

USING INFLUENCE DIAGRAMS TO STRUCTURE THE PROCESS OF NEW VENTURE CREATION

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Abstract

Influence diagrams and decision trees provide a convenient yet powerful approach for modeling, understanding, and evaluating multistage decision problems under uncertainty. Although both instruments are isomorphic, the size of decision trees becomes critical in situations with a high level of complexity. Influence diagrams offer a more compact approach in the structuring and planning phase. They incorporate the complex interdependencies and show the flow of information and decisions. By distinguishing between decision and chance nodes, they provide a precise description and structure of the entrepreneurial decision making process.

In this paper we demonstrate the application of decision making instruments to the financial planning process in new venture creation. The implications of a decision-analytical are twofold: Firstly, influence diagrams and decision trees are excellent methods to construct the scope of plausible future states, to show the flow of information and sequence of decisions, to structure the process of decision making in a more constant and precise way, and to identify critical decisions to be made. Influence diagrams are simple to understand, they are straight-forward to construct, and they provide an optimal basis for computer-aided decision support. Secondly, our approach helps entrepreneurs move beyond intuition. Relying on intuition contradicts the fact that planning takes place before taking human action. Hence, our approach provides entrepreneurs with a deeper insight and thorough understanding of the financial magnitude of their future decisions.