



Toward a Smarter Organization: Getting Better at Making Decisions

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5 Steps to Better Results*

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Toward a Smarter Organization

Getting Better at Making Decisions

Key Topics Covered in This Chapter

- *The virtue of making high-quality decisions*
- *A case example*
- *Six lessons*
- *What leaders should do*
- *Continual improvement in decision making*

THE GOAL OF EVERY organization should be to improve the quality of its decisions. Achievement of that goal is its own reward. Can you imagine how your company's bottom line would improve if senior executive decisions improved by as little as 25 percent? One out of four costly mistakes—in filling top positions, in pricing products and services, in deal making, in strategy formulation—would be eliminated and replaced by a smart choice that improved effectiveness or made the enterprise more competitive. Employee energy, often wasted by poor executive decisions, would be directed toward activities that really create value.

Bad decisions by executives can never be eliminated because leaders live in an uncertain world, but replacing some bad decisions with good ones can make a huge difference in the fortunes of a business and its owners. Indeed, an investment in decision-making improvement may have a higher return than almost anything else a company can do, and for a simple reason: improved decision making generally costs very little but creates enormous shareholder value.

What is true at the top of a company is equally true at other levels. For every decision made by top management, dozens of others

are made by middle managers, supervisors, and individual employees. Can you imagine how much better your organization would perform if those lower- and midlevel decisions were better or smarter?

Fortunately, better decisions at all levels are possible when companies do the following:

- Adopt a rational decision process like the one described in this book
- Train appropriate personnel in that process and the tools of decision analysis
- Improve employee understanding and implementation of the process through repeated use

The importance of having good processes is well understood in business. Since the advent of the quality movement in the 1970s, companies around the world have studied their operational processes, improved them, and trained employees in the principles and techniques of process improvement. Thanks to these efforts, the operational side of most businesses is shipshape.

It is much harder to find examples of companies that have attacked decision quality and decision processes with the same zeal—if at all. General Motors, Chevron/Texaco, Johnson & Johnson, and Boeing are among the exceptions in the United States. As David Matheson and Jim Matheson stated in their book *The Smart Organization*, decision making is the next frontier of the quality movement.¹ Once you have an enterprise that knows how to “do things right,” you naturally want decisions that will direct people to “do the right things.” That completes the circle and makes for a powerful and competitive company.

The GM Experience

General Motors provides an interesting and well-documented case of a large company that has adopted and institutionalized a rigorous decision process.² In this case, we can see how a change agent

successfully introduced a solid process, earned its acceptance within the management ranks, improved it over a period of years, and made it part of the company's culture.

The change agent in the GM case was Vincent P. Barabba, who had been recruited in 1987 from his post as head of market research at Eastman Kodak. Barabba's experiences at Kodak, and previously at Xerox, had taught him the importance of establishing a free flow of information between the people who develop the information (market researchers) and those who use it (decision makers). He witnessed the mistakes that occur when information is used ineffectively, particularly when people use market information selectively to support business cases for which they advocate. The Kodak experience had also exposed him to the principles of decision analysis.

Beginning in 1988, Barabba and a small staff, with assistance from Strategic Decisions Group, a consulting firm that specializes in decision analysis, began training managers in the dialogue decision process (DDP) described earlier in this book. Their objective was to change the automaker's decision approach from one of advocacy to one of inquiry and learning. Their efforts could not have come at a better time: GM was in serious trouble and faced a number of major decisions.

As described by Barabba in a January 2005 interview for this book, the GM culture at the time was for people to "sell" their proposals to top management.³ Just as attorneys try to win a case for their clients before a panel of judges, managers would put the best possible face on their proposals. These proposals never acknowledged a downside, and alternative choices were never presented. "The last thing you would do in this environment," said Barabba, "would be to tell management, 'There are actually several other ways to approach this problem.' That just didn't happen."

