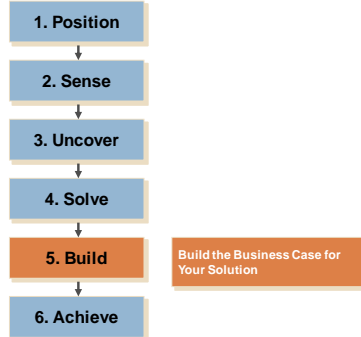


PSU Problem Solving Process



Build A Business Case

- 3
- What is a business case?
 - ▣ A formal presentation of the problem solution/s that have been developed
 - ▣ Reviewed by some sort of decision making authority
 - ▣ Solid logic
 - ▣ Supporting evidence
 - ▣ A good test to see whether you need more research

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Who Does It?

- 4
- The problem solving team or a representative subset
 - ▣ Diversity is good
 - ▣ A range of stakeholders
 - Activities
 - ▣ In-depth outcome analysis
 - ▣ Short and long term consequences
 - ▣ Review adherence to Mission/Vision/Values

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First – Ethical Screening

- 5
- Is the solution ethical? What does ethical mean? How would you define ethics?
 - ▣ Ethics – a system of values that people use to determine whether actions are:
 - ▣ right or wrong
 - ▣ fair or unfair
 - ▣ moral or immoral
 - ▣ Business ethics - the application of ethical standards to business behavior.

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Values Versus Ethics

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- Test it against business values. What is a value?
 - A principle, standard or quality considered worthwhile or desirable.
 - Values contribute to our system of beliefs, ideas and opinions.
 - A value is a core from which we operate.
 - Business values are beliefs, business principles and ways of doing things that govern company operations and the behavior of organization members.

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Corporate Values

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- Are the values real or published?
 - Enron valued:
 - Communications
 - Respect
 - Integrity
 - Excellence
 - What did they really value (at least some of the senior management)?
 - Money and profit – at the expense of customers, shareholders and employees.

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Corporations As Citizens

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- Analyze your solution based on a broader set of societal ethical principles
- Consider all of the stakeholders
 - Customers
 - Suppliers
 - Competitors
 - Communities and societies

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Encouraging Ethical Behavior

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- How can you encourage ethical behavior?
 - Define and communicate ethical standards
 - Educate and train
 - Case discussions and exercises
- Is unethical behavior always conscious and explicit?
 - Bounded ethicality – people sometimes act in ways that are inconsistent with their ethical standards
 - Identify and understand psychological tendencies in order to better guarantee ethical behavior

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Making Ethical Decisions

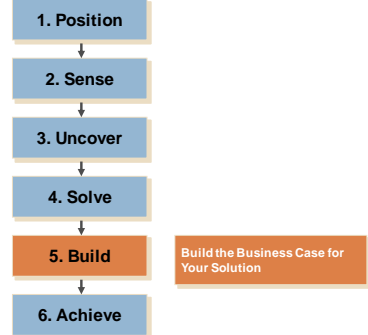
10

- Are ethical and legal the same thing?
 - ▣ Legality is the lowest common denominator
- Four tests of your decision:
 - ▣ Is my solution the best thing for the most people?
 - ▣ What if everyone did what I want to do? What kind of a world would it be?
 - ▣ Am I treating others the way I would want to be treated?
 - ▣ What if my decision were advertised on a billboard?

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PSU Problem Solving Process

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Presenting The Case

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- What are some of the questions you might get asked when you are making a recommendation?
 - ▣ What will it cost?
 - ▣ What are benefits?
 - ▣ How long will it take?
 - ▣ Who's going to do it?
 - ▣ What's likely to go wrong?
 - ▣ Who do we blame when it does?

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Cost/Benefit Analysis

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- It's a tool that will help you decide whether it's worth implementing your solution.
 - ▣ You may have already done it while comparing different alternatives, or...
 - ▣ You will include it in your "case" as support for your recommendation
- Key questions that it will answer
 - ▣ Do the benefits outweigh the costs?
 - ▣ Is it worth the time and money to implement
- Simply put – add up the value of the benefits of a course of action, and subtract the costs.

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Cost/Benefit Analysis

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- CBA is most often applied to complex, large scale projects – but can be applied carefully to others.
- Evaluation and analysis can be as much art as science.
 - ▣ Estimates often rely on past projects, experience of the project members, and rules of thumb. Team members may also be biased.
- It can be difficult to compare one-time and long term (periodic) costs and benefits.
 - ▣ Consider payback time.
 - ▣ Determine a timeframe for the analysis.
- You should consider both tangible and intangible costs and benefits.

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Types Of Costs & Benefits

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- Tangible
 - ▣ Concrete and easily quantifiable
 - ▣ Ongoing versus one-time (present value)
 - ▣ For example – the cost of my new tractor was a one-time financial cost.
- Intangible
 - ▣ Difficult to measure, and almost impossible to measure precisely:
 - ▣ Employee satisfaction, customer satisfaction.
 - ▣ Relative values and crude measurements are often the best you can get – but often good enough for business decisions.
 - ▣ For example – Sheryl won't worry about me as much on the new tractor with a roll bar and seat belts!

