

# Successful Decision Making

Decision-making is a key aspect of leadership in any organization, whether public or private. Frequently, however, the thinking behind these leaders' decisions is intuitive and implicit rather than logical and explicit, creating the illusion that "decisions just happen". In today's knowledge economy, research has shown that this approach to decision making neither engenders trust in the leadership nor commitment to the decision. What is offered here is a straightforward process for decision-making that can be used by individuals, either as an individual, or as a member of a group. Use of this process provides a framework for making the thinking behind a decision both logical and explicit – and facilitates learning from experience.

A good decision has several parameters.

- ◆ It is based on data and incorporates multiple, knowledgeable points of view
- ◆ It is timed to market (customer/consumer) needs and the company's organizational and financial capability
- ◆ It is aligned to both long and short-term organizational goals
- ◆ It requires effort that is proportional to its impact
- ◆ It takes a multidimensional viewpoint that includes resourcing/people, market/financial and technology aspects.

There are both internal and external pressures that can push leaders away from successful decision-making. Internally, leaders themselves are often successful because of their bias for action. While there are times when a bias for action is very useful, it also can result in "jumping to conclusions" rather than follow a systematic process for decision-making. At the same time, leaders in both the public and private sectors experience external pressures. They are expected to solve problems as soon as they surface. Leaders who take time to study the problem and search for the best solution, rather than take the first one that comes to mind, are often seen as indecisive.

Teams of managers make many business decisions. Due to many factors (i.e., "groupthink," influence of strong personalities, etc) teams are often as vulnerable as individual managers to jumping to conclusions. This can undermine the commitment of the team to follow through on the decision and decrease the probability of success as well as the credibility of the team.

Every decision is a learning opportunity. In fact, we could say that there are two distinct value propositions in every decision. One is the value from the outcome of the decision itself – the product produced or the capacity built. The other is the learning from both the decision process and the outcome of the decision. Ignoring learning is tantamount to throwing away half of the value from the decision. However, under time pressure, leaders do just that. They often neglect to take the time to reflect and evaluate and learn from each decision. Learning becomes very haphazard, and leaders repeat the same expensive mistakes or miss opportunities to reap successes.

Following a process is one way to help leaders avoid jumping in and implementing the first solution that comes to mind. It creates an environment of systematic decision-making and creates opportunity for learning.

### **Tool: *A Decision Making Process***

#### **What It Is**

A simple process to follow to improve decision making, which helps improve individual decisions and creates a framework to learn about how decisions are made in your organization.

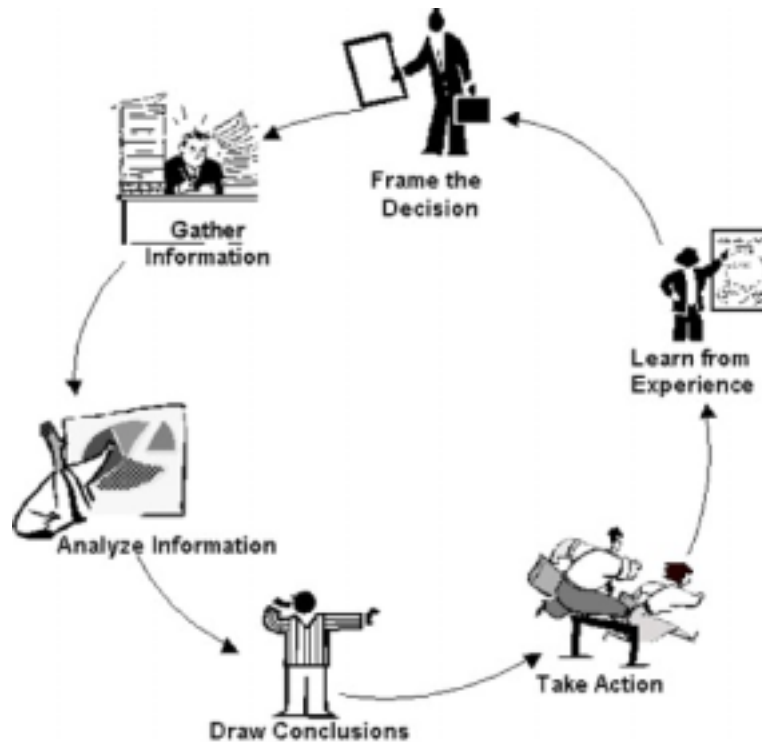
#### **What It Can Do**

- ◆ Help leaders make better more informed systematic decisions.
- ◆ Impose a discipline on decision-making that helps avoid the trap of lunging to the first solution that comes to mind.
- ◆ Creates a vocabulary that allows leaders to share their thought process.
- ◆ Creates opportunities for learning about how decisions are made.

