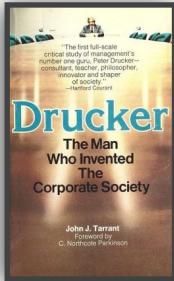


¹ Decision Making: The Chassis That Holds the Whole Together

² about [Peter Drucker](#) ::: [The Definitive Drucker](#)



³

⁴ How is it possible ↓
⁵ to work toward horizons ↑ ↓
⁶ that aren't on your mental radar –
⁷ at the right point in time? ↓

⁸



⁹

↑ [larger](#)

¹⁰ [Thinking Broad and Thinking Detailed](#) ↑ ↓

¹¹ [Intelligence, Information, Thinking](#)

¹² ▪ "Most of the **mistakes in thinking** are **mistakes in perception**.

¹³ ♦ Seeing only part of the situation – [broad](#)

¹⁴ ♦ Jumping to conclusions

¹⁵ ♦ Misinterpretation caused by feelings" – [Edward de Bono](#)

16 ■ Awareness without action is useless

17 The MEMO they – the enemies of the future – don't want you to SEE

18 «\$\$\$»

19 *A decision is a judgment.*

20 *It is a choice between alternatives.*

21 *It is rarely a choice between right and wrong.*

22 *It is often a choice between two courses of action, neither of which is provably more nearly right than the other.*

23 –Peter F. Drucker

24 It takes smart decisions and execution to traverse the new landscape, even with a strategy or map.

25 And by that I mean the right colleagues, and the right collaborators and strong customer connections— everything that helps spur innovative thinking.

26 When Peter and I spoke, we referred to this as the chassis—the organization's ability to make well-informed decisions about what needs to be done and its resolve to get it done. ...

27 Peter was passionate about management effectiveness— setting priorities, managing time, and making effective decisions.

28 His internationally bestselling book The Effective Executive is very much about getting the right things done.

29 In the Lego world, with knowledge workers and a vast array of collaborators playing important roles in the enterprise, people cannot be closely supervised.

- 30 They can only be helped and supported in their ability as managers to make effective decisions.
- 31 The days of the gray-suited micro-manager, hovering over his employees' desks, are over. ...
- 32 Managing in this amorphous environment is a delicate balancing act between preserving what makes the enterprise strong and channeling innovation to go beyond past successes.
- 33 Peter used a circus analogy: The company must constantly be on a strategic tightrope toward the future, finding this balance even as the safety net below is shrinking. ...
- 34 Logic suggests that decision making and decision execution, which define this narrow and demanding path, are made easier by today's vast amounts of information and knowledge.
- 35 This is not true.
- 36 Rather, the broad base of accessible information is rendered somewhat dense, difficult, and shifting by both the blurred boundaries between parties in the value chain and the speed of change in the market—these distinguish today from earlier periods in business history.
- 37 As Peter put it, today's manager faces a fast-moving barrage of apparent knowledge, some relevant and reliable, some not.
- 38 Because events shift so quickly, a decision can be obsolete before it even gets put in motion. ...
- 39 The company must constantly be on a strategic tightrope toward the future, finding this balance even as the safety net below is shrinking. ...

- 40 So, ironically, in the age of information, intuition and judgment play an even greater role in effective decision making and well-placed strategic bets than ever before.
- 41 Don't get me wrong.
- 42 There is no substitute for fact-based decision making, and no excuse for managing from the gut.
- 43 But with unprecedented rates of change everywhere, getting the right assortment of reliable facts can be impossible within the time window available to take action.
- 44 Sometimes we have to be able to see around the corners, and intuition and judgment play a valuable role in choosing which facts or feedback to trust.
- 45 When store-based data began pouring in as Nivea for Men was introduced, the head of U.S. marketing had a gut feel that the large discrepancies between stores had something to do with the surrounding demographics and Latino concentration.
- 46 He asked that the facts be checked store by store.
- 47 As it happened, the stores selling the most Nivea to men were in neighborhoods with very high Latino populations.
- 48 From there the company began a targeted marketing campaign. ...
- 49 In the age of information, intuition and judgment play an even greater role in effective decision making and well-placed strategic bets than ever before. ...
- 50 Although access to information was more limited in the past, the landscape was less volatile and managers could rely on certain assumptions or facts to inform decision making in a reasonable period of time.

- 51 Today management's challenges are exacerbated by the increasingly bewildering transformation of the economic and social landscape.
- 52 Forget predictability.
- 53 Forget longevity.
- 54 To make things happen, management has to step up and have the stomach to take risks.
- 55 Beyond that, the culture of the organization has to support judicious risk taking.

56 ***Decision Making: The Right Risks***

- 57 Certainly, risk taking has always been in the nature of business.
- 58 Companies that took greater risks made it harder or riskier for their competitors to keep up with them.
- 59 And they often have been the winners.
- 60 Today's greater uncertainty along with the smaller room for error mean that decision makers confront even more risk.
- 61 Managers need to move forward while taking the right risks, not necessarily the least risk.
- 62 This involves making decisions at the right level of the organization, and having a disciplined, fact-based process for evaluating alternatives, making decisions, and acting upon those decisions. ...
- 63 Whether it has to do with customers, employees, corporate organization, innovation, or something else, decision making is uniquely and distinctly a management responsibility.
- 64 Only management has the broad context needed to take into consideration factors inside the company and beyond—such as market conditions or energy costs.
- 65 However, as Peter liked to say, senior executives should not spend the bulk of their time making decisions—on the contrary, they should spend very little time doing so.
- 66 Their emphasis should be on making sure they have the time, information, and concentration to make the right decisions about the relatively few things that demand senior-level decision making and then making sure that the words are translated into action.
- 67 That's not all.

