



Strategic Decisions Group

Executive Summary
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SDG eBriefing

Executive eBriefing®

Get It Right the First Time: A Proven Paradigm for Strategic Decision-Making

Featuring: **Carl Spetzler, Bruce Judd, Paul Marca, and Hannah Winter**

Following is a summary of the Executive eBriefing covering:

- The implications and causes of getting strategic decisions wrong
- How to make good decisions using the six elements of quality decisions
- How to make decisions right the first time
- How the Stanford Center for Professional Development is helping train executives to make better decisions.

To request a copy of the presentation, visit:
<http://www.sdg.com/home.nsf/sdg/eBriefings--eBriefingArchive--FirstTime>

Getting It Right the First Time: A Proven Paradigm for Strategic Decision-Making

Speakers: **Carl Spetzler**, Chairman, SDG
Bruce Judd, Director, Client Education, SDG; Adjunct Professor Managerial Economics & Decision Sciences, Kellogg
Paul Marca, Deputy Director, Stanford Center for Professional Development

Moderator: **Hannah Winter**, Partner, SDG

Overview

Companies can make better strategic decisions, and can get them right the first time, by using a process that incorporates six elements that ensure quality: setting the right frame, considering alternatives, gathering meaningful data, clarifying values and trade-offs, using logical reasoning, and committing to action. By focusing on each element of this process and involving the right people in the process at the right time and in the right way, organizations can create significant value and can avoid decision mistakes that erode value.

SDG and Stanford University have developed education programs to assist decision-makers and decision staffs in making and managing decisions better. Through Stanford, two programs are now available: a certificate program in Strategic Decision and Risk Management (SDRM) and a companion two-day executive seminar in decision-making.

Context

Leaders from SDG presented the elements of a quality decision-making process and described tools to use in making better decisions. They then were joined by Paul Marca who provided an overview of decision education programs offered through Stanford.

Key Learnings

- **Getting it [a strategic decision] wrong destroys immense value.**

Getting strategic decisions wrong is costly in terms of time and money and is often hard to recover from. For example, in 1999 Enron launched a massive broadband trading business. In 2001, rival Dynegy quickly built and launched a competing business despite evidence of a likely glut in broadband capacity. A year later, Dynegy closed this business and took a \$1 billion loss.

Making poor strategic decisions stems from a number of possible missteps. They include missing the market, not having agreement to act, poor leadership, poor execution, inadequate capitalization, bad strategy, and bad luck. Most of the time, however, it is poor decisions and not simply bad luck that leads to getting it wrong.

“Failures aren’t often due to luck. They usually stem from making poor choices in the first place.”

- Carl Spetzler

- **In contrast, getting it right can create tremendous value.**

As Carl Spetzler said, “Making good choices doesn’t cost a lot and can be the most effective improvement program anyone can think of.” But getting it right and making good decisions doesn’t guarantee good outcomes. Making decisions involves placing bets and taking risks. Even a good decision process can result in a bad

outcome; the only way to avoid a bad outcome is to avoid taking risks entirely. Getting it right implies that organizations are making high-quality strategic decisions that result in placing smart bets that create value for their shareholders.

Getting it right requires quality decision-making across six elements. Any decision will have a level of quality associated with each of these elements, measured from 0% to 100%. The key to getting it right is to drive the level of quality for each element to the 100% level but no further. The 100% level is defined as the point at which diminishing returns sets in, meaning that any additional effort increases the time and cost of the decision but doesn’t improve the quality.

“Getting it right...means driving the quality to 100% before we actually make the decision.”

- Bruce Judd

The six elements of quality strategic decisions are:

1. *Setting the appropriate frame.* Setting the frame means having a clearly defined purpose and scope as well as a conscious perspective on the problem. Typical failure modes include involving the wrong people, having the wrong perspective, and a lack of focus. Tools such as a vision statement, a decision hierarchy, and an accepted decision process all help to achieve the appropriate frame.
2. *Identifying creative and doable alternatives.* Alternatives need to stretch the creativity of the team involved and must be truly doable. However, they must also differ significantly from each other and be comprehensive and compelling. Typical failure modes include coming up with a single alternative and considering no others, staying in the comfort zone, harboring delusions on feasibility, and missing a great alternative. Creating alternatives requires both left brain and right brain power. Left brain tools such as strategy tables help organize the evaluation of alternatives. Right brain exercises like brainstorming help generate alternatives. Often, the best result will be a hybrid of different alternatives.
3. *Gathering meaningful and reliable information.* Confidence in a choice rests on a foundation of information. Meaningful information is material to the decision being made, is based on appropriate data and judgments, and accurately reflects the uncertainties involved. Failure modes include biased data, data that ignores uncertainty and intangibles, and data that doesn’t account for interdependencies. The data needs to quantify what is known and determine the value of resolving what is unknown. Useful tools include relevance diagrams, tornado diagrams, and probability distributions.

4. *Clarity on values and trade-offs.* Many bad decisions are a function of a lack of clarity about what is wanted. Clear values and trade-offs require an explicit statement of the decision criteria, a focus on value creation, and making consistent, conscious trade-offs among the decision criteria. Failure modes include double-counting risk, lack of communication, and neglecting key stakeholders. Clarity requires identifying the right decision criteria and then determining the trade-offs between them.
5. *Using logically correct reasoning.* This element combines elements 2–4 by using sound logic, addressing uncertainty, and focusing on insight at the appropriate level of complexity. Failure modes include overly cumbersome analysis that inhibits insight, relying solely on instinct and intuition, and over- or under-complicating the analysis. Decision analysis methods and analytical tools provide the tools necessary to find the best choice in a complex situation.
6. *Commitment to action.* A decision means nothing without action. A commitment to action implies that the organization is ready to act and that appropriate resources are allocated. Failure modes include endlessly reworking a decision, insufficient support, incongruent organizational structure, and a lack of organizational or individual motivation. Action results from having the right people involved in an efficient and effective decision process.

