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OLIVER WIGHT PAPER series

Roughly Right or Precisely Wrong?

Insights on Decision Making

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Imagine the **possibilities**,
realize the **potential**.

We have all experienced this situation: a team of people working tirelessly on a business case, analysis, forecast, plan, or project. The team puts in the appropriate amount of effort and demonstrates all the right intentions. But the decision is not made, and the business frequently does not realize the desired results.

People express frustration that, after all the hard work, no decision was made. When mentoring is offered about the experience, people are often coached to spend less time perfecting and more time understanding underlying assumptions, influencing key players, and driving to the desired impacts.

A phrase I learned that embodies the advice above: "Better to be roughly right than precisely wrong." This principle is true for most kinds of decision making, whether it is business strategy, business analysis, product management, and in life itself.

Throughout my career leading business teams in multiple companies and multiple industries, this advice has proven highly effective. In this white paper, I share key principles I've learned about decision making during my career. I am indebted to Jim Matthews for sharing his experiences in this paper as well.

Easy to Say, Hard to Do

Why does the "roughly right" approach seem so difficult to apply in business?

Consider this common occurrence: A demand forecast, business case, or some sort of decision needs to be made. The preparation is thorough, and the methodology is sound. Inevitably, the business leader asks for additional data or a slightly different view, using the common phrase, "Let's take this offline."

When this request is made, most people respond by delving down into more proof, back-up, and further validation. In some cases, this additional detail is needed.

All too often, the opposite is the case. The request for more information is frustrating, time consuming, and costly when there is already enough information available to make a decision and to move forward.

What prevents people from making the decision? Risk aversion, lack of clearly defined decision-making authority, or gaps in fundamental change management requirements. Failure to make decisions when enough information has been presented is, unfortunately, more common than a culture of making effective and timely decisions.

In assessing the best way to reduce the reluctance to make decisions and the resulting related problems, I have worked several times with Jim Matthews, a Principal with Oliver Wight Americas. Here is insight that Jim provides:

Greg describes one of the most common problems Oliver Wight principals encounter when working with companies that are challenged to achieve critical goals and objectives, IBP/S&OP processes and/or related cultural change initiatives.

"For many of the reasons Greg has raised, companies frequently fail to balance the effective use of available facts and data with the need for a timely and effective decision. They fail to use information to consider insights and options, do not make needed decisions, and fail to achieve desired outcomes.

"In these cases, the fact-gathering and analysis process turns into an endless loop of analysis, debates on approach, and debates about often small and insignificant details. This is a time-consuming, expensive way of problem solving, if the decisions ever get made to solve the problem, mitigate a risk, or take advantage of an opportunity.

"By way of example, I worked with a client that was experiencing a decline in market consumption. What appeared to be increased channel inventory, according to the sales organization was, in fact, relentless pressure to "sell more" from the executive team.

"Understanding the root cause of the problem was difficult. The channels were complex, and getting a decisive view on inventory was difficult.

"This client's situation and other similar circumstances are very common in business today. In this case, the client consumed a lot of time and money while various stakeholders either pressed for more proof about channel inventory or simply ignored the evidence altogether."

In discussing the above case example with Jim, I thought: “How often do we push back when ample information is available upon which to base decisions? How often do we simply not have the luxury of time to do more analysis? How would we even know if we had time or not?”

The answer is that we often don’t have the time, but we just don’t fully realize it. The desire for more time and information can leave organizations in analysis paralysis. They are too slow to react to competition or changing market conditions. They also can be too slow to capitalize on opportunities that emerge.

When we reflect on how society rewards effort, we can start to see that these behaviors are deeply rooted. Think about how we measure our children and students. Test scores are usually based on output alone (what’s written on the paper). We don’t measure students based on the ratio of time spent studying to the grade on the test.

In fact, we tell our children to study more and to invest as much time as possible into achieving top marks. We reinforce they need to not rush, to take their time, and to do things properly.

We also idolize athletes and performers who put in countless hours of training and practice to be near perfect at what they do. We salute scientists who devote their entire careers to finding treatments and cures for diseases that kill millions of people over that time.

We’ve been brought up this way. It is how many of us have learned to approach problems, even when the circumstances are very different.

Big Data – Friend or Foe to Timely Decision Making?

