

ESSENTIAL ISSUES FOR SUCCESSFUL EXECUTIVE DECISION-MAKING IN THE 21ST CENTURY

BY

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ABSTRACT

The job of a manager is, above all, to make decisions. At any moment in any day, most executives are engaged in some aspects of decision-making; exchanging information, reviewing data, coming up with ideas, evaluating alternatives and implementing directives. This article examines how managers make decisions and focuses on various ways of improving executive decision-making. Executives are exposed to ways of making effective decisions through various decision-making strategies dealing with both complex and routine problems. Analysis of challenges facing decision makers was discussed with advice on how to navigate difficult decision-making terrains. Descriptive research method was adopted in the study. Instrument used to gather data was questionnaire designed on 5-point Likert scale of 1-5 ranging from strongly agree to strongly disagree. Tables and percentages were used to analyze the data provided in the completed questionnaires. Chi-square inferential statistical tool was used to test the hypothesis of the study stated in null terms thus: "cutting-edge knowledge of information technology, intelligence and experience are not the key metrics that drive successful executive decision-making in the 21st century." The result of the hypothesis tested showed the calculated value of chi-square (X^2 cal 36.5) exceeded the table value of the chi-square (X^2 tab 9.49). The result led to the rejection of the null hypothesis (H_0) and the acceptance of the Alternative hypothesis (H_1) thereby lending credence to the fact that executives with cutting-edge knowledge of modern information technology, intelligence and experience can make successful decisions. While managers at all levels must play the role of decision makers, the way a successful manager approaches the decision-making process changes as he or she moves up the position hierarchy in the organization. The article also explored different types of decision which an executive can make through the review of literature on types of decisions. Decision-making has become increasingly challenging to executives especially with the explosion in information and communication technology under the 21st century business environment. The article emphasizes that effective decision-making compels the executive to seek broad spectrum of input from inside and outside sources. Information from customers, suppliers, employees and stakeholders are also instrumental to successful decision-making.

Key words: Decision-making, technology, executive, information.

INTRODUCTION

In today's competitive business environment, executives need to be prepared to make accurate decisions quickly and decisively. Making strategic decisions involve weighing risks and considering long-range implications for the organization. Decision-making implies the end of deliberations and the beginning of action (Buchanan, 2006).

Executives must endeavour to give decision-making the priority position it deserves. Right decisions facilitate the attainment of organizational objectives. The key element of decision-making involves identifying and choosing from among alternative courses of action in a way appropriate to the demand of the situation. The act of making choice from many options demands that the decision maker must be skillful in identifying and thoroughly weighing the many alternatives in order to make the best choice (Kreitner, 2009).

The article provides conceptual clarification on the topic and reviews literature by authorities on executive decision-making. Various types of decision and decision-making strategies are discussed with the objective of driving out best practices to be followed by the 21st century executive decision makers.

CONCEPTUAL CLARIFICATION

Decision-making implies taking a stand or reaching a conclusion and then beginning to do something. A decision is largely a choice made out of many available means of reaching the same goal. Decision-making therefore marks the end of deliberations and the beginning of activities to achieve set goals (Albert, 2006).

Executive Decision-making can be said to involve three basic elements. These elements are: choice, evaluation of alternatives, and definite purpose (Buchanan, 2006).

1. **Choice:** Decision-making involves choice, meaning, to decide what to do on the basis of some conscious and deliberate logic or judgment.

2. **Evaluation of Alternatives:** Decision-making involves a critical evaluation and choice from alternatives. Therefore it calls for special skill, capability and competence in the evaluation of alternatives.
3. **Definite Purpose:** Decision-making is for a definite purpose. In other words, there must be a problem to be solved or a goal to be achieved to which the decision is directed.

In decision-making, the executive decision maker identifies the problem to be solved or an opportunity to be exploited. He then goes on to generate a set of alternative courses of action from which to make the best choice (Buchanan, 2006).

An effective decision maker must be fully aware of the situation surrounding him and the results expected from the proposed decision. Depending on the prevailing circumstances and situations, the best decision could seek more effective performance or increased profitability. Other decision areas could aim at minimizing costs, reducing wastage or stemming the tide of high employee turnover (Obi, 2011).

