SPECIAL REPORT

Critical Decision-Making in an Uncertain World

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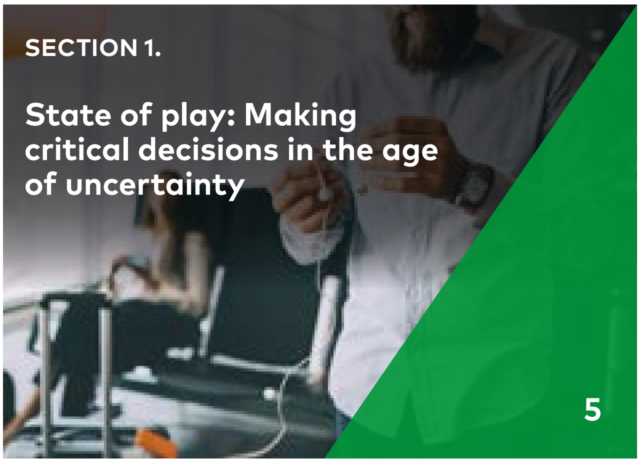
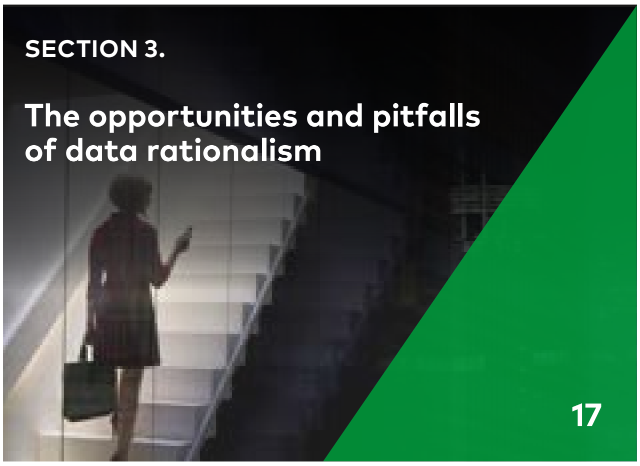




Foreword

Critical decision-making can make or break a company. Making high-quality, timely decisions about the questions that have a strategic impact—whether to acquire a company, to enter a new market, or to transform the operating model—affects both short-term financial performance and long-term value.

One school of thought says that, while CEOs and senior executives have multiple responsibilities, their core responsibility is making good decisions—particularly the ones that have significant consequences for their people and for their organizations' financial health.

In fact, over the past five years executives have noticed that high-risk decisions are landing on their desks more frequently than before. Executives accept responsibility for making critical decisions, but this research shows that they find it difficult to make good choices. While there are pockets of success, we found that businesses have a less than 50% success rate when it comes to their toughest decisions—from major technology choices to supply chain reorganizations. Also, 48% of C-level respondents admit their organization has made a short-term decision that has had negative long-term consequences over the past 24 months.

L.E.K. strongly believes that CEOs and senior executives can get better at critical decisions. So, we designed this research, which surveys 400 senior executives in five countries, to diagnose where decision-making is going wrong and learn how to improve it. The research shows that one way to improve decision quality is to customize decision-making approaches for each situation. And it tells us where a certain approach—such as focusing on data analytics or using a less consensus-driven, more directive decision-making style—might give companies the best outcome.

To help executives navigate decision-making, this report looks at where companies are struggling today; how to get the best outcomes; and success factors including high-quality debate within executive teams and advanced data analytics.

We hope this report provides you with insights that help to shape how you and your teams think about decision-making.

Clay Heskett, Managing Partner, L.E.K. Consulting

About the research

The study is based on a survey of 400 executives in countries across North America, Europe, and Oceania (with a focus on Australia). There are representatives from 12 industries, including aerospace, energy, healthcare and life sciences, industrials, hospitality, retail and consumer products, and transportation.

Their organizations all have annual revenues above $500 million. A significant proportion are senior leaders: 26% are board members or members of the C-suite, 47% are either at VP level or head of department, and 28% are at director level.

As well as the survey research, we conducted one-on-one interviews with a number of senior executives and experts, and insights from these are featured in this report. Our thanks go to everyone who contributed.

SECTION 1.

