



How much does irrational decision-making cost your business?

People often make decisions based on emotion rather than fact, and much of what business leaders believe people will do never gets done.

How much does irrational decision-making cost your business?

Princeton University Professor Daniel Kahneman was awarded the Nobel Prize in Economics for his research demonstrating that when people face crucial, time-pressured decisions, **emotion** rather than reason often becomes the dominant decision driver. In other words, when the chips are down, people throughout a business naturally tend to ignore facts and go with their gut. Kahneman's findings confront managers with important but unsettling truths about human nature. When facing crucial, time-pressured decisions, people subconsciously resist the more deliberate, time consuming mental processes required for rational, fact-based assessment of probable outcomes. The decision making process becomes more a means of release from emotional tension than discernment of best possible actions.¹

Irrational decision-making is compounded on the organizational level by what noted business author Ram Charan has called "a culture of indecision." He says that indecisive business cultures are the norm rather than the exception. "The people charged with reaching a decision and acting on it fail to connect and engage with one another," Charan states. This leads to "false-decisions" that lack the force of real intent.²

Irrational Decisions Cost Millions

Sound familiar? Many senior leaders are frustrated by operational decisions that make little sense when viewed in light of the facts, and by the failure of various parts of their organization to actually do what they said they would do. Just how much do irrational or hollow decisions cost your company, in terms of waste and failure to execute? Having worked inside many major companies to eliminate such costs at their operational and behavioral roots, we've observed that avoidable costs routinely run into tens of millions of dollars.

Solution: Management Systems - Celerant's proprietary MCRS®

This article describes a proven approach to rationalize decision making and bring rigor to execution at all levels. Celerant has utilized its proprietary MCRS® methodology through two decades working in major companies across many industries. MCRS® is not a piece of software. It provides a comprehensive, disciplined decision-making process which can be custom-crafted together with the people of your organization.

MCRS provides a comprehensive, disciplined decision-making process which can be custom-crafted together with the people of your organization.

¹ "Daniel Kahneman: The Thought Leader Interview," Strategy + Business, Winter 2003

² "Conquering a Culture of Indecision" HBR, April 2001

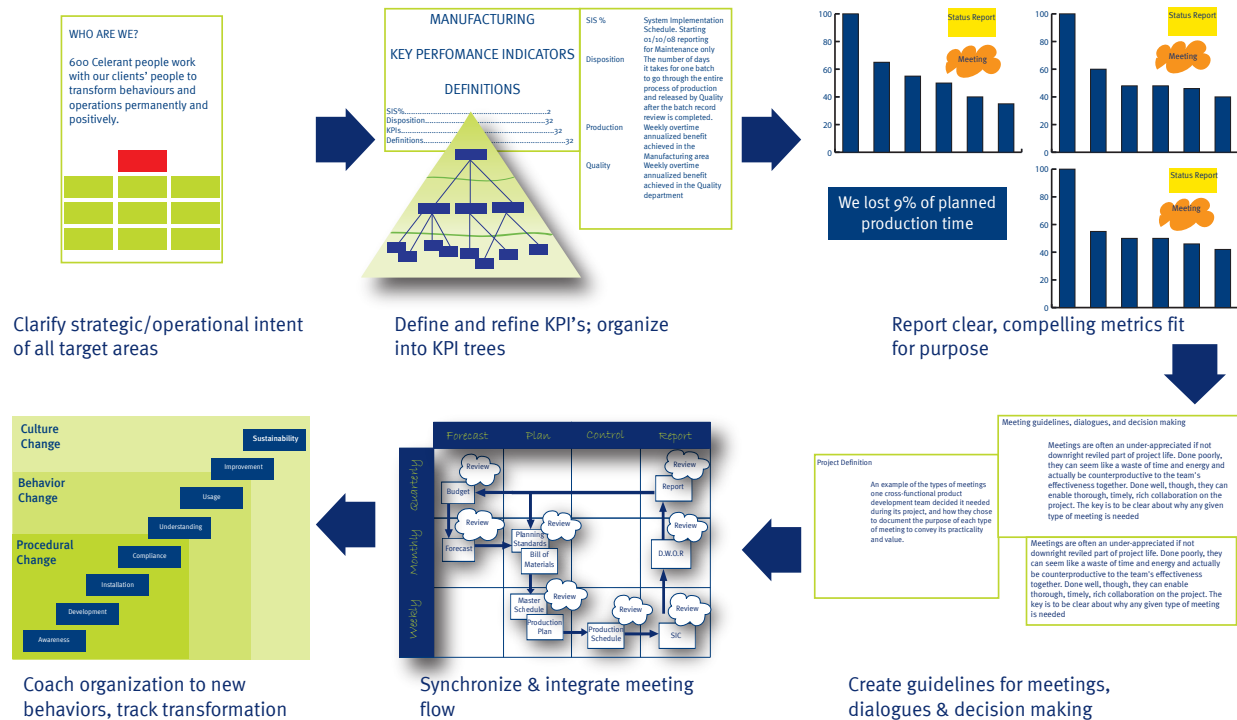
Celerant's proprietary MCRS®...

