

# Building Strategy for Informed Decisions

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UNC  
KENAN-FLAGLER  
BUSINESS SCHOOL

# Some humor to start the day?

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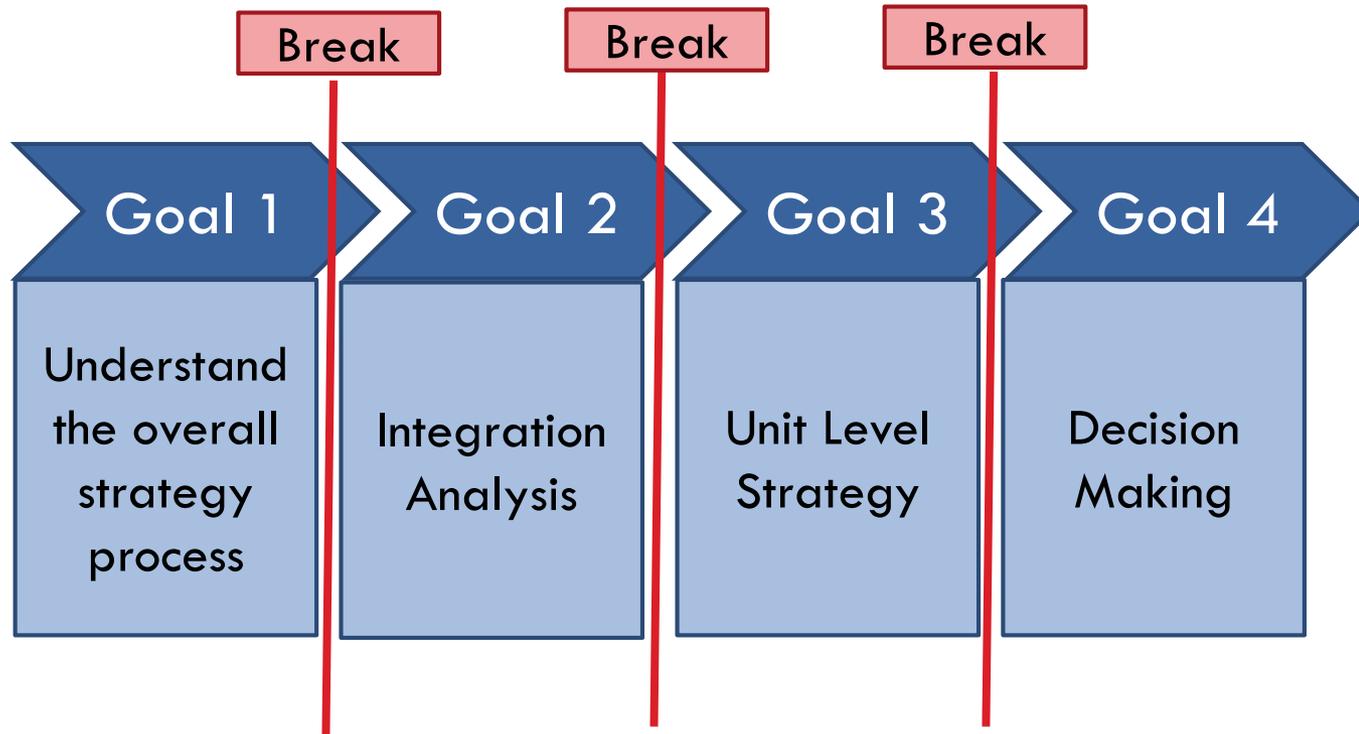
# Learning Objectives

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- Renew and enhance awareness of best practices in strategic planning and alignment of unit to corporate plans
- Execute strategic plans through intentional communications and accountability
- Develop ideas for improvement in decision making at the individual, team and organizational level

# Action Plan for Today

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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

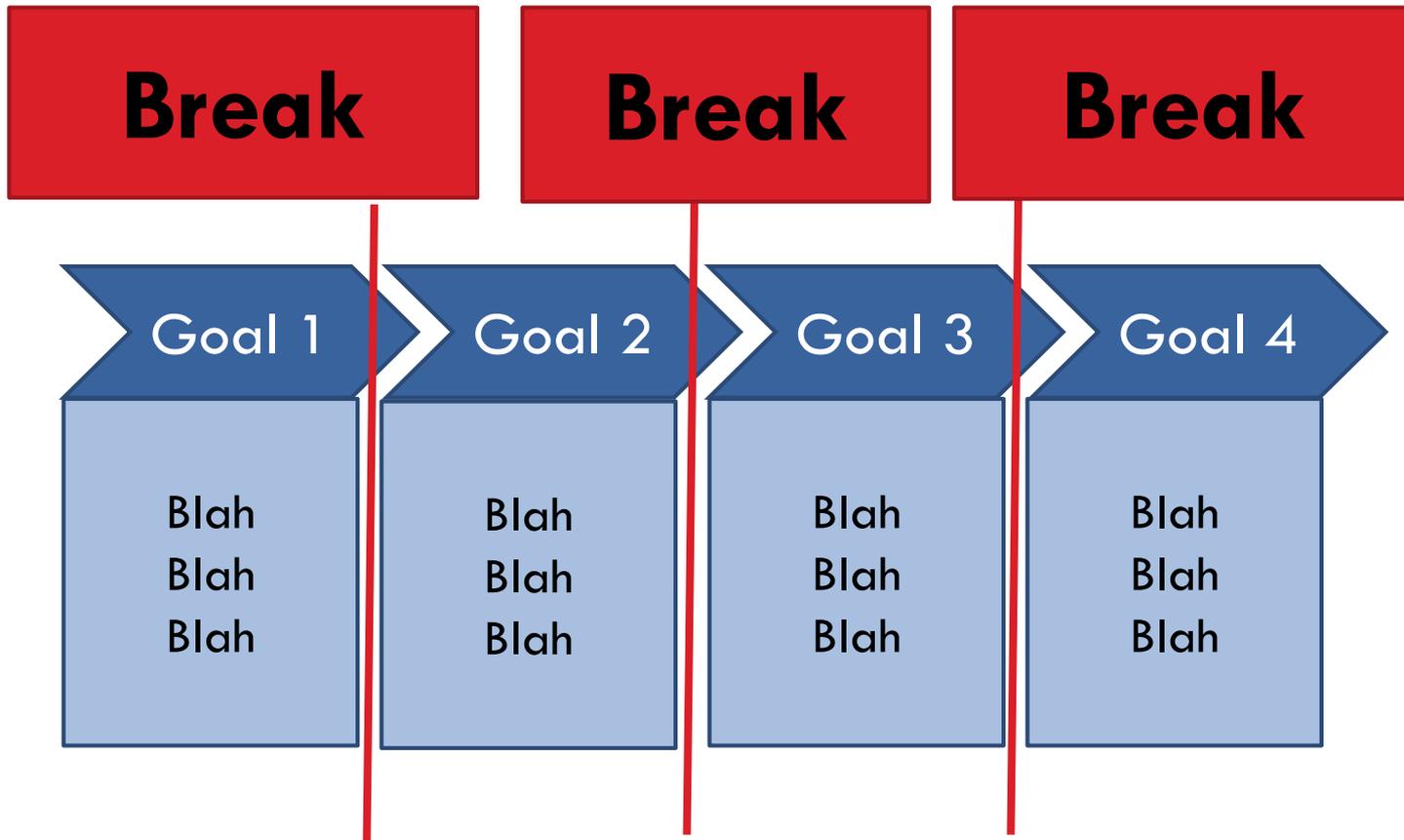
# More insights from “The Far Side”

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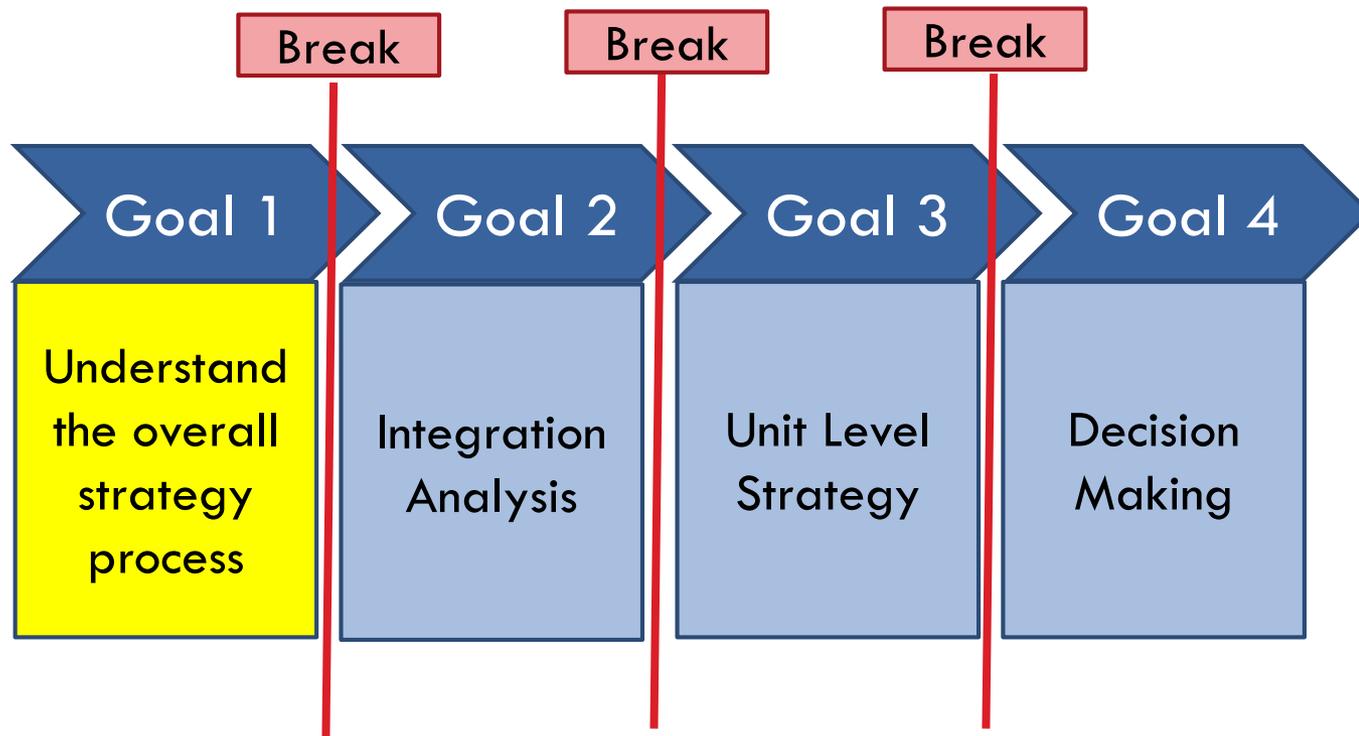
# Action Plan for Today (what some participants hear)

6



# Action Plan for Today

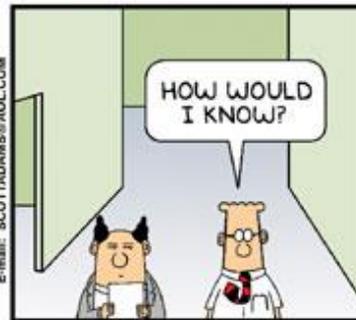
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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

# Wisdom from Dilbert?

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# Understand the overall strategy process

9

**1.**

The Strategy Content

**2.**

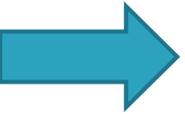
The Strategy Process

**3.**

Strategy Examples

# Understand the overall strategy process

10



**1.**

The Strategy Content

**2.**

The Strategy Process

**3.**

Strategy Examples

# What is strategy?

11

## Strategy: Noun

1.

An elaborate and systematic plan of action.

# Paul's 4 Ps of Strategy

12



# It is helpful to create core strategy statements

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## Mission Statement

Statement which specifies a firm's purpose or "reason for being" and the primary objective toward which the firm's programs & plans should be aimed. Statement specifying the firm's key constituents and how the firm will serve them. It must be clear and understood.

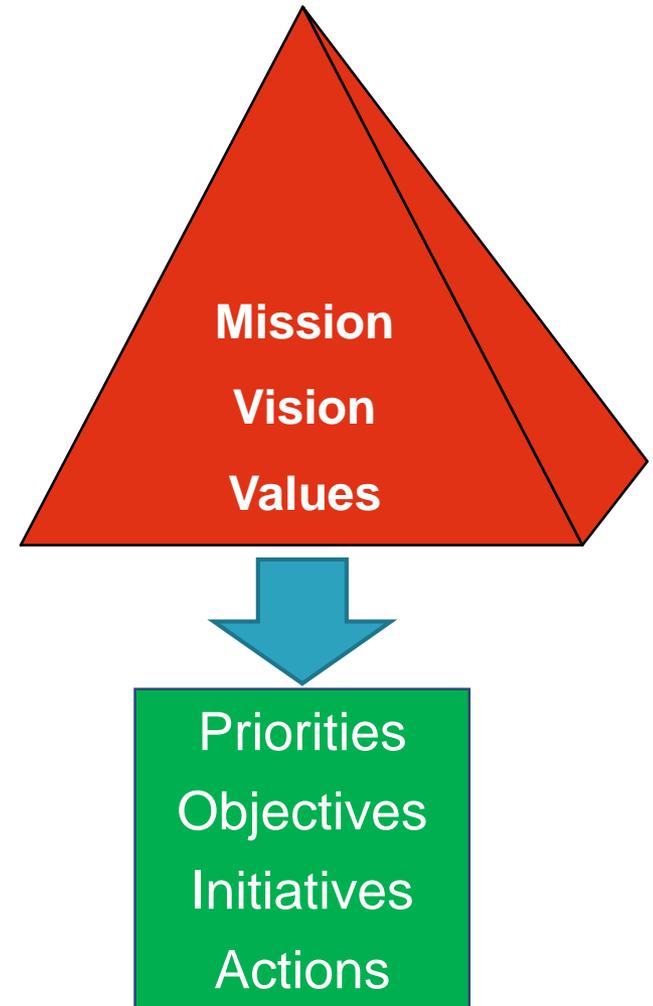
## Vision Statement

Statement describing what the firm strives to be at some future time. It should be specific and motivating.

## Values

It is what we believe in, our guiding principles, and how we interact.

