

# *CFO University*

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Leadership and Structured  
Decision Making

**BAUER**  
COLLEGE OF BUSINESS  
UNIVERSITY *of* HOUSTON





## *Leadership*

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- The activity of leading a group of people or an organization

*BusinessDictionary*



## *Leadership Involves*

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- Establishing a clear vision
- Sharing that vision with others so they will follow willingly
- Providing the information, knowledge and methods to realize the vision
- Coordinating and balancing the conflicting interests of all members and stakeholders
  - *BusinessDictionary*



## *Leaders:*

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- Have conversations
- Make decisions



## *Structured Decision Making*

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- Structured Decisions are those decisions that are:
  - Understood
  - Often routine
  - Can be quantified
  - Probabilities (risks) can be assessed



## *Structured Decision Making Steps*

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- Define the problem
- Identify decision criteria
- Weight the criteria
- Generate alternative courses of action
- Evaluate each alternative
- Compute the optimal decision



## *Identify the Problem*

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- May require a root cause analysis
- The true problem is often misidentified
  - We leap to conclusions based on what seems “logical” to us (slow elevators)
  - We have a solution we’d like to implement, we just need a “problem” to justify it
    - Garbage can model
    - May be an agency problem



## *Identify Decision Criteria*

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- What should the optimal decision accomplish?
  - Specific
  - Clear





## *Weight the Decision Criteria*

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- Which one is most important?
- By how much is it most important?
- Is probably going to be an iterative process



## *Generate alternatives*

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- The list of solutions that appear to meet the criteria
  - In some cases (acquisitions), the list may be two alternatives, yes or no (or possibly a third – strategic alliance or an equity stake)



## *Evaluate Each Alternative*

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- Compare each alternative to the decision criteria and the weights
- When data is unambiguous and is quantified this can be done in a spreadsheet



## *Compute the Optimal Outcome*

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- The above process of analyzing the alternatives
- Should result in one solution emerging as optimal – either lowest cost or highest expected value



## *Unstructured Problems*

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- Some problems are not structured
  - Unusual – not encountered before by the organization
  - Rare and different each time
  - Desired outcomes are not necessarily clear
  - Data is ambiguous
  - May or may not have time to make an optimal decision
  - May or may not be a crisis



## *Issues with Unstructured Problems*

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- There may not be agreement on what the problem is
- There is no established protocol for making the decision
- There are competing/conflicting goals



## *Competing/Conflicting Goals*

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- Agency Problem
  - In the absence of a process to ensure that an agent is acting on behalf of the principal, the agent may act in their own self-interest
    - This may be conscious (opportunism) or unconscious
  - Organizational incentive systems may encourage opportunistic behavior
    - Bigger bonuses for bigger units encourages empire building
    - Threats of punishment or termination discourage reasonable risk-taking



## *Competing/Conflicting Goals – con't*

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- Misaligned Time Horizons
- Misaligned risk aversion profiles
- Champion bias
- “Sunflower” Management





## *Issues with Analysis*

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- Overoptimism
- Loss aversion
- Overconfidence



## *More Issues with Analysis*

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- Selective Perception
- Closure



## *Selective Perception*

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- Hearing (reading) what we expect to hear (read)
  - Conscious
    - Choice of news outlets
    - Choice of leisure reading
  - Unconscious
    - Mental Maps
      - The Maps help us interpret ambiguous information or information that contradicts or challenges previously held beliefs



## *Closure*

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- The tendency to unconsciously fill in gaps in our knowledge with information that is logically consistent to us
- We may not even recognize that there is a gap in our information
- May not realize that we filled in the gaps on our own



## *Solving Unstructured Problems*

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- Iterative conversations
  - Data collection
  - “On the fly” analysis
- Make sure conversations are with a variety of people
  - Diversity of perspective
  - Include folks who have skin in the game and folks who don’t have skin in the game
- Be aware of the issues in above slides



## *References & Recommendations*

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- Lovallo, D., Sibony, O., *Distortions and deceptions in strategic decisions*, McKinsey Quarterly, February 2006
- Kahneman, D. 2011. Thinking Fast and Slow, Farrar, Straus and Giroux, NY:NY.