22 Building Decision Competency in Organizations

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ABSTRACT

Decision Analysis was introduced about forty years ago. Since that time the practice of decision consultants, whether internal or external to organizations, has expanded from analytical support in difficult decisions to designing governance and decision systems, and transforming enterprise capabilities. Organizations realize a significant positive impact when they develop true decision competency – that is, when high quality decision-making becomes part of their organizational DNA. In this chapter, the author first defines organizational decision competency and then describes how to achieve this competency. He describes two cases of two large corporations that have achieved a high level of decision competency. He concludes with a perspective on the first forty years of corporate adoption of decision competencies that still has a long way to go.
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Background

In the mid 1960s, Ronald Howard and James Matheson formed the Decision Analysis Group at Stanford Research Institute with the vision of creating a “teaching hospital” for decision analysis, a then-emerging discipline. Their goal was to advance the practice of decision analysis and build professional competency in the approach based on normative decision science to identify the optimal choice among a set of alternatives in the light of real-world uncertainty, dynamics, and complexity. As the discipline evolved discipline among SRI’s clients. Initially, decision analysis practitioners used a systems engineering, it incorporated various methods from the behavioral decision sciences to deal with biases and to obtain organizational alignment with commitment to effective action.

Today, the role of a professional decision consultant, whether internal or external to the organization, includes helping to solve important and complex decision problems, designing governance and decision systems, and transforming enterprise capabilities. Organizations realize a significant positive impact when they develop true decision competency—that is, when sound, high-quality decision-making becomes part of their organization’s DNA.

What is Organizational Decision Competency?

An enterprise possesses decision competency when it meets the following criteria:

1. It routinely makes high quality decisions. It correctly recognizes and declares decisions, issues, and challenges; it understands the behavioral traps inherent in natural decision-making and knows how to compensate for them; it frames decisions appropriately; and, it addresses decision making with the balance of content, analytic rigor, and facilitation necessary to pursue the actions most likely to deliver optimal value.
2. It has a broad array of tools, techniques, and processes in place and decision makers and staff are skilled in using them appropriately.

3. Its decision makers understand their roles and have thoroughly developed the knowledge and skills their roles demand.

4. The organization is well aligned internally. It has a common language for and a solid understanding of what constitutes decision quality; it has a strong common desire to achieve it on a regular basis, and it “walks the talk.”

5. The organization continually endeavors to learn and improve its decision competency.

**Defining a Standard for High Quality Decisions**

In its search for value creation, an enterprise with true decision competency relishes coping with difficult and complex questions. It confronts high-conflict issues whenever they arise, rather than hoping they’ll fade away. Such organizations hate opportunity losses as much as they hate out-of-pocket losses. They are motivated to declare the right decisions and actively manage a rolling decision agenda. What seem like courageous acts in most enterprises become habit and an integral part of their organizational culture. They view decisions as a critical step toward effective action, rather than as a bureaucratic process.

When skilled decision-makers confront important choices, they keep in mind the natural decision behaviors\(^2\) that tend to undermine all human effort and lead us unwittingly into often-deadly traps. For discussion purposes, we categorize such pitfalls in five broad groups: comfort zone bias, motivational bias, cognitive bias, fallacies in reasoning, and groupthink.

In building organizational decision competency, it is of particular importance to overcome comfort zone bias. It is human nature to prefer doing what we already know how to do, whether
or not it leads to a good decision. In contrast, good decision-making processes help us to first identify what is most important about the decision and its outcome, and then to address those particular issues—even if doing so forces us out of our comfort zone. As we declare a decision, we must recognize that each decision situation has its own true nature, and that we therefore need to address each one on its own unique terms. Astute decision-makers ascertain the needs of most decision situations in each of three meta-dimensions: organizational complexity, analytical complexity, and content difficulty. Here is how we view each dimension.

**Organizational Complexity.** This dimension embraces all the psycho-social aspects of a decision situation that might arise if various parties are in conflict due to individual and organizational differences. These may be differences in: values, desires, and motivation; or initial convictions and fundamentally different frames; or personalities and competencies; or degrees of power and resource availability. Also included in this dimension are the cognitive and motivational biases, as well as group dynamics. Decisions with a high degree of organizational complexity require extra attention to reducing biases and the use of facilitative approaches for achieving organizational alignment and commitment.