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# A tool for evaluating strategy

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1. ***Is it concise, clear and communicated?***
2. ***Is it aligned with higher level strategies?***
3. ***Does it address the 4 Ps?***
  - ▣ Positioning (mission and vision)
  - ▣ Priorities (no more than 3 for an overall unit)
  - ▣ Payments (resource allocations)
  - ▣ Performance (clear metrics)



*Does it guide daily decision making?*

# Understand the overall strategy process

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**1.**

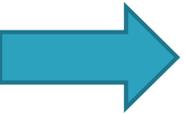
The Strategy Content

**2.**

The Strategy Process

**3.**

Strategy Examples



# How Do Firms Create Strategies?

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## A simple 3 step process

External Analysis

Internal Analysis

Craft Strategy  
(the Black Box)

- Positioning
- Priorities
- Payments
- Performance

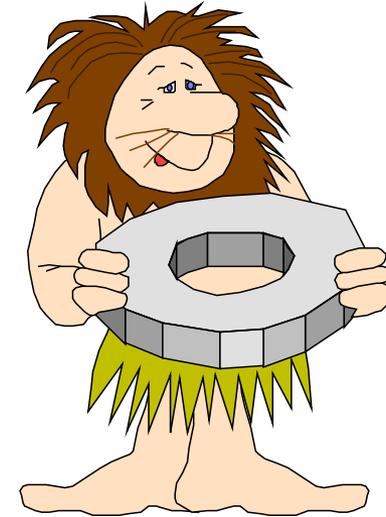
Paul's 4 Ps

# Strategic Management Process

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Strategy Formulation

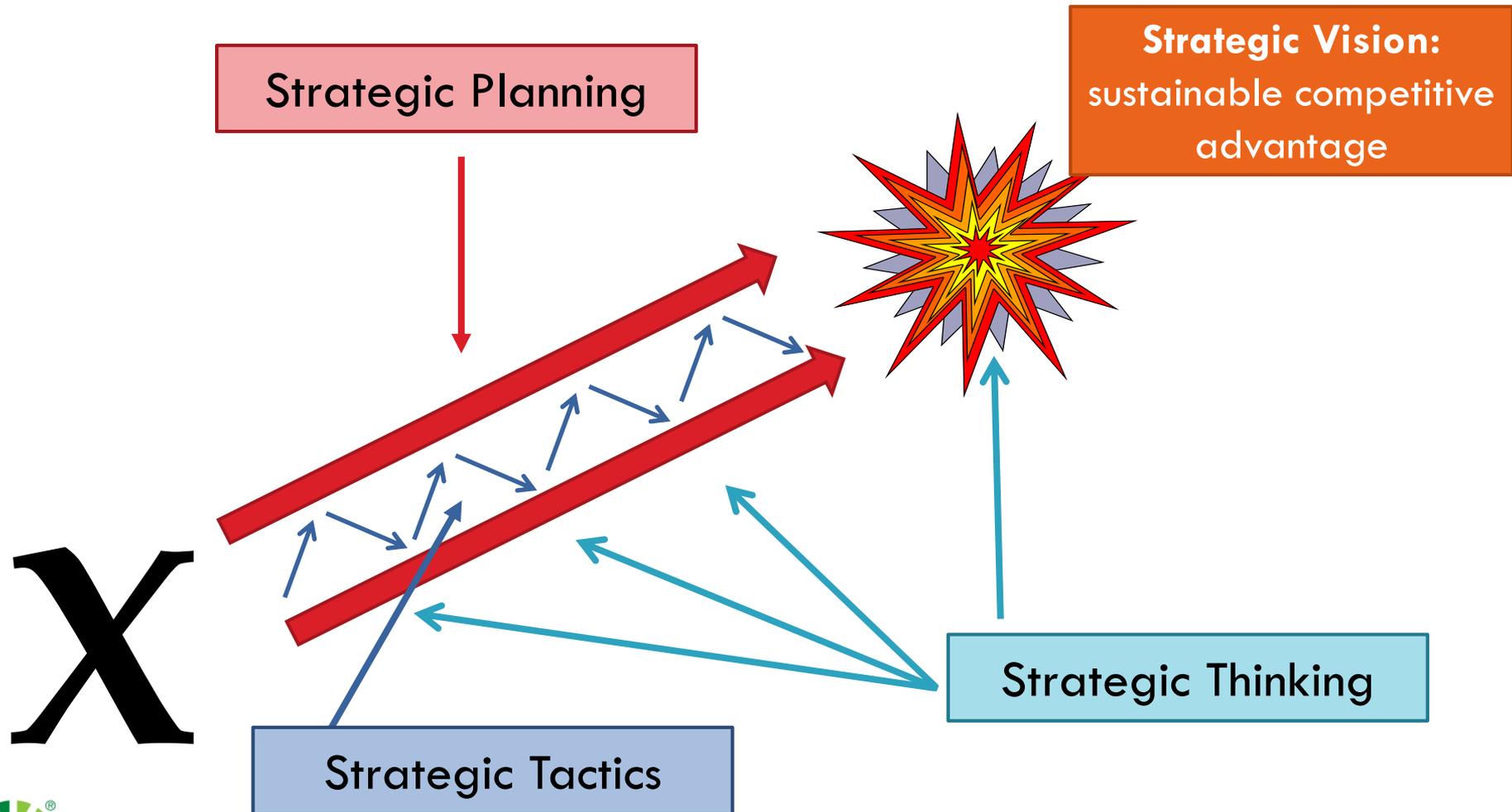


Strategy Implementation

Old Model – Sequential  
New Model – Simultaneous

# There are different tools in the strategy process

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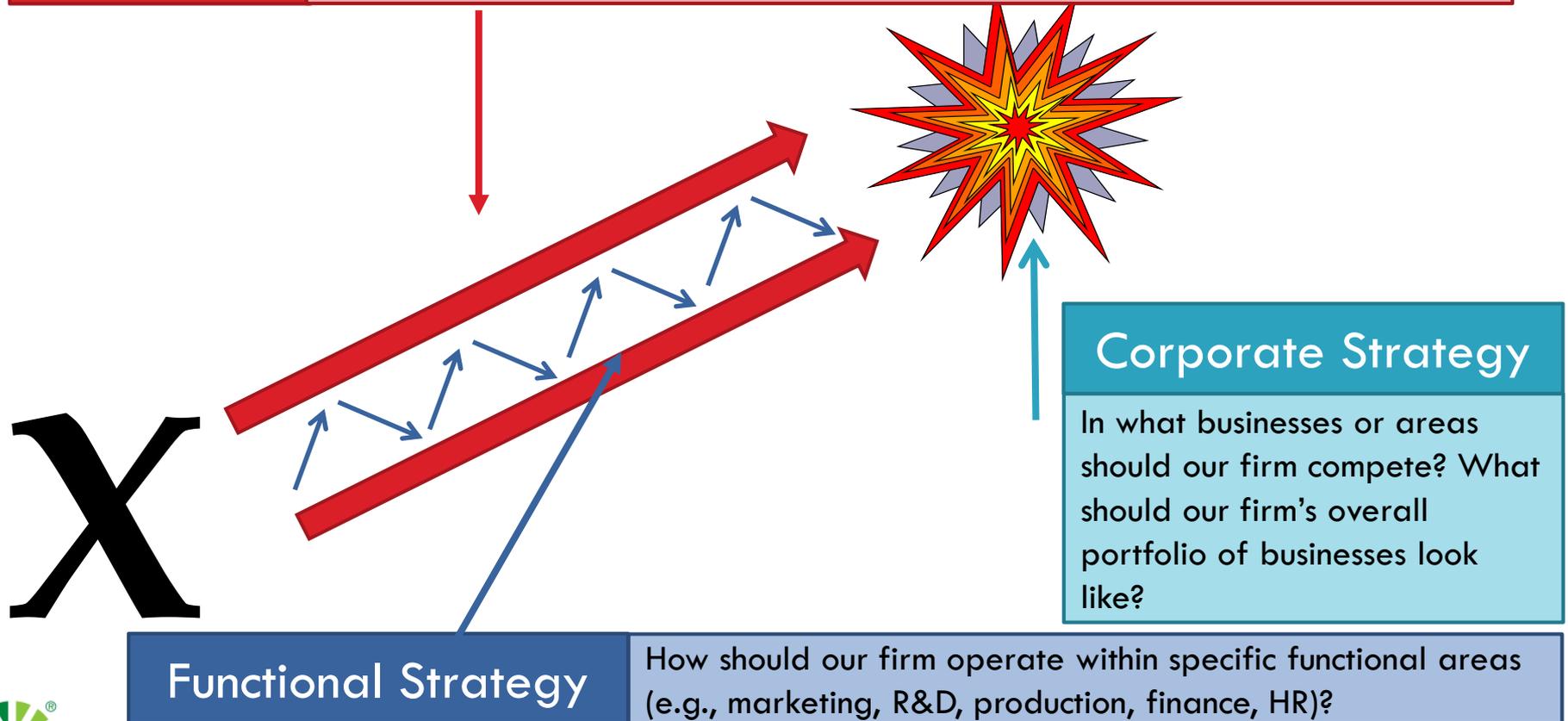


# Strategy occurs on multiple levels

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## Business Strategy

How do we operate within the selected businesses? What products or services should our firm offer? How should our firm create those products or services? How should our firm take its products or services to the marketplace?



# Understand the overall strategy process

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**1.**

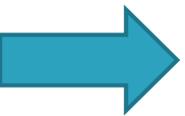
The Strategy Content

**2.**

The Strategy Process

**3.**

Strategy Examples



# Our starting point is the mission statement

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## Mission Statement

Statement which specifies a firm's purpose or "reason for being" and the primary objective toward which the firm's programs & plans should be aimed. It must be clear and understood. It makes you "proud."



**We have fun.**



**We cure cancer.**

# Other mission statement examples

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**3M:** To solve unsolved problems innovatively

**Cargill:** To improve the standard of living around the world

**Fannie Mae:** To strengthen the social fabric by continually democratizing home ownership

**Hewlett-Packard:** To make technical contributions for the advancement and welfare of humanity

**Lost Arrow Corporation:** To be a role model and a tool for social change

**Pacific Theatres:** To provide a place for people to flourish and to enhance the community

**Mary Kay Cosmetics:** To give unlimited opportunity to women

**McKinsey & Company:** To help leading corporations and governments be more successful

**Merck:** To preserve and improve human life

**Nike:** To experience the emotion of competition, winning, and crushing competitors

**Sony:** To experience the joy of advancing and applying technology for the benefit of the public

**Telecare Corporation:** To help people with mental impairments realize their full potential

**Wal-Mart:** To give ordinary folk the chance to buy the same things as rich people

**Walt Disney:** To make people happy

Source: Building Your Company's Vision

# Next, we establish core values

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## Values

It is what we believe in, our guiding principles, and how we interact. It makes you “belong.”



## I CARE

Integrity, Compassion, Accountability, Respect, Excellence

# Examples of values

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## Merck

- Corporate social responsibility
- Unequivocal excellence in all aspects of the company
- Science-based innovation
- Honesty and integrity
- Profit, but profit from work that benefits Humanity

## Sony

- Elevation of the Japanese culture and national status
- Being a pioneer - not following others; doing the impossible
- Encouraging individual ability and creativity

## Nordstrom

- Service to the customer above all else
- Hard work and individual productivity
- Never being satisfied
- Excellence in reputation; being part of something special

## Walt Disney

- No cynicism
- Nurturing and promulgation of "wholesome American values"
- Creativity, dreams, and imagination
- Fanatical attention to consistency and detail
- Preservation and control of the Disney magic

# We draft a vision to drive us forward

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## Vision Statement

Statement describing what the firm strives to be at some future time. It should be specific and motivating. It makes you “excited.”



To be #1 or #2 in market share in each sector we serve.



Before this decade is out, this nation should land a man on the moon and return him safely to Earth.

# Examples of visions

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- Target BHAGs can be quantitative or qualitative
  - Become a \$125 billion company by the year 2000 [Wal-Mart, 1990]
  - Democratize the automobile (Ford Motor Company, early 1900s)
  - Become the company most known for changing the worldwide poor-quality image of Japanese products (Sony, early 1950s)
  - Become the most powerful, the most serviceable, the most far-reaching world financial institution that has ever seen (City Bank, predecessor to Citicorp, 1915)
  - Become the dominant player in commercial aircraft and bring the world into the jet age (Boeing, 1950)
- Common-enemy BHAGs involve David-versus-Goliath thinking
  - Knock off RJR as the number one tobacco company in the world (Philip Morris, 1950s)
  - Crush Adidas (Nike, 1960s)
  - *Yamaha wo tsubusu!* We will destroy Yamaha! (Honda, 1970s)
- Role-model BHAGs suit up-and-coming organizations
  - Become the Nike of the cycling industry [Giro Sport Design, 1986]
  - Become as respected in 20 years as Hewlett-Packard is today (Watkins-Johnson, 1996)
  - Become the Harvard of the West (Stanford University, 1940s)
- Internal-transformation BHAGs suit large, established organizations
  - Become number one or number two in every market we serve and revolutionize this company to have the strengths of a big company combined with the leanness and agility of a small company (General Electric Company, 1980s)
  - Transform this company from a defense contractor into the best diversified high-technology company in the world (Rockwell, 1995)
  - Transform this division from a poorly respected internal products supplier to one of the most respected, exciting, and sought-after divisions in the company (Components Support Division of a computer products company, 1989)

# Example 1: McKinsey

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## **MISSION:**

- Help clients make distinctive, lasting, substantial improvements in performance
- Build a great firm that attracts, develops, excites, and retains exceptional people

## **VALUES:**

### ***SERVING CLIENTS:***

Adhere to professional standards, Follow the top management approach, Assist the client in implementation and capability building, and Perform consulting in a cost effective manner;

### ***BUILDING THE FIRM:***

Operate as One Firm, Maintain a meritocracy, Show a genuine concern for our people, Foster an open and nonhierarchical working atmosphere, and Manage the Firm's resources responsibly;

### ***BEING A MEMBER OF THE PROFESSIONAL STAFF:***

Demonstrate commitment to client service, Strive continuously for superior quality, Advance the state of the art of management, Contribute a spirit of partnership through teamwork and collaboration, Profit from the freedom and assume the responsibility associated with self-governance, and Uphold the obligation to dissent

# Example 2: Four Seasons

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## **MISSION:**

- Only offer experiences of exceptional quality in hospitality industry and satisfy discriminating customers.
- Our objective is to be recognized as the company that manages the finest hotels, resorts and residence clubs wherever we locate.

## **VALUES:**

### ***What We Believe:***

Our greatest asset, and the key to our success, is our people.

We believe that each of us needs a sense of dignity, pride and satisfaction in what we do. Because satisfying our guests depends on the united efforts of many, we are most effective when we work together cooperatively, respecting each other's contribution and importance.

### ***How We Behave:***

We demonstrate our beliefs most meaningfully in the way we treat each other and by the example we set for one another. In all our interactions with our guests, customers, business associates and colleagues, we seek to deal with others as we would have them deal with us.

### ***How We Succeed:***

We succeed when every decision is based on a clear understanding of and belief in what we do and when we couple this conviction with sound financial planning. We expect to achieve a fair and reasonable profit to ensure the prosperity of the company, and to offer long-term benefits to our hotel owners, our shareholders, our customers and our employees.

# Example 3: Starbucks

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## **MISSION:**

To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow. The following six guiding principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

**VISION:** To be the world's largest provider of high-quality coffee (specific number of stores changes by planning cycle).

# Example 4: Southwest Airlines

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## **MISSION:**

Dedication to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.