- 68 Management must stay on top of the results of the action, and know when to abandon a decision.
- 69 Aside from this very focused decision making, they should encourage appropriate levels of the organization to make decisions.
- 70 The amount of time spent in decision making is a much less meaningful metric than the effectiveness and relevance of the decisions themselves—the results.
- 71 In fact, as Peter said, the more time spent, the more likely that the decision maker is “too busy with the little to take the time to see the big.”
- 72 The Linux Group is a twenty-first-century firm that keeps its “in-house” decision making focused on the big picture.
- 73 Linus Torvalds established the group’s purpose—to design and make a free operating system first for the PC and later on for powerful servers.
- 74 At Linux, only a few people decide which of the many “outside-in” flows of suggested changes to include in new releases of the system.
- 75 All other decisions are the responsibility of volunteer programmers, who choose which tasks to undertake, when and how to undertake them, and whether to work solo or in conjunction with someone else.
- 76 Even this seemingly flexible and agile model is being challenged.
- 77 Some long-term volunteers confided to me that Torvalds has become the bottleneck—too much is going on, and his control is limiting the ability of Linux to adapt as rapidly as users would like.

78 ***Decision Making: Four Drucker Questions***

79 Management has a stark challenge: It must create a climate with the best chance that everyone in the organization is making the right decisions about the right issues at the right time.

80 There is no prescription for doing that, but there are questions that will bring clarity, guidance, and focus to this amorphous area:

81 1. Have you built in time to focus on the critical decisions—have you lightened your load?

82 2. Does your culture and organization support making the right decision, with ready contingency plans?

83 3. Is the organization willing to commit to the decision once it is made?

84 4. As decisions are made, are resources allocated to “degenerate into work?”

85 Successful decision making begins with the recognition that making good decisions is one of management’s most critical responsibilities.

86 The organization and your management team can offer invaluable support, but you need to take the time and set aside the mental space to engage in study and problem solving, to try different alternatives, to think about the issue on the exercise bike, or to sleep on it.

87 Although the quality of your decision does not depend on the amount of time you spend arriving at it, it does require that decision making be a priority and a commitment to spending the time needed.

88 To be able to do this while running an organization, you need to lighten your load—to cut through the fog in order to see clearly what situations really demand action and to find the appropriate decision maker.

89 You can then concentrate on the relatively few important decisions that are yours to make.

90 **Have you built in time to focus on critical decisions–have you lightened your load?**

91 1. Is action required?

92 Is there a need to make a decision?

93 2. Who should make the decision?

94 What level of management?

95 ***Is Action Required?***

96 For reasons that go beyond the obvious waste of precious time and resources, unnecessary decisions bring unjustifiable risk and repercussions.

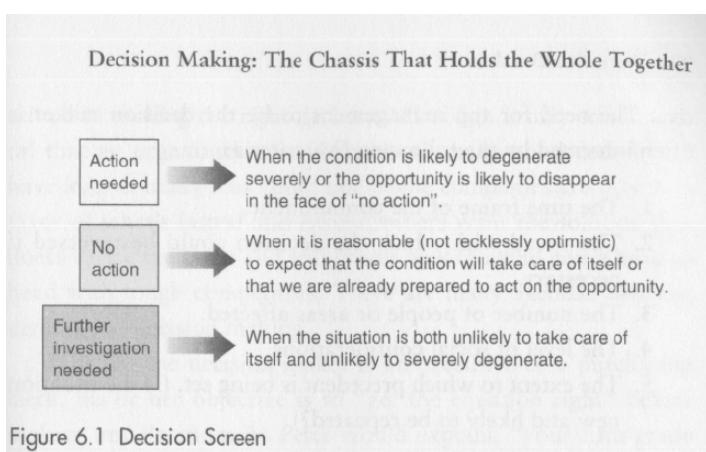
97 As Peter put it, no matter how innocuous the decision may seem, "Every decision is like surgery."

98 It is an intervention into a system and therefore carries with it the risk of shock.

99 One does not make unnecessary decisions any more than a good surgeon does unnecessary surgery."¹⁰

100 In judging whether a given situation or opportunity warrants action or not, several rules can be applied.

101 These are shown in [Figure 6.1](#).



102 Figure 6.1 Decision Screen

103 Applying these guidelines helps draw a distinction between the truly important and the seemingly important situations that are, in fact, simply nuisances.

104 The latter can correct themselves they don't require major action.

105 These rules will lighten the decision-making load by eliminating the situations that don't require intervention. ..

106 One does not make unnecessary decisions any more than a good surgeon does unnecessary surgery.

107 Who Should Make The Decision?

108 Top management's load can be further lightened by deciding early on which person within the management structure is the appropriate decision maker for a particular condition or opportunity.

