



PRIMER: MAKING EFFECTIVE DECISIONS

Essential Question

How do people and businesses make informed decisions?

We all make decisions—every day and throughout the day. In fact, scientists say our brains make dozens of decisions every second through chemical reactions. The number of conscious decisions an individual makes each day can be as high as 35,000.

Businesses large and small also must make decisions on a continual basis. Is this the best product to make? Do we need more staff? What are our competitors doing? What is the optimal price for the service we provide? Can we get a better deal from another supplier? What do our customers like about doing business with us? What could we do better?

Each question that a business asks, just like the questions individuals ask, shows the need for *information*. Information is critical for people and businesses. Information isn't just random facts or data. Information for decision making must be organized and accurate, help increase understanding, and decrease uncertainty.

How? How can information do all these things? Because information allows people and businesses to begin to evaluate alternatives by helping them to understand possible consequences. Having the right information helps people to evaluate the *risks* and assess the potential consequences or outcomes. Information is evidence to be weighed so that an alternative can be chosen and a decision can be made.

But the process doesn't stop with the first decision. The process of making a decision is continual because the decisions need to be made and then evaluated. If the decision isn't working out the way the decision maker had hoped, that's okay. That just means it's time to make a change. Businesses and other decision makers use information to continually make adjustments, revise processes, figure out if they should keep doing certain things, do them differently, or change direction.

Business are, therefore, always in a state of change. Sometimes the change will seem like progress and sometimes it will seem like a setback. After all, if you are making decisions all the time, then some answers will be right and others will be wrong. In other words, risk is always involved. But asking

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information

accurate, organized data presented in a context that gives it meaning and relevance, designed to increase understanding and decrease uncertainty

risk

the possibility of financial loss or harm



questions, getting information, and making decisions is necessary if you are to keep learning and improving, whether as a company or as an individual.

Thomas Edison, one of the most successful inventors in history, knew this all well. One day, while working on the creation of the lightbulb, he conducted the latest in a series of experiments that did not work out as he had intended. But when an observer tried to sympathize with him over the lack of progress and what seemed like failure, Edison replied:

I have not failed. I've just found 10,000 ways that won't work.

Edison didn't fail because those 10,000 ways that didn't work provided him with data. Through his careful analysis and understanding, Edison was able to turn that data into information that shed light—literally! He was able to evaluate his results and determine what to do next.

When you need to make a decision, you will have to seek information. To do so, you will need to ask questions to gather data and evidence. You will have to identify options and determine what are your *trade-offs* and *opportunity costs*. Sometimes the right decision will be obvious, but in other instances it will be harder to tell. That's because each option will have *pros and cons* that will have to be weighed and evaluated. Sometimes a decision will have an emotional impact; you will have a “gut instinct” for what to do. But other times, the right decision will have to be made from a position of *emotional neutrality*.

No matter what the scenario is, when you make a decision, you will have to consider the consequences for the alternatives. Going through the question-asking, information-gathering, and decision-making process will help ensure the best possible outcome for any future course of action. Things may still go wrong, and there may still be setbacks. But continued use of this process leads to better and better results and makes eventual success possible.

WHAT DO YOU THINK?

1. How do you get information to make the decisions you need to make?
2. What is your process for decision making?
3. How do you decide what trade-offs are acceptable?
4. Do you find that you make decisions from your gut instinct or are you emotionally neutral?

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trade-offs

things given up in a choice

opportunity cost

the value of the next best alternative given up when a choice is made

pros and cons

advantages and disadvantages

emotional neutrality

removal of emotions from financial decisions and investments