

M4L5. Analytical Approach to Support Decision-Making

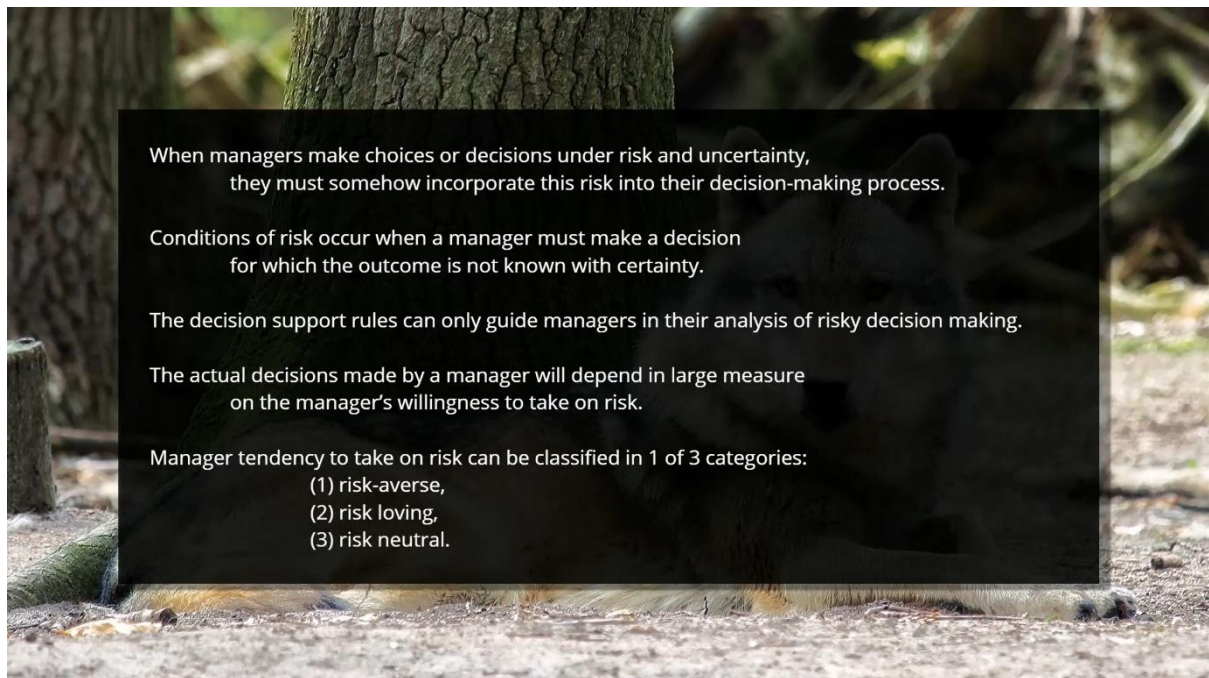
Slide #1



In this video, we will present some basic rules for managers to help them make decisions under conditions of uncertainty.

We will discuss the first two of these rules, define your business goal and identify alternatives and consequences.

Slide #2



When managers make choices or decisions under risk and uncertainty, they must somehow incorporate this risk into their decision-making process.

