

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

Over the course of their careers, Sir Martin Sorrell, CEO of WPP; Randy Komisar, a partner at Kleiner Perkins Caufield & Byers; and Anne Mulcahy, Xerox's chairman and former CEO, have made strategic decisions of all shapes and sizes. Their experiences, which the executives share in these three commentaries, highlight a critical challenge: striking the right balance between thorough, unbiased decision-making processes, on the one hand, and timely action, on the other. While there's no silver bullet, taking concrete steps to cultivate internal critics, safeguard diversity of thought, clarify assumptions underlying different points of view, and force tough choices between business priorities can help.

WPP's Sir Martin Sorrell: 'Learn from mistakes and listen to feedback'

The reality is that leaders must, on the spur of the moment, be able to react rapidly and grasp opportunities. Ultimately, therefore, I think that the best process to reduce the risk of bad decisions—whatever series of tests, hurdles, and measuring sticks one applies—should be quick, flexible, and largely informal. It's important to experiment, to be open to intuition, and to listen to flashes of inspiration. This is not to say the process shouldn't be rigorous: run the analyses, suck up all the data, and include some formal processes as well. But don't ask hundreds of people. Carefully sound out the relevant constituencies—clients, suppliers, competitors—and try to find someone you trust who has no agenda about the issue at hand.

There will be mistakes, of course. The truth is we all make mistakes all the time. For instance, I know it's true that decision makers risk escalating their commitment to losing endeavors that they have an emotional stake in. I know because I've been guilty of that myself. However, the only way to avoid making mistakes is to avoid making decisions (or, at least, very few). But then the company would grind to a halt. Instead, learn from mistakes and listen to feedback.

Kleiner Perkins' Randy Komisar: 'Balance out biases'

Before behavioral economics even had a name, it shook up Randy Komisar's career. He became aware of the then-nascent field while contemplating a graduate degree in economics, losing confidence in the dismal science as a result. Komisar ultimately shifted gears, becoming a lawyer and later pursuing a career in commerce. He cofounded Claris,¹ served as CEO for LucasArts Entertainment and Crystal Dynamics, served as "virtual CEO" for a host of companies such as WebTV

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

2

and TiVo and, since 2005, has been a partner at Kleiner Perkins Caufield & Byers, the Silicon Valley venture capital fund. Along the way, he has developed a distinct point of view on how to create executive teams and cultural environments that are conducive to good decision making. In a recent interview with McKinsey's Olivier Sibony and Allen Webb, Komisar provided practical advice for senior executives hoping to make good decisions in a world where bias is inevitable.

Harness bias

Rather than trying to tune out bias, my focus is on recognizing, encouraging, and balancing bias within effective decision making. I came to that conclusion as I was starting my career, when I had a chance to work with Bill Campbell, who is well known, particularly in Silicon Valley, as a leader and coach. Bill was the CEO of Intuit (where he's now chairman), he's on the Apple board, and he's a consigliere to Google.³

What I observed back then was that Bill had this amazing ability to bring together a ragtag team of exceptionally talented people. Some had worked for successful companies, some had not. Some had been senior managers. Some had been individual contributors. Everybody brought to the table biases borne out of their domains and their experiences. Those experience-based biases probably are not that different at the psychological level from the behavioral biases that economists focus on today.

Bill was very capable at balancing out the biases around the table and coming up with really effective decisions and, more important, the groundwork for consensus—not necessarily unanimity, but consensus. I liken it to what I have always understood, true or false, about how President Kennedy ran his cabinet: that he used to assemble the smartest people he could, throw a difficult issue on the table, and watch them debate it. Then at some point he would end the debate, make a decision, and move on. It's also similar to the judicial process, where advocates come together to present every facet of a case, and a judge makes an informed determination. The advocates' biases actually work to the benefit of a good decision, rather than being something that needs to be mitigated.

Make a balance sheet

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

There's a methodology I've used within companies for making big, hard decisions that I introduced into Kleiner Perkins and that we have been using lately to help decide whether or not to invest in new ventures. It starts with assembling a group that is very diverse. If you look at my partners, you'd see an unruly gang of talented people with very different experiences, very different domain skills, and, consequently, very different opinions.

The balance sheet process allows everyone around the table to give their best insights and consider the ideas of others, without having to justify and thereby freeze their opinions

Starting with that, the notion is to put together a simple balance sheet where everybody around the table is asked to list points on both sides: "Tell me what is good about this opportunity; tell me what is bad about it. Do not tell me your judgment yet. I don't want to know." They start the process without having to justify and thereby freeze their opinions and instead are allowed to give their best insights and consider the ideas of others. Not surprisingly, smart people will uncover many of the same issues. But they may weigh them differently depending on their biases.