**Analytical Complexity.** Here, we include such decision aspects as high uncertainty, decision dynamics (e.g. downstream decisions, learning opportunities, and competitor reactions), many variables that may be closely interrelated, as well as a multitude of decision alternatives and multiple decision criteria. This dimension includes all aspects that make the decision technically difficult to specify and solve.

**Content Difficulty.** Decision content consists of the key inputs to the decision problem. Typically, these include data about the past, judgments about the future, alternative courses of action, and the values and trade-offs we bring to the respective decision. Adequate reliable
content may be readily available, or if not, the organization may need to engage in research and data analysis and seek the knowledge of experts.

Decision competency enables decision participants to address the true nature of the problem at hand with appropriate skills, tools, and processes. The processes involve the right people contributing in ways that will most help the organization achieve clarity, alignment, and commitment to action.

The specific form of a decision effort differs greatly from one to the next. In some cases, the need will be for a largely facilitative role to help reach agreement and identify the optimal choice. In other cases, the need may be predominantly for a creative effort to help generate better alternatives or research key inputs such as customer response probabilities. Or, the need may best be met by a simulation model with many interrelated variables. Whatever one’s role in the decision process, it is crucial that everyone involved remain focused on the real need of the decision, and not permit the participants to simply address the problem from their comfort zone. Of course, this is much easier said then done because everyone’s perspectives and skills are limited.

To have a shared understanding of decision quality means everyone involved in the process is familiar with the key elements of high quality decisions. This common understanding of the elements that comprise decision quality and how the quality of each element will be assessed is fundamental to decision competency. Figure 22.1 depicts the six elements of a decision linked as a chain. To make high quality decisions, each of the six elements must be of the highest standard, and like an actual chain, the weakest link will define the overall quality of decisions.
Having a clearly defined decision process is also critical to achieving decision competency and to making decisions that meet the six requirements of a quality decision. Several variants of the decision process can help build decision quality. Figure 22.2 illustrates a process flow that moves decision makers toward a quality decision through a dialog with the decision team around specific staged deliverables. SDG introduced this process in the early eighties. Since then, thousands of applications have demonstrated it to be a best practice for achieving
clarity and alignment in making significant organizational decisions.

Figure 22.2. The SDG Dialog Decision Process – DDP

The shared understanding of decision quality and an effective decision-making process are two vital elements that, combined with a diverse tool set, empower decision-makers and their staffs to solve most types of decision problems. There are a myriad of analytical and other sophisticated tools available to decision makers and support teams. Among these are tools that facilitate decision framing and assessment, influence diagrams, debiasing and calibration techniques, dynamic structuring, tornado charts, models and templates, value metrics, Monte Carlo simulation, and decision trees. The list is long and continues to grow as new tools and techniques are introduced. Decision professionals with access to an extensive array of tools and extensive experience in using them are free to focus on the nature of the problem itself and to
reach for the appropriate tool as needed. By contrast, those with few tools and limited experience in using them are strongly inclined to become tool focused.

**Identifying Decision Team Roles**

As we’ve seen, effective decision-making flows from a clearly defined process that involves the right people in the right ways to reach the right choices. Participants in strategic decision-making generally serve in one of three distinct roles: decision maker, decision staff, or content expert/implementer.

*Decision-Makers.* This individual, or decision body, is responsible for making the decision and allocating the resources needed to pursue the chosen course. By definition, they have the responsibility for overall decision quality. This responsibility for decision quality is distinct from approval authority. Frequently, approval authority is specified—sometimes by law. For example, boards of directors are legally required to approve mergers and acquisitions. This distinction is critical because when serving in the approval role, the approver is being “sold” a recommendation that may or may not reflect decision quality. It is not possible to “inspect quality into the decision” at that late stage.4

*Decision Staff.* These individuals, typically operating as a cross-functional team, enable decision-makers to make well-informed choices more efficiently. They assist in framing the situation, gathering information, generating alternatives, and analyzing the value of potential outcomes. They facilitate the process by achieving commitment to action from the decision-makers and by providing clear direction to those designated to subsequently implement the decision.
Content Experts and Implementers. These domain experts provide valuable facts and judgments about the consequences of different alternatives. Involving implementers early in the process can avoid the barriers that inevitably arise when people must implement decisions made by others. Implementers’ involvement and contributions usually translate to less recycling through the decision process and improved execution. During the decision process, implementers serve as domain experts. They bring practical knowledge—generally acquired firsthand—of what it takes to execute the decision successfully.

