

# **SOS IN COMPUTER SCIENCE & APPLICATION JIWAJI UNIVERSITY**

**Class : MBA (E-Commerce) II Semester**

**Subject: Principles Of Management**

**Paper Code : (206)**

**Topics : (1) Decision making conditions**

**(i) Certainty**

**(ii) Uncertainty**

**(iii) Risk**

**(2) Decision making biases and errors**



# Decision making conditions

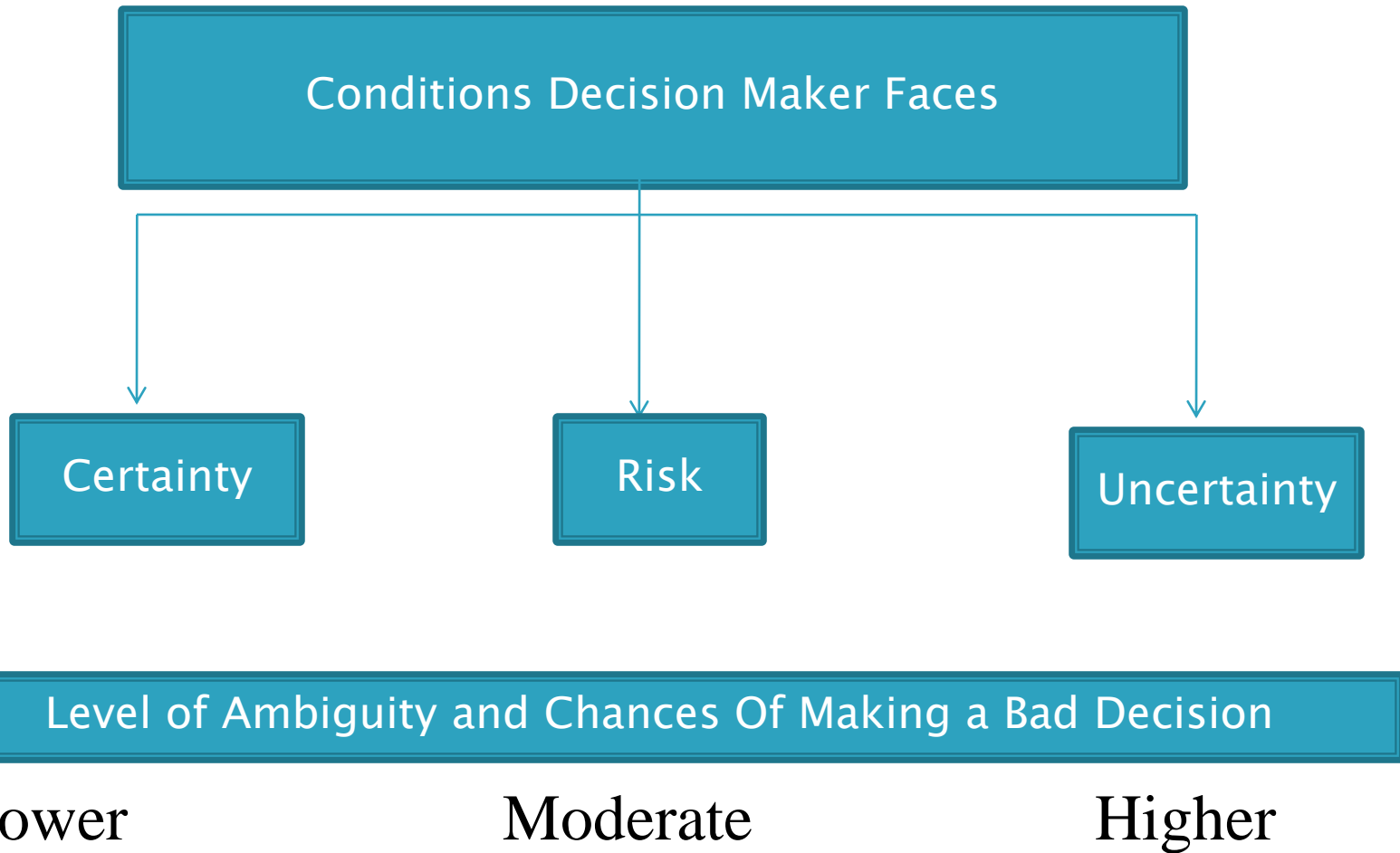
Decision making faces three particular conditions they are :

- 1) Certainty
- 2) Uncertainty
- 3) Risk

These conditions determine the probability of an error in decision making .



