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*... In This Issue*

*Entrepreneurial  
Decision making*

# *Entrepreneurial Decision-making*

⇒ *Getting the right things right*

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## *Overview*

**Decision-making is the essence of leadership and the ability to consistently make the best decisions remains one of the defining skills of a leader in any situation. Decision-making is deceptive: it can seem straightforward to understand the essentials of a problem or situation and then decide what to do next, however reality is seldom that simple.**

Decision-making involves a range of skills, including:

- Analysing and appraising competing options.
- Communicating and influencing.
- Fostering innovation and creativity – particularly ideas and solutions.
- Exploiting synergies and managing collectively.
- Sharing information and knowledge.
- Focusing on the customer and understanding market needs.

It is said that experience is valuable only as long as the future resembles the past. Superficially, this may appear true, but in practice, experience is valuable even if the future does not resemble the past because it helps us to understand and cope with change and the unknown. It is not simply what we know that matters, but how we react to what we do not know. Decision-making is influenced greatly by our experience: how we react to what we do not know and how we react to clearly defined situations.

In a commercial context, decision-making means growing revenues and minimising costs so that profits are increased, the long-term value of the business is enhanced and the competitive position of the business (or business unit, support function or team) is strengthened. These priorities should constantly guide management decisions, influencing the choices that are made throughout the organisation.

## *Benefits of entrepreneurial decisions*

In many ways, decisions are the footfalls of progress: they can be quick or slow, large or small, easy or risky, simple or arduous, but they are the vital components of success. Entrepreneurial decisions provide **organisations** with:

- Certainty and decisiveness, preferable to vacillation and drift.
- A clear focus on priority issues.
- Opportunities – decisions open doors, motivating and energising people.

- The means to implement plans and progress strategy.
- Greater revenues, less costs, increased shareholder value – and long-term growth and prosperity.

Entrepreneurial decisions provide **individuals** with:

- A framework for action, ensuring that effort is not misguided or wasted.
- Security and relief from the fear of inaction, indecision and uncertainty.

## *Action checklist: entrepreneurial decision-making*

Decisions are often mistakenly seen as being either right or wrong, ignoring the fact that often what matters most is making the best decision from a set of choices. In certain instances all of the available decisions may be right, or they may all be flawed; the important point is to select the best available option.

*It is not simply what we know that matters, but how we react to what we do not know.*

For decision-makers, the significance of their decisions is inversely proportional to the number that they make. Typically, senior executives make only a few, important decisions. There is therefore a premium on ensuring that entrepreneurial

decisions, those with a significant impact, are made infrequently and are implemented thoroughly and effectively. This requires a rational approach relying on a set of sequential steps that lead to successful, major decisions. This rational route involves:

1. Assessing the situation
2. Defining the critical issues
3. Specifying the decision
4. Making the decision
5. Implementing the decision
6. Monitoring the decision and making adjustments as events unfold.

### **Assess the situation**

Start by asking whether the decision relates to a permanent, underlying or structural issue, or whether it is the result of an isolated event. Some decisions are generic and are best addressed with a consistent rule or principle, whereas isolated events are exceptional and are best resolved when they arise. In addition, a response depends on the specific details of each situation. What may appear to be an isolated event is often an early indicator of a generic problem. Product quality problems are usually in this category, with a specific failure traced back to a faulty process or poor morale.

When an organisation faces something that is new but that has been experienced by others, the response requires a blend of standard, 'best practice' techniques and an appraisal of what is distinctive

*Entrepreneurial decision-making means making high quality, timely decisions that are aligned with the strategy of the business, using an appropriate level of analysis.*

about the circumstances faced. For example, when an organisation is in the eye of a press and public relations storm for the first time, it is important to recognise and understand both the unique attributes of the situation, and also the general principles that can be applied.

### **Define the critical issues**

The critical issues to consider include understanding who is affected, likely developments, the timescale involved, sensitive issues, as well as previous, comparable situations. The key is to focus on all of the relevant issues. A partial analysis is almost as bad as no analysis at all, as it gives an ill-founded confidence and legitimacy to the decision.

Funneling is a useful technique to use, which involves collecting as much information and data as possible and reducing it to the key issues through a process of prioritising and elimination.