Five Means for Achieving Organizational Decision Competency

In the preceding sections, we discussed what decision quality actually means, identified the six elements of a quality decision, how to recognize organizations that possess high levels of decision competency, the importance of having a clearly defined decision process, and the roles of participants in that process. Now, let us explore the means by which organizations develop and sustain decision competency. We identify five primary means for achieving this goal:

1. Alignment of Organization and Culture. Continuously strive to make the motivation and skills required for decision competency an integral part of the organization’s fabric. This includes making a deliberate effort to develop a common language and understanding for addressing decision-making issues and processes to minimize the potential for misunderstandings. The whole approach to thinking and talking about decisions should become part of “the way we do things here.”

2. Decision Processes and Tools. Assure that the processes and tools needed to attain decision quality are at hand. It is equally important to train users thoroughly, not only in use of the tools, but also in the advantages and shortcomings of each. Applying the wrong tool can
produce misleading results. As with all tools, obtaining quality results depends on the knowledge and skill of their users.

3. **Training and Experience.** Thoroughly train decision makers and their staffs for the roles they are expected to play in the organization’s decision processes. For decision makers, SDG finds this typically means about two half-days of training followed by counseling in addressing real-world decisions. About two days of training are appropriate for experts and implementers who serve on decision teams. Usually, part of this training involves working on some aspect of a real decision; for example, in a decision-framing workshop. The professional decision staff requires more extensive training, similar to SDG’s decision consultants who receive about five weeks of classroom training and a two-year apprenticeship that prepares them to lead teams under the supervision of an experienced SDG partner.

4. **Dedication to Learning and Improvement.** Assure that participants remain committed to retaining and extending their competencies. Without such ongoing improvement, decision competency will atrophy because of turnover and other factors. Turnover among decision staff members is generally high, and for good reason: they are typically high-potential individuals who rapidly develop broad business perspective and experience, and who therefore are presented with many opportunities for advancement, both internally and externally. The positive side of this is that, over time, the organization’s cadre of top decision makers grows to include former members of its decision support staff. However, such turnover requires the enterprise’s ongoing commitment and investment in developing professional decision support staff. The dedication to learning also includes periodic “look-backs” to earlier decision efforts to see what can be improved. In addition, professional
decision staff should be encouraged to continually seek new ideas and concepts, and to participate in the learning networks of their respective professions.

5. *Organizational Congruence*: By incorporating the roles and means into the framework shown in Figure 22.3, organizations can achieve organizational congruence, a state in which decision competency is self-reinforcing. Here, it is important not to confuse the term “congruence” with harmony. In congruent organizations, leaders raise and address important conflicts with intensity in the search for truth and the highest opportunity to create value. In any system, congruence requires alignment of many parts, and a single “broken” part can spell failure. To achieve a high-performance state of organizational decision competency requires bringing all the elements into position, and then continuing to learn and strengthen the weakest links in the system.

While the above framework is easy to explain, implementing it effectively and on a sustained basis is, indeed, a tall order. Nonetheless, our experience shows organizations that make a concerted ongoing effort to do it can achieve congruence and thereby reap significant benefits. In sections to follow, we describe the journey of two large enterprise-wide implementations to building organizational decision competency—General Motors and Chevron.
**The Journey to Organizational Decision Competency**

Most organizations see themselves on a path to decision competency. In an SDG e-Briefing attended by more than 50 organizations, most attendees judged their organizations to have partial (or “islands”) of competency. Only five percent viewed their firms as having achieved excellence in this regard, and nine percent did not see their organizations as even being on the path to decision competency. See Figure 22.4.