RESEARCH METHODOLOGY

The study population consists of 20 corporate organizations operating in Lagos. Four senior executives were chosen through simple random sampling from each organization, making a total of 80 respondents which serve as the sample size. Descriptive research method was adopted for the study. Descriptive research is based on information gathered through questionnaires, interviews, inventories, rating scales, self-report and observation. Descriptive research is used to find meaning and obtain understanding of the present conditions. The result obtained through this procedure can be statistically analyzed.

The instrument used to gather data was questionnaire designed on 5-point Likert scale of 1-5 ranging from strongly agree to strongly disagree. The content validity of the instrument was established by giving a set of the draft questionnaire to eight senior executives involved in

decision-making in their organizations. These executives reviewed the content of the instrument and confirmed that the items were suitable for gathering relevant data for the study.

Data Analysis: A total of 80 questionnaires were administered and the researcher followed-up closely with the busy executives and succeeded in obtaining the return of all the 80 questionnaires correctly completed. The questionnaire was divided into Sections A and B. Section A sought demographic data of the respondents. Section B elicited responses on key metrics that drive successful executive decision-making in an organization. Tables and percentages were used to analyze the data extracted from the completed questionnaires. Chi-square inferential statistical tool was used to test the hypothesis of the study which was stated, in null terms as follows: “cutting-edge knowledge of information technology, intelligence and experience are not the key metrics that drive successful executive decision-making in the 21st century.” In the chi-square test, it was found that, the calculated value of the chi-square (X^2 cal 36.5) exceeded the table value of the chi-square (X^2 tab 9.49). Thus, the Null hypothesis (H_0) was rejected and the Alternative hypothesis (H_1) was accepted. The test established the fact that only executives who have cutting-edge knowledge of modern technology and possess intelligence and experience can make successful decisions in the 21st century turbulent and highly competitive business environment.

Ho: Cutting-edge knowledge of information technology, intelligence and experience are not the key metrics that drive successful executive decision-making in the 21st century”

Responses of the 80 Executives to the research question reflecting the hypothesis)

Table 1:

RESPONSE VARIABLES	FREQUENCY	PERCENTAGES (%)
Strongly Agreed	18	22.5%
Agreed	36	45%
Undecided	6	7.5%
Disagreed	12	15%
Strongly Disagreed	8	10%
TOTAL	80	100%

Source: Field Survey, 2015

$$X^2 = \text{Summation } \frac{(F_o - F_e)^2}{F_e}$$

Where X^2 = Chi-square value at 5% level of significance
 F_o = observed frequency
 F_e = expected frequency
 Summation = Total sum of a statistical/mathematical set

Table 2 shows actual Chi-Square computation using the data on Table 1

Variables	F _o	F _e	(F _o - F _e)	(F _o - F _e) ²	$\frac{(F_o - F_e)^2}{F_e}$
Strongly Agreed	18	16	2	4	0.25
Agreed	36	16	20	400	25
Undecided	6	16	- 10	100	6.25
Disagreed	12	16	- 4	16	1.0
Strongly Disagreed	8	16	- 8	64	4.0
TOTAL	80				36.5

$$F_e = 80/5 = 16$$

$$X^2 \text{ table value at 5\% level of significance} = 9.49$$

$$\text{Degree of Freedom} = 4$$

$$X^2 \text{ Table value} = 9.49$$

$$X^2 \text{ Calculated value} = 36.5$$

RESULT OF THE TESTED HYPOTHESIS

Since the calculated value of chi-square (X^2 cal 36.5) is greater than the table value of chi-square (X^2 tab 9.49), we reject the null hypothesis (H_0) and accept the alternative hypothesis (H_1).

The result of the tested hypothesis provides evidence to show that cutting-edge knowledge of information technology, intelligence and experience are the key metrics that drive successful executive decision-making in 21st century business environment.

LITERATURE REVIEW

An in-depth research into the reasons behind executive success and failure revealed just how consistently decision-making styles change over the course of successful executives' career. Brousseau (2006), observed that decision styles differ in two fundamental ways; how information is used and how options are created. When it comes to the use of information, some people mull over realms of data before they can make any decision. In the management literature such people are called "maximizers." Maximizers cannot rest until they are certain that they have found the very best answer. The result is a well-informed decision, but it may come at a cost in terms of time and efficiency. Other managers just want the key facts – they are apt to identify hypotheses and then test them as they go. Here, the literature borrows a term from behavioural economist Herbert Simon: "Satisficers" are ready to act as soon as they have enough information to satisfy their requirements (Brousseau, 2006).

