Is your firm’s decision-making as effective as it could be?

Sam Forsdick
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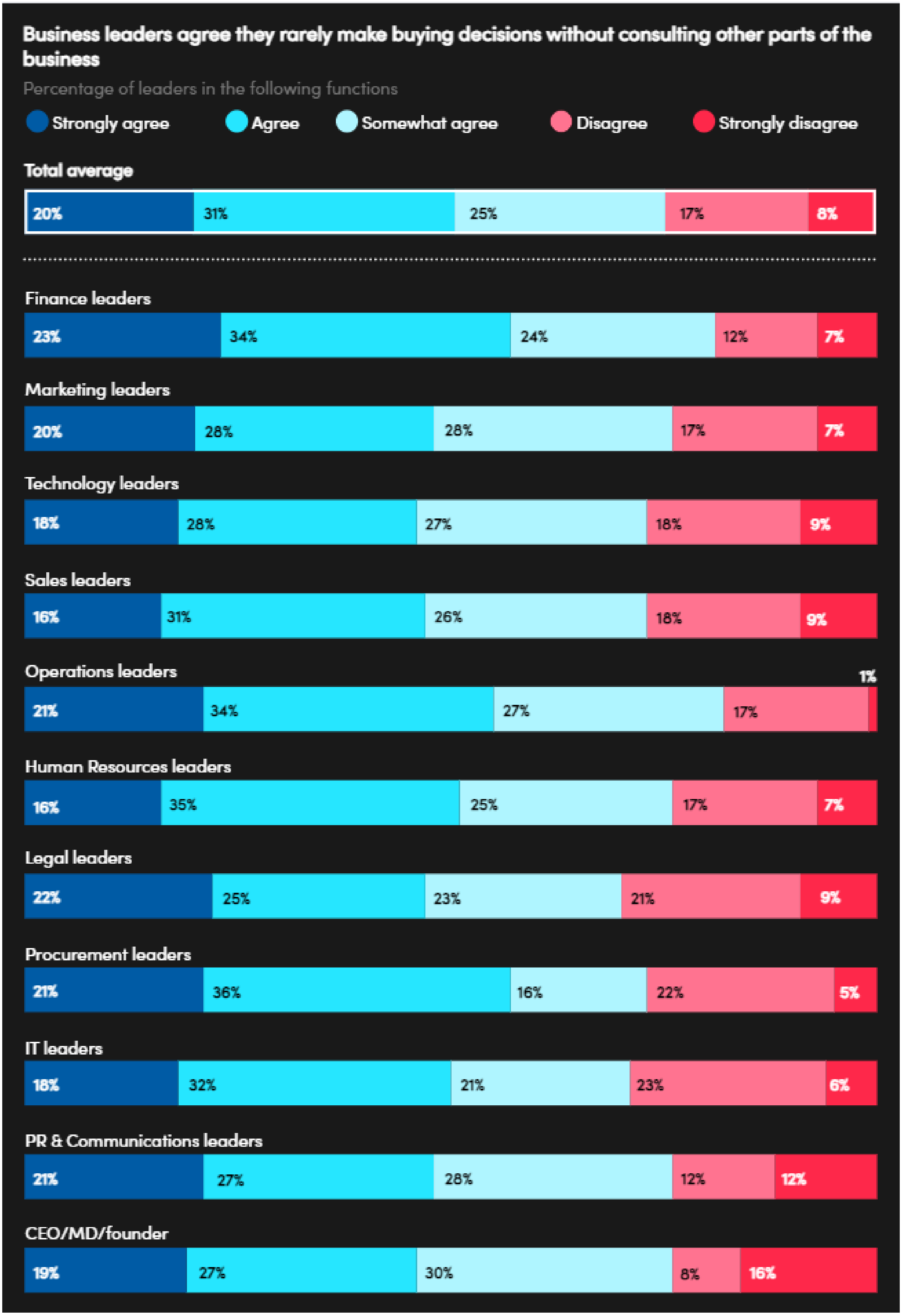
With poorly structured processes, unclear roles on the buying committee and a lack of leadership, many firms grappling with key investment choices are doing themselves no favours

There is an art to decision-making, but few organisations can claim to be masters of it. A recent survey of corporate decision-makers by McKinsey has found that only 20% feel that their companies excel in this respect. Why do so many find it so difficult?

