How do you make strategic decisions?

What is the purpose of this article?
Enable founders, C-Suite, the board of directors, and investors to discuss the talent and process required to make strategic decisions.

What are the critical learnings in this article?
1) Make sure you are addressing the right problem before starting the decision-making process.
2) Determine if the problem and decision are tactical vs strategic.
3) There are different types of strategic decisions with different approaches.

Strategic decision making is flawed in most organizations
A McKinsey survey of executives regarding the quality of their strategic decisions revealed that:
1) Only 28% thought good strategic decisions were frequent;
2) 12% thought good strategic decisions were infrequent; and
3) 60% thought bad strategic decisions were as frequent as good strategic decisions.

What has the greatest impact on company performance? McKinsey found that it was the quality of the decision-making process. The % of company performance improvement due to:
1) Quality of the decision-making process: 53%
2) Industry/company characteristics: (e.g. consumer tastes, implementation resource capability) 39%
3) Quality and detail of analysis: 8%

What is a strategic decision?
A strategic decision has major impact on the long-term value of the company. It may even be a “Bet the company decision”. A strategic decision often has uncertainty in costs and benefits, a long-term future which may change, and a dependence on simultaneous outcomes. Most company decisions are tactical, with limited impact on long-term value. The short-term future is clear, costs and benefits are known.

What are some examples of a strategic decision?
The following is a partial list:
1) Nominating a board director. Board directors may have the greatest impact on long-term value, given that the appoint and terminate the CEO, approve strategies, plans, and policies. Directors have the ultimate accountability for company performance.
2) The appointment or termination of a CEO.
3) Selling the company.
4) Transforming the company.

Can you actually predict the future?
There are four types of forecasts.
1) There is a single path to a specific outcome.
2) There are a small number of specific scenarios.
3) There is a defined range of scenarios.
4) The unknown – it’s not possible to even define a range of future scenarios.

Is your strategic decision focused on the right problem?
Albert Einstein supposedly said “If I had only one hour to save the world, I would spend fifty-five minutes defining the problem, and only five minutes finding the solution.” An adequate solution to the right problem is far better than a terrific solution to the wrong problem. Before looking for the best solution, make sure you’re focused on the right problem.
1) What is the basic need or opportunity? What is the scope of the problem? Who in your company’s ecosystem is impacted?
2) What are the constraints: external (e.g. laws, public opinion, etc.) and internal (e.g. capabilities of your talent, including past experience, the ability to personally transform by learning fundamentally new skills and behaviours)?
3) What requirements must the solution meet?
4) What are the expected outcomes? What value is created or destroyed for the members of your company’s ecosystem?
5) Are the outcomes consistent with your company’s purpose, values, morals, and ethics?
6) How will you measure the outcomes?
What are the four types of strategic decisions?
1) Proven historical success in your company. An example would be a company that has done dozens of acquisitions successfully and is very likely to make the right acquisition decision.
2) Proven historical success in other companies, but have not been made before in your company, or was made unsuccessfully. An example is an acquisition decision, which has been made countless times in countless companies.
3) A unique decision that has not occurred before externally or within your company, and unlikely to occur again. An example was the decision making regarding the Year 2000 software issue – never happened before and will never happen again. Your company must draw upon people with proven experience with developing solutions to unique problems. There are no: people with prior experience, processes, policies, etc. There is little value to your company in building a long-term team, documenting processes, etc.
4) A unique decision that has not occurred before externally or within your company, but likely to occur again within your company. Your company must draw upon people with proven experience with developing solutions to unique problems. There are no: people with prior experience, processes, policies, etc. Your company must: build a pool of talented people, document the processes and policies, etc.

What is the approach to each of the four types of strategic decision?
1) If your company has successfully addressed this problem in the past, what have you learned? Draw upon the people in your company with past experience and utilize documented processes, policies, etc.
2) If your company has tried and failed to successfully address this problem in the past what have you learned? Your company can draw upon external: people with experience, processes, policies, etc. If your company expects to make these decisions in future, you must: build a pool of talented people, document the processes and policies, etc. The challenge is that often the outcome is not successful, even with outside experts.
3) If the problem has never occurred before and never will occur again, what are the capabilities of the people needed to understand the problem and develop a solution?
4) If the problem has never occurred before but likely will occur again, what are the capabilities of the people needed to understand the problem and develop a solution? How will your company learn from this experience? How will your company retain the learnings, both in the experienced talent and documented knowledge?

Are you able to assess the effectiveness of past strategic decisions?
1) Was success due to the right process and people OR were the wrong people with the wrong process lucky?
2) Was failure due to the wrong process and people OR were the right people and process unlucky?

What has been the past impact of your strategic decisions?
Let’s use the example of board director selection and exiting for companies without a controlling CEO or shareholder.
1) What has been the impact on long-term value in the past 10 years?
2) How does this compare to other companies in your market place?
3) Is your company in the top quartile or bottom quartile?
4) If your are in the bottom quartile, determine whether your board director selection, development, exiting process need improvement of if the board decision making process needs improvement.

How do you know you are going to achieve benefits from your strategic decision?
1) I’ve heard countless consultants say “We developed a great strategy but the company was unable to implement.”
2) Will your company be able to successfully implement your strategic decision?
3) Has your company identified the talent, skills, experience, partnerships, capital, and other resources needed to achieve benefits?
4) If your company doesn’t have all the required resources, how likely is it that your company can acquire them?

Have you identified the decision making and implementation biases people have, and taken action to mitigate them?
Biases include:
1) Confirmation bias: people favour information that supports existing beliefs.
2) Conformity bias: people will go along with what the majority of the group believes.
3) Authority bias: people support what the authority figure believes. The most senior person may not be the authority figure.
4) Loss-aversion: Sticking to a decision, if the facts and assumptions have changed. People have an emotional attachment to a decision they have made.
5) Etc.
What are your next steps?
1) Assemble the team to determine or validate what the problem is.
2) Assign one person whose sole focus is taking mitigating actions to address the biases of the decision-making team. This may be an external advisor, given that that bias identification and mitigation can lead to inter-personal challenges and require coaching of the decision-making team.
3) Determine whether you are making a strategic decision to address a strategic problem, or if this is tactical.
4) Identify what type of strategic decision you are making.
5) Review the facts and assumptions regarding the past effectiveness of the decision-making approach. What are the lessons learned in terms of what enables success and what leads to failure. Remember that luck often plays a role.
6) Identify the internal and external talent required for the strategic decision.
7) Review and revise the decision-making process. You may have to create a process if the decision has never before been inside or outside of your company.

Footnotes:
1 “The case for behavioural strategy”, McKinsey Quarterly 2010, Number 2

What further reading should you do?
Few companies make decisions leading to long-term value creation.
http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/
Successful companies need external talent, just like Olympic champions do.
http://koorandassociates.org/creating-business-value/what-are-the-three-types-of-talent-successful-companies-require/
Traditional strategic planning dooms companies to failure.