**A Simple Business Decision Framework**

Making strong business decisions early is key to responding to customer, market and other drivers. Unfortunately, "early" often means "before enough data is available". Keeping all your options open, and waiting to make important decisions until you have that data often means you've missed the opportunity, or are caught unprepared when for changing business conditions. This decision framework enables groups to rank nebulous information across a set of objective criteria to help make better decisions earlier, to be nimble and accurate without spending too much time researching, to be able to clearly see the connection between "what's important" and the decisions made, and avoid falling relying on "gut feelings" and pet projects.

**Overview**

This framework for analyzing and ranking business decision choices facilitates earlier and more-accurate decision making. It focuses on comparing the choices along agreed-upon business-impacting decision dimensions, but without requiring extensive data-gathering and research. The framework is intentionally simple to use, and the resulting decisions can be traced back to see how the conclusions came about.

Implementing and using the framework to form decisions has four phases:

1. Choose areas, weights and categories of objective aspects of the decision
2. Brainstorm potentially viable choices and solutions
3. Rate the choices across the categories as "very good", "neutral" or "very bad"
4. Calculate the ratings of the choices, and sort them.

Using the framework serves as an easy way to later adjust decisions to accommodate better information, analyze the decision's outcomes to hone the decision criteria, and understand why decisions were made the way they were.

**Template Spreadsheet**

The included spreadsheet provides a simple decision template and an example. The template worksheet has 4 areas, with 5 categories in each area, and up to 20 choices. To use the template, create a new worksheet, copy everything on the Template worksheet onto your new sheet, and then work your way through the sections.

In the spreadsheet, set your own values for the **blue** text and numbers. The **brown** text and numbers are calculated based on what you enter, so don’t change those.

The first thing to do is to define the question you’re trying to answer, and set that in the “Decision” area at the top of the spreadsheet.

**1) Choose areas, weights and categories**

**Choose top-level areas**

To get a well-rounded set of evaluation criteria chose 3-4 top-level areas that directly impact areas of the business that will be affected by the decision. Examples might include "Financial", "Customers" and "Legal". Keep these high-level, because they need to represent aspects of the decision that you can explore separately. Avoid closely related categories such as "Financial" and "Costs", or "Customers" and "Sales".

**Choose weight values**

Once you have the top-level areas, you need to assign weights. These are only applied to the top-level areas, and should be agreed on by consensus. Their values need to all add up to 1.0 for the later calculations to come out right. These should indicate the relative importance of the area. Avoid having too much variation so that one area is always overpowered by the others. Areas that have a very low weight relative to other areas indicates that area is not at all important. If that’s really true, then you should consider not including that area at all.

For example, if you have three areas, you might choose 0.25, 0.35 and 0.40. This way they have different importance, but that 0.25 one can still contribute to the final score.

When you’re using the spreadsheet template, cell B9 indicates whether the weights add up to 1.0. If they do, you’ll see green text saying “Weights total 1.0”. If they don’t, you’ll see red text indicating the error and the current total. Adjust the weight values up or down to get the total to 1.0.

**Choose categories**

Next you want to identify 3-5 clearly separate lower-level categories in each of the high-level areas. It can be difficult, but work to keep them from conceptually overlapping. Each of these categories should be some facet in which "winners" are clearly "better", and losers are clearly "worse". Choose categories that are well-scoped, so the proposed solutions can be objectively judged.

Resist the urge to select too many categories. The more categories you choose, the more fine-grained will be the comparisons, which also tends to mean the choices will tend to all rate very close to one another. If you make five categories in each of the four areas, that will be 20 different categories by which you’re analyzing your choices, and the average category can only exert 5% effect on the final scores.

Think about it this way: if you compared two houses across 20 different categories, and they were exactly the same except in one category, wouldn’t they be pretty much the same house? Thus, it’s better to have fewer (10-12) categories that can clearly highlight differences between choices.

All categories should be worded so they are winner-positive and loser-negative. For example, if bigger is better for the particular area, then “bigger than 10” would be appropriate, but “smaller than 10” would be confusing. While “bigger than 10 = yes” is a positive statement, “smaller than 10 = no” is a negative statement. Since “yes” will be mapped to +1, and “no” will be mapped to “-1”, using negative statements will only cause confusion.

Try to be specific and objective whenever possible. For example, if your organization tends to work in 2-3 week cycles and "big" work items take about two weeks, a category of "can be built in less than 2 weeks" is better than the more-nebulous "short build time", because the definition of "short" is open to interpretation. Even if two weeks ends up not being the right differentiator between truly Good and truly Bad, by defining a specific objective way to evaluate the choices, you can more-clearly identify differences.

When choosing categories, do your best to use only reasonable and objective criteria. Avoid subjective criteria, and definitely don’t use conjectural ones. It is all too easy for groups to sway decisions by under-estimating costs, or over-estimating benefits when there are no real data. That’s why the ratings have a very wide “middle ground”: only the most positive get +1, and only the very negative get -1. Often it’s easy to sense wishful thinking when “huge development costs” are claimed for one item but it isn’t really significantly larger than the others being rated.