109 We all know senior managers who micromanage or frivolously reverse the decisions of their subordinates.

110 Not only do they undermine the people who work for them, they distract themselves from the critical issues that require a senior-level perspective.

111 The need for top management to be the decision maker is often informed by the following five criteria:

112 1. The time frame of the commitment.

113 2. The speed with which the decision could be reversed if necessary.

114 3. The number of people or areas affected.

115 4. The level of social considerations.

116 5. The extent to which precedent is being set.

117 (Is the situation new and likely to be repeated?)

- 118 Peter strongly believed that where top-management involvement is not required, the organization is better served by pushing decision-making responsibility to the manager who is most knowledgeable and closest to the point of action.
- 119 In such cases, senior management's role is to make an explicit and appropriate assignment of responsibility.
- 120 The key consideration in delegating the decision authority is: How far down in the organization can the decision be made and still be effective?
- 121 The answer is always: low enough that the decision maker has sufficient knowledge of and experience with the situation or affected function or area, yet high enough that the manager's authority covers the affected function or area.
- 122 By ensuring that decisions are made at the right level, the organization faces an easier job of implementation and generally ends up with a better, more informed decision. ...
- 123 Although there is no such thing as a painless or risk-free decision, wrong decisions (i.e., the wrong solution to the right problem, the brilliant solution to the wrong problem, or the postponement of an urgently needed decision) are infinitely more painful than any properly timed, correct decision that responds to the right issues.
- 124 The decision maker must commit to rigorous analysis—an integral part of fact-based decision making—and have the support of an organizational culture that is equally committed to making the right decision.
- 125 Although it may seem natural that an organization would want to make good decisions, I have known many that could not.
- 126 Some companies are biased in favor of what's fastest and easiest, others want the solution that doesn't rock the boat, and still others seek to avoid going head to head with tough competitors.

127 There are many agendas that can derail good decision making. ...

128 Whether the decision maker is an executive or a purchasing clerk, his or her objective is to "get the equation right" before making any decision: As Peter would explain, "your fifth grade math teacher tried to teach you to spend time on setting up the equation.

129 It's very easy to find a mistake in the manipulation and to correct it if the equation is right.

130 If, however, you get the wrong equation and you do your figuring right, you can't really ever correct it."

131 **Does your culture support making the right decision with ready contingency plans?**

132 1. What's the real issue?

133 What are you trying to accomplish?

134 2. What specifications must the solution meet?

135 What are the minimum results required, and what organizational commitment is needed to achieve them?

136 What are the risks?

137 3. Have you fully considered the entire range of alternatives in order to choose the best one?

138 Do you have a contingency plan?

139 **What's The Real Issue?**

140 As I was listening to Peter, my mind was racing over my experiences as a consultant.

- 141 One of the most useful tools we used to help clients define the real issue and break the problems into manageable pieces was the construction of an issue tree.
- 142 The team would brainstorm the scope of the problem and agree on the key issue.
- 143 They would then systematically identify the sub-issues underlying the key issue and then move on to breaking down the sub-issues into their component issues.
- 144 The most eye-popping moments of insight always relate to issue trees. ...
- 145 At Pepperidge Farm, we were working with management on how to reduce waste in the manufacturing process using an issue tree.
- 146 By carefully thinking about what the subcomponents of waste were, the company looked at its manufacturing process in a new way, ultimately saving the organization a lot of money.
- 147 We defined waste as what it didn't sell; shop floor management defined waste as what it threw away.
- 148 The foremen believed that they were caring for the customer, in accordance with the company philosophy, when they put a little extra batter into the cookies.
- 149 In reality, the customer was on occasion getting fewer cookies per one-pound bag and Pepperidge Farm was spending extra money to boot.
- 150 When we opened two bags of cookies that had 14 cookies in them, not the standard 15, and yet had passed the total weight test, it became obvious that waste is not just what you sell to the pig farmers; it's what you buy that you don't sell to the consumer.
- 151 The consumer was buying 16 ounces and 15 cookies, not 18 ounces; 2 ounces were being wasted.

- 152 The light-bulb quickly went on, and the shop floor changed its practices to provide exactly what is required and not deviate. ...
- 153 One of the decision maker's gravest and most common mistakes is to assume that his or her initial understanding of the issue is correct.
- 154 As Peter maintained, only by taking the time to investigate what the decision really needs to be about can the decision maker distinguish between the symptom and the ailment, between the need for a topical or localized treatment and a systemic or surgical treatment: "You don't make a decision about symptoms when you have a fundamental, underlying, degenerative structure problem."
- 155 Conversely, you don't fiddle around with the structure when all you have is an allergic rash."
- 156 Only by taking the time to investigate what the decision really needs to be about can the decision maker distinguish between the symptom and the ailment.
- 157 To avoid focusing on the wrong issue and prepare for effective execution down the road, the successful decision maker invites and requires those who will be the implementers to participate in the study of the problem or opportunity.
- 158 Not only will this make it easier to implement the eventual decision, but it will make for a better decision by drawing on the perspective and knowledge base of those who live with the problem every day.
- 159 This group needs to be small enough to be functional, but ideally should include everyone with relevant experience and knowledge—including network partners and, if necessary, outside experts.
- 160 Assembling this group is not, however, tantamount to abdicating decision-making authority.