As for creating options, "single-focus" decision makers strongly believe in taking one course of action at a time. On the other hand, "multi-focused" decision makers generate lists of possible options and pursue multiple courses of action (Brousseau, 2006).

Executive Decision-Making under conditions of Uncertainty

According to Taylor and Leggio, of the University of Missouri at Kansas City, USA,

board of directors, executives, and strategic planners all have fiduciary responsibilities for oversight in a corporation. To carry out these responsibilities, executive decision-makers must fully understand how to identify, evaluate, and manage the risks and uncertainties facing the corporation. Yet the complexity of many industries makes this task difficult. Every firm has multiple risk factors that must be taken into consideration in executive decision making as they determine the firm's ability to survive (Taylor and Leggio, 2007).

Executive Decision Maker and Frustration with Business Data

Utah, (2008) shed light on the frustrations of the executive decision maker with mounting business data. Data is critical to good decision making, but it is sometimes a serious headache for the business executive who must make sense out of an ever-growing and ever-changing sea of information. Domo and Business Intelligence.com also surveyed more than 300 business leaders, including 197 CEOs and company heads, to understand their biggest data-related frustrations and what they would like to do differently. The survey revealed that business professionals think their organizations lack good tools for data-driven decision-making, and that they are hampered by an inability to access timely, relevant information (Demo, 2013).

Rational Executive Decision

Executives have to make a wide variety of important decisions every day. As much as we would like to think, we are always rational and making the best choices for our business, but that is often not the case. A variety of behavioral and psychological biases affect the way we think, interact with others and make choices. Here are some tips from various authors aimed at improve executive decision-making process.

1. Searching for the "best" option can be a waste of time

When trying to make a decision, our first instinct is often to gather as much information, and, as many options as possible. At a certain point, it can become a crutch used to avoid making a hard choice. Research shows that people frequently spend so much time looking for alternatives that, at the end, outweighs any benefit of having more options. The executive decision maker must pre-determined the length of time for decisions, and stick to it (King, 2003).

2. Don't think you can read someone's mind

You perceive yourself very differently than how others view you, and vice versa. People tend to look at themselves in a very microscopic way and with a long-term view, while they view others in a more short-term, general way. That can lead us to make errors when we try to imagine what other people are thinking. Try to be aware of this tendency the next time you are assessing people or situations in your executive decision making (Wells, 1978).

3. Think like a weather forecaster

Anyone who ventures outside without an umbrella after bad advice from a weatherman might have to contend with weather adversities. But weather forecasters actually have some of the highest risk intelligence ever measured. The secret is in that they constantly have to tack a probability onto their opinions (a 75 percent chance of rain, for example) which keeps them more honest about their biases. The executive decision maker must also know that decision making goes with probable estimations that may not come true.

4. People don't know as much as you think they do

When the executive decision maker is uncertain about what to do or dealing with a new situation, he tends to look at other, more established competitors and imitate their decision

making strategies. That is often a mistake. People have an ingrained tendency to overestimate the value of the information other people have for decision making. Research has found that this tendency can persist even when people learn that their counterparts do not have better information (Simon, 1973).

5. Watch out for false consensus

When deciding when others are trustworthy, we imagine ourselves in the same situation. That means trustworthy people assign trustworthy qualities to people who may not deserve it. This 'false consensus' effect is particularly powerful. It persists even after someone has been contradicted in his assumptions. The executive decision maker should use outside information when deciding whom to trust, not his own feelings (Maxwell, 2007).

6. Close your eyes for a minute

It sounds odd, but it turns out that closing your eyes really does lead to making better decisions. Research found that when people close their eyes, it is easier for them to act out decisions and their consequences in their heads, which leads to more ethical choices.

7. A small reward can make a tough choice easier to swallow

When an executive is faced with a difficult decision, like whether to invest in a near-term but lower-payoff investment for your business or a more distant, higher-payoff one, it becomes easier to make the long-term choice if you move a small amount of that payoff up-front as a gift to employees. The best approach is to lose a bit now to prepare for the future (Ammeh, 2008).

8. Don't just confirm what you want to hear

You often hear about the danger of "yes-men" in business -, the people who just tell you what you want to hear to curry favor. The worst "yes-man" is yourself. Whenever people get new information, they tend to mould it to fit their current viewpoint, and become overconfident because they think they have backed up an opinion with fact. The executive decision maker must look at information objectively, not the way it is beautifully presented to him and act positively (Gillingham, 2003).