## How It Works

Breaking each decision into a six-step process increases the probability of success and of learning from each decision and applying those learnings in future decisions. Following the process helps prevent jumping to easily available, but not necessarily optimum inferences. It helps leaders assess the situation and draw well-reasoned conclusions. It also creates a framework to explain the reasoning behind decisions that helps to build commitment to the decision. The six-step process is:

- ◆ Frame the Decision
- ◆ Gather Information
- ◆ Analyze the Information
- ◆ Draw Conclusions
- ◆ Take Action
- ◆ Learn from Experience



## **Frame the Decision**

Framing is the window through which we see the decision, and it puts the decision in context. Framing is setting the scope and deciding which aspects of the problem are most important and should be emphasized. Without a frame we would be attempting to "boil the ocean" with every decision. Framing is key – it cannot be delegated. It is the leader's responsibility to set the context for every decision, and thereby establish the scope and priorities.

Framing is so natural that people tend to do it without thinking. Generally, people are unaware of their decision frames, which typically have roots in their experience and expertise. For example, an executive with a background in engineering tends to frame decisions as technical problems, while an executive from marketing tends to frame the same decisions as market issues. Frames for most business and public sector decisions need to include the resourcing/people, market/financial, and technology factors to be effective.

Leaders must be aware of their frames to test them against the demands of the situation and to articulate why it is the right frame for this decision. Their frames must be broad enough to cover the important business issues, and precise enough to give clear direction.

*Avoid* – Falling back on old familiar frames without considering if they are appropriate for this situation.

## **Gather Information**

Once the leader has set the frame, gathering information can be delegated. A well-defined and understood frame drives what information needs to be applied in each situation. However, an unrecognized frame can hide important factors and sources of information.

When gathering information, it is important to know what you don't know. Thus, the first step in gathering information is an honest assessment of what you know and what you don't.

Hidden assumptions can dangerously hide important information. So it is important to determine what you know that "ain't so" - question all assumptions about what is known. Ask yourself disconfirming questions to uncover hidden assumptions.

Future trends are important in gathering information. Investigate PEST projections (political, economic, social, technological factors) for possible areas of change in the future.

*Avoid* – Overconfidence in your assumptions and what “is known” can lead to a failure to collect key information.

### **Analyze the Information**

Like gathering the information analyzing it, or reducing it to usable chunks, can also be delegated. Whoever analyzes the information, it is important to be systematic. Use a weighting system to make sure no information is ignored or over emphasized. Weigh possible outcomes – considering both the likelihood that they will occur and the consequences if they do.

Analyze data considering its resourcing/people, market/financial & technology impacts. For example, basing a product decision on technology considerations can be disastrous if the market is not ready for it. Or overextending to meet perceived market demands without sufficient people to successfully complete a product or project is ignoring an important aspect of the decision that could have serious consequences.

Use SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) to organize analysis. Strengths and Weaknesses are internal to your organization – know what your organization can accomplish and what it cannot. Opportunities and Threats are environmental – understand the market opportunities and the threats from competition.

*Avoid* – Failing to be systematic in combining information, and over- or under-weighting a piece of information because it is salient or was relevant in the past.

### **Draw Conclusions**

Like setting the frame drawing conclusions cannot be delegated. It is the leaders role to see the bigger picture and to use the analyzed data to draw the effective conclusion for the organization. The analyst, who gathers the information and analyzes it, is often an expert in one field. He or she can go into great depth and see many important nuances that the leader could miss.

It is the leader's role to understand the larger multidimensional industry or public context. For example, only the leader is in a position to decide if a product that is

technically feasible with excellent market possibilities, should be attempted when the key knowledge workers are involved in other important work that cannot be set aside.

*Avoid* – Getting in to the details too much and not taking a "step back," and thus failing to put the decision in the larger organizational context.