161 Rather, the purpose is to utilize the knowledge and perspective of those closest to the scene to define the issues and gain insight into their capabilities, while ensuring that the people who are going to have to carry out the decision are involved early in the process.

162 What the decision maker asks from this group is a situation report, not recommendations.

163 Such situation reports identify constraints and opportunities; their purpose is to inform, not to assume.

164 Peter advised, "Don't go for a consensus, but insist on having enough disagreement in the group to get a little understanding.

165 This is where we can learn from the Japanese.

166 They take this group activity very seriously and don't allow anyone to have a recommendation at this stage."

167 My own experience suggests that the influential player is often the trouble maker.

168 Engaging that individual to challenge the assumptions and be part of the solution goes a long way toward shifting the mindset of whole organizations.

169 ***What Specifications Must The Solution Meet?***

170 Having worked toward understanding the true nature of the problem or opportunity, the decision maker is ready to begin defining solutions.

171 It is surprisingly useful and very Peter-like at this point to articulate the organization's overall goals in devising these solutions through a series of questions, beginning with:

172 What is the prize you are going after?

173 What change are you trying to create—so as not to lose sight of the broader purpose of the decision?

- 174 The successful decision maker then specifies the boundary conditions that the action or solution must satisfy through the questions below.
- 175 These specifications provide the framework for evaluating alternatives and for measuring the progress (or signaling the need for abandonment) of the ultimate solution:
- 176 ▪ Within the context of the overall business strategy and the particular situation, what are the priorities and minimum results required?
- 177 ❖ Where is the need and/or opportunity greatest?
- 178 ▪ What are the minimum organizational commitments (people, time, and money) required?
- 179 ❖ Are they realistically available, or will getting them require overcoming constraints?
- 180 ▪ What are the risks, including risks that the organization cannot afford not to take?
- 181 ❖ As Andy Grove, the cofounder of Intel, noted, "Only the paranoid survive."
- 182 ❖ Home Depot and Wal-Mart were paranoid ahead of Hurricane Katrina—a week before the storm hit the Gulf Coast, they had the logistics lined up to move people out and move goods in.
- 183 ❖ Often, however, the paranoid can't afford to be risk-averse: The risk that you will miss an opportunity is every bit as serious as the risk of failure.
- 184 ▪ Given the rapidity of changes in the business environment, how long will it be until you get meaningful results?
- 185 ❖ How long until you evaluate your success?
- 186 ❖ How long until you revisit your decision?
- 187 The successful decision maker remains open to the full array of alternative solutions.

188 ***Have You Fully Considered All The
Alternative Solutions?***

189 It is tempting at this point to push the easy button and opt for the solution that is the least disruptive, the least likely to meet with organizational resistance, and the most comfortable for the organization.

190 But the successful decision maker remains open to the full array of alternative solutions.

191 According to Peter, "This entails real brainstorming.

192 What we want to know here are all the conceivable alternatives.

193 And some should be weird.

194 The function of the weird ones is to stimulate your thinking."

195 And as usual, Peter practiced what he preached.

196 Richard Ellsworth, professor of management at Claremont, described for me the first time he met Peter.

197 He had just joined the faculty at Claremont.

198 They were in a senior executive conference together.

199 Richard presented his talk, and the room seemed in agreement.

200 Peter stood up and said, "I don't agree," and proceeded to offer another view.

201 And a discussion began.

202 At the break, Peter went up to Richard and confided, "I really do agree, but I think we needed to discuss some alternatives." ..

203 Now is the time to take a sheet of paper and list all possible and seemingly impossible alternatives that might satisfy the specified boundary conditions.

204 Then, for each alternative, ask:

205 ▪ What would have to be done to make it viable?

206 ▪ What are the risks, effort, and commitment required and the expected results if successful?

207 ▪ How is this alternative better than others in satisfying the boundary conditions?

208 Here the decision maker strives for honest thinking about each alternative, guarding against stilted presentations or assumed solutions.

209 Not only is this open-mindedness necessary to ensure the integrity of the decision, but it is an absolute requirement to guarantee that a safety net of contingencies is in place in the face of navigating through future unknowns.

210 Peter put it this way, "The universe doesn't stand still and freeze the circumstances in which the decision was made.

211 If you have no alternative to fall back on, you begin to drift if the decision doesn't work out."

212 With the alternatives cut to a small number of serious ones, reality-checked intuition and informed judgment come into play.

213 In *The Effective Executive*, Peter points out:

214 The important and relevant outside events are often qualitative and not capable of quantification.

215 They are not yet "facts."

216 For a fact is an event which somebody has defined, has classified and, above all, has endowed with relevance.

217 To be able to quantify one first has to abstract from the infinite welter of phenomena a specific aspect which one can name and finally count.

218 Man, while not particularly logical, is perceptive-and that is his strength.

219 The danger is that executives will become contemptuous of information and stimulus that cannot be reduced to computer logic and computer language.

220 Executives may become blind to everything that is perception (i.e., event) rather than fact (i.e., after the event).

221 "If you have no alternative to fall back on, you begin to drift if the decision doesn't work out."

