

GENESIS MANAGEMENT CONSULTING

“Improving lives through better decisions”

Improve the value of your key decisions through behavioural strategy

Commentary on an article by Dan Lovallo published in the McKinsey Quarterly.

Available at: McKinsey Quarterly.com. Short link: <http://bit.ly/9UdDbD>



Behavioural economics already plays an important role in leadership and management – the only surprising thing is that very few corporate strategists consciously take it into account when taking strategic decisions. McKinsey research, which backs up the latest research report by Genesis Management Consulting, highlights the need for organisations to begin adopting behavioural strategy if they wish to improve their decision processes and increase the value of those decisions.

Key point 1: The majority of Executives believe there is significant room for improvement in decision making.

Genesis research showed that more than half of the Executives polled believe their organisations’ decision making is inconsistent or poor; and more than 75% stated their organisation had made a poor strategic decision in the prior 12 months (research report available at <http://wp.me/pYKcJ-6a>).



McKinsey research indicates that in their sample only 28% believe the quality of strategic decisions is good; and 60% thought that bad decisions were about as frequent as good ones.

Key point 2: Good decision making processes can dramatically improve the value of an organisations’ decisions.

Although research and analysis is important, the McKinsey study showed that process (which includes behavioural issues) matters more than analysis – by a factor of 6.

This does not mean analysis is unimportant, more that poor analysis will be picked up by good decision making processes, but not the reverse (i.e. good analysis will not highlight poor decision process – and even great analysis is useless if the surrounding process is poor).

The research indicated that the quality of process can have an impact of up to 6,9 percentage points of decision ROI (that is increasing the ROI related to a decision by a further 6,9%)



Genesis Management Consulting Limited
Falcor House, 68 Crockford Park Road
KT15 2LU, Surrey
Regn: 6648626
UK + 44 7914 622467
sgifford@genesis-esp.com

Genesis Management Consulting
Francisco Silvela, 5
28028 Madrid
CIF: N8260796A
Spain: +34 607950562
www.genesis-esp.com

GENESIS MANAGEMENT CONSULTING

"Improving lives through better decisions"

Key point 3: To improve strategic decision making, the process must be designed to confront and limit the behavioural bias of individuals and groups.

Although, most decision leaders to some extent try and limit biases, for instance by applying a discount factor to the input of a perennial over-optimistic manager, behavioural issues are seldom comprehensively considered. Furthermore, we require more than just familiarity with the biases, we must actively develop business practices to address and counteract them.



Key point 4: What are the major biases that are found in strategic decision-making?

There are various ways to classify these behaviours and Genesis Management Consulting has developed its own model which we use with our clients. The McKinsey article suggests 5 classifications:

1. Pattern-recognition bias – countered by changing angle of vision.
2. Action-orientation bias – countered by recognising uncertainty.
3. Stability bias – countered by shaking things up.
4. Interest bias – countered by making them explicit.
5. Social bias – countered by depersonalising the debate.

Key point 5: How to adopt behavioural strategy.

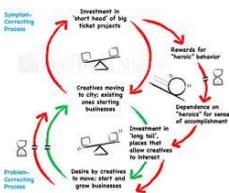
The article puts forward 4 steps that may be adopted when beginning to use behavioural economics:

1. Decide which decisions warrant the effort
2. Identify the biases most likely to affect the critical decision
3. Select practices and tools to counter the most relevant biases
4. Embed practices in formal processes.



Execution and conclusion.

It is obviously difficult in a single document to offer comprehensive advice and we believe the well-written article offers a good overview to the challenges. It also refers to other interesting documents – of which similar material is available at our web-site and blog. However, at Genesis we believe that the decision-making process is both critical and complex and it is unlikely that the simple 4 step process if undertaken, for instance, by a corporate strategist would yield major positive changes. A better intervention would be a broader, more systemic look at strategic decision-making in an organisation that considers process, tools and behavioural aspects – followed by a focussed optimisation programme.



For more information about undertaking the Genesis Decision Optimisation Programme; or how to build the necessary decision-making capability in your organisation, contact Simon Gifford at Genesis Management Consulting Limited (contact details below).

Genesis Management Consulting Limited
Falcor House, 68 Crockford Park Road
KT15 2LU, Surrey
Regn: 6648626
UK + 44 7914 622467
sgifford@genesis-esp.com

Genesis Management Consulting
Francisco Silvela, 5
28028 Madrid
CIF: N8260796A
Spain: +34 607950562
www.genesis-esp.com