### **Specifying the decision**

The next step is to clearly define what the decision must achieve. Every decision should have a minimum set of goals: rules to comply with, a timescale for completion and a method of execution. This helps to ensure focus and smooth implementation. Having a clear specification can prevent changes that would undermine the decision, and it can help when the original decision needs to be adapted because of changing circumstances. Potential conflicts need to be clearly understood, monitored and, where necessary, resolved – otherwise, the potential for failure is considerable.

### **Making the decision**

Decisions often involve compromise. Sometimes the ideal solution is unattainable, but it is better to have 50% of something, than 100% of nothing. Always have a clear view of the ideal decision, then test it and if compromise is necessary make sure it is made positively, with a clear focus remaining on what needs to be achieved.

In this stage of the process creativity and innovation will help to uncover the most effective solution and to ensure that it is implemented successfully.

### **Implementation**

Executing the decision is usually the most time-consuming, critical phase. It involves:

- **Planning how the decision will be implemented.** One of the worst mistakes is to arrive at a good decision, yet implement it in a way that doesn't work.
- **Delegating and clearly assigning responsibility for specific tasks.** This involves building confidence, checking understanding and coaching, as well as structuring the organisation so that people are positioned to achieve their tasks.
- **Communicating with people.** Ensure that all those involved know the decision and understand and support it. This includes people who seem to be on the periphery but are key influencers, as their support is essential.
- **Motivating, mobilising and rewarding those involved.** To ensure that the standards for accomplishing the decision are clear and changed if needed, it is important to incentivise – remuneration, recognition and status can often mobilise people to succeed.

- **Managing resources** so that the people carrying out the decision have the necessary equipment to complete their task.

### **Monitoring and making adjustments**

There are two certainties in decision-making: first, the people who make and implement decisions are fallible; second, the context in which decisions are implemented will be subject to change. So, implementation needs monitoring. By itself, this is not enough: reports, written information and communications are often unable to convey the complexity of issues. Management by walking about (MBWA) is a useful, if surprisingly rare technique. There is no substitute for seeing how things are going – or getting a trusted subordinate to look. In the view of Robert Townsend, CEO of Avis: “All decisions should be made as low as possible in the organisation. The Charge of the Light Brigade was ordered by an officer who wasn’t there looking at the territory.”

### **Using your intuition**

Making a decision and implementing it can be very messy. No matter how much planning and preparation takes place, the process is often confusing, fast moving and uncertain – and therefore tense and unsettling. It is comforting to think of decision-making as a rational, methodical and ordered process, but the reality is different. Events are not always ordered or clear and the relevant information may be unavailable making it more difficult to classify, define, specify and arrive at a decision that will be effective. The rational approach provides a framework for action, ensuring nothing is omitted, pitfalls are avoided and best practices are applied. The intuitive approach provides the inspiration, insight and instinct that are needed to identify and explore the best options.

The value of intuition is highlighted by Ralph S. Larsen, Chairman and CEO of Johnson & Johnson: “Very often, people will do a brilliant job up through middle management levels, where it’s very heavily quantitative in terms of decision-making. But then they reach senior management, where the problems get more complex and ambiguous, and we discover that their judgment or intuition is not what it should be: it’s a big problem... Often there is absolutely no way that you could have the time to thoroughly analyse every one of the options or alternatives available to you, so you have to rely on your business judgment.”

To make intuition work, remember that:

- **Instinct and intuition are valuable forms of tacit knowledge.** The mind is continuously processing information subconsciously. Intuition is a form of tacit knowledge, complementing rather than undermining the rational approach to decision-making.
- **Emotions filter and guide our decisions.** Decisions are guided by our emotions that act as filters, prioritising information and provoking a physical response to influences – from laughter to stress. It is important to know how to manage emotion and instinct effectively, as they provide a clear sense of priority, understanding of intangibles and determination. While they can be flawed, they can also provide the spark of creativity, the flash of insight and the strength to pursue the best course.
- **Instinct and pattern recognition can provide the key to analysis and creativity.** Effective analysis depends upon seeing the links between various data and then

interpreting the patterns. The ability to perceive patterns across issues, data and subjects is what elevates good decision-makers from exceptional ones. Instinct brings with it the ability to cross-refer, to see things laterally and from a different perspective and it brings into play ideas, insights and experience from a multitude of sources.