222 The effective decision maker chooses the alternative that best satisfies the specifications by providing a reasonable balance between:

223 ▪ Risk and results.

224 ▪ Time required and time available.

225 ▪ Resources (people, capabilities, and investment) required and resources available.

226 ♦ The best possible outcome and the minimum outcome required to move forward.

227 Striking this reasonable balance can be much less straightforward than it seems, and this is truly a test of the decision maker's mettle.

228 Organizational support and culture aside, when the rubber hits the road, the decision makers who want to *change the world* must be willing to lead the organization out of its comfort zone—in contrast to the decision makers who want to do the best they can *in the world they know*.

229 Ask yourself, of the last 100 decisions you made, how many carried real risk?

230 How many were fundamentally strategic rather than tactical? ...

231 Until a decision has degenerated into work and reaches the stage of actual execution for all intents and purposes there is no decision. ...

232 Striking the balance between the daring and the doable typically requires some concessions and adaptations to gain the necessary organizational commitment.

233 Here is where decision makers must be courageous and have the conviction to stay true to the boundary conditions that will determine success, yet be pragmatic (half a loaf of bread is better than none).

234 They must quickly come to some acceptable compromise.

235 Otherwise, they stumble into a bad compromise (half a baby is worse than none) or risk a prolonged "selling time" so that when there are finally results, it's too late. ...

236 This final step takes the most effort.

237 Until a decision has degenerated into work and reaches the stage of actual execution, for all intents and purposes there is no decision.

238 To get any results, the organization needs to convert the decision into effective action, and support that action by tracking results and providing the feedback necessary to refine the action plan.

239 Is The Organization Willing To Commit To The Decision Once It Is Made?

240 1. Are you willing to opt for the bold move to get the required results?

241 2. Can you marshal support for your decision within the organization and not rehash the decision?

242 3. Can you balance the visionary and the practical?

243 **As Decisions Are Made, Are Resources Allocated To "Degenerate Into Work"**

- 244 1. Have you gained the commitment and the capacity of the resources who will convert the decision into action?
- 245 2. Have you put mechanisms in place to provide organized tracking and feedback?

246 ***Have You Gained Commitment And Capacity Of The Implementers?***

- 247 As Peter pointedly reminded me, decision makers in the United States and other Western countries can take a lesson from their Japanese counterparts, who put great emphasis on turning a decision into reality almost immediately.
- 248 Japanese companies get a head start on making the decision effective by taking very seriously the early inclusion of those who will be part of the action.
- 249 The decision maker who builds the implementers into the process has an ownership platform in place at the execution level of the organization and a good sense of the implementers' capabilities. ...
- 250 This enables a fast start in converting the decision to action.
- 251 The Japanese are also well aware that people, not policy statements, carry out decisions.
- 252 Until you have assigned responsibility for execution with a deadline to somebody who has made a commitment to action, you have nothing more than a good intention.
- 253 To gain that commitment, the decision maker must address the following:
- 254 ▪ What results are expected of the implementers and by when?

255 ▪ What skills do the implementers need to acquire to achieve the desired results?

256 ▪ How will they acquire these skills in time to be consistent with the time frame for the expected results?

257 ▪ How do I/we communicate in language that resonates with each implementer so that each understands what is required of her or him and views the action as an opportunity, not a threat?

258 ▪ How should incentives and performance measures be changed to support the implementer's commitment?

259 ▪ What else do I and other members of management need to do to celebrate and support this commitment?

260 ***Do You Have Mechanisms That Provide Tracking And Feedback?***

261 Organized tracking of progress and results, accompanied by feedback, are nonnegotiable elements of any effective action program for many reasons. ...

262 First and foremost, motion does not guarantee progress, and converting good intention into meaningful action requires accountability.

263 The decision maker and the implementers have to be held accountable for the expected results within the determined time frame. ...

264 Second, working hard to choose the right solution does not guarantee that the decision is correct, especially in a fast-changing world.

265 Feedback is essential to alert management to the need for fine-tuning and to guide refinements.

- 276 He delayed the international launch of the product so that the North American market could be better serviced, and he called in an outside consultant and asked, "If this product sells in the volume of Pantene (the number one shampoo at the time), where can I find capacity to make it?"
- 277 The answer was, "Abandon your hair-color business assumption that outsourcing of a critical chemical balancing process is never viable."
- 278 Put on your hair-care business glasses and look for third-party capacity to get you over the hump while you plan for longer-term capacity to handle this unexpected success."
- 279 Sadove called the head of R&D and said, "Test the stability and tolerance of these formulas, and have the Quality Assurance process revised to support a third-party manufacturer."
- 280 At the same time, he created a plan to triple Clairol's in-house capacity.
- 281 The Herbal Essences relaunch was an opportunity that could not wait.
- 282 Over time, it virtually doubled the value of Clairol as the unexpected success exploded into a broad spectrum of other Herbal Essences hair-care products.