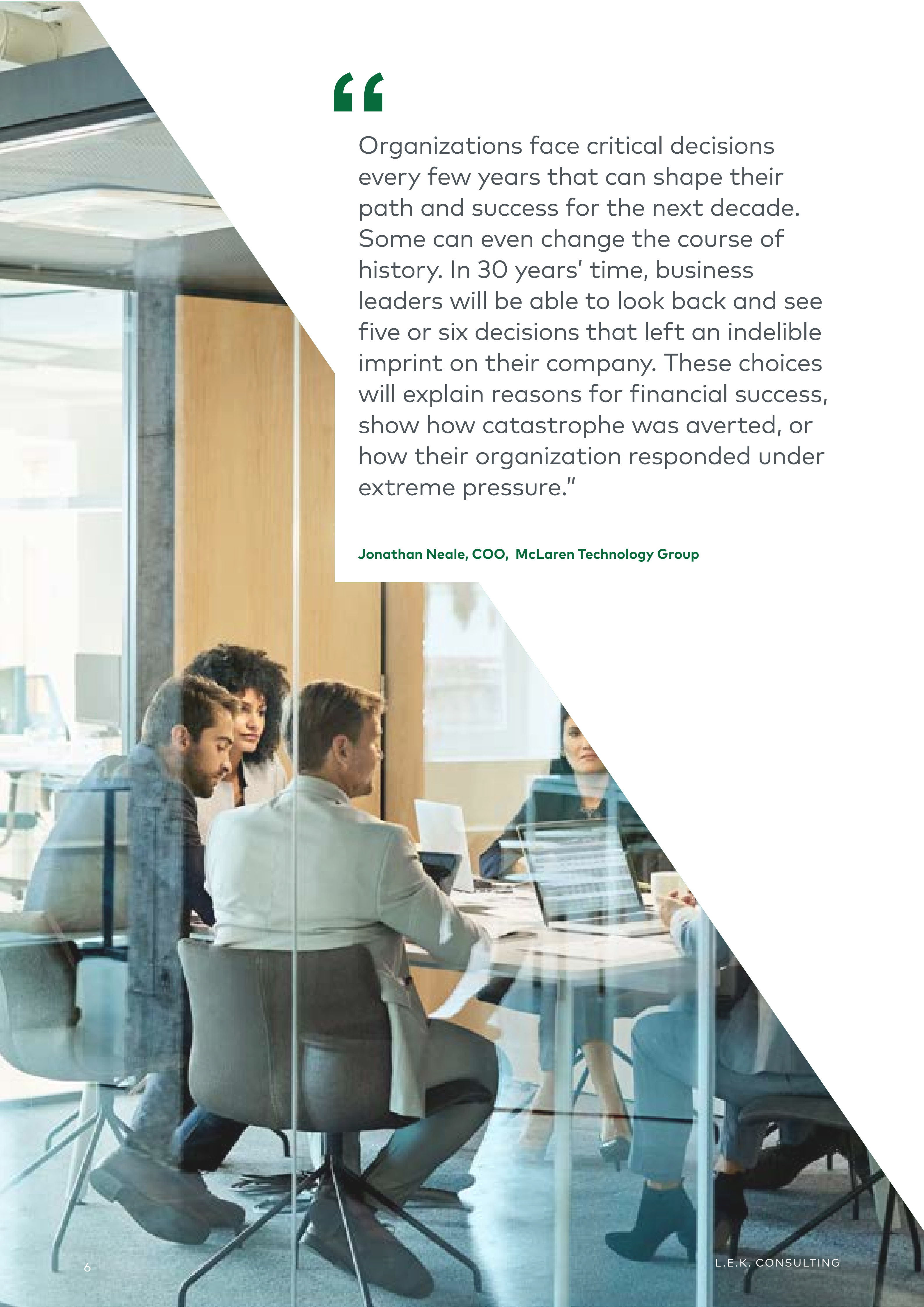
State of play: Making critical decisions in the age of uncertainty

Trends that range from generative AI to sustainability are having a profound effect on the economy and individual industries. And they are significantly increasing the number of major decisions executives need to make about their operating models, business strategy, and customer experience. Whether it is reacting to industry disruptions caused by new market entrants or recalibrating supply chain networks to avoid supply outages, today's decision-makers are also under pressure to get more tough judgment calls right.

Value is at risk when leaders struggle with critical decisions

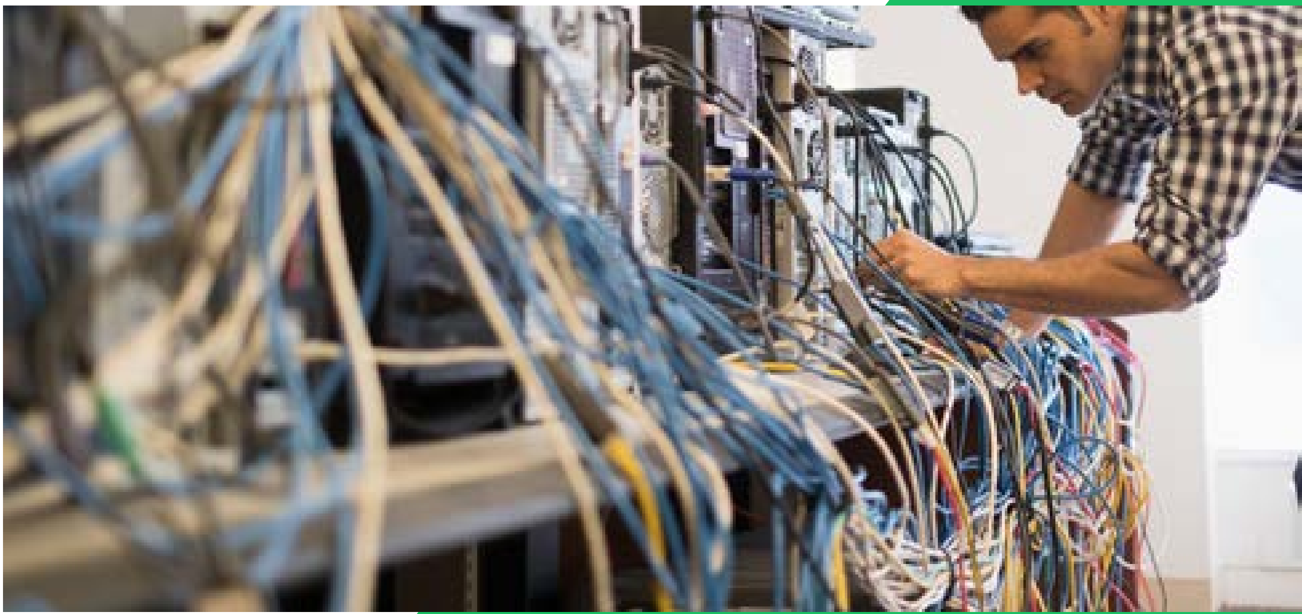
But the reality is that many businesses struggle with critical decisions. In our research, 42% of respondents say their organization is 'below average' when it comes to making decisions that will drastically transform their business models. On average, they are less proficient at these critical, higher-risk decisions than at decisions which are medium- or low-risk. In other words, people are struggling with those calls that will have the most significant consequences if they go wrong.

