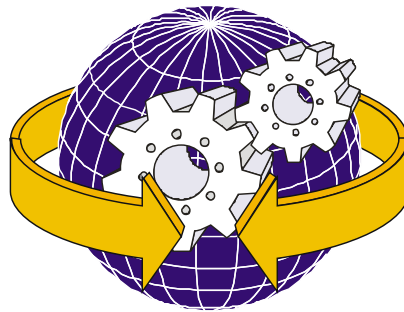


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## On The Quality of Strategic Decisions



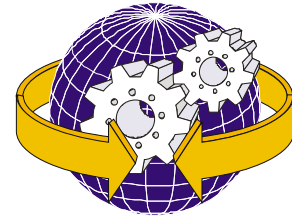
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## Strategic Versus Tactical



Strategic decisions have long-term and wide-ranging consequences. They are pervasive in nature and affect activities, decisions, attitudes and behaviors throughout the organization. Their impact is profound but often far removed in time from the original decision. Strategic decisions answer such questions as:

- How should we structure the organization?
- What product technologies should we develop for the next decade?
- Should we make a major investment in a new process technology?
- What corporate image should we strive for in our major advertising campaign.

Conversely, tactical decisions have narrow and short-range consequences. They have limited influence; the effects come in days, weeks or months rather than years or decades. Tactical decisions answer such questions as:

- Who should we hire for the new sales position?
- Which supplier should we use for our XYZ component?
- Which supplier for our new production equipment?

Tactical decisions, because of their shorter range and limited focus, are usually more predictable and subject to quantitative analysis. Historical data reasonably predicts near-term performance and conditions. The narrow range limits the number of factors that can interact. If something does go wrong, damage is more contained.

Poor tactical decisions often come from incomplete use of available information. Decision processes where provincial concerns and power dominate also cause poor tactical decisions.

The disparate nature of tactical and strategic decisions requires different approaches when making them. The factors that influence the quality of these decisions are also different between tactical and strategic.

## The Limits of Quantitative Analysis

Managers must usually make strategic decisions in ambiguous, conditional and probabilistic circumstances. Facts are unclear. Quantitative data is questionable. Results depend on combinations of other circumstances. Factors that are trivial in one instance become significant in another. Future events are uncertain. Historical information and data have little relevance in a world of discontinuities.

Under these conditions, quantitative methods have limited use. Managers who rely on them become uncomfortable. They frequently find increased comfort by ignoring anything they cannot quantify. This approach limits them to incremental improvement along historical directions.

Analysis paralysis results when quantitative and definitive methods are inappropriately used. Analysis shows what is or what was but it cannot create. Intuition is creative. Through intuition we see what could be and should be, even things that never before existed.

In physics, the early experimental work of Morley, Michelson, Plank and others uncovered anomalies in Newtonian theory. By assuming that the anomalies were valid, Einstein used

intuition to connect mass, time and energy. Analysis and experiment subsequently confirmed much of Einstein's model.

As in physics, the most important strategic insights are almost always intuitive. Analysis lays the groundwork and confirms the results but cannot create. We need both.

## What Is A High Quality Decision?

One obvious answer is "a decision that works." But poor decisions are sometimes lucky. Would another decision have worked better? And, managers need to know if their decision is good before implementation, not weeks, months or years after. Since we cannot know the result in advance, managers must judge the quality of their decisions by the process, not the results.

We suggest that a high quality decision is one with the best probability of success at attaining a clear goal at the time the decision occurs. It comes from examination of the widest range of feasible options and uses both quantitative and qualitative analysis, often with a high dose of intuition.

## A Focus on Process

A manufacturing firm served markets from three factories in the East, Southwest and Midwest. Initially they had only one factory that made every product. The firm built new factories and products multiplied from 200 to 1500 items. The factories became increasingly difficult to manage, costs went up, quality declined and deliveries faltered.

The company made several attempts to apply Focused Factory concepts developed by Wickham Skinner. Focus is one of the most important components of a manufacturing strategy. The early attempts failed because:

- Factory managers distrusted one another.
- Key headquarters people did not grasp the concept.
- The accounting system emphasized freight cost and obscured the costs of changeover, inexperience, tooling and poor quality.
- Sales and Marketing had no involvement.

Strategos assisted this firm in convening a strategic team to develop plans and make decisions on future Manufacturing Strategy. This team included plant managers, schedulers, marketing and corporate executives.

The group started with training that introduced the concepts of focused factories. A second round of training included the [MIT Beer Game](#) to show the dynamic and psychological effects of multi-tier distribution systems. At the end of the training sessions the group brainstormed possible applications of their new knowledge.



The subsequent session convened several weeks later. We first identified criteria for a final decision, i.e., what do we want the new strategy to do or accomplish. Many participants had joined this team originally with an implicit assumption that our purpose was freight cost reduction. The team soon developed a surprisingly long list of potential goals that went far

beyond simple cost reduction. These included changeover cost, inventory reduction, delivery speed, delivery reliability, training issues, quality, new product launch and management.

Each participant had the “Ah-Ha” of a paradigm shift. With this new understanding, their individual goals, objectives and “hidden agendas” moved from provincial concerns to a higher plane.

Then the team brainstormed options. They excluded nothing. Plans included division among the plants by customer, distribution channel, volume and geographic area. They then weighed each option against each decision factor. This forced critical and focused thinking over a wide range of options, issues and outcomes. The team brought sales data and performed a simple, straightforward, real-time analysis during the sessions.

We then narrowed the options. The “harebrained” plan made an important contribution since some its good features transferred into other plans.