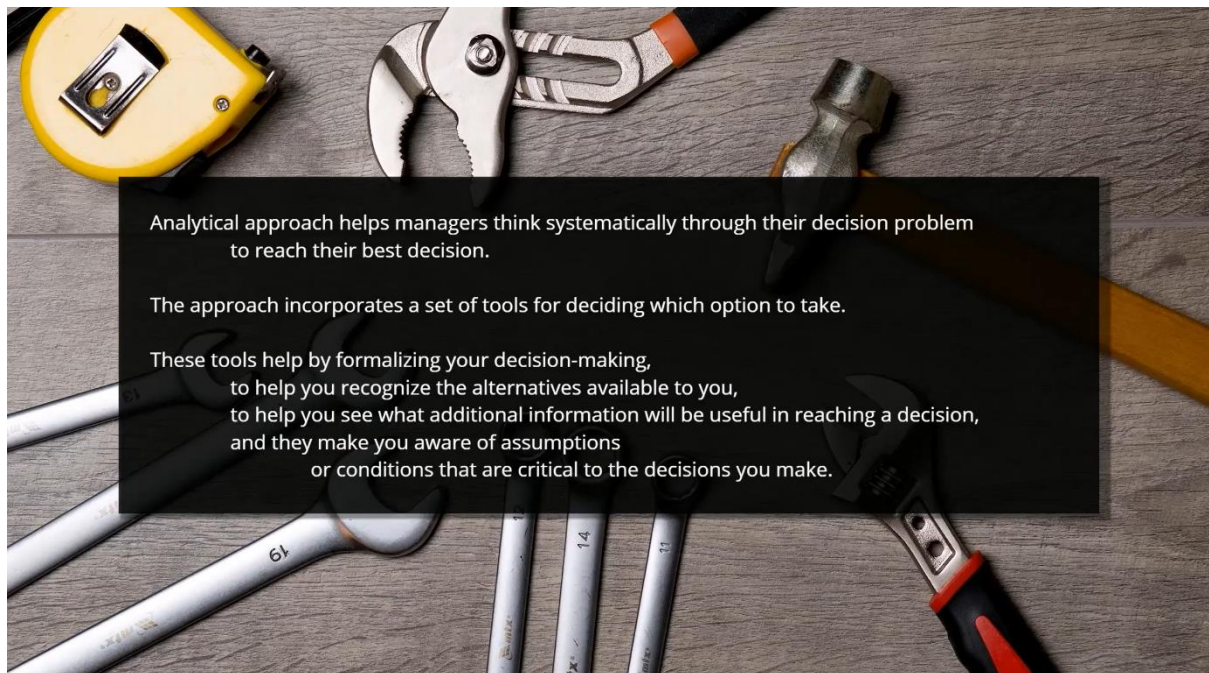
Conditions of risk occur when a manager must make a decision for which the outcome is not known with certainty.

The decision support rules can only guide managers in their analysis of risky decision making.

The actual decisions made by a manager will depend in large measure of the manager's willingness to take on risk.

Manager tendency to take on risk can be classified in one of the three categories risk averse, risk loving, or risk neutral.

Slide #3



Analytical approach helps managers think systematically through their decision problem to reach their best decision.

The approach incorporates a set of tools for deciding which option to take.

These tools help by formalizing your decision-making, to help you recognize the alternatives available to you, to help you see what additional information will be useful in reaching a decision, and they make you aware of assumptions or conditions that are critical to the decisions you make.

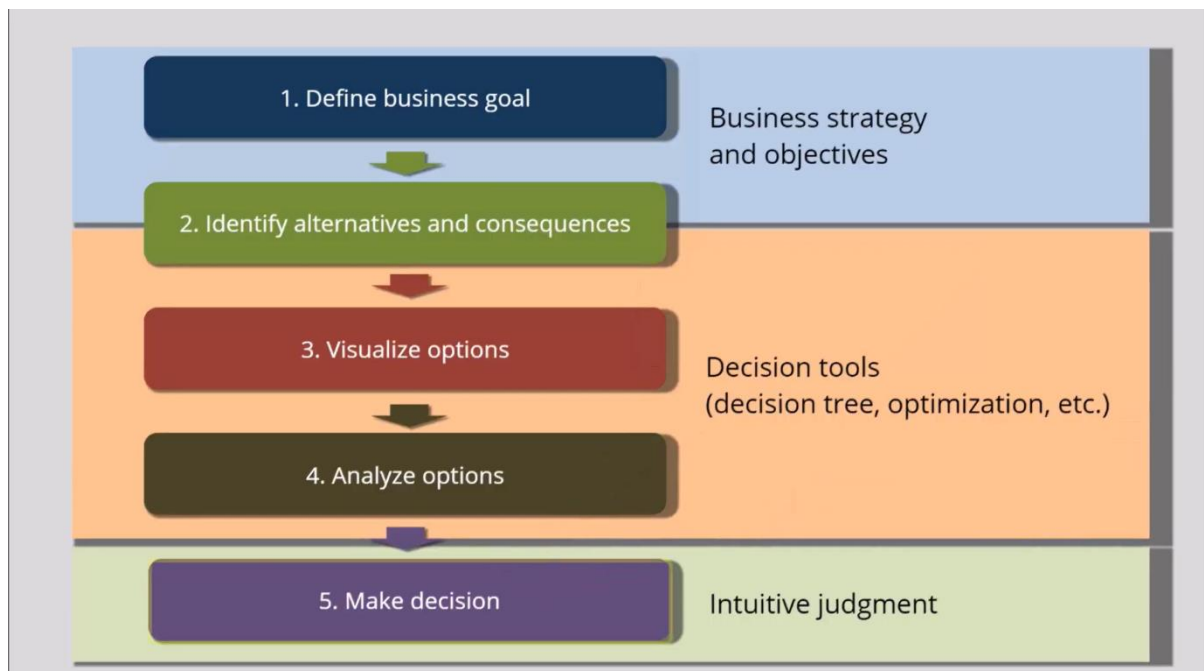
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Slide #4



