

Decision Making: A Sink or Swim Proposition

by Rich Horwath

Strategy requires trade-offs.
Trade-offs require risk.
Risk requires strong leadership.
Strong leadership requires the good, old-fashioned guts to make decisions.
If you're not willing to make the tough decisions, clean swimming pools for a living. Otherwise, pull up a lounge chair and read on.

The first element in the definition of strategy is "The intelligent allocation of limited resources...". Inherently, strategy involves making decisions—primarily decisions about resource allocation. How many salespeople should I dedicate to the 20% of customers that generate 80% of our business? Which promotional vehicles will receive the majority of the marketing budget? Should we invest more heavily in innovation or operations? To what activities and in what proportion should I allocate my time?

So how do you make decisions?

It's one of those questions that catch us off-guard. Well, that's simple you say, I just look at the information and alternatives, and make my decision. That may suffice for some of the less important decisions you make on a daily basis. But what about the big decisions—decisions that can alter the trajectory of your career?

Eight Elements of Decision Making

In their work, *Smart Choices*, authors John Hammond, Ralph Keeney and Howard Raiffa identify eight elements of decisions:

1. Problem
2. Objective
3. Alternatives
4. Consequences
5. Trade-offs
6. Uncertainty
7. Risk profile
8. Linked decisions

Problem

Most decisions begin with some sort of problem. Not surprisingly, many poor decisions can be attributed to incorrectly assessing or "framing" the problem. To support the importance of correctly framing the problem, a study of 28 electronic warfare technicians was conducted to better understand what led to successful decisions. The researchers found that the warfare technicians that spent the majority of their time on situation analysis, or framing the problem, were significantly more successful than those technicians that more quickly jumped to which course of action to choose.

Objective

The objective is the specific outcome you wish to achieve through this decision. The objective serves to provide an unbiased and unemotional way to compare alternatives. The objective also serves as a guide to the amount of time to spend on the decision—the more important the objective, the greater the amount of time to spend on the decision.

Alternatives

Next, a list of alternatives is generated to form a comprehensive list of choices to the decision.

The most common error in alternative generation is simply relying on what you've done in the past. Challenge your old assumptions and look for alternatives that explore new ground.

Consequences

The consequences of the decision are the results of the potential alternatives. This is the point where knees tend to get weak and stomachs queasy. However, if we list both the positive and negative consequences for each alternative in columns, we'll have a more complete picture of what may happen.

Trade-offs

Every decision involves trade-offs. Trade-offs occur when more of one thing necessitates less of another. In the pharmaceutical or medical device businesses, one can choose to be the industry leader in R&D investment but cannot also be a low-priced cost leader, without incurring major inefficiencies.

The inability or unwillingness to make trade-offs is perhaps the most common obstacle to sound strategy development. Too often, companies let consensus decision-making lull them into trying to be everything to everyone. Sears, at one point with 23 consecutive months of losses, and Kmart, emerging from bankruptcy, are two examples of companies that settled for being everything to everyone and have paid the price by having to merge.

Uncertainty

Uncertainty is an embedded factor in any equation involving an unrealized state. The goal is to rationally assess the uncertainty by identifying the potential factors and assigning two categories to each: 1) probability of occurrence and 2) potential impact.

Risk Profile

In the classic Clint Eastwood movie, *Dirty Harry*, Detective Callahan (Clint) has a gun on a murder

suspect, with another gun sitting close by. In his whispering voice, Detective Callahan says, "You're probably asking yourself, did he fire six shots or only five. Well, to tell you the truth, in all this excitement, I've kind of lost track myself... you've got to ask yourself one question: Do I feel lucky? Well, do you punk?" The murderer assesses his risk profile as high, grabs for the gun, and is blown away by Callahan's .44 Magnum.

Depending on the importance of the decision, rate your risk profile. Is it high, medium or low? How much risk are you willing to accept in making this decision?

Linked Decisions

The final factor before making the decision is to consider any linked decisions. What other possible decisions will the current decision affect?

The Good, the Bad and the Ugly

It's important to note that not all decisions that end up in poor results are bad decisions. There are many cases of what would be considered good decisions at the time they were made turning out for the worse. What's important is to go through a methodical process, such as the one discussed earlier, and do everything possible to make the best decision at that time. After significant decisions are made, analyze the process you followed to reach that decision. Is there anything that you would do differently?

A 'Strange' Decision Indeed

There are plenty of examples of bad decisions. The world of sports always seems to provide more than its share.

Every few years the United States plays Europe in a golf event called the Ryder Cup. The event pits the best U.S. golfers against the best European golfers in individual and partner matches. In 2002, the U.S. lost to Europe in part because of a poor decision by the team's captain,

Curtis Strange. On the final day, Strange made the decision to hold back the U.S. side's top two players in Tiger Woods and Phil Mickelson, until the final matches of the day. By the time Woods and Mickelson were involved in the competition, the U.S. side had already lost, and their contributions didn't matter.

The next day, the headline in *USA Today* read, "Strange calls criticism of lineup strategy unfair." In the article, he is quoted as saying, "I don't think just because we lost it's fair to second-guess." Oh, contraire, Mr. Strange. As good decision makers, we always review big decisions. And in this case, Strange misallocated his resources. He should have had Woods and Mickelson, the top two players, play early in the day to ensure that their matches counted toward the final score. By allocating them to the end of the competition, he created the possibility that the top two U.S. golfers wouldn't contribute to the final outcome, and that's exactly what happened.

This is tantamount to your company stating, "We have two of the best products in the world. However, let's wait to launch them for several years and see if we can get by with our mediocre products. If we aren't doing well with the mediocre products in three or four years, then we'll release our best products." Strange made a bad decision in allocating his resources and it cost the U.S. team dearly.

Decision Trees

An effective tool in making good decisions is the decision tree. A decision tree is a tool that visually maps out the key elements of the decision, including the alternatives, consequences and weightings of each.

To create a decision tree, use the eight elements we reviewed earlier. Begin with thoughtfully defining the problem and objective. List those at the top of the page. From there, generate a comprehensive and assumption-challenging list of alternatives, and flow those out below the problem. Under each alternative, list the positive and negative consequences with words or numerical weightings. Assess trade-offs, uncertainty, risk profile and linked decisions for each. Finally, make the best decision possible based on the information and analysis at hand. Remember, it's always better to be drawing decision trees than cleaning pools. □

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