Making decisions that matter
How improving executive decision-making can lead to better business outcomes

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Give your decisions a grade

If you were to assign your executive team a grade for decision effectiveness, what letter would you give?

A+: Decisions are made with speed and transparency, required information is available at the desired time and the necessary people are at the table objectively considering important choices

C: There are some basic processes in place but the team lacks good information and often individual agendas and group dynamics prohibit effective decisions from always being made

F: Key decisions often fall through the cracks due to lack of clarity on who owns what decision, when the decision needs to be made, what information is really required, and who needs to be involved. There is competition and distrust on the team, which greatly diminishes the group's ability to come to a good decision, resulting in loss of opportunity, market share, and diminished revenue and/or cost saving opportunities.

How effective is the C-Suite at making decisions?

A well-run organization must be able to make swift, high quality decisions that support the execution of its overall strategy and meet its financial targets. Yet many executive teams have not established a clear decision-making framework with defined decision-making rights that translate throughout the enterprise.

Too often, unclear decision rights result in misalignment among leaders, causing competition, power struggles, and ultimately hindering an organization's ability to make good decisions.

Why do people regularly see good leaders make bad decisions?

Poor decision processes are further compounded because leaders do not understand their own individual biases in decision-making, let alone the dynamics that impact decisions when their leadership team comes together to make group decisions. The recent popularity of books on behavioral economics such as "Thinking Fast and Slow" "Predictably Irrational" and "Nudge" has drawn renewed attention to the flawed nature of individual and group judgment when it comes to making decisions. Behavioral biases can be cognitive or emotional, individual or collective, conscious or automatic...and for a blunder, combine several of them!

Understanding decision-making biases and ways to overcome them can aid in getting decision-making 'right' in the C-Suite.

Why is it critical for executives to focus on decisions now?

As the economy recovers and expands globally, organizations face a heightened need for speedy and effective decision-making in order to remain competitive and flourish in the marketplace. But many organizations are ill-prepared to carry out efficient decision-making – leadership turnover remains high, mergers and acquisitions result in an ongoing need for integration, strategy and operating model changes are being implemented to meet shifting consumer demands and the regulatory landscape continues to impose new demands. This continuous turmoil can make it challenging to focus on improving an executive team's decision-making capability.

Deloitte has found that focusing on improved decision-making can provide information to leaders about managing the multiple demands imposed by the marketplace, empowering levels of the organization to function efficiently and bringing clarity during a time of competing priorities. Further, improving the C-Suite's understanding of their potential biases in decision-making **and arming them** with tools to fight against these pitfalls greatly reduces the negative consequences of poor decisions.

Now more than ever it is critical for organizations to establish clear accountability and to formalize a consistent and thoughtful approach to decision-making in the C-Suite, educating executives on strategies to overcome their biases in judgment.

What are the Common Pain Points?

In the C-Suite, the distinction between who is accountable for a decision, who makes the decision and who is involved in a decision can become blurry. Depending on an organization's size and structure, overlapping responsibilities can result in slower responses to business opportunities, risk of decisions falling through the cracks, or inefficient escalation of decisions to top leadership when those responsible reach an impasse. And even once the necessary decision makers are in the room and ready to provide information on a set of choices, they are often ill equipped to protect themselves against the common biases in judgment that individuals possess. Thus, coaching decision makers on techniques to combat their biases when considering alternatives may improve decision outcomes.

It is important for the C-Suite to address areas of overlap and pain points by effectively setting up a clearly defined and communicated decision rights framework, and to establish routines that enable them to correct for cognitive biases in decision-making. Illustrated below are just three scenarios where important decisions often suffer:

Behavioral biases come in many shapes and sizes, and no one who is human can avoid them entirely. Below are just a sample of a few of the biases commonly seen in organizations that can be overcome with awareness and education:

Confirmation Bias – favoring information that confirms preconceptions rather than the truth.

Affect Heuristics – placing heavy reliance on intuition or 'gut feeling'.

Status Quo Bias – tendency to stick with one's current situation.

Anchor Bias – tendency to rely too heavily on a (possibly arbitrary) reference point when estimating a quantity or making a decision.

