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LEADERSHIP IN MANUFACTURING

First Up -- The Season of Snap Judgments

Is your firm guilty of poor decision-making? A veteran business executive says you have plenty of company, but it's a problem that can be fixed.

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By *Steve Minter*

Given the razor-thin margins for error that companies operate with these days, you would think the science of decision-making is revered in corporate America. Think again, says Michael McGrath, the author of "Business Decisions!."

"I think there have been more poor decisions and less attention to decision-making in the last decade," says McGrath. "The track record of business in decision-making has been less than stellar."

McGrath draws on considerable experience in writing about decision-making. As co-founder and CEO of management consulting firm Pittiglio Rabin Todd & McGrath, he created the PACE process for making decisions in new product development. That process is in use at more than 1,000 companies. After a brief retirement, he accepted the job of CEO at i2 Technologies, a company then on the verge of bankruptcy. By cutting costs and refocusing i2 Technologies' sales strategy, he engineered a swift turnaround.

McGrath says the problem in many companies is that they make major decisions in an informal way without sufficient time to consider the ramifications. A high school football coach, he notes, develops plays and practices them repeatedly before introducing them into a game. But for many companies, decision-making more resembles just sending the team out on the field and hoping for the best. McGrath says Time-Warner and AOL spent more time deciding on company logos than they did on the decision to merge the two giants.

Companies should have a structured decision-making process, says McGrath, and make sure that employees clearly understand what their role in the process will be. He says an executive team making a major decision should first determine the objectives of the decision. "Usually, that is where everybody gets messed up because they start working on a decision without agreeing on what the objectives are," he notes. "Then they make different decisions because everybody has different objectives." Company officials also need to agree on what process will be used to make a decision.

McGrath says public companies are rightly criticized for focusing too much on the next quarter, but he has first-hand experience with the pressure to do so. "When I was a consultant to CEOs, I used to advise them that they shouldn't cave in to short-term pressure for earnings, that they really should make decisions that have the best interests for the company in the long term," he recalls. "Then I became the CEO of a public company, i2 Technologies, and every quarter we had to release our earnings and do conference calls. The next day you would get grades on your performance from all the analysts. Worrying about the long-term is great theoretically, but when you are getting graded all the time, there is pressure to perform."

Examples of bad decisions in business are abundant. McGrath admonishes Toyota for taking too long to react to serious problems. "They had information coming in for a while on sudden acceleration problems and their braking problems, and they really ignored it," he says. He posits that some of the problem at Toyota was cultural, stemming from a less litigious society and from greater respect for hierarchy in Japanese corporations. "As a result, they don't whistle-blow and go to the boss and say this is a big problem," he says. "Things don’t filter up as quickly."

By contrast, McGrath praises Ford's decisions to borrow $23.6 billion in November 2006 and then sell Jaguar and Land Rover in 2007 for $2.3 billion. By mortgaging its assets, says McGrath, Ford was able to create a war chest before the money was needed. When the recession crushed car sales, General Motors and Chrysler were forced to seek government assistance while Ford was able to continue operating on its own. The result has been a significant reputation and sales boost for Ford.

While bad decisions are a huge problem in business and government, McGrath says the worst decisions "are those that are never made." Problems such as unsustainable pension plans fester until the day of reckoning finally comes, leaving everyone to ask: "Why didn’t someone decide to fix this earlier?"

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