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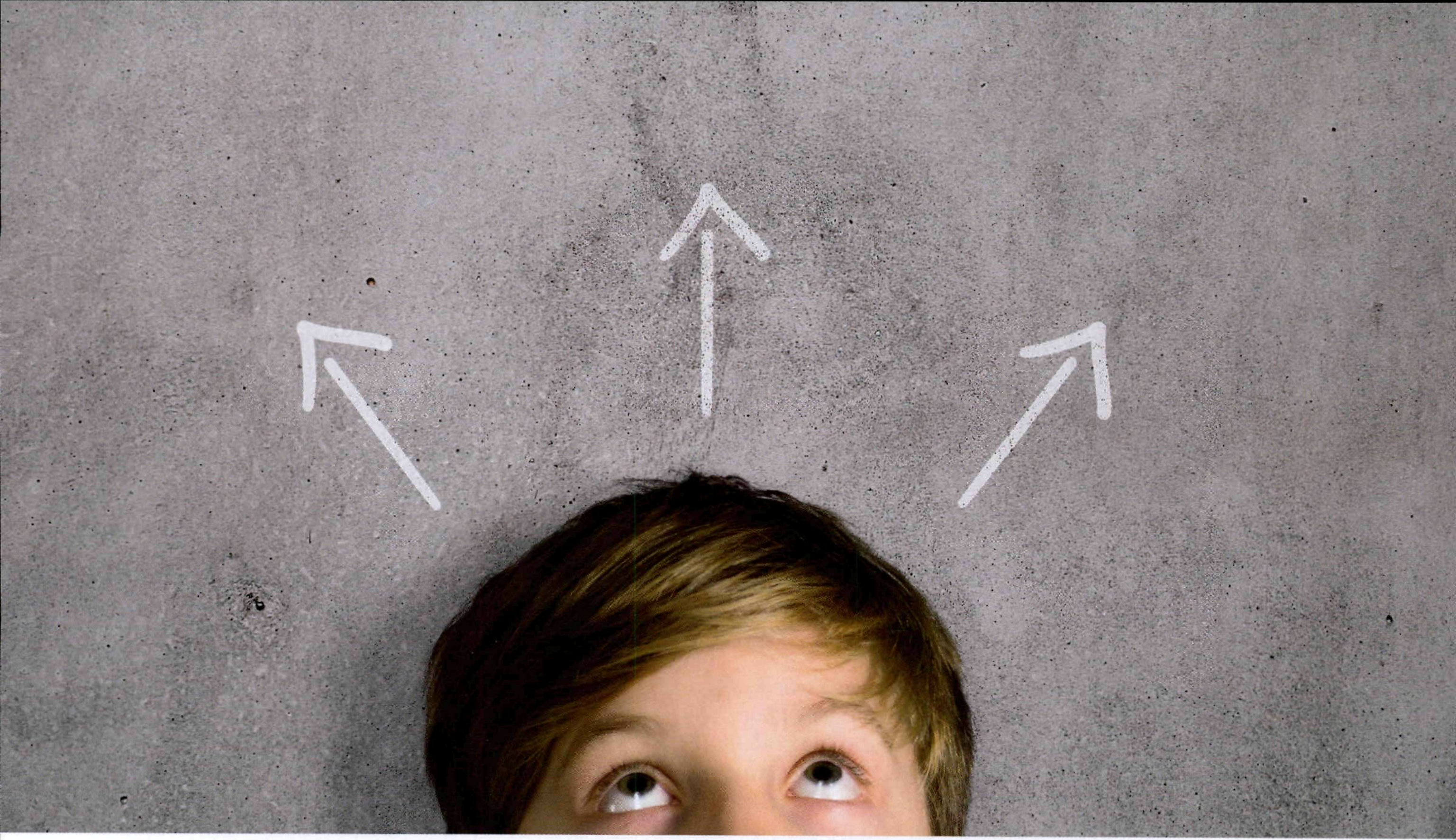

Sharper decision-making

Jutta Tobias has some advice on how to improve the quality of decision-making in your organisation

Your company's decision-making culture has a substantial impact on the quality of your strategic decisions and on the bottom line. This article examines how to sharpen decision-making in your organisation: it questions how your teams routinely reach managerial decisions, and provides guidelines on how to substantially improve those decisions.

