Visionaries, Commanders, Committees or Contests. How will your organization succeed?

How do companies and similar types of groups go about making decisions? What do good and bad decision-making processes look like? Is there a right answer? Is it the right people? The right process? What are the keys to successfully managing a business? I won't claim to be a management guru, but I have seen a lot of different teams and people with a lot of different styles, both as a participant in the decision-making process, as an investor trying to analyze companies, and as an employee subject to the results of decision-making processes. Some famous examples from business and from other arenas are considered.

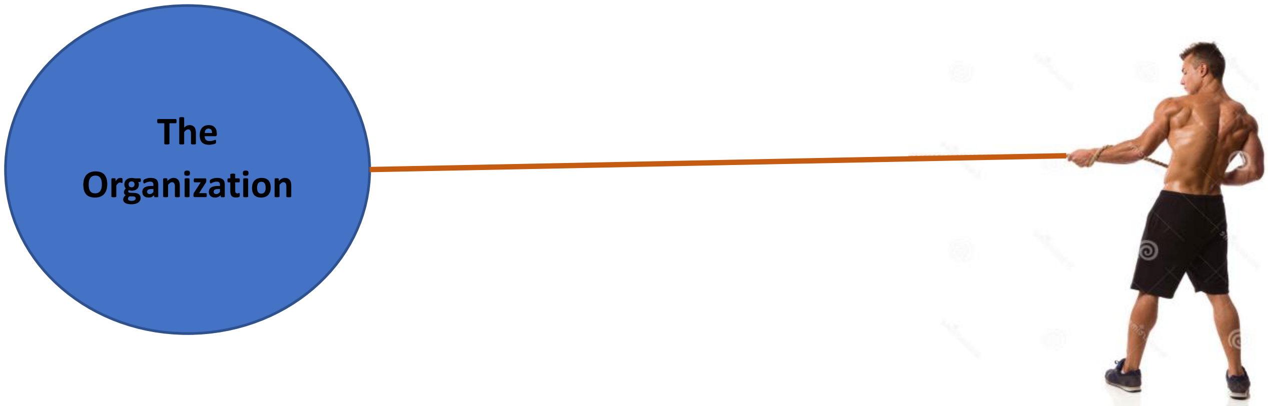
Decision Making Processes

Often companies and organizations are formed around an objective, but in most cases this objective is to big and ill-defined to be useful enough to figure out how to run the business with in detail. Figuring out what the company ought to do is critical because without some focus and detail of plans, excessive effort will be expended in too many directions at once without accomplishing anything noteworthy in any of them. Ever heard of Virgin Cola Virgin Cola? Virgin Cars?, Virgin Publishing?, Virgin Clothing? These were all failed expansions of Richard Branson's famous Virgin Industries into directions that did not work out. How do companies decide what to do? There are four major methods which are used:

- The Visionary
- The Hierarchy (commanders)
- The Consensus (committee)
- The Multipolar system (contest)

The Visionary Makes Decisions

This is the classic (at least in western thought) image of a strong leader with a plan, and the decision-making process for these sorts of organizations tend to look like this:



Visionary pro's, con's and Examples

This is great IF in fact the visionary has the right objective in mind and can lead to spectacular success when they are. The most famous cases of this in American corporate history are Henry Ford and the model T, and Steve Jobs and the I phone. Both had a specific and detailed idea of what their company should do and focused everything and everyone on achieving that vision. Ford's famous quote "they can buy the model T in any color they want, as long as it's black" (and this was their only product) epitomizes this sort of view. Everything from top to bottom in the organization is subsumed to the will of the creator. This works great, if the creator is reasonably sane, their initial idea is good, and they can explain it to other people, and motivate other people. Sadly, this is not always the case – there are a lot of if's and many business enterprises are too complex to organize this way even if it were desirable. This form of management works best under conditions where technology, society or other factors are forcing rapid change. Less discussed than the successes of this method of organization are the failures, because in most cases there are many of them. The good thing about failures from this mode of organization is that in most cases they tend to occur before too much effort has been put forth, so the net loss to society tends to be small, even if it may be enormous and devastating for the people involved. The failures are rarely memorable, but a variety of the 'dot.com' bubble companies were, such as Pets.com, Askjeeves, and Priceline managed to blow up to recognizable names before anyone realized they were based on a bad idea. They had a vision, but it was not quite the right one.

