HOW COMPANIES DECIDE

by Alec Hudnut

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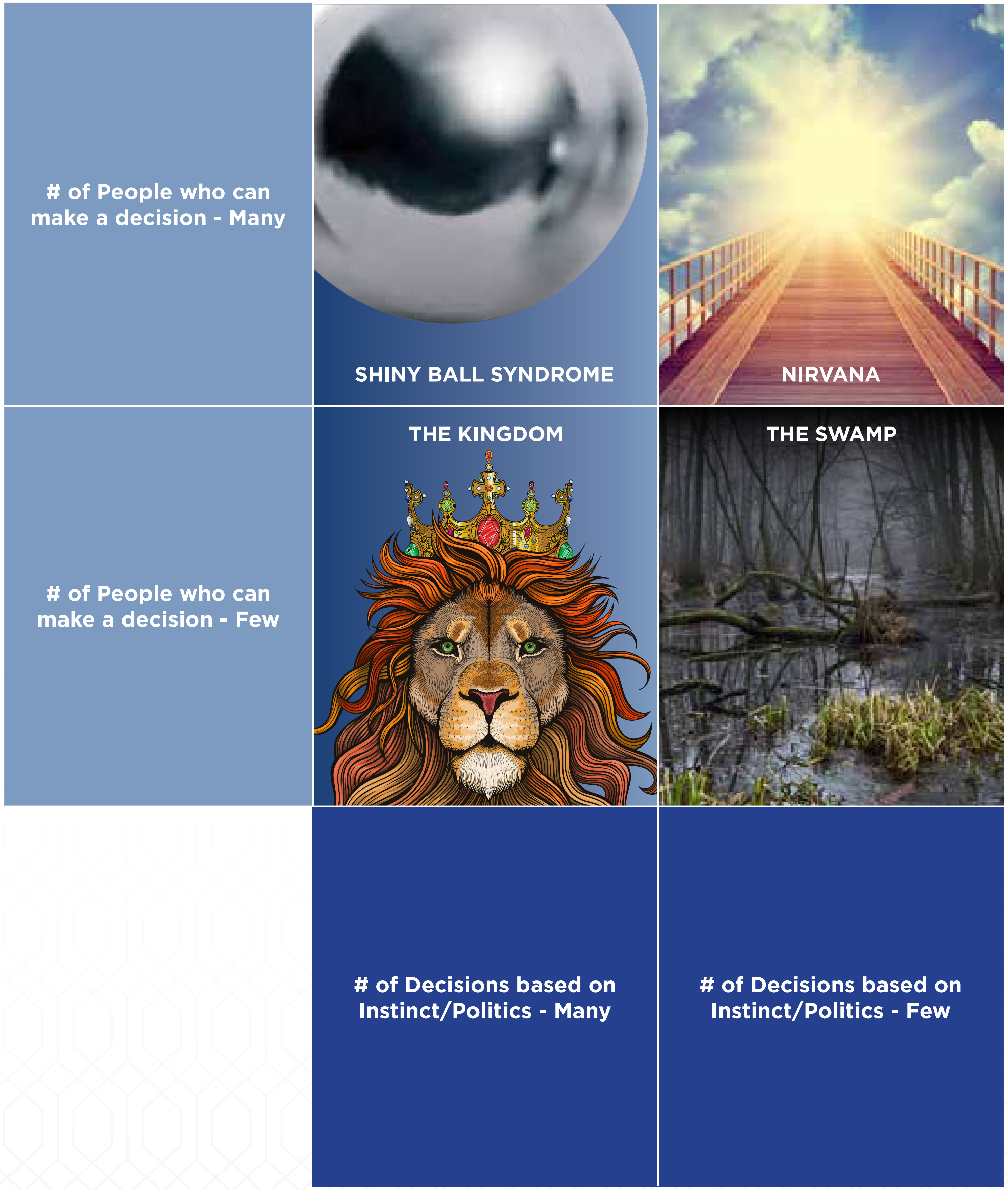
There are so many good frameworks for helping you get going. You could start with Dr. Michael Porter's Five Forces and better understand your competitive positioning. You could pull Dr. Peter Senge's Fifth Discipline off the shelf and be reminded that how we learn is the most important factor in a company's success. Or, staying with the Boston based theme (Dr. Porter at Harvard, Dr. Senge at MIT) you could go to the Boston Consulting Group's famous Growth/Share matrix and figure out which division you should keep and milk (the cash cows) and which ones you should sell (the dogs).

