Enabling Informed Decision Making

DEFENSE FINANCIAL MANAGEMENT & COMPTROLLER SCHOOL
Maxwell AFB, Alabama
“Rarely do we find men who willingly engage in hard, solid thinking. There is an almost universal quest for easy answers and half-baked solutions. Nothing pains some people more than having to think.”

~ Dr. Martin Luther King, Jr.
(1929 – 1968)
A Call for Effective Decision Making and Decision Support

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“The Professional Ethos of the financial management community is demonstrated when we deliver unbiased financial information to the decision maker, even when the information is uncomfortable or undesirable . . . Processes need to be transparent and visible . . . Trust is key!”

Honorable Dr. Jamie M. Morin
Former Director, Cost Assessment and Program Evaluation
From 28 May 2015 Luncheon Presentation to PDI

Effective Decision Making is Critical to our Nation’s Future
Why Do We Make Bad Decisions?
Why do we make bad decisions?

- Past experience
- Self interest / egocentric
- Prejudgments
- Attachments
- Sunk cost bias
- Confirmation evidence
- Overconfidence

- Status Quo effect
- Availability / recency effect
- Conformity
- Illusion of control
- Attribution errors (personality-based)
- Poor time management

-WSJ, Erin White, 13 Feb 09
Traps and Pitfalls

Anchoring
Status Quo
Sunk-Cost
Confirming Evidence
Anchoring Trap

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- What ...
  - Disproportionate weight to first information received
  - Initial data, estimates, or impressions prejudice our subsequent thoughts

- Examples...
  - Using historical data as a basis for future events
  - MSRP label on windshield of new car

- How to Recognize and Avoid the Trap ...
  - Seek input from a variety of sources
  - Think through information before engaging others
Status Quo Trap

What ...
- Predisposition to perpetuate the current situation
- More alternatives to consider requires more effort

Examples ...
- Cups – (Kahneman, Knesch, Thaler)
- Organ donation
- Using same supplier or vendor without getting quotes from other sources

How to Recognize and Avoid the Trap ...
- Remember your objectives; does the status quo best achieve those objectives?
- Identify & explore alternatives to the status quo
Sunk-Costs Trap

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- What ...
  - Continuing a project based on a past decision
  - Not able to admit a mistake

- Example ...
  - DIMHRS
  - Staying to watch the end of a movie that you are not enjoying

- How to Recognize and Avoid the Trap...
  - Involve new team members
  - Put self-esteem aside
Confirming Evidence Trap

What ...
- Subconsciously making a decision and seeking out support

Example ...
- Gun control data
- Climate change data

How to Recognize and Avoid the Trap ...
- Beware of leading questions
- Get someone to play “devil’s advocate”
- Seek to understand alternative points of view
Enabling decision makers to make informed decisions that better use resources and improve mission effectiveness.
Scorekeeper vs. Advisors

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- Building/Strengthening Networks/Relationships
  - Influencing Outcomes, Driving Decisions
  - Analyzing Options/Developing Alternatives
- Looking Forward...Future Perspective
  - Effectively Communicating
  - Engaging Proactively

**Adding Value to the Decision Making Process**
Decision Making Process

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What’s going on?
- Identify issue and decision maker’s intent
- Analyze the issue and environment

What needs to be done?
- Develop/evaluate potential solutions
- Estimate costs, benefits, risks, and flexibility
  - Determine impacts (financial and non-financial)
  - Consider a range of alternatives
- Propose a recommendation

Doing something
- Determine how to lead/manage the solution to ensure a result (implement)
- Continuously evaluate the implementation
To positively affect decision making... you must do your part before decisions are made.

