



Mary Hanson



About the Business Advisor

The Business Advisor is written and published by Mary Hanson, a business attorney in Torrance, California.

Mary Hanson has a law degree from the University of Wisconsin and an MBA from the University of Southern California. She has practiced business law exclusively for more than 30 years.

She provides legal services related to owning, operating, buying, selling, and structuring businesses. Her clients are business owners in many different industries. She handles corporations, LLCs, new businesses, new ventures, and a broad range of contracts and business decision-making.

Her interests include flying and World War II.

Her law office is located in the Del Amo Financial Center, 21515 Hawthorne Blvd. #885, Torrance, California. She can be reached at (310) 543-1355 or by e-mail at mhanson@bizadvisor.com

KEYS TO GOOD DECISION-MAKING

by Mary Hanson

Decision-making is more difficult than most of us want to admit. Good decision-making often takes more time and effort than we want to spend. It is likely that poor decision-making habits are the norm. Of course, a good result depends upon a good decision, a good plan for implementing the decision, and good execution of the plan.

Decision-making is something we do from the moment we arise in the morning until we go to bed. We should be more knowledgeable about decision-making so that we might make better decisions regarding the things that are important to us.

Here are some suggestions for making better decisions:

Keys to Good Decision-Making

- Define your objectives. This may not matter at all when selecting a donut at the bakery, but this is probably the key to making good decisions on important matters. Objectives can be short-term or long-term, or both. There may be a number of different objectives. Some objectives may be conflicting, and it is important to recognize this and make a decision that addresses the conflicting concerns.
- List (all) the issues related to meeting (or working toward) the objectives. The best decisions consider the most issues. If a complex matter is being addressed, divide the issues into categories,

such as financial considerations, time requirements, people affected by the decision, benefits, challenges, etc.

- List information needed to assess the different issues or aspects of the decision. Gathering information is an important step in all decision-making. The more important a decision is, the more important it is to determine information needed, and to get it.
- Write down the pros and cons of different alternative courses of action that might achieve the objectives. Note whether the identified objectives are met or missed by each alternative. Eliminate alternatives that don't achieve the stated objectives and note the reasons the alternative was rejected for future reference.
- For each viable alternative that achieves the objectives, sketch a plan of implementation. For some alternatives the steps or requirements are obvious. For some decisions it is necessary to consciously identify the steps and resources needed to implement the decision. A proposed plan of implementation is needed to discover problems with resources needed, unintended consequences, "collateral damage," and challenges that may not be obvious. Note the financial considerations, time requirements, effort and involvement required of other people, and challenges that may arise in the implementation.

▼

“Good decision-making often takes more time and effort than we want to spend.”

- Add a score or rating to the different issues. Highlight the important issues and significant factors. Some issues or outcomes are far more important than others. Some potential problems and unintended consequences are more significant than others.
- List events that could occur which would make the decision particularly bad or good. Note risks, such as economic downturn, high interest rates, high inflation, etc., which would impact the particular decision. Review further any issues that could turn a good decision into a bad one.
- Select the course of action that achieves the stated objectives, does not require resources beyond the resources (funds or personnel) available, and does not create new problems. If none of the alternatives meets that standard, then it is necessary to select the “least bad” alternative. The analysis of the alternatives, the steps in implementation, and the issues presented should be helpful in identifying that “least bad” alternative. For some decisions it may be appropriate to treat the “status quo” as one of the alternatives. There are personal and business circumstances where the “status quo” should be rejected.
- For financial decisions and business decisions, prepare detailed financial projections. The challenge in making financial projections is in getting adequate information and using accurate numbers or reasonable estimates. Here are some suggestions for financial and business decisions:
 - ~ Convert any numbers provided by others into your own numbers based on your own calculations or verification.
 - ~ Use your financial, sales, technical, and other advisors to obtain realistic numbers and actions required for every alternative considered.
 - ~ Identify all hidden, overlooked, and indirect expenses, from management fees and taxes to additional effort, additional personnel, facilities, insurance, contract negotiation and preparation, and advertising that will be needed to accomplish the desired goal.
 - ~ Use the assistance of your financial advisor to prepare the projection, including taxes and estimated cash flow. Many businesses have failed because they failed to recognize the need for adequate cash flow to cover the costs of growth.
 - ~ Prepare different projections based on different numbers and different circumstances. At a minimum create one “best case” projection and one “worst case” projection. Ideally, 4 or 5 (or more) projections should be developed, each based on different possible facts and circumstances, addressing as many “what-ifs” as possible.
 - ~ If there is a wide range between the worst case projection and best case projection, you need to obtain better numbers or acknowledge a high level of risk is involved.
 - ~ Determine how much risk you are willing to accept and can afford.
 - ~ Note whether financial alternatives are mutually exclusive.

