Decide & deliver: a book from a Bain team

Strong research shows how effective decision-making is key to improved performance

This is book from Bain team Blenko, Mankins and Rogers is about how to organise a business to make effective decisions. Their study shows that the best decision-making companies produce an average total shareholder return 6% higher than other companies. There is also a strong correlation between effective decision-making and the extent people recommend their company to a friend or relative (a metric that is well-known as a proxy for a wide range of positive organisational attributes).

Decision Effectiveness = (Quality x Speed x Yield) - Effort

Their findings are informed by a 2008 survey of 700 businesses, leading to a formula: *Decision Effectiveness = (Quality x Speed x Yield) – Effort*. The research shows a multiplier effect where high performance companies combine the quality, speed and yield (how effectively a decision is turned into action – their definition of yield focuses on effectiveness not outcomes) of decision effectiveness. It shows a tight correlation with financial results.

Very importantly, the research suggests that decision effectiveness does not appear to be a trade-off but a combination of all three traits of quality, speed and yield. Companies that make fast decisions are about four times as likely to make high-quality decisions as companies with lower speed scores - any one of these will make a difference to business performance but all three together makes a lot of difference. Interestingly speed and quality are not in opposition to each other but increase together.

The research shows that when businesses focus on decisions, they learn how to improve all round business performance. The authors show that decision-making is not an isolated process in fundamentally successful businesses. The whole organisation (as a system) encourages decision-making and execution - and decisions are pushed to people who can make the best choices and execute them fast.

Five steps to better decision-making

1. ***Assess your decision effectiveness – and how your organisation affects it***. One organisation can make good decisions, but take too long to do so. For another, the issue is the translation to action. A decision scorecard is a device which enables you to assess yourself, telling you how well or poorly you're doing on decision-making against their key criteria:

- ***Quality***: Good decisions are based on relevant facts, not on opinions or guesswork. They involve assessing risk as accurately as possible and rigorous debate of alternatives. They take into account an organisation's ability to execute. It means that, whatever the eventual outcome, the decision was the best that could have been made at the time.
- ***Speed***: How quickly an organisation moves can be as important as how good its decisions are. GE made decisions a lot faster than anybody else, and once a decision was made it was followed through to ensure results were delivered quickly.
- ***Yield***: How well a company turns its decisions into action is vital to creating the value. Poor execution of a decision that has been made (or a complete failure to execute, as sometimes happens) undermines any virtues the decision itself might have had.
- ***Effort***: The final element of decision effectiveness; the time, trouble, expense, and sheer emotional energy it takes to make and execute a decision. How many committees must a decision go through? How many people must sign it off?

On a decision effectiveness scale of 1 to 100, those in the top 20% of financial performance score an average of 71. All other companies average 28.

Such an *organisation scorecard* shows what elements of your business may be hindering people from making good decisions quickly and implementing them effectively. In the authors' survey the most common organisational barriers to good decisions were, in their words:

- ***structural sclerosis:*** the organisation's structure gets in the way of good decision-making and execution – often because it is not set-up in support of business model. If a strategy involves serving customers across border, then a geographic structure will get in the way.
- ***decision ambiguity:*** Nobody is quite sure who should play what role in major decisions – and who has the final call on key issues
- ***process paralysis:*** core business processes are undermined by poor decision processes – for example. if an R&D team tries to get through a decision gateway and the committee changes the criteria
- ***data dysfunction:*** the right evidence needed to make a major decision is not available at the right time or right format – leaving a leadership team making decisions in the dark, or swamped with irrelevant data

- ***misaligned measures:*** measures and incentives do not reinforce good decisions – the failure of the banks in 2008 was partly driven by short term incentives triumphing over the creation of long-term value
- ***blurred vision:*** people across the organisation lack clarity about overall priorities and goals – and so either make the wrong decisions, or well-meant but inconsistent ones
- ***consensus overdose:*** people put the importance of agreement before the importance of a good decision – and everyone can say no but not everyone says yes
- ***talent deficiency:*** people in key roles to execute decisions do not have the right experience and capabilities
- ***behaviour breakdown:*** leaders do not walk the talk and they way they act undermines decisions and their execution

They found that there was no single simple answer, but that businesses good at decisions and executing them, score better on all organisational aspects.

2. ***Identify your critical decisions.*** The authors state that over 80% of most companies' value is tied to less than 20% of the decisions. Your "decision architecture" can identify the decisions that carry the most value against the three criteria of value at stake, frequency of the need to make the decision, and the degree of leadership attention required.
3. ***Redesign critical decisions for success.*** With critical decisions identified, apply best practice with the approach to decision-making:
   - ***a.*** *Structured approach*: for each key decision consider all relevant facts, develop a small number of options – better decisions are made by teams who have two to four strong options, and apply expert criteria for choosing between options.
   - ***b.*** *Clear steps and sequence:* give clear guidance on how and when to escalate and when not to.
   - ***c.*** *Meetings:* the right meetings with the right people and a clear purpose clarified up front. Effective and efficient meetings have material distributed in advance with each item clearly marked 'For information', 'For Discussion and Input', or 'For Decision and Action'.
   - ***d.*** *Closure and commitment:* the final decision is communicated to key parties, resources allocated (people and money) and an execution plan put in place (actions, accountabilities, milestones).
   - ***e.*** *Feedback loops:* there is regular review of progress and fast corrective action where necessary. High performing organisations identify the key metrics, watch them relentlessly and take corrective action quickly.

4. ***Ensure that the organisation enables and reinforces effectiveness.*** Role descriptions, governance, performance management, reward and personal development must each support effective decision-making and execution. The organisation itself should encourage fast and effective decision-making. A simpler structure being the most conducive. For every extra set of intersecting nodes in a matrix there are extra hurdles put in the way of making effective decisions and of implementing them.
5. ***Embed good decision-making in the culture.*** It starts with the top team. Celebrate decision and execution success and make people expect and demand it. Then build new capabilities and skills: develop a repeatable decision-making model and train people to use it. Be a role model leader - when communicating a big decision, explain how it was made and is being implemented. In the widest sense reward and affirm good decision makers.

Stonecourt view: This is one of the few books on this vital subject of decisions – and it is one of the better business books on any subject. Its greatest strength (and new value) is that it is informed by a large sample survey that identifies the key success factors and links these organisational issues clearly to business performance. This is consistent with research by other consultancies which show, for example that a good *approach* to decision-making is six times more important to ensure successful outcomes than good analysis. This book focuses on *approach* and process.

As is sometimes the case with Bain consultants, their rigour and their use of numbers are sometimes taken too far. For example, they say their research shows that decision-making effectiveness decreases 10% with each person in a team above 7; and on that basis, they say that a 17 person team has zero effectiveness - life is not that black and white or mechanical.

Their solutions are perhaps not so new or groundbreaking – but are consistent with other expert views. Overall, this book strikes a very good balance between straightforward practicality and theoretical rigour. It may contain much more common sense than surprises but that is a good thing in this case.

(For our other *Briefs* on leadership team decision-making see: *Time alone and time together: getting your leadership team to make strategic decisions well*; and *Decision-making: how to avoid your leadership team acting like teenagers*.)

