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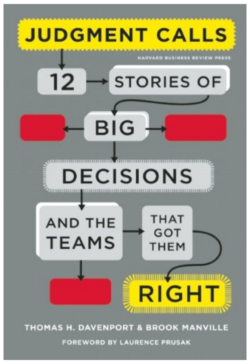

Judgment Calls

12 Stories of Big Decisions and the Teams That Got Them Right

by Thomas H. Davenport and Brook Manville
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288 pages

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Take-Aways

- Great decisions need sound judgment from the broader organization, not just the CEO.
- Even great leaders are prey to cognitive biases and need group help to avoid mistakes.
- Studies of successful decisions can often yield the best insights about good judgment.
- Don’t simply focus on examining catastrophes that “went wrong.”
- Executives should rely on their colleagues’ thinking, analysis and judgment, following a process of problem solving in a culture supporting collective wisdom, including dissent.
- The best decisions spring from “organizational judgment”: thoughtful group deliberation based on command of the facts, in-depth knowledge and reasoned debate over time.
- This judgment uses the latest contribution of technology-supported analytics and cultural values committed to finding the best answers – regardless of position, ego or traditions.
- In “Great Organizations,” many people participate in decision making, but accountability for final choices and their implementation often falls to a single leader or smaller group.
- To make superior decisions, leaders must know the limitations of their judgment and be ready to give up power and authority to work with others within and beyond their firms.
- Group judgment proves a useful metric for assessing organizational health.

Rating (10 is best)

Overall	Applicability	Innovation	Style
9	**9**	**8**	**8**

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Relevance

What You Will Learn

In this summary, you will learn: 1) Why it is problematic for business leaders to make decisions alone, 2) Why "organizational judgment" leads to better decisions, 3) What kinds of organizations can benefit from this process and 4) What trends are emerging in decision making.

Recommendation

Many executives make decisions without consulting experts, weighing facts, considering options or engaging in thoughtful analysis. They trust their intuition and act accordingly. Such decisions often prove ruinous. Knowledge management experts Thomas H. Davenport and Brook Manville propose an alternative decision-making process – "organizational judgment" – that relies on the collective wisdom, expertise and reasoning of well-informed, collaborative groups. The authors cite case studies of varying strength (some really intriguing and useful; some perhaps not quite as piercing) to illustrate how organizational judgment proves far superior to the "golden guts" of prominent individuals who are subject to the same cognitive biases as everyone else. *getAbstract* recommends this perceptive analysis to all decision makers and organizational leaders.

Summary

An Error in Judgment

Superior decisions depend on good judgment. In the past, grand leaders made the big decisions for their organizations. History describes such leaders as "Great Men." Unfortunately, they often made terrible decisions. Most business catastrophes – such as the recent financial crisis – do not result from a lack of knowledge about the contributing circumstances. Many of these debacles derive from poor judgment and bad choices by great personages, as noted in these case histories:

"More often than any of us might care to admit, the course of human affairs relies on great judgment."

AOL Time Warner

In 2000, Time Warner CEO Jerry Levin decided to merge his firm with America Online (AOL). During the 1990s, AOL had been an Internet pacesetter. However, by 2000, the company had lost its prominence. Due to his rocky relationship with Time Warner board member Ted Turner, Levin rarely conferred with his company's senior executives prior to the merger.

"Strategy making is probably most rife with poor judgment, though the flawed deliberations behind most dumb decisions never come to light."

The Time Warner-AOL deal was worth $164 billion – the biggest corporate merger in history at that time. The megadeal took place during the dot-com explosion, a period of market volatility. Most principals in big deals placed a "collar" on merger agreements, a caveat that granted them a legal out if the stock price of the other firm tanked. AOL's stock price plummeted as Levin closed the deal, but he did not insist on a collar. Levin spoke of a "total commitment to the deal, come hell or high water." The newly combined AOL Time Warner saw its stock price plummet.

In 2002, the company announced a $99 billion loss – the biggest US corporate loss up to that time. Levin resigned. AOL Time Warner's value fell from $226 billion to $20 billion. Levin said: "I presided over the worst deal of the century...I'm solely responsible for it."

Willful Individuals

For 30 years, Digital Equipment Corporation was the leading firm in the minicomputer industry. During the mid-1980s, its co-founder and CEO, Ken Olsen, resisted all evidence that personal computers would come to dominate his industry and would push minicomputers aside. He said, "Customers don't want a computer that sits on a desk." With a leader reluctant to accept reality, Digital lost its elevated status, and Compaq purchased it for $9.6 billion, well below the $14 billion in annual revenue it enjoyed before the PC revolution.

