

How to Make Better Decisions

Every day each one of us makes decisions with imperfect information.

These decisions can range in importance from what to wear depending on the likely temperature, to whether to buy or sell a stock, introduce a new product, hire or fire an employee, or even determine key growth strategies for the business.

Many times we feel that the information available to support our decision isn't necessarily incorrect, but that it is inadequate.

We sometimes evaluate the cost in time and money to try to obtain better information before making a decision. We also consider the value of more information, even if it is possible to acquire.

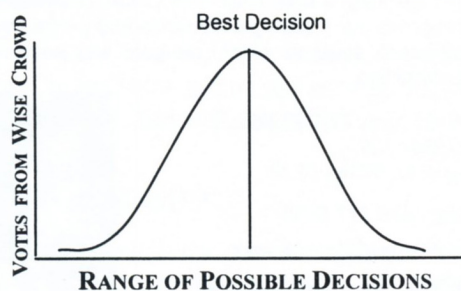
At the same time, we increasingly seek to make decisions more quickly and avoid "analysis paralysis" in order to capture emerging market opportunities and effectively respond to rapidly changing conditions.

Achieve Improved Results

I have just read a terrific new book "The Wisdom of Crowds" by James Surowiecki. In it he presents a compelling case for relying on collective judgments of informed individuals to arrive at the best decisions.

He cites numerous examples to support his case ranging from Google (which essentially asks web page producers to vote on which other pages are most worthwhile by the site links they create), to winning odds at the racetrack (which aggregate bets on each horse to determine the probability of winning), to the performance of stock and bond index funds (which consistently outperform virtually all "managed" mutual funds over time).

Essentially each "vote" by a member of the Wise Crowd for a web page, race horse, or stock or bond, falls along a continuum



of a bell shaped curve. Over time the highest point on the curve,

the one with the most votes, will usually represent the best judgment or decision.

With most things, he points out, the average is mediocrity. But with decision making by a Wise Crowd it is often excellence.

This seems counter intuitive to many of us. But here is the key.....his definition of a Wise Crowd.

Just any group of people is not necessarily a Wise Crowd.

Why a Wise Crowd Works

There are four distinct criteria for a Wise Crowd in his opinion, which will provide these excellent judgments.

1. **DIVERSITY OF OPINION** - each person should have some private information, even if it is an eccentric interpretation of the known facts.
 - Similar thinking people are not a Wise Crowd.
2. **INDEPENDENCE** - people's opinions are not determined by the opinions of those around them.
 - People who defer to a strong individual or group are not a Wise Crowd.
3. **DECENTRALIZATION** - people are able to specialize and draw on local knowledge.
 - People who are distant from front line employees and customers are not a Wise Crowd.
4. **AGGREGATION** - some mechanism exists for turning private judgments into collective decisions.
 - The potential benefits will not be realized where there is not an efficient and effective method to gather these opinions and transform them into collective decisions.

Exceptions Do Occur in Real Life

Clearly occasional panics, fads and mass hysteria are a reality, and can obviously affect individual decisions. People can get caught up in perceived "group think" like we experienced during the recent dot com boom and bust cycle.

At that time many of us eventually abandoned a portion of our independent feelings and judgments and caved into what appeared to be a new wave that was going to change Everything.

In addition, many of the most remarkable business innovations occur because a passionate individual pursues his or her dream. Michael Dell of Dell Computers, Fred Smith of FedEx, George Lucas of the Star Wars movies, and Herb Kelleher of Southwest Airlines come to mind. These people had a vision and drove themselves and others to make it happen. There was no Wise Crowd involved here.

The Proven Power of a Wise Crowd

We have found that businesses and business decisions benefit from a shared understanding and ownership of:

1. **Where we are today** - a company's current market position and opportunities
2. **Where we want to go** - a compelling Vision and Mission for the firm
3. **How we are going to get there** - Growth Strategies and Action Plans to make them happen

We also believe that these components of a Strategic Plan are most effectively and successfully developed, and subsequently implemented, when those responsible for accomplishing the work are involved in the creative process of developing the work agenda itself.

Here a Wise Crowd in the company can consistently achieve the optimal results.

It is important that the key criteria of a Wise Crowd be retained in the Strategic Planning Process to accomplish this:

- Diversity of Opinion
- Independence
- Decentralization
- Aggregation.

More Support for This Approach

Two other current best seller business books offer additional insight into this approach.

Stephen Covey's "The 8th Habit: From Effectiveness to Greatness" emphasizes the importance of encouraging each individual's alignment with the company's Vision and Strategy to fully tap their energy and initiative. He states "All organizations are aligned to get the results they get", and criticizes command and control behaviors for not tapping into the power of collective individual knowledge and innovation.

Our firm believes that the best method to accomplish this is through involvement. Involvement leads to Commitment and Commitment leads to Desired Results.

Jim Collins in his book "Good to Great" stresses that Step One in building a great company is to "get the right people on the

bus, the wrong people off the bus, and the right people in the right seats - and then figure out where to drive it".

We agree that this approach leads to the creation of a more robust Vision, Mission, and Strategic Plan and ultimately improved performance by the firm.

In reality we find that this is usually a process over time. As annual Strategic Plan management team Work Sessions continually raise the bar for the firm, it becomes more apparent to everyone who needs to get off the bus or move to another seat, and also where new people are needed.

SUMMARY

The marketplace is demanding that more decisions be made more quickly every day. The challenge for each firm is to do this while at the same time improving the quality of these decisions.

The Wise Crowd approach to decision making offers both the promise of better quality decisions and more timely decision making, as well as enhanced understanding and commitment from those responsible for making it happen.

This approach to developing a firm's Vision, Mission and Annual Strategic Plan strengthens the foundation for sustained improved performance.

We welcome your thoughts and experiences with Wise Crowds, and the opportunity to share with you how our team based Strategic Planning approach can deliver better decisions and improved results for your firm.



"A president's hardest task is not to do what is right, but to know what is right."

Lyndon Johnson

"An important limitation of future scenarios is that they have to be plausible. Reality has no such restraint."

Stewart Baird

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