THEORETICAL FRAMEWORK

Decisions made by individuals and organizations can be broken into eight different types (Kreitner, 2007). Each type tries to depict the nature, importance or duration of each decision.

These eight types of decision are discussed below:

1. Programmed Decision

A programmed decision is a decision made by a manager and they apply to routine situations that occur often. They are structured in the sense that decision rules and procedures are available which can be followed again and again. Example of programmed decisions include: pricing regular customer orders, order quantity of basic raw material to meet production schedule, cash provision for salesmen among others.

2. Non-Programmed Decision

Non-programmed decision are applied to non-routine situations that are new and different from situations experienced often in the operations of the organization. Thus there are no standard methods for making the decision. The problem upon which a non-programmed decision is made is unstructured thereby demanding sound judgment, initiative and creative thinking. Non-programmed decisions are rather complex and demand accurate facts and figures as well as

exactitude and precision (Kreitner, 2007).

3. Minor Decision

Minor decisions, generally speaking, have less adverse consequences. They pose less risks and dangers to the organization, and they do not give the decision makers much strain and stress.

They concern simple day to day activities in the organization (Kreitner, 2007).

4. Major Decision

A major decision is a strategic decision affecting the life and existence of the organization.

Major decisions are usually of long-term duration and carry operational implications into the future. Replacement of machinery and diversification of product lines are good examples of major decision. Another characteristic of a major decision is that each major decision has an impact on other functional areas in an organization. For instance, the decision to change the apportionment and allocation of overheads to various departments is a major decision. Further a decision which involves some qualitative factors and decisions which are unique to a situation which rarely repeats itself are regarded as major decisions (Kreitner, 2007).

5. Routine Decision

Routine decisions can be described as supportive decisions aimed at achieving efficiency in the operations of the company. Routine decisions include provision of air-conditioning equipment, providing better lighting and ventilation, employee housing and the provision of other facilities

6. Strategic Decision

Strategic decisions are futuristic in nature. They have long-term effects and implications on the business of the company. They also involve a lot of investments and risks. Decisions that affect new product brand, expansion of plant, automation of the production line and the like are regarded as strategic decisions (Kreitner, 2007).

7. Individual Decision

Individual decisions are taken by individuals if the problems are of routine nature where the analysis of the problem is simple. Definite procedure exists for taking such decisions.

8. Group Decision

Important decisions which have strategic implications are usually taken by a group and they are called group decisions. Inter-departmental decisions are usually taken by a group. The merits of group decisions include, higher probability of acceptance by those affected by the decisions taken. Implementation, coordination and communication of such decisions are easy since much resistance is not expected (Kreitner, 2007).

Using Game Theory to Improve Strategic Decision making

Increasing number of executives are today utilizing the science of game theory to help them make high risk/high reward strategic decisions in highly competitive markets and situations (Osak, 2010). Modern game theory has been around for over fifty years, and has demonstrated the ability to generate the ideal strategic choice in a variety of situations and problems.

Game theory principles are leveraged through the use of strategy games. These games are well-defined mathematical scenarios that encompass a set of players which could be individuals or firms. A set of strategies are made available to those players and a payoff specification for each combination of strategies established. Game theory is a powerful tool for predicting outcomes of a group of interacting firms where an action of a single firm directly affects the payoff of other participating players (Osak, 2010).

Colleague-Role Approach to Executive Decision Making

Executive decision making in organizations – the making of decisions which have consequences for subsequent organizational activities – is seldom done by individual members of the

organization acting alone. People work together in project-teams or task-forces, coordinate their efforts with broader purposes of the organization and exchange support with their colleagues. Despite the obvious importance of such interactions between people in organizations in the process of making executive decisions, they have surprisingly received little direct study. Reference is usually made of the existence of “informal organization” and its importance, but they offer little insight (by way of making systematic statements) as to how these interactions work to aid decision making (Farris, 2004).

DECISION-MAKING STRATEGIES

Decision-making is the process of identifying and choosing among alternative courses of action in a manner appropriate to the demands of the situation (Hammond, 2006). A decision is a commitment to action. Every decision involves risk. It is the commitment of present resources to an uncertain future. Experienced executives diagnose road-blocks to effective decision-making and develop strategies to overcome them. Effective decision-making demands precise and accurate strategies that would produce maximum success at all times.

