jason only knows the girl for almost 1 year, but sometimes it took very long or even forever to know one's true nature. Jason has not yet gets approval from his parents and is not sure if Mariah parents like him or not. Jason is also doubting will this marriage will effects her current career or not. However since Jason love Mariah so much, he just agrees to marry her. In this situation, Jason is making a decision under a risky condition.

3. 3. 2 Example 2 (Consumer)

A new skin product has been release to the market, it is a face washer called ABC Face Cleaner. It is a product commercialized to guarantee skin whitening result in just several time of using. There is no exact information explain that how does this product help in improving the skin color and how long exactly it take to get the effect. However due to the attractive price and the result promised, consumers decided to give the product a try. In this case, consumers are making a decision to buy the product under uncertain condition.

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3. 3. 3 Example 3 (Business)

Company ABC has been selling their new products for some time. The board of the company is having a discussion either to stop selling the new product or put more investment to promote this product. The only information they have is the weekly sales reports. It seems that for the first 7 weeks of the product launching, the product are not selling good and are causing them to suffer lost of profits. However on the reports, they also noticed that week by week the selling rate is slowly increases. It is showing an increase sales rate growth of 5% every week. Based on all the info they have, they state that, the product sales rate will increase until 70% and company will start gaining profits starting on the next 2 week. Without getting other information such as how the consumers do see their product, they went ahead and make a decision to invest more on this product. ACB Company is actually making the decision under a risky condition.

4. 0 Suggestion to improve Decision Making

Making a decision may seem very simple however it is not. To make sure that we have the best outcome of the decision we made, we must ensure it is rational. The decision that we are making have to be based on opinions, reasonable reason and also facts. To ensure we make the rational decision, Williams (2000) stated that six steps of process that must be followed. This 6 process is showed at Figure 4. 1.

Figure 4. 1 Rational Decision Making Process

Defining Problems

The steps of decision making always involving the steps of defining and identify the problem. The decision maker will have make a clear picture of the problems that they are facing, and root cause of the problem and how to rectified them.

Identifying Decision Criteria

In rational decision making, at this stage we are indentifying the decision criteria. These are the items that will be put under consideration during the decision making.

Allocating Weights to Each Criteria

After determine the criteria earlier, we will then allocate weight to each of them.

The weight here refers to the impotency of these criteria. To determine the weight of each criterion, relative comparisons are usually used. By doing a relative comparison, we will able to identify which criteria are the most important.

Generating Alternative Solutions

In this stage, the next step would be think and list down the alternative solution.

The process would goes smoother if more alternatives are generated.

Evaluating Alternatives

After listing down all the possible alternatives, in this stage we evaluate and judging these alternatives one by one. Information on each alternative must be obtained before the comparison is made.

Selecting the Optimal Decision

The final step in rational decision making is to choose from the best alternative solution from the list we have. The best alternative are determine by the most decision criteria that are meet. The alternatives that meet the most will be selected instead if there are no alternatives that meet all of the decision criteria that we have listed down earlier,

4. 2. 0 Example of Rational Decision Making Scenario

Description

Step Used

For example, my company recently notices that works are delayed by a lot due to employee productivity. After investigation has been performed, they found out that problem occur due to slow performance of the computer the employee are using. Hence the management decided to upgrade the entire computer in the office to increase productivity.

Defining Problems

Management then defines the criteria required to be taken into consideration when buying the new computers. The decision criteria that are such as price, warranty and system support. (Refer to table 4. 2)

Identifying Decision Criteria

After all the criteria have been determine, they now arranging the weight of the criteria based on which are the most important. In this case, employee know how to use the interface is set to the highest and warranty is set to the lowest as they have their own IT support. (Refer to table 4. 2)

Allocating Weights to Each Criteria

Next is finding out all available alternatives and these alternatives will be evaluated. The alternatives that will be taken into consideration will be Apple, DELL and HP. (Refer to table 4. 2)

Generating Alternative Solutions

After all available alternatives is listed down, we then evaluated them based on the criteria that we have listed down previously (Refer to table 4. 2)

Evaluating Alternatives

Lastly we select and make the decision based on alternatives that have the meet the criteria the most. (Refer to table 4. 2)

Selecting the Optimal Decision

Criteria that must be meet

APPLE

DELL

HP

Employees know how to use the operating system interface.

NO

YES

YES

Able to reuse the software license.

NO

YES

YES

Work Application Supported.

NO

YES

YES

Price below RM3000 per unit.

NO

YES

YES

Standard Warranty Period.

YES

YES

YES

Onsite Warranty Service.

NO

YES

NO

Own IT people able to support it.

YES

YES

YES

Table 4. 2 Identifying Decision Criteria

5. 0 Conclusion

Decision making skill is important in both personal life and cooperate environment. Able to make the right decision will fixed the problem for good. Making a decision by using rational decision steps will helps in selecting the best outcome result among all the alternatives.