## *Avoiding problems*

### **Behavioural pitfalls**

Bad decisions can often be traced back to the way the decisions were made: the alternatives were not clearly defined; the right information was not collected; the costs and benefits were not accurately weighed. However, sometimes the fault lies not in the decision-making process, but in the mind of the decision-maker: the way that the human brain works can sabotage the choices we make. John Hammond, Ralph Keeney and Howard Raiffa in Harvard Business Review (The Hidden Traps In Decision-making, September-October 1998) highlighted the fact that bad decisions can often be traced back to the way they were made. They identified eight psychological traps that are particularly likely to affect the way that strategic business decisions are made.

**The anchoring trap** leads us to give disproportionate weight to the first information that we receive. This often happens because of the initial impact of the first information and our immediate reaction to it. The antidote is to be sure about what is happening and waiting as long as possible to ensure that you have all the information – and possibly some different options too.

**The status quo trap** biases us towards maintaining the current situation – even when better alternatives exist. This might be caused by inertia, or the potential loss of face if the current position was to change. The only solutions are openness, honesty and courage.

**The sunk-cost trap** inclines us to perpetuate the mistakes of the past on the grounds that ‘we have invested so much in this approach/decision that we cannot abandon it or alter course now’. The management accountant’s view of this is refreshingly sanguine: if it’s spent it’s spent – worry about the present and future, not the past.

Avoiding all of the following traps requires recognition that they exist and an understanding of the traps that are the likeliest to cause you problems.

*The workings of the human brain can lead you towards a number of traps that you will only avoid if you recognise that they exist, and understand which ones are likely to influence your thinking.*

**The confirming-evidence trap** results in us seeking out information to support an existing predilection and to discount opposing information.

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**The framing trap** is when we incorrectly state a problem, totally undermining the decision-making process. This is often unintentional, but not always.

**The over-confidence trap** makes us overestimate the accuracy of our forecasts.

**The prudence trap** leads us to be over-cautious when we make estimates about uncertain factors.

Realism, perhaps erring on the side of caution (depending on the nature of the decision), is the antidote to over-confidence and prudence.

**The recent event trap** leads us to give undue weight to a recent, and quite probably dramatic event (or sequence of events). This is very similar to the anchoring trap, except that it can arise at any time, not just the start, and cause a misjudgement. Awareness of the trap and the danger that it might pose for you in the way you think is vital for avoiding it.

### **Coping mechanisms**

To lower the level of stress inherent in major decisions, many people avoid a real choice by deciding to wait and see. This may increase risk because it prolongs an outdated and inappropriate strategy. Over-reliance on a previously winning formula has damaged many businesses that were, in their time, successful first-movers. It is dangerous to assume that what has worked before will work again. Putting off real decisions reinforces damaging attitudes and allows time for demotivation and cynicism to take hold. Setting clear strategic priorities can help avoid procrastination, as does empowering people and making their responsibilities clear. Decision-making coping mechanisms include:

**Escalation of commitment.** Often, when a decision or strategy starts to fail, those responsible commit further resources in an attempt to prove that their previous decisions were right. Escalation of commitment is similar to the sunk-cost trap.

**Bolstering** – an uncritical emphasis on one option. This tends to happen when there is no ‘good’ option available, only a choice among the ‘least worst’ courses of action. Bolstering is a way of coping with difficult choices and it can result in a sense of invulnerability to external events, especially when it is accompanied by an escalation of commitment. Bolstering also results in poor contingency planning in the event that the favoured option falters or fails.

**Shifting responsibility** is another way of coping with difficult decisions and is often a sign of weak leadership. Usually because of a decision dilemma, a decision-maker will pass responsibility for the choice to another person or group.

### **Leadership flaws**

Leadership flaws can also shape many strategic decisions. These include:

**Failure of understanding.** If you do not properly understand a problem, then you are unlikely to find the best solution to it, especially when circumstances are complex or fast-moving. There may be no satisfactory answer – only a choice between competing alternatives that are far from ideal. Information overload can make it difficult to distinguish between cause and effect and, therefore, to understand the problem. It can help to ask what is the problem and what is not the problem? Who or what is affected or unaffected by the problem? What is different or unchanged about what is affected?