On average, over the past three years, executives said they had had a less than 50% success rate with tough critical decisions, the toughest being business operations decisions, such as supply chain reorganizations; market plays, such as geographic-market entries;



> Organizations face critical decisions every few years that can shape their path and success for the next decade. Some can even change the course of history. In 30 years' time, business leaders will be able to look back and see five or six decisions that left an indelible imprint on their company. These choices will explain reasons for financial success, show how catastrophe was averted, or how their organization responded under extreme pressure."

Jonathan Neale, COO, McLaren Technology Group



and major technology investment choices. Respondents in C-suite positions felt more strongly than the overall base about the complexity of business operations decisions, with 70% ranking these operational choices as the most challenging critical decisions.

The executives in our research say that the 'burden' of constantly making many lower-risk, everyday decisions reduces their capacity to give critical decisions the required attention: 54% say they personally spend too much time on tactical, day-to-day decision-making to devote enough time to critical decisions. At the same time, it appears executives are expected to squeeze more critical decisions into their workload. When we asked them how decision-making had changed over the past five years, the standout response (chosen by 50%) was 'the increased frequency of critical decisions.'

The lack of time to focus on increasingly prevalent critical decisions could explain why many executives are struggling to make good high-risk decisions and provokes a question: Could more junior colleagues be making the lower-risk decisions?

It is not just a case of passing on responsibility: leaders have to ensure that colleagues make good choices themselves. That means not only empowering them with enough authority, but also arming them with the skills and tools they need to make effective decisions.

Why are critical decisions so hard to get right?

We have already noted that a lack of time to devote to critical decisions is one of the challenges facing executives. They also say that macroeconomic uncertainty and process bottlenecks are significant barriers to success.

If we take macroeconomic uncertainty first, 65% of respondents say that today's challenging and uncertain macroeconomic environment has made effective critical decision-making more difficult.

"The last few years have really been driven by volatility and uncertainty," says

Christian Most, Senior Director, Digital Operations Optimization Lufthansa. "The most certain information we have from a data perspective is the bookings for the next 12 months, and everything beyond that is guesswork. In these situations, the only thing we can do is take social, economic, and other KPIs to compile future projections, decide which scenario is the most probable, then orient everything around this approach." He notes that pairing this approach with the right strategic guidelines will help ensure businesses make the wisest decisions possible.

Asked about the decision-making process, 42% of executives surveyed say that the issue of 'cumbersome decision-approval processes' is their toughest challenge. Proliferation of documentation, concerns over regulatory compliance factors, and the time needed to consult all perceived stakeholders can all make 'approval' a major stumbling block.

However, while approval is a challenge, our respondents do feel positive about stakeholder alignment and bringing in new perspectives: 66% are confident in their approach to securing alignment for a decision from stakeholders ranging from internal executives to external investors. That is crucial: ensuring that all the right stakeholders are aligned on the strategy and goals of a decision is a vital success factor.

"You have to build cohesion straight from the start," says Paul Walsh, Executive Chairman, McLaren Group. "The biggest decision you make in business is the people you put around you. If you don't have the right people, all subsequent decisions risk being flawed."

At the same time, 61% say they are effective at ensuring new voices can provide fresh perspectives. This could reflect the movement made by companies toward considering the impact of long-term strategic decisions on multiple stakeholders—shareholders, customers, and employees.