But while those frameworks would help, you won't last long as a CEO if you don't look further. In our experience at Vici Partners the most important factor is not your competitive positioning, nor how you learn, nor what you keep or divest, it's how the organization decides. And, you as the CEO play a critical role in how the organization decides.

So, how an organization decides is the most important variable in long term shareholder growth? The most important cultural aspect for a CEO to focus on? Seems like a stretch.

Let's dig deeper. To better understand decision making and why it is so important to an organization, let's take a look through the eyes of the old reliable 2 by 2 matrix.



ON THE VERTICAL AXIS we have the number of people who can actually make a major decision. In some companies, there are a lot of people who fall into this category, dozens if not hundreds. These tend to be organizations that are more democratic in their decision making culture. Think of a worker on the Toyota line who can stop the production process because he sees a defective part. That's an example of an organization where lots of folks can make a decision.

On the other end of the spectrum, think of a company where only a few, or heaven forbid, only one person makes all the major decisions. This is often the case in family run companies or tech start-ups where the Founder is still in the saddle leading the charge despite all odds. In these companies, most decisions, major and sometimes small, end up on the desk of a single person or one or two trusted advisors. You'll know the company type if you are in one. The charisma of the leader and the foresight of the leader, requires all decisions to go through him or her. Think Steve Jobs at Apple.

FOR THE HORIZONTAL AXIS, we look at the data or information used to make a decision.

On one end of the spectrum, decisions are made on instinct or sometimes because of organizational politics. It's what the leader thinks or feels. No real analysis needed. Just a gut instinct. That leader may have been in the market for a while or have started the market and their knowledge is enough. And there is little that can be done to influence them. They know and you don't. So you need to listen and let the big male lion eat his meat first before you dare approach the carcass. Instinct rules versus rational debate.

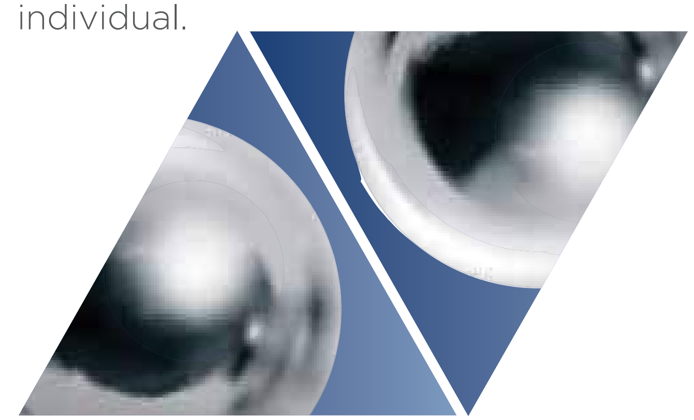
And on the other side of the horizontal access, it's all about data and facts. What's the business case? What are the risks? Who has bought in already and helped to shape the idea? Can the idea be done quickly without a lot of capital? Has it been piloted first? A rational, somewhat plodding approach to deciding. Descartes would be pleased.

So let's combine these variables and see what we get. It will help you as CEO understand your decision making culture. Help you to get to know how your organization decides and what you want to do about it. Leave it as is? Change it dramatically? And remember, getting this right is more important than a lot of other things that people will tell you are important. Why? Because making good decisions is a combination of many other important variables. Who your people are. What your culture is. The organization's attitude to risk taking. Comfort with data and data analytics. Make decisions correctly, and you likely have a lot of other good building blocks in place. So, this matters. How an organization decides matters a lot.

So what boxes do you not want to be in?