Once you have your list of categories, go through and make sure that there are no inversely-related or redundant categories. For example "Good Food” and “Food isn’t bad”; keep the positive category (“Good Food”), and get rid of the negative one (“Food isn’t bad”).

When you’re using the spreadsheet, if your area doesn’t have all five categories, just delete the text from the Category column; that will hide the values down in the ratings area, and it will also make sure any values entered there are excluded from the calculations.

**2) Brainstorm choices and solutions**

This is probably the easiest part: write down all the viable, reasonable choices you think might be worthwhile. They don’t have to be in order, they don’t have to even all make sense. Use whatever brainstorming style you prefer, but be careful to not throw out any ideas. Sometimes the craziest ones end up being the best!

If you come up with a great number of choices, just keep writing them down. You may notice that some are very close together. If that happens, consider joining them together, since very often when you take one solution, you’ll also get the other related ones.

The spreadsheet template has spots for up to 20 choices; if you need more, just copy the template sheet to another one. Yes, you can expand the sheet if you want, but there are a lot of formulas and conditional formatting that you’ll end up getting to enjoy, so it is really probably easier to just make another copy.

On the spreadsheet, if you don’t have all 20 choices, then just set the Name and Description blank. The columns associated with those choices in the ratings section will be hidden.

**3) Rate choices across categories**

This step can be tedious, as it involves rating all of the choices across all of the categories. But, it goes pretty quickly if you remember to use the ratings very strictly:

**+1 goes to only truly GREAT choices
 0 goes to everything that is not spectacularly good and not spectacularly bad
-1 goes to only truly BAD choices**

The above is very important to the effectiveness of the framework. If you rate only-slightly-better choices as +1, you won’t be able to identify the overall great choices. Similarly, if you don’t reserve -1 for the truly bad choices, you won’t be able to identify the choices that should be carefully avoided.

When you’re using the spreadsheet, go along each column or row as you feel comfortable. There’s no need to strictly consider each choice in total before moving to the next choice, nor is there any real reason to rate all the choices in a particular category. Remember to only change the blue numbers in this section; don’t change any of the brown values. The overall score for each choice, and the area scores are automatically color coded along the row to show their relative rankings. This can be helpful later to see why one choice was rated higher or lower than one you might have expected to be ranked otherwise, and to indentify “area leaders”.

**4) Calculate the rankings**

If you’re using the spreadsheet, this step is automagically done for you! The choices are automatically ranked in order based on their scores, and the names and descriptions are included. The scores are color-coded to indicate the relative ranking. If you didn’t have all 20 choices, you’ll notice that those will be clustered in the middle around 0.0. Remember, 0.0 is what all the normal, not-very-spectacular choices will be, so it’s expected there will be a wide yellow area.

The range of possible scores is from +1 to -1, just like the ratings. Very often, if you have chosen truly differentiating categories, the resulting scores won’t get much above 0.3 to 0.4. This is normal, since for most business decisions, there are tradeoffs to be made and no clear winners. Nonetheless, the top scores are still the better choices, and the bottom scores are still the worse choices.

The calculation of the ratings is pretty straightforward. The spreadsheet has a bit of intelligence built in so that you can blank-out categories and choices, but it boils down to this:

Area Score = SUM (Area Category Scores) / COUNT ( non-blank Area Categories )
Weighted Area Score = Area Score \* Area Weight
Overall Score = SUM ( Weighted Area Scores )

The Choice Ratings are all ranked relative to one another from high to low, and that’s it!

**Example Decision: Choosing a great restaurant**

The first worksheet in the spreadsheet attempts to solve the always-stressful question of “What restaurant will really impress my date?” The question under consideration has a clear scope (restaurants), and a clearly defined goal (impressing my date).

When we think about restaurants, there are typically several broad categories of things that define a good one from a bad one. The areas I chose were: where it’s located, the restaurant building and interior itself, the quality of the food, and the total cost to eat there.

Because we believe we know what areas contribute to meeting the desired outcome, we can set weights on the different areas based on what we think our date will be impressed by. In this example, that means location and cost aren’t so important, but the accommodations and food have to be really top notch. Our date in this example happens to really *love* food, so we weight that area just a little higher than the accommodations.

In section 2, I’ve listed a range of restaurants that I’ve been to before, with obviously wide-ranging levels of quality. Clearly McDonald’s isn’t likely to end up at the top in food and accommodations, but it’s close by and useful to see where it does land.

One useful thing about this framework is that if you objectively rate each of the choices over the categories, you can get different results simply by adjusting the weights. For example, what should I do if my car breaks down the day before our date, and getting it towed off the freeway takes nearly all the money I’d saved? If I’m going to still do my best under the circumstances to spend time with my date, that means the location (close by!) and cost (cheap!) are now a lot more important than accommodations and food. I’ll just have to promise the fancy place next time! To reach a new decision, all I have to do is change the weights in the spreadsheet, and then look down at section 4 to see that the rankings magically change based on the what’s now most important.