**Rationalistic planning** is a similar type of flaw. It is based on the assumption that there is only one effective choice and, therefore, that everyone thinking rationally will arrive at the same conclusion.

## **Cultural flaws**

The culture of an organisation can hinder effective strategic decision-making in two opposite ways: fragmentation and groupthink.

**Fragmentation** occurs when people are in disagreement. Usually, dissent is disguised or suppressed, although it may surface as 'passive aggression.' Dissent often festers in the background, for example, muttered to colleagues, rather than raised openly. Each fragmented group – and there may be several – will be likely to show a confirmation bias and evaluate incoming information to support their initial opinions, rather than view it objectively. Fragmentation may be caused by or be the cause of factionalism and any move to break it may be seen as an attempt to gain dominance by one faction. The solution is proactive leadership and communication.

**Groupthink** is when an impression of harmonious agreement is given because ideas that do not support the line a group is taking are suppressed. It may occur because individuals are denied information or lack the confidence or ability to challenge the dominant views of the group. Close-knit groups also tend to rationalise the invulnerability of their decisions, inhibiting analysis. The result is an incomplete assessment of available options and a failure to examine the risks of the decisions that are made. Groupthink can occur when teamwork is either strong or weak. As with fragmentation, the longer it lasts, the more entrenched and 'normal' it becomes. A questioning, inquisitive approach is the solution.

Finally, two common mistakes beset decision-making. The first is to react to a situation as if it were a unique series of events, when the problem it reflects is a generic one requiring the application of a consistent rule, principle or strategy. This results from an inability to see the big picture or to understand where the events might lead. The second mistake is to perceive a situation as if it were a generic issue requiring an old solution; if it is a new type of situation, a new solution is required.

## *Dos and don'ts*

### **Do:**

- Clarify the issues, working out what is essential and what is desirable. Gather information and remain objective.
- Consult with people, gaining a wider perspective. Also, look for other situations – possibly in different industries – when similar decisions were required.
- Review past decisions: what worked, what failed, and why?
- Understand where the risks lie and take action to control and reduce these.
- Communicate. People need to know what decisions are being made and why if they are to be successful.
- Challenge existing thinking and orthodoxy – brilliant decisions are rarely routine.
- Avoid paralysis by analysis.

### **Do not:**

- Rush to an obvious decision or solution, a better alternative may exist.
- Let personal preferences or preconceptions cloud your judgement.
- Forget to consider implementation: decisions need to be pragmatic and workable.
- Neglect to monitor or follow-up decisions.



- Forget customers – what will the decision mean for them?
- Overlook details or cut corners.

## *Key questions*

- Is the organisation too bureaucratic for intuitive, flexible and swift decision-making? Are intuition and expertise used effectively?
- Are decisions made ‘close to the action’, their point of execution, or do they tend to be made some distance away? Has this – could this – cause difficulties?
- What are the most important decisions currently facing the organisation? How are they being resolved and who is responsible?
- What are the most significant future decisions arising over the next three years? What planning is being done to resolve these?
- What do your customers, employees and shareholders think of the organisation’s ability to make the right decisions? How do they feel that the situation could improve?
- Do you or your colleagues succumb to the pitfalls of decision-making? For example, do you:
  - Give disproportionate weight to the first piece of information they receive?
  - Seek to maintain the status quo?
  - Pursue failing decisions, in a forlorn attempt to recover past investments and credibility?
  - Seek confirming evidence to justify past or present decisions?
  - Display over-confidence?
  - Display excessive caution?
  - Incorrectly frame or state an issue – often leading to a flawed decision?
  - Give undue weight to a recent or dramatic event?
  - Procrastinate – delaying important decisions?
- Are certain decisions regularly required (such as recruitment choices)? If so, are you working at improving effectiveness in this area?

## *Things you can do*

**Anticipate the impact of major decisions.** To do this, choose a major decision confronting you. Decide what the risks are and how to reduce or minimise those risks. Once the decision has been made and implemented, review the results of your action and consider how the decision could have been improved. Also, think about the information you routinely receive: is it enough for you to make informed decisions and understand trends? How could it be improved?