### **Take Action**

In many decisions, it may not be the role of the decision-maker to take action. Typically the action is delegated to professionals in technology or manufacturing or finance or other areas. Commitment on the part of those professionals is essential to success. Without it the best decision will fail.

In the knowledge economy, creativity and expertise are resources that are locked in employee's minds. Sharing them can only happen voluntarily. Fair Process, as defined by Kim & Mauborgne, builds the trust and commitment necessary to succeed in the knowledge economy. They define three steps to Fair Process: Engagement, Explanation, and Expectation.

- ◆ Engagement - Involve affected individuals in the decisions. Everyone should be heard and understood.
- ◆ Explanation - Explain the thinking behind the decision. Helps people support a decision when their ideas have been rejected.
- ◆ Expectation - State clearly the new rules of the game and what is expected from those affected.

Fair Process is a key leverage point for employee commitment to a decision.

*Avoid* – Not involving critical players affected by the decision in the decision process, and expecting them to carry out a decision that they do not fully understand.

### **Learn from Experience**

All learning depends on feedback. Decisions can have effects within the company and in the marketplace. Both are sources of vital information. Using this information can improve future decisions. However, there are both individual and organizational barriers to getting and then using feedback.

There is an old saying, “Victory has a thousand fathers; defeat is an orphan.” This comes from two behaviors that distort our ability as individuals to learn from experience. When the outcome turns out well, research has shown people have an illusion of the amount of control they had – even over random events. When the outcome turns out poorly – people are apt to rationalize away errors that could have been controlled. This tendency to attribute success to skill and failures to bad luck and influences outside our control clouds our ability to learn from experience.

Every decision made and every action taken is an opportunity to learn. Yet if the organization does not keep track of decisions it misses this opportunity. Include in every important decision a plan on gathering information and learning from experience.

To take advantage of the learning opportunity of decisions, the US Army uses a process known as After Action Reviews (AAR's) to help decision makers learn from experience. During training exercises and after real military engagements, specialists conduct “rank-blind” feedback sessions. The sessions are decidedly “low-tech” focused around four basic questions. 1) What went well? 2) What went poorly? 3) What should be sustained? 4) What should be improved? Officers get immediate feedback. Information from many AAR's is collated together and examined for trends that are then incorporated into future Army training.

*Avoid* – Losing vital information by not keeping track of decisions and their outcomes and checking for trends and possible biases.

**Some Things to Consider**

Managers and leaders are often rewarded for action. Taking the time to be systematic may take some discipline in the beginning. In the long run it pays off by improved decision making. Consistently using a checklist to track and audit decisions enforces a discipline and reinforces the learning by helping clarify trends over time.

<b>Decision Making Checklist</b>		Yes	No
Frame the Decision	Has the leader created a clear description of the decision to be made?		
	Has the leader articulated a frame that is understood by the team and can be used to drive the following steps?		
Gather Information	Is it clear who is responsible for gathering information?		
	Have assumptions been closely examined?		
	Were diverse opinions sought out and discussed		

	Is it clear who is responsible for analysis?		
Analyze Information	Has the information been analyzed considering its technology, market/financial, and resource/people impacts?		
	Has a weighting system been established to be sure no data is overlooked or given too much importance?		
Draw Conclusions	Have the conclusions been drawn by the leader(s) and not by a delegate?		
	Does the conclusion take the "bigger picture" and long term goals into account?		
Take Action	Were the three steps of Fair Process (engagement, explanation, and expectation) implemented to gain commitment?		
	Are those affected by the decision committed to it?		
Learn from Experience	Is there a tool or process in place for gaining and using feedback?		

**Example: A systematic approach for making a decision**

Suppose you are the CEO of a moderate sized manufacturing company. Your company has factories in two small towns, but both of the factories are working at absolute capacity and are beginning to miss promised delivery dates on some orders. You know that key customers are beginning to look for other sources, and you begin the process of deciding what to do.

First you frame the problem. You explain to your analysts that the most important aspect of this problem is to create a solution in the shortest time that will satisfy customer demand at the lowest cost. You further refine the frame to explain that costs and time are important, but satisfying customer demand is the number one criterion.

