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Decision Making Theory to Help Chief Executive Officer (CEO) for Company Management

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Abstract: The purpose of this article is to identify theories of managerial decision making that are useful for CEOs and to identify factors that influence CEO decisions. The method used in this research is a literature review which reviews the results of several previous studies using the latest references from Google Schoolers and Mendeley citation searches. Based on the research conducted, it was concluded that decision theory helps CEOs in their management. Decision theory not only helps CEOs choose the right actions for the company, but also helps them predict and manage the possible consequences of those decisions.

Keywords: Decision making, CEO (Chief Executive Officer)

Introduction

Decision making in company management is not just about choosing the best option, but also involves a deep understanding of various internal and external factors that can influence the outcome of the decision. George R. Terry (1994) defines decision making as selecting behavioral alternatives from two or more existing options, which reflects the leader's actions in solving organizational problems. The CEO, as the main decision maker in the company, must be able to analyze the existing situation carefully and consider various aspects, ranging from market conditions, finances, to company culture. Therefore, decision-making theory provides a framework that can help CEOs make rational and strategic choices in facing various business challenges and opportunities. In this regard, the systematic approach proposed in decision-making theory can be very useful, both in situations that require quick decisions and those that require long-term planning.

Research conducted by Maduwu & Richard (2023) shows that CEOs' narcissistic traits, which can influence the way they see themselves and the world around them, have a significant impact on investment and innovation decisions. CEOs with narcissistic traits tend to be more confident, willing to take risks, and have a strong desire to dominate and control the decisions they make. This can certainly influence the company's strategic direction, both positively and negatively. For example, CEOs with narcissistic traits may be more inclined to invest in large, innovative projects that can provide large returns, but come with high risks.

For example, in everyday life, someone who plans to buy a house must decide whether to choose a cheaper house with a less strategic location or a more expensive house but closer to work or public facilities. This decision involves weighing initial costs and long-term benefits. Likewise, the CEO must consider various alternatives and the long-term impact of every decision taken, whether in terms of developing new products, entering new markets, or acquiring other companies.

Thus, decision-making theory is not only useful for CEOs in choosing appropriate actions for the company, but also helps them in predicting and managing the outcomes that may arise from those decisions. Therefore, a deep understanding of various theories and approaches in decision making is very important for a CEO to increase the effectiveness of company management and encourage sustainable growth.

Literature Review

A. Decision-Making Theory

Decision making theory is a study that explores the process of selecting the best alternative that is taken as a decision, as well as the behavior of the individuals involved in this process. This theory is not only relevant in production and operational management, such as in new product analysis, but also in the context of management decision making in general (Ansori et al., 2024). The decision-making process consists of several important stages, including problem identification, gathering information, analyzing alternatives, selecting the best alternative, and evaluating the results of the decisions taken. Each stage has an important role to ensure that the decisions taken are in line with the goals to be achieved. Various factors can influence decision making, such as previous experience, personal values, social pressure, and situational context. In the business environment, external factors, such as market competition and regulatory changes, also have a significant impact.

B. Theory Upper Echelon

Upper Echelon theory was introduced by Hambrick and Mason in 1984. In this theory, the strategic decision makers of an organization are identified as top management, whose strategic decisions have direct implications for the success of the organization. The characteristics and actions of top management greatly influence the entire organization, making them largely responsible for its achievements. A leader is influenced by his abilities, beliefs and individual characteristics, which cause decision making and responses to vary among organizational leaders. This theory suggests that top executives can influence organizational outcomes. The choice of strategy and the level of company performance reflect the managerial characteristics revealed by Hambrick and Mason. Furthermore, Hambrick and Finkelstein (1987) and Hambrick (2007) argue that this theory depends on the existence of managerial directors. A CEO will not be able to influence shareholder wealth unless the CEO takes steps that allow them to influence the company's performance.

Research Method

The research method applied in this research is the literature review method. In this method, data is obtained through collecting information from various academic sources, including scientific journals, books, research reports, and other publications relevant to the topic being discussed. This approach was chosen because it allows researchers to utilize existing research results without the need to collect primary data such as interviews, surveys or experiments.