Let's start with The Kingdom. This one is hell for the employees, and great for the King if he is right all the time (which he never will be). The King or a few of his advisors decide all major issues. And they do it on their own experience, their own gut instincts, or their desire to please or appease each other. A lot of tech companies are like this. Cisco was a good example. Got to $1B in sales with a husband and wife co-founder team. Created tremendous value for Sequoia, the famed venture firm. But then the Executives rose up. They all, to a man, woman, and child, signed a letter to Don Valentine, senior partner at Sequoia, saying you choose: co-Founders or us. The Executives were disempowered, overworked and slaves to the whims of the co-Founders. Sequoia chose the Executives, let the co-Founders go, and grew the company to $100B in sales.

There certainly are counter examples where The Kingdom works. Think Steve Jobs at Apple. Think Henry Ford at Ford. Sometimes the founder, the visionary, sees something that nobody else does and drives toward it without listening to the No's. And he is right. His vision sees something that others can't or won't and he is right. But this type of brilliance, insight usually does not last for long. The hive mind, the collective mind, over time will always solve the problem better than a single individual. Think about autonomous cars. Today they are all on their own, trying not to kill pedestrians or hit the car in front of them. Lots of cool technology in the cars from LIDAR to visual pattern recognition algorithms, but imagine the future. Imagine a time where the road signs are telling the cars where they are. And, cars are communicating with each other. Now, a single car has multiple inputs from the environment in addition to it's own systems. The car that is connected, that uses thousands of inputs to make its decisions, will navigate better than the car making its way on its own. It's the exact same thing for a company. The hive beats the individual.



Closely related to The Kingdom, is the **Shiny Ball Syndrome** company. Here everybody gets to be the King. Folks have free rein to follow their best, newest, shiniest idea. Lots of pilots. Many product launches. Manywant new marketing campaigns begun. The ultimate Growth company. Go ahead and try it, some of our crazy ideas have worked in the past. Maybe yours will too.

But all this freedom can result in a lot of carcasses on the side of the road. Failed projects. Disappointed customers because the beta did not really work as it was piloted. Divisions shut down.....but getting to the moon was such a cool idea, too bad it didn't work. And general disarray. In some ways, worse than the Kingdom. Maybe more fun to work at, but everyone going in every direction. With a new shiny ball every quarter. Lots of write-offs in this company. And shareholders can't stomach that every quarter. So, the Shiny Ball isn't the answer, and neither is the Kingdom. Where can we find the right balance for decision making?"

In The Swamp? Of course not. In **The Swamp** there are no Shiny Balls. By the time everything is analyzed to death, it has a dull sheen over it and the ball has been deflated. The leader, the King, makes most if not all of the calls, but he only does so after looking at every possible angle. Think of how the Navy Seal team must feel as they are waiting for a GO decision in the field. First local command, then central, then legal, then the Joint Chiefs, then SecDef, then the White House. By the time everything is analyzed to death, the opportunity is gone. Luckily that particular decision chain has gotten a lot more streamlined in the past few decades!

Or, think of the command and control culture at GM in the days of old. A true hierarchy, with every decision getting filtered up, redecided along the way, re analyzed, scrutinized, yes, no, yes, no.

No wonder it used to take them 7 years to bring a new car to market. 7 years! Try cutting the layers down. Try letting the lead designer make the call. Try letting the engineer who has designed the last four mufflers have the final say, and not his boss's, boss's, boss.

The Swamp. Great if you don't want to do much, and make sure that you can always catch the 5:21 every day. But not a great way to run a company.

So what is the optimal decision making framework?

The promised land. We call it **Nirvana**. It's where the company has a strategy. What is a strategy? It is nothing more and nothing less than a framework for making decisions. My friend, Joe Rhode, at Disney, gave the best example. He gets to design and oversee the implementation of Disney theme parks and properties. Each of them has a unique look and feel. California Adventure has a different look and feel to DisneyLand right next door. Similar great service, and helpful staff. But different look and feel. One component of Joe's job is to give a single word or phrase that helps every designer, every architect, every systems analyst, every work flow designer know what to do. For an eco tourist adventure property in Hawaii, the word was Green. Trying to figure out what doorknob to use? Recycled wood wins out over new wood. Paint with no off-gassing wins over the cheaper, toxic stuff. Want to cut down old growth rainforest to make the parking lot bigger, don't do it. Remember the word "Green".

