The process of decision making

One of the key functions of business directors and managers is to take decisions. This involves selecting one option over another (or a number of others). Perhaps one factor more than any other determines the difference between successful and less successful businesses – the effectiveness of management in taking correct decisions. Making choices is not easy, especially when business finance and other resources are limited, but some directors may be faced with significant decisions virtually every day of their working lives. Here are some typical business decision-making situations:

- Should we locate a new shop in town A or B?
- Do we purchase machine X or Y?
- Is it best to train staff on or off the job?
- Which form of business growth would be more profitable – expansion into new products or new markets with existing products?

You should be able to add a large number of other situations to this list. Where should managers start in taking these and other decisions? What information will they need to help them? What decision-making techniques are available to help them? This chapter answers these questions.

Essential features of information for decision making

A 'spur of the moment' or 'hunch' decision requires no information – just a 'feeling' by the business entrepreneur that an option will be successful. Very few business decisions are taken like this – they are taken after consideration of substantial amounts of internal business information as well as data about the external environment.

This information should be:

- **Accurate** – taking decisions on location, for example, would be difficult if the rents of properties in town A were actually incorrect because an error in typing them had been made.
- **Timely** – as up to date as possible. Attempting to decide on whether to open a new store in Jamaica would not be easy if the only market research data were three years old. It can be expensive to obtain accurate and timely data – but such information can lead to much better decisions.
- **Relevant** – to the decision being made. It is of little help to have accurate and up-to-date information about the market for soft drinks in Bermuda, if the option being considered is to open a soft drinks bar in Trinidad.
- **Cost effective** – the cost of gathering the data should not exceed the benefits of using it. It will probably not be
cost effective to spend thousands of dollars on a primary market research report on Cost Rican car retailing if the plan is to set up a small second-hand car showroom there.

**Stages of decision making**

Consider the following diagram:

![Decision Making Diagram](image)

The stages of the decision-making cycle have been numbered – but what is the starting point? Objectives – the aims of the business should be the central start point for all decision making. This should be obvious – how can any strategic (important) decision be taken about the future of a business unless directors and managers know what the business is trying to achieve? Two examples should help to illustrate this point:

**Case 1**: A car manufacturer is aiming to gain a 20% market share for small cars. Managers must make a decision between either spending money on developing a new small car or setting up a factory in another country to produce large cars. It is obvious which option is most likely to achieve the overall objective.

**Case 2**: A sweet manufacturer aims to develop a new, healthy range of snack bars with low sugar. Should it spend money on market research for healthy foods – or an advertising campaign for existing high sugar sweets? It is clear which is the winner here.

Recap: No major business decision should be taken without a clear understanding of the business's objectives for the future.

The other stages of the decision-making process now fall into place as follows. We will assume that:

(a) The directors of a sweet manufacturing business have set the following objective: to increase market share to 25%.

(b) The company has recently experienced a fall in sales for its existing sugar-based sweets.

See Table 8.1.

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<thead>
<tr>
<th>Stage</th>
<th>What action is necessary at each stage</th>
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| 1. **Problem analysis** | - Link the two issues – fall in sales will not lead to market share objective being achieved.  
- Identify the data that need to be collected and analysed. |
| 2. **Data collection** | - Secondary data: recent sales trends for business – broken down into products and regions; recent sales data for competitors, overall market size – broken down into products and regions.  
- Primary data: consumer research – reasons for changing tastes and new buying habits. |
| 3. **Analysis and evaluation of data** | - Is the problem of falling sales limited to this company or to the whole market?  
- Are sales falling for all products/regions – or just certain ones?  
- Are sales for some products/regions increasing?  
- What evidence is there from primary research that consumers buying habits have changed?  
- What are they now ‘looking for’ in this market?  
- Can existing products be adapted – or will new products have to be developed? |

Table 5.1 Decision-making process for the sweet manufacturer
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| 4 Formulate and test alternative strategies | ● **Product development** – this will take time but could meet the changing needs of consumers. Much product testing will be essential.  
● **Market development** – enter new markets or market segments with existing products.  
● **Market penetration** – use promotional and other strategies to sell more in existing markets.  
● All of these options will need to be tested, e.g. test marketing of new products, in order to assess the likely chances of success. The results from these tests should allow a decision to be taken. |
| 5 Implement the decision | ● The action to be taken to ‘solve’ the problem will need to be implemented after careful planning. Resources of finance and personnel will have to be adequate to increase chances of success. Specific targets need to be established for the strategy, e.g. the increase in sales to be achieved in the first year. |
| 6 Evaluation of decision | ● Managers cannot just take a decision and forget it. The success of the strategy has to be assessed and reviewed against the original objectives for it. If it is not meeting these targets then further management action may be needed. |

Table 5.1 Decision-making process for the sweet manufacturer continued