The extent of the problem

Leaders in organisations invariably prefer quick, intuitive judgments over systematically working through statistics and data analysis. The problem this leaves is this: many of our judgments are biased and flawed, primed by forces well below our level of awareness. Worse still, if we get sucked in by a particularly persuasive argument not based on coherent, logical and valid data, the decisions we may take under this influence can be well below par. They could even threaten the whole organisation and its future performance.

In recent years, the financial world has been rocked by some monumentally bad decisions that have shaken the foundations of our economy. Ever since corporate leaders at Barings Bank overlooked employee Nick Leeson's fraudulent trading, resulting in a $1.4bn corporate loss and ultimately the demise of its operation in 1995, rogue traders at major investment banks have been able to conceal their dishonest practices until it was too late: Societé Générale reported a $6.7bn loss in 2008 due to rogue dealings, and UBS announced in 2011 that its cost-cutting drive involving 3,500 job losses earlier that year was effectively cancelled out by a $2bn deficit reported after a string of rogue trades in its London office were discovered.

Time and again, large global investment projects fail to deliver the value they promised, as a consequence of executives making strategic

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decisions marked by *delusion* and *deception* – in other words, strategic mismanagement of information, or of the decision-making process. In the majority of cases, research has shown that the costs of these multi-billion-dollar projects tend to overrun by about 50 per cent or more, while performance typically hovers around 50 per cent below forecast[1]. Shareholders and stakeholders suffer dramatically as a result.

The solution

There is a solution to this. In fact, there are effective evidence-based techniques available that can significantly enhance the quality of decisions. The better the quality of information available to you, the more likely you are to make high-quality managerial decisions. And the best way to get to higher-quality information is to focus on the decision-making *process*.

This can result in substantial payoffs for the organisation: a recent *McKinsey Quarterly* survey found that following a high-quality decision-making process leads to an increase in return on investment of nearly 7 per cent[2].

Action-orientated tips for managers

The action-orientated tips below are intended to help streamline your decision-making process in order to overcome biased and substandard intuitions when facing a major decision.

Approach your decision-making process like an investigation, not advocacy Work hard to act less like an attorney in court, advocating a single perspective of a decision scenario, and more like a detective trying to uncover a mystery – in other words, evaluate all the available information in as unbiased a manner as possible to detect the flawed argument among all your options.

