

# Decision-Making INGREDIENTS

## SUPPORT THAT LEADS TO EFFECTIVE ACTION

- **Relevant knowledge** (subject matter expertise and diverse perspectives)
- **Cultural “enablers”** (the challenge process, knowledge sharing, experimental discovery...)
- **Critical thinking tools** (marginal analysis, risk adjusted thinking, option thinking...)
- **Decision frameworks** (provide discipline, help avoid traps and aid collaboration)

## DECISION MAKING FRAMEWORK

### What it is

- A process to help guide decisions that lead to effective action

### What it is not

- A list of inflexible rules
- A substitute for thinking
- The write-up

### Some common pitfalls and misapplications

- Failing to involve the right people appropriately early
- Failing to focus on what matters
  - Overworking details
  - Overlooking “big picture” issues
- Assuming “one-size-fits-all”

# Decision Making Framework OVERVIEW

- 1 DEFINE THE OPPORTUNITY OR PROBLEM**  
Succinctly identify the opportunity or problem
- 2 CLARIFY YOUR OBJECTIVES**  
What are you trying to accomplish?
- 3 DETERMINE VIABILITY**  
Stop the process if it shouldn't be a priority!
- 4 DEVELOP A RANGE OF ALTERNATIVES**  
Be creative; think beyond the obvious!
- 5 ANALYZE THE ALTERNATIVES**  
Consider the pros/benefits/positives and the cons/difficulties/obstacles of each solid alternative
- 6 SELECT THE BEST ALTERNATIVE**  
Focus on your objectives, value created and return on resources
- 7 DETERMINE NEXT STEPS**  
What is required to advance to the next stage?
- 8 COMMUNICATE AND SEEK APPROVALS**  
Communicate early and often; don't wait until the end of the process



# Decision Making FRAMEWORK

A disciplined approach to decision-making that incorporates an effective challenge process will help avoid decision traps, aid collaboration and lead to effective action.

## SELECTED DECISION TRAPS

**Overconfidence.** Believing we are better at making predictions and estimates than we actually are.

**Framing.** Allowing the way a question is asked or worded to influence our conclusion.

**Anchoring.** Allowing irrelevant information or first thoughts to unduly influence decision-making.

**Status quo.** Biasing decisions in favor of the status quo or the default outcome.

**Sunk cost.** Basing decisions on past expenditures rather than future prospects.

**Confirmatory evidence.** Seeking out data that supports our existing point of view or avoiding data that may contradict it.

**Recallability.** Being overly influenced by dramatic, memorable or recent events.

**Out-guessing randomness.** Believing that we can identify patterns in what are really random events.

The process is relevant for all decisions, not just “big” ones

### TIPS

- Seek out best knowledge
- Apply the challenge process
- Prepare a write-up only if needed
- Keep it as simple as possible, but no simpler

COMMENTS AND QUESTIONS WELCOME

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# Decision Making Framework

## POSSIBLE ISSUES AND QUESTIONS

### 1 DEFINE THE OPPORTUNITY OR PROBLEM

- Succinctly identify the opportunity or problem
- Focus on the desired outcome, not possible solutions

### 2 CLARIFY YOUR OBJECTIVES

- What are you trying to accomplish?
- What do you care about most?
- Objectives help in selecting the best alternative; spend the appropriate time and effort on this!

### 3 DETERMINE VIABILITY

- Estimate the value of the opportunity or problem
- Brainstorm preliminary views on key issues including risks and long-term consequences
- Does addressing the opportunity or problem fit our business vision?
- Is it consistent with our compliance and ethics vision?
- Will it build competitive advantage?
- Are we the logical owners? Why us? Why now?
- Is further work justified? Who can help decide?
- Identify likely winners and eliminate losers early
- Avoid incremental investment in a “lost cause”
- Stop the process if it shouldn't be a priority!

### 4 DEVELOP A RANGE OF ALTERNATIVES

- Brainstorm ways the opportunity or problem could be addressed
- What is the “optimized base case”?
- Be creative; think beyond the obvious!

#### TIPS

- Create alternatives first; evaluate later
- Ask “How?” using your objectives
- Do your own thinking first
- Ask others for suggestions

### 5 ANALYZE THE ALTERNATIVES

- Consider the pros/benefits/positives and the cons/difficulties/obstacles of each solid alternative
- Include potential compliance, ethics, EHS and reputational issues in the analysis
- Consider 2<sup>nd</sup> and 3<sup>rd</sup> order consequences (including intangibles)
- What about creative destruction? How could the pros and cons change in the future?
- Who has expertise? Who can help?

#### IDENTIFY KEY DRIVERS AND ASSUMPTIONS

- What will make the venture successful? Unsuccessful?
- Select the few key success drivers
- What assumptions are we making? Can they be tested?

#### MANAGE RISK AND UPSIDE

- What is the full range of possible outcomes?
- What do we need to do to capture the potential upside?
- What are the key areas of risk? What could go wrong?
- Are there any potentially catastrophic risks?
- Can the risks be mitigated? Should they be mitigated?
- Can we cap the downside?
- How will others (customers, competitors, policy makers, etc.) respond?
- How will we adapt if the unexpected occurs?
- What is our exit strategy?
- Can we embed options? Should we?

#### EXPLORE CAPABILITIES AND RESOURCES

- Do we possess the capabilities needed to implement this venture?
  - If not, should we hire, train or contract the capabilities?
- What capabilities will we acquire or build?
- What is the opportunity cost of the needed resources?

#### PERFORM ECONOMIC ANALYSIS

- What level of analysis (including risk assessment) is needed for this venture?
- Apply marginal analysis
- Avoid false precision

### 6 SELECT THE BEST ALTERNATIVE

- Focus on your objectives, value created and return on resources

### 7 DETERMINE NEXT STEPS

- What is required to advance to the next stage?
- Who will own each step?
- How will we measure success?
- How will we know if we must “course correct”?

### 8 COMMUNICATE AND SEEK APPROVALS

- Communicate early and often; don't wait until the end of the process
- Seek input from others; include those who will need to approve the venture
- Prepare a write-up only if needed to:
  - Clarify and communicate your thinking
  - Facilitate challenge
  - Request authority
  - Improve decision-making

### FOCUS ON WHAT IS RELEVANT TO MAKING DECISIONS THAT LEAD TO EFFECTIVE ACTION

- Not all the detailed questions will be important for all decisions
- Other issues may matter
- Adjust the effort devoted to each step as appropriate
- Keep it as simple as possible, but no simpler

### ILLUSTRATIVE WRITE-UP OUTLINE

- Venture (opportunity, objectives, recommendation, rationale)
- Fit with vision
- Capabilities and resources required
- Alternatives considered
- Key drivers and risks
- Economics
- Next steps

#### TIPS

- Include only what is relevant
- Avoid unnecessary details
- Don't try to address every question that could be asked