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**Figure 22.3. Polling Results: Where is your organization on this journey?**

<table>
<thead>
<tr>
<th>Means</th>
<th>Alignment of Organization &amp; Culture</th>
<th>Processes</th>
<th>Tools</th>
<th>Skilled People</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td>Training</td>
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<td>Learning</td>
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</tbody>
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- **Participants**
  - Decision-Makers
  - Decision Staff
  - Content Experts & Implementers

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**Means**

- Experience
- Training
- Learning
- Skilled People
- Processes
- Tools
- Alignment of Organization & Culture

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**Alignment of Organization & Culture**

- Decision Staff
- Content Experts & Implementers
- Decision-Makers

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**Processes**

- Tools
- Skilled People
- Learning
- Experience
- Training

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**Tools**

- Skilled People
- Learning
- Experience
- Training

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**Skilled People**

- Experience
- Training
- Learning
- Processes
- Tools

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**Experience**

- Training
- Learning
- Processes
- Tools
- Skilled People

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**Learning**

- Experience
- Training
- Skilled People
- Processes
- Tools

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**Figures 22.3 and 22.4**

- Illustrate the journey to organizational decision competency.
- Show the alignment between different stakeholders and competency levels.
- Highlight the importance of continuous learning and improvement.
We're not on this journey. We have parts of decision competency, but not in congruence. We have islands of congruence and excellence. We have excellent organizational decision competency and are in continuous improvement mode.


Figure 22.4. Polling Results: Where is your organization on this journey

When SDG assists organizations in building decision competency, it is usually at the behest of a client champion—someone within the organization who provides sponsorship. Once the journey begins, successful clients proceed to advance through the following stages:

Assessment of The Situation. This provides a baseline understanding of how the enterprise approaches decision making and the gaps that need to be filled to achieve competency.

Design of a Transformation Program. Generally, the program is a staged effort tailored to specific organizational needs. It may need to grow slowly to convince organizational leaders of its efficacy early on, or rapid implementation may be necessary to address critical decision failures. The framework shown in Figure 3 helps in the design of the program by showing how roles and means are combined to achieve organizational competency.

Demonstration of the Process and Its Value. Most organizations want to demonstrate the value of decision competency by applying it to a handful of critical decision situations. Participants in
the demonstration often become champions of the process who subsequently support its broader adoption and development.

**Staged Implementation.** Many decision makers are inclined to adopt the new process quickly. However, the professional staff that will support them will need to be developed in stages. In a poll of more than 50 organizations attending the SDG eBriefing “GM’s Decision-Making Transformation,” most attendees felt that it would take several years for their organizations to achieve high levels of organizational decision competency – see Figure 22.5.

![Polling Results: How long would it take your organization to achieve decision competency?](image)


Figure 22.5. Polling Results: How long would it take your organization to achieve decision competency?

**Reinforcement, Learning, and Improvement.** As mentioned earlier, management must remain committed to building and improving the organization’s decision competency, or else watch it atrophy over time.
The Current State of Adoption

Today, few organizations have attained high organizational decision competency on an enterprise-wide basis. The cases of GM and Chevron, which follow, are clearly exceptions. High levels of decision competency do exist in a handful of industries where high uncertainty tends to prevail, such as those involving upstream oil and gas investment or drug development. In domains that must routinely confront high uncertainty, a lack of decision competency is now a competitive disadvantage. It should be noted that, while enterprise-wide decision competency is missing in most organizations, many larger corporations have “islands” within them that do function at high levels of decision competency.

Since the quest for building decision competency began some 40 years ago, practitioners have met many successes, but not without many failures, as well. We have learned from those failures and applied their lessons to help enterprises further strengthen their decision competency. Here, for example, are some practices we have learned do not help build decision competency:

- Focusing training of decision support staff primarily on analytical tools rather than the essence of the decision problem
- Concentrating on analytical complexity at the expense of organization and decision content
- Facilitating organizational agreement while ignoring analytical and content complexities
- Building competency piecemeal—often with inadequate resources—and not creating organizational congruence
- Inadequate training and mentoring for process leaders
- Creating a bureaucratic decision process—a “process monster”
When decision makers focus too intently on analytics and discount organizational issues in the process, the result may still be the “right answer” but nobody will care. And, building competency piecemeal is like setting out to buy a car even though you’re broke, so you decide to buy the wheels and windshield now, and the rest later. We also found some clients actually created a process monster. They do extremely well at building decision competency for two or three years, but then allow themselves to be captivated by the process. They gradually standardize and bureaucratize it, which eventually leads to a backlash. The important lesson here is to stay focused on maximizing value; that is, finding the appropriate balance of analytics, facilitation, and content. And, of course, to succeed winning the right sponsorship is of great importance.

