



LEADERSHIP ACUMEN Issue 7

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Improving Executive & Board Decision Making!

“Many leaders risk possible big losses to avoid the certainty of modest loss in personal prestige or respect”

- Daniel Ellsberg

“On time, right quality, reasonable cost – pick two of the three!”

Over the years, **Decision Making** has become one of the most often requested topics for information, insight and/or development solutions from BEL. This started me wondering! Why has decision making captured so much interest, and what lies behind these requests for assistance?

With the constant threat of war in the Middle East, the GM, Chrysler even Toyota debacles, avalanche tragedies here in the Rocky Mountains, health care debates; not to mention TV’s hype over *The Bachelorette* and *The Amazing Race*, we are engrossed in a very public way over other people’s decision making. Perhaps with the quickened pace of life and many competing interests in our lives, we have also personally become more overwhelmed and less able to process options or confidently make-up minds.

What does this mean for Directors of Boards and Senior Executives?

Well, clearly we are now called upon to be much more accountable for our decisions and the reasons for/ processes by which we came to our conclusions. If I am evaluating someone’s decision making, I want to know two things:

- 1. Did you consider all the appropriate elements before making the decision, and**
- 2. Did you exert good judgment?**

Decision making at senior leadership levels thus involves assessing multiple criteria, complex dependencies, and often conflicting parameters prior to exerting judgment. Herein lays some of the mysterious or perhaps difficult elements of decision making in business, government and associations today:

- Multiple dimensional criteria-setting and analysis
- Exerting “good” judgment

Decision Making happens across a wide range of applications for senior leaders, not all of which can rely upon the same approaches; these include:

- Project Management Decisions
- Risk Management & “Escape” Actions
- Strategic and Directional Decisions
- Processes for engaging Stakeholders & allowing input to Decisions
- Who to listen to for advice, What data to use
- Ethical, Moral, Values-related Decisions

As the reams of research into this area exemplifies, this is not a simple issue to dissect. However, at the risk of missing some important elements, let’s address the points above as they apply to Boards and Executive team members.

Multiple Dimensional Criteria-setting and Analysis

In the realm of senior leaders, one must balance many considerations behind what might seem publicly to be a relatively simple decision or choice. The array of special interest groups, many applicable pieces of government policy and legislation, concerns of various shareholders and stakeholders, potential dependencies by other business units or suppliers/partners, technical risks, costs and potential profits, environmental and/or social implications, perceptions of ‘fair treatment’ (including historical and rotational benefit), personal reputation(s), and more are all at play.

Very few senior executives or Board members go into situations attempting to make bad decisions! However, there are also many elements (time allotment on agendas, other competing decisions, varied levels of experience and knowledge) that weigh into decision making processes which can make them more or less effective. Indeed, decision making at senior levels is rarely one decision, but a layering of decisions leading toward an overall major decision.

Starting at the top of a ‘decision making tree’ however, should be a clear exploration of what dimensions or areas of analysis will be required or considered, and what criteria will be used to judge or assess these dimensions. Given that time rarely allows for a complete exploration of all the aspects, the senior leader’s *first decisions* within *decision making* is the identification and acknowledgment of what parameters will be explored and what priorities attached.

A simplified example can be seen in the purchase of a new vehicle. What elements will you consider? Features – which ones in particular, price, quality, longevity, repair costs, distance to service center, suppliers – which ones in particular, delivery time, trade-in value, insurance costs, locally made vs. foreign, and more. Since the average person isn’t likely to know all the information in their selected areas of analysis, who will you rely upon for providing a *fair* evaluation in each of the areas of analysis and how will you establish a ‘passing grade’ – what is your criteria for each area of analysis? Oh, by the way, what are your spouse’s parameters and criteria – are they the same as yours?!

The vehicle-buying example should resonate with most of us! And yet, I am often amazed at how simple and straight-forward decisions at senior levels are “supposed” to be.