Different situations also benefit from different decision-making styles

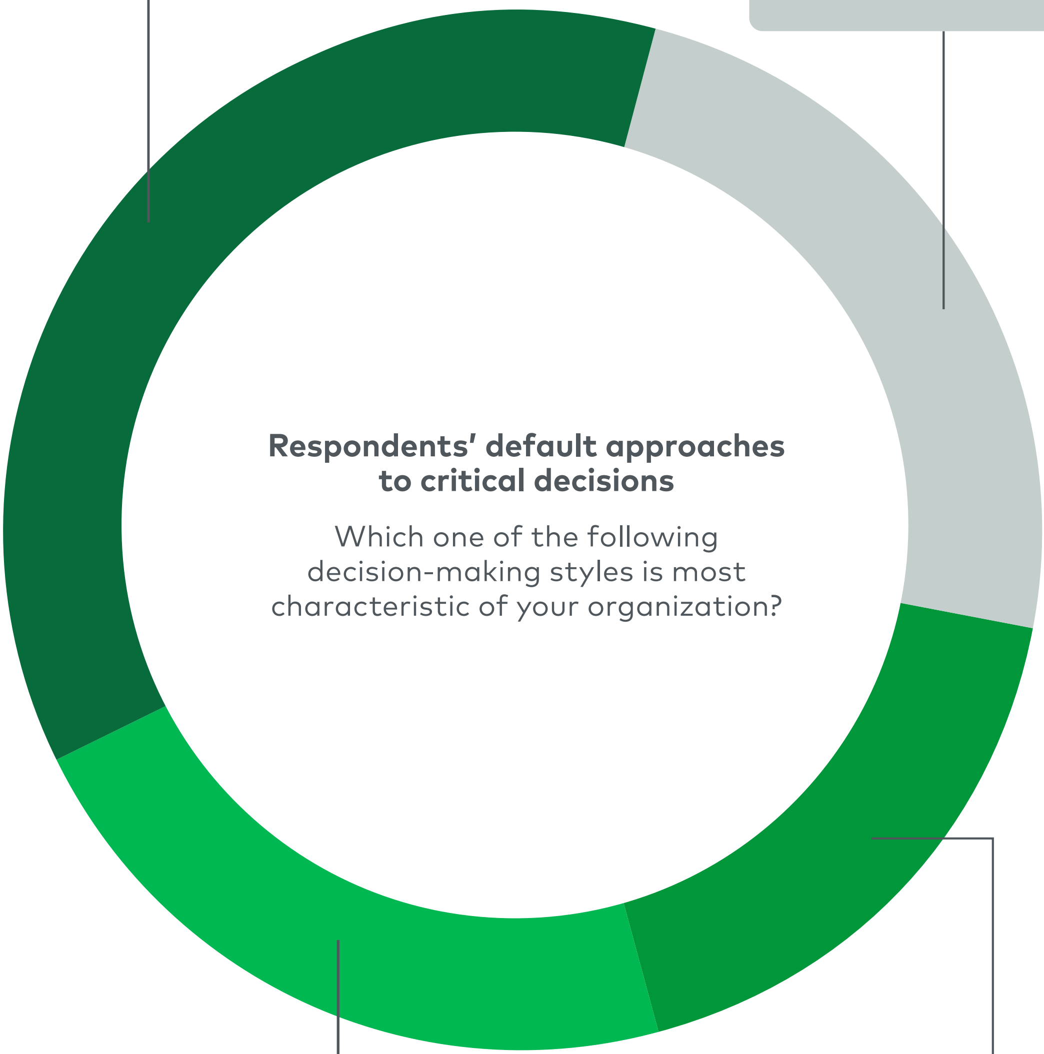
To understand how companies can improve critical decision-making, we asked the respondents to identify which of the four following decision-making styles is most characteristic of their organizations.

37%

say their organization tends to be **directive**: focused on setting clear, top-down strategic direction.

24%

say their organization is **consensus-led**: focused on consensus and the willingness to engage in open and constructive debate.



18%

say they are **agile**: focused on adaptability, with the flexibility and willingness to change course in response to changing market signals.

22%

say they are **data rational**: focused on hard evidence, with an emphasis on detailed data analysis and forecasting.

Note: Data in this chart totals 101% because of rounding.

The fact that over a third say their organization's dominant decision characteristic is 'directive' perhaps indicates that leaders still attribute importance to clear goals and giving their people a clearly structured path forward with high-stakes decisions, particularly given the fluidity and uncertainty of today's environment.

Although directive approaches are helpful for giving leaders a degree of control in high-stakes decisions, business leaders should remember that directive decisions may not work for everyone. Critical decisions often take organizations in a new direction, and that may not align with what every stakeholder wants—especially when a directive approach is used. Naturally, this can trigger talent loss as the business evolves in line with the chosen decision. So, have a contingency plan at the ready for talent attrition just in case, L.E.K. recommends.

Even though organizations might have a 'default' decision-making style, the executives in the survey acknowledge that they need to be aware that other decision-making protocols may be more effective in certain situations. For instance, 62% say that when it comes to ethically sensitive decisions, businesses should shift to a more consensus-driven approach and incorporate diverse opinions and perspectives.

The ability to adapt has its rewards. The executives in the survey who say they are skilled at flexing to the context of each decision rated their organizations as more effective than the total respondent base in a number of areas. They are better at making timely progress and minimizing the cost of indecision (74% achieve this—17% more than the overall average). The same proportion also excel at managing risks to optimize the output of a decision—19% more than the overall average.

Respondents' effectiveness in organizational decision-making

Organizations that follow agile decision-making methods demonstrate the most confidence in adapting their approach to the situation's context, with 61% of this group saying they are effective at adjusting their decision-making style to the situation at hand, in comparison with 50% of the overall respondents.