**Decision Support Model**

- Identify the Issue
- Analyze the Issue
- Develop Alternatives
- Evaluate the Alternatives
- Make a Recommendation

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Keys to Successful Decision Support

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- Critical Thinking
- Broad Perspective
- Creativity
- Analysis
  - Qualitative
  - Quantitative
- Communication Skills
Observations Regarding Decision Support

- Applying an effective Decision Support process is hard work -- learning curve
- Using decision support requires commitment to making a difference
- Timing is everything -- the decision maker may not ask for decision support
- A timely “good” recommendation is better than a “perfect” recommendation too late
Identify the Issue
Dealing with Complex Issues

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- Holistic System Perspective is Necessary
  - Structural Complexity
  - Interactive Complexity

- Consider Personal Biases

- Framing the Problem is Essential First Step

Resist Temptation to Leap to a Conclusion
What’s the big deal?

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- Issue may not be what it appears
- Need to understand the decision maker’s intent
- If you get it wrong, you develop wrong alternatives
- Identifying the issue requires critical thinking skills
Most Important Step of Decision Support

- Provides Structure to the Problem
  - Indicates What is to be Accomplished
- “How do we best...?”

Ensures Decision Maker and Decision Support Team are Working Toward the Same Objective

Sets the Stage for Success (or Failure)
Deliverable – Step 1

Issue Statement

or

Issue Question
Occumants have begun to complaint about poor elevator service in their NYC high-rise office building. Waiting times for elevators during peak times, they say, are excessively long. Several tenants have threatened to break their leases and move out of the building because of this.

What should management do?
Analyze the Issue
“The most erroneous stories are those we think we know best - and therefore never scrutinize or question.”

~ Stephen Jay Gould
Analyze:
- To study or determine the nature and relationships of the parts by analysis (a separation of a whole into its component parts)
- To dissect
- To break down
Purpose of Analysis

- Simplify complex issues
- Understand the environment
  - Consider key factors relevant to the issue
  - Identify and account for relationships between variables
  - Part science – objective analysis
  - Part art – subjective analysis
- Logically gain insight about the issue
How do you begin?

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- Start by asking questions:
  - What do you know?
  - What do you need to know?
  - What info can you get (in time)?
  - What do you do when you can’t get the info?

- End with:
  - Are we still on the same issue or did new info change our perspective?
Defining the Issue Environment
**Gathering Data & Developing Information**

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- Facts – verifiable pieces of information
- Assumptions – information accepted as true in the absence of facts
- Limitations – “Must have”; “Cannot exceed”; etc.
- Relevant Facts, Necessary Assumptions and Valid Limitations are paramount to defining the environment
- Continually seek to confirm assumptions and verify limitations
- The environment determines the solution set
Why Do We Analyze the Issue?

To Understand Where We Are (Issue Environment) and Where We Want To Be (Desired Endstate) &

To Enable the Development of Evaluation Criteria and Alternatives
Evaluation Criteria – Why Now?

Transparency and Accountability
- Reveals and documents preferences
- Mitigates biases

Benefits
- Process is visible
- Easy to explain
- Easy to determine points of disagreement
- Provides direction for developing alternatives
Evaluation Criteria – Defining “Good”

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- What do we have to work with?
  - Context
  - Priorities
  - Intent

- Stakeholder Analysis
  - Who does this decision affect?
  - What is important to them/the organization/the mission?
  - What would be the ideal endstate?
Developing Evaluation Criteria...

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- **Evaluation criteria – Areas of consideration**
  - What is important in a solution and how important is it? *(what does good look like?)*
  - Sufficient number *(to differentiate alternatives)*
  - Distinctive *(not double counting)*
  - Definable and Measurable *(on a relative scale)*

- **Consider these dimensions as a starting point:**
  - Resources *(both financial and non-financial)*
  - Benefits
  - Time
  - Intangibles
  - Risk/Flexibility
Types of Criteria

**Screening Criteria**
- Eliminating undesirable outcomes
- Building the sides of the BOX
- Binary (Yes or No)
- Eliminating Badness

**Evaluation Criteria**
- Defining what Good looks like
- Determining what is in the BOX
- Relative (Degrees of Goodness)
- Adding Goodness
Providing Direction

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- Solution Set Parameters
  - Defining requirements (must have)
  - Specifying exclusions (cannot exceed)
  - Short vs Longer Term