283 ***The Decision Process***

- 284 Disciplined management knows how to negotiate the tightrope the organization will walk while moving ahead in the amorphous future.
- 285 As Peter said:
- 286 Effective executives make effective decisions as a systematic process with clearly defined elements and in a distinct sequence of steps.
- 287 They do not make a great many decisions.
- 288 They concentrate on the important ones.
- 289 They are not overly impressed by speed in decision-making.
- 290 They want to know what the decision is all about and what the underlying realities are which it has to satisfy.
- 291 They want impact rather than technique; they want to be sound rather than clever.
- 292 They are not content with doctoring the symptom alone.
- 293 They know when a decision has to be based on principle and when it should be made on the merits of the case and pragmatically.
- 294 They know that the trickiest decision is that between the right and the wrong compromises and have learned how to tell one from the other.
- 295 They know that the most time-consuming step in the process is not making the decision but putting it into effect.
- 296 When Peter commented that he believed one major reason for Toyota's success is its strong decision-making sense, I took a closer look at the Toyota way, the rigorous and systematic decision-making process that has made Toyota the world's second-largest auto company.

297 How Toyota Gets Its Edge

- 298 Toyota is one of the world's great companies.
- 299 Since the early 1990s, business magazines have been trumpeting its rise, and, under the leadership of Hiroshi Okuda, it has overcome a brief period of stagnation and is now making its mark as a leader.
- 300 In 2003, Toyota passed Ford to become the second largest car manufacturer in the world, and with its own predictions of a 10 percent increase in vehicles manufactured in 2006, it is expected to pass GM shortly.
- 301 Even as number two, Toyota posted 2004 and 2005 profits greater than its three most profitable competitors combined.
- 302 It has been the highest-ranked non-American company on the Fortune Global Most Admired Companies list for three years running.
- 303 With success comes scrutiny.
- 304 Certainly much attention has been paid to Toyota's production efficiency, and rightly so.
- 305 The [Toyota Production System](#) (TPS) has been the focus of countless books and articles, and several of its key elements, like "just-in-time" and "lean manufacturing," are now common business terms and methods.
- 306 Toyota's efficiency on the factory floor is part of its overall approach to business, known inside the company as the "[Toyota Way](#)."¹⁰⁰
- 307 What has received far less attention is the effectiveness of the Toyota Way.
- 308 Contributing to Toyota's indisputable effectiveness is its ability to make and successfully execute the right decisions and "bets" that have moved it up the ranks in the troubled automobile industry.

309 What underlies this decision-making effectiveness is a disciplined process; well worthy of closer investigation by other organizations seeking to learn from the very best.

310 The Origins Of The Toyota Way

311 Much of the way Toyota operates can be traced back to the business climate in which it was born—a climate that had some things in common with the globalized business world of today.

312 Founded as the Toyoda Automatic Loom Works in 1926, the company originally manufactured a type of automatic loom that was invented by its founder, Sakichi Toyoda.

313 In 1930, Toyoda sold the rights to his looms to a British manufacturer and invested the proceeds in starting the Toyota Motor Company.

314 (“Toyoda” was changed to “Toyota” because in Japanese “t” has one fewer stroke than “d”—thus saving time on printing signs and advertisements—an early indication of the ceaseless focus on efficiency that would come to characterize the organization.)

315 It wasn’t until after World War II, as Japan was trying to rebuild, that Toyota really began to grow. ...

316 The car market in Japan at that time was small, since capital for investment in anything not an absolute necessity was scarce.

317 Moreover, countless new companies were opening every day, and with infrastructures completely destroyed, there was no advantage for old players over new.

318 Because the competition was so stiff and capital so hard to accumulate, Toyota had to do everything possible to minimize the time between when it purchased parts and assembled vehicles and when it received payment—hence, the birth of the company’s vaunted “just-in-time” production methods.

- 319 At the same time, to offer a vehicle that no one would buy or to develop a plant that couldn't work properly would have been a catastrophic error, an inexcusable waste of money that had been painstakingly accumulated.
- 320 Any business decision had to be reached carefully and through group discussion and consideration with all parties involved, to allow for quick and problem-free implementation.

321 **How Toyota Makes Decisions**

- 322 Japanese companies are long-time, avid students of Drucker (who was himself an avid student and onetime professor of Japanese art and culture).
- 323 Consequently, the overlap between the Toyota Way and the Drucker Way is not surprising, and Toyota's decision-making process is no exception to this shared mindset.
- 324 Toyota believes that it can and must always do better; that change is an opportunity, not a threat; and that its strategic bets must be well informed by an outside perspective.
- 325 Its decision-making process is fully in sync with this culture.

326 ***Do the Homework First***

- 327 Whether the issue at hand is a problem, an opportunity, or both, Toyota takes the time and effort to do the homework necessary to see the full landscape and past the obvious, so that its decisions distinguish between the root causes or the root enablers and the symptoms.
- 328 Accordingly, Toyota emphasizes always going to see for itself, and then asking "why" five times. ...
- 329 Going and seeing for yourself means that managers at all levels have to be willing to "get their hands dirty."