We do not ask for anyone's bottom line until everybody has spoken and the full balance sheet is revealed. I have noticed my own judgment often changes as I see the balance sheet fill out. I might have said, "We shouldn't do the deal for the following three reasons." But after creating a balance sheet, I might well look at it and say, "You know, it's probably worth doing for these two reasons."

The balance sheet process mitigates a lot of the friction that typically arises when people marshal the facts that support their case while ignoring those that don't. It also emphasizes to the group that each participant is smart and knowledgeable, that it was a difficult decision, and that there is ample room for the other judgment. By assembling everyone's insights rather than their conclusions, the discussion can focus on the biases and assumptions that lead to the opinions. An added bonus is that people start to see their own biases. Somebody will stand up and say, "You're expecting me to say the following three things, and I will. But I've also got to tell you about these other four things, which are probably not what you'd expect from me." Finally, opinion leaders have less sway because they don't signal their conclusions too early.

Although this may sound tedious and slow, we're able to move quickly. One reason is that we never try to achieve perfection—meaning 100 percent certainty—around a decision. We just

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

can't get there in the timeframe necessary. The corollary is that we assume every decision needs to be tested, measured, and refined. If the test results come back positive, we proceed; if they're negative, we "course correct" quickly.

Create a culture where 'failure' is not a wrong answer

The book John Mullins and I recently wrote, *Getting to Plan B*, presents a way of building a culture of good decision making.

4

The very simple premise is that Plan

A
most often fails, so we need a process by which to methodically test assumptions to get to a better Plan

B

The process starts with an acknowledgment that Plan *A* probably is based upon flawed assumptions, and that certain leap-of-faith questions are fundamental to arriving at a better answer. If we disagree on the decision, it's very likely that we have different assumptions on those critical questions—and we need to decide which assumptions are stronger, yours or mine. You end up teasing apart these assumptions through analogs: someone will say, "Joe did something like this." And then someone else will say, "Yes, but Joe's situation was different for the following reasons. Sally did something like this, and it failed." In that process, you don't get points for being right about your assumption, and I don't lose points for being wrong. We both get points for identifying the assumption, working on it, and agreeing that the facts have come in one way or the other.

What makes this culturally difficult in larger companies is that there is often a sense that Plan *A* is going to succeed. It's well analyzed. It's vetted. It's crisp. It looks great on an Excel spreadsheet. It becomes the plan of record to which everybody executes. And the execution of that plan does not usually contemplate testing assumptions on an ongoing basis to permit a course correction. So if the plan is wrong, which it most often is, then it is a total failure. The work has gone on too long. Too much money has been spent. Too many people have invested their time and attention on it. And careers can be hurt in the process. To create the right culture, you have to make very clear that a wrong answer is not "failure" unless it is ignored or uncorrectable.

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

Intuit, for instance, has found that many early-stage R&D projects went on too long. As in most companies, there was a belief that “we just need to put a little more time and money into these things.” Within about 90 days after I had explained the Plan *B* process to Intuit, they had broken a set of projects into smaller hypotheses, put together a dashboard process for testing assumptions, and were starting to make go-no-go decisions at each step along the way. They reported back that teams were killing their own projects early because they now had metrics to guide them. And most important, they were not being blamed. Intuit’s culture allows for rapid testing and “failure,” and those who prove responsible and accountable in course correcting are rewarded with new projects.

Listen to the little voice

I think comfort with uncertainty and ambiguity is an important trait in a leader. That’s not to say that they’re ambiguous or uncertain or unclear, but they’re not hiding behind some notion of black or white. When somebody’s shutting down conversations because he is uncomfortable with the points of view in the room or with where the decision may be going, it usually leads to a culture where the best ideas no longer come to the top.

Now, there are cultures where that does seem to work, but I think those are exceptions. Steve Jobs seems to be able to run Apple exceedingly well in large part because Steve Jobs is an extraordinary person. But he’s not a guy who tolerates a lot of diversity of opinion. Frankly, few leaders I meet, no matter how important they are in the press or how big their paychecks are, are that comfortable with diversity of opinion.

I love a leader who changes his or her opinion based upon the strength of the arguments around the table. It’s great to see a leader concede that the decision’s a hard one and may have to be retested. It’s great to see a leader who will echo the little voice in the back of the room that has a different point of view—and thereby change the complexion of the discussion.

When I went to LucasArts, I can remember sitting down one day with a young woman two levels down in the sales organization. I said, “Do you think we could build our own sales force and distribution here? We’ve been going through distributors for a long time. Our margins are a lot smaller as a result. What do you think?” She shut the door, looked at me, and said, “I know that my boss would disagree with me and I know that my peers in marketing disagree with me, but I think we can do it.” And so we did it, and the company’s gross margin line probably grew fivefold in 12 months—all based upon this one little voice in the back of the room. You’ve got to

How we do it: Three executives reflect on strategic decision making

Written by Administrator

Wednesday, 14 September 2011 14:50

be able to hear that voice.

From McKinsey Quarterly