- Define and Weight Evaluation Criteria
  - Will use to influence alternative development
  - Will use to evaluate alternatives
How Important is It? - Weighting Criteria

Determine how important each criterion is to identifying the “best” solution

- Score the importance of each criterion on a scale of 1-10
- Sum the individual rankings of all criteria
- Divide the score of each criterion by the total to determine its % contribution
Weighting Criteria

<table>
<thead>
<tr>
<th>Scoring (1-10)</th>
<th>MPG</th>
<th>Cost</th>
<th>Reliability</th>
<th>Utility</th>
<th>Safety</th>
<th>Style</th>
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</thead>
<tbody>
<tr>
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<td>9</td>
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<td>4</td>
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</table>

Sum of Scores: 9 + 10 + 9 + 6 + 6 + 4 = 44

<table>
<thead>
<tr>
<th>Category</th>
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<tr>
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<td>20.5%</td>
<td></td>
</tr>
<tr>
<td>Utility</td>
<td>6/44</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>6/44</td>
<td>13.6%</td>
<td></td>
</tr>
<tr>
<td>Style</td>
<td>4/44</td>
<td>9.1%</td>
<td></td>
</tr>
</tbody>
</table>
Deliverables – Step 2

- Relevant Facts
- Necessary Assumptions
- Valid Limitations
- Defined and Weighted Evaluation Criteria
Develop Alternatives

Characteristics

Sources
Alternatives – What are they?

- Alternatives are objects or actions where the choice of one excludes the selection of another

- Status quo – may be an option...but not always
  - Examples?

- Consider hybrid alternatives
  - Combines best features (e.g. – SUVs)

In the absence of alternatives, there is no real decision to be made!
Characteristics of Alternatives

**GOOD** alternatives are:
- **Distinguishable** – Not minor variations of a single alternative
- **Feasible** – Realistic, given available resources
- **Acceptable** – Benefits should outweigh costs
- **Suitable** – Accomplish the mission and comply with guidance

How many should you develop?
- Develop **enough** viable alternatives
- Provide a **reasonable** number of alternatives to decision maker to offer a real choice
Developing Alternatives

Understand what you are trying to accomplish
  • Remember your issue statement!

What does good look like?
  • Ensure the alternatives meet the evaluation criteria

Review the alternatives for possible duplications
Sources of Alternatives

Brainstorming

Benchmarking
Brainstorming

- Powerful tool to generate possible alternatives
- Encourage open dialog and creativity
- Nonjudgmental idea generation...actively listen
- One idea/comment can lead to others
  - Help break through blocks or stagnation
  - “Light bulbs” or foundations to build upon
Brainstorming Methods

**Spontaneous**
- free flowing, no rules...easy!
- can easily be dominated discussion

**Round Robin**
- ensures everyone has input
- more time, order may matter (rank/grade/position)

**Written**
- anonymous – all equally weighted
- takes longest, ideas need to be compiled
Benchmarking

What is benchmarking?

• Identification and application of “best practices” based on demonstrated performance

• Objective is to find examples of superior performance and to understand the processes and practices driving that performance

• Improve performance by tailoring and incorporating
Benchmarks

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Why use benchmarking?

• Improves performance
• Identifies opportunities for improvement
• Reduces risk
• Potentially saves resources
A Reasonable Number of Good (DFAS) Alternatives
Evaluate the Alternatives

Types of Data

Evaluation Techniques
You can’t evaluate what you don’t have...

*I narrowed down the options to an alternative that costs too much and another that won’t work.*

*I didn’t do any research. It’s more of an experience sort of thing.*

*Next week I plan to think about the option of using technology that isn’t yet available.*
Evaluation Criteria
(Quick Review)

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- Use the set of weighted criteria to evaluate the alternatives based on the desired end state

- Evaluation criteria should represent the decision maker’s priorities

- What does “good” look like?

