Closing the Decision Quality Gap

Carl Spetzler, Hannah Winter, Jennifer Meyer

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Poor decision making is endemic in business today.

There is, in fact, a huge and documented gap between many business decisions and what would meet the standards of decision quality. The result is lost economic value. In some cases one-half to three-quarters of the potential value of a decision is left on the table, and that can amount to hundreds of millions of dollars.

Why do smart people make poor or sub-optimal decisions? There are lots of reasons. Here are just a few:

- They frame the problem incorrectly and end up addressing the wrong problem.
- Biases and false assumptions subvert rational thinking and analysis.
- The “good enough” syndrome encourages decision makers to latch on to the first or second option that comes their way when, with a bit more effort, they might find alternatives with much greater value.

» The decision is based on irrelevant, unreliable, or inadequate information.

» In the typical advocacy decision process, executives are sold an idea by a persuasive advocate—instead of choosing among alternatives.

Better results are achieved when people practice decision quality—or DQ—a framework that helps people capture the most value from their decisions, given the uncertainties and complexities of the real world. DQ is a process that can be learned. And learning is important since so few people are trained in decision making. There is an assumption that smart people will pick up good decision-making skills on the job or through experience. But learning on the job, through trial and error, can be a long and painful process punctuated by costly mistakes. Executives and managers who recognize this, and who avail themselves of training in DQ, usually tell us: "I wish that I had learned this much earlier in my career."

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A Common Mistake

One of the virtues of DQ is that it allows us to know if we've made a good decision at the time we are making it. If we've correctly followed the process, we can confidently state that "We made the best possible choice given our alternatives, the available information, future uncertainties, and the things we can control." That's contrary to conventional thinking, which confuses a good decision with a good outcome. Most will say, "We cannot know how good a decision is until we've seen the results." That makes no sense in a world of uncertainty and unforeseeable events that decision makers cannot control. A good decision, for example, might be undermined by poor implementation. Or events on the far side of the world may foil a decision maker's best-made plans. The reverse is also true: a poor-quality decision may have a good outcome thanks to good luck. Imagine someone driving home after too many drinks. Does the fact that he arrived home without causing an accident make his decision to get behind the wheel a good one? Of course not!

All decisions are about the future, but decision makers must act in the present, which is why it's so important to know if we are making a good decision when we are making it. And that is possible when we fulfill the requirements of decision quality.

DQ’s Requirements

Decision quality has six requirements. If each is done well, we can truly say, “We’ve made a good decision.” Those requirements are:

An appropriate frame. The frame of a decision specifies the problem or opportunity at hand. It defines:

1. **Our purpose** in making the decision.
2. **The scope:** what will be included and excluded.
3. **Our perspective:** what we take as given, how we want to approach the problem, and with whom.

Agreement on the frame is essential when two or more parties are involved. A problem may be framed broadly or narrowly. A broad frame may have a long time horizon, involve many stakeholders, and encompass many issues.

Consider a company's decision on a new marketing strategy. A narrow frame would focus on a smaller issue: the schedule for releasing direct mail catalogues. A broader frame would encompass pricing, distribution, the products offered, and which customers to target.

Creative alternatives. Alternatives describe what we can do. You cannot make a good decision without good alternatives. When alternatives are less than compelling, finding better ones is always worth the time and effort because a decision can only be as good as the best alternative.

Few decision makers take the time to create a rich set of alternatives. Instead, they simply approve or reject whatever proposal is on the table, or they latch on to the one that is easily accessible, familiar, or with which they have experience. "I've had some experience working with a prominent distributor in Quebec, so let's work out a master distributor deal with him." Whenever you hear something like that, start brainstorming for better alternatives. What you want someone to say is, "If our goal is to expand sales in Quebec, I've identified three alternatives for entering that market. Each is distinctly different from the others. Each has unique risk, reward, and success possibilities."

Clear values and tradeoffs. Values are what we aim to achieve with our choice—what we want and care about. Reaching a quality decision is easiest when we have clear values against which to assess the merits of each alternative. As Ben Stein put it, “The first step to getting the things you want out of life is this: decide what you want.” In business, “what we want” is generally expressed in monetary terms, or shareholder value.

It’s not unusual to want more than one thing from a decision, especially when many parties are involved: greater shareholder value, measurable benefits for employees and customers, environmental sustainability, and so forth. When one alternative provides everything wanted, the choice is easy. But this seldom happens. Consequently, decision makers must make tradeoffs among different values. For example, they may agree to trade off some measure of profitability from a planned real estate development in order to lessen its negative environmental impacts.

Identifying what you value and the willingness to make tradeoffs is fundamental to a quality decision.