**GM’s Road to Decision Competency**

General Motors Corporation, the world’s largest automobile manufacturer, provides a good example of how a venerable global institution can undergo a transformation that significantly improves decision competency. In 1992, GM was foundering on the verge of bankruptcy due to an inadequate competitive response to the superior quality and manufacturing methods of Japanese rivals, and due to long-term promises to stakeholders made during GM’s heyday. By 2003, little more than a decade later, GM had rebounded strongly. Today, GM leaders credit the rebound, in part, to improved organizational decision competency.

In 1985, GM hired Vincent Barabba as general manager of corporate strategy and knowledge development. Barabba, who earlier grew interested in decision analysis while at Kodak, soon recognized that GM’s strategic decision-making processes were seriously flawed, and in 1988, he began an initiative to set them right—an initiative that would require several
years to implement. Barabba engaged Strategic Decisions Group and other consultants to assist GM in the effort by: 1) identifying the shortcomings in GM’s primary decision processes, 2) helping them overcome those shortcomings, and 3) increasing the firm’s overall level of decision competency.

*Longstanding Practices and Culture*

Initial scrutiny of how GM approached strategic decision-making proved telling. Over a period of years, the automaker, like most corporations, had developed a culture in which decisions were typically made on an advocacy and approval basis. Middle management developed and presented *business cases* to senior management who then accepted or rejected them. Because the objective was usually to win senior management approval, business cases increasingly minimized whatever downside that existed. To win senior management approval, the task was simple: advocate the most powerful business case possible. Every case, therefore, tended to present an extremely strong upside with a minimal downside. Finding the weaknesses in a project proposal was perceived to be the job of senior management.

In this advocacy and approval mode, presenting alternative courses of action to approvers was counterproductive because it would provide them ammunition to interrogate the advocate. In fact, advocates quickly dismissed alternatives that the approver might propose during the “pitch” as having already been considered and rejected. Barabba also says, “The adversarial approach to decision making provides little incentive for dealing openly with uncertainty and risk. If your role is that of advocate, bringing these to the surface is tantamount to handing ammunition to your adversaries who will simply use it to point out your proposal’s shortcomings.”
In Figure 22.6a, you can see how traditional decision-making contrasts with the decision dialog process.

![Traditional Process Diagram](image)

Figure 22.6a Comparison of GM Traditional Decision Process versus GM Decision Dialog Process

In the traditional approach, executives and managers with strategic decision-making responsibility refer problems to a decision support team. These teams are charged with researching and analyzing the problem, and recommending a solution to the decision makers. At GM, it gradually became the practice of support teams to present only the recommended solution, and to do it in the best possible light. If the decision-makers questioned any part of the case being presented, only then would the support team address those issues. This decision process effectively omitted communication between decision makers and the decision support team during the critical phase of identifying, researching, and evaluating potential solutions. The
decision-makers were, in reality, excluded from the process until the team returned and presented its recommendation. This exclusion had several negative effects:

- Prior to making recommendations, decision-makers were usually unaware of the alternatives and variations developed and evaluated by the support teams. Consequently, GM was losing whatever potential value such concepts held.
- There was little opportunity for decision-makers to provide guidance to the support team’s efforts or to otherwise contribute once they referred a problem to a team.
- Support teams risked proposing flawed solutions or solutions that were unacceptable for some other reason that the decision-maker could have identified for them early in the process.

Moreover, support teams were destined to repeat the cycle when decision-makers rejected a proposed solution. If management was unwilling to make an up-or-down decision on what support teams presented, they sent the teams back to the drawing board—a recycling process that typically consumes significant time. This advocacy and approval process was effectively diverting a significant measure of responsibility for GM’s strategic decision-making to the support teams, essentially leaving decision-makers to make only up-or-down decisions on the solutions pitched to them.

**Introducing the Decision Dialog Process**

To remedy the problems arising from the traditional advocacy and approval process, GM introduced the Dialog Decision Process (DDP). DDP involves instituting communication flows between decision-makers and the support team at several critical points in the decision process.
Dialogue Decision Process

Figure 22.6b. Comparison of GM Traditional Decision Process versus GM Decision Dialog Process

The version adopted by GM and illustrated in Figure 22.6b, consisted of the following steps:

1. **Framing.** Developing a clear problem statement agreed to by both the decision makers and support team.

2. **Alternatives.** Identifying alternative courses of action that are significantly different from one another, creative, and realistic.