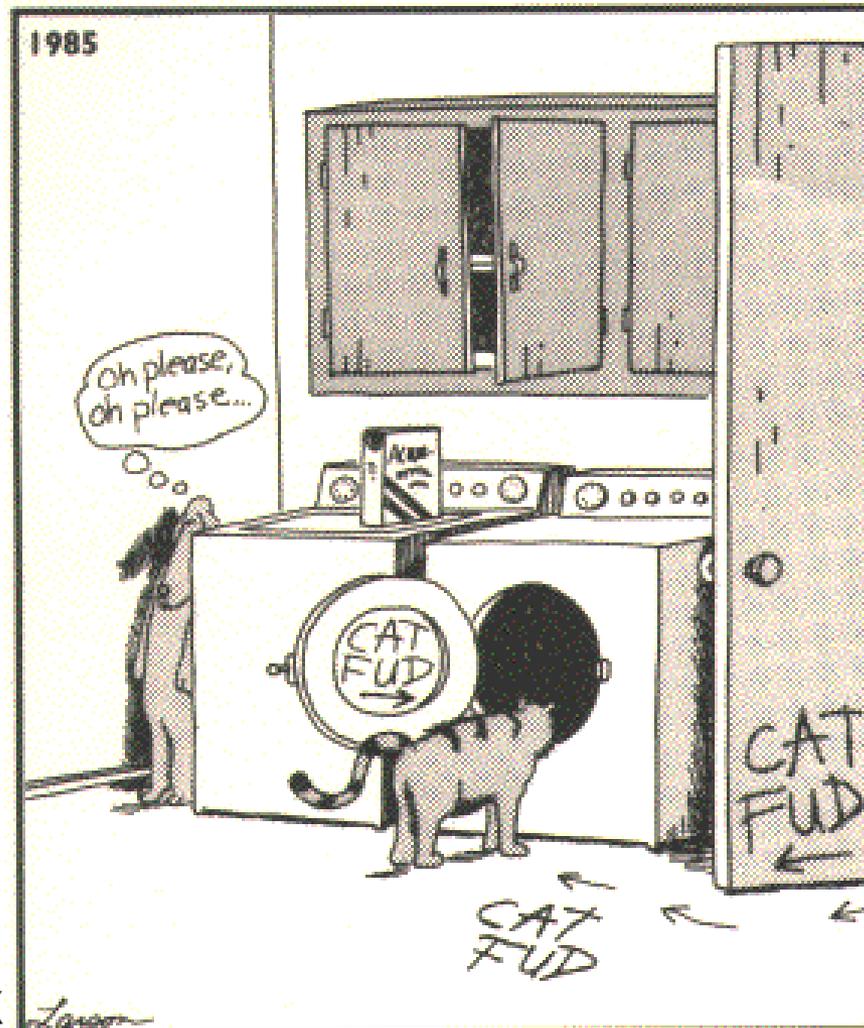
To Our Employees: We are committed to provide our Employees a stable work environment with equal opportunity for learning and personal growth.

Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the organization that they are expected to share externally with every Southwest Customer.

**VISION:** To be the most profitable airline in the United States

# You must be aware of the environment

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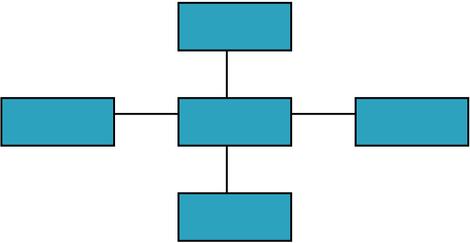
# SWOT Analysis Content

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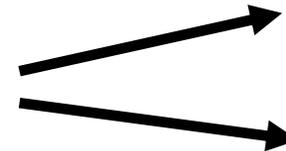


# The STEEP framework measures importance and impact of external environment

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<p><b>Economic</b></p> <ul style="list-style-type: none"> <li>▪ Domestic &amp; int'l growth cycle (e.g., recession)</li> <li>▪ Inflation rates</li> <li>▪ Unemployment rates</li> <li>▪ Interest rates</li> <li>▪ Currency fluctuations</li> <li>▪ Domestic &amp; Int'l wage rates</li> <li>▪ Trade deficits</li> </ul>	<p><b>Political/Legal/ Governmental</b></p> <ul style="list-style-type: none"> <li>▪ Int'l legislation (e.g., import/export laws)</li> <li>▪ Domestic legislation (e.g., labor laws)</li> <li>▪ Federal agencies (e.g., OSHA, EEOC, Trade agencies)</li> <li>▪ Government involvement</li> </ul>
<p><b>Market/Competitive</b></p> 	<p><b>Technological</b></p> <ul style="list-style-type: none"> <li>▪ Advances in consumer electronics technology</li> <li>▪ Advances in computer technology</li> <li>▪ Advances in automotive technology</li> <li>▪ R&amp;D and new product introductions</li> </ul>
<p><b>Social/ Demographic</b></p> <ul style="list-style-type: none"> <li>▪ Domestic &amp; int'l population shifts</li> <li>▪ Speed of technology adoption among consumers</li> <li>▪ Workforce demographics (e.g., diversity)</li> <li>▪ Income distribution</li> </ul>	<p><b>Environmental/ Geographic</b></p> <ul style="list-style-type: none"> <li>▪ International competitor locations</li> <li>▪ Transportation costs</li> <li>▪ Ecological issues – pollution, recycling, energy use, air/water quality, natural resources, &amp; power sources</li> </ul>

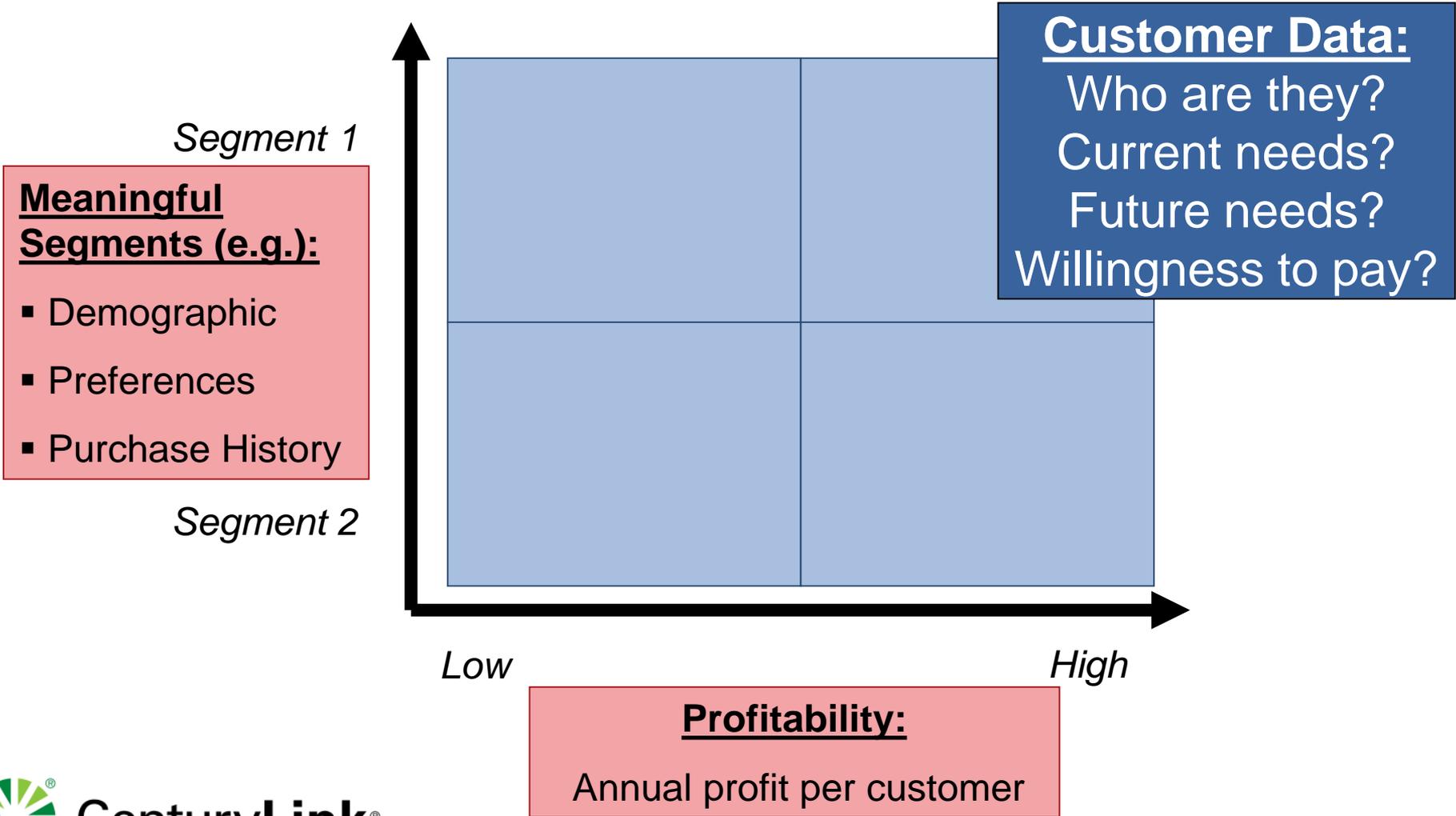
**Importance:**  
Overall, how important is each factor?  
( H M L )



Identify the top 5 Issues - Implications

**Impact:**  
Overall, does each factor have a positive, negative or neutral impact?  
( + - 0 )

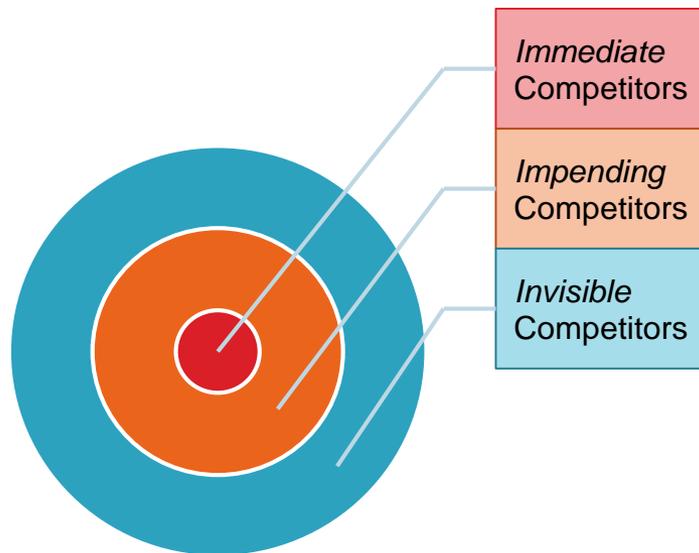
# Customer Value Analysis – apply the 80/20 rule



# Competitor Assessment

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## 3 I's Competitor Radar Screen



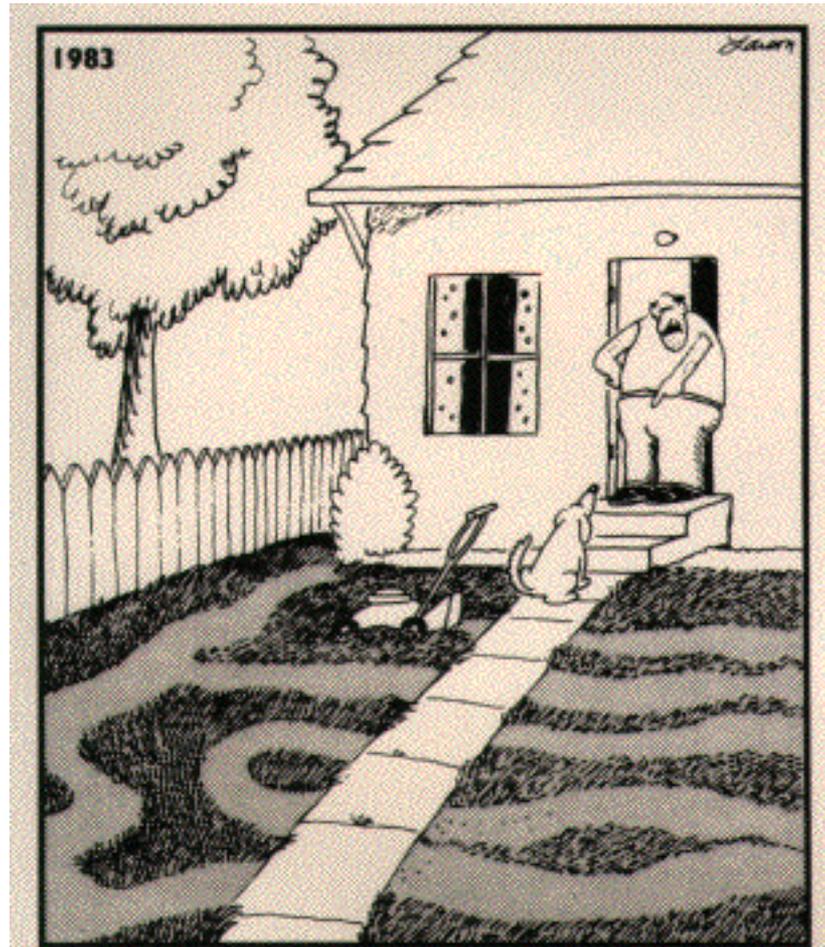
### Competitor Data:

Who are they?  
Market share?  
Positioning?  
Reactions?

<b>Immediate Competitors</b>	Already a major player in your particular industrial segment (s); Publicly admits competitive position and market share; High knowledge base
<b>Impending Competitors</b>	Small players making a move for growth and market share capture; Major players from other industrial segments (related) announcing entry into your market; Medium knowledge base
<b>Invisible Competitors</b>	Large players considering an unanticipated move from other industrial segments (unrelated) into your market – in secret; Low knowledge base

# We all have certain “competencies”

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“You call that mowin’ the lawn? ... Bad dog! ...  
No biscuit! ... Bad dog!”