"When one bad decision can sink a company, good decisions are particularly critical."

Industrialist Henry Ford revolutionized manufacturing with the assembly line and vertical integration. Ford believed so strongly in his Model T that he never tried to improve it. This decision reduced the Ford Motor Company's share of the market during the 1920s. Ford also made the costly choice to build an industrial city – Fordlandia – in the Brazilian rain forest to supply rubber for tires. Fordlandia never worked out, and Ford sold it at a loss of $20 million.

"Decision-making processes are often subverted by a leader who pays lip service to consultation, going through the motions of openness while pushing the group toward the choice he's already made."

Throughout history, too many so-called Great Men let their egos and gut feelings shape their decisions. Even today, many people treat CEOs like royalty. Most kings and queens of olden times never enjoyed the lavish perquisites that CEOs consider their due, including salaries averaging 343 times those of most workers' earnings, plus limousines and ranks of subordinates. Despite their elevated status, great leaders are just as likely to succumb to two common cognitive biases as other people are: The first is "anchoring," relying too much on data that is familiar but irrelevant; the second is "zero-risk bias," totally discounting not only small risks but also far greater ones. While most chief executives believe they can easily detect biased reasoning in other people, they seldom recognize it in their own thinking.

"Organizational Judgment"

Relying on the individual judgments and decisions that isolated leaders issue from the corner office is no way to run an organization. Contemporary companies should turn to making decisions via organizational judgment, which is "the collective capacity to make good calls and wise moves when the need for them exceeds the scope of any single leader's direct control." Organizational judgment becomes essential when the available information is either too scant to support any decision or too vast and complex, and thus confusing or potentially overwhelming.

"Researchers have long recognized how important a leader can be in making a group or team work together and get to better decisions collectively."

Of course, not all organizations make good judgment calls or smart decisions. Firms that capably exercise group judgment manage the conditions that shape the quality of their choices. They establish internal mechanisms and processes to facilitate informed and open debate, intelligent conversations, and discussion based on reality and evidence, not emotion or magical thinking. In this environment, facts matter most of all.

"Participative Problem-Solving Process"

In "Great Organizations," a large number of people participate in decision making. Such bodies recognize the wisdom of the crowd. By including workers, customers and other partners in decision making, firms take advantage of stakeholders' collective expertise. Then the group develops the best judgments through a process of deliberation and participative problem solving.

"There is considerable evidence in decision-making research that dissent is a powerful tool for making better decisions."

This problem-solving tactic relies on data and analysis. It uses the scientific method of proposing and testing hypotheses to organize strategic thinking and decision making based on information from "technology-enabled analysis." Firms that use this method objectively evaluate multiple decision options. They value dissent and inquiry over impassioned advocacy. In doing so, they collectively transform into "decision machines" that do not desire or require Great Men.

"Data-based decision making is a powerful way to improve organizational judgment, and it is being adopted in a variety of industries."

Decision-Making Trends

In this environment, leaders have a new role: structuring their organizations to enable people to think, solve problems and deliberate together effectively and efficiently. Enabling this structure may involve dramatic cultural change. When it comes to modern-day decision making, great organizations are in the vanguard of change. Four trends are reshaping decision making:

1. **"None of us is as smart as all of us"** – The great leader paradigm, though venerable, is losing credibility. The current paradigm is the wisdom of the crowd.
2. **"Leadership of the crowd"** – "Collective leadership" makes better choices.
3. **"Data and analytics"** – Today, information and analysis drive decisions. Superior organizations differentiate themselves via their analytic capabilities.
4. **"Information technology"** – Originally, information technology concerned transactions. Today, it increasingly concerns knowledge and judgment.

"Information technology is the only possible route to linking over 100,000 minds."

Better decision making does not emerge from only one format or methodology. Decision makers follow numerous parallel dynamic paths rather than a set checklist. Making superior decisions requires leaders to understand the limitations of their own judgment and to tap into the expertise around them. Wise leaders also recognize that group judgment is a useful metric for assessing their companies' organizational health. They purposefully reorganize their firms and their judgment-making architecture to make the most of their full decision-making capabilities.

Each superior firm fosters collective judgment in its own way, as seen in these examples:

"External conditions in the world have made getting decisions right more important than ever."