But flexibility is something that many organizations struggle with: 50% of the executives in the survey say they are not effective at adapting to their surroundings when it comes to critical decisions. Rather than worrying about shapeshifting approaches to every individual decision, these businesses could instead focus on being prepared to use the right framework in the really big moments.

To understand how organizations can improve this capability, our next section takes our four ways of approaching decisions—directive, consensus-led, data rational, and agile—and examines which ones deliver best results in terms of type of decision and *stage* of decision.

SECTION 2.

Situational decision-making: Flexing style to make better choices

Our research investigates two contextual factors in decision-making:

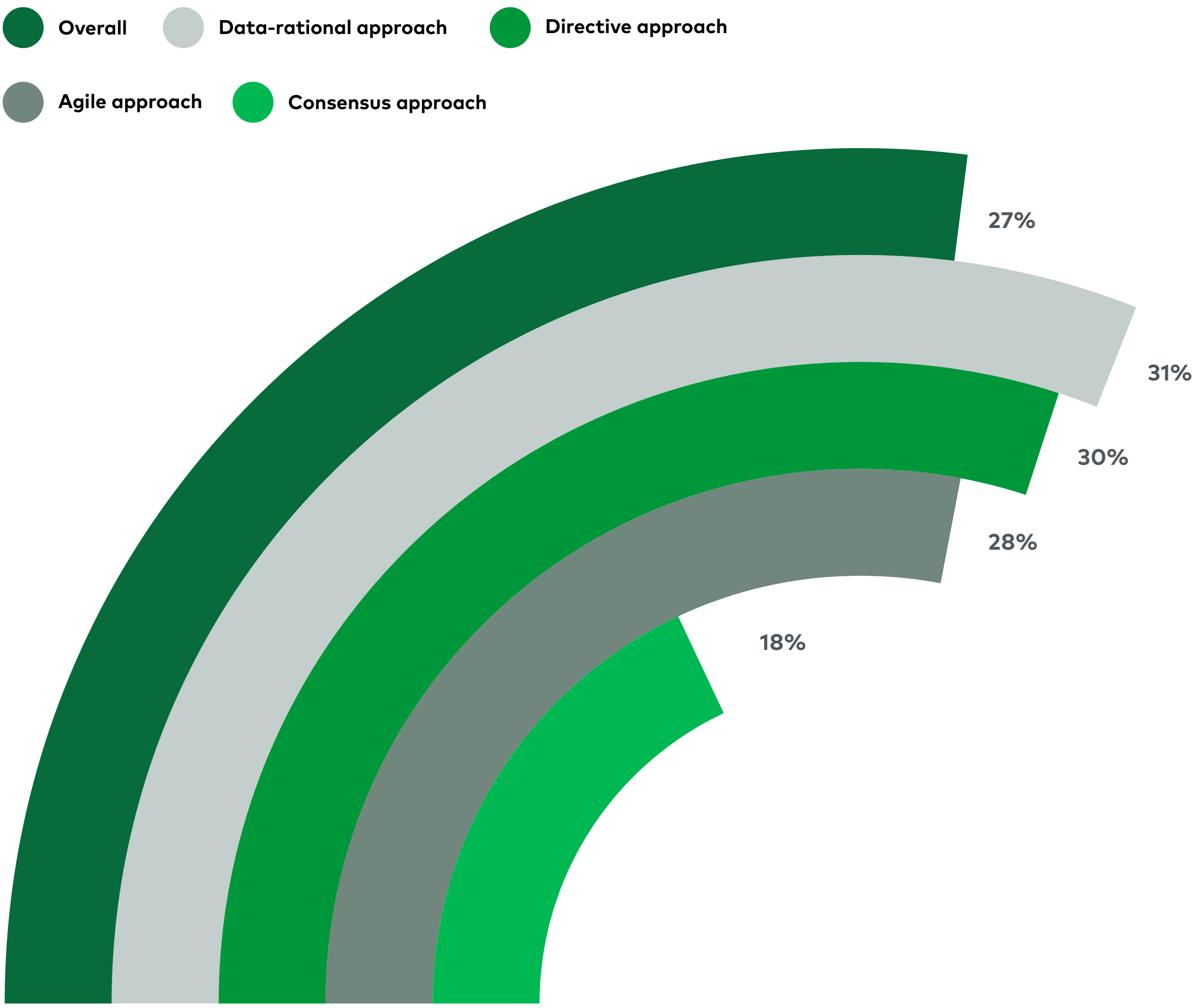
- Decision stage: from exploring potential solutions to committing the resources to execute
- Decision type: from lower-risk tactical decisions to higher-risk critical decisions

As part of this, we analyzed the survey data to identify the companies that are effective at decision-making. In other words, those that say their decision-making capability is 'above average' or 'best-in-class.' These are the **effective decision-makers (EDMs).**

Our goal is to understand what practices and tactics these EDMs are using at different stages and with different types of decision. Three findings emerge from that analysis:

1. 'Data rationalists' perform strongly when it comes to high-stakes, transformational decisions.
2. Clear responsibility and commitment are critical to high-stakes decisions.
3. Executives struggle with option selection, but avoiding the 'consensus trap' can help.

