



Strategic Decisions Group

Executive Summary
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SDG Executive eBriefing

Organizational Decision Competency: What is It. Do You Want It. How to Build It.

Featuring: **Carl Spetzler, Jeff Hewitt, David Fishman, and Bruce Judd**

Following is a summary of the Executive eBriefing covering:

- o The keys to achieving decision competency and organizational congruence.
- o The specific stages through which organizations desiring congruence must progress.
- o Real-world case studies of organizations that have improved their decision making processes, built organizational decision competency, and realized bottom line results.

Organizational Decision Competency: What is It. Do You Want It. How to Build It.

Speakers: **Carl Spetzler**, Chairman
Jeff Hewitt, Partner, Life Sciences Practice
David Fishman, Managing Director, Financial Services
Bruce Judd, Director, Client Education Practice

Overview

Decision competency involves regularly making high quality decisions through harmonious organizational processes, tools, roles, skills, alignment, and continuous learning. Good decisions require the right information as well as overcoming the inherent organizational and analytical challenges associated with difficult decisions.

Few organizations have achieved decision competency (only 5% of eBriefing participants), but those developing this competency have seen that the leverage associated with improving decisions is great, especially for decision-intensive industries. Companies that have developed decision competency have transformed their culture, delivered hard financial results, and improved their competitive position and market capitalization.

The keys to improving decisions are a shared organizational understanding of decision quality and an effective decision-making process. Decision quality can be improved through a sequence of steps starting with a champion who convinces the organization to change its existing decision-making process. A diagnosis is conducted to understand the gaps and deficiencies in the current process, and a transformation program is developed that is tailored to each organization's specific situation. The program is piloted to demonstrate its value and then refined and expanded in phases.

Context

SDG's Chairman and major practice area leaders discussed decision competency, organizational congruence, and how to achieve them. Life science and financial services case studies provided examples of organizations that have achieved decision competency.

Key Learnings

- **Organizational congruence results when an organization has achieved decision competency.**

Demonstrating its difficulty, only 5% of eBriefing participants claimed to have achieved organizational decision competency. Decision competency means that an organization:

- Regularly makes high quality decisions.
- Has good decision processes and tools that are used appropriately.
- Understands roles and has the right skills for those roles.
- Is aligned through use of a common decision language.
- Continues to learn and improve on decision competency.

Organizations achieving decision competency are in a state of organizational congruence where people, processes, and culture all work together. Success requires the alignment of all aspects of an organization, and failure arises from just one broken link.

- **Making good decisions requires the right information, and overcoming analytical and organizational decision barriers.** Making good decisions is challenging and involves balancing factors along multiple dimensions. The initial challenge is gathering the right domain information to make an informed decision. Decision-makers must also wrestle with analytical and organizational complexities. Analytical challenges include assessing uncertainty, understanding dependencies and interrelated variables, and considering alternatives. Organizational complexities involve lack of alignment, conflicting parties, differences in values and motivations, differing decision frames, resource availability, and group dynamics.

Good decisions result from getting the right information and carefully balancing these analytical and organizational complexities through a clear decision process (discussed below).

- **Keys to improving decisions are a shared understanding of decision quality and an effective decision-making process.** A shared understanding of decision quality means that everyone involved in a decision knows the key elements of a quality decision. A common understanding of what constitutes a quality decision, and how quality will be measured, is necessary to achieve a quality decision.

"Those two key ideas [shared understanding of decision quality and an effective decision-making process], together with a broad set of tools for decision-makers and staffs, provide the power to solve almost any decision problems in the right way."

- Carl Spetzler

Effective decision-making flows from a clear process that involves the right people in the right way to get to the right choices. The right people are involved in three distinct roles:

- **Decision-makers:** This is who makes the final decisions and allocates resources to pursue the chosen course. Anyone saying, "I recommend," is not the decision-maker.
- **Decision staff:** These individuals enable the decision-makers to make the right choices by gathering information and analyzing alternatives. They facilitate the process by achieving commitment to action from the decision-makers, and by providing clear direction to the implementers.
- **Content experts and implementers:** These domain experts provide valuable facts and judgments about the consequences of different alternatives. Involving the implementers early in the process can remove barriers and improve execution.

Working in concert for the common purpose of quality decisions creates organizational congruence.