The decision to expand to a new, foreign country; or the decision about opening a new hospital operating room; or the decision about whether/how many employees to lay off, have many more elements of analysis and more murky criteria than the purchase of a vehicle. Imagine what network of dependencies senior leaders in an airline company must consider these days when making what looks like a simple decision about adding or subtracting a destination routing.

So, if you want to make better decisions, there is no better place to start, than by improving the identification and agreement of the multiple dimensions you will explore, in what priority, and what criteria will be used in each dimension to base your evaluation. In this aspect of decision making, the capabilities to systems-think, deal with complexity, recognize patterns, explore divergently yet crystallize knowledge, and hold opposing points of view simultaneously in one’s mind, are very important.

Exerting “Good” Judgment

What is good judgment to one person might be seen as awful judgment by another. And, the exerting of judgment here stands somewhat apart from the analysis and criteria discussed above.

When we enter the realm of judgment, we enter the world of Values, Outcomes, and Objectives – clarity of understanding about that we are trying to achieve?

In evaluating judgment in a corporate sense, we should have some key parameters to assist us in this evaluation. We hopefully have corporate Vision, Mission, and Values statements, and, we should also have well established Outcomes Measures by which we hold ourselves accountable to the owners and community. Individually we have our own values, priorities and biases of which we should be aware.

These corporate statements are not just ‘fluff’, or something dreamed up by the consulting industry. They are indeed the cornerstones by which we can make decisions, and the guideposts for establishing our criteria and areas of analysis.

A Board or Senior Leadership Team that has fuzzy or undefined Vision, Mission, Values statements, and little in the way of established Outcomes Measures, will have a more difficult time in making decisions; and are more open to criticism of poor judgment from onlookers.

When these elements are well defined, you are able to use them to assist you in making decisions, and you can use them to coach others in your organization in making better decisions. Other stakeholders may or may not agree with them, but they will be able to assess your performance against your stated parameters.

Business rarely sees 100% success all the time, so making mistakes is part of the game of business. It is also a part of the innovation process, plus growing/improving your services and products to the marketplace. Making mistakes while keeping the guideposts in mind might well make for an excellent learning experience for the whole organization. Making mistakes because you have no parameters by which to work however, is folly.

Important in the rendering of good judgment then, is some advance agreement about what is important to the organization, customers, community and stakeholders. Being explicit about where the organization is headed and what it values, makes the job of rendering judgment by Board members and senior executives much easier.

- Have you taken the time recently to personally reflect on your values, outcomes, and objectives?
- Have you discussed them and agreed on their interpretation with your colleagues and stakeholders?

Another important aspect in the rendering of good judgment is the experience of the individual(s) making the decisions.

- Do they have the background that prepares them to be making the kind of decisions they face today?
- If not, how do they access the experience of others to assist them in the decision making?

It is becoming more and more unreasonable to expect that a small number of executives or Board members have all the experiences required to enter ‘new territory’ facing them on a regular basis. It may even be a liability to assume that your past experience is enough upon which to exert judgment as you stretch the organization and yourself into new situations.

How do your Board members or executives access the wisdom and experience of others that can assist them in confronting new aspects of decision making? I see a lot of executives that have been promoted as a result of restructurings, or have been fast-tracked without insight development about their experience or new situation. I see a lot of Boards, where the members are grappling with issues that few have ever dealt with before. This might well explain a heightened sense of anxiety around decision making these days!

While there is little substitute for actual experience and the wisdom that comes from successes and failures, we can build our repertoire of insight through reading, simulation exercises, or the engagement of advice from those who have had experience in the areas we are facing. Scenario-building during the planning process is also a valuable exercise to enhance the judgment of senior leaders.

Now, let’s look at the application of analysis and judgment to different types of senior leadership decision-making. You may want to consider whether your current decision making approaches are the right one for the different types of decisions...