Critical decision-making (transformational) — higher risk



1. 'Data rationalists' perform strongly when it comes to high-stakes, transformational decisions

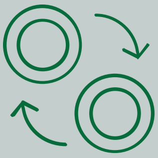
When it comes to making high-stakes, transformational decisions, EDMs are more likely to be those who favor a data-rational decision style than those who tend to employ a consensus-driven style.

Of course, building a successful data-rational decision style requires significant effort, from implementing the right systems and data processes to acquiring the right talent and skills. Organizations will need a culture of data-driven decision-making and a leadership team who are willing to show that informed, data-driven decision-making is important to the organization. We examine these issues in more depth within the third and final chapter of this report.

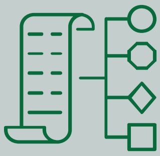
2. Clear responsibility and commitment are critical to high-stakes decisions

To understand the skills that organizations should prioritize when making critical decisions, we searched for correlation between certain decision-making skills and decision-making effectiveness. Those who are very effective at the following decision-making skills also tend to be above average at handling higher-risk, transformational decisions.

TOP SKILLS FOR MAKING EFFECTIVE CRITICAL DECISIONS



1. Clearly defining objectives and ensuring the decision-making process remains aligned with achieving these goals



2. Ensuring all necessary data and insight is to hand, so an informed critical decision is made

3. Assigning clear responsibility for carrying out the decision

The focus on responsibility suggests that high-performing organizations seek clear commitment to executing decisions once they are made. Interestingly, these organizations also excel at setting objectives—suggesting that they put in place the specific time-bound targets needed to ensure a decision is delivering.

Jonathan Neale, COO, McLaren Technology Group, outlines the importance of having targets that are aligned with the overall mission and strategy of the organization and which provide clarity in fast-changing, uncertain environments. "It's easy to sail a ship in calm waters," he says. "The important thing is to use this time to prepare teams for the storm. A key part of facing difficult, crunch-time decisions is ensuring that all decision-makers are laser-focused on the key objectives—the goals that matter most to your business."

"That sounds really easy but, in reality, we know that meetings can get completely derailed by lack of openness, transparency, death by reporting, and the hunt for perfection. The question then is: 'How can organizations best determine what matters—especially as what's most important changes depending on the context?'"

3. Executives struggle with option selection, but avoiding the 'consensus trap' can help

Option selection is a particularly challenging stage of decision-making. It is a particular trouble spot in both tactical decisions (52% say it is the most difficult stage) and decisions that entail significant transformation and greater risk (42%).

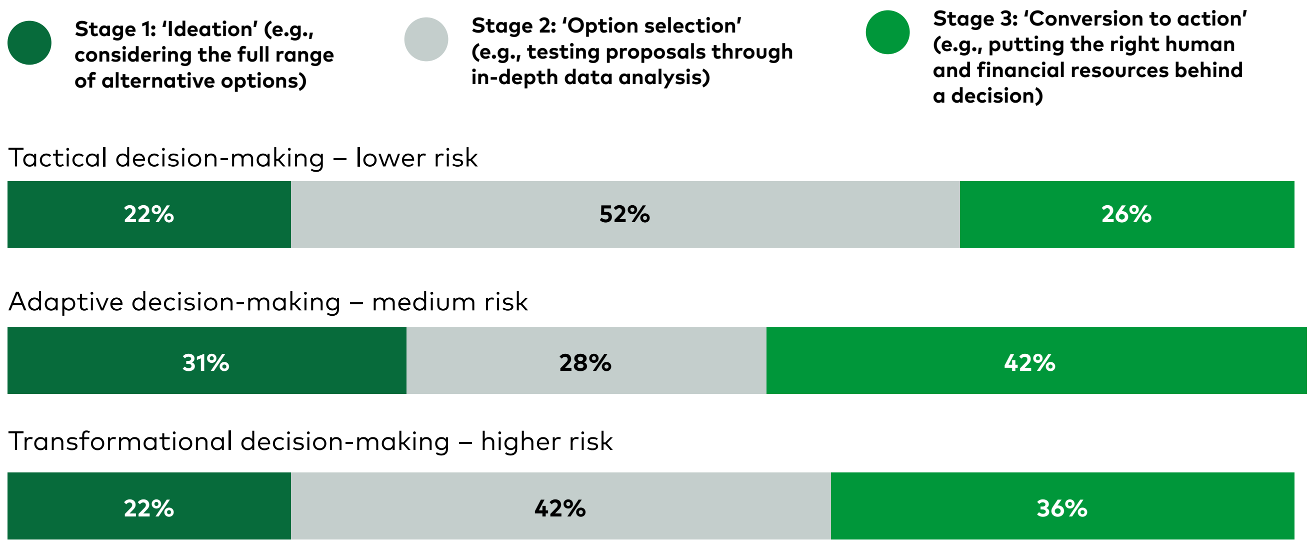
The option selection phase is where decision-makers need to reach a verdict on which direction to take. To do this well, proficiency is especially needed in two of the top skills for making effective critical decisions (page 14): objective clarity and data gathering.

