Models of decision making

Psychology

Running Head: Models of Decision Making Models of Decision Making

appears here] of appears here]

Models of Decision Making

Decision-making has become one of the most difficult tasks before organizations in today's corporate world. In many decision-making situations compromise solutions are unavoidable (Plous, 1993). It was evident at the outset that this is one of those situations where a compromise solution will have to be adopted. However, compromises play vital roles for bringing different parties to consensus for decision-making. But, it is not as easy as it is said.

Think about apportioning a finite set of resources among a number of concerned parties. There may be a number of ways to complete this. The difficulty is to find a way, the " best procedure," which every one would consider it fair and thus find it good enough and acceptable. In most real situations, there exists more than one way, or procedure, to apportion shared resources. Each valid course of action has a rational justification on its own right. This is obvious that any one of the procedures is more beneficial to one of the parties than to the others. It can also be said that any " convex" combination of these procedures itself has a rational justification. In the corporate culture team decision-making is considered a difficult task. In team decision making, even though all members of a team may not be in total consensus with the final result, all concerned parties must be satisfied with it.

The problem is how to put into operation the concept of consensus decision-making. Even though agreement is becoming popular as a democratic form

of decision-making. There are, however, few organizations, which use a model of consensus, which is specific, consistent, and efficient. Often, the consensus process is informal, unclear, and very inconsistent. This happens when the consensus process is not based upon a solid foundation and the structure is unknown or non-existent.

In critical circumstances of decision-making, it would definitely be an ideal situation for any organization or team if each involved party could be flexible and willing to give up something to reach an agreement. But this is a big question how to make this situation. One method is to quantify compromise. When a party makes a compromise, it is accepting a compromise procedure in lieu of the procedure that is providing it the maximum payoff. The difference in payoffs between what a party's maximum payoff and the payoff resulting from the compromise procedure is the opportunity loss, which we refer to as that party's regret. With a same reasoning as in minimizing the sums of squared residuals, for example, in least squared estimates of coefficients in regression analysis, our goal is to find a way of apportioning the finite set of resources among involved parties such that the sum of squared regrets of each party is minimized. In other words, we are looking for a procedure that minimizes the variance of " regret" of the parties. In addition, it turns out that, when the trouble is posed in a game theoretic framework, the best procedure, as defined above, can be interpreted as the Nash equilibrium.

Reference

Plous, S. (1993). The psychology of judgment and decision making. McGraw-

Hill, Inc.