The Hierarchy Decides

The people in charge tell others what to do, and they set out to accomplish it. This is the 'normal' mode of operations that most people think of when they imagine a business. It tends to form more or less organically once the operation reaches a certain size, and for good reason – it divides processes in ways that make it easier for everyone to focus on their areas of expertise, instead of being organized around one single person.

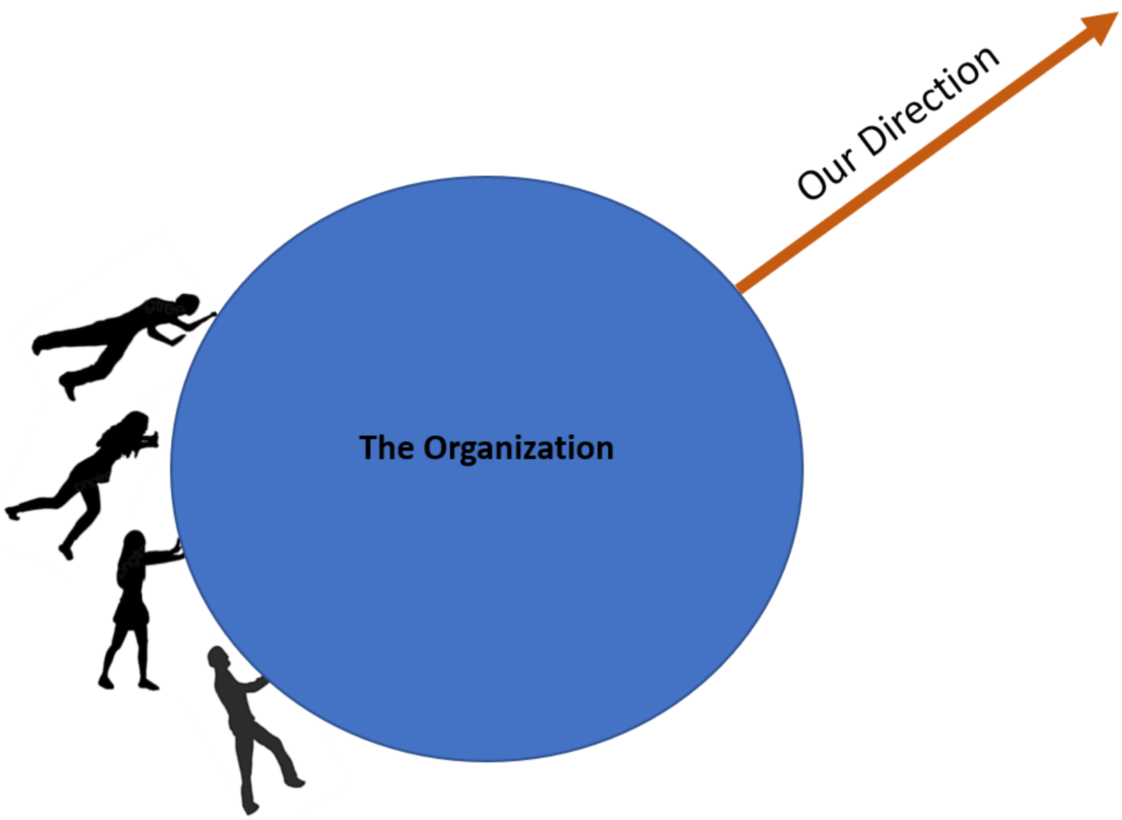
An even bigger feature is that they scale – you can make hierarchies of hierarchies.