Case Study #1: PharmaCo (Major Life Sciences Company)

- Decision-making is critical in the life sciences industry.
- PharmaCo had a robust product pipeline readying for launch, requiring important resource allocation decisions.
- PharmaCo had adopted a decision-making approach that lacked analytical consistency, rarely presented management with alternatives, resulted in the resource allocation winners being the strongest and most aggressive, and led to dissatisfaction among participants and management.
- With SDG's assistance, PharmaCo created a new decision process to include early decision-maker guidance, validate analyses, and focus management. The process involved a common language and valuation approach, and clear delineation of roles between decision-makers, content reviewers, and product teams (the content experts and implementers). The steps included:
 - Product teams assessed the business and developed alternatives.
 - Decision-makers considered the alternatives and agreed upon those to explore further.
 - Product teams thoroughly evaluated the alternatives, developed strategies, and created projections.
 - Content reviewers reviewed all data and assumptions to assure a consistent approach prior to sharing the content with the decision-makers.
 - Decision-makers met to decide. Because of the previous steps, decision-makers were better equipped to evaluate alternatives and make decisions, resulting in better and faster decisions.
 - The product teams then implemented the decisions.
- To support this new decision processes, PharmaCo invested significantly in training and tools to build internal capabilities.

"What has separated PharmaCo [from competitors] is its investment in people to equip them to make better, faster decisions."

- Jeff Hewitt

- As a result of transforming its decision process, PharmaCo now makes decisions three times faster, the quality of decisions is better, and PharmaCo's competitive position and market capitalization relative to the industry have improved greatly.
- **SDG's most successful clients have improved decision quality by systematically progressing through five stages.** A champion is a necessary prerequisite for initiating an effort to change an organization's decision-making process. While it is easiest if the champion is a senior manager, change can be championed by an individual lower in the organization; however, this individual will eventually have to win support from management prior to proceeding beyond stage 2.

1. *Diagnose the situation:* This involves assessing the organization's current decision quality in six areas:
 - 1) appropriateness of the decision frame; 2) consideration of creative, doable alternatives; 3) availability and use of

meaningful and reliable information; 4) clear values and trade-offs; 5) use of logically correct reasoning; and 6) a commitment to action.

Diagnosing the situation entails undertaking a process to identify an organization's decision gaps and greatest decision deficiencies. This is critical as an organization's decision quality is only as effective as the weakest area. Identification of the key gaps can help make the case to senior management for the need to revise an organization's decision process, and to proceed to stage 2 and beyond.

"Diagnose the gaps to determine the biggest deficiency. You must diagnose the gaps [in decision quality] to know your organization's most glaring deficiency as the quality of a decision is only as good as its weakest link."

- Bruce Judd

2. *Design the transformation program:* The aim of the transformation program is to create a congruent organization. General decision frameworks provide a starting point, but the appropriate transformation program must be tailored to each organization based on its decision quality gaps, organization, and culture. The program will include revised processes, tools, training, coaching, actual experience, and ongoing learning.
3. *Demonstrate the process and its value:* Support can be gained by first initiating a pilot and demonstrating the value of enhanced decision quality. Learnings from the pilot will be used to modify and improve the transformation program prior to a broader implementation.
4. *Implement in phases:* The phased approach will provide experience to members of the organization to acclimate them to the process, and will help align the organization prior to "going live." The phased approach increases the likelihood of success and of enacting lasting changes.
5. *Learn, reinforce and improve:* Decision quality is an ongoing undertaking which requires commitment, monitoring and changes based on experience and learning.

Case Study #2: InvestCo (Private Equity Firm)

- InvestCo's success depends on effective decision-making.
- Decision quality is seen as a competitive advantage, and is thought of like a manufacturing process: quality equates to minimizing defects, and speed relates to decreased cycle time.
- InvestCo implemented in three phases: Phase 1 consisted of a three month pilot to confirm the value of decision quality and tailor the approach; phase 2 lasted five months and entailed using the decision quality process at the level of specific investments; and phase 3 involved organizational use of the new decision approach at the portfolio level and included the implementation of supporting information systems.
- A determination was made of the different skills required to implement decision quality at each level in the organization, and specific training was provided for each level. Some

individuals received “decision quality certification” as part of the implementation.

- Culture and technical skills were measured to track the organization’s transformation. The measures showed that decision quality culture and skills had become habitualized across all levels of the organization.

“Pursuing decision competency has led to an organizational transformation that has resulted in a better culture and has delivered hard benefits.”