**Find out about decision analysis techniques**, either by reading relevant books or attending a course. (Try reading “Key Management Solutions” by Tom Lambert or “Business Strategy: a Guide to Effective Decision-making” by Jeremy Kourdi).

**Balance analysis with the need for action.** To do this, highlight major points in the data – keep to single words or one-liners. Identify the critical detail required to make decisions and look for relationships and trends in the data.

**Keep informed about relevant issues and trends** with weekly updates, reports and discussions with colleagues.

**Build informal networks** with colleagues and others outside the organisation whose insight will be valuable later. It may also be helpful to establish a relationship with a mentor who can help to develop your decision-making skills and provide a sounding board when urgent decisions are needed.

**Deal with ambiguity and risk.** Seek out ambiguous situations and use them as opportunities to demonstrate your leadership abilities. Ask trusted participants and your manager to give you feedback and suggestions for how you could be more effective. If you fear your decision may fail then create a worst case scenario and develop a contingency plan should the scenario materialise. Involve others to help you identify the risks and benefits for each of your identified alternatives.

**Accept personal responsibility.** This may mean that you need to:

- Ask for comments from colleagues on the effectiveness of a recent decision or the way it was made.
- Discuss and explicitly agree with your manager the extent of your decision-making responsibilities.
- Talk through the expected outcome of a decision with your manager or team before making the decision – and remain accountable for the results
- Find a challenging issue, and take responsibility for delivering an effective solution (working with others as necessary).

**Be proactive.** Entrepreneurial decision-makers:

- Question the appropriateness of previous decisions.
- Involve stakeholders in making decisions to build commitment.
- Actively search out information from a variety of sources.
- Identify the non-negotiable constraints in a decision.
- Search for different alternatives.
- Look for long-term solutions.
- Create new options by combining features of other options.
- Consider how to improve the best option and make it even better.
- Ask ‘What could go wrong?’ and plan preventive actions.
- Anticipate and plan for future decision points.

Think about your decisions: which of the ten things, above, do you do consistently? Which can you start doing more often?

**Take unpopular decisions when needed.** To do this, you will need to prepare the ground (if possible) to minimise the surprise. Also:

- Prepare an honest explanation and keep putting the message over.
- Explain the implications of not taking the decision.
- Involve those affected by the decision wherever possible.
- Keep people informed of progress.
- Paint clear pictures of the desired result.
- Avoid delay or signs of personal uncertainty.

**Achieve consensus** by: agreeing the purpose of the decision; allowing leaders to emerge; understanding what information and expertise is needed to make a quality decision, and considering whether the team has the necessary expertise; commitment to and appreciation of the desired outcome to ensure success. Also, understand the group's expectations and act on them – and remember that involvement in the decision-making process usually generates commitment. It may be helpful to use group momentum and challenge people.

**Consider customer needs.** The single biggest influence on entrepreneurial decisions is how they affect customers. Focusing on customers is a vital part of making the best decisions, and it can be achieved by:

- Putting yourself in the customer's position and seeing areas of vital importance.
- Brainstorming what you could do to best meet their needs and objectives.
- Researching your intended changes to ensure that customers want them.
- Prioritising the list of actions that you need to take.
- Avoiding assuming you know what the customer wants.
- Finding out about the customer's aims and aspirations.
- Looking to offer options to the customer in most standard situations.
- Avoiding accepting without question the customer's first statement of need.
- Looking for opportunities to talk informally to customers.
- Following up on sales to see what happened post-sale.
- Using customer feedback as evidence in making internal recommendations.
- Anticipating customer needs, where appropriate, by taking time to review their long-term plans.

## *Further action*

Use the following table to identify areas for further development.

Issue	Response	Further Action
<b>Do you always assess all aspects of an issue? Do you consider the experience and thinking of others?</b>		

Are processes in place to ensure past decisions are analysed?		
Have there been occasions when decisions were poor, as risks were not fully appreciated?		
Is everyone aware of the reasons for and potential impact of decisions?		
Have recent decisions been innovative and challenged orthodox views?		
What efforts do you and your organisation make to overcome thinking flaws and preconceptions?		

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