The final selection separated plants by product volume. This was a radical approach that had seemed infeasible prior to these deliberations. This option moreover, corresponded closely with separation by distribution channel or by customer. The figure below illustrates. Our concern here, however, is not the advantages of focused factories but the way such decisions are made.

Perhaps the most remarkable result was the wide acceptance and enthusiasm for the selected option. The issues addressed by this team had been contentious and divisive throughout the organization for many years. Now there was unanimity, enthusiasm and cooperation.

This team had high confidence in their decision because they had explored a wide range of options and knew their fundamental logic was sound. And, they had watched several of their most provincial and vocal teammates rise to business statesmanship.

## Summary

The results of strategic decisions are usually wide-ranging, pervasive throughout the organization, difficult to modify and far removed in time from the decision point. Therefore it is especially important to ensure that the decision process is a process likely to produce a high-quality decision. Such processes will usually include:

- Education on Issues & Options
- Broad Participation
- Guided Discussion & Debate
- Isolation From Daily Crises
- Appropriate Mix of Quantitative, Intuitive and Systems Thinking

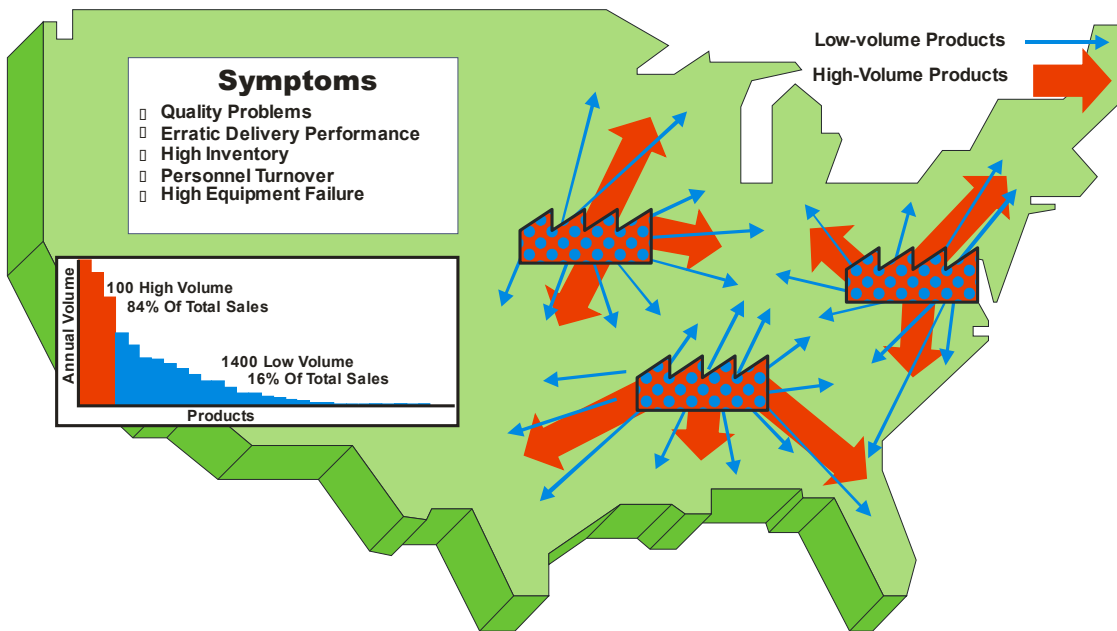


Figure 1 Original Configuration of Manufacturing Facilities & Products

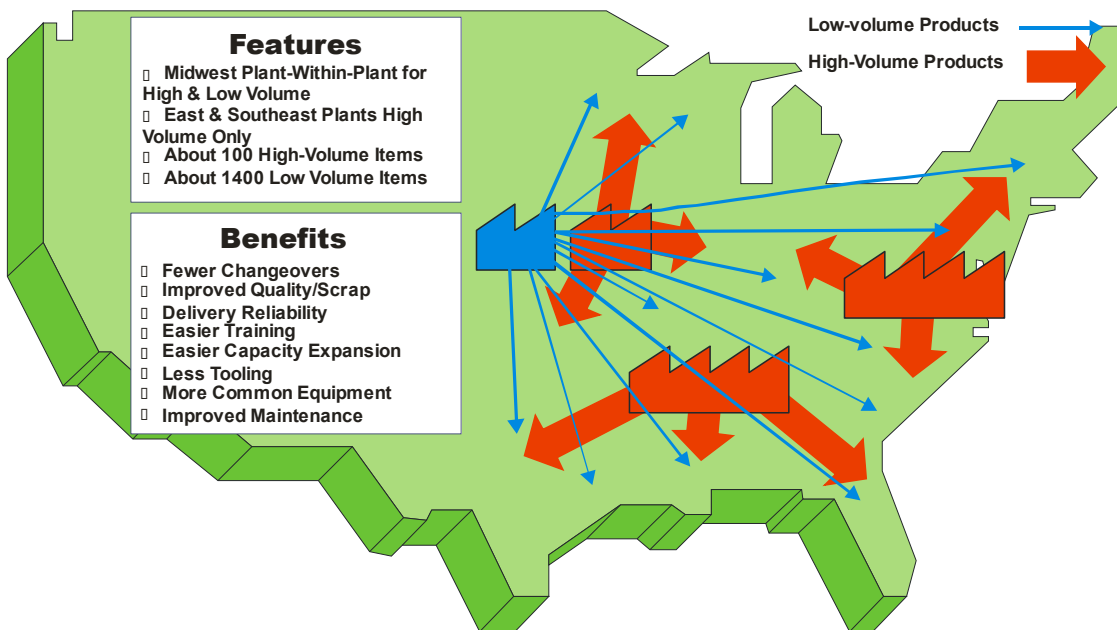


Figure 2 Volume-Focused Configuration