When making critical business decisions, or contemplating strategic initiatives, the appropriate path to follow is rarely certain. The investment of valuable resources such as, people and funds are usually considerable. Uncertainty and ambiguity are continuous threats that present risks to the business and its shareholders. Seeing clearly through the haze of options can be immobilizing when the issues are complex and the stakes are high. Decision strategies bring clarity to the confusion (May-Hall, 2009). Discussed below, are some strategies that have guided executives in successful decision-making.

1. Decision Strategy for Addressing Complex problems

More than a half century ago, two social scientists, James Thompson and Arthur Tuden, advanced what has come to be called “contingency theory” of decision making (Thompson and Tuden, 1959). They argued that there is a connection between two properties of problems – the degree of uncertainty and the extent of disagreement over trade-offs among important values – and the strategies appropriate for addressing those particular challenges. Although Thompson and Tuden developed a set of hypotheses about how different types of problems are solved, their theory is fundamentally normative: depending on the attributes of the problem at hand. One class of problems termed messy, wicked, or ill-structured, is characterized by:

1. A high degree of uncertainty about how options are linked to outcomes and,
2. Substantial controversy over trade-offs among values.

Examples of messy problems include preventing the spread of nuclear weapons, regulating the production and use of chemicals, and reforming the health care. Addressing such problems often require a mix of scientific research and engineering practice, which, by necessity, must be undertaken in a context of political disagreement (Williams, 1994).

Decision Strategy for Addressing Well-Structured Problems

If the level of uncertainty inherent in a problem is low and there is a strong consensus on values, decisions can be computed or sometimes even programmed. In such cases, choices follow directly from pre-established rules. Familiar forms of this decision-making strategy include cost-benefit analysis, and optimization methods, such as the methods used in the operations research. Among the problems amenable to this strategy are determining a firm’s tax liabilities or an individual’s eligibility for welfare payments (Kaplan, 2007).

Although such programmed decision-making is always vulnerable to the criticism that it does not make allowances for exceptional or ambiguous cases or accounts for how (and by whom) costs and benefits are determined, this strategy is often sought by decision makers because it places great emphasis on efficiency.

3. Bargaining as a Decision-making strategy

If uncertainty is low but there are disagreements about trade-offs bargaining is the appropriate decision-making strategy. Bargaining can be effective in such cases because the understanding

about connections between options and outcomes is sufficient for decision makers to appreciate how different alternatives affect salient values.

Common examples of this strategy include log-rolling by legislators, compromises in negotiations, and sensitivity testing in multi-attribute utility analyses. This strategy is also used in the writing of regulations, in deliberations on appropriation bills, and in adjusting social security payments to accommodate inflation. Because value trade-offs are inherently subjective, the stability of a bargain is, perhaps, the best measure of its success (Steinburner, 1974).

4. Incremental or Trial-and-Error Strategies

An incremental strategy, otherwise known as trial-and-error decision making, is suitable for addressing problems characterized by substantial uncertainty and by a general consensus on values. Incremental strategies rely on “cybernetic” feedback model (Steinbruner, 1974).

A decision is made and its impacts are closely monitored. When deviations from the desired outcome are discovered, adjustments are made. This process is repeated until the desired outcome is reached. Of course, irreversible outcomes at any stage doom this strategy.

The effectiveness of an incremental approach depends on how well problem solvers can detect when actual outcomes deviate from the desired outcomes and how well they can find ways of making mid-course corrections.

5. Brainstorming Strategy

Brainstorming is the oldest and best known technique for stimulating creative thinking.

Brainstorming involves presenting a problem to a group and asking members of the group to develop as many potential solutions as possible to the problem. Members of the group may all be employees of the same or outside experts in a particular field. Brainstorming is based on the premise that when people interact in a free and uninhibited atmosphere they will generate creative ideas. That is, as one person generates an idea, it serves to stimulate the thinking of others. This interchange of ideas is supposedly contagious and creates an atmosphere of free discussion and spontaneous thinking. The objective is to produce as many ideas as possible in

keeping with the belief that, the larger the number of ideas produced, the greater the probability of identifying an efficient and effective solution (Chandra, 2001).

6. Nominal Grouping strategy

Nominal grouping strategy differs from brainstorming strategy in two important ways. Nominal grouping does not rely on free association of ideas, and it attempts to reduce verbal interaction. From this latter characteristic, a nominal group is simply “a group in name only.” Nominal grouping has been found to be particularly effective in situations requiring a high degree of innovation and idea generation. It generally follows a highly structured procedure involving different individuals coming from a multiple of backgrounds (Chandra, 2001).

