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What is decision making?

Decision making is simply the process of making a choice. But decision making often isn't easy and can be particularly complex in an organizational context.

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Decisions, decisions. When was the last time you struggled with a choice? Maybe it was this morning, when you decided to hit the snooze button—again. Perhaps it was at a restaurant, with a miles-long menu and the server standing over you. Or maybe it was when you left your closet in a shambles after trying on seven different outfits before a big presentation. Often, making a decision—even a seemingly simple one—can be difficult. And people will go to great lengths—and pay serious sums of money—to avoid having to make a choice. The expensive tasting menu at the restaurant, for example. Or limiting your closet choices to black turtlenecks, à la Steve Jobs.

If you've ever wrestled with a decision at work, you're definitely not alone. According to McKinsey research, executives spend a significant portion of their time—nearly 40 percent, on average—making decisions. Worse, they believe most of that time is poorly used. People struggle with decisions so much so that we actually get exhausted from having to decide too much, a phenomenon called decision fatigue.

But decision fatigue isn't the only cost of ineffective decision making. According to a McKinsey survey of more than 1,200 global business leaders, inefficient decision making costs a typical Fortune 500 company 530,000 days of managers' time each year, equivalent to about $250 million in annual wages. That's a lot of turtlenecks.

How can business leaders ease the burden of decision making and put this time and money to better use? Read on to learn the ins and outs of smart decision making—and how to put it to work.

How can organizations untangle ineffective decision-making processes?

McKinsey research has shown that agile is the ultimate solution for many organizations looking to streamline their decision making. Agile organizations are more likely to put decision making in the right hands, are faster at reacting to (or anticipating) shifts in the business environment, and often attract top talent who prefer working at companies with greater empowerment and fewer layers of management.

For organizations looking to become more agile, it's possible to quickly boost decision-making efficiency by categorizing the type of decision to be made and adjusting the approach accordingly. In the next section, we review three types of decision making and how to optimize the process for each.

What are three keys to faster, better decisions?

Business leaders today have access to more sophisticated data than ever before. But it hasn't necessarily made decision making any easier. For one thing, organizational dynamics—such as unclear roles, overreliance on consensus, and death by committee—can get in the way of straightforward decision making. And more data often means more decisions to be taken, which can become too much for one person, team, or department. This can make it more difficult for leaders to cleanly delegate, which in turn can lead to a decline in productivity.

Leaders are growing increasingly frustrated with broken decision-making processes, slow deliberations, and uneven decision-making outcomes. Fewer than half of the 1,200 respondents of a McKinsey survey report that decisions are timely, and 61 percent say that at least half the time they spend making decisions is ineffective.

What's the solution? According to McKinsey research, effective solutions center around categorizing decision types and organizing different processes to support each type. Further, each decision category should be assigned its own practice—stimulating debate, for example, or empowering employees—to yield improvements in effectiveness.

Here are the three decision categories that matter most to senior leaders, and the standout practice that makes the biggest difference for each type of decision.

1. *Big-bet decisions* are infrequent but high risk, such as acquisitions. These decisions carry the potential to shape the future of the company, and as a result are generally made by top leaders and the board. Spurring productive debate by assigning someone to argue the case for and against a potential decision can improve big-bet decision making.

2. *Cross-cutting decisions,* such as pricing, can be frequent and high risk. These are usually made by business unit heads, in cross-functional forums as part of a collaborative process. These types of decisions can be improved by doubling down on process refinement. The ideal process should be one that helps clarify objectives, measures, and targets.

3. *Delegated decisions* are frequent but low risk and are handled by an individual or working team with some input from others. Delegated decision making can be improved by ensuring that the responsibility for the decision is firmly in the hands of those closest to the work. This approach also enhances engagement and accountability.

In addition, business leaders can take the following four actions to help sustain rapid decision making:

— Focus on the game-changing decisions, ones that will help an organization create value and serve its purpose.

— Convene only necessary meetings, and eliminate lengthy reports. Turn unnecessary meetings into emails, and watch productivity bloom. For necessary meetings, provide short, well-prepared prereads to aid in decision making.

— Clarify the roles of decision makers and other voices. Who has a vote, and who has a voice?

— Push decision-making authority to the front line—and tolerate mistakes.

How can business leaders effectively delegate decision making?

Business is more complex and dynamic than ever, meaning business leaders are faced with needing to make more decisions in less time. Decision making takes up an inordinate amount of management's time—up to 70 percent for some executives—which leads to inefficiencies and opportunity costs.