Companies that are weak at clearly defining objectives and staying aligned with their goals are at risk of seeing mission drift flare up at the option selection stage. Without clarity and constant alignment with the company's strategic aims, objectives can fast become a distant memory. As a result, decisions become completely disconnected from target objectives and then struggle to generate the desired outcomes. Similarly, those who fail to ensure all necessary data and insight is to hand will struggle to complete the due diligence exercises required to make an informed critical decision.

Attempts to reach unanimous decisions can also drain efficiency levels at the option selection stage. When compared to the other decision-making approaches, businesses that follow a consensus-driven approach are the least likely to be completely effective at the option selection stage. Of those using a consensus-driven approach at the option selection stage, 81% admit that their approach has flaws that need improving,

The option-selection stage presents challenges for both tactical and high-stakes decisions

Which process stage is hardest to get right for each decision type?



81%

of those using a consensus-driven approach at the option selection stage admit their approach has flaws that need improving, which is 8% higher than other decision-making styles

which is 8% higher than other decision-making styles. Just under a third (28%) of this consensus group label themselves as completely ineffective at the option selection stage.

Costly delays can take hold when there is an expectation that every stakeholder involved should be completely satisfied with the option selected. Progress can become gridlocked, especially when there is an excessive number of stakeholders with decision-making influence.

This is a difficult balancing act. The right people have to be involved to ensure that bad choices are not fast-tracked through without proper diligence and control, but decision-making should not be paralyzed by too many sign-off layers.

For Erica Mackie, CEO, GRID Alternatives, making sense of this balancing act requires knowing when to flex your approach to securing input from stakeholders. "If we have the time, we try to get some sampling of the individuals who are going to be most impacted by a decision," she says, "as those closest to the issue may know the most about what the solution could be."

"If we don't have the time, say in times of crisis, then from the start we are transparent with the board, external constituents and employees, and clearly name the mode of the decision as being fast-paced. So, we will quickly listen to a sampling, and then a member of the leadership team will make a rapid decision. Without this transparency, it can feel really discombobulating for stakeholders to see the standard decision-making process change shape."

SECTION 3.

The opportunities and pitfalls of data rationalism

As businesses try to make smarter critical decisions, our research indicates that many are focusing on building data-driven intelligence. When we asked them what major changes their companies will make over the next three years to improve their decision-making skills, 59% said they would invest in analytics and talent with data science skills, and instill sharper data-governance practices in their workforce.

There are a number of success factors when it comes to building analytics capability and capitalizing on the opportunities of the data rational approach:

Advanced models and techniques are key to unlocking value from data

Data has clear value for decision-making. When the survey asked respondents to say how decision-making had changed over the past five years, 43% said a notable difference was that the "increase of data availability has improved our decision-making abilities."

However, investing in the platforms or tools that support data analytics will not on its own deliver the insights needed to make better decisions, serve customers better, or outperform your immediate competition. The quality of data analytics will also depend on the ability of organizations to innovate and use novel data analytics techniques. This, in turn, requires a willingness to experiment

and collaborate—working with external experts to pioneer new approaches to generating insight.

Leaders need to set an ambitious strategy and vision for data analytics so that organizations avoid incrementalizing improvements and efforts are aligned on driving a bold analytics agenda that seeks to bring novel new techniques to decision-making.