NASA's Mission Protocol

In January 1986, the US space shuttle *Challenger* exploded, killing all its crewmembers. A presidential commission determined that pressure from NASA shuttle managers to maintain the launch schedule overrode NASA engineers' concerns regarding problems with the O-ring pressure seals on the solid rocket motors. O-ring failure caused the *Challenger*'s destruction. Sociologist Diane Vaughn described NASA's failure to act on the engineers' warnings as "an incremental descent into poor judgment."

NASA learned from this terrible decision. In 2009, in preparation for the *Discovery*'s mission STS-119, NASA's "flight readiness review team" conducted numerous lengthy meetings with hundreds of engineers regarding a valve problem that might endanger the flight. Only after this extensive review, with all the participants agreeing that the STS-119 launch could proceed, did the countdown begin. The mission was a success.

"As societies and their organizations experience ever-accelerating rates of change...more decisions than ever will come down to judgment calls."

The Vanguard Group and Mabel Yu

In 2005, the mortgage-backed securities market was red-hot, climbing to a value of more than $2.2 trillion, up from an aggregate figure of $684 billion in 2000. The Vanguard Group, an investment firm, believed that mortgage-backed securities were a safe investment for their clients. Vanguard's fixed income credit analyst Mabel Yu thought otherwise. She feared that the analysts who had given AAA ratings to such bonds were inexperienced. She noted that assigning a credible risk to the securities was quite difficult.

Yu was concerned that the sell-side firms promoting the securities had lost their objectivity because of the instruments' heavy profit potential.

"Many of our most critical choices still come down to human judgment."

Yu was a junior analyst and relatively new at Vanguard. Her contacts at the investment banks selling the securities told her and her Vanguard colleagues that Yu's suspicions were groundless. They tried to suggest that Yu herself was too inexperienced to evaluate the securities. However, Vanguard's corporate culture values alternative perspectives and dissent, and its portfolio managing partners treated Yu with respect. They authorized a detailed investigation of the securities. Thanks to her warnings, Vanguard stayed away from the AAA-rated securities. Later, such shaky investments almost brought down the American and world economies. Yu's analysis and Vanguard's culture of open discussion, debate and dissent protected its investors.

"History still puts the Great Man (or, less common, the Great Woman) on a prominent pedestal."

Partners HealthCare System

Partners HealthCare System is a Boston-area academic medical center with nearly $8 billion in annual revenue. Each year it serves 160,000 patients through its 12 hospitals and covers "four million outpatient visits." The company's Clinical Informatics Research and Development (CIRD) group instituted a "Smart Form," a computer application that combines doctors' notes about their patients with each patient's "electronic medical record data." It offers specific individual treatment suggestions, and patients often prefer the Smart Form suggestions to the same advice from their physicians.

Thanks to the CIRD group, Partners is a global leader "in the use of data, analysis and computerized knowledge to improve patient care." Doctors, just like all other human beings, make mistakes, including errors in diagnosis and treatment. The Smart Form helps eliminate such errors. Using its built-in medical knowledge, the Smart Forms substitute proven medical best practices for what sometimes turns out to be faulty intuition by doctors. Thus, Partners reduces medical errors and makes better decisions. "The Smart Form allows me to act on information rather than spending time pulling it together," says Dr. Elizabeth Mort, associate chief medical officer at Massachusetts General Hospital.

"Great men, not so great decisions."

Tweezerman

The Tweezerman beauty products company wanted to scale up and expand its retail outlets from beauty supply firms to chain drugstores. Such a move held the potential of increased sales and profits, but it also carried the potential risk of brand dilution, which could anger Tweezerman's loyal customers and damage a new funding commitment.

"Human judgment, it appears, is frail and fettered no matter which humans the judgment comes from."

Tweezerman set up a steering committee to handle the expansion. "We talked everything through, again and again, until we had the answers," said Lisa Bowen, a committee member who later became president of the firm. This collaborative approach is representative of Tweezerman's corporate culture, which promotes "open discussion, problem solving, the right to make mistakes and the right to dissent." Tweezerman's successful solution was to feature two brands, Tweezerman Limited for chain drugstores and Tweezerman Professional for beauty supply stores. Sales and profits skyrocketed.

About the Authors

Thomas H. Davenport, a professor in information technology and management at Babson College, specializes in analytics and knowledge management. Consultant **Brook Manville** is the former director of knowledge management at McKinsey & Company.