As discussed above, organizations should treat different types of decisions differently. Decisions should be classified according to their frequency, risk, and importance. Delegated decisions are the most mysterious for many organizations: they are the most frequent, and yet the least understood. Only about a quarter of survey respondents report that their organizations make high-quality and speedy delegated decisions. And yet delegated decisions, because they happen so often, can have a big impact on organizational culture.

The key to better delegated decisions is to empower employees by giving them the authority and confidence to act. That means not simply telling employees which decisions they can or can't make; it means giving employees the tools they need to make high-quality decisions and the right level of guidance as they do so.

Here's how to support delegation and employee empowerment:

1. *Ensure that your organization has a well-defined, universally understood strategy.* When the strategic intent of an organization is clear, empowerment is much easier because it allows teams to pull in the same direction.

2. *Clearly define roles and responsibilities.* At the foundation of all empowerment efforts is a clear understanding of who is responsible for what, including who has input and who doesn't.

3. *Invest in capability building (and coaching) up front.* To help managers spend meaningful coaching time, organizations should also invest in managers' leadership skills.

4. *Build an empowerment-oriented culture.* Leaders should role model mindsets that promote empowerment, and managers should build the coaching skills they want to see. Managers and employees, in particular, will need to get comfortable with failure as a necessary step to success.

5. *Decide when to get involved.* Managers should spend effort up front to decide what is worth their focused attention. They should know when it's appropriate to provide close guidance and when not to.

How can you guard against bias in decision making?

Cognitive bias is real. We all fall prey, no matter how we try to guard ourselves against it. And cognitive and organizational bias undermines good decision making, whether you're choosing what to have for lunch or whether to put in a bid to acquire another company.

Here are some of the most common cognitive biases and strategies for how to avoid them:

— *Confirmation bias.* Often, when we already believe something, our minds seek out information to support that belief—whether or not it is actually true. Confirmation bias involves overweighting evidence that supports our belief, underweighting evidence against our belief, or even failing to search impartially for evidence in the first place. Confirmation bias is one of the most common traps organizational decision makers fall into. One famous—and painful—example of confirmation bias is when Blockbuster passed up the opportunity to buy a fledgling Netflix for $50 million in 2000. (Actually, that's putting it politely. Netflix executives remember being "laughed out" of Blockbuster's offices.) Fresh off the dot-com bubble burst of 2000, Blockbuster executives likely concluded that Netflix had approached them out of desperation—not that Netflix actually had a baby unicorn on its hands.

— *Herd mentality.* First observed by Charles Mackay in his 1841 study of crowd psychology, herd mentality happens when information that's available to the group is determined to be more useful than privately held knowledge. Individuals buy into this bias because there's safety in the herd. But ignoring competing viewpoints might ultimately be costly. To counter this, try a teardown exercise, wherein two teams use scenarios, advanced analytics, and role-playing to identify how a herd might react to a decision, and to ensure they can refute public perceptions.

— *Sunk-cost fallacy.* Executives frequently hold onto underperforming business units or projects because of emotional or legacy attachment. Equally, business leaders hate shutting projects down. This, researchers say, is due to the ingrained belief that if everyone works hard enough, anything can be turned into gold. McKinsey research indicates two techniques for understanding when to hold on and when to let go. First, change the burden of proof from why an asset should be cut to why it should be retained. Next, categorize business investments according to whether they should be grown, maintained, or disposed of—and follow clearly differentiated investment rules for each group.

— *Ignoring unpleasant information.* Researchers call this the "ostrich effect"—when people figuratively bury their heads in the sand, ignoring information that will make their lives more difficult. One study, for example, found that investors were more likely to check the value of their portfolios when the markets overall were rising, and less likely to do so when the markets were flat or falling. One way to help get around this is to engage in a readout process, where individuals or teams summarize discussions as they happen. This increases the likelihood that everyone leaves a meeting with the same understanding of what was said.

— *Halo effect.* Important personal and professional choices are frequently affected by people's tendency to make specific judgments based on general impressions. Humans are tempted to use simple mental frames to understand complicated ideas, which means we frequently draw conclusions faster than we should. The halo effect is particularly common in hiring decisions. To avoid this bias, structured interviews can help mitigate the essentializing tendency. When candidates are measured against indicators, intuition is less likely to play a role.

For more common biases and how to beat them, check out McKinsey's Bias Busters *Collection.*

Learn more about Strategy & Corporate Finance consulting at McKinsey—and check out job opportunities related to decision making if you're interested in working at McKinsey.

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