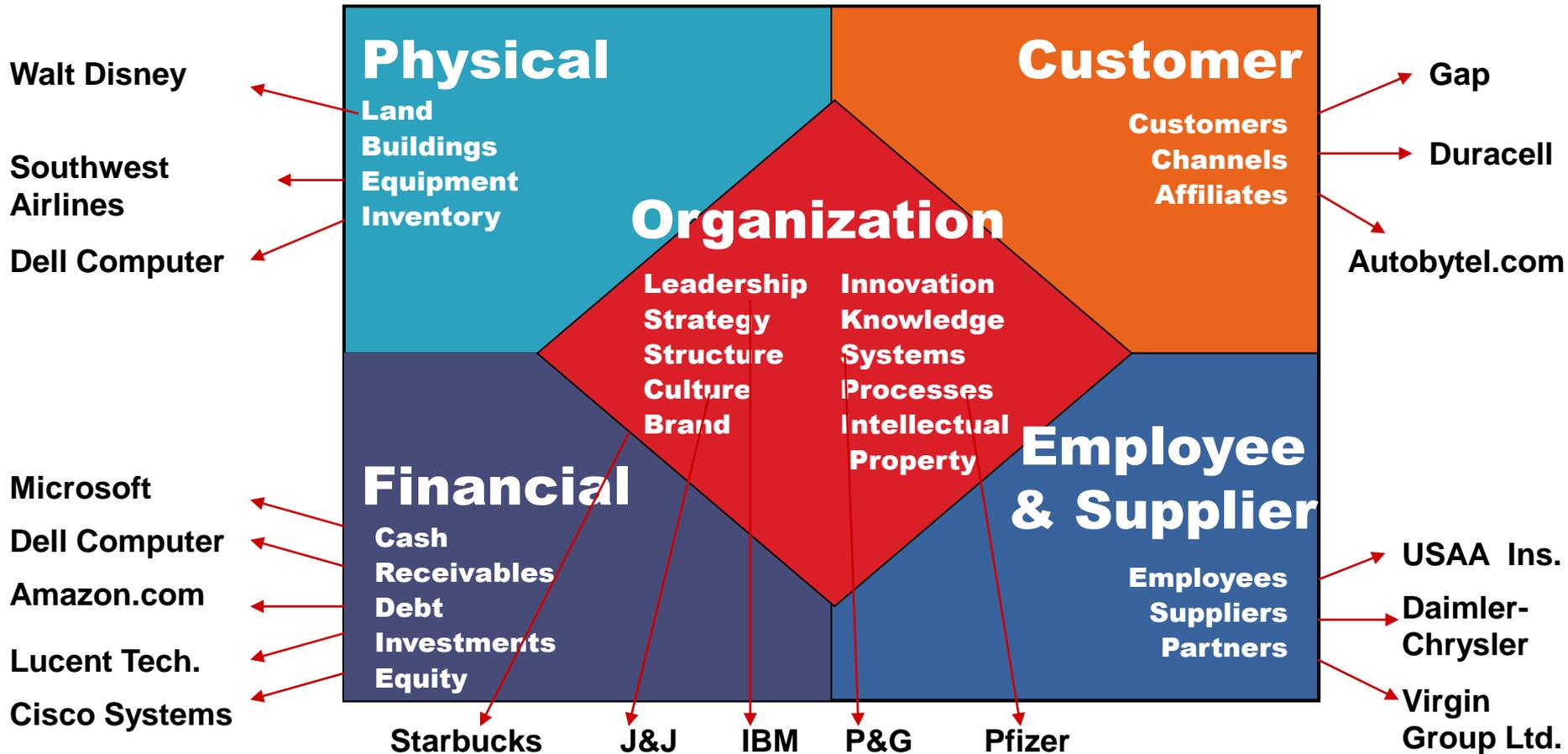
# Core Competencies

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- **Skills or knowledge sets, not products or functions**
- **Flexible, long-term platforms embedded in the organization's systems and capable of adaptation or evolution**
- **Unique sources of leverage in the value chain, which provide potential access to a wide variety of markets**
- **Capabilities that are difficult for competitors to imitate (typically because they are a complex harmonization of elements)**
- **Significant contributors to the perceived, long run benefits customers derive from end products**
- **Areas where the company can dominate**

# Value Dynamics Framework

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# Routes to Developing Core Competencies

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- **Evolution**

**Building a skill at the same time as the individuals involved perform their usual jobs**

- **Incubation**

**Forming a separate group to focus exclusively on the chosen competence**

- **Acquisition**

**Purchasing another company to obtain desired skills**

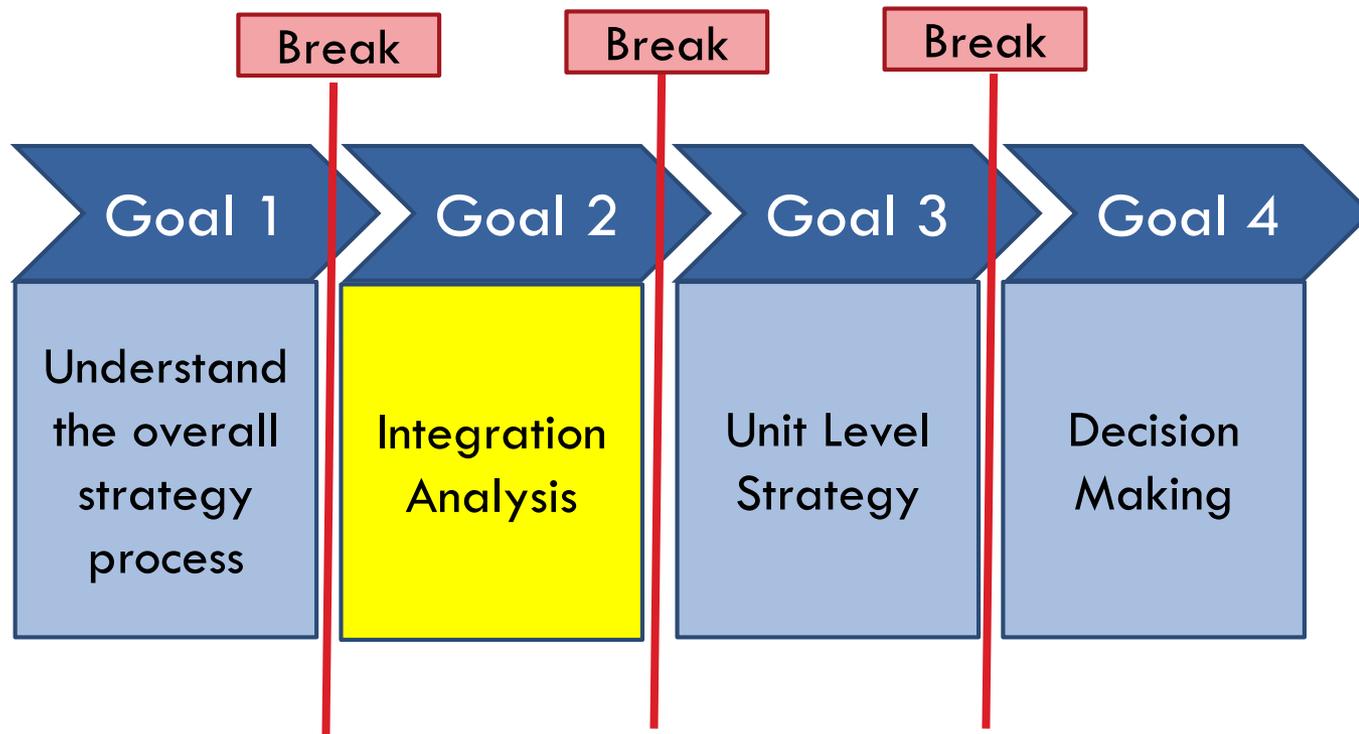
# Examples of Strategic Options/Issues

40

1. Mergers and Acquisitions
2. Major Cost Cutting Initiatives
3. New Product/Market Pursuit
4. Existing Product/Market Exit
5. Organizational Realignment
6. Major Funding/Budgeting Decisions
7. Capacity Expansion
8. Strategic Planning Process
9. Joint Venture/Alliance
10. Cross-Functional Incentive or KM Programs

# Action Plan for Today

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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

# A framework for integration

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## Merging Two Global Company Cultures

### Assessing Application for CenturyLink

**Instructions:** For each method, put an **X** on the continuum for where you think your legacy organization is operating, and put a **N** where you would like to see the new organization operating:

#### DECATEGORIZE:



View other legacy group as homogenized (without attention to diversity / differences of teams within)

View disparate nature of other legacy group (recognizing diversity / differences of teams within )

#### RECATEGORIZE:



Have NOT leveraged common cultural attributes which enable legacy groups to co-create a new organizational culture for which they both aspire

Have leveraged common cultural attributes which enable legacy groups to co-create a new organizational culture for which they both aspire

#### MARKET DIFFERENTIATION:



Have NOT leveraged how other legacy teams can enhance products/services for differentiated solutions

Have leveraged how other legacy teams can enhance products/services for differentiated solutions

#### HEALTHY DEBATE/DECISIONS:

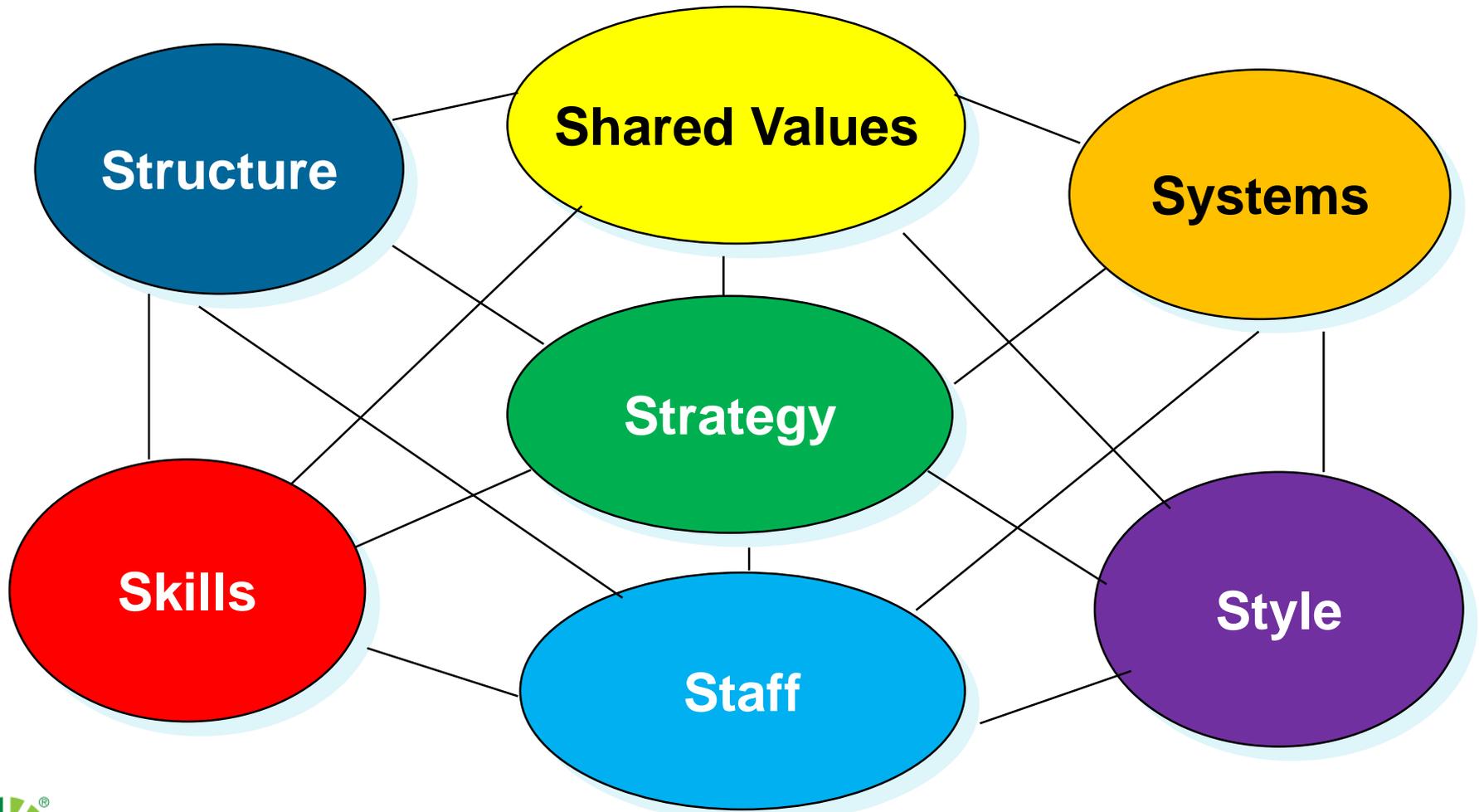


Operating under prior decision rights which may/may not have worked well for the legacy cultures, values and norms

Identified the best decision rights from both legacy orgs and created new protocols to encourage decisions made at the appropriate level

