MAKING DIFFICULT DECISIONS
IN TURBULENT TIMES

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Napoleon Bonaparte once said that, “Nothing is more difficult, and therefore more precious, than to be able to decide.” He recognized that a few critical decisions put leaders to the test. In turbulent times, some leaders make tough choices with courage and conviction. Others cannot cope with the complexity and uncertainty. They remain indecisive, and their rivals gain the upper hand.

Like Napoleon, today’s business leaders must cope with a great deal of ambiguity as they make important choices about the future. They face uncertainty with regard to world politics, macroeconomic growth and stability, technology and changing consumer tastes. Many worry that an unknown event will transform their entire industry in a matter of a few weeks or months.

Most executives find ways to cope with this uncertainty. They adopt strategies for simplifying complex situations so that they can make decisions quickly and effectively. These strategies enable managers to make sense of a confusing situation. In this article, I describe seven strategies that leaders can employ to cope with ambiguity and complexity as they make critical decisions. The strategies are reasoning by analogy, imitation, rules of thumb, reformulation, deference to experts, rigorous debate, and experimentation. These strategies often prove very effective because they enable leaders to make accurate judgments under stressful conditions. Unfortunately, each of these strategies has serious drawbacks as well. When employing these techniques, ▶
many leaders draw the wrong conclusions, make biased estimates, pursue flawed policies, or impede the development of commitment within their management teams. Thus, leaders must use these strategies with great care.

1. REASONING BY ANALOGY
Business leaders often draw analogies with past experiences when faced with a complex problem. They draw comparisons to similar situations or circumstances from their past or the history of other organizations, and deduce certain lessons from those experiences. John Rau, a former CEO and business school dean, argues that analogies provide a wealth of information: “The fundamental laws of economics, production, financial processes and human behaviour and interaction do not change from company to company or industry to industry. Reading about other companies makes me a better decision maker because it provides a store of analogies.” (J. Rau, “Two Stages of Decision Making,” Management Review, December 1999).

Indeed, researchers have shown that people in a variety of fields, from foreign policy to firefighting, reason by analogy as a means of coping with complexity and ambiguity. Analogies prove especially useful when decision-makers do not have access to complete information and do not have the time or ability to conduct a comprehensive analysis of alternatives. They enable people to diagnose a complex situation very quickly and to identify a manageable set of options for serious consideration.

Unfortunately, most analogies are imperfect. No two situations are identical. Many decision-makers spot the similarities between situations very quickly, but they often ignore critical differences. In foreign policy, officials often refer to the “Munich analogy” when making decisions. When confronted with international aggression, many world leaders argue against appeasement by drawing comparisons to Hitler’s belligerence during the 1930s. They argue that British Prime Minister Chamberlain’s decision to appease Hitler in 1938 actually encouraged him to pursue further expansion. Political scientists Richard Neustadt and Ernest May point out, however, that not every situation parallels the circumstances in Europe in the late 1930s. For example, they argue that President Truman would have been well served to identify the differences, as well as the similarities, between Korea in 1950 and Czechoslovakia in 1938. Ignoring these distinctions may have impaired the United States’ strategy during the Korean conflict.

Business leaders often draw imperfect analogies as well. Take the recent dot-com boom, for example. Several market research firms projected the growth of on-line advertising by drawing analogies between the internet and other forms of media. They examined the historical growth in advertising in other media industries and projected Internet growth by selecting the analogy that they deemed most appropriate. In doing so, they failed to recognize the critical differences between the Web and other media such as television and radio. Similarly, many research firms project the demand for new technologies by drawing analogies to the adoption rates for VCRs, personal computers and cell-phones. Again, the differences among these technologies are often rather striking, yet they receive scant attention.

2. IMITATION
When faced with uncertainty and environmental turbulence, some business leaders emulate the strategies and practices of other highly successful firms. After all, why reinvent the wheel; one way to simplify a complex problem is to find someone who has already solved it. Learning from others can pay huge dividends. At General Electric, former CEO Jack Welch launched a major best practice initiative in 1988. He credits this initiative with fundamentally changing the way that GE does business and produces substan-
tial productivity gains. Welch and his management team identified approximately 20 organizations that had long track records of more rapid productivity growth than GE. For more than a year, GE managers studied a few of these firms very closely. They borrowed ideas liberally from these organizations and adapted others’ strategies and processes to fit GE’s businesses. For instance, they learned “Quick Market Intelligence” from Wal-Mart and new product development methods from Hewlett-Packard and Chrysler.