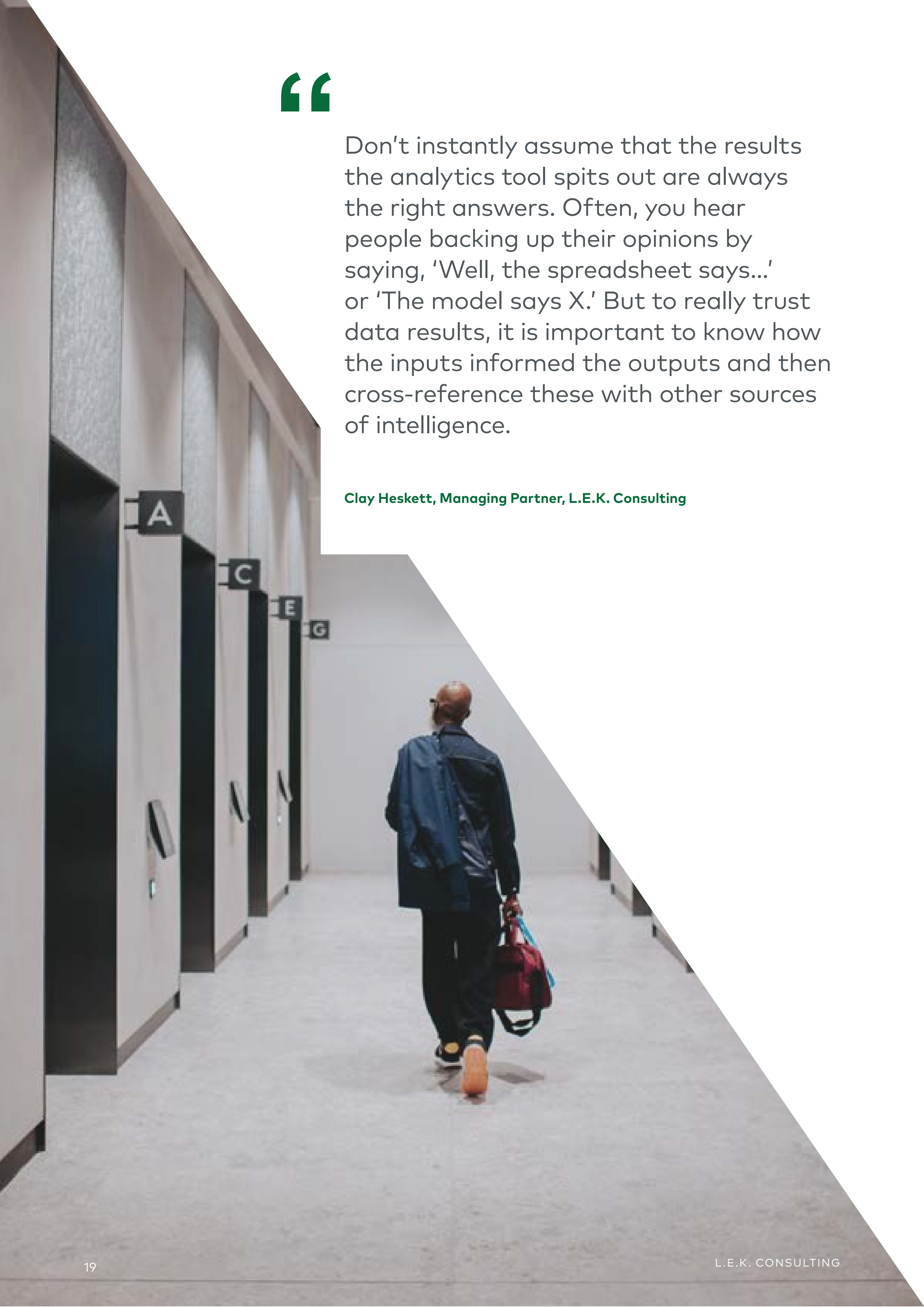
Win the war for data talent

The past 18 months have seen a surge in interest in how AI can improve decision-making, and 40% of the executives in our research intend to introduce smart decision-making tools such as AI into their workflows over the next 12 months. Because of the potential leaps data analytics and AI can bring to business effectiveness, there is huge global demand for individuals who can support these ambitions, but less supply.

Organizations need to ensure that external data hires are not only recruited, but retained, by ensuring that the right development pathways are in place to provide a motivating career path. Upskilling of current staff can also build the data 'bench,' with a proactive skills development strategy that anticipates the expertise your people will need tomorrow rather than the skills that could soon be obsolescent.

Combine the best of data intelligence and human expertise and intuition

Good decision-making draws on both data analytics and the human intuition and experience of senior executives. Data will rarely provide a definitive answer to what the perfect course of action is. Decision-makers need to interpret the data in light of the environmental factors at play, such as the evolution of their markets' competitive landscape. Business leaders must, therefore,



> Don't instantly assume that the results the analytics tool spits out are always the right answers. Often, you hear people backing up their opinions by saying, 'Well, the spreadsheet says...' or 'The model says X.' But to really trust data results, it is important to know how the inputs informed the outputs and then cross-reference these with other sources of intelligence.

Clay Heskett, Managing Partner, L.E.K. Consulting

confront any issues that affect their decision-making. For instance, a common issue in organizations that are struggling to make a decision is to keep deferring the final judgment under the guise of needing more data-driven insight.

Instead, organizations should balance data analytics with a recognition that experience also matters. Requesting more data will not solve every difficult decision choice, and experience plays a critical role in making the necessary and timely judgment call. Executives need to ensure they have a clear sense of what they need to know from the data to make a call, and then use that experience to make their judgment in line with the timeframe agreed.

Don't let ego or fear of failure get in the way of data-based evidence

Once an organization has made a decision and puts a plan into action, sometimes the results fail to live up to expectations. And even when data KPIs are sending a strong signal to executives that it is time to change course, they can struggle with a psychological barrier that stops them from taking action. Instead, they often invest more time and capital to try to 'rescue' what has already been sunk into the initiative.

Executives in this position need to let go of the emotional attachment to an initiative and think analytically about the best way forward. To encourage this behavior, companies need to build cultures that allow individuals to innovate, but also to learn and grow when an initiative fails. At the same time, companies need to put in place a disciplined process of progress reviews and KPIs, so there is a clear framework for assessing whether a decision is going in the right direction.

> "People hang onto an idea even when it's way past its sell-by date. The key is to let go of the emotion and think analytically about the way forward. If a decision's output starts to go awry, it is important to recognize when to change course.
>
> **John Hudson, Professor of practice, University of Strathclyde**

Conclusion

Trends ranging from generative AI to increasing regulatory scrutiny of sustainability agendas are reshaping our economy and the industries we work in. In this environment—with leaders facing an increasing number of decisions, each with its own particular risks and impacts on the organization—the ability to make critical decisions well, and with confidence, is a lifeline for business survival.

Organizations that are good at decision-making will be better placed to respond to changes in their markets and regulatory environments. They will also be seen as more attractive destinations for talented people, who will want to work in organizations where decisions are not weighed down by excessive bureaucracy. The outcome of a decision is clearly important, but what this research has shown is that how you make decisions is equally critical.

About L.E.K. Consulting

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