

BOUNDED RATIONAL DECISIONS

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ABSTRACT

Decision making is an important and imperative activity of each and every field of life whether a man has to choose a school for his child or a student has to select his career. Everyone wants to make effective decision which helps him to get desired results. Decision making process is the heart of any organization whether it is political or non-political, government or non-government or business or non-business organization. Decisions are taken at all the levels of management which may affect its members, goals and success. Effective decision making is an integral part of modern management. Directors, managers, team leaders and even employees need to make rational and sound decisions regularly. The right decisions and approaches help in meeting organizational objectives more efficiently. It helps organizations to adopt and implement optimal strategy that increase the growth of the organization.

Keywords: *Decision Making, Non-Government, Modern Management, Optimal Strategy, Organization.*

Introduction

"Anything that gives us new knowledge gives us an opportunity to be more rational."

- Herbert A. Simon

The word decision has been derived from Latin word 'decider' which means cutting away or cutting off. Decision involves a cut of alternatives between desirable and not desirable. It is also a kind of choice of desirable alternatives.

Decision-making is a theory of how rational individuals should behave under risk and uncertainty. It can be defined as a process or sequence of various activities involving stages of problem recognition, search for information, definition of alternatives and the selection of the most suitable alternatives.

Herbert A. Simon, a Nobel Prize winner for economics Science in 1978, was one of the first thinker who proposed Decision Making Theory. His theories are applied in the field of Economics, Computer Science, Psychology and Behavioural Science. Simon's theory provides a deep insight into dynamics of decision making process in the field of administrative behaviour. His book 'Administrative Behaviour 1945' was a wonderful contribution to the social science of formal organization and administration. Further he wrote many books such as 'The new Science of Management Decision 1960', 'Models of Bounded Rationality 1982' etc. that are pillars in the field. Though his core interest area was public administration but to get a thorough researched output, he analysed other formal organization such as military, business organization and non-profit organization etc. also.

Simon's Decision Making Theory

The Herbert Simon's Decision Making Theory opened new door for leaders to understand human mind and to take decisions accordingly. He explained the analysis of decision behaviour. According to him, management and decision making go hand in hand. His analysis is logical as well as based on experiences. He felt that traditional economics theories were not able to present the reality of human / consumer behaviour. In 1955, he concretized his thoughts in the essay, "A Behavioural Model of

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Rational Choices". He emphasized on the importance of rationality. He rejected the assumption of perfect rationality and proposed the concept of bounded rationality which considered psychological aspects while taking decisions. It is basically a choice between alternative plans of actions and choice in turn, involves facts and values. This theory considers psychological aspects that classical economists overlooked. Internal factors such as stress and motivations, among others, may limit an individual's capacity to solve complex problems. Simon (1955, 1956, 1957) strongly criticized the perfect rationality; instead, he argued that humans have a bounded rationality. According to Simon, classical theories as mere "*proverbs, myths, slogans and pompous inanities*".

For example, he highlighted the contradiction between the following principles:

- Principle of Span of Control and Principle of Communication
- Unity of Command and Division of work as per principle of Specialization

He proposed that every decision must be rational and a combination of rationality and emotions. But he never agreed to the total rationality. Simon described that due to incomplete knowledge of the problem, its available options or emotional behaviour, total rationality cannot be achieved; instead satisfactory or at least good enough options are chosen.

Stages of Decision Making Process

Simon proposed three and later four stages in decision making – Intelligence, Design, Choice and Feedback.

Stage 1: Intelligent Activity Stage

At this stage, the problem and its nature are identified. The leader tries to understand the environment of organization to work towards a solution.

Stage 2: Decision Activity Stage

This stage involves the analysis of options or strategies to find out the solution to the problem. To analyse the strategies, its merits and demerits are discussed thoroughly.

Stage 3: Choice Activity Stage

Finally, one of the selected option is chosen on the basis of merits and demerits discussed in the second stage. A detailed qualitative and quantitative analysis is conducted to critically examine and evaluate the various consequences of all the alternatives and the best-suited strategy is selected.