Project Management Decisions

A good project manager is one that brings in a project on time, on budget, and with the expected level of quality in work/result. Behind the scenes, there are a multitude of decisions that lead to success, including:

- *Time/Cost estimates* – One has to have an ability to estimate the time various activities and suppliers will take to complete their work, as well as the cost of the various components. I am personally impressed with people that can end up $\pm 5\%$ of their estimates – they are good.

Today on major projects or small contracts, even a 5% variance can eat up or almost double profits! Customers are showing signs of being sensitive to minute variance in pricing well within a 5% factor. Within the realm of Board Decisions and Senior Executive Project Management, we have seen numerous colossal blunders of late, where cost over runs and poor project management has resulted in 200% - 400% underestimates; or after-the-fact re-thinking and decision adjustment that extends projects and costs or reduces quality and functionality. This is now so frequent, that the exception seems to be a project that comes in as expected.

What is happening at the Board and executive levels to develop the acumen in time/cost estimates and ensuring all the design or performance expectations are identified in up-front decision making?

- *Resourcing* – The choice of a supplier partner or project resources can have a significant bearing on the first dimension. Are these decisions linked in the minds of executives and Boards? Do corporate/government purchasing policies inadvertently handcuff organizations by forcing independent processes for these parameters?
- *Incentive Design* – What incentives do we put in place for management or suppliers? Are they really going to bring about the desired outcomes? Decisions again in this area can not be separated from the preceding two, and should have compatible criteria.
- *Buffer* – Have you created a buffer (time or \$) or are you forcing things so close to the wire that it will be almost impossible to absorb unexpected problems or delays that might arise? Do Board members and executives know what a reasonable buffer is?
- *Strategy Formulation* – how will this project be implemented vis a vis existing operations, with respect to other priorities and resource allocation? Does the executive or Board have the capacity to pay attention to this project amid other expectations? What might you stop, or eliminate in order to focus on this initiative?

Risk Management

An important element expected of Boards and executives, Risk Management is an application of decision making. Risk decision making can include:

- *Truth Telling vs. Telling Lies* – a popular one this past year! Closely related are: the overstating of things, ‘transparency’ of decision making criteria and processes, the ‘timing’ of revenue or expense applied to the financial statements, valuation of assets, and commitment to community. How will Board members and executives decide what is appropriate, accurate or fair?
What criteria are used to assess the risk in creating the different models of ‘truth’?
Are we sure all our information sources are accurate so that when we make a decision it doesn’t later look like we were less than truthful all along?
- *Individual/Organizational Gain vs. Common Good* – the striking of a sustainable balance of these two parameters, which of course usually includes more than just two parameters.

- *Profitability vs. Security* – the opportunity to enhance our current and future wealth or value in the world against the costs of staying the current course. There is also the risk of inaction, competitive pressures, increasing customer expectations and more.
- *Resourcing* – The choice of a supplier partner or project resources can have a significant bearing on the first dimension. Outsourcing services or retaining contractors to carry out work does NOT offload risk & liability of your corporation and its officers. Are you remaining vigilant?
- *Strategy Formulation* – What are the risks of pursuing a new strategy or strategy component? What are the risks of status quo?

Group Think – something rarely articulated on Boards or Executive Teams, but something that has become an obvious risk. Have we worked together for so long, or so convinced each other that our perspective is ‘right’ that we screen out other options, perspectives and insights. Related to this is thinking styles: Synthesist/Divergent Exploration, Idealist/Visionary, Analytical, Pragmatic, and Realist.

The way we think tends to determine the things we value and the way we perceive risk. Being aware of the way we think and communicate can assist in reducing the risk in our decision making processes.

Decision making in this realm is largely about consequences (good or bad). Being aware of how we view consequences and being willing to be accountable for those consequences, plus being comfortable explaining to others the rationale behind the decisions that led to the consequences is important to effective decision making.

At the Board table, often the chair needs to facilitate an explicit exploration of trade-offs, consequences, and perspectives in this area, against an assumption that everyone sees things the same way, realizes and is agreeable with the risks. Same too with executives – being able to explain and sell the upside is fairly easy; being able to perceive and present the possible downside risks is often lost due to time constraints or out of habit/confidence. What happens when a Board agrees to a proposal by senior management, and then the negative consequences arise? Does the Board hold itself as accountable as the CEO?