Hierarchy pro's, con's and Examples

These sorts of organizations are ideal when figuring out what to do is less critical than being good at doing it. Specialization and organization lead to high efficiency assuming that what everyone is doing remains more or less static. As organizations like this get bigger and bigger it gets more and more difficult to get information and ideas to and from different parts of it because there are too many people and too many different mindsets in between the different places and people who might have critical ideas. Ford between roughly 1920 and 2008 represented a successful hierarchical organization. Having decided that efficient manufacturing of cars and trucks and things that go with internal combustion engines was The Way™ to success they spent several generations getting really really good at it, and becoming one of the world's largest companies in the process. Amazon.com is at an earlier point in the process where they have clearly decided that selling anything online is The Way™ and have been creating an enormous and efficient organization to achieve that objective. Where these sorts of organizations have trouble is when The Way™ stops being a good objective – the organization has gotten so large and complex and so difficult to change directions that it cannot readily adapt. Failures of large hierarchical organizations are the stuff of legends and nightmares because they usually reach titanic proportions because they are ideally suited to maximally exploit any advantages embedded in them before they fall. Think the fall of Sears, or of US Steel. They go far beyond mere corporate failures and into the realm of nation-state failure like the collapse of the British or Roman empires.

The Consensus for Decision Making

A key group of people are designated, or gradually become the decision makers of the organization. Nothing of importance takes place until they all agree on the correct course of action. There may be tremendous disagreement behind closed doors, or it may be a matter of minor variations on an already agreed upon theme, but in any event no action is taken until they all agree that it is the best possible course of action as a whole.



Consensus pro's and cons and Examples

Consensus decision making tends toward risk reduction. Organizations that make decisions by consensus will rarely make genuinely horrible decisions. In general, most of their decisions will tend to be better than average, if only because a variety of different points of view and experiences are all considered before a decision is made. Consensus based decision making will rarely come to the best or ideal decision to a new or unusual situation – a visionary will probably do that, but which one? The consensus decision makers can get outmaneuvered by successful visionaries, and their entire body of knowledge and experience rendered useless. The other potential risk is that in an attempt to avoid risk, critical opportunities are passed up, and the organization gradually becomes outdated and irrelevant. A final risk is groupthink – a problem any company can get into, but for which consensus-based decision-making ones can become critically prone to.

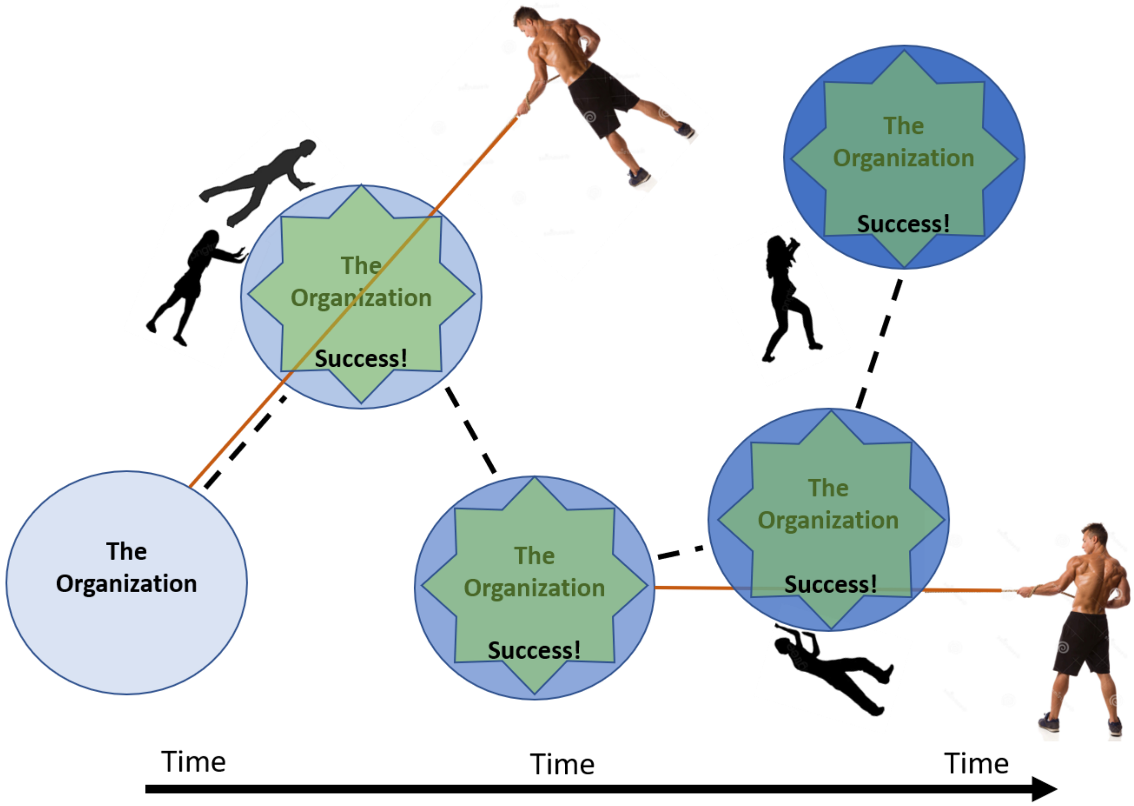
The allied forces in World War II were a famous effective group of consensus decision makers. None of them had the ability to order the others to do anything. They all had to agree before action could move forward. They may have missed a few opportunities to win the war a bit faster, but they ensured that they did not loose the war accidentally and were generally effective. Honda Motor Company is famous even within Japan for their reliance on consensus as a management strategy, and it is explicitly spelled out in their published corporate strategy.
https://global.honda/content/dam/site/global/about/cq_img/sustainability/report/pdf/2018/Honda-SR-2018-en-012-022.pdf