Framing Bias – Different ways of presenting the same information evoke different outcomes in people's decisions

- **Set Strategic Direction and Vision for the Organization** – The Chief Executive Officer may be accountable for setting the strategic direction and vision of the organization, but how does he/she incorporate his/her input with the regional or business unit leaders' input? How are the Chief Financial Officer and Chief Operating Officer brought into these business decisions? And when the CEO does bring this group together to make important decisions, do they inadvertently seek out and assign more weight to information that tests their preconception and ignore evidence that contradicts it, exemplifying the "confirmation bias"? Alternatively, are they victims of the "framing bias", resulting from only hearing input from some functions and business units and not others, providing an unbalanced perspective?
- **Determine Direction for New Markets, Including Growth Strategy and Merger Decisions** – Significant complexity and unclear accountability can cause poor decisions on which products and services to provide or which new markets or acquisition targets to pursue. Should a business unit leader be able to make a growth decision independent of corporate executives? Do corporate executives have sufficient knowledge of local markets and opportunities to set an effective strategy, or should decision rights be clarified so that local leaders are given the necessary amount of involvement? Without bringing the required group of leaders together, growth strategy decisions more often than not lend themselves to the "affect heuristic" or a heavy reliance on intuition or a 'gut feeling'. A tendency for leaders to assume they instinctively know which 'bold move' to make can easily steer a company in the wrong direction.
- **Define the Performance Management Process to Measure and Evaluate Progress against the Organization's Goals** – Who can determine which metrics and performance indicators to set and monitor? How can leadership test that the correct targets are set and avoid a conflict of interest between those who set, measure and are incentivized by goal attainment? Organizations typically define the metrics and performance management processes based on previous reference points that are anchored around past evaluations. This "anchoring bias" can prevent organizations from setting and reaching aspirational targets, and may cause them to stagnate in their success and fall behind the competition.

What are Solutions to Overcome these Decision Blunders?

Deloitte has a detailed set of tools and techniques that can be employed to address the challenges in decision-making. The following illustrates ways to overcome biases commonly found in organizations:

- **Set Strategic Direction and Vision for the Organization** – C-Suite executives should work together to gather relevant data and to incorporate perspectives and opinions from multiple stakeholders to prevent making the wrong decisions due to limited information and/or input. Defining who on the executive team should be part of the decision process and then challenging one another to use objective data to evaluate choices can prevent the confirmation bias. Recognizing these biases and educating each other on techniques to overcome these hard wired preconceptions is a core strategy in improving decision outcomes.

  Another technique to avoid making decisions based on instinct is to use formal analysis and advanced analytics to inform strategy. A specific aspect of making effective strategic decisions is to make certain that relevant players have access to objective data and use this information to enhance the decision outcomes.
- **Determine Direction for New Markets, Including Growth Strategy and Merger Decisions** – Getting a broad perspective by including an expanded group of executives in making these important decisions is crucial, and one of the common tools for providing clarity as to who should be involved in a decision is known as a "RACI Matrix" (responsible, accountable, consulted, and informed), a framework used to clearly designate the specific roles in a decision-making process.

  Those who play a consultative role in the decision process have an opportunity to bring in external benchmarks or new perspectives to encourage the accountable and responsible positions to push beyond the status quo in defining metrics and performance management. And once it is established for the executive team, the RACI matrix tool can be expanded to the broader leadership team. The content in the matrix can inform governance committees where joint decision-making processes take place and can be developed further to account for more granular regional, divisional and functional implications.

A RACI describes:

- Who is responsible for executing the work?
- Who is accountable for the desired outcomes of the decision?
- Who has been consulted for input, information, insights and perspectives?
- Who has been informed about the outcome of the decision?

Developing a RACI Matrix enables executives to collectively understand and agree on where decision-making accountability begins and ends, where clear overlap is apparent between roles and how to work together to gather the necessary information to make timely and accurate decisions. The RACI diagram illustrates what a high-level decision rights framework might look like for this decision.