Consider the tremendous growth of data and analytics that businesses have been both embracing and coming to grips with over the past decade. "Big" data is everywhere. With more data available, it becomes increasingly possible, if not expected, for leaders to ask for more supporting analysis and more "proof" that a decision is going to be the right one.

In the past, there was an obvious physical limit to what could be reasonably sampled, measured, calculated, and analyzed. Those limits no longer exist today, at least to the same extent.

What still does exist, in many cases: the constraint of time and money to build databases, engineer business intelligence and decision support solutions, and apply advanced analytical techniques.

And if we don't see, or are afraid to admit, that time is a constraint, we run these risks: over-engineering, missing the critical decision window, and failing to recognize that at least some of our problems may lay elsewhere.

In business, we like to think that we don't take such a cavalier approach to time. We all know, of course, that time is money! But this is such an ingrained approach to problem solving. People are comfortable with varying the time spent in problem solving but not varying the quality of the output.

To accept the advantages of a roughly right decision-making approach, we are up against a major behavioral obstacle. Jim has some valuable experiences with helping companies to see the value of making roughly right decisions. He tells how a roughly right mindset helped the company with declining consumption and increasing inventory:

"This client was in a crisis. We had no choice but to find a quick and very rough understanding of the problem, coupled with decisive action. This decision-making process was completed through various means in about six weeks.

"There was no question that, in many regions, the channel inventory was magnitudes higher than target. The problem then became: how accurate are the findings?

"Company leaders agreed to accept inventory accuracy levels in the +/- range of 10 percent. This accuracy tolerance was sufficient to conclude that major redirection was required.

"Human nature is interesting, however. The decisions on redirecting inventory ultimately saved the company hundreds of millions of dollars in cash tie-up and write-off. Yet, there were still many analysts, finance people, information technology staff, and even executives who wanted more details and argued that more proof was required.

"I am convinced that the savings, and even the company itself, may not exist today if a few brave leaders hadn't had the courage to make the required decisions with imperfect but good-enough information.

"Many people recognize the value of being roughly right when making decisions. Some people quote Voltaire, saying, "Better is the enemy of good." Others suggest the use of the Pareto Principle, sometimes known as the 80/20 rule. But sayings and principles alone aren't enough to change behaviors."

Time Constraints Force Decision Making

The problem to overcome is one of constraints. As mentioned earlier, we often may not perceive or appreciate a time constraint. Even when we recognize a time constraint, decision-making may be thwarted by unclear ownership and decision-making authority or simple risk aversion.

When constraints are recognized, we tend to get things done. A time constraint or deadline forces people to make decisions with imperfect information. It forces people to get it roughly right – and accept that roughly right is good enough. It forces people to think outside the box because there is simply not enough time to do things the way they have always been done in the past.

Here are some examples that resulted in historic breakthroughs: The Lockheed P-80, the first fighter jet to be used by the United States Air Force, was delivered 143 days after the start of the design process. The race against Russia was a real constraint that drove a true urgency to building the plane quickly.

There are other similar examples in history: In response to competition to build the world's tallest building, the Empire State Building was completed 410 days after construction commenced. And a man walked on the moon eight years after President John F. Kennedy challenged the country to put a man on the moon.

So how do these examples help us? It gives us the "how." When we believe that there is a time constraint, we tend to be able to respond and change our behaviors. It's when we don't see or appreciate the constraint that we get into trouble. Tasks have a way of being expanded to fill the allotted time.

One solution to more timely decision making, then, is to simply create the time constraints ourselves. F. Kenneth Iverson, former chief executive of Nucor Steel Company, called it " A dream with a deadline." Iverson was lauded as a "daring and innovative" manufacturer who helped transform the U.S. steel industry. He proved how strong leadership can create urgency to push people to overcome risk aversion and the status quo.

As leaders, we need to create and manage a culture of healthy urgency. We need to set time constraints even when we can't point to real threats, knowing that without time constraints, we may not act until it's too late to achieve a positive outcome.

In Jim's client example, when the company was wrestling with growing channel inventory, few people in the business truly appreciated the magnitude of the problem. It had never been an issue in the past. The company had a track record of simply outgrowing their problems. That sense of complacency led people to dispute the precision of the findings rather than to respond to the business implications.

The art of setting constraints is getting the balance right: too constrained, and we try to push people beyond their capabilities. Having too few time constraints is equally destructive. It frequently results in missed opportunities, bureaucracy, and wasted effort.