- Decision maker’s intent is key!
Types of Data / Levels of Measurement

**Qualitative**
- Nominal
- Ordinal

**Quantitative**
- Interval
- Ratio
Two Types:

1) Nominal (name):
   - No particular order – vacation spots
   - Mutually exclusive: cannot happen at same time

2) Ordinal (order):
   - Rankings (a “greater than” relationship)
   - Ordered vacation spots / priorities
   - Order matters but not the difference between values
Quantitative Data

Two Types:

1) Interval
   - Difference between numbers is meaningful
   - Zero value is arbitrary, no meaningful definition

2) Ratio
   - All the same properties of interval data except that...
   - When the variable equals zero, there is none of the variable
Evaluation Techniques

Pros and Cons
Tradeoff Table
Prioritization Matrix
### Pros & Cons

- Identifies the advantages and/or disadvantages of making a specific decision
- Best used in binary (yes/no) decisions

**Advantage:**
- Relatively quick and easy

**Disadvantages:**
- Often subjective
- May not lead to the “Best” alternative
# Pros & Cons

## Purchase a New Car

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Economy</td>
<td>Cost</td>
</tr>
<tr>
<td>Reliability</td>
<td>Stress</td>
</tr>
<tr>
<td>Safety</td>
<td>Theft</td>
</tr>
<tr>
<td>Utility</td>
<td></td>
</tr>
<tr>
<td>Style</td>
<td></td>
</tr>
</tbody>
</table>
## Pros & Cons Purchase a New Car

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<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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</thead>
<tbody>
<tr>
<td>Fuel Economy</td>
<td>Cost</td>
</tr>
<tr>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Reliability</td>
<td>Stress</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Safety</td>
<td>Theft</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Utility</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Style</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

Total Pro: 21
Total Con: 13
Trade-off Table

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- Identifies the important attributes of each alternative to compare them with one another

**Advantages:**
- Helps you identify the degree of variation between alternatives

**Disadvantages:**
- Does not directly show the relative importance of the attributes
- Can get confusing with multiple alternatives
# Trade-off Table

## Car vs Truck

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<table>
<thead>
<tr>
<th></th>
<th>MPG / HWY</th>
<th>Cost</th>
<th>Reliability*</th>
<th>Utility</th>
<th>Safety**</th>
<th>Style</th>
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</thead>
<tbody>
<tr>
<td><strong>Honda Civic</strong></td>
<td>36</td>
<td>$15,955</td>
<td>5 - Better than most</td>
<td>Seats 5</td>
<td>5 - Driver</td>
<td>Practical</td>
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<tr>
<td><strong>Ford F-150</strong></td>
<td>19</td>
<td>$23,670</td>
<td>5 - Better than most</td>
<td>Seats 3 / Can haul stuff</td>
<td>4 - Driver</td>
<td>Studly</td>
</tr>
</tbody>
</table>

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### Trade-off Table

#### Compare SUVs

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<table>
<thead>
<tr>
<th></th>
<th>MPG HWY</th>
<th>Cost</th>
<th>Reliability*</th>
<th>Utility</th>
<th>Safety**</th>
<th>Style</th>
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<tbody>
<tr>
<td>Lexus RX</td>
<td>24</td>
<td>$39,075</td>
<td>5</td>
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<td>5</td>
<td>5</td>
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<tr>
<td>Lincoln MKT</td>
<td>23</td>
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<td>3</td>
<td>5</td>
<td>5</td>
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<tr>
<td>Toyota Highlander</td>
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<td>$30,695</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Volvo XC60</td>
<td>23</td>
<td>$31,300</td>
<td>4</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

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Prioritization Matrix

Advantages:
- Provides fidelity when using multiple criteria
- Scores alternatives to help rank order them

