

The risk of making strategic decisions wrong

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#RISKWARENESSWEEK2019

**RISK
AWARENESS
WEEK** 2019



Who is Joep Steffes?

Entrepreneur & Decision Professional (past 20 years). Various roles:

- Decision Architect (content / decision & business modelling)
- Decision Facilitator (process facilitation & project management)
- Decision ‘Psychologist’ (promoting clear thinking/debiasing)
- Decision Coaching & Training



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Other credentials:

- MSc Business Administration (Erasmus University Rotterdam); Strategic Decision & Risk Management, professional certificate (Stanford University/US); PhD – expected 2019 Debiasing Strategic Decision Making (Nyenrode Business University)
- My spare time: my family, playing (rock)guitar and practising & teaching Shotokan Karate (2nd degree black belt)



Why should risk and uncertainty be on a decision makers mind?



If the future isn't what it used to be...

"The Americans have need of the telephone, but we do have not. We have plenty of messengers boys."

Sir William Preece, Chief Engineer, British Post Office, 1878



"I think there is a world market for about five computers."

Thomas J. Watson, chairman of IBM, 1943

"We don't like the sound. Groups of guitars are on the way out."

Decca Recording Co., turning down the Beatles in 1962



"Two years from now, spam will be solved."

Bill Gates, founder of Microsoft, 2004

"The Federal Reserve is currently not forecasting a recession."

Ben Bernanke, 10th January 2008

.... how should we decide under risk & uncertainty?

Why should risk and uncertainty be on a decision makers mind?

Research on the success of decision making reveals:

- Half the decisions in organizations fail... (professor Paul Nutt);
- M&A success rate: in 85% the expectation has not been met, 60% is sold within 10 years (professor Hans Schenk);
- Researchers estimated that the rate of diagnostic error in clinical medicine was approximately 15% ... leading to longer hospital stay and increased patient mortality;
- 30,000 new consumer products are launched annually, about 80% of them fail (Harvard Business School professor Clayton Christensen);
- In 2013, less than one-third of all projects were completed successfully (Source: Standish Group).

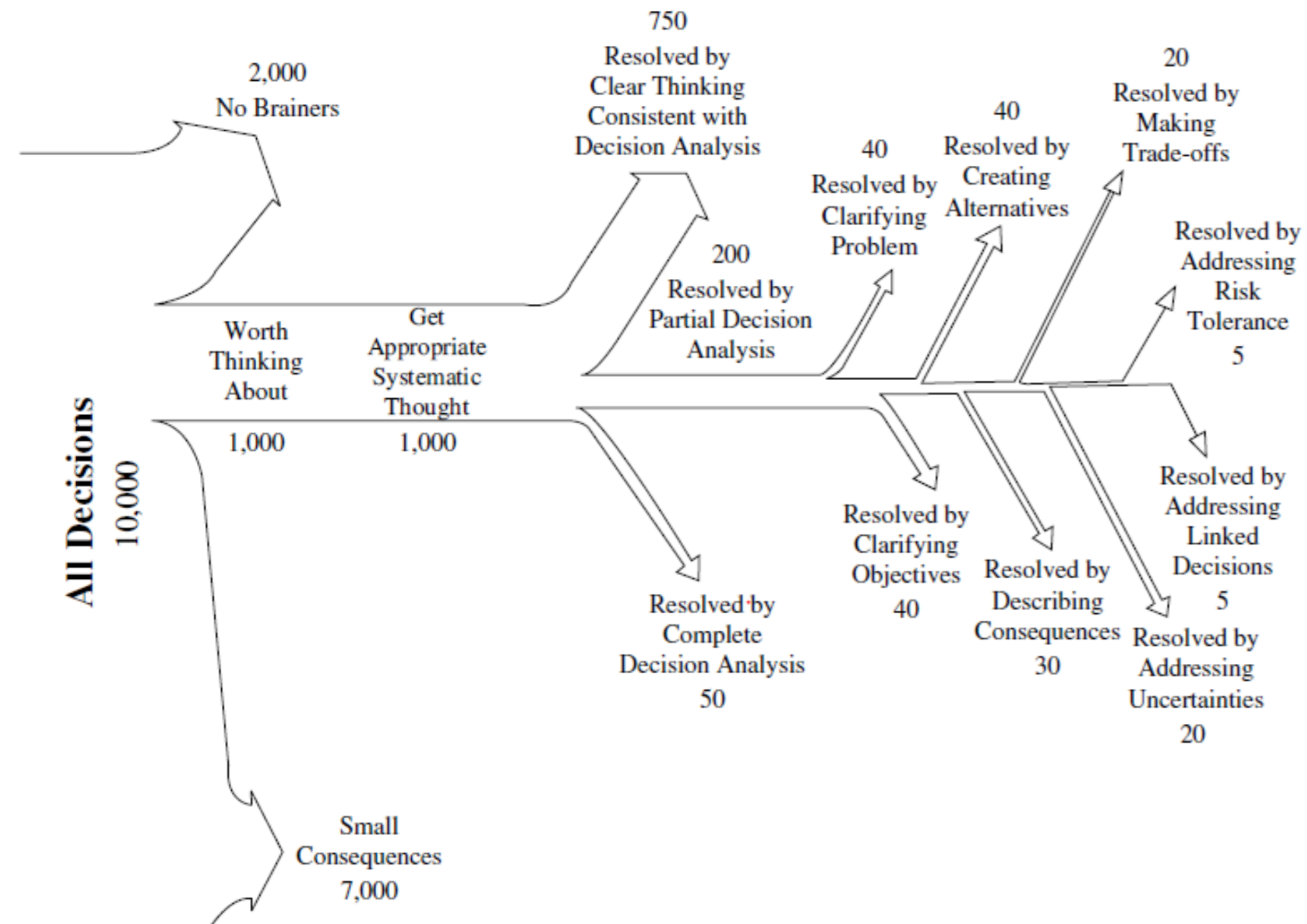
There is enough to worry about when it comes to making decisions.