Here’s another example where adjusting weights can show how to adapt to changing forces and strategy. In a business situation, rating profit as supremely important can lead to choosing products that require lower investment but have large, established markets (think Windows). But, long-term that isn’t always the best strategy, so many businesses rank building market share higher than initial profit, in order to produce overall better results for the company. Building market share often requires your product to be innovative—if not revolutionary—and that takes higher research and development costs and lower initial profits (think Xbox). By adjusting the weights of what is important in the business strategy, the framework enables quick and easy shifts in how to implement those strategies. Microsoft, like other successful companies, recognizes that both strategies are required for truly long-term success.

Now, back to our date. In section 3 of the example, you see ratings for each category for each restaurant. As mentioned earlier, to get a 1, it has to be really, *really* good, and to get a -1 it has to be quite horrid. So, McDonald’s is certainly very close by, but the food quality is pretty low on the scale. On the other hand, one of my favorites is Tivoli in downtown Bellingham: wonderful food, warm and friendly service and ambience, but sadly it’s over 100 miles away.

Once all the ratings are entered, section 4 has the rankings all set and ready to go! The restaurant most likely to impress our date appears at the top, and Ivar’s Chowder stand in Renton appears below even McDonald’s. Yes, even Coulon Park and the lake view won’t make that a good choice. Looking at the scores more closely, notice how the choices are pretty clearly sorted into a “good” group at the top, and a “not good” group at the bottom. If you’re looking for a restaurant, and your priorities are like those used in this example, Compagne will not disappoint; while Ivar’s Chowder stand might just get you dumped…depending on your date’s priorities!

As you can see from this example, using the framework and spreadsheet can take a complex, multi-faceted decision, let you decide what’s important to achieve, and then by objectively rating the choices against each category, you get a sorted list. You don’t have to go back-and-forth in your mind, arguing with yourself over the different aspects of what makes a truly great restaurant, and which one has what. Instead, all those complex calculations are done for you.

Now it’s your turn: adjust the weights in section 1 for your preferences, add your own favorite or other well-known restaurant into the choices in section 2, then rate that restaurant in each of the categories, and see how it shapes up.

**Additional thoughts**

**Why does this framework work?** This particular framework works because it helps you analyze moderately complex decisions, but doesn’t require highly-researched information to make accurate decision rankings. By assigning +1 and -1 values in only the categories that are clearly good and clearly bad, it helps identify those truly-worthwhile investments, as well as those to be avoided. The human brain can only hold a very limited amount of information at one time. Complex decisions among many options, and with many decision criteria, quickly overwhelm our thinking. This framework lets us decide what’s important, focus on independently rating each possible solution, and then objectively calculating which choice is most likely to meet our goals.

**Is this the ONLY framework possible?** Of course not! There are many frameworks in use for making business decisions. Some of the more-obvious variations to this framework include weighting each category in each area, or using a 1-to-N ranking value for the category scores instead of +1/0/-1, and so on. While that might seem to yield a more-nuanced ranking, it often makes it harder to pick clear winners and clear losers from among the available choices. In addition, while those two variations can certainly give more detailed and possibly more fine-grained scores, their exactness comes at the expense of needing to make fine distinctions among the choices when there is little real data. Accurately making those distinctions is not always possible early in the decision-making process.

**Does the framework work for all decisions?** No, it does not. This method doesn’t work as well when the group can’t agree on the areas, weights or categories, for decisions where there are no clear goals, or whenever the category ratings are heavily based on personal preferences that are not shared across the group.

**Where can I find more information about making business decisions?** An interesting analysis of the styles of decision making needed in the context of different types of decisions is presented in [*A Leader’s Framework for Decision Making*](http://www.mpiweb.org/CMS/uploadedFiles/Article%20for%20Marketing%20-%20Mary%20Boone.pdf), by David J. Snowden and Mary E. Boone, November 2007. If you’re interested in more, here are Bing search queries for “[business decision making framework](http://www.bing.com/search?q=business+decision+making+framework&form=OSDSRC)”, “[business decision analysis method](http://www.bing.com/search?q=business+decision+analysis+method&form=OSDSRC)”, and “[making successful business decisions](http://www.bing.com/search?q=making+successful+business+decisions&form=OSDSRC).” Needless to say, some of the methods are very deeply philosophical or abstruse.

**How is it possible to rank equal values?** One thing to note about the spreadsheet is that it pulls a dirty trick on Excel that could in some cases produce slightly incorrect sorting. Essentially, to be able to separate multiple equally-scored choices, there’s a couple of hidden rows that subtract the choice index number times 0.000001 from the score. This better ensures that at very high precision the score values are unique. These values shouldn’t affect the two-digit scores presented, but there probably are some extreme cases where a rounding error or a mis-sort can occur.

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