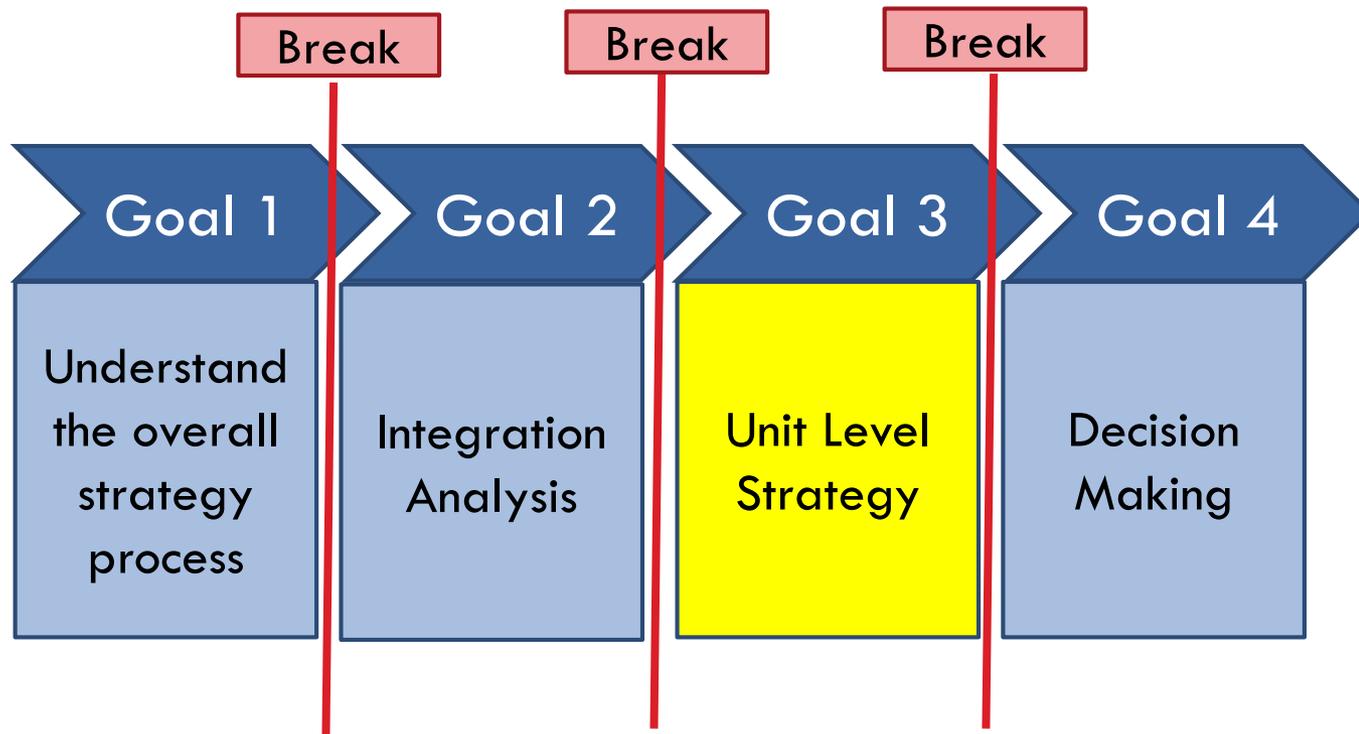
# McKinsey 7S Model for Transformation

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# Action Plan for Today

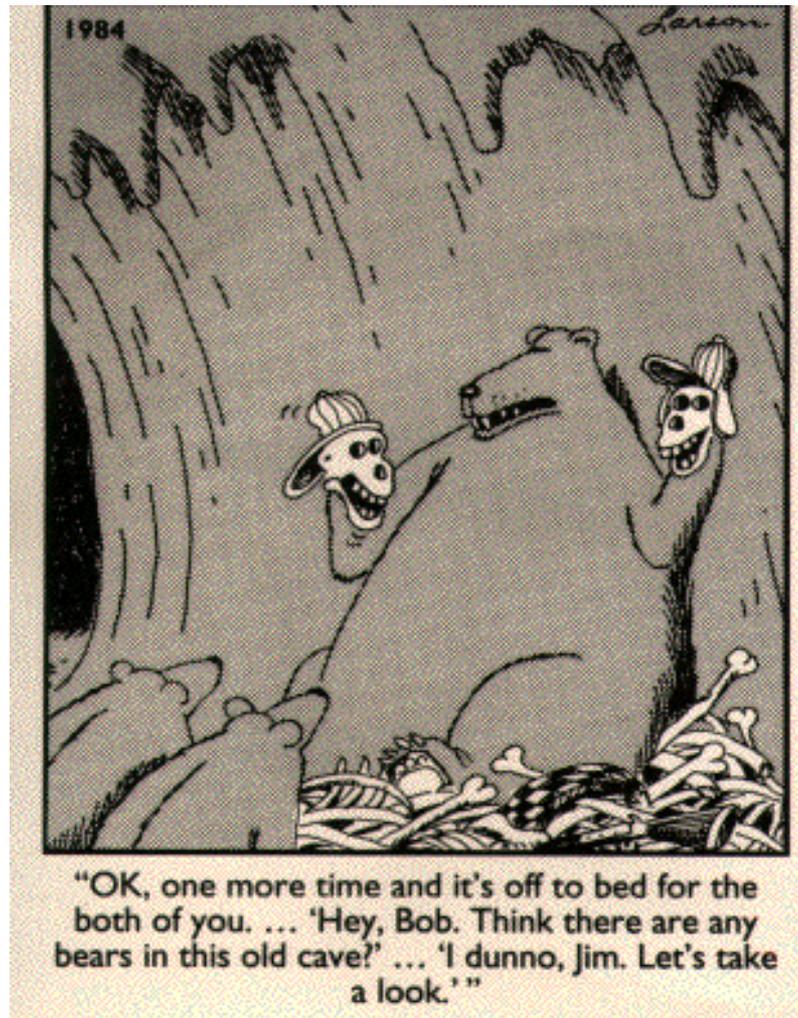
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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

# Insights from “The Far Side”

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# The starting point is a SWOT for your unit

46



# Your goal is to capture your unit level strategy

47

## Mission Statement

Statement which specifies a firm's purpose or "reason for being" and the primary objective toward which the firm's programs & plans should be aimed. Statement specifying the firm's key constituents and how the firm will serve them. It must be clear and understood.

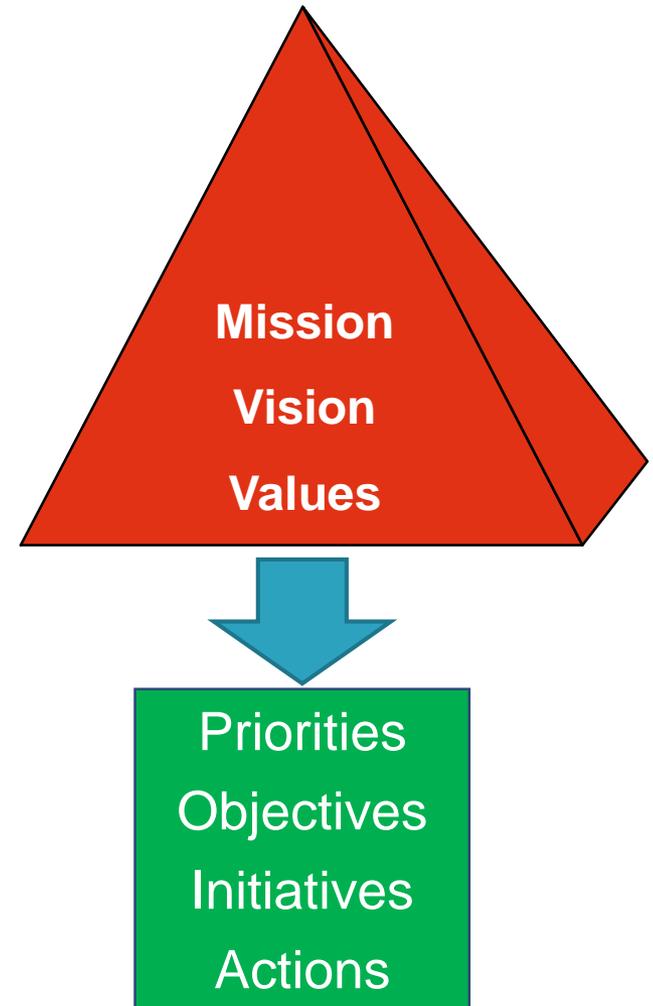
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Statement describing what the firm strives to be at some future time. It should be specific and motivating.

## Values

It is what we believe in, our guiding principles, and how we interact.

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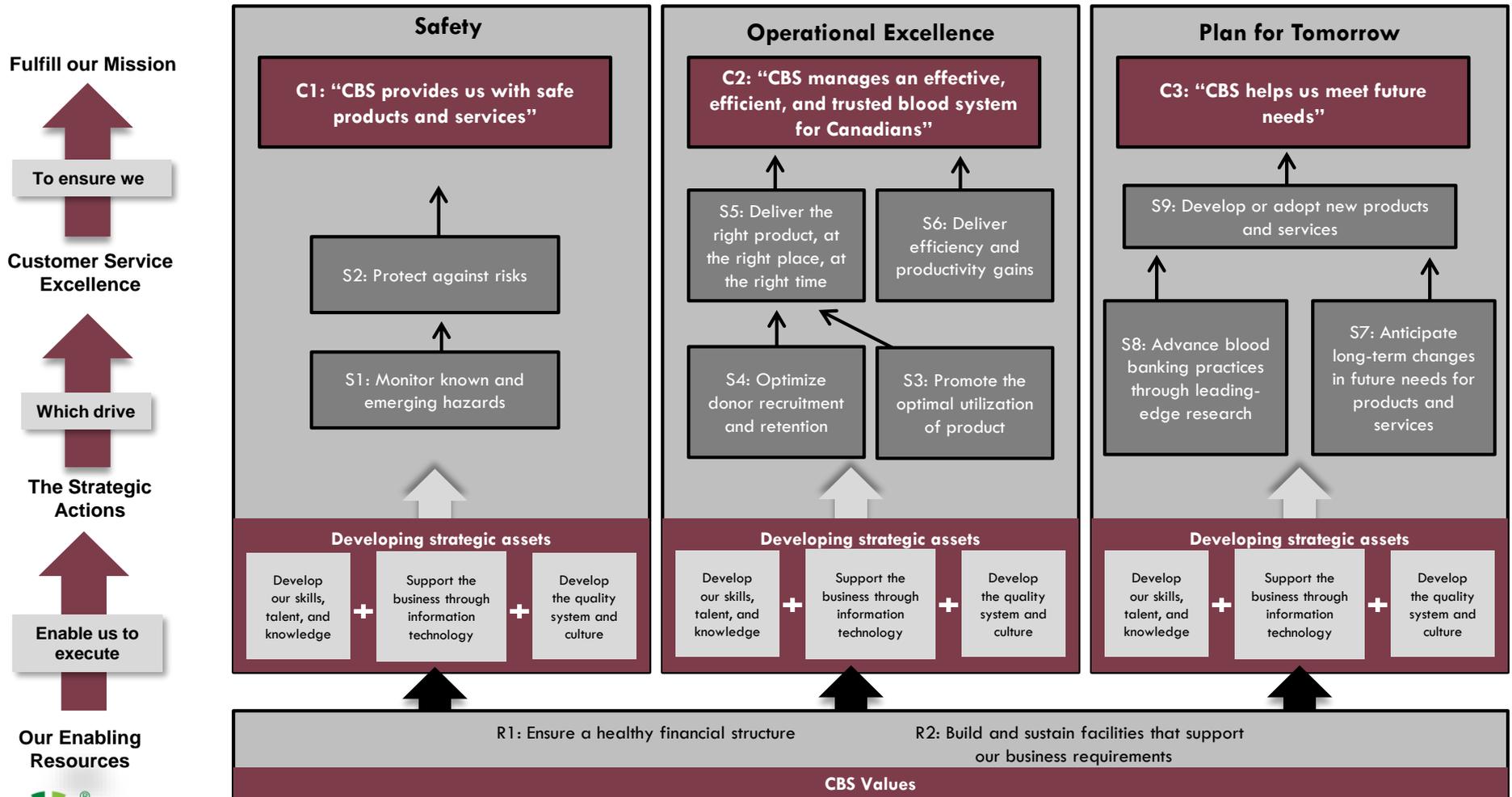
# Align the Organization

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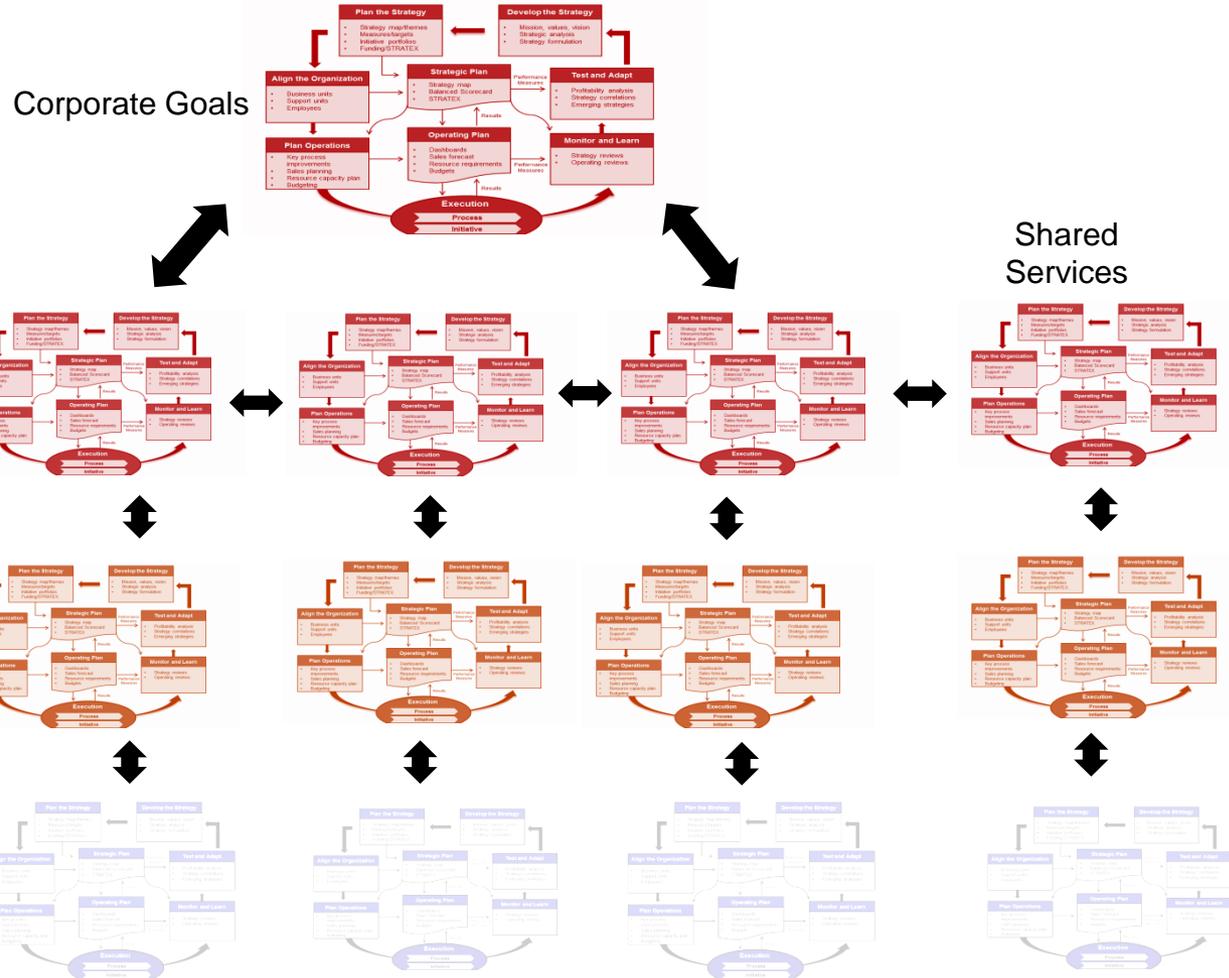
Alignment Process	Objective	Barriers	Enabling Tools
<p><b>1. Align Business Units</b></p> <p><i>How do we align business units to create corporate synergies?</i></p>	<p>Cascade and embed corporate strategy into business unit strategies.</p>	<p>Business unit strategies typically are developed and approved independently, without the guidance of a corporate perspective; lack of integration across business units.</p>	<ul style="list-style-type: none"> <li>• Cascading of strategy maps to business units</li> <li>• Vertical and horizontal alignment</li> </ul>
<p><b>2. Align Support Units</b></p> <p><i>How do we align support units to business units and corporate strategies?</i></p>	<p>Ensure that each support unit has a strategy that enhances the performance of corporate and business unit strategies.</p>	<p>Support units treated as “discretionary expense centers,” with goals to minimize costs rather than to support enterprise and business unit strategies.</p>	<ul style="list-style-type: none"> <li>• Service-level agreements</li> <li>• Support unit strategy maps and scorecards</li> </ul>
<p><b>3. Align Employees</b></p> <p><i>How do we motivate employees to help us execute the strategy?</i></p>	<p>All employees understand the strategy and are motivated to help successfully execute the strategy.</p>	<p>Most employees are not aware of or do not understand the strategy. Their objectives and incentives focus on local, tactical performance, not strategic objectives.</p>	<ul style="list-style-type: none"> <li>• Formal communication strategy</li> <li>• Employee objectives with clear line of sign to strategic objectives</li> <li>• Incentive and reward programs</li> <li>• Competency development</li> </ul>

# Example: Theme-based Strategy Map at Canadian Blood Services (CBS)

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# Enterprises Require Vertical and Horizontal Alignment