The risk of 'making strategic decisions wrong' is based on...

- a flawed decision making process and roles and responsibilities.
- wrong content including missing risk and uncertainties, framing issues and missing out on alternatives.
- biased thinking corrupting the decision making process.

The risk of a flawed decision process...

According to decision scientist professor Ralph Keeney decision should be resolved by:



How to deal with decision making?

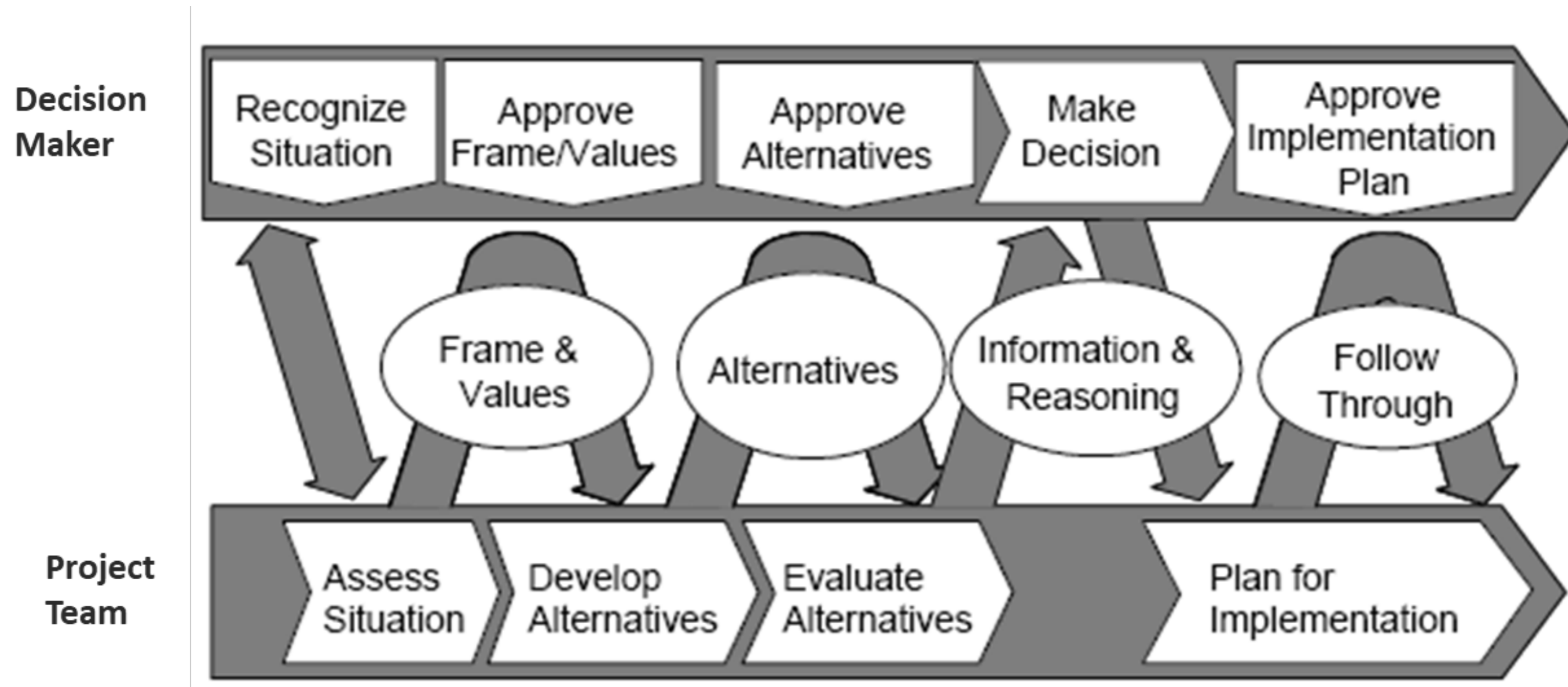
- How urgent is the decision in terms of available time?
- How important is the decision in terms of resources (money) involved?
- Why is it difficult to make in terms of organizational or analytical complexity?