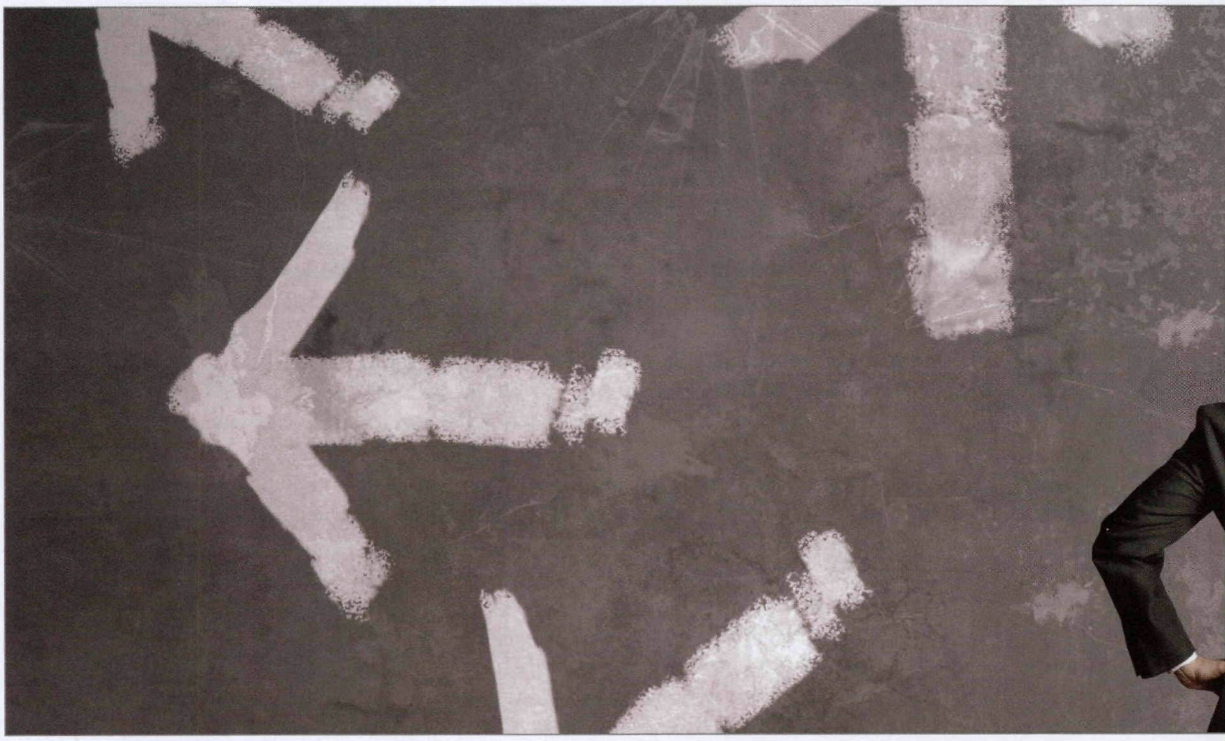
One of the simplest and most effective ways to do this is to carry out a pre-mortem[3] before every major decision you take. A pre-mortem is an exercise in thinking of as many worst-case scenarios as possible for each decision choice. Give your inner devil's advocate free reign, and be sure to explore any potentially adverse scenarios. It is very insightful to do this in teams, with the team leader welcoming and encouraging critical perspectives with impunity.

Such an exercise usefully shifts the focus of the discussion from persuasion and advocacy for the

References

1 Flyvbjerg B, Garbuio M, Lovallo D "Delusion and Deception in Large Infrastructure Projects: Two Models for Explaining and Preventing xecutive Disaster" *California Management Review* 51(2) (2009)

2 Lovallo D, Sibony O "The case for behavioral strategy" *McKinsey Quarterly* (March 2010) www.mckinsey.com/insights/strategy/the_case_for_behavioral_strategy



go-ahead to rewarding fault-finding. It also moves us away from our innate tendency to think like "cognitive misers"[4], in other words spend as little cognitive energy as possible on decisions, rely on our existing knowledge as much as we can, and use cognitive shortcuts (such as 'common sense' and rules of thumb) to have our intuitions confirmed.

It is unlikely that a pre-mortem will radically change your organisation's plans, but managers typically find that they can make helpful changes to their planned actions as they follow up such an exercise. A pre-mortem can also help clarify that deciding right here and right now may actually not be in your best interests.

Gather a genuine variety of opinions You can make the process for reaching important organisational decisions more effective by aggregating opinions. Let's use an example to illustrate this. Say you need to estimate the amount of time it will take to complete a particular project phase. Rather than relying on your own estimate alone, ask a number of team members and associates what their estimates are. In order for this to work, it is crucial to seek a genuine variety of opinions (rather than exclusively asking people you respect or who you deem knowledgeable about this). In this way, you are getting closer to a randomly pooled sample of opinions. This enables you to benefit from the natural variety of different people's (often biased) perceptions of reality, because even if some of these estimates seem more valid than others, you are likely to find that when you subsequently average all estimates out, the pooled estimate is more accurate than one person's judgment alone. What this means for high-quality decision-making in organisations: The more, and the more diverse, voices you can engage before you need to make a critical decision with incomplete data, the more valid the decision outcome.

The better the quality of information available to you, the more likely you are to make high-quality managerial decisions

Limit undue influencing (or priming) of opinions Especially when you engage others in helping you reach a managerial decision, be careful to limit the potential for unduly influencing (or priming) opinions as much as you can. We are often influenced by who argues a particular way (either by uncritically agreeing, or by dismissing this person's perspective out of hand) without consciously knowing about this unhelpful source of social influence and bias.