The main aim of the literature review method is to evaluate and synthesize various previous research results in order to gain broader and deeper insight into the topic under study. This process involves several important steps, including identification and selection of relevant literature, careful review of content, recording important information, and grouping data based on certain themes or categories. Next, critical analysis is carried out to compare different points of view to produce a more integrated understanding.

By using this method, research is expected to be able to identify existing research gaps, provide explanations for unclear issues, and offer new perspectives that can enrich existing literature. In addition, it is hoped that the findings from this research can contribute to further research and become a basis for implementing knowledge in related fields.

Result and Discussion

A. Understanding Decision Making Theory

Making decisions is quite difficult, this is because it is difficult for someone to judge whether a phenomenon is right or wrong. This phenomenon occurs when the situation is not very clear, or there are various other alternatives with their respective values. Facing problems that may have quite big consequences, such as those involving employee relations, products, costs, and schedules, is something that some leaders find difficult. A decision is essentially a thought process aimed at overcoming a perceived "problem," which is perceived as a deviation from a desired, planned, or targeted outcome. Decision making, through selecting one of the alternative solutions, aims to stop the ongoing process.

According to James A. F. Stoner, decision making is the process of choosing from several available alternatives. This definition includes three important points: first, decisions are taken based on logic or careful consideration; second, there are several alternative options where the best one must be chosen; and third, the decision aims to bring closer to achieving the goals that have been set.

Decisions can also be seen as behavior in an organization, which is basically the result of individual behavior. In this context, organizational behavior is seen as more important than individual interests. Based on these definitions, decision making can be concluded as a process of determining optimal, logical, rational and ideal decisions by considering facts, data and information from various alternatives. The goal is to achieve predetermined targets effectively, efficiently, and with minimal risk in the future.

Decision making is often thought of as a quick and easy process, but it actually requires a lot of in-depth consideration. In some cases, the decisions taken can create dilemmas and end in wrong decisions, which can be detrimental to the organization and its members. Therefore, it is important for a leader to obtain input from his members in the decision-making process. As a leader, most of the time is spent making decisions, so the higher a person's position in the organization, the greater the role of decision making in his main job.

B. The Relationship Between Decision Making and One's Management Chief Executive Officer (CEO)

Decision making and management are two aspects that are interrelated and cannot be separated in a person's role *Chief Executive Officer* (CEO). Decision making is an activity that exists in all areas of management. According to Ricky W. Griffin, Management is a process that involves preparation, classification, systems and supervision of daily workforce activities to achieve goals or targets efficiently and effectively. Effective means that goals can be achieved according to expectations, efficient means that every task is carried out honestly, efficiently and precisely. Management is currently defined as a certain type of organization that is involved in certain processes, methods and practices, including preparation, classification, direction, and control and supervision to achieve a goal (Sulatstri L. 2013). In management, this process is a way to choose the best option from a number of alternatives to achieve organizational goals and targets. Therefore, certain steps and procedures must be carried out carefully.

The relationship between decision making and management is very close, where decision making provides direction for the strategy to be implemented, while management is responsible for implementing these decisions with real and effective actions. A CEO's management capabilities include how decisions are implemented efficiently through inter-departmental collaboration, workforce management, and monitoring results to ensure the continuity and progress of the organization. In terms of decision making, a CEO often applies various methods, such as the first, data-based decision making *(Data-based decision making) p*This approach emphasizes the importance of using data and analysis to make better decisions. By leveraging customer information, market trends, and financial data, CEOs can reduce levels of uncertainty and increase confidence in the choices they make. Second, risk-based decision making *(Risk-based decision making) C*The EO must also consider the risks associated with each decision. Risk management includes the process of assessing, identifying and managing threats that may affect the achievement of organizational goals. This is useful for planning mitigation strategies to minimize negative impacts. Lastly, value-based decision making *(Value-based decision making)* pThis approach emphasizes the importance of long-term values and goals for the organization. The CEO needs to ensure that the decisions made are in line with the company's vision and mission, and provide maximum benefits for stakeholders.