- Provides the right people the information they need, when they need it, to base decisions on facts rather than emotion
- Ensures clear accountability for follow-through on decisions
- Sustains strong focus, at all operating levels, on fulfilling the business strategy
- Breaks down silo behavior and fosters collaborative decision making
- Provides leaders a powerful system for focusing everyday actions on strategy execution
- Permanently changes your company's decision making culture
- Provides senior leaders real-time line of sight, deep into their company's operations

How MCRS® Can Help Your Business

Intuitively, you know that your company's social operating mechanisms... what is and is not discussed, when and by whom; what people are told is important; what they expect to be held accountable for; what data is reviewed and applied; what people experience in meetings; the coaching and feedback they receive; how your organization learns from experience... all hold tremendous sway over business performance. Celerant's MCRS® can rationalize this full range of interactions to optimize your decision-making culture and focus your people on fulfilling your business strategy.

Crafting Your MCRS®



Using Celerant's MCRS® means you can begin with clear intent. Business leaders can clarify their strategy and the keys to its fulfillment. Facilitated discussions can articulate corresponding intent and cascading priorities at all levels and across all functions. The critical contributions needed from each area are then captured in KPIs (Key Performance Indicators), a metric that measures a vital activity or process.

Within a year of benefiting from Celerant's MCRS®, a leading North American retailer freed up more than \$200 million in working capital via new supply chain efficiencies, with no new technology investments.

Many companies already use KPIs. However, their people may still habitually default to "gut feel" choices because their KPIs lack the clear relevance to command sustained attention, and because most employees are not effectively reinforced to engage in rational decision making. Further, many companies implement KPIs in isolation and thus inadvertently reinforce silo thinking. Areas and functions work to maximize their own KPIs without regard to how their actions affect other parts of the organization.

As Celerant works with you, deploying our MCRS®, we coach your people to craft KPIs that define their own success. The data is unmistakably relevant as well as readily available. The larger MCRS® system of reviews and accountability then strongly reinforces basing decisions on data rather than gut feel. MCRS® also organizes KPIs into KPI trees to provide clear visualization of how KPIs interact across functions, and to link all organizational levels to the business strategy. KPI trees show people that every choice is important. This reinforces a satisfying sense that work is meaningful, fosters self-accountability, and discourages intuitive decision making. People are far more likely to rely on facts when they see how much truly rides on their choices.

A commercial aircraft maintenance and supply firm achieved a \$19 million inventory reduction and trimmed more than \$1 million from its storage costs.

Fit for Purpose

Reports and meetings are core mechanisms familiar to everyone in business. Of course, reports and meetings are often of questionable value, usually because they lack clear purpose. In contrast, within Celerant's MCRS® reports and meetings demonstrably help people at every level to access immediately useful data, quickly discern problems and issues, detect trends, choose effective courses of action and coordinate efforts.

Reports are designed to simply and visually convey whether areas are meeting targets, per the KPIs. The data in these reports are reliable, timely and woven into the fabric of the organization, because the numbers are gathered by your people in the course of everyday operations.