KEYS TO GOOD DECISION-MAKING

If you pursue one course of action, do you have to give up other alternatives – and other future opportunities? A common business and financial dilemma is that you cannot afford to do both A and B. And, having spent resources on the first opportunity, you have inadequate funds to take a better opportunity that becomes available later.

For any decision, the more thorough the analysis, the better the decision. Good reliable information and analysis can make making a decision easy. The stress in making a financial decision can be eliminated if reliable numbers and good calculations show one clear best course of action.

Decision-Making Mistakes

If people purchased consumer products using good decision-making procedures, every advertisement would be a detailed presentation of product features and benefits. Advertisers would not spend billions of dollars on the kind of advertising we see every day if we did not reward them with poorly made purchasing decisions.

It's fair to guess that we make a lot of mistakes in decision-making. Here are a few:

- Making a quick decision with little or no analysis of objectives, alternatives, and possible consequences. Impulse decisions make sense for the vast number of unimportant decisions we make every day – from selecting a donut at the bakery to deciding when to go to bed. But for more important issues quick decision-making can be costly – not only in consumer spending, but also in business management and in lifestyle choices.
- Making a decision based on emotions. This must be common – it seems to be the basis for billions of dollars of advertising. Even where appropriate analysis is done, emotion can override good judgment.
- Failing to gather information. Even serious unemotional decision-making can be poor quality if adequate information is not obtained. A common example in business is the failure to get tax advice before making business commitments that have tax consequences.
- Failing to identify objectives or failing to recognize that the likely consequences of a particular action are not consistent with stated objectives.
- Failing to consider different alternatives. Many decisions are made as if they are “yes” or “no” decisions when, in fact, other courses of action should be considered.
- Relying on unreliable or inadequate information.
- Fixating on one desirable aspect or on one desirable possible outcome.
- Relying on the influence of another person or persons rather than applying one's own decision making process.
- Failing to plan for different conditions beyond your control (e.g., the possibility of economic downturn).
- Failing to consider all dimensions of the decision. This includes consideration of the various steps that need to be taken and the different resources involved or affected. It

▼

“For any decision, the more thorough the analysis, the better the decision.”

Business Advisor

a resource for business owners

FROM THE LAW OFFICE OF MARY HANSON

21515 Hawthorne Blvd. • Suite 885 • Torrance, California 90503 • (310) 543-1355

PRSR STD
US POSTAGE
PAID
TORRANCE CA
PERMIT #43

RETURN SERVICE REQUESTED



Publisher's Note

All good decisions depend upon the same good decision-making requirements. The terminology and most important issues will differ from one environment of decision-making to another. Military decisions require far more information about an opponent's plans and capabilities. Military decisions can't risk oversimplification or poor plans of implementation.

Businesses need information about competition and consideration of a wide range of risks. Businesses need to consider long-term as well as short-term results.

I believe a written analysis is key to any important decision. A written document captures information and reduces the likelihood that issues will be missed. It facilitates the assessment of existing information, the addition of new information, and the elimination of unreliable information. A written document moves away from emotional preferences, makes it easier to get input from others, and allows the decision-maker to consider and reconsider the issues and assessments over time.

Mary Hanson
Attorney/Publisher

Business Advisor

a resource for business owners

FROM THE LAW OFFICE OF MARY HANSON

could be consideration of long-term consequences as well as the short-term consequences of an action.

- Failing to consider the collateral or unintended consequences of the implementation of the decision. Will others be affected by decisions you make?

Other Observations

For business and financial decisions: Keep emotion out of it. In business and investment matters, good quality financial analysis can tell you what you ought to do.

For personal, career, lifestyle, and relationship decisions: Make sure emotion is considered. Do a good analysis, but make sure your decision is one your heart can live with.

In considering political actions: Remember that political decisions must deal with the worst pitfalls of decision-making. Reread the last 7 mistakes listed above and consider how well they apply to political decision-making. Those mistakes are: Failing to consider alternatives, relying on unreliable or inadequate information, fixating on one desirable outcome, relying on the influence of other persons, failing to plan for different conditions, failing to consider long-term consequences as well as the short-term consequences, and failing to consider the unintended consequences of an action.

Use your own good and well-developed judgment on important decisions you have to make – and be sure to be skeptical of proposals coming from political sources. **BA**