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All of this learning sounds wonderful, but imitation has its drawbacks. In many industries, firms engage in “herd behaviour.” They begin to adopt similar business strategies, rather than develop and preserve unique sources of competitive advantage. Take, for example, the credit card industry. Many firms have tried to emulate the highly successful business model developed by Capital One. Over time, company marketing and distribution policies have begun to look alike, rivalry has intensified, and industry profitability has eroded. Consider too the many instances in which a leading firm decides to merge with a rival, touching off a wave of copycat acquisitions throughout an industry.

In times of great turbulence and ambiguity, executives may feel safe imitating their rivals rather than going out on a limb with a novel business strategy. However, the essence of good strategy is to develop a unique system of activities that enables the organization to differentiate itself from the competition or to deliver products and services at a lower cost than its rivals. Simply copying the strategies and practices of rival firms will not produce a unique and defensible strategic position. It takes great courage to stand alone when rivals engage in herd behaviour, but it can pay huge dividends. Being different does not mean that a firm refuses to learn from others. For instance, General Dynamics studied its rivals very closely during the turmoil in the defence industry in the early 1990s, and observed that many firms had decided to pursue commercial diversification to compensate for diminishing military spending. The company’s historical analysis indicated that aerospace firms had not fared well during past diversification efforts. Therefore, it chose to focus on defence despite the precipitous decline in industry demand. Many rivals ridiculed this strategy at the time. Yet for the past decade, General Dynamics has generated shareholder returns well in excess of that of most large competitors.

3. RULES OF THUMB

In many situations, managers cope with ambiguity and complexity by adopting a rule of thumb, or heuristic, to simplify a complicated decision. These shortcuts reduce the amount of information that decision-makers need to process, and shorten the time required to analyze a complex problem. Often, an entire industry or profession adopts a common rule of thumb. For example, mortgage lenders assume that consumers should spend no more than 28 percent of their gross monthly income on mortgage payments and other home-related expenses. This provides a simple method for weeding out consumers with high default risk. Computer hardware engineers and software programmers have adopted many rules of thumb to simplify their work. Many of us are familiar with one such rule, Moore’s Law, which predicts that the processing power of computer chips will double approximately every 18 months. Finally, the conventional wisdom in the venture capital industry used to suggest that firms should demonstrate four consecutive quarters of profits before launching an initial public offering. Alas, many venture capitalists regret abandoning this rule during the dot-com frenzy of the late 1990s.

Many executives also develop heuristics for their own firms. For instance, Dennis Kozlowski, CEO of Tyco International, uses a few rules of thumb to simplify his firm’s acquisition screening and evaluation process. Tyco considers hundreds of potential acquisition targets per year. Conducting an in-depth analysis of each firm would take enormous time and effort. To streamline the decision process, Kozlowski and his management team only consider deals that are friendly and immediately accretive to earnings. These two rules of thumb enable managers to weed out unattractive deals very quickly and to conserve precious organizational resources.

In most cases, heuristics enable managers to cope with ambiguity and to make sound judgments in an efficient manner. Rules of thumb can be dangerous, though. They do not apply equally well to all situations - there are always exceptions to the rule. While industries and firms employ many idiosyncratic rules of thumb, researchers also have identified several, more general heuristics that can lead to systematic biases in judgment. Let’s consider two prominent shortcuts: availability and anchoring. Individuals typically do not conduct a thorough statistical analysis to assess the likelihood that a particular event will take place.
in the future. Instead, they tend to rely on information that is readily available to them in order to estimate probabilities. Vivid experiences and recent events usually come to mind very quickly and have undue influence on people’s decision-making. This availability heuristic usually serves people well. However, in some cases, easily recalled information does not always prove relevant to the current situation and may distort our predictions.

When making estimates, many people also begin with an initial number drawn from some information accessible to them at the time, and they adjust their estimate up or down from that starting point. Unfortunately, the initial number often serves as an overly powerful anchor, and restrains individuals from making a sufficient adjustment. Researchers have shown that this “anchoring bias” affects decision-making even if people know that the initial starting point is a random number drawn from the spin of a roulette wheel! In sum, many different rules of thumb provide a powerful means of coping with uncertainty and complexity. But they also impair managerial judgment when people fail to recognize their drawbacks and limitations.