Business and Regional Units

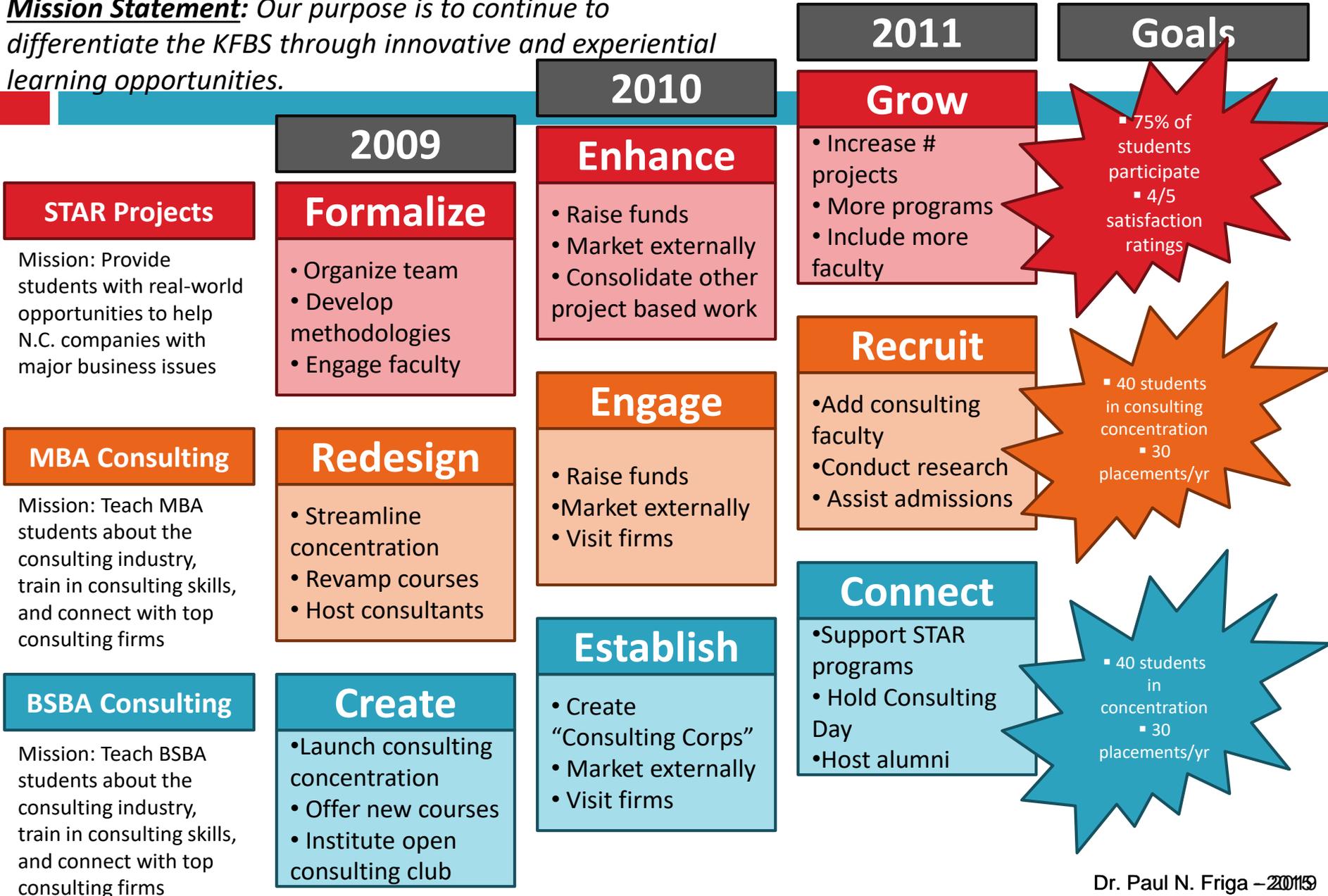
Departments

Teams and Individuals

# STAR Program and Consulting Strategies at Kenan-Flagler

DRAFT – For Discussion Purposes – Paul Friga – 2.20.08

**Mission Statement:** *Our purpose is to continue to differentiate the KFBS through innovative and experiential learning opportunities.*



# UNC KFBS Consulting Program Strategy

## POSITION:

### Mission

Prepare Students  
Promote Students

### Values

Excellence  
in  
Leadership  
Teamwork  
Community  
with  
Integrity

### Vision

Become the most  
*innovative, intensive,*  
and *individualized*  
consulting program

## PRIORITIES:

- Develop outstanding curriculum offerings in all programs
- Create unique experiential learning programs
- Grow internal/external relationships and financial support

## PAYMENTS:

- Strategic initiatives and budget (base programs and new programs)
- Faculty and Staff assignments
- Financial and non-financial incentives

## PERFORMANCE:

- Satisfaction (goal of 4.5/5.0 on course evaluations and satisfaction surveys)
- Placements (goal of 30 MBAs and 30 BSBA's per year by 2011)
- Fund raising (\$500,000 annual budget by 2011)

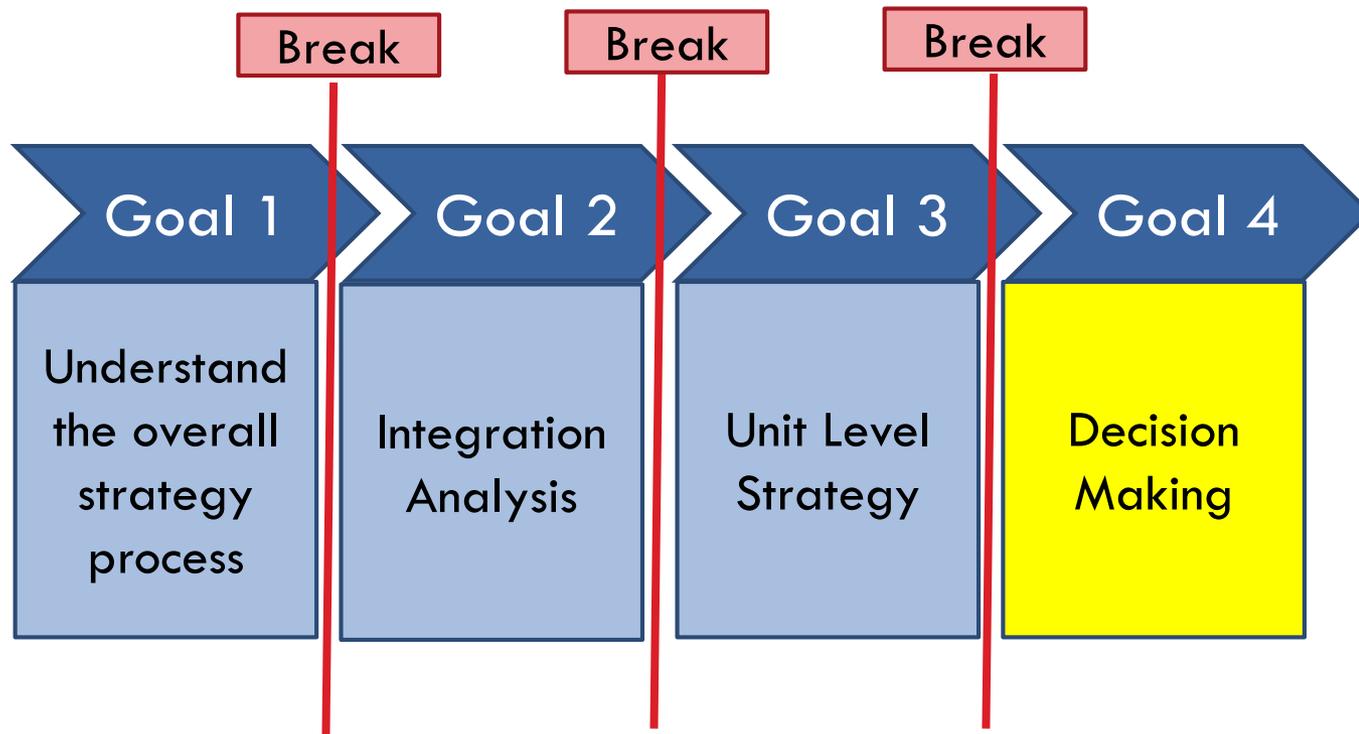
# Insights from “The Far Side”

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# Action Plan for Today

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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

# Improved Decision Making – A 3 Step Recovery Program

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1. Understanding
  - Games our minds play
  - The current state of business decisions
  - The BLINDSPOTS Theory
  
2. Identifying
  - Blindspots - in our jobs
  - Blindspots – in the movies
  
3. Mitigating
  - At the individual level
  - At the team level
  - At the organizational level

# Let's assess our starting point - Quick Test: A decision-making audit

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Topic	Question	Scale
Structure	Our structure helps rather than hinders the decisions most critical to our success.	1-strongly disagree 2-disagree 3-agree 4-strongly agree
Roles	Individuals understand their roles and accountability in our most critical decisions.	1 2 3 4
Processes	Our processes are designed to produce effective, timely decisions and action.	1 2 3 4
Information	The people in critical decision roles have the information they need when and how they need it.	1 2 3 4
Measures & Incentives	Our measures and incentives focus people on making and executing effective decisions.	1 2 3 4
Priorities	People understand their priorities clearly enough to be able to make and execute the decisions they face	1 2 3 4
Decision style	We make decisions in a style that is effective	1 2 3 4
People	We put our best people in the jobs where they can have the biggest decision impact	1 2 3 4
Behaviors	Our leaders at all levels consistently demonstrate effective decision behaviors	1 2 3 4
Culture	Our culture reinforces prompt, effective decisions and action throughout the organization	1 2 3 4

# Interpret your results

56

To get your total score, add up your individual scores

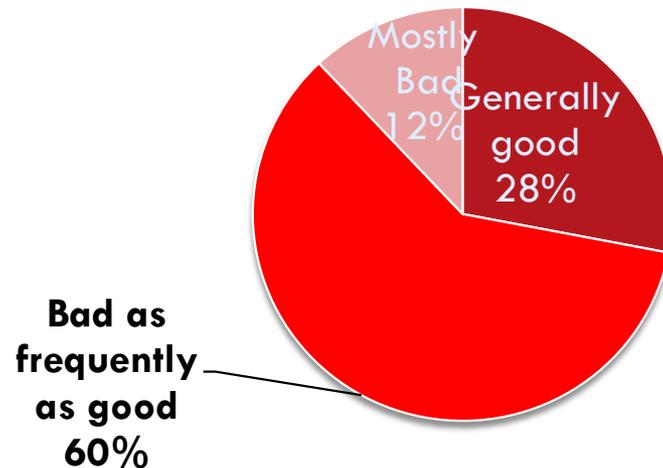
**More than 35** = You're doing great; keep it up  
**31-35** = Good, but room for improvement  
**26-30** = Org is serious barrier to decisions  
**10-25** = Major org transformation required

Compared with companies in our database, a score about 35 puts you in the top quartile-meaning your organization is pretty healthy. A score of 31 to 35 indicates room for improvement but no immediate signs of organizational breakdown. A score of 30 or below indicates that you definitely have some organizational challenges to address. If you perform at 2 or less on any one issue, that particular ailment likely needs attention.

# On a macro level, we have room for improvement

57

## Executives' perceived quality of strategic decisions in their company



And what do they do wrong? 31% of CEOs/TMTs get fired for mismanaging change, 28% for ignoring customers, 27% for tolerating low performers, 23% for denying reality and 22% for too much talk and not enough action – source: Leadership IQ, 2010

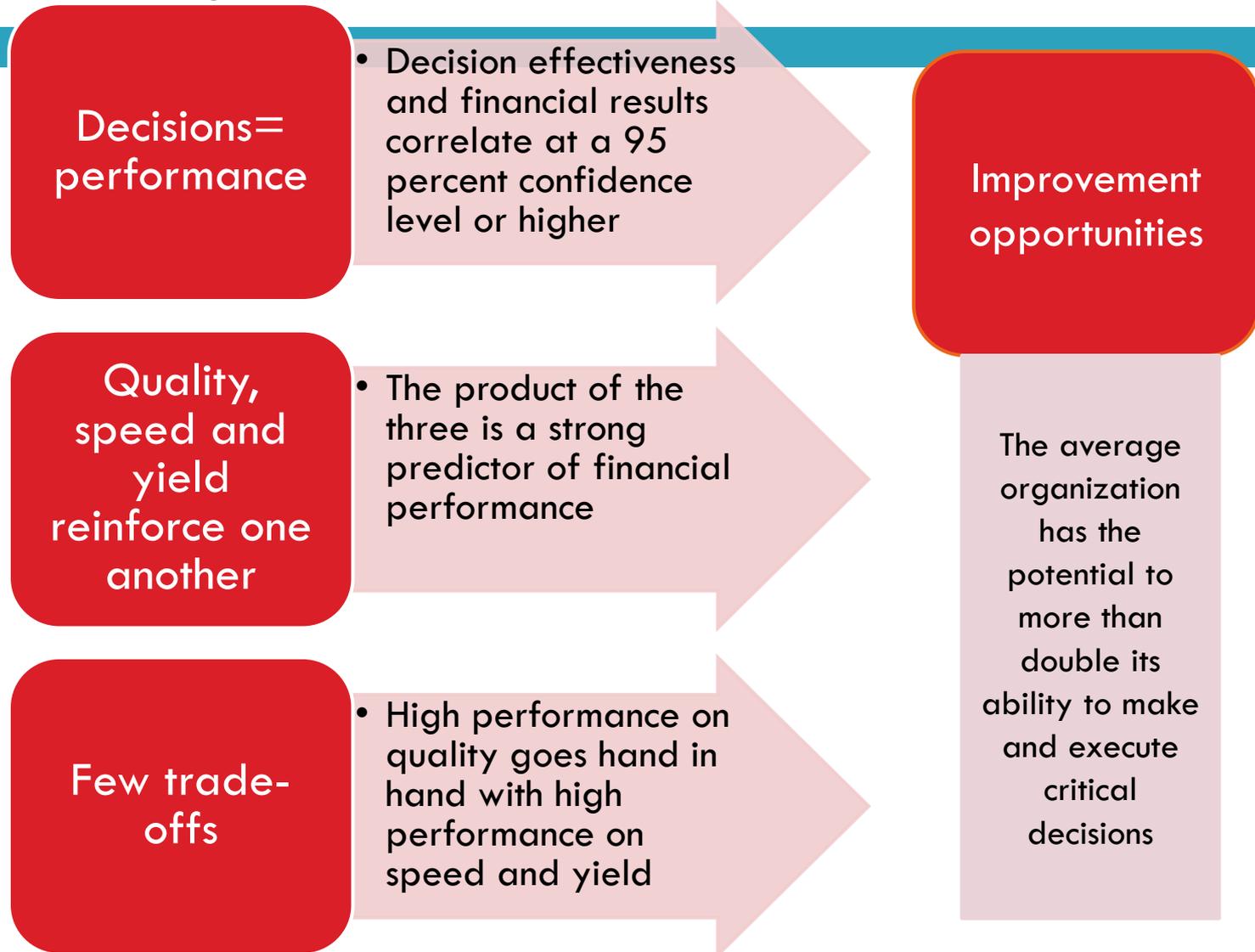
# Organizations have issues of their own

58

- Only 16 of the 100 largest U.S. companies at the start of the 20<sup>th</sup> century are still identifiable today
- In a recent year, 44,367 businesses filed for bankruptcy and many more U.S. businesses failed
- Approximately only 15-20% of all acquisitions/mergers achieve the anticipated synergies identified as justification for the action