Based on the answers, choose:

- Clear thinking 75%
- Partial Decision Analysis 20%
- Full Decision Analysis 5%



How to deal with this type of risk a full (proof) decision making process



(Adapted from: SDG)

The risk of getting roles and responsibilities wrong...

Lets consider this question: who decides in your company? Is it about...

- **Global** versus **local** decision making (e.g. local marketing, brand building or global product development, pricing decisions)
- **Center/headquarters** versus **business unit/subsidiaries** decision making (e.g. capital investments close to the customer or bigger picture)
- **Function** versus **function** decision making (e.g. new product development – marketing versus R&D)
- **Inside** versus **outside** partners (e.g. outsourcing, joint ventures, franchising)

Wrongly assigned roles and responsibilities lead to slow down or even stalled decision making!

(based on – Rogers, P., Blenko, M.W., “Who Has the D?...”, HBR jan 2006 issue)

The risk of getting roles and responsibilities wrong...

... is mitigated by assigning clear roles and responsibilities:

- **Decide:** formal decision-maker, accountable for the decision, 1 person or group (board).
- **Agree:** who has veto power - yes or no - over the recommendation (not decision) – e.g. regulatory or legal issues, IT-architecture, HR (working conditions), health and safety.
- **Recommend:** responsible for making a proposal, gathering input, and providing the right data and analysis to make a sensible decision in a timely fashion. Usual 1 person.
- **Perform:** executing or implementing the decision, multiple persons.
- **Input:** consulted on the decision, non-binding input, multiple persons with knowledge and experience.
- **Inform:** who gets informed about the decision.

