Changing Decision Making Processes

In the last article we looked at the basic methods by which organizations make decisions – visionaries, commanders, committees, and contests. You can find it here if you are interested. https://img1.wsimg.com/blobby/go/ea288b40-91b9-4fc0-b69c-5d20f6e5081e/Management%20Decisions.pdf

This enabled us to understand the different ways that decisions are made. Now we will look at the second part of this management problem. Each type of organization and decision-making process has specific strengths and weaknesses, so how can an organization identify the need for new ways to make decisions and new ways to organize and how to implement them? This is part of a much bigger subject about corporate culture, but we will only look at this one aspect. Once again, we will look at a lot of case histories that demonstrate these changes in action.

Types of Change

Companies form with a specific vision in mind and with the expectation that certain individuals will fulfill key roles in the organization. The pursuit of that vision by that group of people will, if successful create and/or change the organization dramatically. At some point the people who originally set the organization up will not be able to continue making it work the way they did when they started. New decision making processes and new organizations are required to enable them This requires changes in at least one of the following areas:

- The People (new team)
- The Incentives (new motivations)
- The Rules (new organization)

The Trigger for Change

Organizations do not typically make changes for no reason – change is uncomfortable. It requires moving in directions without obvious guides and benchmarks. It requires extra time spent working. It costs money up front. It requires meeting and working with new people. It requires doing things that no one is confident will succeed.

- Dramatic step change in technologies available
- Major new types of competitors
- Income or profits consistently below expectations
- Opportunities for growth
- Major political or regulatory change

New People

The people who have taken the company to the place where it is right now may not still be the right ones to continue running it. This is a common problem when an idea becomes a runaway success

and has to be scaled up in ways which are simply beyond the experiences of the people who came up with it. A common way to achieve this is to simply sell the company to some other organization which has a management style which already matches up with the new one that is needed. If (for example) a visionary has successfully developed a workable new thing, at some point the organization they created will have to shift from a focus on development and new ideas to efficient mass production, advertising and distribution, you can simply sell the whole concept to an organization which is already doing those things in some related field or activity. Another common way is by bringing in new decision makers and people to the business and conceding power over the organization at least in part to them in order to get different ideas into the organization.

New People Example

Pixar animation studios stared as an organization built by visionaries who organized the company as competing groups to come up with a variety of new ideas. For 12 years from 1979 to 1991 a variety of different ideas were advanced before animation and movie making became the focus of the existence of the company. For another 15 years it honed the process of making digitally created animated movies. Then by way of long-term contracts followed by total purchase the company sold itself to the Disney corporation in 2006 to continue growing and succeeding. By 2006 the process of making digitally animated movies had been basically perfected. What was now required was efficient systematic development of this process to expand the scope of application. Something which the hierarchical Disney organization was ideally suited to do. This was a change prompted by opportunities for growth. Over the years the management team gradually shifted from the original Pixar one, to the new Disney one in order to avoid any disruptions. https://www.britannica.com/topic/Pixar-Animation-Studios

New Incentives

Trying to reorganize a company to operate in new and different ways requires that the people who are a part of the company be excited and committed to actively participating in the process if it will succeed. This is more difficult than it sounds. Merely knowing what the company ought to do to succeed isn't enough if the people involved in the company cannot be motivated to help do it.

New Incentive Example

Ford Motor company is an example of an organization amidst a major change via incentive. If you will recall from the first article, Ford managed to transition from being a visionary led product development company (make lots of standardized cars cheaply at reasonable quality) to a hierarchically organized efficient growth organization (put Internal Combustion Engines in everything with wheels and sell them to the world) and is now transitioning away from internal combustion engines, the entire reason for the company's existence for over 100 years and towards manufacturing electric vehicles. How do you manage such a dramatic transition in a corporate structure and objectives? Ford is not the first company to mass produce electric cars, or the second or the 3rd. Nor are they the first traditional auto maker to enter this space. Nor are they a new company starting with a fresh set of ideas and people. So how do they get their people and organization excited about this move? Ford Motor Company approached the objective of electrification from a different direction. Instead of trying to compete on the basis of 'green energy' or 'efficiency' or 'carbon neutrality' they chose to compete on the basis of performance. Their first electric vehicle available for sale is the Mustang Mach E.

https://www.ford.com/suvs/mach-e/

The Mustang has options ranging from 290 to 480 horsepower all wheel drive, and 0 to 60 times as low as 3.5 seconds in the Mach E GT. The incentives for Ford engineers, product development and corporation are clear – make fun to drive vehicles which eclipse the performance of traditional internal combustion powered efforts. The second step is an all-electric F150 with an emphasis on towing power and all terrain capability, again with the objectives of eclipsing the performance of traditional vehicles. These are performance targets which no other manufacturer of electric vehicles has explicitly set as primary objectives. As employees or prospective employees of Ford, the opportunity to do something new and never before done lies ahead, even though they are a late mover into the electric vehicle business. The long term success of the change has yet to be seen, but the **new incentive** is clear

New Rules

An efficient hierarchical company is not good at innovating. It exists and is organized to be efficient at pursuing its objectives. But what if the objectives aren't certain? Or what if it's not clear exactly how to measure efficiency? What if the company would like to change objectives? An idea lab can be set up in various ways, but one of the following three usually works:

- A dedicated **research and development organization** within the company
- Creating a **new division** specifically to change the way business is done, or investigate new opportunities.

