

**BUSINESS DECISIONS:  
MAKING THE RIGHT CALL**

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***Q: Is there a good methodology for making business decisions in today's environment?***

A: The destiny of humans as an intelligent species lies in the gift bestowed upon them to have the freedom to deliberate, make decisions and to choose between alternatives. Survival is conditional on overcoming challenges brought on as a result of change.

Surviving today's business challenges is no different. Rapid changes in the present business environment require like actions on the part of modern day executives. Yet, such decisions are more complicated with more far-reaching implications than ever before. Success is predicated on the ability of an organization to adapt, invent new tools and to change tracks.

The challenge of creating and maintaining a successful business is rooted in consistently making the right decisions. When good decisions are made, businesses grow and careers soar. Obviously, the opposite is true! When bad decisions are made, business stagnate or fail and careers are stalled or broken. As the decision has a greater impact on the organization, the implications of the decision tend to be more extreme.

Today's executive faces a steady challenge to continually reinvent the corporation, in an endeavor to create more value and provide higher returns on stockholder investments. Corporate executives reach their positions partially because of their history of making good decisions. However, even the best decision-makers would readily accept assistance if that assistance could reduce the risk of decision making, especially in those decisions that will have a profound effect on the future of the business. Fortunately, Decision & Risk Analysis methodologies exist to manage this complex process.

In most cases, a decision must be made among several options, each of which has attractive features. Unfortunately, the number of variables that can influence the success of one



option versus another can be staggering and too difficult for the human mind to comprehend without a method.

***Q: Give an example of where these methodologies come from?***

A: There is one methodology that was originally designed for use in military strategies to assess changing conditions, battlefield strategies and the risks associated with the various options encountered. It later was modified and enhanced to apply to business decision making.

***Q: Can you give an example of where this process might apply?***

A: One example is, should a business take the time and money to build and operate a pilot plant or should it build a commercial plant directly? The value of the information obtained from a pilot plant is not always worth the cost. And, there needs to be a thorough check on the commercial value of the process, even if it turns out to perform technically at goal levels. With a disciplined decision process, all of these issues can be explored to arrive at the best decision.

***Q: How do I deal with uncertainty in the decision making process?***

A: First of all, assess uncertainty, don't make assumptions. Acknowledging that uncertainties exist is good practice. Because dealing with all uncertainties will result in more robust decisions and significantly better preparation when action is called for.

Why do organizations have emergency response plans for their production units, but lack the same degree of risk assessment for their business planning?

Identify all uncertainties associated with a strategic decision. It is very important to emphasize internal as well as external uncertainties, with a particular emphasis on the external. Internal uncertainties are within a company's control. A definitive decision can be made once enough data is generated on an uncertainty. However, external uncertainties



are an outcome of a changing landscape. Organizations typically have no control over such uncertainties, e.g. economic, environmental, competitive reaction, substitute technologies, etc.

Comprehend how uncertainties relate to each other and to the decision criteria (financial, e.g. NPV, DCF or otherwise) to ensure consideration of key risks.

Select sources for assessment of uncertainty. Sources of contrary opinion enhance decision quality and should be included.

Assess each uncertainty and its relational influence. There are many analytical tools available on the market today in the form of software packages, and/or homegrown Microsoft Excel add-ons. Some organizations may use a more complex methodology such as “Monte Carlo” or “10 and 90 percent” probability modeling. While it is often possible to reduce risk of some uncertainties through market research (e.g. market trends, elasticity of demand, importance of technological attributes, etc.) it is the residual uncertainty (e.g. regulatory debate, competitor’s plant builds/expansions) that create wide gaps between strategic planning and execution.

Regardless of the change in landscape, or complexity of uncertainty, be prepared. Develop your business response plan by identifying uncertainties, structure the relationship of influences and assess outcomes. Above all, avoid making assumptions.



## About The Author



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Mike joined The ChemQuest Group in June 2000 with 18 years experience in the chemical industry. Twelve of those years have been dedicated to resins and polymers for the Coatings and Adhesives Industries. Prior to joining ChemQuest, he served as Industrial Coatings Market Development Manager for McWhorter Technologies where he focused on market strategy development and formation of customer and supplier partnerships for the purpose of maximizing value. Prior to McWhorter he spent two years in sales with Ciba Specialty Chemicals, seven years in sales and marketing roles at Unocal Polymers and two years in sales with Sherwin-Williams Chemical Division. Mike holds a Bachelor of Chemical Engineering degree from the University of Dayton.

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