Meetings within MCRS® are keyed to the reports and are similarly fit for purpose... namely; ensuring that the right information is conveyed to the right people at the right time to help them have the right discussions, ask the right questions, to make better fact-based decisions and to quantify resulting performance improvements. Each meeting is governed by guidelines that answer... What is this meeting's objective? Who should participate? What data/information are required to conduct the meeting effectively? Who will provide the data? What critical questions will be explored here? How will participants ensure productive dialogue and decision making? Who will ensure follow through on the decisions reached here? Clear guidelines bring rigor to your meetings and maintain their focus over time.

Just as important, reports and meetings occur at logical intervals under MCRS®. The timing of KPI reviews is critical. Short-interval control keeps front line operations on track. Work teams may review their operating data hourly, or following every shift. Senior leaders, in contrast, may review aggregated business performance data monthly. The correct frequency is whatever allows those participating in meetings to sustain control over the metrics for which they're accountable.

A major manufacturer realized \$13 million in ongoing annual savings from inventory right-sizing and product rationalization, eliminated more than \$5 million in non value added activities, and saved more than \$4 million in railcar leases.

Synchronized for Cumulative Effect

Celerant's MCRS® synchronizes diversely purposed reports and meetings for cumulative effect. In most companies, each area tends to design its own meetings in isolation. MCRS® ensures that all meetings are shaped to optimize the rest. Meetings are integrated within functions and across the organization to create one routine system through which decisions work together rather than at cross purposes. Indeed, one immediately visible benefit of synchronized meetings is elimination of "fire fighting." The thoughtfully sequenced meetings and disciplined review logic of MCRS® ensure that variances in KPI performance are addressed early - long before they become fires. Solutions are also implemented at the right level of control and with a focus on root causes, so problems will not flare up again.

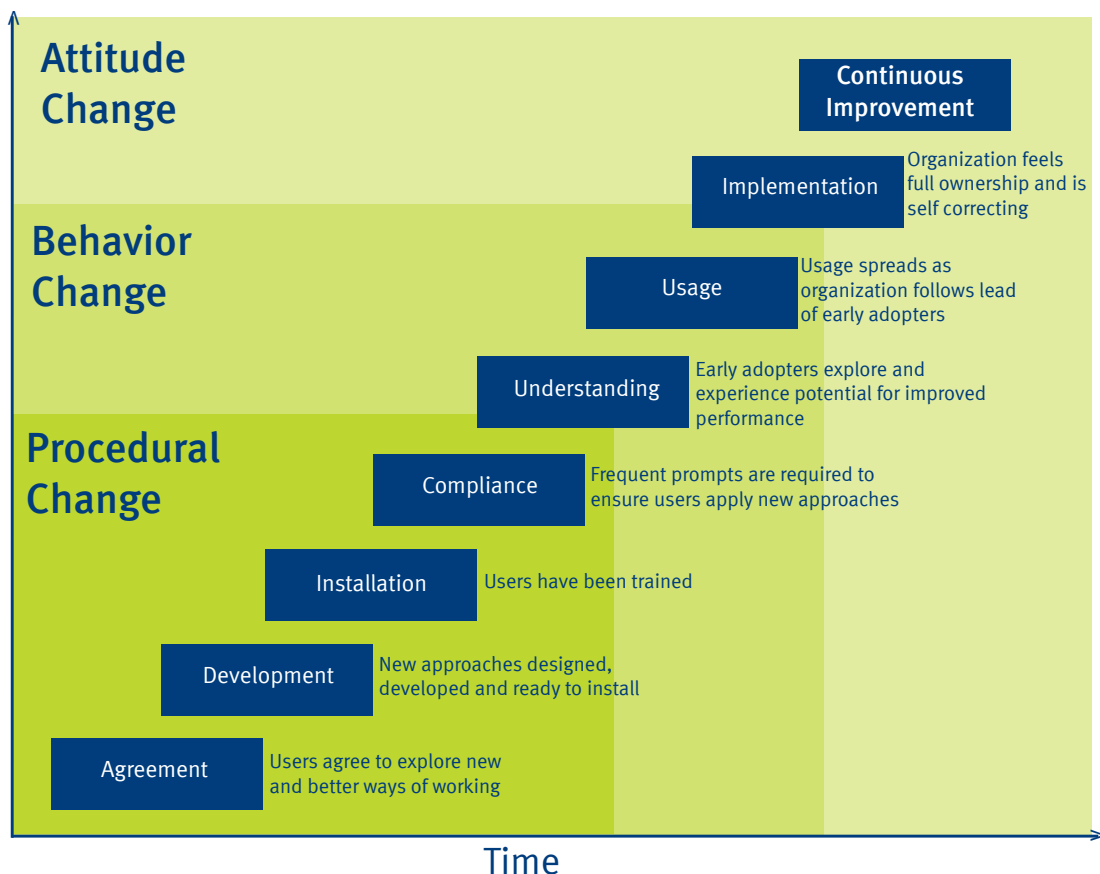
A manufacturer achieved \$10 million procurement savings, nearly \$4 million annualized material usage savings, and a 22% increase in productivity.