Giorgia Prestento has helped several multinational businesses to improve their procurement decision-making. The founder and director of advisory firm Optimal Decisions believes that a lack of structure is typically the main source of their problems.

“I’ve worked with companies in the process of purchasing big IT systems. They were slow to make decisions, no one was sure who could make the ultimate call and the group dynamics weren’t good,” she says. “If you have a proper structure in place – and if you really understand what you want to buy, what it means for the business and what the user experience will be like – you’ll be in a much better position to make a confident decision that should lead to better outcomes.”

Prestento, who has an MSc in behavioural science from the London School of Economics, suggests a five-point structure: clearly define what you want to buy and who should be involved; collect data; come up with a range of options; agree on a shortlist; and select the best option from these.

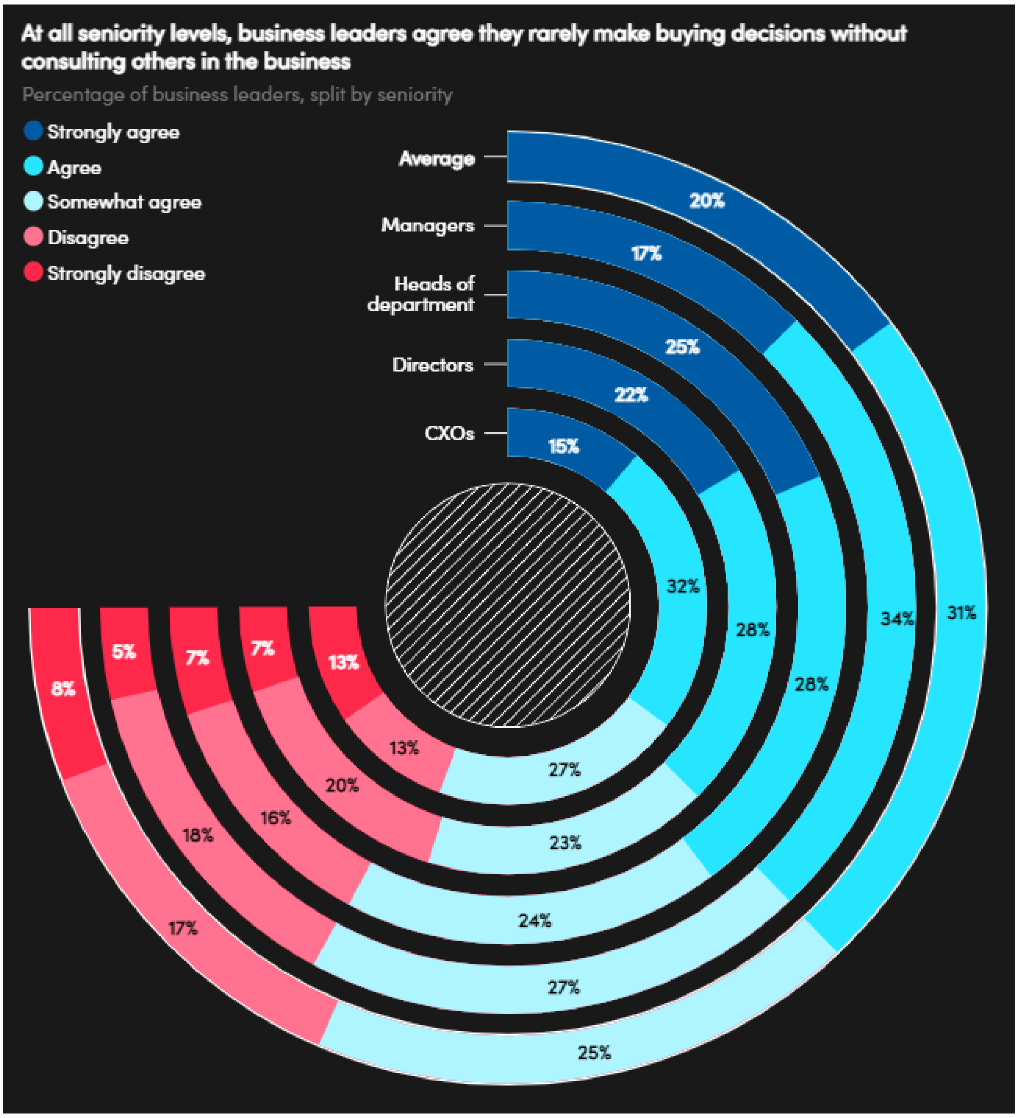

Business leaders agree they rarely make buying decisions without consulting other parts of the business
Percentage of leaders in the following functions
Strongly agree
Agree
Somewhat agree
Disagree
Strongly disagree
Total average
20% 31% 25% 17% 8%
Finance leaders
23% 34% 24% 12% 7%
Marketing leaders
20% 28% 28% 17% 7%
Technology leaders
18% 28% 27% 18% 9%
Sales leaders
16% 31% 26% 18% 9%
Operations leaders
21% 34% 27% 17% 1%
Human Resources leaders
16% 35% 25% 17% 7%
Legal leaders
22% 25% 23% 21% 9%
Procurement leaders
21% 36% 16% 22% 5%
IT leaders
18% 32% 21% 23% 6%
PR & Communications leaders
21% 27% 28% 12% 12%
CEO/MD/founder
19% 27% 30% 8% 16%

Further complicating the process is the number of people who typically get involved. According to a survey of 1,100 CXOs by Raconteur, an average of 11 people in a company will have some say in a decision concerning a key purchase such as a new customer relationship management system.

Having several people in the room can be useful, according to Randall Peterson, professor of organisational behaviour and academic director of London Business School's Leadership Institute. "Listening to the views of as many people as possible is important," he says. "Once people have had a chance to voice an opinion, they'll typically commit to the outcome even if it goes against their preferences."

But Peterson, who has studied the effects of groupthink, adds that the ideal number of people around the decision-making table is between four to six. Each person should also have a clearly defined role.

Erika Eliasson-Norris, a leadership adviser and founder-CEO of the Beyond Governance consultancy, suggests that there are three essential roles. These are: the budget-holder, who understands the buying department's requirements and sets the maximum it can spend; the purchaser, who will go out and find the best deals; and the due-diligence specialist (usually someone from the accounts payable team) who can run checks on the shortlisted suppliers.



“That person should be responsible for ensuring the quality of the provider you’re procuring from, because reputations are always intertwined with such deals,” she says.

