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Bad Decision Making: Q&A with Ascendant Consulting's David Fields

By [Erik Sherman](#)

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Ascendant Consulting works with such clients as **Kodak** and **ITT Industries** on better focusing business efforts. Managing Director **David Fields** is currently working on a book about how top CEOs have turned major problems into winning situations. We chatted about what companies can do to fortify their positions and decision-making.

BNET: *What are the biggest mistakes managers make?*

David Fields: The biggest mistake is management does not spend enough time creating plans B, C, and D. As a result, they end up being reactionary. None of us know what is going to happen. The only thing we can count on is that the future will have some surprises. The companies that prepare themselves well for surprises tend to be better off.

BNET: *Why don't companies adequately plan?*

DF: Management and the people below them don't want to appear lacking confidence in their plan. There's a fear that if I show another way of doing it, it will make it look as though I don't have confidence. Also, I may have defended this plan and the reasons for it. The third reason is that it's such extra work.

The point is not that you'll have the right scenario. The point is that you have given yourself the ability to be nimble, because you're already thought of how you can do things differently. It puts you ahead of the game. It's accepting a world that is different from what you thought or hoped for. You're exercising a corporate muscle called thinking about things differently. That is a muscle not exercised very often. It's painful to do it if you're out of practice, and if you haven't exercised it, it's going to hurt like hell if you're in a situation where you need it.

BNET: *Risk management experts say that companies also don't make scenarios extreme enough.*

DF: Or they change the rules so they come out on top. If someone were to say, "Let's do a scenario where the bottom falls out of the

market," management would say, "That would never happen. Let's not do that scenario." They fudge their way back into scenarios where they know what to do, instead of focusing on scenarios where they don't.

BNET: *What scenarios face high tech?*

DF: Businesses right now are in many cases frozen, because there's fear. The wholesale willingness to upgrade technology because you need the latest and greatest has probably slowed down considerably. Just as consumers say, "I will make my old car go a little longer," my guess is that companies say, "This technology is working OK for me." Consumer spending is way down. Does that mean no one is spending anything? No, [but] they're much more judicious. There's an expectation of lower prices.

BNET: *And credit issues?*

DF: Acquisitions are being put on hold because the credit market is so tight. Companies are holding back on spending in part because they feel they need a war chest. My clients are saying, "We need to build up enough cash to weather the storm," and that of course puts a crimp on spending. My sense is there is a continually growing skepticism about the major IP infrastructure investments. An ERP system can be very helpful. Just as often I find that companies are very dissatisfied relative to the amount of money they spend. CRM systems have been notoriously awful in pay back.

The second biggest place for companies to go wrong is in the connection between activities and the one most important thing for any and every company: customers' choices. All companies are ultimately about getting customers to choose them and their offerings rather than the competition. Not many companies yet use this metric called net preference. All things being considered, customers have a preference for one vendor over another. You want the net preference for you to be higher, and everything you do as a company should be tied to increasing net preference for

your products.

Most companies are not focused on that. In fact, they are singularly focused against that. They do things like the balanced score card. The balanced score card sounds great, but in my opinion it makes very little sense in reality. There is an assumption that if we make all the different pieces work perfectly, the whole will work. You can't perfect every gear in the watch and expect that it will tell time accurately.

BNET: *You mean operations are sub-optimized?*

That's right. The whole system is there to make net preference go up. [Companies] also don't have good systems for tracking their activities back to net preference. When [managers] cut people, they're cutting people wholesale and not connecting how cutting this person or department affects net preference. It's partly because they haven't taken the time to understand the connection. It is not always easy or direct, but every activity in the company, [outside] some structural things to keep the lights on, should be connected back. When you have activities that aren't connected back, that's your weight. That's where you can cut.

BNET: *How about when a CEO cuts R&D?*

DF: You need to increase net preference for your products now and in the future. A lot of things get cut [mistakenly], like R&D. And a lot of things that don't get cut should. When we work with clients, often what we'll find is there are huge opportunities to increase net preference and net sales and more efficiently sell and deliver goods. There is absolutely no capital investment required. In any kind of manufacturing environment, there are bottlenecks which are slowing down or constraining your ability to create net preference. Those bottlenecks often are not what you think they are, and very often they are not physical. They are procedural.

Testing an electronic component has a hiccup [or delay], so a rule is put into place that says what we need to do is not run too many components through this check process at one time, because it breaks down and the error rate's too high. This gets calcified and people may or may not remember why there is this constraint. The real issue is that the solution was to fix the hiccup, not drive net preference.

BNET: *To cure the symptom, not the disease.*

DF: Net preference would ask how we can get the most through the system without increasing our cost. Rather than slowing down the checking process, what we may need to do is put in a second testing station. There may be all sorts of policy issues around that, like the guy in QC being rewarded for efficiency and labor. That's going to discourage him from putting in a second testing station, or he may have a restriction on capital expenditure. They may seem right from a local optimization view. But from a system standpoint, putting in the second station is exactly the right answer and goal.

It could be something as simple as make the locomotive push the cars from the back rather than pulling from the front. This is a real example. A client was in a market where it could sell as much as it could get out of the plant. There was a limited amount of space for

cars that could be handled at any one time at a loading station, and if you pull from the front, the locomotive takes up one of the cars. [If the engine pushed from the back], it opened up the opportunity to sell millions of dollars more because they had more products to ship out.

It's very hard to see from the inside because you're part of it. When processes develop, they're put into place for the best of intentions. It may even be for the right goals. But, over time, changes are made for good reasons. Each individual decision makes a lot of sense. But over time you have a process that is less adaptable and no longer necessarily meets the ultimate goal.

BNET: *How about a high tech example?*

DF: One of my clients has too few suppliers for a given part. If you are relying on subcontractors or vendors, you might be over the barrel. That brings an opportunity to apply options theory, which is using negotiations to find out how much risk is built into vendor pricing and how much you pay for it. If you get three prices for three different scenarios from each supplier, you have three times the information and understanding of the values of the different pieces that were built in. How much are you paying for that extra point of quality or guaranteed on-time or unlimited number of change orders to specifications? All of it is built in. You don't know what you're paying. You have to be careful in how you create the scenarios. You have to create an efficiency of options.

It also helps to have advanced risk management tools. If you ask what the expected value of a lottery ticket is, the winning amount is \$7 million and there are 70 million tickets, so the expected value is ten cents. You paid a dollar. They look at the expected values and add them up. Many companies don't do even this, but it's [still] unsophisticated. Using technology you can do Monte Carlo simulations and get a much better sense of what the risk is worth. If you're a tech company and trying to create a new product and also want to manage the price, a lot of what is built into your manufacturing cost is a lot of these risks. You have new components, new processes. Your suppliers, and maybe even you internally, are building in risks. Everyone adds a buffer until you get a completely over-stated price and risk. You can end up over-paying because often the events are often not independent.

For example, there's risk that a certain bottleneck in your process is going to slow down your whole system. There's a risk that components won't come in on time, but then the bottleneck is not going to be a problem. You pay a massive premium to always keep the bottleneck open and you pay a premium to keep things coming in at the highest rate. You're paying a premium to bring products in faster than the manufacturing line can handle. Those two [are dependent and] balance each other out. You can price with that knowledge in mind, especially if you're outsourcing.

BNET: *How hard is it to implement such techniques?*

DF: When you get into the complex risk analysis, it's tougher. But the basic approach? Anyone can do this.