# Recent research findings on the importance of decision making

60



# Hello, my name is Paul and I have a “flawed decision” problem...

60

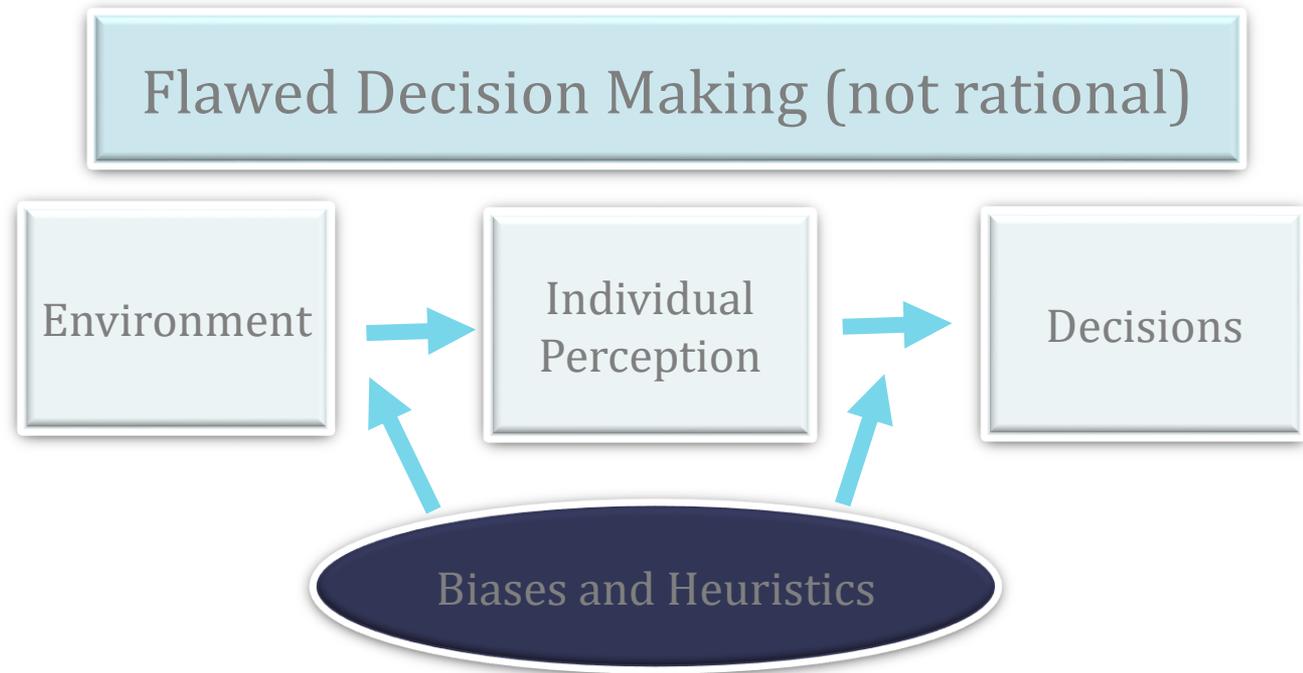
- Do you? Doesn't everyone?
- Individual and full group exercise:
  - Think of a bad decision (either your or more easily someone else's, like your boss)
  - What do you think led to the bad decision?
  - Capture the key culprits on flip charts



# This has been the subject of much study

61

- Kahneman and Tversky were key contributors...



# A quick example

62

- Linda is 31 years old, single, outspoken and very bright. She majored in philosophy. As a student, she was deeply concerned with issues of discrimination and social justice and also participated in anti-nuclear demonstrations.
  
- Which is more likely to be true?
  1. Linda is a bank teller
  2. Linda is a bank teller and is active in the feminist movement

# Other examples

63

- A coin toss lands “heads” nine times in a row – would you be willing to bet more that it will be “tails” on the tenth toss?
- A classic experiment found that study participants were far more likely to leave an inheritance of several million dollars in low-risk bonds or high-risk stocks than to adjust based upon respective risk portfolios. When was the last time you adjusted your company’s investment portfolio?
- 1 million students were surveyed and were asked if they were below, at or above average in interpersonal interactions...



# BLINDSPOTS

64

**B** – Bad money after good (escalating commitment)

**L** – Limited frame of reference

**I** – Invalid assumptions (taboo or just wrong)

**N** – Non-statistically significant conclusions

**D** – Deal Maker's Curse

**S** – Self-focus over organization

**P** – Problem framing (key issue and components)

**O** – Overconfidence

**T** – Tendency to avoid loss

**S** – Sending good news bias

# BLIND SPOTS – Definitions

65

- **Bad Money After Good (Escalating Commitment):**
  - ▣ Resource investments continue (or increase) even when disconfirming evidence surfaces that the initial analysis was flawed, the competitive environment has changed, or internal capabilities have diminished
  
- **Limited Frame of Reference**
  - ▣ Individual decision makers are limited in their ability to objectively assess the probability of outcomes and options given their idiosyncratic past experience (we are a culmination of what we have read, seen, touched, etc.)

# BLIND SPOTS – Definitions

66

## ❑ **Invalid Assumptions**

- ❑ Projections of what may happen that are considered by a decision maker are flawed with three primary manifestations – unchallenged, corporate myth, or corporate taboo

## ❑ **Non-Statistically Significant Conclusions**

- ❑ Generalizations of a population or class of study based upon limited observations (e.g. small sample, non-random sample, unrepresentative sample, etc.)

# BLIND SPOTS – Definitions

67

## □ Deal Maker's Curse

- The desire of a key executive or team to “win” a deal that ultimately results in a losing proposition for the company as too high a price is paid (often driven by the ego of the players)

## □ Self-Focus Over Organization

- Agency Theory suggests that all humans will keep their individual outcomes as the key decision criteria in most business decisions (survival instinct)

# BLIND SPOTS – Definitions

68

## □ **Problem Framing**

- ▣ The inability of decision makers to take the adequate time to frame the business problem (key question, issue tree and possibly hypotheses) before diving into analysis – there is also a risk of only seeking confirmatory data

## □ **Overconfidence**

- ▣ All of us are overconfident in our own ability to solve problems and that we know the best alternative early in the process (without adequate buy in and supporting data)

# BLIND SPOTS – Definitions

69

## □ **Tendency to Avoid Loss**

- Humans are generally risk adverse and will seek the lowest conflict outcomes

## □ **Sending Good News Bias**

- Information filtering process whereby the organizational culture rewards the communication of good news over the bad news upward

# Bad Money After Good - Escalation

70

## □ **Warren Buffet**

*“When you find yourself in a hole, the best thing you can do is stop digging.”*

## □ **W.C. Fields**

*“If at first you don’t succeed, try, try again. Then quit. No use being a damn fool about it.”*

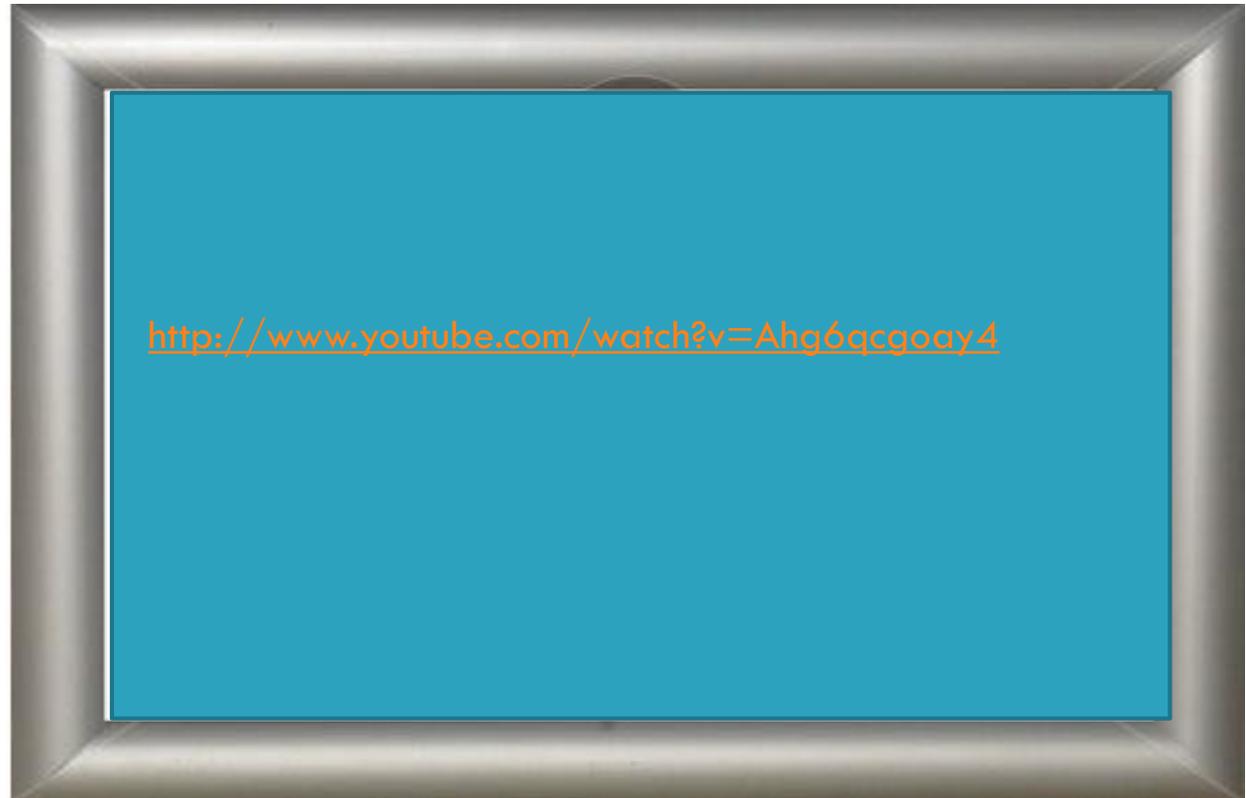
# Bad Money After Good - Escalation

71

- Tendency to escalate commitment to our initial decision
- External competition strengthens this tendency
- Implications
  - ▣ Research and development projects
  - ▣ Bank loans
- Why
  - ▣ Confirming evidence
  - ▣ Framing bias (probability of future success instead of sure loss) will result in risk seeking behavior
  - ▣ Impression management

# Be cautious about your frame of reference

72



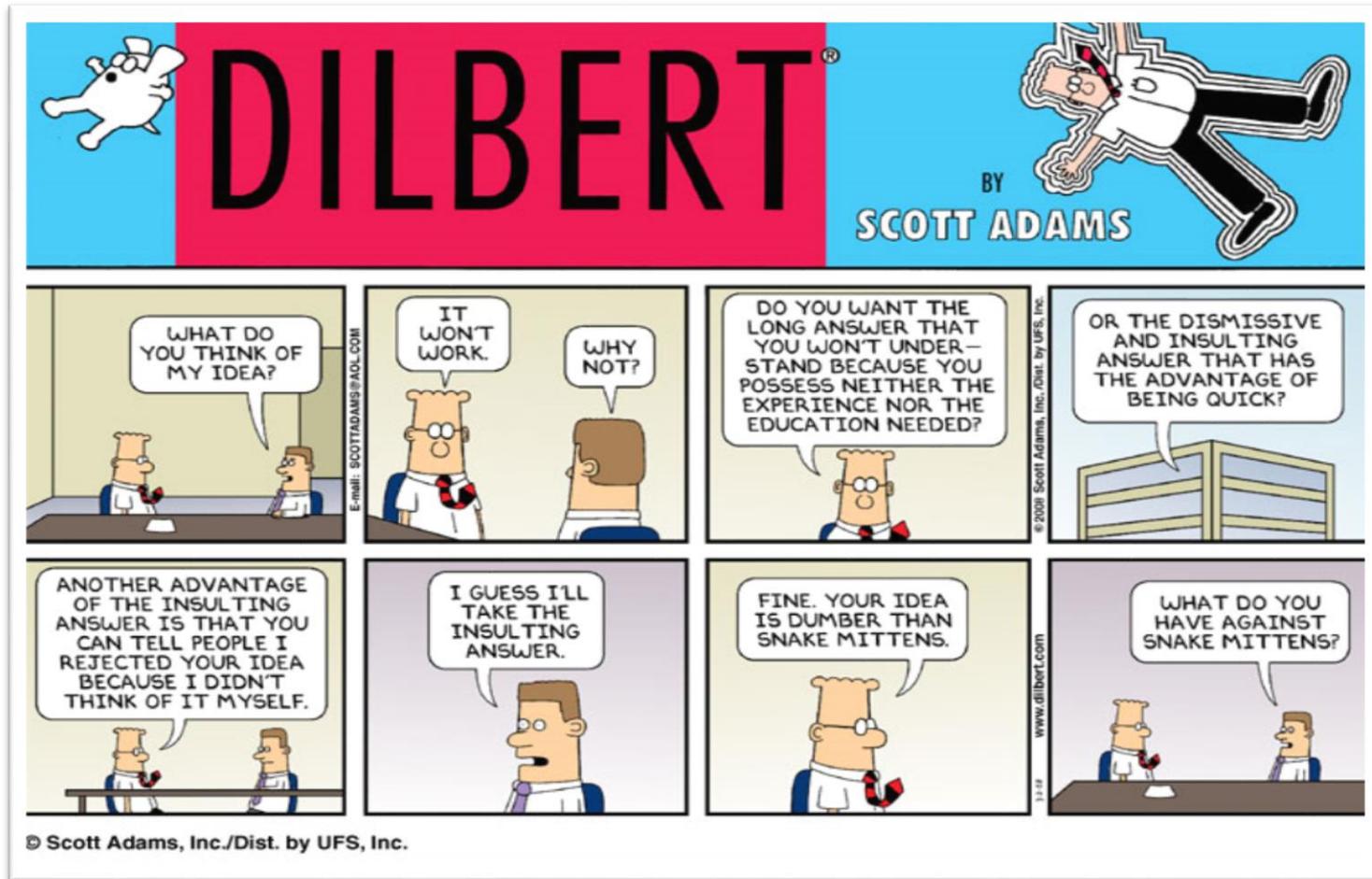
# Flawed Decisions – A 3 Step Recovery Program

73

1. Understanding
  - Games our minds play
  - The current state of business decisions
  - The BLINDSPOTS Theory
2. Identifying
  - Blindspots - in our jobs
  - Blindspots – in the movies
3. Mitigating
  - At the individual level
  - At the team level
  - At the organizational level

# Some more related Dilbert humor

74



# Problem Framing

75

## □ Questions

If you were faced with the following choice, which alternative would you choose?