7. Creative Thinking strategy

There are many ways of searching for information and alternatives in problem solving. Effective managers use all of their capacities – analytic, and creative, conscious and subconscious, and seek both individual and group involvement in this stage of decision making process.

The basic requirement at the stage of identification of alternatives is to become more creative. Creativity involves novel combination of ideas which must have theoretical or social value or make an emotional impact on other people.

In order to improve the quality and confidence you have in the decisions you make, as well as developing more trust in the decisions others make, consider the impact your emotions, vision and needs have on your decision making process (Hammond, 2006).

8. Managing Emotions and Outbursts

Decision-making can be an emotional event. Emotions bog you down and becloud your ability to make good decisions. Medical science has shown that we make most of our decisions emotionally and not rationally. Science also suggests that 80% of what we think is wrong. Therefore, controlling your emotions and avoiding outbursts contribute to making better

decisions (Kaplan, 2007). To do this, you must work on your emotional state. If you sometimes struggle with controlling your emotions, try these ideas:

- **When confronted with a decision, create a visual image of a blank slate.**
Your blank slate should be free of clutter or old thoughts and assumptions.
Try not to allow any other thoughts or feelings interfere with this image.
This blank slate represents your true starting point for making a proper and quality decision.
- **Pay attention to your body's physical clues.** Lower your voice, calm down and focus on not making any sudden moves. Stay in control to better control your ability to make a rational decision.
- **Do not get too high or too low when confronted with a tough decision.** Instead, try to visualize, in advance, the outcome of your decision. Consider what will be beneficial and what might be problematic.
- **Practice.** Just like refining your golf swing, the more you do anything, the better you become at doing it. This boils down to the popular saying that “practice makes perfect”.

9. Creative Vision

Your decisions are also formed by your vision. When you see something, clearly and personally, your chances of making a better decision is improved (Mansfield, 1999).

Consider wearing seatbelts in your car. Many studies have proven, without a doubt, that a seatbelt can dramatically improve your chances of surviving a car accident. So, why do some people ignore this? The answer may be they have not visualized the outcome of their decision. If someone you know refuses to wear a seatbelt, ask what he or she thinks would happen if he was travelling down the highway at 70 mph and hit a tree? Ask him to visualize what this would look like. Perhaps, he would start making a different decision.

On a similar note, every year around the time for the school concert show, our local high school puts a wrecked car in front of the building. The purpose for doing this is to give the administration the opportunity to show, or visualize, to the students what can happen if they drink and drive after the occasion.

This technique is more powerful and effective than quoting statistics which may not be heard by the students. However, they do grasp what a wrecked car looks like and the tragic outcome of

making the decision to drink and drive.

CHALLENGES FACING DECISION MAKERS

Decision-making has never been easy. It is increasingly challenging, especially, to managers in the 21st century business environment. In an era of revolutionary changes in government and the business world, the pace of decision making has assumed considerable speed and precision.

Today's decision maker faces a host of tough challenges in addition to having to cope with high speed demanded by decision making in digital age. Some of these challenges include: demand for making complex streams of decisions almost at the same time, the problem of making decisions on the face uncertainties, and the making of complex decisions under perceptual decision traps (Kreitner, 2007).

Above all, today's decision-making context is not so neat and tidy, but full of complexities and problems. A knowledge of the following factors contributing to decision complexities can help decision makers successfully navigate through rough decision-making terrains.

- (a) **Multiple criteria:** Typically, a decision must satisfy a number of criteria. These criteria include representing the interest of different groups, identifying stakeholders and balancing their conflicting interests and representing the interest of customers to retain their patronage. The issue of managing multiple interfaces of conflicting demands and interests is a nightmare for today's decision makers (Hammond, 2006).
- (b) **Dealing with Intangibles:** Intangible factors such as customer goodwill, employee morale, and increasing bureaucracy often determine decision alternatives. Because these factors are intangible, they demand careful thought, tact and diplomacy to navigate through them successfully.
- (c) **Long-term Implications:** Major decisions generally have ripple effect, with one decision taken today and then creating the need for subsequent decision tomorrow. For example, if an organization takes a decision to open a bank account with a view to obtaining future credit facilities, chances are that, a meeting has to be called again at a

later date to decide on the choice of bank after the Financial Controller would have obtained full information on the facilities obtainable from different accessible banks.

