Seven Decision Making Tools

(Executives Need to Know About)

By Jean Duane, MBA

Executives are often witnessed making strategic decisions by instinct or from the gut. It is not a reflex response. Rather, it is often the culmination of analysis using several significant decision making tools. What tools do executives utilize make a decision, such as adding a new revenue stream, or another product to the mix? Some decision making tools include:

Decision Making Tools

1. Model – “What if” Analysis
2. Identification and ability to quantify Critical Success Factors
3. Competitive Analysis
4. SWOT Analysis
5. Core Capabilities Analysis
6. Dominate Strategic Motive
7. Sound Business Plan / Presentation

Screening a decision through several of these tools will assure the executive that s/he is making the right decision on behalf of the company.

Model – What If Analysis

This method of decision making entails developing a spreadsheet based model with the ability to “what if” all of the key variables. This type of model is usually relatively complex to build. A competent model builder can provide you with a model that allows you to “what if” any variable and see the sensitivity of all of the variables within varied timeframes. With this type of model, you’ll be able to see at a glance what percentage of revenue every expense is utilizing. It will enable you to assess key metrics such as IRR, ROI, years to free cash flow, contribution margin, maximum cumulative cash burn, incremental headcount requirements as well as ARPU, expense, capital cost and free cash flow per unit.

Critical Success Factors

If every sales person could guarantee that their solution would ensure your company meets its critical success factors within one year, you would not have any more worries. What are critical success factors? Some examples of critical success factors include:

- Increase in new customers by 15% one year from deployment
- Increase in revenue of 35% from new revenue streams over the next three years
- Decrease costs via process changes on these cycles of service by 35% in the next year
- Decrease headcount by 35% while increasing productivity 25% in the next two years
- Attain .9999% defects and 0% rework in the next year
- Increase the percentage of loyal customers to a year-end company average of 25%

A critical success factor has to have a baseline measurement, a start date and an end date. They must be quantifiable and meaningful. Ideally, they would be set and tracked by the management team. Utilizing critical success factors is an evaluation tool to use when making a decision on behalf of a company.

Competitive Analysis

Before making a critical decision, an analysis of the competition is important. If the company's objective is to have over 50% of the market share, and a competitor already has that much, then the endeavor is likely not worth pursuing. A comprehensive competitive analysis includes information such as their long term strategy, product mix, pricing structures, terms and conditions for purchasing, places they sell their product, their Internet presence, customer profile, sales methods, niche and SWOT analysis for each of the competitors. Ideally, this would be presented in an easy-to-read matrix.

SWOT Analysis

Companies should have a thorough understanding of their strengths, weaknesses, opportunities and threats. A SWOT analysis is usually facilitated in a manner similar to a brain storming session where participants are asked to relax, (there are no wrong answers), everybody participate, say what is on your mind. This outcome is a matrix which summarizes the company's profile in the marketplace.

Core Capabilities Analysis

The core strengths of the existing human resources need to be assessed periodically. Each HR department should ascertain from each employee, their level of knowledge on a wide variety of topics such as languages, management experience, degrees, project management experience, leadership experience, courses taken, certificates attained, previous work experience, industry expertise and accolades. A tool that can print a one page summary of each employee's skills can help a company to staff new projects while developing the latent skills of the company. Utilizing this type of assessment will ensure that the decision makers have the right skills on hand.

Dominant Strategic Motive

This is the 'real' reason a company decides to move forward on a decision. Perhaps it will give them positive exposure in the industry, or recognition from the community. It may be because promotes long term job security, or keeps employees loyal to the company. The 'real' reason is often the 'gut' reaction. It may not make financial sense, but it may appeal to a higher power. It may be the most politically correct reason. This way of making a decision is the most subjective and usually is the culmination of other approaches and methods.

Business Plan

After a company uses one of more of the above methods to make a decision, the team should be assigned the task of preparing a business plan. The planning process will reveal other issues not obvious from the other approaches. The alpha or preliminary decision can be made using the above methods and the beta or final decision should be made after researching and writing a business plan. After reviewing the plan, the executive team can rest assured they have considered all angles and have made a sound decision with quantified and qualified tools.

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