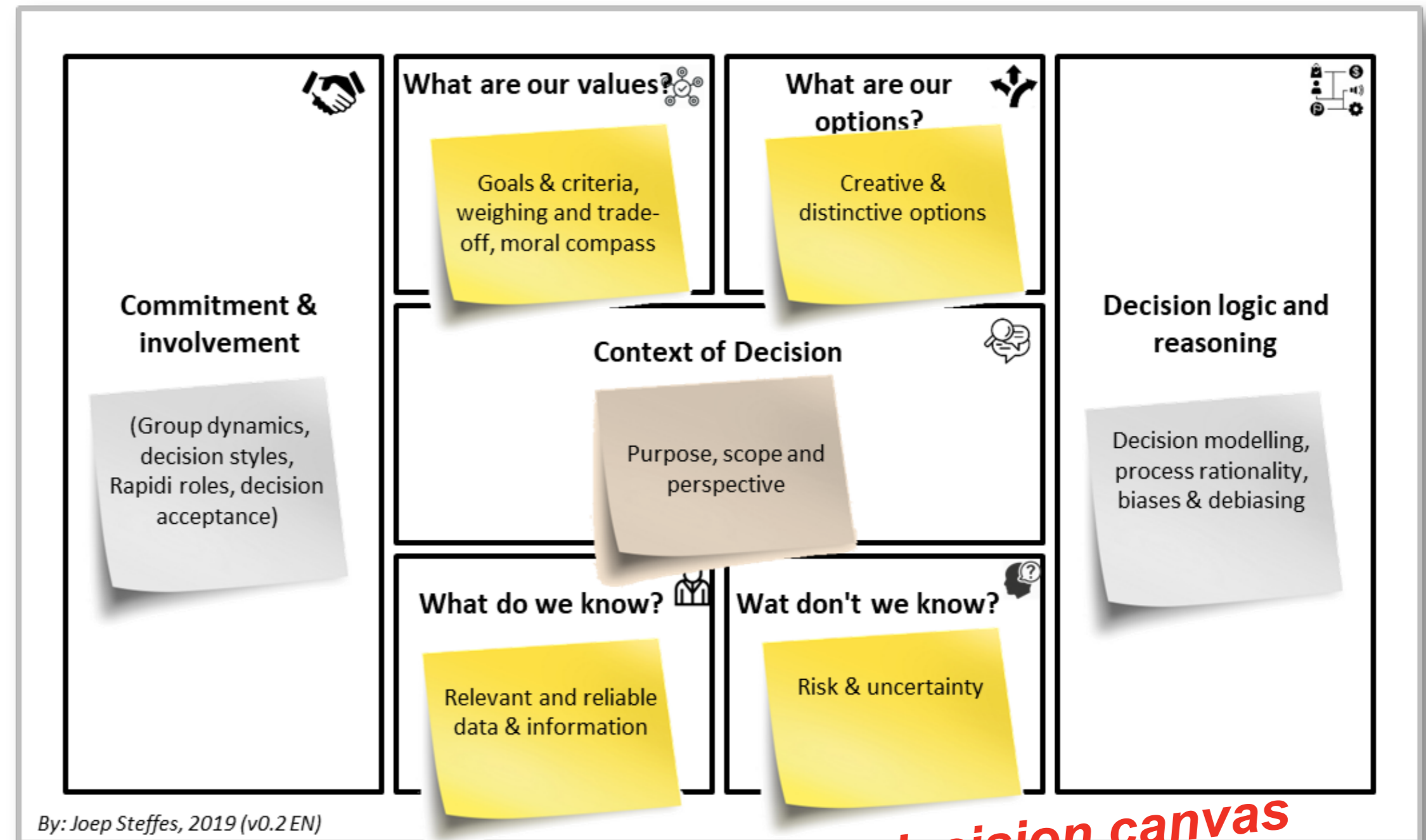
(based on Bain & Company, Inc. – RAPID® decision making model)

The risk of getting the content of a decision wrong

Main ingredients of a decision:

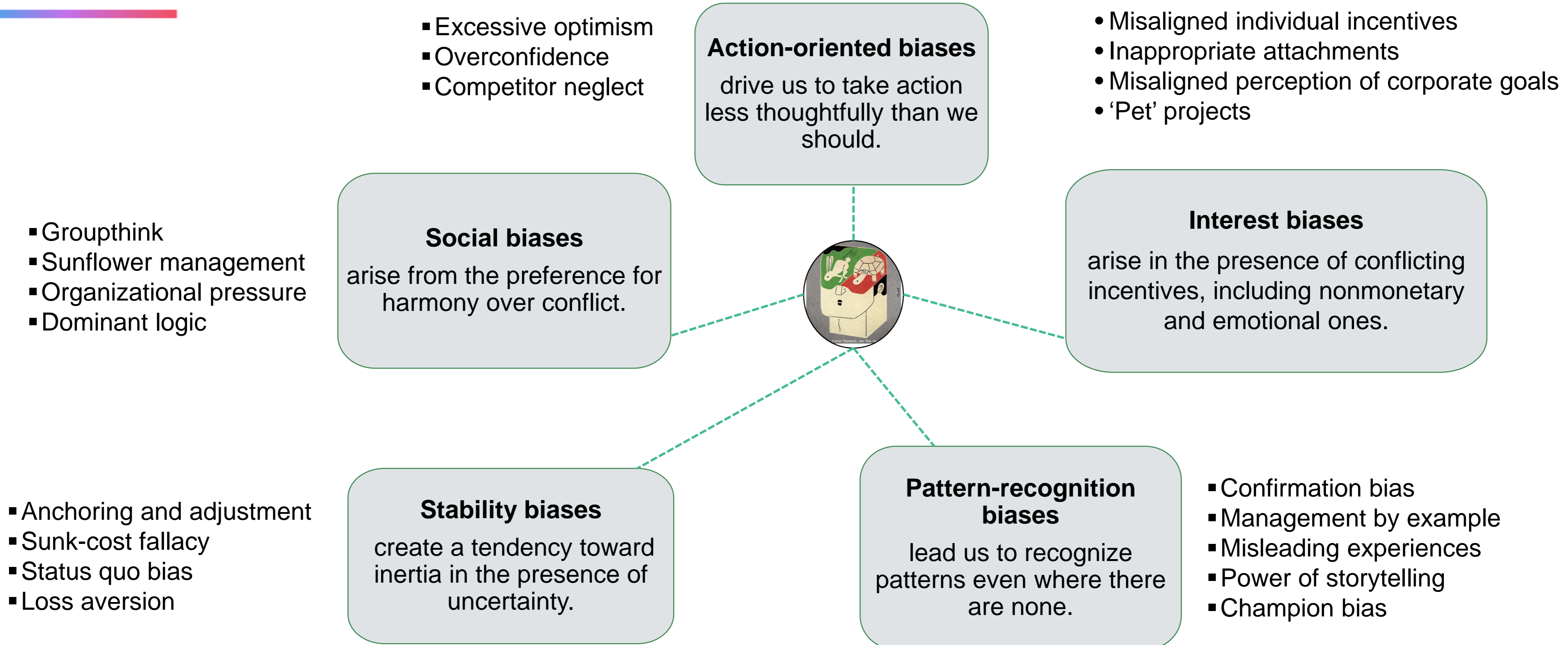
- What do I want?
- What are my options?
- What do(n't) I know?