- (d) **Inter-disciplinary Input:** Decision complexity is greatly increased when specialists such as lawyers, customer advocates, tax advisers, accountants, engineers, and production and marketing experts are to be part of the decision-making team. The views and fears of different experts have to be weighed and analyzed before a decision is taken. It is a bit difficult to harmonize the views and expectations of experts in different fields into one decision-making opinion. Some executives question the idea of bringing-in many experts from different fields to make a decision since too many cooks could spoil the broth.
- (e) **Pooled Decision-Making:** Rarely is a single manager totally responsible for the entire decision process. This is why we have board of directors, management team, and various committees to look at specific issues in an organization. This can be explained in the common saying that “two good heads are better than one.” The various groups would meet, brainstorm and share best practices aimed at producing better outcome.
- (f) **Risk and Uncertainty:** Along with every decision alternative is the chance that it may fail in some way. Poor choices can prove costly. Yet the right decision can open up new vista of opportunities.

Moreover, Managers of business organizations today make decisions under two conditions. These are; conditions of certainty and uncertainty.

A condition of certainty exists when there is no doubt about the factual basis of a particular decision, and its outcome can be predicted with a fair degree of accuracy.

The concept of certainty is useful mainly as a theoretical anchor point on a continuum of likely and unlikely events. In a world filled with uncertainties, certainty can only be relative rather than absolute.

Condition of uncertainty exists when little or no reliable factual information is available.

Decision-making under conditions of uncertainty is a great headache for managers.

A manager is forced to decide on some future event whose outcome cannot be predicted.

- (g) **Frankenstein Monster Effect in Decision-Making:** The law of unintended consequences, according to experts on the subject states that “you cannot always predict the results of purposeful action.” Although, unintended consequences can be positive or negative, it is the negative ones that are really troublesome and they have been called the

“Frankenstein Monster Effect.” This is a situation where an invention goes out of control to harm the inventor. Some decision-makers give little or no consideration to the full range of likely consequences of their decisions. Although, unintended consequences cannot be altogether eliminated in today’s complex world of decision-making, they can be moderated, to some extent, through creative thinking and careful consideration when making important decisions (Kreitner, 2007).

HIDDEN TRAPS IN DECISION-MAKING

Before deciding on a course of action, experienced managers evaluate the situation confronting them. Unfortunately, some managers are cautious to a fault. They take costly steps to defend against unlikely outcomes. Other managers are over-confident, they under-estimate the range of potential outcomes. Yet many others are highly impressionable and, thus, allowing memorable events in the past to dictate their view of what might be possible now (Hammond, 2009).

Decision-making is the most important job of any executive. It is also the toughest and the riskiest. Bad decisions can damage a business and a career, sometimes irreparably. So where do bad decisions come from? In many cases, they can be traced back to the way the decisions were made. The alternatives may not have been clearly defined, the right information was not collected, the costs and benefits were not accurately weighed. But sometimes, the fault lies not in the decision-making process but rather in the mind of the decision maker. The way the human brain works can sabotage our decisions.

For a long time, researchers have been studying the way our minds function during decision-making. The revelation is that we use unconscious routines to cope with the complexity inherent in most decisions. These routines serve us well in most situations. In judging distance, for example, our minds frequently rely on unconscious routine that equates clarity with proximity.

The clearer an object appears, the closer we judge it to be. The fuzzier it appears, the farther away we assume it must lie. This simple mental shortcut helps us to make the continuous stream of distance judgments required to navigate the world (Hammond, 2006).

Yet, like most routines, it is not foolproof. On days that are hazier than normal, our eyes will tend to trick our minds into thinking that things are more distant than they actually are.

Because the resulting distortion poses few dangers for most of us, we can safely ignore it.

But for, say, airline pilots, the distortion, no matter how little, can be catastrophic. That is why pilots are trained to use objective measures of distance in addition to their vision to ensure precision at all times.

Research has identified a whole series of such flaws in the way we think in making decisions.

Some are sensory misperceptions while others take the form of biases and yet many others appear simply as irrational anomalies in our thinking. What makes all these traps dangerous is their invisibility. Because they are embedded into our thinking process, we fail to recognize them – even as we fall right inside them.

