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DECISION-MAKING FOR GROWTH
INSIGHTS PAPER

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DECISION-MAKING FOR GROWTH

BUSINESS NOW OPERATES IN AN ERA OF RAPID CHANGE AND DISRUPTION. TRADITIONAL DECISION-MAKING STRUCTURES CAN BE SLOW AND HIERARCHICAL. BOARDS AND BUSINESSES NEED TO CREATE STRUCTURES TO RESPOND TO CHANGE AND STAY AHEAD OF DISRUPTION.

Collaborative decisions bring many advantages to the board table. Not least a diversity and breadth of opinions and expertise that should increase the ability to make better decisions.

However, history is littered with examples where, with hindsight, a good decision was obvious, but group dynamics ensured that a bad one was taken.

One reason for this is an inherent conflict in organisations between the need to exploit to its fullest the current model of activity for profit versus the need to explore potential other models for growth.

This paper, developed from presentations and conversations at the Company Directors Conference Directorship:14, Igniting the Growth Agenda, develops a framework that recognises the conflict between exploiting and exploring, and its impact on decision-making.

There are four aspects to consider:

- The exploit v. explore conflict
- The false wisdom of groups
- A framework for better decision-making
- How to be an explorer

The conflict

There is a conflict in all organisations between the desire to exploit the current model of growth and profitability and the need to explore other potential models for growth.

The exploit dynamic is focused on how to deliver efficiencies as quickly as possible. It is looking at today and thrives in a stable environment.

Exploit is hierarchical, takes large, deliberate initiatives and has a low appetite for uncertainty. It feeds current profitability.

The explore dynamic has a higher risk appetite; it thrives on uncertainty and is focused on tomorrow. Explore will pursue ad hoc opportunities and is nimble enough to make rapid changes in direction. It feeds future profitability.

Exploit and explore may appear to be enemies, but in fact they are symbiotic forces that must be harnessed in rhythm with each other. Both are necessary for growth.

However, the two cannot live in the same house. Exploit is normally the dominant dynamic and insists that the way business is currently done is the way it should be done. The dynamic of explore cannot occur within business as usual because it would be killed off by the dynamic of exploit, with its focus on short-term results.

The false wisdom of groups

Work by academics, including Gary Klein and David Snowden*, has demonstrated that working in groups does not necessarily aid what Klein and Snowden term ‘anticipatory thinking’, or the ‘ability to prepare in time for problems and opportunities’.

In their study, small teams were given complex problems to solve. During the day, more information was provided to help them solve problems.

When individuals were asked to step away from the team and reflect on which bits of information were important, at least one in each group would identify the ‘weak signals’** or snippets of information that can point to industry and market disruption.

Furthermore, each team member took notes and these showed that at least half the members of each group were aware of the weak signals. However, despite this, not a single team discussed them as a whole.

Klein and Snowden identified several reasons why these weak signals were buried, and why decision-making in groups can be surprisingly poor. In particular, they note that a dominant interpretation of the situation is often quickly established and team members are loath to dissent. Organisational barriers and allegiances between team members also supress dissenting voices.

As a group, boards can be captured by the exploit dynamic and miss potential problems, not admitting there is a need to explore.

A framework for better decision-making

There is a broad assumption in business that management is a skill that can cross industries, taking precedence over content and context expertise. If you are a good manager, then you can manage any situation, the thinking goes. This may hold true in stable situations but is often tested in times of volatility.

This is particularly true in the public service, where generalist managers do not question orthodoxies and there is a low appetite for risk. It might be worth considering that the structure of the public sector is so different from the private sector that it needs to find a different way to innovate—that simply borrowing tactics and strategies from the private sector is not sufficient.

What makes innovators different is that they are experienced and have the confidence to take on a risk, as experience and context reduce risk.

For the most part, we make our decisions based on the options in front of us, which means we do not necessarily see the whole picture. As Apple founder and chief executive Steve Jobs famously stated: "It's not the customers' job to know what they want".

However, the deeper the contextual experience we have of the situation the more potential there is to recognise options beyond those that are presented to us. A person with deep knowledge is able to supplement the options in front of them. This implies that generalist managers do not have the full suite of options in front of them when making decisions.

How to be an explorer

Boards that want to foster exploration should first ensure they are well read and informed on the subject.

A popular strategy is to set up an innovation unit and if this is the strategy then boards need to consider how to quarantine it; traditionally innovation units do well in times of plenty and then are cut when the numbers are bad.

One way to quarantine the innovation unit is to have it report to the board not the CEO, ensure it has it's own funding and that it is measured differently to business as usual. Reporting to the board also protects innovation or explorer units from the relatively short tenure of CEOs.

Another potential way to improve decision-making is to appoint a disruptor, someone whose role is to disagree with everyone. This may seem far-fetched but it may also shine a light on weak signals that group decision-making can ignore.

The ability to explore in an organisational sense can also change how organisations perceive resilience. Research by Robert Kay at Incept Labs on how CEOs see resilience identified a small group (10 per cent) who see it as the ability to reinvent and reshape the environment—this approach requires companies to have significant risk appetite.

Conclusion

Traditional decision-making can fall short in times of disruption. Boards that rely on the wisdom of groups may find that they are trapped by the exploit dynamic and unable to foster an explore dynamic that enables the development of new business models.

Similarly, many executives have risen to the top on their ability to exploit the existing business model and may even have been punished for failed explorations.

Changing how we think and make decisions may require radical action, such as bringing a disruptor into the organisation. What is critically important is that boards recognise the conflict of the exploit and explore functions and look at ways to keep the explore dynamic alive.

Growing your business

Owners and directors of mid-size organisations have a particular set of challenges when trying to take their businesses to the next level. With tighter resources and a tough competitive environment there is pressure to find smarter ways to harness and manage the levers of growth and constantly refresh the business agenda.

To address these challenges Company Directors, in conjunction with KPMG, has created the new Directing Growth Program designed for business owners and directors of mid-sized businesses. This year-long program, brings together the latest thinking, an expert business owner panel and a community of owners and directors to explore the spectrum from governance to growth strategies.

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To find out more
w: **companydirectors.com.au/directinggrowth**
e: **directinggrowth@companydirectors.com.au**

Sources and further reading

**Anticipatory Thinking* – Klein and Snowden*

** *"The strength of weak signals"* – McKinsey Quarterly, February 2014 Martin Harrysson, Estelle Métayer, and Hugo Sarrazin

*** *CEO Perspectives on Organisational Resilience* – Dr Robert Kay and Dr Chris Goldspink, Incept Labs

In May 2014, over 400 directors gathered in Hamilton Island at the Company Directors Conference. With 'igniting the growth agenda' as the theme, the directors discussed both organisational and economic growth. This paper 'Decision-making for growth' is the third of five papers created from these discussions.