[3] Klein G "Performing a project pre-mortem" *Harvard Business Review* (September 2007)

[4] Fiske S T, Taylor S E *Social Cognition* (2nd ed) McGraw-Hill (1991)

[5] Dobelli R *The Art of Thinking Clearly* Sceptre (2013)

[6] Campbell A, Whitehead J, Finkelstein S "Why Good Leaders Make Bad Decisions" *Harvard Business Review* (February 2009)

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This is why it is surprisingly difficult to conduct a truly unbiased brainstorming session. Think back to the last time you participated in brainstorming. Are you sure you didn't check where a particular person placed their Post-it note on the flipchart and subsequently went up to find out what they suggested? Can you be certain that recognising the handwriting of a specific Post-it message didn't sway your judgment about the validity of this particular contribution?

An antidote to this is to conduct truly secret ballots in team decision-making. At a basic level, get team members to write down their arguments in private, and then get a third party to read out the collected perspectives to the group. Be careful, though, to ensure nobody can spot who has written what. Technology can be very helpful here, for example you can elicit anonymous participation from your team members in real-time using audience response tools for mobile devices.

Above all, as the person with perceived authority over others, be sure to hold back with your own opinion about the decision scenario until *all* your team members have had a chance to tell you theirs (ideally through individual emails ahead of a decision meeting). By the same token, make sure that any opinion leader within the team also remains quiet until everyone else has spoken. Otherwise, less confident (or perhaps more loyal) members may not bring up critical perspectives.

Keep track of your decisions over time Ambiguity is lethal in decision-making: strive to measure the impact of your company's decisions, and track decisions alongside their associated outcomes, as much as you can. By accumulating an historic record of what kinds of decisions you have taken, what they were based on, who was involved in making and executing them and what their effects were, you can accumulate an inventory of inputs, outputs and consequences of major decisions. By looking at this inventory, you may discern previously unidentified patterns that you can subsequently turn into evidence-based managerial insights.

Give your inner devil's advocate free reign, and be sure to explore any potentially adverse scenarios

Rolf Dobelli recommends keeping a regular log of your predictions and then periodically comparing past predictions with how events have actually unfolded. He suggests that you are likely to notice many inaccurate past predictions, and this alone can increase your motivation to approach decision-making more systematically[5].

Know your competence When it comes to making important decisions, Warren Buffett famously coined the term *circle of competence*, arguing that it is critically important for high performance in any domain to know where your competencies lie and where they end. This means that you should be ruthlessly honest with yourself whenever you need to make decisions outside your circle of competence or particular expertise. In such cases, either get advice from an expert in that domain or hire someone who is more likely than you to know what a good decision looks like in that situation.

How to embed these practices

Make decision-process checks such as pre-mortems and the encouragement of a 'devil's advocate' perspective or 'what if' scenarios to stimulate creative thinking. At US utility company Southern Electricity, an outside facilitator got different business unit leaders to challenge other units' plans to integrate a major operational change. This ensured that no one felt threatened by this exercise, and led to significant cost savings[6]. Provide formal opportunity to rotate decision facilitators and to inject diversity of opinion, and recognise this function with a formal title – perhaps 'provocateur'?

Investigate not only big strategic decisions but also crucial operating decisions that have an impact on day-to-day activities – and thus effective strategy execution – from diverse perspectives: from the perspective of customers or other major external stakeholders, as well as from a company-wide viewpoint. This is routinely done at Microsoft, where issues such as security are debated across functional units, reportedly resulting in numerous new growth opportunities for the corporation[7].

Follow a disciplined decision process as a matter of course, in the same multi-stage fashion that multi-industry giant Textron approaches strategic decisions: Employees there agree on facts involved in a major managerial decision before moving on to discuss alternative options and debate proposed solutions. If agreement stalls, the team goes back to the previous stage[8].