Relevant and reliable information. Relevant information is anything we know, would like to know, or should know that is material to selecting from among our alternatives. Reliable information is authoritative and comes from trustworthy, unbiased sources. Information with these qualities helps us understand the possible consequences of each alternative. Without relevant and reliable information, decision makers must fly in the dark.

There's a problem with even the most relevant and reliable information: it is drawn from the past. But decisions are about the future, which is inherently uncertain. Therefore, we must learn to deal properly with uncertainty. That means using information to describe possible outcomes and their probability of occurring. That means getting beyond "There's a good chance that this new technology will work" to something more useful to decision makers, such as, "Based on current information and the best estimates of three experts in the field, we estimate that there is a seventy percent chance that this technology will be successful and available by next March." However, information doesn't come that neatly packaged. We have to gather facts, study trends, interview experts, and so on, and subject what we learn to rigorous, unbiased analysis.

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Sound reasoning. The previous three requirements help us to understand what we value, what we can do, and what we know. Sound reasoning integrates these and clarifies the search for the alternative that will give us the most of what we want. Sound reasoning leads to conclusions that can be articulated and defended through rational argument. "I am choosing this alternative because it involves half the uncertainty and twice the potential value of other alternatives."

Big, strategic decisions inevitably involve substantial complexity and uncertainty. They can be real mind-benders, and neither intuition nor top-of-head judgments will lead us to the best alternative and the greatest value. Instead, we must put pencil to paper, rigorously analyze our information, calculate probabilities, and lean on "thinking tools" such as decision trees (a diagram that represents decisions, uncertainties, and their consequences), sensitivity analysis (a group of techniques used to examine which factors drive value), and tornado charts (a specific kind of sensitivity analysis that depicts how factors that are uncertain drive value; the graphic of such an analysis looks like a tornado).

Outside expertise may be needed. All are part of sound reasoning.

Commitment to action. Pablo Picasso got it right when he said, “What one does is what counts, not what one had intended on doing.” Commitment to action is the final requirement of DQ. Selecting the best alternative is essential but insufficient. To create real value, a decision must be followed by action. This is where many organizations drop the ball.

In business, decision makers and implementers are frequently two different groups of people, and the hand-off between them is a frequent source of failure and lost value. We can reduce this type of failure by involving key implementers in the decision process. When implementers are involved, they:

» Suggest new alternatives.

» Offer insights and information from their unique perspective.

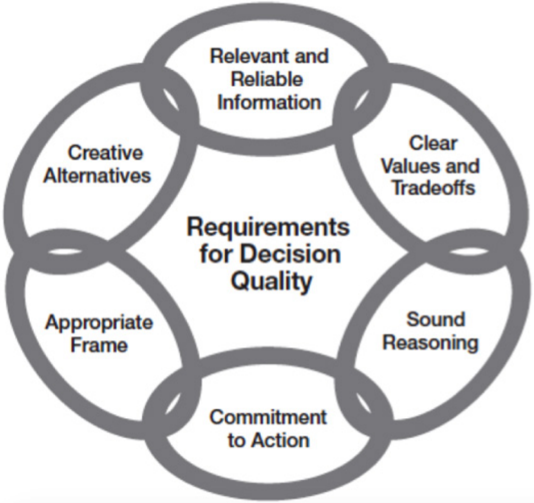
» Contribute their thoughts about implementation feasibility and potential execution problems.

» Develop a sense of ownership and responsibility for the ultimate decision.

Their involvement also gives implementers opportunities to understand why the decision is important and why a particular alternative was selected.

We cannot have a good decision without quality in all six requirements. And because the quality of a decision can be no better than the weakest of these requirements, it is useful to think of DQ as a six-link chain. Building quality into each link assures that the resulting decision will be a good one. Though the outcome can only be known in hindsight, the decision makers will have the satisfaction of knowing that they made the best possible choice at the time they made it.

The 100 Percent Rule



Achieving 100 percent on each requirement is our assurance that we've made a high quality decision. And being at 100 percent in each link is essential because a decision can be no better than the weakest link. How do we know that we've reached 100 percent? We're there when we've satisfied ourselves that the benefits of further effort are not worth the extra time or expense.

You can apply the six-link chain to any significant or major decision. So the next time you face a serious choice, start with framing and work your way around the chain:

Have I framed this problem or opportunity correctly? Do I have a good set of alternatives? Can I think of others? Have I collected the information we need to make a good choice? If not, what's missing and how can we get it? And so forth.

The Power of Creative Alternatives

Each requirement of DQ is equally important, but for the sake of illustration in this article, consider just one of them in depth: alternatives. In our experience, this is a requirement over which many decision makers stumble.