3. **Analysis.** A comprehensive side-by-side comparison of the consequences of each alternative in terms of risk and return.
4. **Connection.** Generating a *hybrid* solution that combines the best aspects of the alternatives considered, and articulating the rationale to facilitate decision implementation.

Requiring formal communications at these key points enabled GM to significantly improve both the quality and cost of making complex strategic decisions involving many people in diverse parts of the organization.

Many decision variables are continuous, yet for practical reasons it is necessary to tackle just a handful of significantly different strategies. A metaphor was introduced at GM that likened the initial strategies to test wells (as in exploring for oil) and then creating a hybrid strategy (the production well) that combined the best attributes of all alternatives. The metaphor resonated well with managers, and today test wells are part of the GM vocabulary.

GM initially applied DDP in a small number of select cases, and also offered it as an optional tool for others. At first, managers struggled with this dramatically different approach, but soon saw its advantages and spread the word to colleagues who, in turn, adopted it. By 1995, more than 2,500 GM managers had participated in training and more than 100 DDPs had been conducted. GM used DDPs to address a broad range of topics, including: product planning and development, marketing, globalization, technology choices, information systems, business unit strategy, portfolio resource allocation, and finance issues.

Management also tracked the benefits of improved decision making by comparing the net present value of momentum strategies—what it would have done without DDP—versus the chosen strategies. Their analysis demonstrated that the additional value potential being created was in the billions of dollars. “The business value of these win-win hybrid courses of action is difficult to overstate.” wrote Vince Barabba\textsuperscript{10}.  


Three other unexpected benefits of building organizational decision competency came as a surprise to GM. First, the total time from initiating a DDP to completed implementation of a decision was significantly shorter than under the traditional decision process. While the DDP itself took longer, the need to recycle through the process due to unacceptable solutions was virtually eliminated. This created an alignment between problem and solution that cut implementation time in half. It was truly a case of “going slow to go fast”.

The second benefit was its impact on GM’s culture. In his book *Meeting of the Minds*, Barabba says, “One by-product of the repeated application of DDP at GM has been a noticeable change in the management culture. There has been an observable shift away from a culture of advocative and adversarial interactions toward one that is more open and cooperative. This effect was unexpected. Our objective was to change the way that decisions were made, not to change the culture. But we have come to understand how intimately the two are linked.”

The third benefit of GM’s transformation was improved learning and knowledge sharing. For many years, the company was, like most companies, tightly organized around major functional areas—an approach that had served it well because of the deep knowledge it was able to acquire in critical areas. However, dialog between functional areas was minimal, so an area such as engineering, for example, had only a limited understanding of what marketing was trying to accomplish, and vice versa. The traditional decision process long used at GM clearly contributed to this problem. Since the inception of DDP, managers throughout the corporation have developed a strong appreciation for the substantial value derived from sharing knowledge and information. Barabba says, “The increase in shared knowledge at GM….is the true source of the value increases we have witnessed. It is….breaking down the informational barriers that exist between our silos.”
Decision Competency Climbs Steadily

During the last decade, under the leadership of Nick Pudar and more recently Dan Roesch, GM broadly adopted decision competency and significantly reshaped those parts of the organization involved in strategic decision-making. Decision boards—commonly called leadership or strategy boards—became a way of doing business that is now pervasive at GM. The company has several standing boards that are cross-functional, cross-organizational groups of senior managers who concentrate on such areas as GM’s OnStar business, advanced propulsion systems, healthcare benefits, and various regional issues. The company also creates ad hoc decision boards when major issues arise that are not seen as suitable for one of the firm’s standing decision boards to address.

GM also maintains about a half dozen decision support teams and a central staff of some 25 professionals who comprise the GM Strategic Initiatives Center (GSMI) who provide expertise in decision analytics and facilitation. Among GSMI members are senior technical professionals and skilled experts—most with Ph.D.’s. The Center has significantly extended the analytical tools available to decision teams and has introduced dynamic modeling applications. Its members are viewed as leaders both within GM and in the field of applied decision-making. GSMI also includes managers with significant GM experience that enables them to readily engage others in various functional and practice areas throughout the organization—an ability that is vital to the services GSMI provides.

