

Chapter 49 -TOOLKIT DECISION TREE

DECISION TREE****

Decision tree is a quantitative decision-making tool. It represents different options that are available to a business in the decision-making process, showing the possible outcomes of different strategic options. The manager makes the decision on the basis of net expected value of each decision. The option having higher net expected value will be the best option.

EVALUATION OF DECISION TREE****

Advantages	Disadvantages
<p>DM1 As a planning tool, decision trees offer managers a visual representation of different decisions and choices, with probable and quantifiable outcomes. This makes decision making more informed, objective, and logical.</p>	<p>DM1 As a purely quantitative planning tool, decision trees ignore qualitative factors (non-financial information) that often affect decision making. For example, there is no consideration of the role of intuitive, emotion (staff morale) or ethical issues in the decision-making process.</p>
<p>DM1 It helps managers to consider the various financial risks involved with different choices options, not just the potential financial rewards as Cost of the decision is also considered</p>	<p>DM1 The task of assigning probabilities is an estimate so it can be biased opinion of the management</p>

<p>*** All potential options can be seen at the same time, thereby speeding up decision making process</p>	<p>*** It doesn't include uncertainty in the real business world.</p>
<p>*** As a visual and quantitative tool, they provide insight to a problem, rather than having to rely on people's views, intuitions and feeling about the problem</p>	<p>*** Due to estimates of probabilities, risk is always there</p>

*** Indicates Important topics from the course