- **Separating by geography** or other factors into a testing group for new ideas

New Rules Example

Nintendo is an example of a company being completely reformed by using the concepts of a new division and a research and development organization. https://en.wikipedia.org/wiki/Nintendo The company stare in 1889 making playing cards and survived until the late 1960's through many ups and downs in the business and expanded into board games also.

A Deck of Nintendo Hanafuda Cards for sale on Amazon

Two fundamental factors drove the company to seek change. In 1959 the company went public on the stock market creating a new level of expectation for growth and profit. Shortly afterwards cheap and readily available electronic components became available in Japan. The company began looking for new ideas. Ventures ranging from taxis to instant rice to hotels were tried, all with terrible results. Gunpei Yokoi an electronics engineer was selected by the president of Nintendo corporation and placed in charge of a new division called 'Games and Setup' with a bookkeeper and a mandate. His mission was to figure out how to make innovative toys and games with electrical and electronic components integrated into them. He reported directly and only to the president of Nintendo. This started as an R&D organization and came up with a variety of electronic toys. There were many early successes which convinced the company they were on the right track, and the entire company was re-organized around the toys and games division, with playing cards de-emphasized. To maintain the spirit of innovation,

three separate and competing Research and Development (R&D) organizations were set up within Nintendo, to ensure that they would have products developed by a multipolar system, thus avoiding the ossification of a hierarchical R&D organization, and reducing the 'hit or miss' tendencies of organizing the financial success of the entire company around a single visionary to come up with new ideas. In rapid succession came products such as, Donkey Kong, the NES (Nintendo Entertainment System) and the Game Boy. The system they created in the 70's and early 80's is still driving the company forward to this day even though all the people who created it have since passed away. There were **two new rules** created by Nintendo in this change. One was that the new division reported ONLY to the president, thus not becoming enmeshed in any interests or ideas from other divisions. The other was to create competing R&D organizations instead of a unitary one in order to maximize the range of ideas coming from within the company even in the absence of an outside threat or force requiring that level of innovation.

A failed transition

Failed transitions are numerous, but one is illustrative. General Motors (GM) was losing market share to companies efficiently manufacturing reasonable quality small automobiles at a rapid pace. A new division was created specifically for the purposes of testing out new ideas in this arena, and it was called Saturn. This organization ran from 1985 to 2010, and sold cars roughly from 1990 to 2010. The objective was to test three different ideas:

- Small cars and dedicated factories for their production (both of which were new to General Motors at the time)
- Non-negotiable pricing which was new to the entire automotive business
- plastic body panels as a primary construction element.

It would have separate factories and an entirely separate dealership network from the rest of GM, so it would have geographic separation from the other parts of the company. It was a new division with a mandate to do new things. And it failed. The organization was successful from the point of view of selling automobiles and generating profits and received high customer satisfaction ratings throughout its existence. Unfortunately, it was a failure from the point of view of changing the General Motors organization.

General Motors was founded as a top-down hierarchical company which acquired multiple different automotive manufacturing corporations which had been created by visionary founders (Buick, Oldsmobile, Cadillac, Elmore, Oakland, and Rapid, Pontiac and Chevrolet among others) and then making them efficient. In theory the new Saturn division could have been set apart from the others with a mandate for change much in the same way that Nintendo did it. Instead, every single rule and requirement to make a successful transition organization failed.

- **No New People**: The management and organization of the new division was drawn directly from the old divisions, with no outside hiring or attempt made to create a new or different management team or style.
- **No New Structure**: The company had uniform corporate oversight by groups of senior managers who also oversaw the other divisions of GM. The heads of the other divisions of GM saw Saturn as a threat to their own divisions rather than seeing the health of GM as an entity as their objective, and they focused their efforts on destroying the new

Saturn division to avoid cannibalizing their own sales. The heads of Saturn eventually agreed with this position because they were responsible for multiple divisions and as a result the new Saturn division failed to receive the investments it would need to remain technologically competitive. Instead of being set up as a unique piece of the company it was yet another division of a company with many divisions.

- **No Incentives:** Saturn branded vehicles were sold through a separate dealership network from all the other GM brands, thus removing any incentives for the vast and potentially useful GM dealership network to serve as sales outlets for the new vehicles. The corporate decision-making levels were all dominated by people who had the interests of other division of GM in mind.

GM could not adapt to the changes which the Saturn organization was set out to demonstrate even though the demonstration was successful financially, with customers, and technologically. In the 2008 financial crisis the Saturn division was closed as part of the restructuring from the federal government. Attempts were made to sell or reorganize the division but were ultimately unsuccessful because the lack of investment caused by poor management incentives over the previous years meant that huge sums would have to be invested to get the production plants modernized, and to create new models of automobiles saleable at reasonable quantities. Ultimately the Saturn organization had **no new people**, and it had **no new rules** for how it would interact with the rest of the organization. As a result there were **no new incentives** to make the organization succeed at it's stated objectives.

Conclusions

Changing an organization is hard. The people, ideas and forces which made it successful now are unlikely to be the same ones which will help it to succeed in the future when confronted with disruptions from the rest of the world. The cases where organizations fail to change greatly outnumber the situations where changes are successfully made but are worth studying and adapting (or avoiding!) for everyone starting new organizations or trying to steer older ones.