In Nirvana, there is a strategic framework that allows everyone to decide, so long as they stay within the guard rails.

Costco is also a great example. If you wanted to sell a product for more than 18% Gross Margin, you had to get the CEO/Founder's consent. He is not telling you what to buy. He is not telling you what quantity to order. He is just telling you, keep the prices low and keep people coming into the stores. 50% of Costco's profitability is in the annual membership dues. And, members renew because Costco has great deals. Always make the deal a great deal by never charging more than 18% above costs. Smart framework. Easy to follow.

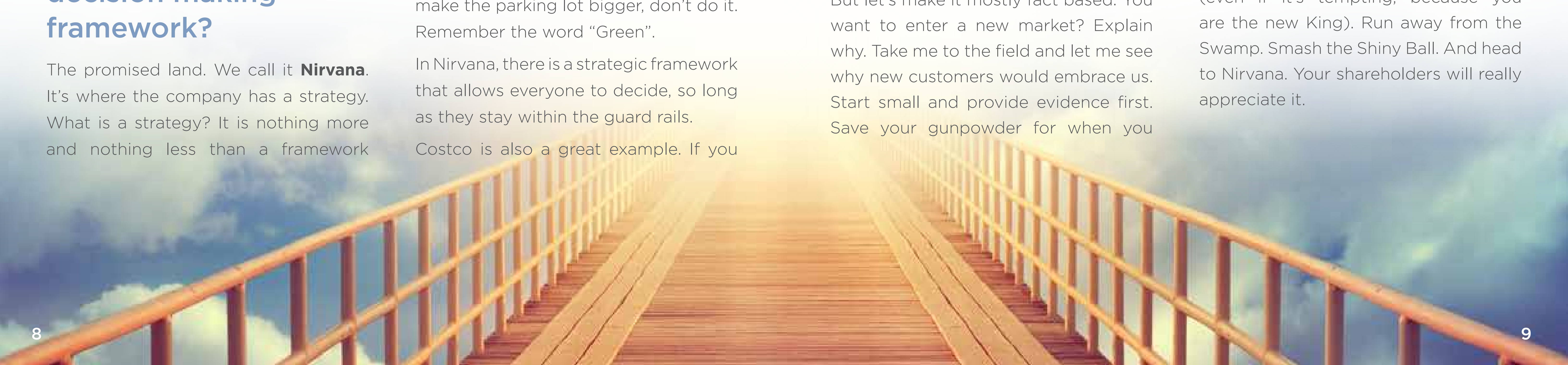
Simple, but very powerful. Now everyone gets to decide, because they understand the framework that they are living in. Stay inside the framework, and do what you want. Very empowering.

Now let's add in how decisions are made. Let's make decisions on facts and data. A little bit of gut instinct thrown in. But let's make it mostly fact based. You want to enter a new market? Explain why. Take me to the field and let me see why new customers would embrace us. Start small and provide evidence first. Save your gunpowder for when you have a winner. Do the business case. What are the risks? Who are the internal sponsors? Which customers will go first and why? Does the product fit with our company's brand identity? How we will sell it? And market it? Take a little time to figure it out, make your case, and then go for it.

In the land of Nirvana, many people can decide, because the overall strategic framework is known to the company. And decisions are made on facts and data with a little bit of instinct thrown in.

So which type of company do you have as a new CEO? And how much easier would it be to attract and retain great people if your company had a Nirvana decision making culture?

So, get on with it. Avoid the Kingdom (even if it's tempting, because you are the new King). Run away from the Swamp. Smash the Shiny Ball. And head to Nirvana. Your shareholders will really appreciate it.



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About the Author

Alec Hudnut is a Senior Partner
in Vici Partner’s Los Angeles office.

To learn more about how Vici can help your organization, please contact

Alec Hudnut at ahudnut@vicipartners.com
www.vicipartners.com