Between 1988 and 1995, when Barabba passed the baton to new leadership for his GM Strategic Initiatives (GMSI) unit, that internal consulting unit had trained twenty-five hundred managers and executives in DDP and had familiarized them with a set of analytical tools for evaluating alternatives. Many of these individuals now sit on one or more of the permanent or temporary "decision boards" within GM, and they expect the people who come before them with pro-

posals to frame the problem correctly, present alternatives, and evaluate each feasible alternative using the appropriate analytical tools.

Every year the dialogue decision process is applied to more key projects within the company, and each application provides a learning experience for the people involved. Those individuals carry that learning to their next decisions. At the same time, the GMSI unit has matured into an effective support organization with substantial analytical skills. As of 2004, it included twenty-five core professionals and a rotating set of managers representing various functions within the corporation.

Results from the GM case are highly encouraging for any organization that wants to improve. Barabba has observed three significant benefits:

- Key decisions at GM are now handled more rationally; the old approach of “selling” projects is no longer tolerated.
- The time between the initial consideration of a project and its implementation has been cut roughly in half. It takes more time to make the actual decision, because more thought and study go into it. However, the time between the decision and the beginning of implementation has been dramatically reduced because people are not second-guessing decisions or lobbying behind the scenes to change them.
- The use of cross-functional decision teams and boards has improved communication and understanding throughout GM’s functional organization. Managers and nonmanagers now collaborate with employees in other units. More important, they are more willing than in the past to think about what’s best for the company, and not what’s best for their units.

Lessons for Organizational Improvement

The GM example is a single case, but its experience and the literature on organizational change hold a number of lessons for companies that

want to make effective decision making part of their DNA. Here are six you can use:

1. Get visible support from the top. If the boss states that your mission is important, others will get the message.
2. Start small and be patient. You cannot train everyone at once, nor change the way people make decisions overnight. Both take time. Use small decision situations to experiment and learn.
3. Focus initially on demonstrating the value of a rational decision process to others. When people see its value, resistance will decrease and you'll get the resources you need to expand.
4. Train people in the use of a common process and a common set of decision tools. Have a few staff experts on hand to help decision teams work through the process and do some of the technical analysis of evaluating alternatives.
5. Don't be a hammer looking for a nail. Apply the process and tools only to appropriate decisions.
6. Practice continual improvement. After every decision, conduct an after-action review and ask, "How could we have done this better?" Then apply what you've learned to the next decision.

Perhaps the most profound lesson on implementation was articulated by Vincent Barabba in his 1995 book, *Meeting of the Minds*. "If you change the way people in a company make decisions," he wrote, "you can change the company's culture for the better"—the ultimate improvement:

One of the by-products of the repeated application of the DDP at GM has been a noticeable change in the management culture. There has been an observable shift away from a culture of advocacy and adversarial interactions toward one that is more open and cooperative. This effect was unexpected. Our objective was to change the way decisions were made, not to change the culture. But we have come to understand how intimately the two are linked . . .

Many corporations make the mistake of altering the organizational chart or of trying to change the corporate culture. In the end, these efforts are expensive, painful, and usually doomed to failure . . . If you want culture change to come about—and to stick—stop fiddling with the organizational chart and start changing the decision making process.⁴

What Leaders Must Do

The adoption and implementation of a rational decision process don't simply happen. Someone with organizational clout, like Vincent Barabba at GM, must lead the way. That person must make the case and must build both support and enthusiasm for it.

Perhaps as important, the leadership of the company must demonstrate its intolerance for any proposal or decision that is made through the old selling or advocacy system. "I have a great idea for expanding our business into the Texas market. It should generate close to \$12 million in new annual revenue by the end of the third year. And I'll only need about \$300,000 to get the project off the ground. Now here's my plan." When a manager comes to them with a pitch like this, the leadership should push back immediately and insist on something better: "We're glad that you're thinking about ways to increase revenues, but we'd like you to go back and do more homework. Get some other people to help out. The more heads we put around this problem, the better. Specifically, we'd like you to think of several ways to expand our revenues. We shouldn't think of Texas as the only opportunity. If this company is going to make a concerted plan to expand revenues, we'd like some alternatives to choose from."