Their products all carefully reflect the management strategy with a product mix different from their competitors (no full sized pickup trucks! - no electric vehicles!) but filled with dependable stuff that does what it is supposed to do.

NASA in the aftermath of the 1986 space shuttle explosion realized that their consensus-based decision-making process had 'smoothed over' and 'covered up' people who thought differently and were genuinely concerned about critical flaws in the process of preparing and launching spacecraft. Another governmental example came with the outbreak of COVID 19. Most governments failed to reach a consensus about what to do for far too long because not enough of the decision-making groups could be persuaded that action should be taken, and what sort. This was a classic case where the extra time required to make decisions in a consensus-based system led to critical failures in most governmental systems.

Multipolar Decision Process

These sorts of organizations have a variety of independent or semi-independent decision makers, each empowered to make their own choices, either within a defined sphere of control, or as far as they can take it. Depending on how big the organization is, and in how many directions it is going this can look like a group of empowered and dynamic entrepreneurs, or like herding cats into a fence made of dead fish.



Multipolar Decisions pro's, con's and Examples

Managed effectively, a multipolar organization can try out a wide variety of different ideas simultaneously, send resources towards ideas that succeed, and quickly end those which fail. Without effective management, or if the different poles of the organization refuse to co-operate, the organization can devolve into people building miniature empires of vanity, or even competing with itself. For decades, General Electric corporation was an extremely and profitable organization engaged simultaneously in ventures ranging from lightbulbs, to home appliances, nuclear power plants, home mortgages, EKG monitors, jet engines, and the NBC television network. Each division operated separately with the 'corporate home' rewarding successful divisions with increased capital to expand and selling off or de-emphasizing ones showing less success. GE also demonstrates the downside of a multipolar process – in the financial meltdown in 2008 it became apparent that the lending and mortgage division had engaged itself in risky ventures far beyond their capability to underwrite leading to the need for massive support from the rest of the organization. Only due to intervention by the United States government in the form of $139 billion over the course of 6 years was the organization saved from total destruction. The divisions had begun pursuing their own objectives without effective oversight from anyone else. Thus, GE represents both the promise, and the peril of an organization with decentralized multipolar decision making centers. On a miniature scale a former employer of mine after a couple of mergers, with companies who had all been operating on a multipolar basis lost central control of how the different pieces of the organization were going to function as management processes were dramatically altered. Six or seven different brands/divisions of the company selling chemicals for the oil and gas industry entered in competition with one another based on price. A circular firing squad like that cannot continue for long.

Conclusions

There are lots of ways to look at decision making and leadership – this is only one. I would encourage anyone interested in the subject to read widely. Look at many different cultures, and over long periods of time. What is right or wrong in one time or place may not be in another. In part two of this set of articles we will look at how to foster different models at different times, and how to try and select the correct one for changing circumstances.