4. REFORMULATION

Social psychologist Karl Weick has noted that decision-makers can gain traction on complex problems by reframing them as “mere problems.” Complicated issues can overwhelm people because they cannot cope cognitively and emotionally with the uncertainty, complexity and stress associated with trying to solve the problem. Redefining a serious challenge as a series of smaller problems enables people to make decisions more manageable. They can adopt a strategy of “small wins” in order to build momentum and make steady progress toward achieving the overall objective.

Business leaders employ this strategy all the time. For example, when Bill Anders took over General Dynamics in 1991, the company stood at the brink of bankruptcy. He framed the immediate problem as the need to generate the cash required to pay down the enormous amount of debt carried on the company’s balance sheet. To address this issue, the firm divested several businesses and sold a number of assets. Then, Anders and his team set out to tackle a series of other problems that had contributed to the firm’s poor performance. Another example occurred when Julie Morath became the Chief Operating Officer at Minnesota Children’s Hospital and set out to tackle the complicated and highly sensitive problem of medical errors. To make early progress, she broke down the challenge into a series of smaller initiatives, and gradually shifted the organization’s entire approach to patient safety.

The risk associated with a “small wins” strategy is that leaders might choose to make incremental adjustments in a firm’s strategy, while missing the opportunity and the necessity for more radical changes. My colleague, Clayton Christensen, has written extensively about how firms can become fixated on making incremental improvements while failing to recognize disruptive changes in technology. Effective managers utilize a “small wins” approach but recognize its limitations. For instance, when Kevin Dougherty and his team crafted an e-commerce strategy for Sun Life’s group insurance business, they focused first on the opportunity to create value by transferring existing business processes to the Web. After experiencing some success, they recognized the incremental nature of many of the changes that they had made. Dougherty and his team worried that a competitor might use the Internet to create a completely different business model. They did not want to be “Amazoned” by such a rival. Therefore, the team began intense discussions about the possibility of more radical changes in the business unit’s strategy. Dougherty’s team coped effectively with uncertainty by keeping their eye on the big picture while pursuing a series of small wins.

5. DEFERENCE TO EXPERTS

Most executives rely heavily on experts in a pertinent domain to inform their decision-making in complicated situations. Occasionally, top teams bring in outsiders who can offer knowledge and experience that is unavailable within the firm. On many senior teams, managers defer to other members who have relevant expertise on a particular issue. These experts have credibility, and command respect from others inside as well as outside the organization. For example, I have observed a top team in which one member exerted a great deal of influence on acquisition decisions because he had negotiated many merger deals throughout his career.

When making complex, unstructured decisions, experts can play an important role because they bring to bear a rich accumulation of experiences from which they can draw inferences, develop hypotheses and pose challenging questions. Their experience enables them to recognize pat-
terns over time and across situations. They can use this pattern recognition ability to simplify complex situations very quickly and effectively.

Some teams, however, do not make good decisions when they defer to experts. Experienced members of a group can dominate a discussion and discourage constructive dissent. As a result, teams may converge prematurely on a suboptimal alternative. The Kennedy administration’s infamous decision to support an invasion of the Bay of Pigs provides a vivid example of this phenomenon. In that decision process, experts from the Central Intelligence Agency exerted undue influence during the decision-making process. During those early days of the Kennedy administration, less experienced advisers deferred to the CIA officials, and even engaged in self-censorship when they held opposing views. Consequently, the Kennedy team failed to test critical assumptions embedded in the CIA plans and considered a very narrow range of options. By all accounts, the input and advocacy of a few highly credible experts proved to be a burden rather than a blessing.

Deference to experts may also diminish a team’s commitment to a decision, and thereby impede implementation. Consider the case of a division president who typically assigned a small subgroup of his management team to analyze decisions in detail. For each situation, the division president selected individuals with relevant expertise. The subgroup developed and evaluated alternatives, and then shared their recommendation with the entire team. Naturally, others viewed these recommendations as a fait accompli and did not feel comfortable expressing dissent during the team meetings. If they had objections, they waited to raise them at some future date, often derailing the implementation process. In short, deference to experts may diminish commitment if other team members feel that they have not had an adequate opportunity to express their views and to influence the final decision.

6. RIGOROUS DEBATE

Rather than relying on expert judgments, some management teams may wish to grapple with ill-structured decisions by stimulating a rigorous debate among all members. In situations of great uncertainty, a lively debate can clarify and refine people’s ideas, and enhance shared understanding of complex problems. In his book, Only the Paranoid Survive (Currency/Doubleday, 1996), Intel chairman Andy Grove explained that “debates are like the process through which a photographer sharpens the contrast when developing a print. The clearer images that result permit management to make a more informed—and more likely correct—call.” Indeed, constructive conflict encourages the generation of multiple alternatives and ensures that teams will critically evaluate each option. Healthy debate also enables managers to separate facts from assumptions, and to surface and evaluate the latter very carefully.