GSMI uses its analyst positions to train newly recruited MBA’s, rotating them through on an 18 to 24 month basis. Today, many recipients of GSMI training have achieved senior leadership positions in the company. Such career development helps maintain and reinforce the
organization’s decision competency. Roesch, who currently leads GSMI as GM’s Director of
Strategic Initiatives, says the group has steadily built its credibility throughout the worldwide
GM enterprise, and today senior and middle management broadly recognize its value. The group
now handles 35 to 40 major decision projects annually. The value of the projects it undertakes is
in the billions of dollars. In addition to the services it provides to decision boards, GSMI also
provides senior leadership with strategic synthesis of emerging business ideas and trends, as well
as management consulting oversight.

**Chevron - Decision-Making in a High Uncertainty Business**

The power of organizational decision competency is greatest in decision intensive
industries. We view an industry as decision intensive when decision competency is more
important to success than execution. To determine this, we ask which of two organizations in a
given industry would be more profitable: one that is average at making the right bets, but ranks
in the top two percent in execution; or, one that ranks in the top two percent in making the right
bets, but only average in execution. For the oil and gas industry, the latter is the more profitable
business, qualifying this industry as decision intensive. Other decision intensive industries are
capital intensive industries like commodity chemicals or R&D intensive industries like
pharmaceuticals. Of course, being outstanding at both decision-making and execution is far
superior in any industry. However, in decision intensive industries, excellence in decision-
making provides greater advantage. Chevron recognized this at the beginning of the 1990s and
engaged SDG to help it build decision competency. After a few projects to demonstrate decision
quality principles and the dialog process, Chevron adopted the approach broadly. The company
introduced more than 1,000 decision makers to the subject of decision quality in two-day
workshops. Dozens of decision staff members attended two-week “boot camps,” and then were subsequently coached while assisting in making important real-world decisions. During the early stages, adoption of the practices was optional for individual business units.

As the program matured in the mid 1990s, Chevron’s internal consulting organization developed deep competencies and became largely independent in training and developing their staff. When David O’Reilly became Chevron’s CEO and reviewed some of its recent decisions that had fallen far short of expectations, he required that the decision dialog process become standard procedure and that decision makers throughout the firm be certified in its use. Since then, Chevron has certified thousands of its decision makers and developed hundreds of decision staff members. They also developed a two-day decision simulation exercise that more than 2,000 of its executives have now completed. The company’s internal decision consulting group has a staff of more than 100 spread among business units. Of these, 40 to 50 engage full-time in decision analysis and facilitation. Frank Koch, decision analysis practice leader at Chevron, observed that their commitment is high and broadly based. He reports that, by improving its decision competency, Chevron gained significant benefits, including: a common language; a set of common expectations; an understanding of what a good decision effort is; and, effective behaviors by decision makers who are now much better prepared for decision review board meetings and able to engage in effective dialog.

In looking forward, Koch is turning his attention to maintaining and further refining Chevron’s organizational decision competency. The company is introducing value tracking in an effort to better compare the value promise at the time of decision to the value that is actually realized, and how the value promise changes over time. They have also introduced dynamic analysis of multiple stakeholder positions and advanced analytical techniques. While decision
competence is now deeply embedded at Chevron, Koch recognizes that without vigilance, that competence may not survive the transitions in management that every company experiences. Nonetheless, the approach now has many champions among its primary decision makers, and a passionate decision staff.

Conclusion

In looking back over 40 years, I am struck by how much and how little we have accomplished in developing true decision competency across entire enterprises. In one way, we accomplished a lot. We now know what true organizational decision competency looks like. We have a limited number of enterprise-wide examples to which we can point. And, the benefits of decision competency are now convincing to almost everyone.

Forty years ago, we conceived of decision competency mainly as an analytical skill that was applied to subjective judgments from experts. Thirty years ago, by the mid 1970s, we had broadened our perspective to incorporate powerful lessons from the pioneers of behavioral decision science. We also had numerous successes in corporate consulting and were training internal decision consulting staffs and decision makers in industry-leading organizations.