- 330 This firsthand involvement is important to keep a growing company true to its roots, but even more so if it is going to extend its global reach and create and act on opportunities to market products in cultures other than its own.
- 331 In 2003, when Toyota was redesigning its Sienna minivan to compete with the then-dominant Honda Odyssey import in the North American market, Yuji Yokoya, the chief engineer of the project, took time off and drove through every U.S. state and Canadian province, and through much of Mexico.
- 332 The new Sienna included features that made it more appropriate for: Canadian roads (which have a higher crown than Japanese, American, or Mexican roads), American trip lengths (American cities are farther apart, so American drivers are more likely to eat and drink while driving), American storage needs (Yokoya spent a day outside a Home Depot in Ann Arbor, Michigan, watching customers load their cars and trucks), and countless other small differences that no Japanese engineer could have discovered without visiting North America and no North American manager could have focused on without an outsider's perspective.
- 333 The redesigned 2004 Toyota Sienna was voted best minivan of 2004 by *Car and Driver*.
- 334 Going and seeing for yourself helps managers understand how problems and/or opportunities manifest themselves.
- 335 However, Toyota's homework is not completed until the Toyota managers, as I noted before, ask "why" five times to get to the root causes of the problem or the root enablers of the opportunity.
- 336 As Taichi Ohno, the originator of the Toyota production system, explained, "To tell the truth, the Toyota production system has been built on the practice and evolution of this scientific approach.

337 By asking why five times and answering it each time, we can get to the real cause of the problem, which is often hidden behind more obvious symptoms."

338 There is a puddle of oil on the factory floor.

339 Why?

340 The machine is leaking oil.

341 Why?

342 It has a broken gasket.

343 Why?

344 Because we bought gaskets made from a cheap material.

345 Why?

346 Because we got better pricing on them.

347 Why?

348 Because purchasing agents are rewarded and evaluated based on short-term savings rather than on long-term performance.

349 So what is the real issue and hence the specifications that the solution must satisfy?

350 Is it the puddle of oil on the floor that could easily be swept away in less than two minutes and escape management's notice?

351 Or is it the purchasing agents' incentives, which have resulted in buying faulty equipment and must therefore be changed?

352 Sweeping away the oil will address surface issues but won't prevent the problem from recurring, whereas a new purchasing rule will.

353 ***Look at All Solutions, Build Consensus among Stakeholders, and Set Sights High***

354 Once it is clear “what this is all about,” a round of meetings is held so that all possible solutions, no matter how implausible, can be discussed.

355 In the case of the Prius, the first hybrid-powered car to be developed commercially, exploring all possible alternatives initially included analysis of over 80 hybrid engines.

356 The list was eventually narrowed down to ten, then four.

357 After that, tests were run on the four, and one engine was finally selected.

358 By giving each of the 80 possible engines equal consideration in the beginning, Toyota engineers were able to see the problem from a variety of angles, and the final engine included modifications that reflected the best features of the original 80, modifications that engineers would never have incorporated without first examining such a wide range of options. ...

359 At Toyota, every worker who might be affected by the process must be consulted.

360 This inclusionary approach not only enriches the perspective of the original developers, but also enhances the likelihood of a smooth and rapid implementation by anticipating problems, creating early buy-in of those participating in the development and production processes, and providing clear signals that Toyota cares what the stakeholders and executors think. ...

361 Toyota also purposefully sets its goals or expected results high, so high as to seem unattainable.

- 362 By setting goals of 50 or 60 percent improvement rather than 5 or 10 percent, Toyota guarantees that its solutions will not simply address superficial issues but will generate real structural change.
- 363 In 2000, when Toyota's North American Parts Organization (NAPO) branch wanted to eliminate the waste that had built up during its rapid growth, it set goals that seemed almost laughable.
- 364 In three years: improve customer service by 50 percent, save \$100 million in distribution costs, and cut \$100 million of inventory out of the supply chain—all this for a business that was turning a steady profit, albeit in the face of rising costs.
- 365 But by constantly pushing employees in groups to work toward those goals, NAPO achieved or came very close to achieving each of them in the allotted time.
- 366 By 2003, NAPO had become a much leaner and more efficient business than anyone in 2000 believed possible.
"
- 367 Toyota also ups the ante by outlining goals in contradictory pairs.
- 368 The first Lexus, for example, was expected to deliver increased fuel efficiency, but also a fast smooth ride; decreased noise, as well as a light body; elegant styling, and great aerodynamics, among other criteria.
- 369 ***Implement Rapidly***
- 370 Having made a decision, Toyota is a robust planner and a rapid but effective implementer—in stark contrast to those organizations that mistakenly believe a fast launch equals a successful implementation.
- 371 To elaborate on this difference, given a 12-month time period to implement changes, many companies will spend 6 months planning and then implement the program ahead of schedule.

- 372 Once the final product is in the field, however, questions and concerns that might have been anticipated and addressed prior to implementation have to be handled in a triage situation.
- 373 By arbitrarily reducing the time allocated for the planning activity, management is likely to delay the expected results from the new program or, even worse, to render the program obsolete before it can come to fruition.
- 374 At Toyota, however, the planning process takes 11 of the 12 months.
- 375 Actual implementation is then carried out very quickly and effectively—with the support of the entire organization and with many possible problems thought out in advance.
“
- 376 Perhaps the greatest testament to how rapidly Toyota can implement its plans is its product development: Toyota has managed to shrink the time from conception to production to just 12 months—half that of most automobile companies.
- 377 Even the Prius, the first commercial hybrid-powered car, which required the development of a new engine, body, production process, and marketing strategy, was (at the prodding of Okuda) taken from clay model to production in just 15 months.
- 378 The benefits of this kind of agility cannot be overstated.
- 379 Being so effective in its decisions allows Toyota to anticipate and respond quickly to customer demands and to constantly innovate to meet customer requirements, and the impact of the few inevitable failures is minimized when just one year later a new version can be released.
..
- 380 As former Toyota president Fujio Cho described the Toyota decision-making process, “We place the highest value on actual implementation and taking action ...