Stage 4: Feedback Stage (was Added Later)

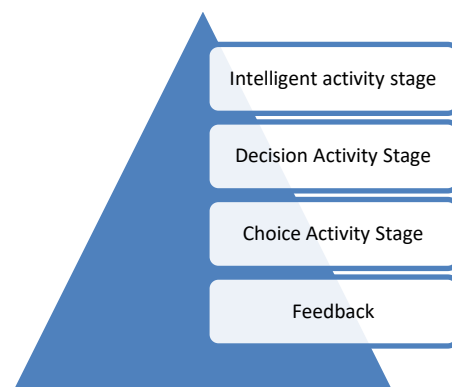


Fig. 1: Simon's Decision Making Theory

Practically, these stages are closely related like wheels within wheels. This theory is a framework that present a more realistic and practical way of making a decision between alternative courses of action. Since one can't have complete information about something, therefore his decisions are not always best of decisions and there is always a space of better decision.

Simon's Contribution

Herbert Simon, the pioneer in the field of decision-making concept suggested that if decision were not taken properly and timely that may spoil the objective of the business organisation. So, both taking and implementing decision are important. Simon described that management is all about taking decisions out of available alternatives. It is not necessary always that the decisions are rational. They may be biased knowingly or unknowingly. Even decision making is presented at all levels of

management. Same happens with administration. He proposed a new concept of administration based on decision making focus. Simon didn't accept the traditional principles of administration such as unity of command, division of work, span of control etc. he opined that these principles are not real indicators. Simon found a gap between principles and practice and the missing factor is right decision making.

Simon presented two types of decisions – Programmed and Non- programmed decisions. Programmed decisions are generally of repetitive and routine nature so these decisions have a standard procedure to handle the situation. Hence, such decisions don't require utmost attention each time. Non-programmed decisions are unstructured and important which require focus and wisdom.

Facts and Values in Decision Making

According to Simon, every decision has two components: Facts and Values. To explain facts and values he used **means-end paradigm**. The factual component is the means and value component is the end. This means-end process is a never-ending process. The means become end when the goal is achieved, while the end becomes a means for a new goal. Facts present real situation or properties while values present ethical expressions which may vary according to situations. Simon explained that value prepositions are considered while taking decision because of some kind of preferences, foresightedness or some inherent qualities. Actually it is not easy always to put a line between ethical and factual decisions, so a thorough consideration should be given on facts and values to take decisions.

Rationality in Decision Making

Simon pointed out the fact that complete rationality is just not practical. He explained that human behaviour is neither totally rational nor totally non rational, but it is bounded rational. They behave differently when there are risks and uncertainty involved. The reason behind bounded rationality is incomplete knowledge, lack of information, lack of perfect anticipation and other psychological reasons. Simon proposed the concept of 'satisficing' which is a combination of satisfying and sufficing and means to choose such alternatives that are satisfactory or at least good enough.

Evaluation of Simon's Theory

Simon's conclusions are generally acceptable and applicable in all kinds of organization. The theory is a framework that provides a more realistic view of the world, where decisions affect prices and outputs. His decision making theory is based on the concept of rationality. Since human behaviour depends on environment, values, skills, habits and purpose which may be a combination of rational and non-rational elements, decision making should be bounded rational. Simon argued that making a decision is making a choice between alternative courses of action or choosing between action and non-action. In contrast to classical theorists, he suggested that there is never one best course of action or decision. Since one can't have complete information about something, therefore, there will always be a better course of action or decision. Simon replaced the concept of the all-knowing, profit-maximizing entrepreneur with the idea of cooperating decision-makers within a company who face informational, personal, and social limitations. Tversky and Kahneman agreed with Simon that economic agents are not perfectly rational.

Though few of thinkers opposed his theories in terms of extremely general, lack of details to guide the leader and distinction between facts and values, yet Simon's contribution has been proved as a mile stone in evaluating administrative behaviour and covered political science, information science, psychology and other behaviour science.

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