John Beshears and Francesca Gino highlighted the necessity of good alternatives when they wrote in the *Harvard Business Review*, "We commonly approach problems by asking ourselves, 'What should I do?' Asking 'What could I do?' helps us recognize alternatives to the choice we are facing." Absent good alternatives, we must take what we're offered or whatever chance brings our way. That almost guarantees that we will not get what we want and value.

An alternative is defined as a possible course of action. At least two are needed in order to say that "we're making a decision." But having more than two is preferred. We need a set of alternatives that truly represents the range of choices open to us within the context of how we've framed the problem or opportunity. Developing a good set of alternatives takes creativity and disciplined effort. And a good set is essential because, as stated earlier, a decision can be no better than our best alternative.

Too Crazy?

It's not unusual for staff people and managers to uncover alternatives with tremendous potential, but which appear "too far out," given the mindset of top management. "It's a great idea, but it would be shot down in a heartbeat," is a typical refrain. Well, you never know.

A team of managers and staffers at a multinational corporation was given the job of developing a new business strategy. Its members came up with several alternatives. All were promising. But the team held back from any that might appear too unusual or aggressive—"too crazy"—to the corporation's conservative leaders. They thought it best to stay "inside the box." When pressed by their colleagues to be more daring, they came up with what they called a "super aggressive" strategy. But being afraid that they would be laughed out of the building, they would not show it to their bosses. After some coaxing, however, they bucked up their courage and agreed to present it, fully expecting it to be immediately shot down.

To their surprise, their "crazy" idea sparked genuine interest among senior executives, who asked, "Could we actually implement this strategy?" The team confirmed that they could, given sufficient time and resources. All agreed that the strategy was riskier than their current mode of doing business but that it was time to consider something substantially different. With that, the team was given the go-ahead to take their crazy idea to the next level: analysis and evaluation, which confirmed something that surprised everyone: their crazy idea had four times the potential value of any others on the list of strategic alternatives.

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What do good alternatives look like? Any list of alternatives should be large and sufficiently varied to include a full range of possibilities. All should be "good" alternatives, that is:

- **Creative.** Creative alternatives are not immediately obvious or constrained by conventional thinking. Creative thinking by decision makers and decision teams often uncovers alternatives with enormous potential value.
- **Significantly different.** Alternatives should be significantly different from one another in ways that truly matter—not minor variations. They should challenge current thinking and approaches to the problem.
- **Representative of a broad range of choices.** Alternatives should cover the full range of possible choices, which is why two alternatives are seldom sufficient.
- **Reasonable contenders for selection.** Some choices we're offered are nothing more than "decoys"—alternatives that are patently inferior and added to the list to make some other alternative look good by comparison. Decoys don't fit the definition of reasonable. Neither do outlandish alternatives that will surely be rejected. However, we shouldn't be too quick to dismiss an alternative because we assume it will be vetoed.

» **Compelling.** Every alternative should represent enough potential value to generate interest and excitement.

» **Feasible.** A feasible ("doable" or actionable) alternative is one that can actually be implemented and that is under our control. If it isn't feasible, it doesn't belong on the list.

» **Manageable in number.** Three alternatives are generally better than two, and four are likely to be better than three. It doesn't follow, however, that 20 alternatives are better than four because each alternative must be analyzed, evaluated, and compared with other choices. What we need is a manageable set—one that covers the range of distinctly different choices while being within our ability to analyze and compare.

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A DQ Process for Strategic Decisions

Whether we're making widgets, developing new products, or running a commercial kitchen, we recognize that a sound and effective process is our best assurance of high quality output. Get the process right and good things generally follow. The same is true when we aim for decision quality. Getting the process right is often the most important step in achieving that important goal. For business, strategic decisions have big consequences. They are also challenging because they are complex and involve lots of uncertainty. The people involved may have conflicting interests and, naturally, want to steer these decisions in directions that favor them.

Because of these challenges, strategic decisions need a process that is effective, efficient, and that fulfills all six requirements of DQ. We have developed and perfected such a process: the Dialogue Decision Process, or DDP. Decades of experience have confirmed its ability to achieve quality strategic decisions in different situations and industries including, energy, auto making, pharmaceuticals, and filmmaking.

The DDP at Work

In Canada's Alberta province, billions of barrels of oil are locked up in deposits called oil sands. There, a very heavy sticky form of oil called bitumen is mixed in with sand, clay, and water. When that material is close to the surface, it can be dug up and processed to recover the bitumen, which can then be refined into a valuable form of oil called light sweet crude. Recovering the bitumen is much more difficult when oil sands are deep underground.