A CEO's success in making the right decisions depends not only on data analysis skills and business understanding, but also on managerial skills such as communication, leadership, and team management. Therefore, a CEO's ability to combine a wise decision-making process with an effective management approach is a factor in determining the company's success and competitiveness in the market.

C. Types of Decision Making

1. **Strategic Decisions**

   Strategic decisions are decisions for the long term (5-10 years or more). Strategic decisions determine an organization's direction, competitive position, and resource allocation to achieve sustainable growth and success. This decision making is managed by top management, namely directors, CEO. Examples of strategic decisions are business expansion and large investments

2. **Tactical Decisions**

   Tactical Decision Making is decision making by selecting various alternatives in a short time. Tactical decisions focus on medium-term actions and ensuring the strategy goes according to plan (1-5 Years). Tactical decisions are usually made by middle level managers, then these decisions focus on strategy implementation and coordination between departments, and are more specific than strategic decisions.

3. **Operational Decisions**

   Operational decisions are short-term decisions (daily, weekly or monthly) that are routine and support the daily activities of an organization. This decision is made by line managers or operational staff. The things involved are like technical or administrative issues. This decision has an impact on the efficiency of operational activities.

D. Factors That Influence the Decision Making of a Chief Executive Officer (CEO)

Basically the factors in decision making are divided into 2, namely

1. **Internal Factors**

   Internal factors include the company's vision and mission, company resources, organizational structure and the personal characteristics of the Chief Executive Officer (CEO). These internal factors come from within the organization. The company's vision and mission are the company's long-term goals and are the main guidelines for decision making, especially those that are strategic and have a broad impact. The availability of resources, both financial, technological and human, also determines the options that the CEO can take in the decision-making process. In the organizational structure, company hierarchy, organizational culture, and the decision-making system implemented become the framework that shapes decision-making patterns at the executive level. The CEO's personal characteristics, such as leadership style, experience, ambition, and the values held by the CEO are the keys that influence how decisions are made.

2. **External Factors**

   External factors include macroeconomic conditions, market dynamics, regulatory changes, pressure from shareholders and crises or unexpected events. Macroeconomic conditions include inflation, interest rates and economic growth which influence decision making, especially related to investment and expansion. Link market dynamics such as competition, consumer trends, and market opportunities to determine company strategy. Regulatory changes include government policies, taxes and other regulations, this needs to be considered to avoid legal risks. The CEO must often consider the interests of investors and shareholders, this is a demand for increasing profits. Factors such as crises or unforeseen events can include events such as natural disasters, pandemics and supply chain disruptions that can suddenly change a CEO's priorities.

E. Implementation of Theory in Chief Executive Officer (CEO) Management Activities

- Implementation of operational decision making: Adopting automation technology to increase production efficiency.
- Implementation of strategic decision making: Deciding on expansion into international markets based on growth potential in a particular region.
- Implementation of financial decision making: Choosing between funding through debt or equity to finance large projects.

This process ensures the CEO's decisions are not only strategic but can also be executed effectively by the entire organization

Conclusion

Decision making is an important thing in company management, especially in the hands of a CEO. This process includes evaluating existing alternatives to ensure the steps taken support the organization's goals effectively and efficiently. CEO decisions are strongly influenced by various factors, such as the company's vision, resources, and external conditions such as market dynamics and regulations. Decision-making theory provides a systematic framework that helps CEOs choose the best steps, both in long-term strategic, medium-term tactical and daily operational decisions. Additionally, a data, risk and value-based approach is an important tool for CEOs to ensure their decisions are relevant and have a positive impact on the company.

To make decisions more effective, CEOs need to strengthen their analytical skills and rely on input from various parties in the organization. Integrating accurate data, understanding market trends, and managing risk proactively can improve decision quality. In addition, continuous training to understand the latest theories and approaches in decision making is also important to adapt company strategies to changes in the business environment. CEOs are also advised to always prioritize good collaboration and communication with their teams to ensure that the decisions taken can be executed optimally.

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