Behavioral Economics Contribution in the Decision making Process of Business organization

ISBN: 978-1-943295-11-1

Bhagyashri S. Patil
Godavari Institute of Management and Research
R.R. Chavan
KBC North Maharashtra University

This paper focuses on highlighting the contribution of behavioral economics in the decision making process of business organization. Each and every economic process is based on Human being. How an individual's rational behavior affects on the important decisions in the organization. Each and every economic process is based on Human being. To study the mechanism in the decision making process, I consider the psychological aspects of the behavioral economics. It will allow a better explanation of economic problems and finding solutions.

1. Introduction

Behavioral Economics

Behavioral economics now days have become a research direction in economic science due to the paradoxes of rational choice theory that it has generated. Moreover, it is a branch of economic science that studies the way in which people take their decisions on a daily basis, putting into question the traditional economy postulates. The behavior of an individual and how it varies according to the different conditions in economics this is called Behavioral Economics. It's a technique which economically analyze and applies psychological aspects into human behavior to explain decision making which includes economic affairs.

According to Richard Thaler, Behavioral Economics is the combination of psychology and economics that investigates what happens in markets in which some of the agents display human limitations and complications. It's a technique which economically analyze and applies psychological aspects into human behavior to explain decision making which includes economic affairs.

Definition of Decision Making

- According to the Oxford Advanced Learner's Dictionary the term decision making means - the process of deciding about something important, especially in a group of people or in an organization.
- According to Trewatha & Newport defines decision making process as follows:, "Decision-making involves the selection of a course of action from among various possible alternatives in order to reach at a solution for a given problem".

A decision is defined as a course of action which we can choose from a set of alternatives to achieve organizational or managerial objectives or goals. Decision-making is an integral part of modern management. Essentially, a primary function of management is to take a Rational or sound decision. Every manager's responsibility is to take hundreds and hundreds and also decisions at various levels by subconsciously or consciously making it as the key component in the role of a manager.

Process of Decision Making in Business Organization

Decision making is a primarily day to day activity for any human being. When it comes to business organizations, decision making plays a vital role in business. To make profit, organization should take the effective and successful decisions. Therefore, decision making process is the most critical process in any organization. In the decision making process, we have to choose one course of action from a few possible alternatives. While carrying the process of decision making, we may use many tools, techniques and perceptions. In addition, sometimes individual may make his/her own private decisions or may prefer a collective decision. Usually, decision making is hard because it includes both the organizational and managerial objectives. It is a continuous component of managing any organization or business activities. Decisions are made to sustain all business activities and organizational functioning. A decision has to be taken at every level of management to ensure organizational or business goals are achieved.

Steps of the Decision Making Process

The following are the key steps of the decision making process.

- **Identify the Problem:** The first step in making the right decision is recognizing or identifying the problem or opportunity and deciding to address it. Determine the difference based on the decision this decision to your customers or fellow employees.
- **Gather Information:** Next step includes gathering of information so that you can make a decision based on facts and data. This requires making a value judgment, its relevant to the decision. In this step you need to know you need to know in order to make the right decision.

- **Identify Alternatives:** Once you have gathered the information and have a clear understanding, it's time to identify the various solutions. When it comes to the decision making, so it is important to list up with a range of options. This helps to determine which course of action is the best way to achieve your objective.
- **Weigh the Evidence:** In this step, you have to evaluate for feasibility, acceptability and desirability to know which alternative is best, according to management experts Phil Higson and Anthony Sturgess. Managers need to be able to identify pros and cons, then select the option that has the highest chances of success.
- **Choose among Alternatives:** In this step, be sure that you understand the risks involved with your chosen route.
- **Take action:** This is the actual implementation step. This involves identifying what resources are required and gaining support from employees and stakeholders. Getting others involving with your decision is a key component of executing your decision effectively, so be prepared to address any questions or concerns that may arise.
- **Review your Decision:** This is very important step in the decision making process which is evaluating your decision for effectiveness. If it's fond that your decision didn't work out the way you planned, you may want to revise some of the previous steps to identify a better option.

Chron Small have said that "Even the most experienced business owners can learn from their mistakes … be ready to adapt your plan as necessary, or to switch to another potential solution".

2. Problem Statement

Everyday life is full of decisions and choices. Every economic process is based on the behavior or psychological factors human being. Economic decisions are especially important to our day to day lives whether we are deciding what to buy for lunch, shopping around for the best price on books, thinking about saving for holidays. An important problem statement question for many researchers is how people make economic decisions in the organization. Specifically, researcher is interested in the assumptions, beliefs, habits, and tactics that people use to make everyday decisions about their money, work, savings, and consumption and how it affects on the decision making process of the organization. How psychological factors are necessary in economic decision making.

3. Research Methodology

Research Methodology of present research work is as follows –

A] Objectives of the Study

- To know the impact of Behavioral Economics on organizational decision making process.
- To analyze the impact of Behavioral Economics on attitude and perception of employees.
- To suggest a sound measure for optimum decision making process under influence of behavioral economics.

B] Sample Size and Sampling

In the present research work, employees from small scale industries in MIDC area of Jalgaon city are our proposed population of study. There are total 987 units in the industrial area.

Hence our proposed population for research is 987 units. Out of this proposed population 5% sample i.e. 50 units are our sample size i.e. respondent for study. Schedules were distributed to all 50 units out of which 47 questionnaires received and after screening a full fledge 47 questionnaires are considered as a final sample size for further research.