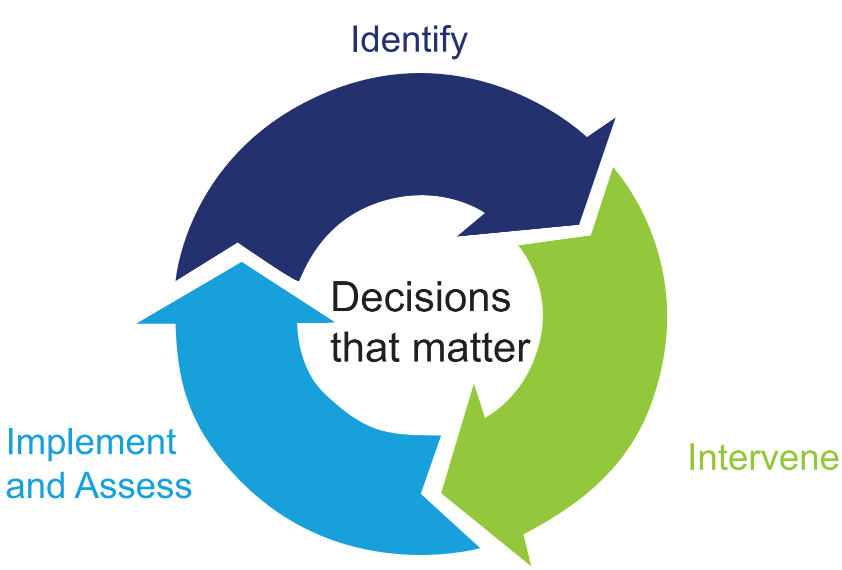
Sample RACI Matrix	Roles			
Decision	CEO	CFO	COO	CIO, CHRO, SVP's
Determine direction for new markets, including growth strategy and M&A and divestiture decisions	A	R	C	I

- **Define the Performance Management Process to Measure and Evaluate Progress against the Organization's Goals –** In order to avoid setting targets and specific performance indicators simply based on the status quo, C-Suite executives should focus on setting stretch performance goals based on leading practices first, and then adjust the metrics to fit the specific situation of their organization. So instead of simply using last year's metrics and adjusting up or down, there needs to be a concerted effort to find and incorporate objective measures.
  Bringing in neutral individuals to play 'Devil's Advocate' is an effective way to check assumptions and test targets. A concept called a 'pre-mortem' is another way to practice "prospective hindsight", in which each person in the room independently writes down any reasons they can imagine for the project's failure. In reviewing the pooled responses, the decision makers can look for ways to strengthen the plan or consider whether to potentially abandon the plan.

Where Should you Start?

Improving decision-making in organizations is a challenging proposition; however, there are specific and recognized interventions that are applicable to solving many decision-making dilemmas. To improve the outcomes on decisions that matter within your organization, consider the following three step approach:

1. **Identify those decisions that matter**
   Deloitte defines decisions that matter as ones that have high value and/or impact to the organization, that have disproportionate impact if the outcomes go well or poorly, and that lend themselves to improvements using decision rights and behavior modification techniques
2. **Determine a high-quality strategy for intervention**
   For each decision that matters, the steps in the decision-making process must be understood in terms of "the who, the how, and the what". Only then can the applicable steps be taken to put structure, processes, and coaching in place that can improve decision outcomes
3. **Implement the solution and assess the decision outcome**
   Decisions that happen only once in organizations may not lend themselves to improvement; however, for the many decisions that are made daily, monthly, or annually, organizations are well positioned to study their decision-making process and outcomes and make ongoing improvements.



Ask Yourself

- Have you truly agreed as an executive team on the decisions that matter most to your organization?
- When there is an overlap in decision-making responsibilities and accountabilities, how does your organization deal with the issues?
- How cognizant is your executive team of behavioral biases and the influence these biases have on decision-making?