- 381 You can realize how little you know and you face your own failures and you can simply correct those failures and redo it again and at the second trial you realize another mistake or another thing you didn't like so you can redo it once again.
- 382 So by constant improvement, or should I say, the improvement based upon action, one can rise to the higher level of practice and knowledge."

383 ***Decision Making By Alfred Sloan***

- 384 Many of Drucker's theories came from watching the work of those he admired, including GM's chairman Alfred P. Sloan during and following World War II.
- 385 Sloan influenced many of Drucker's ideas, particularly that one of the most important responsibilities of a manager is to make assumptions given future uncertainty, test them for soundness, and revisit them in light of external and other changes, and to do so with rigor and discipline.
- 386 In Sloan, Drucker saw this responsibility embraced and executed flawlessly: ...
- 387 As I sat in more GM meetings with Sloan, began to notice his way of making decisions ... I noticed it first in the heated discussions about the postwar capacity of GM's accessory divisions.
- 388 One group in GM management argued stridently and with a lot of figures that accessory capacity should be expanded.
- 389 Another group, equally strident, argued in favor of keeping it low.
- 390 Sloan listened for a long time without saying anything.
- 391 Then he turned off his hearing aid and said, "What is this decision really about?
- 392 Is it about accessory capacity?
- 393 Or is it about the future shape of the American automobile industry?
- 394 It seems to me that you argue over the future of the automobile industry in this country and not about the accessory business, do you agree?

395 Well then," said Sloan, "We all agree that we aren't likely to sell a lot of GM accessories to our big competitors, to Chrysler and Ford.

396 Do we know whether to expect the independents—Studebaker, Hudson, Packard, Nash, Willys—to grow and why?

397 I take it we are confident that they will give us their business if they have any to give." ..

398 "But Mr. Sloan," said the proponent of accessory expansion, "we assume that automobile demand will be growing, and then the independents will surely do well."

399 "Sounds plausible to me," said Sloan, "but have we tested the assumption?

400 If not, let's do so." ..

401 A month later the study came in, and to everybody's surprise it showed that small independents did poorly and were being gobbled up by the big companies in times of rapidly growing automobile demand and that they only did well in times of fairly stable replacement demand and slow market growth.

402 "So now," Sloan said, "the question is really whether we can expect fast automobile growth, once we have supplied the deficiencies the war has created, or slow growth.

403 Do we know what new automobile demand depends on?"

404 "Yes, we do know, Mr. Sloan," someone said, "demand for new automobiles is a direct function of the number of young people who reach the age of the first driver's license, buy an old jalopy, and thereby create demand for new cars among the older and wealthier population."

- 405 "And what do population figures look like five, ten, fifteen years out?" [Sloan asked] And when it turned out that they showed a fairly rapid growth of the teen-age population for some ten years ahead, Sloan said: "The facts have made the decision—and I was wrong."
- 406 For then, and only then, did Sloan disclose that the proposal to increase accessory capacity had originally been his. ...
- 407 Sloan rarely made a decision by counting noses or by taking a vote.
- 408 He made it by creating understanding.
- 409 Though Sloan may not have seen himself as establishing a role model for leadership, Peter believed he did exactly that:
- 410 "Sloan invented the professional manager ...
- 411 [Sloan] was in many ways very narrow, with absolutely no understanding of this whole generation of anything outside the company.
- 412 He didn't understand society.
- 413 He didn't understand politics ...
- 414 He never understood why the workers unionized.
- 415 He was ... focused on the business.
- 416 But within that ... he never asked who was right.
- 417 He only asked what is right.
- 418 He never, never was the star, although he was one.
- 419 And yet it was absolutely clear that if he made a decision, it was the decision."

420 Conclusion

- 421 In today's world, every knowledge worker is responsible for a contribution that can materially affect the capacity of the organization to obtain results.
- 422 The decision mechanisms and values of a corporation support or impair the right decision, be it the research chemist's choice of projects or the logistics manager's schedule of deliveries.
- 423 Creating a healthy environment to support these decisions has become more critical, and the importance of **intuition and judgment (human perception)** [(needs to be rethought)] has never been greater:
- 424 1. Very few decisions need to be the responsibility of top management.
- 425 Taking the time to do justice to those that are cannot be understated.
- 426 2. Doing the right thing (even if not perfectly executed) is far superior to perfectly executing the wrong thing.
- 427 3. Decisions need commitment to become action.
- 428 Without action, no progress is made.
- 429 4. A decision remains inert until resources are allocated for its implementation.
- 430 5. Decisions need to be viewed as a step on a path—moving two steps forward and one step back, learning, and adapting as appropriate—moving forward.
- 431 With all the elements in place to successfully traverse today's landscape, and a chassis holding the pieces together with solid decision mechanisms, the last requirement is to infuse vision and values into the whole through the actions of an effective CEO—the subject of our final chapter.