Regularly invite stakeholder opinions Before major organisational decisions are reached,

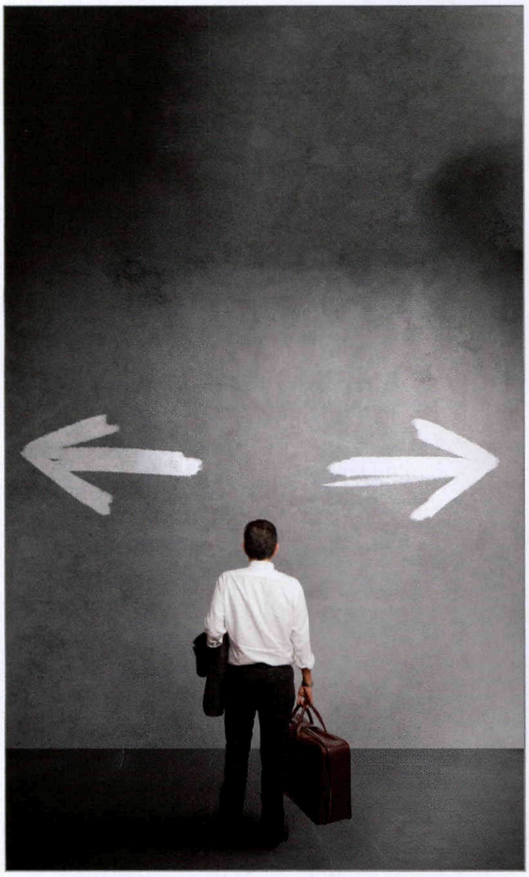
[7] Mankins M C, Steele R "Stop Making Plans; Start Making Decisions" *Harvard Business Review* (January 2006)

[8] ibid

[9] Rogers P, Blenko M "Who Has the D?" *Harvard Business Review* (January 2006)

[10] Edmondson A C "Strategies for Learning from Failure" *Harvard Business Review* (April 2011)

[11] Davenport T H "Make Better Decisions" *Harvard Business Review* (November 2009)



regularly invite the opinions of those tasked with executing the decision as well as those affected by its impact. They will provide valuable insight. This is what British American Tobacco did when redesigning its brand and client management as part of a major organisational redesign initiative in the 1990s, resulting in a decade of market leadership for the firm[9].

No-blame reporting To learn from past managerial decisions and improve the decision-making process in the future, consider creating a 'blameless reporting' structure such as that implemented by the Minnesota's Children's Hospital network: an initiative welcoming anonymous employee reports of medical errors and other problems[10]. Provide opportunities for employees to report their perceptions of the transparency and fairness of the decision-making process, as well as any information of parties with perceived power of authority that may have swayed collective decisions.

Realign incentives Create a reward system for those succeeding in removing risk from important decisions. Encourage shared responsibility for risk involved in strategic, as well as day-to-day operational, decisions.

Decision checklist

Do	Don't
Think of any decision as a *process*	Be pressured into the wrong, quick decision
Before finalising a major decision, carry out a review or pre-mortem	Ignore critics or devil's advocates – they may have a good point
Invite diverse opinions before decision-making	Prime others in a way that sways their opinions
For controversial decisions, hold genuinely secret ballots	Make decisions outside your *circle of competence* or expertise – seek knowledgeable input
Keep track of past decisions and their impact	Be unrealistically over-confident in the rightness of any strategic decision you make

A specialist decision-analysis group? If you are serious about embedding a high-performance decision-making process, consider following the example of Chevron: It has set up a dedicated unit for improving decision-making. This so-called decision-analysis group co-ordinates the set-up and facilitation of major corporate decisions, and has trained more than 2,500 decision-makers in improved decision quality to date[11].

A key message

Be sceptical of your own (or others') over-confidence in any strategic decision. The quality of your decision depends on it.

In my work on helping people implement strategies to enhance their work performance, I am reminded daily that creating new behavioural routines is undoubtedly hard. Most of us are creatures of our own ingrained habits. Our species evolved slowly, always favouring stability over change – even if we recognise that the long-term benefits brought about by changing the way we act outweigh the immediate pain we associate with starting a new routine. Yet once such new routines are soundly established among individuals, and ultimately within an organisational culture, they typically stick.

According to the McKinsey report cited at the outset of this article, paying attention to this area is one of the most effective strategic investments you can make[12]. **TJ**

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[12] Lovallo D, Sibony O "The case for behavioral strategy" *McKinsey Quarterly* (March 2010) www.mckinsey.com/insights/strategy/the_case_for_behavioral_strategy

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