Synchronized meetings are another strong counter to “gut feel” decision making. The decisions reached in any one meeting will visibly affect decisions reached in the next. Meeting participants are thus braced by the knowledge that their decisions must be defensible... that is, based on valid data, logical analysis, and realistic assumptions... to stand up to the scrutiny of an integrated decision making system that is firmly governed by an overarching business strategy.

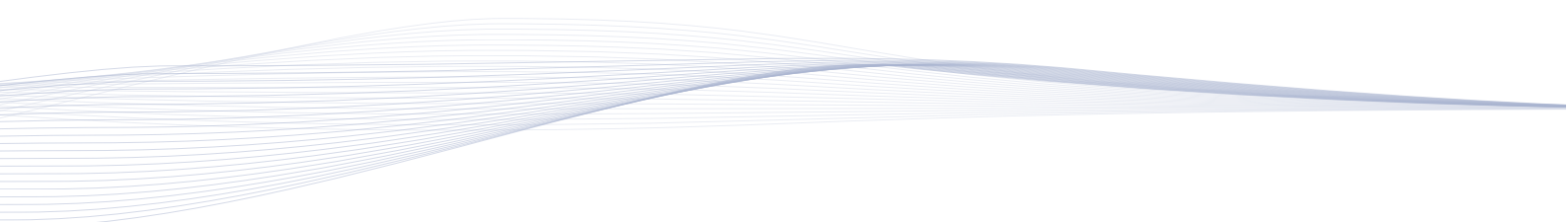
Measured Transformation

The performance gains realized via Celerant’s MCRS® are permanent, because MCRS® changes the culture of your organization. You can measure the progress of the cultural transformation as it occurs by tracking observable changes in behaviors toward which your people are being actively coached and systematically reinforced.

Measured Transformation



As people across your organization work together to build and implement your management systems after experiencing Celerant's MCRS[®], data-driven decision making and increased accountability for follow through will become the norm. People learn not to fear the facts. Failures become a trigger for self correction, not punishment. Your people gain the courage to delve into root causes rather than settle for surface solutions. Innovation increases exponentially. Everyone in your organization becomes an agent of change, relying on facts and consistently coordinating their efforts to raise your business to much higher levels of performance.





About the Author

Lance Hartley, Vice-President, Operations

Lance has over 13 years experience in the analysis, design and implementation of business improvement projects with clients in the Chemicals, Oil and Gas, and Life Sciences sectors in both the Americas and Europe. He earned a BSc Engineering Degree from Imperial College Science Technology and Medicine in London.

We have offices in 10 different countries and we will always go where our clients need us to be.

If you want a conversation about the ways we can help your business achieve results, every time, you can call us on:

Americas	+ 1 781 674 0400	Germany	+ 49 (0) 211 58 33 00 33
Belgium	+ 32 (0) 2 762 52 38	The Netherlands	+ 31 (0) 20 570 5400
Denmark	+ 45 35 45 90 01	Norway	+ 47 22 43 29 23
Finland	+ 358 10 396 8800	Sweden	+ 46 (0) 8 670 6579
France	+ 33 (0) 1 56 69 53 00	United Kingdom	+ 44 (0) 20 8338 5000

www.celerantconsulting.com

