

3 Tips for Making Business Decisions

PATRICIA LOTICH

Business owners and managers make decisions all day long. In fact, it is estimated that we all make 35,000 decisions every single day! Obviously, not all of these decisions will impact our business, but some will. As business leaders, we need to learn to make decisions that support our mission and vision.

Some of the decisions we make cost money, and many compete for budget dollars. And budgeting and allocating financial resources can be very challenging. Department managers are faced with spending decisions every day. Employees make requests for the newest software, the latest phones and gadgets, the most recent model of office equipment, etc.

Unless there is a good foundation for decision-making, is it easy to overspend budget dollars on things that may not add value to the organization. Creating a decision prioritization model for spending can help to alleviate some of that stress. However, a streamlined process to prioritize these spending decisions can help managers conserve valuable budget dollars.

3 Things to Consider When Making a Spending Decision

1. Create a Decision-Making Model

I like simplicity, and a friend of mine shared this model with me a few years back, and I find it easy and succinct. The model makes you think about a spending decision and is based on asking yourself or your team, three questions.

Specifically, every spending and budgeting decision should be based on asking a simple decision question. Is this expenditure a:

- Want*** – something that would make the job easier;
- Need*** – something that is important to get the job accomplished;
- Have-to-Have*** – something that is necessary for the success of the operation.

For example, a new version of a software program is available.

- The question that should be asked is, is this something we *want*, *need*, or *have-to-have*?
- The obvious answer would be it can probably wait – even though it may make the job easier.

However, if the copy machine goes down and putting together sales packets is part of the daily operation, this request would fall into the *have-to-have* category. This is an expenditure that affects the operation's success, so the resources need to be available.

Be realistic and ask these questions when a decision needs to be made about spending. The answer can also be not now but maybe for next year's budget.

2. Are There Available Budget Dollars

Budgets are spending guidelines for organizations and should be adhered to consistently. I once had a boss ask a peer of mine during a budgeting process, "what about keeping your budget with \$0 increases didn't you understand...." when a peer of mine was over budget by \$20! This guy was serious about budgeting!

The budgeting process should include allocating dollars specifically for emergency expenditures that would cover the *have-to-have* spending decisions. If there are no budgeted dollars available, are there other budgets that you could modify to free up available dollars?

For example, if there are dollars allocated for a special event, are there ways to cut some of those costs so you can put those dollars toward something else? Or are there overtime hours budgeted that can be controlled to free up resources? Get creative. Experienced managers know how to conserve budget dollars in all areas, so they have the flexibility to spend when necessary.

Monitor your budget monthly, so you are always aware of underspending and budget variances.

3. Does the Spending Line up with Business Goals

I always say that it is much easier to spend someone else's money! Managers need to treat spending decisions as if it were their money going out the door. Budget dollars should be spent only on those things that support business strategy and ultimately help the organization fulfill its mission.

For example, an employee asks permission to attend a conference that is not budgeted.

- The question to ask is, will this conference improve the skills of the employee so they are better equipped to complete business goals,
- The budgeting process should include allocating dollars specifically for emergency expenditures that would cover the *have-to-have* spending decisions.
- If there are no budgeted dollars available, are there other budgets that you could modify to free up available dollars?

For example, if there are dollars allocated for a special event, are there ways to cut some of those costs so you can put those dollars toward something else?

- Or are there overtime hours budgeted that can be controlled to free up resources?
- Get creative. Experienced managers know how to conserve budget dollars in all areas, So, they have the flexibility to spend when necessary.

- Monitor your budget monthly, so you are always aware of underspending and budget variances.

3. Does the Spending Line up with Business Goals

I always say that it is much easier to spend someone else's money! Managers need to treat spending decisions as if it were their money going out the door. Budget dollars should be spent only on those things that support business strategy and ultimately help the organization fulfill its mission.

For example, an employee asks permission to attend a conference that is not budgeted.

- The question to ask is, will this conference improve the skills of the employee so they are better equipped to complete business goals.
- If the answer is no, the dollars probably shouldn't be spent, even if there is money available.
- However, if industry standards have changed and a conference highlighting the newer standards would help give your business an advantage, it might be worth finding the dollars to support that educational effort.

Managers need to understand what the organization is trying to achieve so that all spending decisions support the mission, vision, and strategic plan.