- David Fishman

- InvestCo’s new decision competency produced a cultural transformation. The culture shifted from a volume orientation to one focused on value; from a culture that avoided attribution to one that encouraged it; from an advocacy frame to a learning frame; and from senior managers “making the call” to senior managers focusing on enhancing value in the decision-making process. This transformation has reaped business benefits as investment returns since achieving decision competency are three times the industry average, versus returns prior to pursuing decision competency that were comparable to the industry average.)

- **There are several criteria to use in determining if greater decision competency is important for your organization.**

For many organizations, especially those in decision-intensive industries, making the right decisions can be more important and hold greater leverage than great execution.

But making decision competency an organizational priority requires commitment and may not be for every organization. It depends on an organization’s situation and needs. Questions that

should be considered when determining if the organization should pursue greater decision competence are:

1. What is the appropriate kind of decision competence desired?
2. What is the prize?
3. What is the cost – in dollars and management attention?
4. How valuable is this pursuit compared to other strategic priorities in the organization?

Small improvements in the quality and speed of decision-making can have an enormous impact in a company’s competitive position and financial situation.

Other Interesting Points

- **Different approaches.** Not all decisions require the same approach. “Casual” decisions are frequent, everyday decisions made in minutes, requiring only common sense. “Conscious” decisions are of strategic importance but are relatively easy, or are difficult but not worth a significant investment of effort; these decisions are made in hours and involve use of simple “checklist” tools. “Rigorous” decisions are of strategic importance. They require a rigorous decision-quality approach, and can involve complex analysis, organizational issues, and/or difficult content acquisition. Rigorous decisions can take from a week to months.
- **Implementation failures.** Good programs will not succeed if implemented improperly. Among the most common implementation failures are not maintaining adequate sponsorship, not investing adequate resources, an over-emphasis on tools versus training and experience, and creating a bureaucratic “process monster.”

Biographies

Carl Spetzler

Chairman

Specializing in strategy development, business innovation, and strategic change management, Dr. Spetzler has developed creative business strategies for major financial institutions, capital-intensive companies, high-technology manufacturers, and systems businesses. Over the past 15 years, he has been a leader in designing an innovative strategy development process that helps corporate leaders cope with the lack of explicit strategic alternatives, deal with the complexities of uncertainty and risk over long time horizons, and achieve lasting change. In addition to serving as the chairman of the board for SDG, Dr. Spetzler leads strategy assignments to redirect and restructure major US corporations and to create revolutionary new products and strategic alliances. Before founding SDG, he was the director of the Financial Industries and Strategic Methodologies Center at SRI International. He received an MBA and a PhD in economics and business administration and a BS in chemical engineering from the Illinois Institute of Technology.

Jeff Hewitt

Partner

Mr. Hewitt, a partner in SDG's Life Sciences practice, specializes in strategy development, portfolio management, product strategy, licensing negotiation support, and decision process design for clients in the pharmaceutical and biotechnology industries. His clients include one of the top 5 global pharmaceutical companies, a number of the largest biotech companies, and leading Japanese pharmaceutical companies. Mr. Hewitt holds an MBA from the Stanford University Graduate School of Business and a BA in economics and English from Amherst College.

David Fishman

Managing Director, Financial Services

Mr. Fishman leads the Private Equity and Financial Services practice of SDG, conducting consulting engagements with senior executives at Fortune 500 and emerging growth companies. He has expertise in strategic management, business development, finance, operations, and organizational change across a range of industries. His involvement has led to successful strategies and investments as measured by the value created in the marketplace. Mr. Fishman received an MBA from the Harvard Graduate School of Business and an MS in engineering-economic systems and a BA in economics from Stanford University.

Bruce Judd

Director, Client Education

Dr. Judd has more than 30 years of experience as a consultant and educator in strategic decision-making. He founded and directs SDG's client education practice, which helps clients develop internal capabilities to enhance the quality of their decision-making. He has also served on the faculty of the Stanford University Graduate School of Business, where he taught for 14 years. Typical consulting assignments include transforming the decision-making culture in a Fortune 50 company; developing strategies to revitalize telecommunications, medical devices, automotive, office products, and printing and publishing companies; evaluating capital investment decisions in the energy industry; determining foreign compliance with arms-control treaties; and prioritizing scientific research. Dr. Judd holds PhD and MS degrees in decision analysis from Stanford University and an undergraduate degree in science engineering from Northwestern University.

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