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Video Transcription: Management Decision-Making: Qualitative Factors – Part 2



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Hi, my name's Paul, and this is part two of a discussion of qualitative factors. Of course, the first thing you want to do is make sure that you've watched part one and that you understand the importance of qualitative factors. You'll hear stories about Steve Jobs and the iPod, about the interior of cars, as well as about Harrods and the outsourcing of the delivery of couches. And you'll also hear the most important point, which is all about including stakeholders and people in your decision-making.

This video, now, is going to round out the discussion by looking at three more important factors that you need to consider as well as the most important secret ingredient that's going to help you make great decisions in the long-term. Enjoy.

The second thing that I think is incredibly important when making a decision, is that you consider both the possible negative outcomes and the possible positive outcomes. Let me explain what I mean. You might accept a one-time order from a customer and it might be at a lower price to what you normally receive but they might be so blown away by the way in which you meet their needs that they become repeat customers of yours and all kinds of future revenue possibilities are now made available to you. Now, that would be a fantastic possible positive outcome of accepting that special order. At the exact same time, however, all your existing customers, if they were to find out about this special deal that you just gave this new customer, could be incredibly upset and could demand that you offer them the same discount. Now the knock-on effect is negative, and you're going to upset your customers if you don't agree to that and if you do agree to it you're going to see a lower revenue going forward.

You see, what's happening here is it's the same decision but there's a possible positive and a possible negative outcome depending on how things play out. What I've often seen is that students can lock into one or the other of these. In other words, they just mention all the positive things that could happen or they mention all the negative things.

And you know, when they say think critically they don't mean be critical, in other words, always be negative. Thinking critically means that you're able to identify both the possible negative things and the possible positive outcomes.

And so that's my big encouragement to you, as you locate yourself in a scenario and as you think through the decisions, think of all the stakeholders and then think about what positive things could happen and what negative things could happen. So that that, again, adds colour to your decision-making process.

The third important aspect to take into account when analysing a decision is what could the possible short-term consequences be and the long-term consequences? Consider both of these because maybe you will save a bit of money in the short term by using a product of lesser quality when you're making a car but in the long term, what's going to happen to your brand? What's going to happen to your customers? Sure, you can save money in the short term by cutting down on advertising, cutting down on training of staff but in the long term that could have a devastating impact on your brand and on the morale and quality of the staff, because they're not trained.



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You see, what we've got to be careful of as financial professionals is that we don't become fixated with the short term to the detriment of the long-term goals that a company has. And so, when you are analysing a context make sure that you aren't biased towards the short-term profit motive to hit the targets when in the long term the decision you make could have devastating consequences.

My final tip for you, number four, is that you need to be reading information that's available to you. You need to be going through it, making sure that you've got a good understanding of what it's telling you. But what you also need to ask yourself is, what information is missing? That's my fourth tip, read what's there but also stop and ask yourself the question, what is missing?

Because very often it will be that information, that could be the most important. So you find out about a context, you find out about a business and there's no information there about government regulation, but you know that the government is very interested in the pharmaceutical industry, for instance, and has strict guidelines. The examiner hasn't really made that front and centre for you but your reading knowledge and your understanding of the business environment means that you're able to notice that it's incomplete information and that you need to incorporate it.

This is incredibly challenging of course and don't worry I think you'll be fine, you'll pass, you'll do okay if you're able to go through the information provided and comment on it in a way that highlights positives and negatives and includes all the stakeholders and think long term and short term. You'll be able to do fine if you do that.

But if you really want to add an exceptional layer of value and when you join the working world, really stand out, it's in this area of being able to identify what is missing from the information provided. Have they said nothing about electricity shortages in South Africa? Have they not mentioned the labour disputes going on?

Well, if you're reading widely and if you're familiar with the business environment in South Africa, you'll know about those things and you'll incorporate that in the decision-making process that you make and that will make you stand out from the crowd

So those are four very practical ways in which I think you can improve the way in which you make decisions. These are the qualitative factors that are incredibly important.

Of course you need to know your relevant costing, you need to know capital budgeting, you need to be able to perform valuations. Those are all still important skills but I hope I've added to your decision-making process by mentioning these four tips.

Including all your stakeholders, making sure that you consider both the positive and the negative factors, you're thinking short term and you're thinking long term and you're not just reading the information that's there, you're asking yourself the question, "What's missing in this information?".



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You do that you're going to be great. But how do you keep going for the rest of your life? How do you make sure that you're making good decisions way beyond university, as you head out into the working world. That's my big tip, that's what I hope you leave this video with and it's the following. I would love you to be interested in business, what do I mean?

I'd love you, when meeting a family member or a friend or someone who's started their own business, to ask them questions about their competitors, to ask them questions about their suppliers, their employees, management, investors. We'd be crazy to not be interested in that world if this is what we're studying. Let's get curious and let's get reading and listening and having conversations with people from which we've got a lot to learn.

So when you enter the business world, please make sure you crunch the numbers accurately. That you consider the right interest rates and that you get the cash flows in the right place. But more than that, take what this video has been talking about, the importance of you customer experience and the engagement of your employees, take everything here, these qualitative factors, and weave them in to the spreadsheets and the profit calculations. Because they really work best, together.

I encourage you to keep reading, keep curious and really to do a wonderful job of helping businesses in South Africa and the economy of South Africa take off as we bring all these skills to the table as business people.

All the best.