The Decision Canvas



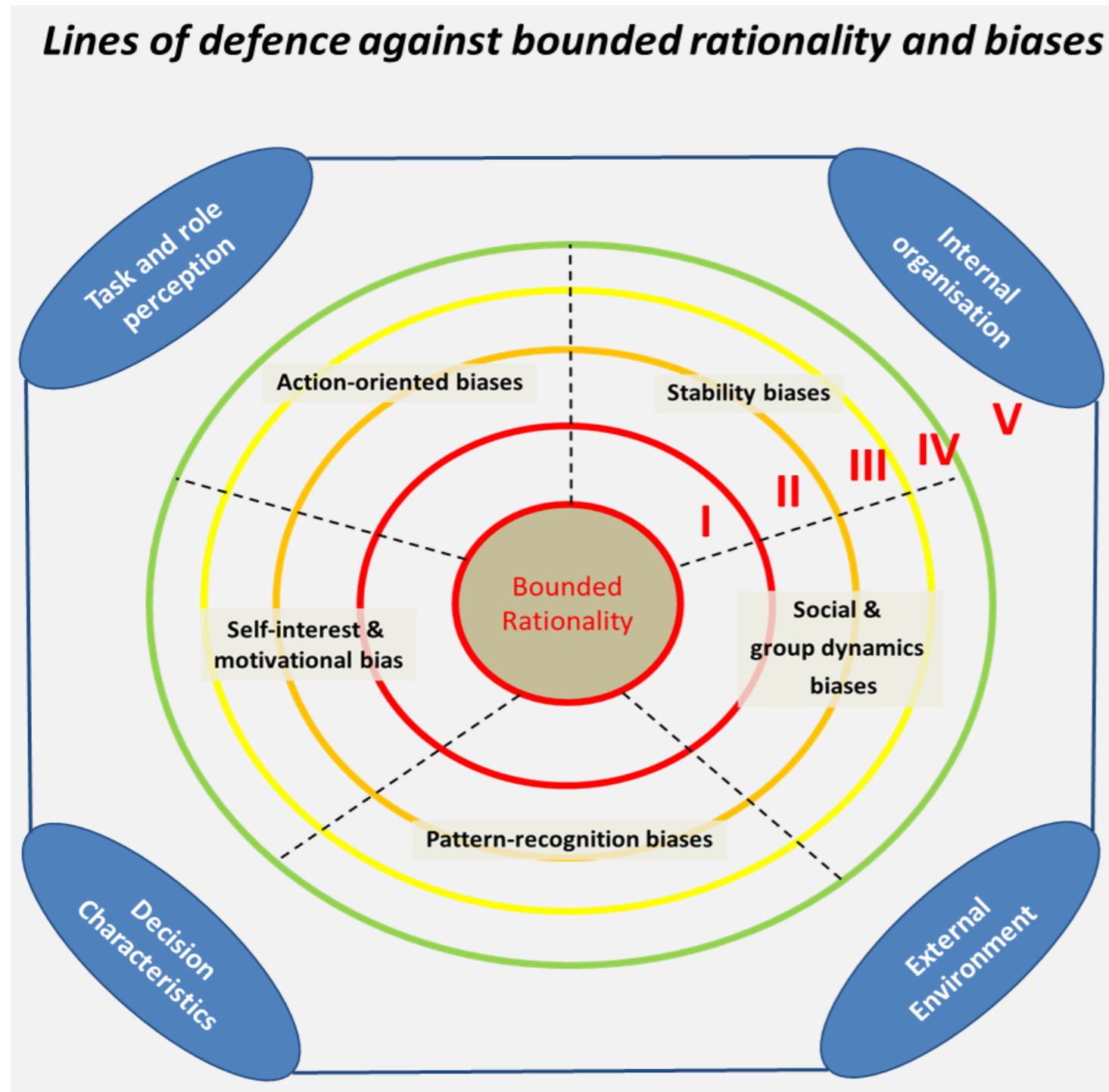
Structure your important decisions on a decision canvas