If senior management gives that type of response to every manager who advocates a plan or a problem solution, people will get the message that selling is not the ticket to getting what they want.

How to Begin

Begin in a unit or operation where senior management and employees would truly welcome a change in how decisions are made.

That might be in your information systems unit, where decisions about the e-commerce Web site or information infrastructure are due to be made. It might be in the area that is responsible for developing and introducing new products and services. A task force assigned to the job of developing a new bonus plan might be another candidate.

Wherever you begin, start small and don't allow it to be driven from the top. These are two of the important lessons from the literature of change management. The likelihood of success is greatest when change is instigated in small, fairly autonomous units. Changing an entire organization at once is much more difficult and less likely to succeed. After change on a smaller scale is accomplished and witnessed by employees in adjacent units, diffusion of the change initiative throughout the organization is much more likely. Change is also more likely if it is motivated and controlled within the units where the process change is being made. Top management support is always important, but canned change initiatives driven and controlled from the CEO's office have a poor record of success.

After people see the beneficial effects of your applications of the decision process, they will be more open to trying it. The leadership should encourage the diffusion of the process to other units.

Get Help If You Need It

Relevant experience is always a plus when you're trying to change business processes. The five-step decision process outlined in this book will be new to most people. The same can usually be said for the tools of decision analysis. This suggests that some professional help in the form of decision training and coaching may be a good investment as you introduce a decision process to your organization.

The quality movement provides a useful analogy. Companies that saw the benefits of quality improvements hired outside trainers to teach quality principles and techniques. Once people learned how to do it, they trained their colleagues.

A number of consulting companies specialize in decision training; they can help you surmount the learning curve much more

quickly than you would on your own, and they may steer you clear of pitfalls that could sink your effort.

Encourage Continuous Improvement

Like every other process used by your business—order entry, recruiting, manufacturing, and so forth—decision making is amenable to continual improvement. Individuals and teams can get better at making decisions if they make a conscious effort to learn from each experience. That conscious effort often takes the form of an after-action review:

What were the strong points of our decision analysis?

Where could we have done better?

If we could start over again, what would we do better?

Learning from after-action reviews is then carried forward and applied to the next decision. If this is done systematically, individual decision makers and decision teams will become more effective over time. And that will have a growing positive impact on the business.

But don't limit your thinking to improvement in people skills; consider ways in which the decision process itself can be changed for the better. This might involve the choice of who should participate, your methods for framing the decision and generating alternatives, the tools used in analysis, or the manner in which the final decision will be made. You should make every effort to make the process efficient and effective.

Summing Up

- Improved decisions—by employees at every level—can have a major impact on the value of your business. Even a small improvement can make a big difference.
- To improve decisions throughout the company, you must do three things: adopt a rational decision process, train personnel

to use the process and related decision analysis tools, and improve implementation of the process through repeated use.

- The General Motors experience indicates how a rational decision process, like the one offered in this book, can be introduced and gradually expanded within a large organization.
- When you introduce a new decision process, start small and expand the process as it demonstrates its value. Enlist top management support, but localize control and responsibility.
- Encourage continuous improvement.

Notes

Chapter 10

1. David Matheson and Jim Matheson, *The Smart Organization* (Boston: Harvard Business School Press, 1998).
2. Vincent P. Barabba, the executive who instigates the decision process within GM, tells the early part of the story in *Meeting of the Minds* (Boston: Harvard Business School Press, 1995). Up to that point, it was a work in progress. Barabba's book, *Surviving Transformation* (New York: Oxford University Press, 2004), completes the story. You can get a capsule view through an archived Webcast produced by

Strategic Decisions Group in September 2004 (and a downloadable executive summary). That Webcast featured Barabba and his successors at GM, www.sdg.com/home.nsf/sdg/eBriefings--eBriefingArchive.

3. Interview with Vincent P. Barabba by Richard Luecke, January 31, 2005.

4. Barabba, *Meeting of the Minds*, 203–204, 219.

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