For executives whose success hinges on the accuracy of day-to-day decisions they make, these psychological traps are especially dangerous. They can undermine everything from new product development to corporate survival plans. While executives cannot rid their minds of these ingrained flaws, they can follow the lead of airline pilots and learn to understand the traps and compensate for them. Some of the well-documented psychological traps that are particularly likely to undermine business decision making are examined below:

(1) Anchoring Trap

Anchoring is a mental phenomenon which leads the mind to give disproportionate weight or consideration to the first information it received. In other words, the initial impression received

conditions (or anchors) subsequent thoughts and judgment. In business, one of the most common types of anchors is past event or trend. A marketer attempting to project the sales of a product for the coming year often begins by looking at the sales volume for the past years.

Those old figures become anchors on which the forecaster will base his judgment. This approach, while it may lead to a reasonably accurate estimate, tends to give too much weight to past events and not enough weight to other current factors. In situations characterized by rapid changes in the market place, historical anchors can lead to poor forecasts and misguided choices (Hammond, 2006).

(2) Status –Quo Trap

We all like to believe that we make decisions rationally and objectively. But the fact is that, we all carry biases, and those biases influence the choices we make. Decision makers display, for example, a strong bias towards alternatives that alter the status quo, or novel changes that remove us from our present comfort zone.

On a more familiar level, you might have succumbed to this bias in your personal financial decisions. People, for example, inherit shares of stocks that they would never have bought themselves. Although, it would be a straightforward proposition to sell off those shares and put the money into a more profitable investment, but majority of people would not do that. They would prefer to live with the status quo and avoid taking action that would upset it.

“May be I will re-think the matter later,” they would say. But that “later” is usually never.

(3) Sunk-Cost Trap

Another deep-seated bias in decision making is to make choice in a way that justifies or seek to correct past bad choice. For instance, we may have refused to sell a stock or a mutual fund at a

loss, therefore foregoing other more attractive investments. Or we may have spent enormous resources in an effort to improve the performance of an employee whose hire was a big error in the past thus wasting further resources on a bad investment. Our past wrong decision becomes what economists term “sunk-cost”. We know rationally that sunk-cost is irrelevant to the present decision, but nevertheless they prey on the minds of executives, leading them to make inappropriate decisions at the present. Why are people not easily able to free themselves from wrong past decisions? It is because they are unwilling to admit a mistake (Hammond, 2006). In business, a bad decision is often a very public matter, inviting blames and critical comments from colleagues and bosses. If you fire a poor performer whom you hired in the past, you are making a public admission of poor judgment. It seems psychologically safer for you to let him stay on, even though that choice compounds the error and inflicts more injury of loss to the organization.

The sunk-cost bias shows up with disturbing regularity in the banking sector, where it can have serious consequences. When a borrower’s business runs into trouble, a lender will often advance additional funds in the hope that the business will use that “bail-out” fund to recover. If the business recovers, that is a wise investment. But if, unfortunately, the business continues to limp, the whole effort will be tantamount to throwing good money after a bad one.

Sometimes, corporate culture reinforces the sunk cost trap. If the penalties for making a wrong decision that leads the organization to a loss, managers will be motivated to let failed projects linger on endlessly, in the vain hope that, some-day, the invisible hand of nature will transform them into success.

Executives should therefore recognize that, in an uncertain world where unforeseen events are common, good decisions can sometimes lead to bad outcomes. By acknowledging that some

good ideas may end up in failure, executives should be encouraged to admit mistakes and own up to their own errors in all circumstances in order to shed unwarranted corporate costs (Hammond, 2006).

CONCLUSION

Decision-making remains one of the most important functions of an executive. The success or failure of a business organization depends, to a large extent, on the soundness and effectiveness of management decision making.

Decision making involves a choice from many available alternatives. To choose the best alternative requires careful identification and deliberate assessment of all the other options.

In a business organization, the best decision is that which improves profitability, widens market share, strengthens competitive position and adds other values to the organization.

An executive makes different types of decisions in his job every day. Sometimes these decisions and other requests on him are complex and opposed to each other demanding that he must be experiences in balancing act. Some of the major decisions the executive makes include programmed and non-programmed decisions, major and minor decisions, and individual and group decisions.

Managers of organizations must guard against decision traps that can lead them into wrong decisions. The most common decision traps include; the anchor trap, the status quo trap and the sunk-cost trap. Wrong decisions must be avoided at all times because they give rise to loss of funds, waste of material resources, reduced earnings and inability to achieve set goals and objectives of an organization.

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