# Decision Making Conditions Chart :



# 1. Certainty

Under conditions of certainty , the managers has enough information to know the outcome of the decision before it is made . When the decision maker knows with reasonable certainty what the alternatives are and what conditions are associated with each alternative , a state of certainty exists.

## 2. Uncertainty

Uncertainty exists when the probabilities of the various results are not known .The manager feels unable to assign estimates to any of the alternatives .

Many mathematical techniques have been developed to help decision makers deal with uncertainty. So , we can say that uncertainty throws a monkey wrench into decision making.

### 3. Risk

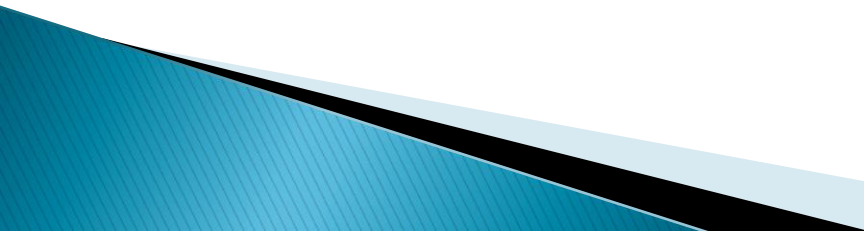
Most managerial decisions are made under conditions of risk. The effective manager must investigate each alternative to be as accurate as possible in making probability assignments .

Under a state of risk , the availability of each alternative and its payoff and costs are all associated with probability estimates .

In the above three conditions i.e. Certainty, Uncertainty and Risk ,managers have to take different decisions .

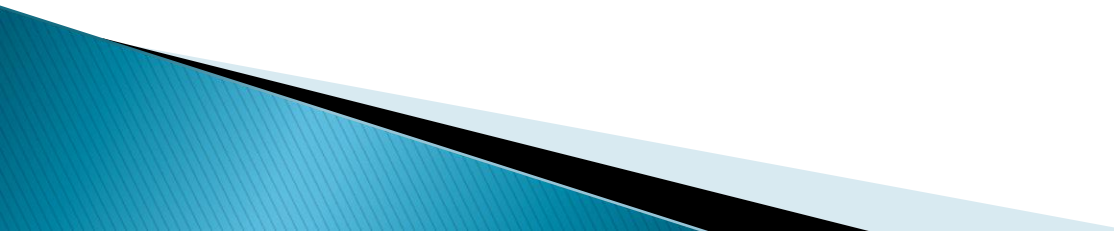
To make decisions in these circumstances , managers must acquire as much relevant information as possible and approach the situation from logical and rational perspective.

# Decision Making Biases and Errors

- Most of the manager have a tendency to take decisions based on rule of thumb .
  - Rule of thumbs makes decision making quick and easy.
  - These rule of thumb may not be reliable and may lead to error and biasness.
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## Types of biases and errors in decision making-

- 1) **Overconfidence** –This error occurs when the decision maker believe that they know more than what they actually do.
  - 2) **Confirmation bias**-There are decision makers who seek out information that reaffirms their past judgements and leave out information that challenges their preconceived views.
  - 3) **Availability bias**-When decision makers only remembers events that are more recent.
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- 4) Randomness bias- When decision makers have a tendency to create meaning from random events.
  - 5) Self-serving bias- This error occurs when decisions makers are quick to take credit of their success and blame the outside factors for the failure .
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