Many successful business leaders employ constructive conflict as a means of clarifying and sharpening their ideas during uncertain times. For instance, Chuck Knight, the former CEO of Emerson Electric, always sparked heated debates during his firm’s strategic planning meetings. He asked tough questions and forced his managers to examine all sides of an issue. Knight believed that debate provided a clearer assessment of the threats and uncertainties in the competitive landscape. Similarly, Jack Welch often explained that constructive conflict was an essential feature of strategic planning at General Electric. As one of his colleagues once said, “Jack will chase you around the room, throwing arguments and objections at you. Then you fight back...if you win, you never know if you’ve convinced him or if he agreed with you all along and was just making you strut your stuff.” (J.L. Bower, “Jack Welch: General Electric’s Revolutionary,” Harvard Business School Case Study 0-394-065).
Conflict and dissent can prove to be very productive if managed appropriately. However, many debates result in a stalemate between opposing camps within management teams. Subgroups retrench into rigid opposing positions and cannot resolve their differences. Often, these stalemates lead to interpersonal conflict, ranging from personality clashes to emotional outbursts and personal attacks. This dysfunctional form of conflict makes it difficult to build commitment, and diminishes the likelihood that team members will want to cooperate with one another during implementation. For these reasons, leaders must adopt a variety of techniques for managing conflict effectively. These include discouraging the use of inflammatory language, asking people to argue several different sides of an issue, shifting people out of their traditional roles, and requiring teams to revisit key facts and assumptions when an impasse is reached.

7. EXPERIMENTATION
The final technique that executives employ to cope with ambiguity in strategic decision-making is experimentation. In this mode, managers avoid making a big bet under murky conditions. Instead, they stage a small test, gather feedback and adjust their strategy based upon what they have learned. They may run a second experiment at that point, or managers could decide to make a much bolder move. Alternatively, they could decide to abandon the project. This type of learning process enables managers to gradually reduce uncertainty and gather new information about customers and markets. For instance, throughout Home Depot’s history, managers have tested new retailing concepts that they were not certain would become popular with customers. During the test, they gathered customer feedback and evaluated various measures of performance. Then, they made a decision regarding how to proceed. Many of these concepts evolved over time based upon the learning from these experiments.

When managers engage in experimentation, they need to be aware of the sunk-cost effect—the tendency for people to escalate commitment to a course of action in which they have made substantial prior investments of time, money or other resources. If people behaved rationally, they would make choices based on the marginal costs and benefits of their actions. The amount of any previous unrecoverable investment in that activity should not affect the current decision. Unrecoverable investments represent sunk costs that should not be relevant to current choices. However, research demonstrates that people often do consider past investment decisions when choosing future courses of action. In particular, individuals tend to pursue activities in which they have made prior investments. Often, they become overly committed to certain activities despite consistently poor results. As a result, individuals often escalate their commitment to failing courses of action. The sunk-cost effect can make it particularly difficult for decision-makers to abandon unsuccessful experiments. Because managers do not want to “waste” their prior investment of time, energy and money, they may persist with future tests or scale up projects despite signs of poor performance during the initial experiment.

PROCESS EVALUATION
There is no magic bullet when it comes to making complex, decisions in a turbulent environment. Managers must develop a repertoire of strategies that they can employ under these conditions. Moreover, they need to develop their management team’s capability to utilize these practices and techniques. At the same time, leaders must be keenly aware of the risks associated with each strategy, and they need to raise the awareness of those around them.

Leaders should not stop there. They also must audit their decision-making processes, preferably in real time. As their management teams discuss complicated problems, leaders need to step back and assess the quality of the decision-making process. They must identify the strategies that managers are using to cope with uncertainty and complexity, and try to spot any dysfunctional behaviour.

To audit their decision process, leaders can ask some simple questions: What shortcuts are we employing? Is the team converging prematurely on a single alternative? Are experts exerting undue influence? Have we drawn the appropriate analogy? Are we engaging in herd behaviour? Have we discouraged dissent? Leaders ought to encourage their entire management team to ask these kinds of questions. They should strive to raise everyone’s awareness about process issues. By doing so, leaders will enhance their team’s ability to make tough choices under stressful and uncertain conditions, and hopefully, avoid the dismal fate of the Emperor Napoleon.