Leading in an Uncertain World: Make Better Decisions (and Make Decisions Better)

By David Friend, Chairman and CEO, Palladium Group, Inc.

Poor decisions made at many levels. That, contends Palladium CEO David Friend, is a major cause of today's financial crisis. Friend created a “top ten” list of ways organizations can make better decisions—and make decisions better. This must-do list is based on the Kaplan-Norton six-stage management system, also known as the execution premium model of management (see Figure 1, page 1). A decision-making “flywheel,” the model has guided top-performing organizations in defining, executing, monitoring, and adapting their strategy. And now more than ever, organizations need such a systematic, yet flexible, management approach.

1. Have a philosophy of management. Many organizations are in truth run like dictatorships. I've heard clients actually say “If decisions are made on facts, and everyone has the relevant facts, then everyone is equal. If decisions are based on opinions, then my opinions count a lot more than anybody else’s.” That theory of management has led to many problems. If you're going to make all the decisions yourself, whether you're running a department or the entire company, you're just going to do what you want to do.

But who will have decision rights? Who's going to access and control the data? How do you deal with inconvenient truths? Who's the keeper of the truth? What's the implication of Web 2.0—e.g., blogs, social networks, wikis—which will generate a tremendous amount of new data that will empower people? Having a philosophy of management—a deliberate, thought-through approach—is critical.

2. Understand that organizational decision making is multifocal and iterative. Organizational decision making is no longer a point process. It increasingly depends on many things happening in the six-stage management cycle, from strategy setting to alignment, planning to execution, monitoring and learning to testing and adapting.

Take a physician in an intensive care unit. He diagnoses the patient with an infection. Then he plans: makes the resources (nursing, medications) available, monitors the treatment. Is it working? If not, he must determine why, then test and adapt and try another treatment. Many players are involved in this treatment decision. Linking strategy to operations is much the same. Organizational decision making is multifocal and iterative.

Furthermore, cycle times are accelerating. Last fall, Goldman Sachs executives had to completely rethink their strategy in 72 hours, recasting the organization from investment bank to bank holding company. They didn't have the luxury of a two-year study. Cycle times will only accelerate. And the current financial system crisis will separate out the people who can respond rapidly from those who cannot.

3. Make decision making a team sport. The era of the single individual presiding over the decisions of an entire enterprise is over. In his 2007 book The Age of Turbulence, Alan Greenspan wrote about going to the Soviet Union and meeting the five people who, with a slide rule, map, and five-year plan, boasted of controlling the entire 200 million-person economy. Greenspan left in amazement, wondering how they actually got things done. We all know the outcome.

Leadership guru Warren Bennis observes that the company with the most leaders at the most levels wins. In other words, the company with the most decision makers closest to the problem wins. Involve your customers. Apple, for example, understood what customers really wanted out of an MP3 player and developed the iPod. Other MP3 players existed, designed by companies that never thought to ask what customers wanted.

4. Help your people make good decisions. Alignment and communication are more important now than ever. Communicate the strategy to employees. They must understand what you're trying to accomplish. Give them data, tools, the philosophy, technology. Give them a process. These resources will also help attract and retain people with good judgment.

5. Make decisions come to life through planning. Decisions are only as good as your ability to implement them. Plans are imperative. And you must plan for both good and bad circumstances. Watching Hurricane Katrina on TV made it clear that leaders had never actually planned to deal with a natural disaster of this magnitude. They were utterly unable to mobilize government resources. Yet New Orleans sits on the Gulf of Mexico, where hurricanes are no surprise.

Many organizations don't spend enough time planning. A budget is not a plan. And since the military tells us that no battle plan survives the first hour of battle, flexibility is crucial.
6. Transform data into information, and information into insight. Just having data is not enough. Knowing that your cholesterol level is 173 tells me nothing about your overall health.

Many organizations are siloed, so often the data keepers are in one place, while the budgeters and planners are in another, and the strategy folks are somewhere else.

They don’t talk to each other. The only people who can connect the dots are the CEO and the board members. Making good decisions depends on breaking down those silos and getting people to understand that management is a “flywheel” process.

Moreover, with the advent of Web 2.0 and the resultant torrent of unstructured data, organizations will be inundated with data. Data will come at us in unimaginable volumes. The 80/20 rule will be the only way to survive. The risk of analysis paralysis is only going to grow. Transforming data into information and information into insight—and then mixing insight with good judgment—will be paramount.

7. Base your decisions on results. In the execution premium model, this is the Monitor and Learn stage. People are rational beings and can rationalize anything. Yet most organizations do not learn because people don’t admit they make mistakes. The U.S. Army, which performs post-mortems of every operation, truly learns from its failures. People credit the 2008 troop “surge” as the key factor in improving the military situation in Iraq. But General Petraeus had also applied a lesson gleaned from his trip to Anbar province. He realized that he could pay locals who had been shooting at U.S. troops $30 a month and get them to shoot at the “bad guys” instead. This tactic was integral to the turnaround.

In medicine, morbidity and mortality rounds are conducted to analyze poor outcomes. The physicians on call are grilled about every treatment decision they made. It’s a powerful learning experience, and one in which senior physicians share their past mistakes. How often do business leaders do this?

In 1996, Charlie Munger, Warren Buffett’s partner, gave a now-classic lecture on “24 Standard Causes of Human Misjudgment.” The leading cause he identified was the wrong incentives. Other major causes included denial and social proof (“everyone else is doing it”). Munger’s causes go far in explaining the subprime crisis. Base your decisions on results, and understand why things go awry. That is the only way to learn.

8. Understand the risks. If you have a strategy map, you should also have a risk map. If you have key performance indicators, you should create key risk indicators. Risk management must be embedded in your decision-making process. If the CEO is charged with growing the business 30%, what are the odds that he’ll try so hard to hit that target that he blows the company up? That’s why risk management must be embedded in your decision-making process.

Finally, test, test—and test again. You need to model not just the “what-ifs,” but also the rare, but consequential, events.

9. Adapt and innovate. Organizations that are nimble have a better chance of surviving rough waters. But you can only adapt and innovate if you follow this execution premium process, because you need all the information and insight it yields. With many people throughout your organization thinking about how to get better, you will outperform the organizations that only have one person thinking about it. But remember, if your people are afraid to take risks—and thus afraid to make decisions—you will never adapt.

Work with your customers and suppliers. Know their strategy maps. This will allow you to find ways to create more value for them, to become more valuable to them. That’s how organizations survive in a downturn. Those that think this way will do extraordinarily well.

10. Reserve the right to get smarter. As your organization moves through these decision cycles, it will learn. You’ll get smarter. And then you’ll restart the process anew, with the benefit of data, experience, and insight.

The BSC success stories demonstrate the power of these ten key ideas. In government agencies, nonprofits, and companies in every industry across the globe, we’ve seen leaders who have discovered how to turn their organizations into decision-making engines. And those with better engines simply outperform the rest.

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