Disadvantages:
- Aggregate “scores” may not meaningfully represent the degree of separation between alternatives
<table>
<thead>
<tr>
<th></th>
<th>MPG Hwy (18-27) Rank</th>
<th>Cost ($30-40K) Rank</th>
<th>Reliability (3 to 5-star)* Rank</th>
<th>Utility Rank</th>
<th>Safety (3 to 5-star)** Rank</th>
<th>Style Rank</th>
<th>Sum of Ranks</th>
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</thead>
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<tr>
<td><strong>Lexus RX</strong></td>
<td>24</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>1</td>
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<td>5</td>
<td>1</td>
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<tr>
<td><strong>Toyota Highlander</strong></td>
<td>22</td>
<td>4</td>
<td>1</td>
<td>3</td>
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<td>5</td>
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<td><strong>Volvo XC60</strong></td>
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<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>1</td>
</tr>
</tbody>
</table>

1=Best
4=Worst

**Ordinal ranking can cause a loss of evaluative information.**

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### Prioritization Matrix - Interval

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<table>
<thead>
<tr>
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<th>MPG Hwy (18-27)</th>
<th>Cost ($30-40K)</th>
<th>Score</th>
<th>Reliability (3 to 5-star)*</th>
<th>Score</th>
<th>Utility</th>
<th>Score</th>
<th>Safety (3 to 5-star)**</th>
<th>Score</th>
<th>Style</th>
<th>Score</th>
<th>Sum of Scores</th>
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</thead>
<tbody>
<tr>
<td><strong>Lexus RX</strong></td>
<td>24</td>
<td>$ 39,075</td>
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<td>1</td>
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<td><strong>Toyota Highlander</strong></td>
<td>22</td>
<td>$ 30,695</td>
<td>4</td>
<td>9</td>
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<td>1</td>
<td>4</td>
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<tr>
<td><strong>Volvo XC60</strong></td>
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<td>6</td>
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</table>

10=Best  
1=Worst  

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## Prioritization Matrix Interval with Weights

### Defense Financial Management & Comptroller School

<table>
<thead>
<tr>
<th></th>
<th>MPG (18-27)</th>
<th>Wt 20.5%</th>
<th>Cost ($30-$40K)</th>
<th>Wt 22.7%</th>
<th>Reliability* (3-5 Stars)</th>
<th>Wt 20.5%</th>
<th>Utility</th>
<th>Wt 13.6%</th>
<th>Safety** (5 Stars)</th>
<th>Wt 13.6%</th>
<th>Style</th>
<th>Wt 9%</th>
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<td>6</td>
<td>0.54</td>
<td>6.79</td>
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</tbody>
</table>

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**National Institute of Highway Safety

Since “Safety” ranks the same for all alternatives, its inclusion does not add value for this decision.
# Prioritization Matrix Interval with Weights

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<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Cost Wt 26.3%</th>
<th>MPG 23.7%</th>
<th>Reliability* 23.7%</th>
<th>Utility 15.8%</th>
<th>Style 10.5%</th>
<th>Sum of Weighted Scores</th>
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<td>2.37</td>
<td>4</td>
<td>1</td>
<td>0.24</td>
<td>8</td>
<td>5.66</td>
</tr>
</tbody>
</table>

10=Best
1=Worst

*J.D. Power and Associates Rating

- Removed “Safety”; redistributed weight; adjusted legend
- Re-ordered the Evaluation Criteria with most important on the left
- Re-ordered the Alternatives putting best choice on the top

Result: Easier to read and explain
Rank-ordered Alternatives with Justification
Make a Recommendation

Decision Brief
Data Presentation
Charts & Tables
Decision Briefing
Outline

- Focus presentation with issue statement / purpose

- Bottom Line Up Front (BLUF): Present recommendation as soon as feasible after issue

- Describe the issue environment; relevant facts, necessary assumptions, valid limitations

- Define the evaluation criteria used and weighting
Outline

- Clearly define the alternatives
- If appropriate, explain why some were infeasible, unethical or illegal
- Present the rank-ordered set of feasible alternatives
- Make recommendation and provide rationale
- Ask for a decision
Preparation

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- ABCs: Accurate, Brief, Clear
- Know your purpose
- Understand the context
- Identify key participants / stakeholders
- Be prepared!
  - Play Devil’s Advocate
  - Look for holes in data / presentation
  - Try to identify uncertainties
Content Review - Proofreading