The risk of biased thinking (and deciding)



(based on McKinsey Quarterly - A language to discuss biases)

5 Lines of defence against (the risk of) biased thinking



- **I *Motivating*** decision makers to put more cognitive effort into the decision making tasks through incentives and increased accountability.
- **II *Enabling*** decision makers to deploy more cognitive capital towards decision-making tasks through cognitive debiasing techniques, critical thinking, group decision making and organised contradiction, decision modelling and IT support.
- **III *Agreeing*** between decision makers and (supervisory) boards on how a decision should be made through procedures, protocols, committee's, supervisory teams, and other governance mechanisms.
- **IV *Monitoring*** the outcomes and progress of decisions by post-audit and review teams and applying 'stage-gate' or 'optional' decision making methodologies.
- **V *Changing the context*** of a decision by moderating the internal or external environment, the role perceptions of boards or decision characteristics.

Debiasing instruments (1)

Group	How	What
I Motivating	Use of 'incentives and accountability' so that decision-makers put more cognitive effort into the decision-making process	<ul style="list-style-type: none">• Calibrate moral compass• Public / internal accountability• Result-oriented 'reward'• Increase stake (stakes)• Intrinsic incentives
II Enabling	Strengthening cognitive capacities (cognitive capital) so that decision-makers have more opportunities to decide more rationally	<ul style="list-style-type: none">• Training and coaching (statistics, scientific reasoning, etc.)• Critical and creative thinking (biases, causality, perspectives, etc.)• Cognitive engineering (consider the opposite, devils advocate, outsider view, reference class forecasting, re-framing, dialectical inquiry, nudging)• Group decisions (wisdom of crowds)• Decision models ICT (Decision Support Systems, AI, machine learning, serious gaming, simulation)

Debiasing instruments (2)

Group	How	What
III Agreeing	Discipline and correct decision-makers with a system of governance.	<ul style="list-style-type: none"> • Supervisory Board / Supervisory Board • Governance teams (e.g. takeover team) • Steering committee and project team • Establish (employee) participation • Organized contradiction/friction • Procedures & protocols
IV Monitoring	Monitor outcomes of a decision and adjust if necessary	<ul style="list-style-type: none"> • Post-audits / review team • Integrating options into decision making (stage-gate product development, real option theory)
V Context change	Reducing uncertainty, complexity or dynamics of the external or internal decision making environment	<ul style="list-style-type: none"> • Uncertainty analysis and risk management • Reduce complexity through standardization • Reduce environmental dependency through hedging, insurance, JIT production



Wrap up

- Why should we care about risk & uncertainty when making decisions?
 - We are not very good when dealing with future (risky and uncertain) events...
 - which could lead up-to failure-rates of more than 50% when making decisions...(with significant costs in terms of money, resources wasted and even our health and safety).
- The risk of making decision wrong can be decomposed to:
 - a flawed decision-making process and unclear roles and responsibilities,
 - wrong content including missing risk and uncertainties, framing issues and missing out on alternatives,
 - biased thinking corrupting the decision-making process.



Wrap up

- We can mitigate or overcome those risks by:
 - following a structured dialogue between the decision-makers and the project team when decisions that matter occur (otherwise clear-thinking/partial analysis sufficient);
 - assigning clear roles and responsibilities to all involved in the decision, that is: who decides, who agrees, who performs, who recommend the decision, who delivers input and get informed;
 - using a *Decision Canvas* to make sure all relevant content (e.g. goals, alternatives, information and risk/uncertainty's) is covered;
 - debiasing thinking by motivating and enabling decision-makers to put more cognitive effort in the decision-making process, agree about the process and monitor the outcomes of a decision or by changing the context of a decision.





Thank You For Joining This Session

If you require more information about:

Consulting Engagements / Project Management / Decision Modelling
Workshop Decision Quality (open & in-company)
Decision Coaching & Training

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