Strategic and Directional Decisions

As we enter the realm of strategy and direction setting we enter the realm of fuzzy futures and ambiguity. Decision making in this area involves both intuition and analysis of trends, discontinuities, network relationships, plus the exploration of paradoxes. Trend analysis is of course, no guarantee that the future will follow past patterns. Decision making in this environment is very different from the first two applications.

As we engage in strategic thinking, we are also engaged in strategic shaping. Our inner biases and past experiences can be both enablers to decision making or hindrances. There is no degree of analysis that can identify the ‘one best solution’ in this realm. Technical and past-context analysis is not necessarily useful as we explore a future that has yet to have a context.

Here we are called upon to explore linkages, potential dependencies, likely outcomes or scenarios. But ultimately, rational analysis gives way to decision making based on intuition and power of conviction or determination to create a new, future meaning. Alternative perspectives sharing and consensus-building processes are important approaches to assist decision making in this arena. Again, such things as Vision and Values are useful aids, though ultimately this is what is being re-created. A look forward at how we aspire to create value in the community we serve and the current knowledge recipes that distinguish us in the world, are other helpful dimensions of conversation or customer-research to aid the Board or executive team in reaching decisions.

Senior leaders and teams must be especially careful that egos don’t short-circuit a full exploration of alternative options and future scenarios in favour of the leader’s personal preference.

Several techniques can be useful in enhancing decision making in this realm including a disciplined network scanning exercise, trend information (demographic, psychographics, economic), mind mapping, scenario modeling, and contingency planning.

Processes for Making Decisions

Several techniques and processes have been mentioned so far, however, some of the fundamental processes have not been addressed. It is quite possible that a whole generation of senior leaders have risen to positions requiring complex decision making, without ever experiencing or being taught such techniques as:

- Pareto Analysis
- Matrix or Grid Analysis
- Consensus Decision making vs. Voting
- Decision Trees
- Force Field Analysis
- Six Thinking Hats
- Cost – Benefit, Pros – Cons Analysis
- System Modeling
- Fish Bone Diagramming
- Probability and Statistical trend analysis
- Quality Improvement vs. Business Process Re-engineering
- LEAN and/or Six-Sigma Processes

Depending on the type of decision you face, some techniques are more appropriate than others.

A distinct reduction in these kinds of processes being used in Boards and Executive teams is noticeable in the past few years. I don't think it is because the techniques are not valuable. It may be because the senior leaders feel there isn't enough time to go through the exercise, or that they rely on someone else to do the analysis and then give them their recommendations. Alternatively, it may be because these techniques have been forgotten, or the level of complexity makes the exercises more time consuming.

Do you specifically question those providing recommendations about their analysis methods, findings and the logic behind their briefings?

While I do believe that Intuition is a valuable decision making contributor, (indeed, well honed intuition may be a result of a higher level of scanning, pattern recognition and multi-dependency assessment), not everyone's intuition is well developed. It is quite one-sided, and risky to rely totally on this kind of process at the exclusion of other approaches.

Again, part of the sub-decisions in decision making, is what analysis approaches will be brought to bear on the issue. How adept are you, is your Board or executive team in using these techniques? [For more information on these techniques follow web links in the left column.]

Who to Listen to for Advice, what Data to Use?

When you find yourself in a decision making situation that your knowledge, experience or analysis isn't enough to render a good decision, to whom do you turn?

For Boards and Executives this is a particularly important decision making element. How do you choose an advisor? Are they a "Certified" Professional? Are they someone with:

- Subject matter expertise?
- Track record or experience in similar situations?
- Process facilitation magic?
- Internal vs. external perspective?
- Depth of Wisdom?

Do you listen; really listen, to each other?

If you must turn to outside information, do you actively consider the trustworthiness of the data/analysis?