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• Grammar and mechanics
  • Proper grammar, punctuation, and spelling
  • Consistent capitalization

• Headings
  • Be consistent
  • Only use sub-headings if you have more than one

• Proofreading
  • Don’t rely on spell check
  • Check acronym consistency
If decision maker knows issue well, you may be able to limit briefing:

- Issue Statement
- Essential background
- Recommended solution
Handling Early Decisions

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Before you finish, the decision maker may announce a decision

• Note the decision
• End the briefing
• Start follow-up process

DON’T TALK
PAST THE DECISION!
Follow-Up

• Follow-up immediately or decision may quickly lose traction
• Notify affected parties as soon as possible
  • Not complete until the paperwork is done
  • Do not allow others to lose sight of the decision
• Until decision is implemented, it simply remains a good intention
Executive Summary

- Summarizes situation and process
- Focuses on key information
- Names the stakeholders
- Highlights key aspects of analysis
- Describes justification for recommendation
Data Presentation
Preparation

Know your audience
- What is the intended use of the data?
- What question are you trying to answer?

Tailor and highlight
- Trends
- Drivers
- High priority areas

Do the data add value to the process?
General Guidelines

- Clearly title to identify purpose
- Indicate what data is being measured
- Label units and legends
- Identify source of data
- Use at least 24-point font for main points
- Practice, on location, whenever possible
Charts & Tables
Worst “Pie” Chart Ever
A MEANINGFUL Pie Chart
Rules for Pie Charts

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• Pie charts must add up to some meaningful total (100%)
• Only use when the comparison of a part to the whole is useful to your decision
• Typically used for higher level, more general discussions of issues
• Trying to include details or differentiate between minor differences on a pie chart could prove confusing
Federal Government Receipts by Source

FY 2007
- Income Tax: 45%
- Social Insurance: 37%
- Corporate Tax: 11%
- Excise Tax: 7%

FY 2000
- Income Tax: 50%
- Social Insurance: 32%
- Corporate Tax: 10%
- Excise Tax: 8%
### Federal Government Receipts by Source

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<tr>
<th>Source</th>
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C-130J Simulator Lifecycle Costs (25 Years)
C-130J Simulator Lifecycle Costs (25 Years)
C-130J Simulator Lifecycle Costs (25 Years)
Guidelines for Tables

- Should stand alone and be unambiguous
- Specify units
- Column and row headers
- Minimal decimal places & consistent rounding
- Columns for comparison
- Group chronologically or by classification
<table>
<thead>
<tr>
<th>Cost Center/Flight</th>
<th>EBIC</th>
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## LRS Execution Plan

### Defense Financial Management & Comptroller School

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AF Flying Hours by Component

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AF Flying Hours by Component

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Lodging Occupancy Rates

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Lodging Occupancy Rates

Defense Financial Management & Comptroller School

![Graph showing lodging occupancy from October to September. The graph includes two lines: one representing bed nights used and the other representing the target occupancy rate of 85%. The graph peaks in April and then drops significantly in August and September.](image-url)
A Few More Tips...

- Less is usually more
- Group bars to show relationships
- Use grids and patterns in moderation
- Choose colors carefully; don’t depend on them
- Use appropriate background
Communication of the Recommendation with Justification, as Required
Knowledge Check
Steps and Deliverables for Each Step

Defense Financial Management & Comptroller School

- **Identify the Issue**
  - Issue Statement or Issue Question

- **Analyze the Issue**
  - Relevant Facts
  - Necessary Assumptions
  - Valid Limitations
  - Defined and Weighted Evaluation Criteria

- **Develop Alternatives**
  - Reasonable Number of GOOD Alternatives

- **Evaluate the Alternatives**
  - Rank-ordered Set of Alternatives with Justification

- **Make a Recommendation**
  - Communication of the Recommendation with Justification
“Leadership is not about executive position or title. It is about connection and influence. At its highest, leadership is all about adding value to the world and blessing lives through the work you do.”

~ Robin Sharma

“Not adding value is the same as taking it away.”

~ Seth Godin