Decision Rights Framework Element	Take Action	Additional Thoughts
Identify What Decisions that matter	**Determine what decisions need to be made.** This is typically done by developing a decision inventory.	There are four types of decisions that span from strategy setting to execution. Create an inventory of the decisions that need to be conducted, and then focus efforts on those decisions that are specifically important – those with high impact and that lend themselves to intervention. Typically, these are a small set of strategic and integrative decisions that occur in organizations. • **Strategy** – Shape the future business direction and commit significant resources • **Direction** – Provide overall management direction • **Integration** – Require coordination of various groups across different processes and functions • **Delivery** – Related to the day-to-day management of a specific process of function
Intervene Who The individuals and groups involved in making decisions	**Determine who needs to be involved.** Multiple parties may be involved in decision-making. To clarify each party's role and accountability, a RACI matrix should be developed.	Define the individuals and groups aligned with each decision types and document the associated roles and responsibilities based on the RACI model. • **R – Responsible –** Responsible for decision-making and overall execution • **A – Accountable –** Accountable for the decision outcome; for guaranteeing the decision is made with the participation of designated stakeholders (R's); for gaining alignment during the decision-making process; only one role is ultimately accountable for an area of decision-making • **C – Consulted –** Consulted by the stakeholders (R's) to provide input to the process, but not directly involved in the decision-making activity • **I – Informed –** Notified about the decision after the decision has been made, but not directly involved in the decision-making activities
Implement and Assess How The processes and tools to support decision-making and reduce bias.	Establish a framework that combines "what" and "who" into a process for "how".	Integrate the "what" (decisions that need to be made) and the "who" (the individuals and groups involved) into a decision rights framework that addresses the gaps in the current state approach. Next, establish supporting decision-making tools and templates, including relevant communication and training materials. Build specific organizational habits to identify and reduce decision-making biases and groupthink. Implement "quality control" over decisions to endeavor to provide that alternative options and dissenting opinions are explored and that biases within leadership teams are recognized early and addressed proactively.

Case in Point:
Improved Decision-making Brings Success in Operating Model Re-Design

The Challenge

A large Mid-West healthcare system with multiple medical centers and outpatient facilities had grown through organic growth and acquisitions. Internal and external drivers led the system to consider reevaluating its operating model, as it anticipated the need to be prepared for upcoming healthcare reform impacts and pressures to reduce costs and improve care. Historically, the organization had operated like a "holding company" with limited support services at corporate, and many redundant functions and services present within each operating unit. Throughout the organization, decisions were made by the CEO, CEOs of each operating unit and C-level functional leaders without clear understanding of which role held the responsibility and accountability for integration decisions. On top of this, the executives were human! Thus, the presence of behavioral biases also contributed to the ineffectiveness of the decision-making process. A new decision framework was needed.

Our Role

Deloitte worked closely with leadership to conduct an assessment and identify opportunities to achieve the vision of the system. One thing that became clear was that the CEO was the sole individual accountable for a large proportion of the decisions, decreasing efficiency and agility in many areas. Deloitte also uncovered the tendency of decision makers to "anchor" and rely too heavily on a fixed reference point when weighing options and decision inputs. It was revealed that some executives had been known to actively seek out and assign more weight to information that supported their own views when making decisions, thereby decreasing their objectivity and the subsequent effectiveness of their decisions. When designing the future state, decision-making scenarios were created to illustrate several important decisions where a number of individuals were included and/or were responsible for the decision. The scenarios provided information to outline integration decisions where numerous members of the C-Suite were involved. An approach for recognizing biases was integrated into the decision-making framework to improve the outcome of decisions.

Results

The redefined future state decision rights framework provided much needed clarification for local and corporate leadership around the accountability for important decisions. The refined decision rights were used to clarify individual and group roles in decision-making. Some important changes included shifting decision-making responsibility towards corporate and improving the decision-making process by recognizing existing behavioral biases and educating the team on techniques to overcome them.

What are the Benefits of Improving Decisions?

Organizations have the opportunity to assess their decision-making structure and distribute responsibility strategically. Refining decision rights is about assessing the current operating model and tailoring decision-making to meet the envisioned future state operating model. Improving decision performance is about leveraging these building blocks and then addressing biases in decision-making in order to improve decision outcomes. If organizations are able to achieve both, they can/may have improved decision outcomes that in turn may afford them a competitive advantage.

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