The analysts begin gathering data. They don't want to assume that demand will remain steady so they commission the market research group to provide forecasts of future customer demand. They research the cost of the various options

Your analysts discover that there are three possible options: 1) Expand the existing facilities, which can be done at moderate costs, but does not allow for introducing new tools and machines that can increase productivity. 2) Build a new facility at a third location. This is an expensive option that makes more time, but it allows for installing the latest machines and tools. 3) Do nothing. This option creates no outlay of money,



but it leaves the company vulnerable to missing more delivery dates. Since the world is an uncertain place, your market forecasters provide probabilities for various demand levels in the future. They indicate there is a low likelihood that demand will lessen, moderate likelihood that it will grow, and a high probability that it will remain steady. Expanding capacity will allow you to meet promise dates if demand stays steady, and building a new facility will allow you to meet promise dates even if demand grows significantly.

With all the information in place, the analysts begin evaluating it, driven by the frame that you articulated. They create a decision matrix to help systematically analyze the options. They put the three options and their related costs in the left-hand column, and the possible demand profiles and their associated probability across the top. In the body of the matrix, the analysts give a score for the outcome of each of the options. They use a simple scaling system  $-2$  to  $+2$  (where  $-2$  is the worst and  $+2$  is the best). They can optionally annotate the body of the matrix with explanations of each score – if you think it adds value.

	<b>Demand Down</b> (low probability)	<b>Demand Steady</b> (high probability)	<b>Demand Up</b> (medium probability)
<b>Expand</b> (Moderate Cost)	-1	+2	+1
<b>Build New</b> (High Cost)	-2	-1	+2
<b>Do Nothing</b> (No Cost)	0	-1	-2

Once the analysts have evaluated each option, it becomes your responsibility to choose a decision rule and draw your conclusions. Some popular decision rules are:

1. Minimize Possible Loss – Choose "Expand" because the other two options each contain a  $-2$ .
2. Maximize Possible Gain – Eliminate "Do Nothing" because it does not contain a  $+2$ . Choose "Expand" because it has more positive scores than "Build New".
3. Minimize Variance – Choose "Do Nothing" because it has the smallest difference between outcomes (0 to  $-2$ )
4. Expected Utility (EU) – Estimate the numerical probability for each of the three possible demand profiles. Then calculate the EU of each option and choose the maximum, which is the sum of the probability of each

outcome times its respective cost or benefit. In this example, suppose the numerical probabilities for the demand profile is as follows: down=0.1, steady=0.65, and up=.35. Then the EU of "Expand" =  $-1*0.1 + 2*0.65 + 1*0.35 = 1.65$ , which can be compared with the EU of the other options.

5. Choose a mixed rule – For example, choose "Expand" because it has the highest score under the most likely demand profile.

You choose "Expand" because it is important for the company's long-term goals to be in a position to satisfy demand. It has the highest score under the most likely future demand profile, and it only does poorly under an unlikely demand profile.

You want to make sure that the company learns from this and all decisions – so you make sure that there are periodic reviews during the expansion process and after the new facilities are in place to assess the effect on the company's ability to meet customer needs.

## Try It Out

First, apply the checklist. Did the CEO in this example meet all of the criteria in the checklist? What could have been done better?

Reframe the decision to be made. Assume the company is cash rich at the moment, and the economy is growing steadily. Frame the decision as one of meeting present and future customer demand with minimal regard for cost. How would this frame alter the information to be gathered and then analyzed? How would it alter the decision? Apply the checklist again. How would you satisfy each of the parameters under this scenario?

Reframe the decision again. This time, it is most important to satisfy only the existing customer base (no expansion) and increase the profit margin, therefore cutting cost is the number one criterion. The intent is to make the company highly profitable, then sell it. How would this frame alter the information to be gathered? What would your decision be using this frame? Return to the checklist. How would you satisfy each of the parameters under this scenario? What frequently happens in this kind of situation?

## Final Comments

It should be noted that the process introduced here is not intended to cover group decision-making techniques or theory, nor does it take into account the affect of group dynamics on decision-making.

Rather it is intended to provide a process that could be used by a group in conjunction with other known group decision-making techniques. The use of such a process over time will help insure some level of discipline in decision-making in any organization. Learning about how you and your organization make decisions, what is being done well, and what could use some improvement leads to better decisions, increased trust in the leadership, and a higher level of commitment to the decisions that are made.

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