This graph illustrates the steps in data driven decision-making.

In the previous modules, intuitive judgment in decision making and intuitive judgment in competitive environments, we have discussed step five, make a decision.

In this topic, we will discuss step 1, define business goal, and 2, identify alternatives and consequences.

In the following topics, we will explore step 3, visualize options, and 4, analyze options.

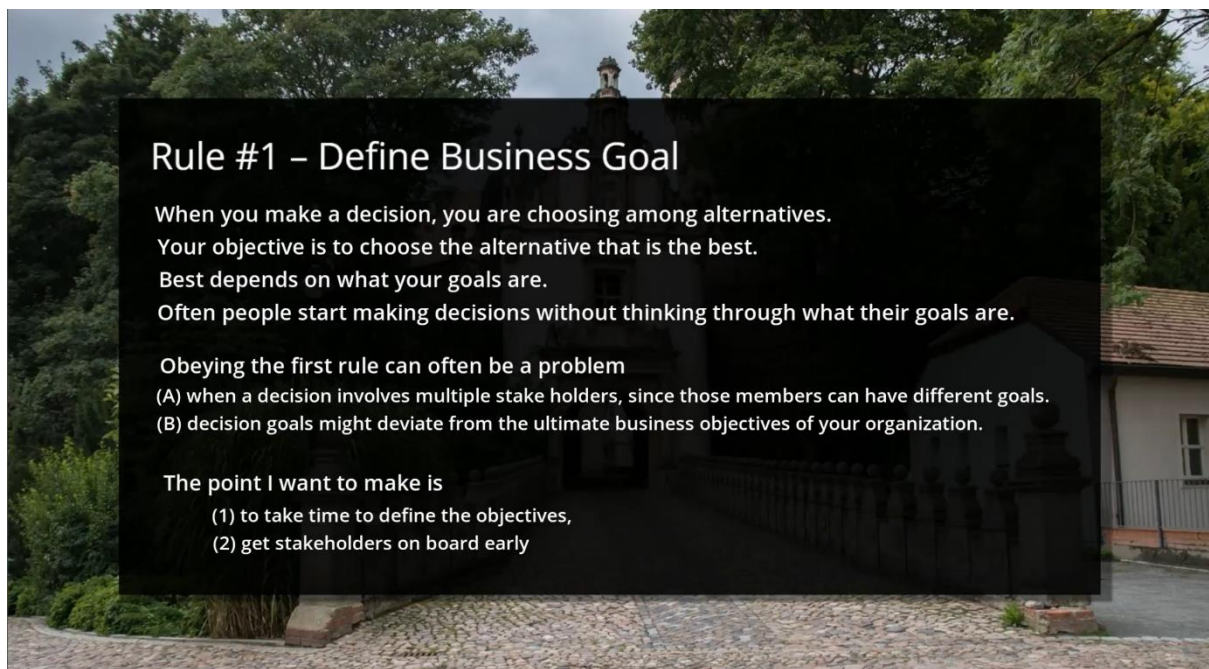
The first rule of decision making is to know what your goals are.