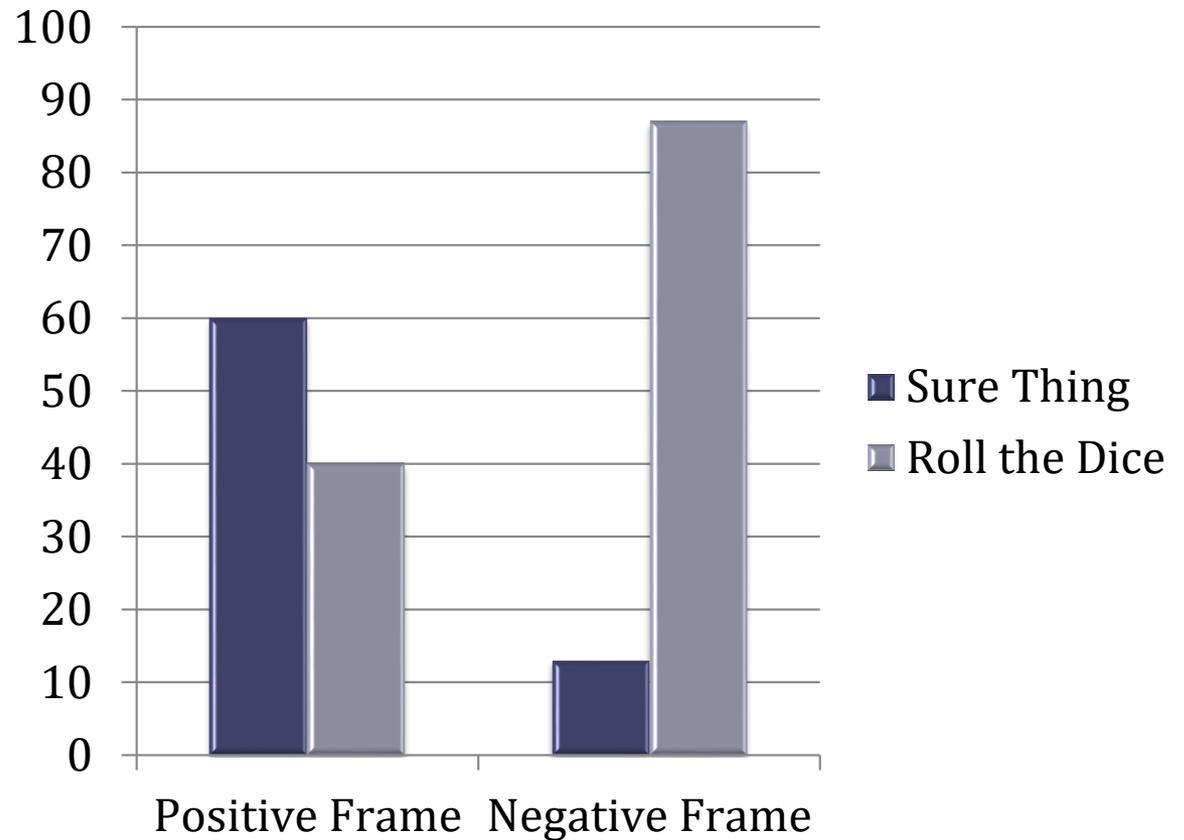
- A sure gain of \$250
- A 25% chance to gain \$1000 and a 75% percent chance to gain nothing

If you were faced with the following choice, which alternative would you choose?

- A sure loss of \$750
- A 75% chance to lose \$1000, and 25% chance to lose nothing

# How most folks shift based on framing

76



# Identifying the blindspots (individually)

**Crimson Tide:** New Russian leadership threatens world with possible nuclear action. Captain with significant experience brings on a new XO for a US nuclear submarine (the Alabama) commissioned for response to Russian nuclear submarines. Clip commences right after they launch and ends just after the XO makes a major strategic decision.

77

Blindspots	Examples at work	Examples in the movie
Bad Money After Good		
Limited Frame of Reference		
Invalid Assumptions		
Non-Statistically Significant Conclusions		
Deal Makers Curse		
Self-Focus		
Problem Framing		
Overconfidence		
Tendency to Avoid Loss		
Sending Good News Bias		

# Flawed Decisions – A 3 Step Recovery Program

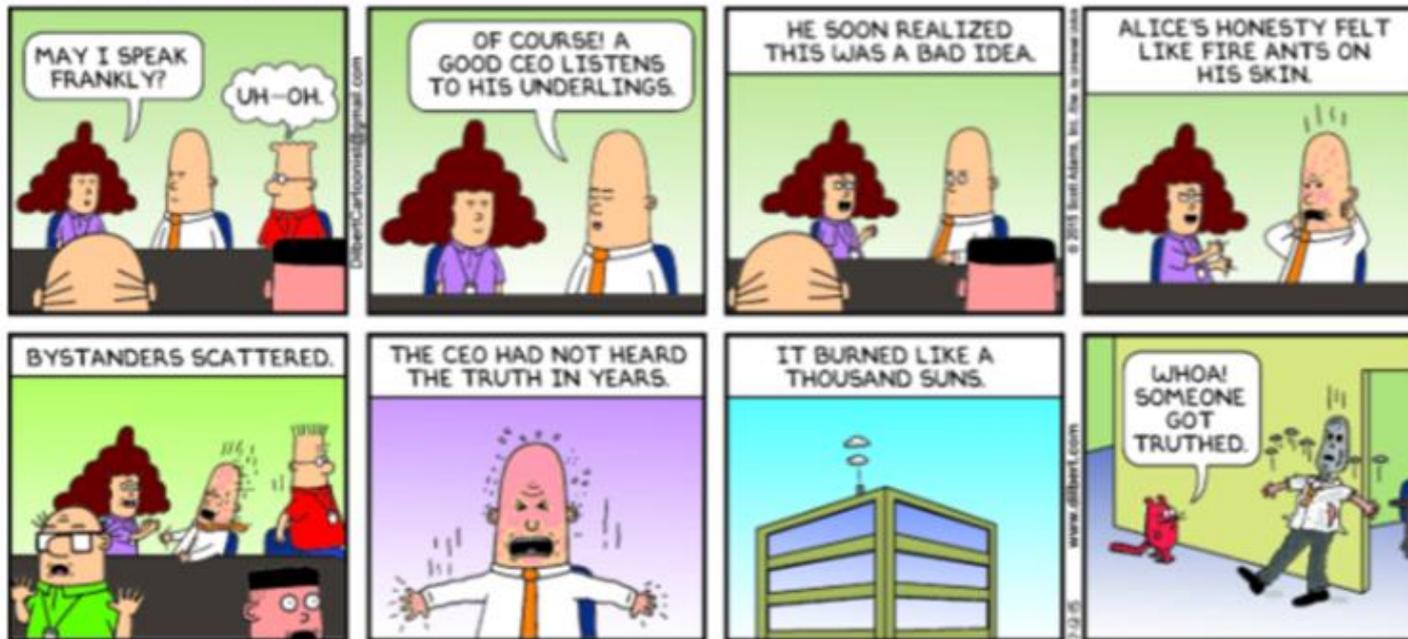
78

1. Understanding
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# Some more related Dilbert humor

79

**DILBERT** by Scott Adams



# Carter Racing

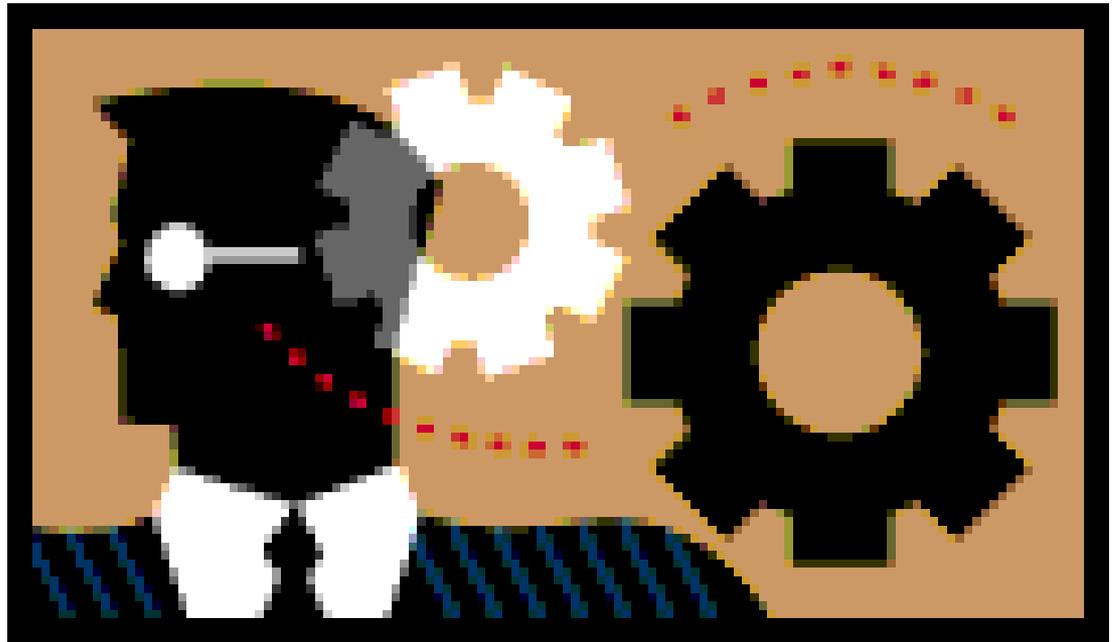
80

- Individual vote: Race or Not Race
- Group votes: Race or Not Race
- Justifications (time to debate/convince)
  - To Race
  - To Not Race

# Can you really change a person?

81

- Rhetorical question but with some relevance



*Or are you better off mitigating around them?*

# Without looking at the next slides...

82

- In your small groups, identify at least 10 ways to mitigate blindspots (i.e. manage around them) at all three levels:
  - ▣ Individual
  - ▣ Team
  - ▣ Organization
- We will summarize them and create a master list of tips (in addition to the ones I will show you next)

# Mitigation Strategies – Individual

83

1. Become aware of the “blindspot” problem
2. See your own blindspots
3. Seek external and diverse opinions on major issues and decisions (support group)
4. Be particularly conscious of overconfidence
5. Set limits for gambling
6. Balance personal vs. organizational returns
7. Learn statistical analysis
8. Utilize the scientific method of problem solving
9. Do not repeat failure – learn from it
10. Be open to devil’s advocate assessments

# Mitigation Strategies – Team

84

1. Become aware as a team of potential blindspots
2. Document explicit assumptions on the team
3. Appoint a devil's advocate
4. Understand and utilize the scientific method
5. Focus on data-driven analysis and support
6. Search for analogies in other industries
7. Set limits in advance on major deals
8. Incorporate an external perspective (consultant?)
9. Ignore sunk costs
10. Seek diversity on all teams

# Mitigation Strategies – Organization

85

1. Encourage all employees to be aware of blindspots
2. Establish a culture of open communication
3. Encourage learning from failure (and benefits)
4. Create a system of checks and balances
5. Assemble multi-functional and diverse teams
6. Involve more employees in strategy sessions
7. Analyze scenarios (and especially worst case)
8. Incorporate independent external perspectives
9. Reward innovation and entrepreneurship
10. Provide training in blindspot mitigation!

# The Six Steps to Decision-Driven Reorganization

86

1

- Identify your organization's key decisions.

2

- Determine where in the organization those decisions should happen.

3

- Organize the macrostructure around sources of value.

4

- Figure out what level of authority decision makers need.

5

- Align other elements of the organizational system, such as incentives, information flow, and processes, with those relate to decision making

6

- Help managers develop the skills and behaviors necessary to make and execute decisions quickly and well

# Taking the bias out of meetings

87

Make sure the right people are involved

- Diversity
- Subject matter experts
- Minimum number

Assign homework

- Create fact base
- Obtain input from outsiders
- Consider alternative hypotheses

Create the right atmosphere

- Encourage participation
- Allow disagreement
- Separate people from ideas

Manage the debate

- Clarify meeting's purpose
- Discuss decision criteria
- Cover pro's and con's
- Careful framing

Follow up

- Commit to decision
- Monitor pre-agreed upon criteria
- Conduct a postmortem

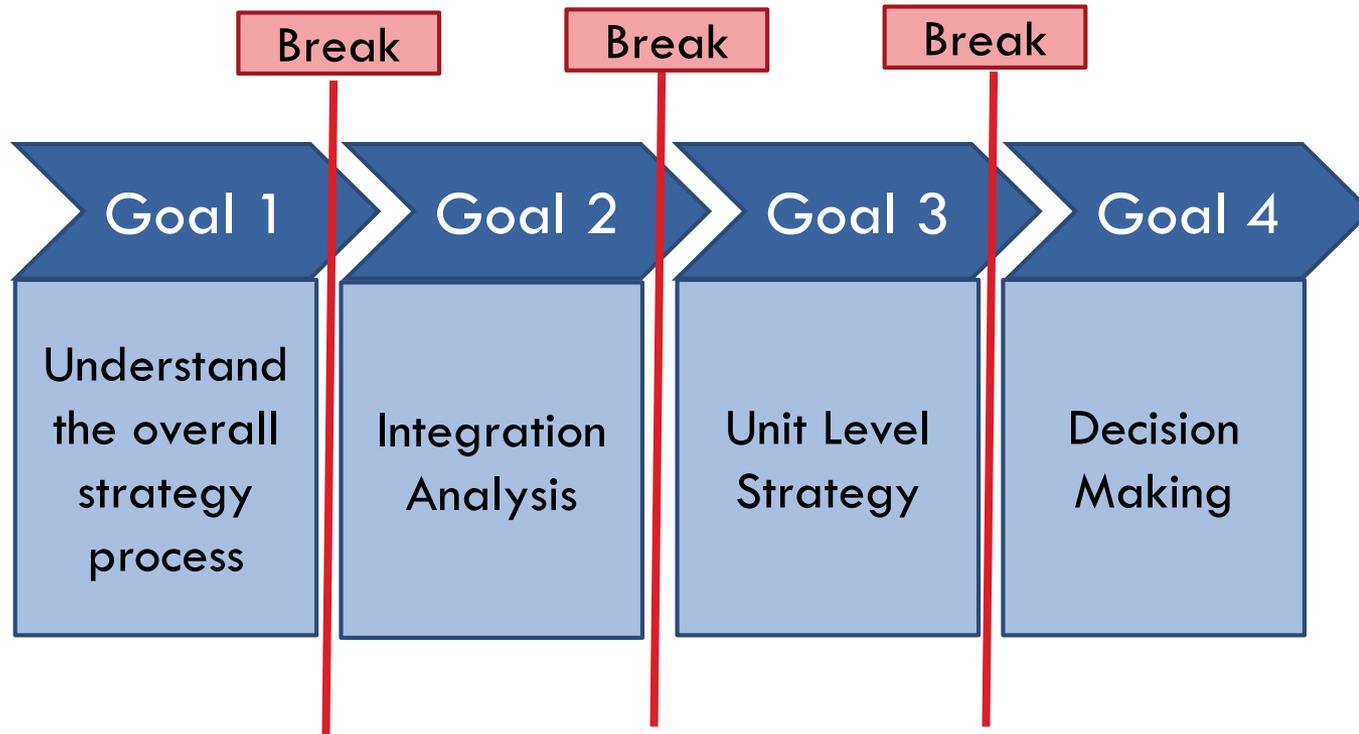
# Thank You

88

- The key process points we covered:
  - *Understanding*
  - *Identifying*
  - *Mitigating*
  
- I wish you the best in your “blindspots” mitigation!
  
- Please stay in touch...
  - [pnf@unc.edu](mailto:pnf@unc.edu)
  - [www.paulfriga.com](http://www.paulfriga.com)

# Action Plan for Today

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*Case Studies – CenturyLink, Crimson Tide and Carter Racing*

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