Among these early successes was Xerox, then one of the world’s most successful companies. I recall one Xerox president deciding to have his entire organization adopt decision analysis methods. When I suggested this might be difficult, he responded that would not be the case because he would use the clapping method. He said, “Carl, you will lead a one week seminar. We will bring in all the right people and I will sit in the front row and clap a lot. You’ll see how fast the organization will adopt decision analysis.” He was right. We delivered the
Advances: Building Decision Competency

Twenty years ago, we had mastered using the dialog decision process as a powerful tool for achieving organizational alignment and learning. However, we were still addressing mostly single decisions, frequently the choice of corporate strategy. However, our tools had grown to the point where we were able to address entire decision portfolios. We could do rapid decision analyses on individual initiatives, assets, or R&D programs and then combine the outcomes to optimize entire business portfolios. These applications offered immense value, often enabling companies to grow portfolio value as much as 30 percent without additional resources. This new capability resulted in waves of new applications and subsequent adoption by organizations during the next 15 years, particularly in the oil and gas and pharmaceutical industries where these methods have become standard.

Ten years ago, we saw the early adopters of organizational decision competency as we define it today, including GM and Chevron. The economic bubble of the late 1990s confused the picture somewhat, because disciplined decision making seemed less important than speed in capturing the overwhelming value potential of the dot.com revolution and participating in the economics of “irrational exuberance”. We have seen companies during the last five years

seminar, and it appeared to be a great success. Within weeks, the office walls of financial staff and product planners were adorned with decision trees. On closer inspection, however, the diagrams were not of new proposals, but existing ones that had decision trees drawn around them. Clearly, it is easier to adopt the form than the substance of decision quality. At Xerox, which then had an adversarial culture, decision analysis evolved into a powerful weapon for winning intramural wars. Indeed, we still had much to learn about organizational behavior before we could build sustainable organizational decision competency.
gradually recovering from the devastation wreaked when that bubble finally burst. Burned by the experience, most avoided taking significant investment risks, and amassed cash instead.

Where will we go from here, and what role will decision competency play? Allow me to venture a prediction. Corporate leaders and their boards will be more disciplined as corporations return to growth strategies. Their emphasis on discipline will continue for at least a decade because current leaders have painful lessons still deeply etched in their minds. This will make the development of organizational decision competence a renewed priority, so I foresee wider adoption in the coming years, especially in decision-intensive industries.

Why hasn’t that adoption occurred more rapidly? First, we did not see the entire picture until some 15 years ago. Second, the professional community that does comprehend the whole picture is relatively small and includes few academics. Third, as discussed earlier, developing organizational decision competence requires doing a lot of things right and then having them all work well together. It is a major transformational challenge, and there are many ways to fail. Fourth, the notion remains popular that decision-making is a matter of having the feel and making the call, that some people have an innate ability to do this well and all we need do is find them. Finally, many proponents place too much importance on the role of decisions and thereby denigrate the importance of execution, thereby alienating many line executives. A good decision is only the first step in value creation: it creates value potential that cannot become real value until executed effectively. Competent decision-making must assume its appropriate place in the overall value creation chain.
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Notes:

1. Now SRI International.


5. We use the concept of organizational congruence as presented in: Competing by Design. By David A. Nadler and Michael L. Tushman, Oxford University Press, 1997.

6. There is a common perception of General Motors as a company struggling to survive. However, it is a misunderstood enterprise because only a small fraction of its financial value rests in the hands of shareholders. As of June 15, 2005, the total value of the enterprise was $300Billion but its market capitalization was only $20Billion. GM’s current cost disadvantage (relative to Toyota) of $1500/car was bargained away to the United Auto Workers’ Union more than 30 years ago. While Toyota earns about $1,700, GM earns less
than $200. GM may not survive under its present financial structure, but as an enterprise, it is performing very competitively. I see in GM a talent-rich organization that embraced organizational decision competency to build immense value for its many stakeholders—including those with legacy entitlements.

7. This example was presented in an SDG eBriefing on September 15, 2004, entitled GM’s Decision-Making Transformation—A Conversation with Vince Barabba, Nick Pudar and Dan Roesch. Vince Barabba, General Manager, GM Corporate Strategy and Knowledge Development (retired) was the primary change agent that brought Organizational Decision Competency to GM. Nick Pudar, currently Director, GM Global Planning and Strategic Initiatives led the decision staff and further developed the competency. Dan Roesch, Director, GM Strategic Initiatives (GMSI) currently heads the GM decision staff. Carl Spetzler, Chairman, SDG served as moderator. An archive of SDG eBriefings is available on the SDG website: www.sdg.com.


9. Ibid. p 195.

10. Ibid. p 198.

11. Ibid. pp 204-205.