Having this basic committee structure in place should make it easier to bring in more people, which is often appropriate when the decision concerns a particularly significant change – an acquisition, for instance.

Peterson stresses that “role clarity becomes really important at this point. It should ensure that those involved don’t get lazy or even withdraw from the process.”

He adds that, even when several people are involved, it’s important not to simply go with majority rule, however tempting that might be. The argument is that this creates the risk that someone who loses the vote and fails to get their way “will have everything invested in seeing the decision fail”.

Although this approach may seem anti-democratic, Peterson adds: “Voting has a tendency to polarise. You want to find a solution that makes those people whose opinions weren’t followed still feel invested.”

Effective leadership is therefore crucial in such situations. Raconteur’s research shows that senior leaders – defined as directors and CXOs – are involved in buying decisions across all areas, not simply signing off purchases in their own departments. Their leadership can help to direct the discussions and ensure that everyone involved is heeded.

“There is a risk that the most dominant person with the loudest voice in the room has an oversized influence on decisions,” Peterson says. “Managing that factor effectively comes down to good leadership.”

By following Prestento’s recommended steps, assigning each member of the buying committee a well-defined role and keeping a close watch on the political aspects of decision-making, an organisation will always give itself a fighting chance of making the right calls most of the time.

The five stages of good decision-making

1 Define the decision
This entails determining exactly what you want to buy, what the use cases will be and who will be involved in the decision-making process. It’s a good idea to seek input from some end users at this stage. This will help the committee to understand the wider impact that its selection could have.

2 Capture the data
Good decisions are based on good data. Sometimes people are influenced by their relationships with suppliers. It’s therefore advisable to collect information about all potential vendors and all requirements within the business to make a more informed choice.

3 Develop a range of options
I encourage clients to come up with as many options as possible. In a group, there’s a tendency for people to follow the first idea, so dedicate a meeting to come up with a range of solutions. Sometimes it’s the things that you didn’t even consider at first that offer the best results.

4 Agree a shortlist
Shortlisting should be done in a separate meeting, because the tasks of generating creative ideas and sifting out the best options engage different parts of the brain. We struggle to do both at once.

5 Make the selection
It's a good idea to document this final stage of the process so that there's a written record of what has been decided. Getting everyone involved to sign this can be useful in ensuring their commitment.

Source: https://www.raconteur.net/growth-strategies/decision-making-effective/