When you make a decision, you are choosing among alternatives.

Your objective is to choose the alternative that is the best.

Best depends on what your goals are.

Slide #5



The first rule of decision making may sound obvious.

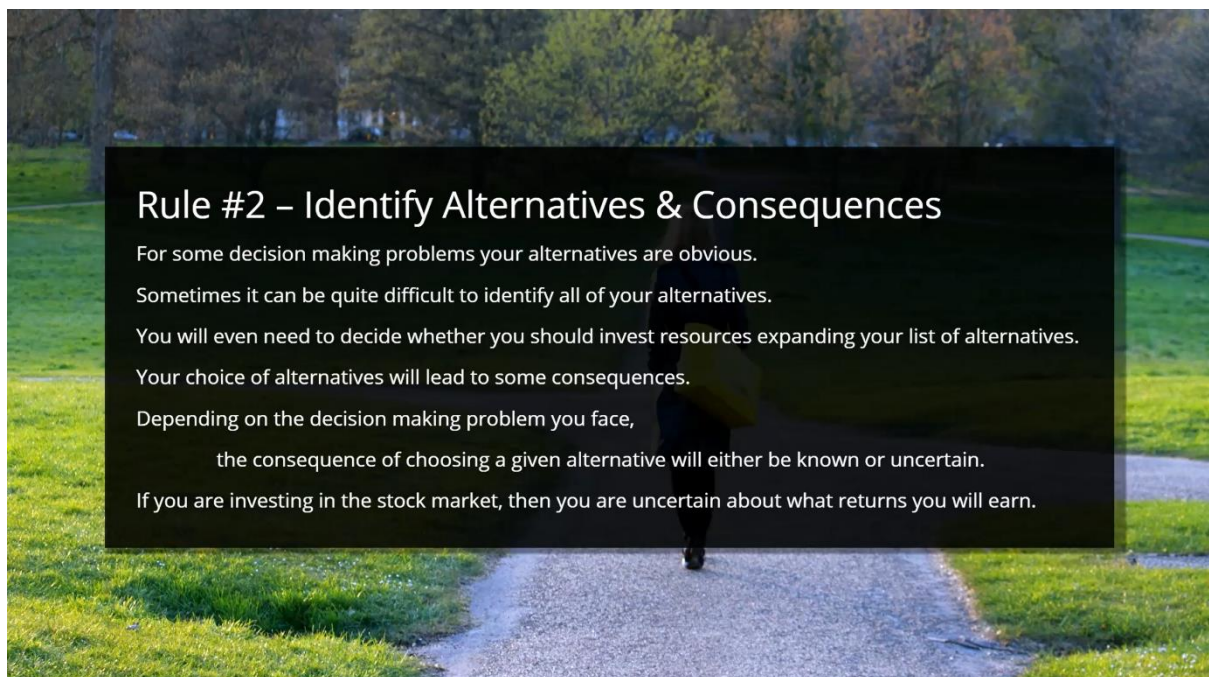
You may be surprised by how often people start making decisions without thinking through what their goals are.

For instance, obeying the first rule can often be a problem when a decision involves multiple stakeholders since those members can have different goals.

Also, the decision goals might deviate from the ultimate business objectives of your organization.

So the point I want to make is to take time to define the objectives and get stakeholders on board early.

Slide #6



Rule #2 – Identify Alternatives & Consequences

For some decision making problems your alternatives are obvious.

Sometimes it can be quite difficult to identify all of your alternatives.

You will even need to decide whether you should invest resources expanding your list of alternatives.

Your choice of alternatives will lead to some consequences.

Depending on the decision making problem you face,

the consequence of choosing a given alternative will either be known or uncertain.

If you are investing in the stock market, then you are uncertain about what returns you will earn.

Your next move is to identify your alternatives.

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