C] Sampling Method

In order to select 5% population i.e.50 respondents, a simple random sampling technique have been used for study.

D] Assumption

The basic and major assumption for this research is, we have considered employees for the research as well as in our present population 90% are small scale industries which run by the entrepreneurs directly. Therefore in the light of above environment following assumptions are made.

- A small scale industries which have at least one manager/ supervisor who is responsible for taking decision.
- It is further assumed that the decision taken by an individual as mentioned in assumption number 1, such decisions are considered for further execution.

4. Analysis and Interpretation

Analysis for the research work is follows

Table 01 *Classification of Organization*

Factor	Response	Frequency	Percentage
Classification of organization	Retail	08	17%
	Financial Services	04	9%
	Manufacturing	32	68%
	Consultancy	02	4%
	Other	01	2%
	Total	**47**	**100%**

From the above table, it is found that 68% organizations are of manufacturing in nature where 17% and 9% are of retail and financial services respectively.

02: Key Challenges and Opportunities for the Organization

Amongst various challenges, Financial Management is the most key challenge for each and every organization as finance is at the core of the business. Competencies and recruiting right talent are other important challenges which affects on the decision making process of the organization. Finding and retaining the profitable customers and motivating employees these are the key opportunities for the organization.

Table 02 *Types of Decisions Company needed to make*

Factor	Response	Frequency	Percentage
Types of Decisions	Strategic	36	77%
	Organizational	5	11%
	Operational	4	8%
	Personal	2	4%
	Total	**47**	**100**

The above table shows that, in organization percentage decisions taken at personal level is 4% where as there is 77% decisions are made at strategic level.

Table 03 *Decision Making Process*

Factor	Response	Frequency	Percentage
Decision Making Process	Formal	38	81%
	Informal	9	19%
	Total	**47**	**100%**

The above table shows that, 81% organizations follows the formal decision making process and 19% organizations follows the informal process of decision making.

Table 04 *Role in Decision Making*

Factor	Response	Frequency	Percentage
Role in Decision making	Informational	9	19%
	Interpersonal	7	15%
	Decisional	31	66%
	Total	**47**	**100%**

There are 15% of managers/supervisors whose role is to take the interpersonal decisions whereas 66% and 19% of managers role is to take the decisional and informational decisions respectively.

Table 05 *Is Organization effective in Decision Making?*

Factor	Response	Frequency	Percentage
Organization's effectiveness in Decision Making	Yes	43	91%
	No	4	9%
	Total	**47**	**100%**

A 91% organization takes their decisions effectively while 9% cannot.

70% managers/supervisors said that they are involved in the critical organizational decisions while 30% said that they are not involve in the decisions like this.

Table 06 *Involvement in Critical Organizational Decision*

Factor	Response	Frequency	Percentage
Involvement in Critical Organizational Decision	Yes	33	70%
	No	14	30%
	Total	**47**	**100%**

Table 07 *Involvement of Team Members/ Employees in Decision making Process*

Factor	Response	Frequency	Percentage
Involvement of Team Members/ Employees in Decision making Process	Yes	31	66%
	No	16	34%
	Total	**47**	**100%**

34% managers said that there is no involvement of team members/employees in various decision making processes whereas 66% said that team members/employees are involved in the decision making process.

5. Participation of Employees/Team Members in Decision making Process

Usually Employees do not to take initiative in any kind of decision making process of organization, but it has been found that when management asks them to suggest and participate in decision making process, they always show the interest in doing so.

6. Findings

1. About 78% organizations are manufacturing organizations.
2. The types of decisions the organization have to make are strategic, organizational, operational and personal, amongst which strategic decisions are more important in every organization.
3. The organizations always follows the formal decision making process.
4. The most role and responsibility of the managers in the decision making process is about decisional level, and then there is role of informational and interpersonal.
5. Almost every organization can take their economics decisions effectively.
6. About 33% of managers/supervisors are involved in critical organizational decisions.
7. When it comes to supportive role, almost every team member or employee helps to each other and management while making decisions.
8. Employees participate in decision making process only when management will take initiative.

7. Conclusion

From the research study, it is concluded that employee behaviors that support effective organizational decision making process and outcomes showed that there is a positive relationship between the behaviors and effective decision making and also it is found that behaviors of employees have a more significant impact on effective economic decision making. Organizations should also consider ways to select and reward employees who demonstrate these behaviors. It is also important for managers to acknowledge the role and focus on providing the right support and environment for employees to behave in ways that support effective decision making. Employees also need to understand their role in contributing to effective decision making and make sure that the way they are looking for ways to increase the frequency of their behaviors that support decision making. It is in this way that employees and the managers/supervisors will work together to accomplish organizational goals and help both themselves and their organization to take effective economic decision making to be more successful. The overall decision making capacity of individual in the organization under the influence of behavioral economic pattern affects the economic decision making process of the organization.

8. References

1. Devin G. Pope., Justin R. Sydnor April 2014). Behavioral Economics: Economics as a Psychological Discipline
2. Camerer, C. L., & Loewenstein, G. (2003). Behavioral economics: Past, present, future. In C. L. Camerer, G. Loewenstein, & D. Rabin (Eds.), Advances in behavioral economics (pp. 3-51). Princeton, NJ: Princeton University Press.
3. Camerer, C. L., Loewenstein, G., & Prelec, D. (2005). Neuroeconomics: How neuroscience can inform economics. Journal of Economic Literature, 43, 1, 9.
4. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrica, 47(2), 263-292.
5. Thaler, R. (1992). The winner’s curse. New York: Free Press.