One company had worked for thirty years to create a technology for recovering underground bitumen. That technology used a unique approach for injecting hot steam deep below the surface and extracting the bitumen after it was softened. The company's project team of engineers and geologists was extremely excited about the prospect of putting their new process into action on a remote piece of land leased by the company. As they saw it, that remote location would host a demonstration project and an onsite refinery capable of creating the light sweet crude valued by the market. The project team repeatedly advocated for this plan, but was repeatedly turned down by the company's decision makers.

Eventually, the management team recognized that something had to be done with its remote land before their lease expired. But they did not like the team's proposal. So they asked the project team to use the DDP to help them reach a quality decision.

In pursuing the DDP, the project team first clarified their frame, and very soon received confirmation from the decision board that they were on the right track. A few tweaks produced a frame acceptable to the board. In the next phase, the team began defining a set of alternatives. Not surprisingly, they wanted their "full scale" (extraction plus refining) alternative to be the primary alternative. As they saw it, the company should "go big or go home." But the decision board rejected that full-scale approach because it did not fit well with the company's larger game plan for oil sands, or with their capital budget. The board asked for alternatives, including some of limited scope, and others that were more spread over time. The project team grudgingly accepted their leaders' insistence on a full set of alternatives, including more modest ones.

The evaluation work that followed produced an insight that surprised everyone. Analysis indicated that the most value would be attained by removing the bitumen with the new technology but outsourcing refining to others, thus avoiding the large cost of building a remote refinery. These results were presented in a third DDP meeting, after which the leadership team moved quickly to a decision, confident of its quality. The project team was then able to move ahead with a plan, albeit a more modest one, for showcasing their new extraction technology.

Antidote To the Common Enemy of DQ

The Dialogue Decision Process has shown itself to be an effective antidote to one of the most common enemies of DQ: the advocacy/approval trap. Anyone who has been around organizations for any length of time has surely witnessed this trap. Here is how plays out. The champion of a particular project or strategy approaches decision makers and advocates on its behalf, playing up all the reasons it should be adopted (and none of the reasons why it should not). The decision makers listen and ask questions, probing for flaws. "Where did you get these cost estimates?" "What would happen if … ?" "What are your assumptions?" They may instruct their staff people to do the checking. They may pit one project advocate against another, creating a contest for approval and funding.

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The advocate's goal is to sell decision makers on the benefits of his recommendation. Like a lawyer arguing a case before a panel of jurists, he aims to make the best possible case. Consequently, he has every incentive to present the most favorable data and no incentive to volunteer anything that might take the shine off his proposal. Nor does he have a reason to suggest feasible alternatives, or to underscore the uncertainties inherent in his proposal. Doing either would only weaken his case. And so decision makers are left with the chore of unmasking the proposal's flaws. Failing that, they are obliged to approve it.

The perils in the advocacy/approval approach should be obvious. The advocate frames the situation—perhaps incorrectly. No alternatives are offered, limiting decision makers' options. The advocate controls the information. Is it relevant or reliable? Is it complete? The uncertainties in the recommendation are not systematically explored—if they are even mentioned. In short, none of the requirements of decision quality are met. And yet, this is how many important decisions are made in business today.

The DDP replaces that advocacy/approval trap with a deliberate, rational, and transparent process in which selling is replaced with a careful comparison of alternatives. It puts a check on executives who would use their organizational power to ram through pet projects; doing so might work in the shadows, but not in the well-lit DDP forum, where so many are watching.

Fifty years of research has documented the failure of organizations to follow the principles of decision quality. The result is a huge and observable gap between current practices and the systematic implementation of decision quality. That gap squanders value-creating opportunities for corporations, their stakeholders, and society.

We can do better. In fulfilling the six requirement of DQ we can close the gap.

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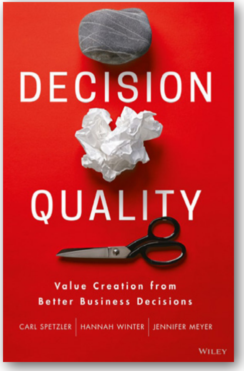

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ABOUT THE AUTHORS | **Carl Spetzler** is the cofounder, chairman, and CEO of Strategic Decisions Group (SDG), a leading strategy consulting firm renowned for its expertise in strategic decision-making for value creation. **Hannah Winter** is a partner and educator with SDG where she leads the firm's 10-year education partnership with Stanford. **Jennifer Meyer** leads client engagements at SDG that have resulted in hundreds of millions of dollars in added value through better strategic decisions. For more information go to www.sdg.com.

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