Are you aware of potential socio/economic bias?

Do you know its geopolitical spin?

Many consumers of news sources have become completely desensitized to bias and 'spin'. On the web, do you treat all information with equal veracity? Are you aware of the methodology, accuracy, sample size/techniques used to develop the information and are you accepting of its value? Do you actively seek out alternative perspectives, or stick to those that align with your own values? Is an 'independent' perspective as valuable as an 'internal' perspective? Do we know how to enunciate the kind of information or perspective we think we need?

Decisions about what information to value and whose advice to consider are becoming more and more crucial as we realize that the complexity of our decision making goes beyond our own knowledge and experience.

Ethical, Moral and Values-related Decisions

Some of the most difficult decisions we have to make as senior leaders are those laden with ethical, moral and values-based elements.

Not only is this an area of complexity and shifting community standards, it is also one where there is clearly no one right answer.

An important starting place is to be clear about our own personal values towards the decision issue, and the basis for our own position. Now here is an area of increasing leadership complexity. With the decline of formal religion, and the lack of tutelage of our youth in the areas of values, we see today many individuals in the next generation of senior leaders that are quite unclear about their own values foundations? What are our values towards such fundamentals as democracy, capitalism, individuality, human rights, honesty and integrity, ethics, philanthropy and more? What are our assumptions about the values of business and competition/ collaboration?

Television – both programs and commercials - create stereotypes and competing morals that are often not consistent with those of the community we serve or work within. Our heroes are often created and celebrated by media – but are they celebrated for the same qualities we value in our own heroes?

Decision making in this realm requires an honest and explicit identification of individual values, along with the organizational values and ethical positions as a part of the decision making process. Next, these need to be scrutinized against government regulation and broader, often un-enunciated, community norms or expectations. Consumer research consistently shows that the values of individuals from the senior leadership cadre are not consistent with the values enunciated by the majority of the community they serve and operate within. So, senior leaders in particular, have to be ready to admit that this is a potential blind spot, and work hard to bring a wider perspective into such decision making situations.

Are you a Good Decision Maker?

OK, hopefully you are now convinced, that there is more to this decision making interest than you originally thought. When you think about decision making in your organization or for yourself, wherein lies your concern(s)? Is it in the realm of:

- Multi-dimensional criteria-setting and analysis?
- Rendering of good judgment?
- Risk management?
- Strategic decision making?
- Decision processes utilization?
- Values?

Do you adapt your approach and style of analysis for the different decision making challenges? Once you make decisions, are you ready to accept the consequences and stand accountable for your decisions?

Hopefully this overview and the website references below will give you added insight to improve your decision making capabilities.

Exploring the Web!

This month, the connections take you to sites dedicated to improved decision making. Some allow you to explore a portion of the plethora of research in the area; others give you quick summaries of terms or techniques. A couple will hopefully stimulate deeper thinking in this aspect of leadership.

<http://www.sjdm.org/>

Society for Judgment and Decision Making.

<http://www.chicagocdr.org/>

University of Chicago, The Centre for Decision Research. This site has numerous research papers on decision making from pay vs. performance, to consumer choices, to truth vs. lies and consequences.

<http://www.informs.org/Community/DAS>

A Lexicon of Decision Making, from Duke University, Decision Analysis Society.

http://www.mindtools.com/pages/main/newMN_TED.htm

A list and explanation of various Decision Making tools.

http://www.mapnp.org/library/prsn_prd/decision.htm

A collection of suggested Decision Making tips and traps, common tools, related links.

<http://www.ethicsweb.ca/resources>

University of British Columbia's Centre for Applied Ethics, site for Ethical Moral Decision-Making.

<http://www.guardian.co.uk/usa/story/0,12271,857099,00.html>

An article on Daniel Ellsberg - former Marine who leaked the 'Pentagon Papers' during the Nixon administration - on decision making, consequences, lying, risk taking, administration arrogance, trust, and more

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