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Tangible Versus Intangible

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- Common Claim
 - ▣ If you can't measure it, it doesn't exist.
- Reality
 - ▣ Costs are typically tangible, hard and financial.
 - ▣ Benefits are hard and tangible, but also often soft and intangible.
 - ▣ Be careful – often intangible will outweigh the tangible – especially in strategic decisions.

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Here's An Example

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- The scenario:
 - ▣ Small, neighborhood copy shop owner
 - ▣ The question?
 - ▣ Should he remain open until 11 PM, or should he close an hour earlier
 - ▣ What data does he need?
 - ▣ Costs of operating during that last hour
 - ▣ How much money he makes in that last hour

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Tangible Costs

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- Types of costs
 - ▣ Electricity for lights and equipment
 - ▣ The cost of heat
 - ▣ The assistant manager's salary
 - ▣ If he closes at 10, he saves all this money
- Cost of that last hour - \$23.00

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Tangible Benefits

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- What is his profit in the last hour (based on the cost of making the copy – not counting electricity, etc.).
 - ▣ 460 copies in that last hour times 5.5 cents profit per copy
 - ▣ He makes \$25.30
 - ▣ Is it worth it?

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What are some intangibles?

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- Employee satisfaction – Assistant Manager can be with family at night.
- Employee safety – higher crime at night.
- Customer satisfaction – occasionally a key customer needs copies at night.

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Another Example

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- Scenario:
 - ▣ A sales director is deciding whether to implement a new computer-based contact management system.
 - ▣ He doesn't have many computers and his salespeople are not that computer literate.
 - ▣ He knows that he can increase contact numbers and give better customer service with the system. Efficiency will be improved.
 - ▣ What should he do?

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Tangible Costs

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- New computers:
 - 10 with software @ \$1,225 each
 - 1 server @ \$1,750
 - 3 printers @ \$600 each
 - Cabling and installation @ \$2,300
 - Sales Support Software @ \$7,500
- Training Costs:
 - Computer introduction – 8 people @ \$200 each
 - Keyboard skills – 8 people @ \$200 each
 - Sales Support System – 12 people @ \$350 each
- Other Costs:
 - Lost time: 40 man days @ \$100 per day
 - Lost sales through disruption: estimated @ \$10,000
 - Lost sales through first month inefficiency: estimated @ \$10,000

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Tangible Benefits

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- Tripling of mail shot capacity: estimated @ \$20,000 per year.
- Ability to sustain telesales campaigns: estimated @ \$10,000 per year.
- Improved efficiency and reliability of follow-up: estimated at \$25,000 per year.
- Improved customer service and retention: estimated @ \$15,000 per year.
- Improved accuracy of customer information: estimated @ \$5,000 per year.
- More ability to manage the sales operation: estimated @ \$15,000 per year.

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Results

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- Total cost: \$57,000
- Total benefits: \$90,000 per year
- Payback time: $\$57,000/\$90,000 = 8$ months
- Even though the estimate of benefits can be subjective – given the short payback time, it would be a good decision

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What Are The Intangibles?

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- Personnel discomfort with a new system.
- General organizational disarray with new procedures and processes.
- Happier, more organized salespeople.
- Employee attitudes about management investment in personnel.
- Others?

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Cost/Benefit Summary

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- Cost/Benefit analysis is a powerful, widely used and relatively easy tool for deciding to implement a decision.
- First, work out how much the decision will cost (don't forget opportunity costs).
- Where costs or benefits will be received over time – work out the time it will take for the benefits to outweigh the costs.

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Feasibility Analysis

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- The solution may have merit, but can you do it – is it feasible?
- Dimensions of analysis:
 - Economic, organizational, technological, and legal.
- For example – economically, do you have the budget and cash flow to handle the solution?
- Operationally, do you have the people or the expertise to implement the solution?
- Technologically, maybe the technology required won't be ready in time.
- Legally, make sure the solution doesn't oppose existing contracts or legal agreements.

Activity 5.2

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- Read the scenario – student considering a job in Phoenix. Go or stay – do a Cost/Benefit Analysis.
- Determine a time frame – 2 years, 3 years, more?
- Brainstorm all tangible and intangible costs and benefits – determine which is the best option.
- Follow the instructions in the Activity Handout.

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Activity 5.2

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	Portland	Phoenix
<u>Tangible Costs</u>		
Rent	\$\$\$	\$\$\$
Other???	\$\$\$	\$\$\$
<u>Tangible Benefits</u>		
Salary	\$\$\$	\$\$\$
Other???	\$\$\$	\$\$\$
<u>Net Tangible</u>	??	??
Intangible Costs		
Delayed Degree		xx
Intangible Benefits		
Family Pride	xx	

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