In practice, one simple approach that has worked well is short-term goal setting. Much like a sprint for those familiar with agile methodology, the approach is to establish challenging goals that are time-bound over a short time horizon (months, possibly weeks). This approach works well because it allows you to both recalibrate and celebrate success more frequently.

Similarly, in business decision making, leaders can set deadlines by which decisions have to be made, and then, most importantly, adhere to the deadlines. The practice of running a disciplined Integrated Business Planning (IBP) process can certainly help in that endeavor.

What is Integrated Business Planning (IBP)?

Integrated Business Planning is a decision-making process used to align strategy, portfolio, demand, supply, and resulting financials through a focused and exception-driven monthly replanning process. The result is a single operating plan, over a 24+-month rolling horizon, to which the senior executives hold themselves and their teams accountable for achieving. Done well, it is the formal way that the business is managed.

With IBP, key business decision-making forums occur on a set schedule. These forums are organized in such a way that the supporting analysis flows naturally into the process. Executives have shown that IBP can create a healthy sense of urgency and drive an organization to abandon perfection and embrace "good enough."

One other word of advice: leaders need to embrace "good enough" as well. You should abide by the time constraints as decision makers; otherwise the approach will be for naught.

Over the coming years, we will inevitably be faced with a push for more analytics. While smart application of advanced analytics can uncover valuable insights, it also poses a real threat to business decision making. It becomes easy to fall into the trap of wanting more and more information because it is accessible. This desire often leads to overanalyzing a problem or situation, wasting both time and money.

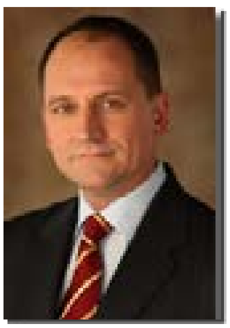
Building a keen awareness for when good is good enough is increasingly becoming a key skill, if not a competitive advantage, for businesses and business leaders.

ABOUT THE AUTHORS

Greg Spira has a broad background covering Integrated Business Planning, Forecasting and Demand Management, Finance/Accounting, and Information Technology. He currently leads Forecasting for Mondelēz North America and, prior to that, he led Integrated Business Planning for the North American Biscuits category. Prior to Mondelez, Greg led Global Demand Management at BlackBerry, and has 15 years of experience in a variety of industries.

Greg has a passion for solving challenging problems and driving change with the right mix of people, process, and tools. He combines operational savvy with an agile approach to solving business problems to add value and achieve goals. He has a successful track record of leading teams through challenging transformations, and enjoys developing and motivating talent.

Greg earned his MBA and CPA, CMA designation, at McMaster University, where he also held a teaching position in the MBA program.



James Matthews, an Oliver Wight principal and board member, is a consultant and educator providing companies with guidance in Integrated Business Planning (Advanced S&OP), Demand Management, and CPFR® (Collaborative Planning, Forecasting and Replenishment).

With over 25 years of experience in general management, demand, supply chain, and mergers and acquisitions, Jim has a deep understanding of how to recognize opportunities and work with clients to establish plans that deliver sustainable results.

Jim is an advocate of establishing clarity of vision and early executive alignment. This includes a clear understanding of current gaps, agreement on appropriate solutions, proper resourcing, and a documented "case for change." He helps leadership operationalize their strategy and draw strong links to their desired business and financial objectives. This often means finding fast and effective ways of achieving revenue/margin growth and improving asset performance with focus in the areas of customer performance, demand management, inventory optimization, resource and supply management, and effective KPI design.

Jim earned his MBA from McMaster University and is a frequent speaker at many industry conferences.

ABOUT OLIVER WIGHT

At Oliver Wight, we believe sustainable business improvement can only be delivered by your own people. So, unlike other consultancy firms, we transfer our knowledge to you; knowledge that comes from nearly 50 years of working with some of the world's best-known companies.

The Oliver Wight Class A Standard for Business Excellence is recognized by organizations and industry commentators as the definitive measure of business excellence. We have a long-standing reputation for innovation; we continually challenge the industry status quo, so you get the latest in fresh thinking around core business processes and their integration with people and technology.

Your Oliver Wight partners will coach, guide, and inspire your people to drive change throughout your organization, allowing you to create a culture of continuous improvement and innovation that simply becomes, for you, 'the way we do things.' We call our approach to change management the Proven Path; it's a proven, sustainable approach that will transform your business performance and deliver results straight to the bottom line.

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