Decision Making

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Website: www.books.iupindia.org, www.ibscdc.org

ISBN: 978-81-314-1571-9

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Contents

PRELUDE

A Danish proverb says, “He who has a choice has trouble.” Every decision ever taken is borne out of choices. Successes as well as failures are the results of decisions. What then distinguishes success and failure? Good decisions and bad decisions. “Nothing is more difficult, and therefore more precious, than to be able to decide”, Napoleon said. After all, decisions are the essence of management. They’re what managers do – sitting around all day making (or avoiding) decisions. Managers are judged on the outcomes and most of them have only the foggiest idea how the workforce operates to meet their targets.

Many books, reports, articles, etc., have been written on decision-making. Two that were really concise and insightful were Fortune's 75th Anniversary special (June 27th 2005) on how to make great decisions and HBR’s January 2006 issue on decision making.

In Fortune (June 27th 2005), Jim Collins made a lucid distinction between bad decisions and wrong decisions. A wrong decision is picking Door No.1 when the prize is actually behind Door No.2 It’s a disappointing result, but the fault lies with the method. A bad decision is launching the space shuttle Challenger when Morton Thiokol’s engineers predict a nearly 100% chance of catastrophe. The decision, in this case, was by no means feasible. The distinction is important, because it separates ‘outcomes’, which you can’t control, from ‘process’, which you can. Wrong decisions are an inevitable part of life. But bad decisions are unforced errors. They’re certainly avoidable and there are proven techniques to avoid the most predictable pitfalls.

> **“Decisions are the essence of management. They’re what managers do – sitting around all day making (or avoiding) decisions.”**

In the light of this distinction, how do you characterise the following two events’ decisions? The first is to do with Nick Leeson. The accumulated trading losses of over $1 billion by Barings Bank trader Nick Leeson led to one of the most spectacular collapses in banking history. And the second is to do with Jerome Kerviel, the Societe Generale's former junior equity derivatives trader. He is being investigated for forgery, breach of trust and unauthorised use of a computer in connection with unhedged transactions that allegedly left SocGen a victim of a near €5 billion (£3.7 billion) rogue trading fraud. In both the cases while two rogue traders were at the heart of the disaster, it was actually the result of a complex web of decisions – personal, managerial and societal.

> **"The impact of anyone's decisions is farreaching, managers' decisions have particular significance because they affect all the people who report to them and the businesses they manage. "**

Every manager faces a myriad of decisions every day from the time he wakes up in the morning until the time he goes to sleep at night. Some of these decisions are fairly mundane, but others have a significant impact on the future of his life, his organisation, and his career. Making the right decisions is crucial. While the impact of anyone's decisions is farreaching, managers' decisions have particular significance because they affect all the people who report to them and the businesses they manage. For this reason, making better decisions is a key concern of managers and their organisations.