- **Getting it right the first time requires a good decision process.**

An effective process is more than a simple sequential march through the six elements. Though the process always begins with defining the appropriate frame and ends with a commitment to action, the middle steps are iterative.

To embark on a decision, do a “once-through,” quickly evaluating each of the six elements for the level of quality associated with it. This identifies weak links and allows for a focused effort to strengthen them.

Many decision-making failures stem from an ineffective and inefficient use of people in the decision-making process. Along with a strong process there must be an appropriate structure for the team that is involved. Decision quality is brought about through structured interactions between the decision-makers and the decision staff. The decision team consists of:

- *Decision-makers*—These are the executives who kick things off by declaring the need for a decision and then define the process, the roles and responsibilities, and the timelines for the decision. They ultimately make the decision.
- *Decision staff*—They lead the process and conduct the information gathering and analysis required to build quality into the decision.
- *Content experts and implementers*—They provide meaningful and reliable data. Once the decision-makers make a final choice, they carry it out in a way that ensures value.

- **Stanford University and SDG have created education programs focused on improving decision-making.**

Stanford and SDG believe that in view of the increased decision skills required by organizations, an opportunity exists to improve

decision-making through education. They have combined to create the following education programs:

- *Professional Certificate Program in Strategic Decision and Risk Management.* In this program, a certificate is awarded after completion of six courses of 2.5 days each. There are four core courses at the heart of the program. In addition, there are multiple electives from which participants select two.

The program is designed for decision-makers and decision staff who participate in strategic decisions and risk management. It is relevant to individuals in virtually every function. Qualifications include three or more years of business experience and an academic background that is typical for entrance into an engineering management or MBA program.

This certificate program combines academics with practical application. Participants learn about the two academic communities that provide the foundation for applied best-practice decision-making: prescriptive decision-making and behavioral decision-making. These elements of decision science are taught in combination with applied best practice tools and frameworks that are used in organizations.

“We give you the tools to make the right decision and put it into action.”

– Paul Marca

- *Two-Day Senior Executive Seminar.* This is designed for senior executives and board members who have significant decision responsibility. Topics include fostering innovation to address strategic business challenges, establishing governance principles that enhance decision quality, managing enterprise risks from a value-driven perspective, using complexity and uncertainty to your business’s advantage, balancing the needs of diverse stakeholders, and enhancing individual effectiveness as a leader and decision board member. The first seminar will be held in April 2007.

For more information about these programs:

Contact Paul Marca at pmarca@stanford.edu.

Other Interesting Points

- **Culture change.** Most organizations today use an advocacy decision-making process where one individual attempts to sell others on a decision. This process suppresses alternatives and often does not lead to the best outcome. Evolving to a process of making quality decisions is not just about using a new tool, it is a cultural change within an organization that involves new roles and expectations.
- **Strategic failures.** According to *Harvard Management Update*, 66% of new corporate strategies are not implemented.

Biographies

Carl Spetzler

SDG, 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 20 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 chief executive officer of SDG, Dr. Spetzler works with top management and boards of directors to improve the quality of decisions. His methods stress that boards be collaboratively engaged in a few truly strategic decisions rather than simply serve in an approval role on a myriad of items. Before the founding of SDG, Dr. Spetzler directed the Financial Industries and Strategic Methodologies Center at SRI International. He received an MBA and a PhD in economics and business administration and BS in chemical engineering from the Illinois Institute of Technology (IIT). He serves on the boards of IIT and the Decision Education Foundation, a nonprofit organization dedicated to improving the decision-making skills of youth. In 2004, Dr. Spetzler received The Ramsey Medal, the highest honor awarded by the Decision Analysis Society of INFORMS for lifetime contributions to the field.

Bruce Judd

SDG, Executive 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. Dr. Judd was also on the faculty of the Stanford University Graduate School of Business for 14 years, and he currently teaches in the MBA program at the Kellogg Graduate School of Business, Northwestern University. 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.

Paul Marca

Stanford Center for Professional Development, Deputy Director

Paul Marca has been at SCPD for 12 years. He worked on the early efforts at offering television short courses as part of a team called Media Works. To develop a more effective relationship with industry, Mr. Marca became the first director of ProEd and chose to take on the additional role of director of new business. He assesses industry needs for effective program development, while fostering new opportunities for SCPD partnership. Having the strategic development and new business development roles in ProEd, Mr. Marca networks in the business world to bring existing and potential partners on to campus. It is very much the entrepreneurial role for ProEd. Mr. Marca's ties to Stanford run deep. A graduate of Stanford, he has been challenged there in every aspect of his life. He says, "We have the opportunity to extend the Stanford experience—the experience I've had myself—to others in industry through our ProEd Programs."

Hannah Winter

SDG, Partner, Human Resources Officer

Ms. Winter is the Human Resources Officer for Strategic Decisions Group. She is responsible for training and professional development of SDG's consulting staff and manages aspects of the partner election process. Before assuming this role, Ms. Winter was a consulting partner and developed business and marketing strategy in the automotive, consumer electronics, telecommunications, and utility industries. She led a management team in developing a strategy for the Asia-Pacific region and developed a marketing strategy for the Japanese vehicle market for a global automobile manufacturer. Ms. Winter received an MBA from the Stanford University Graduate School of Business and an MS and a BS in electrical engineering from Stanford University.

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