Decision-Making

After we have done our competitive analysis, the next step in Sun Tzu system is understanding decision-making. This chapter examines the costs, risks, and benefits of making decisions. Our organizations are built by the decisions that we make. Decision-making is the primary tool of the manager. We determine the quality of our organization by the quality of our decisions.

What is the most important consideration in making decisions for the organization? Can our decisions control the demands of our organization? Can we reduce the risks of our decisions?

When we make decisions, how important is it to maintain the initiative? What are our priorities? How do we get off to a good start? How do we measure the success of our decisions?

How should we respond to failure? Should we expect failure? What is the relationship between the risks we take and our potential rewards?

These are all questions that Sun Tzu deals with in this chapter. Competition in the real world has a huge affect on shaping our organizations. It also shapes our decisions. Decision-making is dangerous. Safety only comes only from understanding the our situation. Understanding Sun Tzu's system of competition may give us the ability to win, but it doesn't guarantee our success. How does knowing this help us decide the proper course?

Question One:

When making decisions, what is the most important issue you should consider?

A. Your goals.
B. The costs of the decision.
C. How to secure an advantage.
D. How to undermine the competition.

> Everything depends on your management philosophy.
> Moving an organization requires thousands of decisions.
> Each decision is tested thousands of times.
> People require equipment and supplies.
> They need external customers to support them.
> Some internal and external needs always go unmet.
>
> **From *The Art of Management***

Answer:
B. The costs of the decision.

If our organization is going to compete, we first have to realize that it is going to cost us. Competition is always expensive.

Sun Tzu doesn't believe that success ever comes easily. He preaches against the idea of "get rich quickly." Our decisions organize people, resources, and processes. We must do this in such a way to build an engine for creating value. The formula we use to put together the organization determines whether we are successful.

Any organization can offer a quality product at a very high price. Success comes from producing high quality at a lower price. Competitive markets drive prices down by putting the least efficient producers out of business. An efficient organization saves money, by definition.

People in organizations all demand resources. We have to decide what we can afford. We can't have everything. We can't do everything. We have to make choices. Successful managers are those that know what is needed and what is not.

Question Two:

How can you build an organization that is happy with limited spending?

A. You limit your activities to certain geographical areas.
B. You train everyone in the pleasures of saving money.
C. You limit your activities to certain functions.
D. You can't make the organization happy with spending limits.

> Organizations always consume all their resources.
> People require time and energy in management.
> You defend your decision even against your employees.
> People always complain about how little they are paid.
> The larger the organization you build, the more time you lose in managing it.
>
> **From *The Art of Management***

Answer:

D. You can't make the organization happy with spending limits.

Once we start building an organization, its scope expands. Organizations are dynamic. They take on a life of their own. The larger they are, the more spending they demand.

Once we start building an organization, everyone instantly identifies more tasks that must be performed. They focus on their individual needs. What was once seemed to be a luxury becomes a necessity. We cannot stop this process. Limitations that people agree to today are forgotten tomorrow.

Other costs are initially hidden. New organizations think that they are more cost-effective simply because they haven't yet discovered all the costs of doing business. Many of those costs are in the future. The activities we do today generate problems that are costly tomorrow.

Of course, one of the most important costs is our management time. A manager's time is not his or her own. People can demand so much of our time that we are no longer running the organization. It starts running us. This cost too must be controlled.

Question Three:

Since building an organization is expensive, what is the best strategy to assure success?

A. Plan a large organization that deals with future contingencies.
B. Build the organization slowly, taking your time.
C. Define all the standards and practices in detail.
D. Avoid building a large, complicated organization and conserve your resources.

> Running a large organization is costly and time consuming.
> Delaying action dulls any organization and leads to failure.
> Building complicated organizations drains your energy.
> Decisions that deplete your organization's resources are wrong.
>
> **From *The Art of Management***

Answer:

D. Avoid building a large, complicated organization and conserve your resources.

We build organizations with a purpose. We have to accomplish our purpose to make our organization useful. Usually our purpose includes making a profit but even for nonprofit organizations, we want to use every dime effectively. If the organization spends more time, money, and effort than the value it creates, it is worthless. It consumes value instead of producing it. This is easier to see in a for-profit company, but it is just as true in a nonprofit organization.

If we hope to succeed in our mission, we must keep our costs to a minimum. We can keep our investment small by planning small, simple organizations. We can define what we do narrowly. We can start quickly addressing our purpose. We can let outside organizations compete to provide non-core services. We can outsource any tasks that would grow or complicate our organization.

The high cost of building an organization comes from making costly decisions. Doing more ourselves does not assure our success. It makes success less likely. Bigger is seldom better.

Question Four:

If your decisions cause the organization to lose its initiative, what can you do to recover it?

A. You cannot recover once you have lost the initiative.
B. You only have to be smarter than your competition.
C. You must to be willing to invest everything you have.
D. You must be patient in looking for focussing the organization.

> Let your organization get soft.
> You will then suffer hard losses.
> Expend your resources.
> You thereby eliminate your options.
> As an organization weakens, its employees lose confidence in the future.
> It doesn't matter how smart you think you are.
> You can't build an organization by sacrificing success.
>
> **From *The Art of Management***

Answer:

A. You cannot recover once you have lost the initiative.

The natural tendency is to think that we are smarter, better, or somehow more worthy than other decision-makers. The reality is that we aren't. We make decisions in a competitive market. Once we have lost the initiative, we have little or no chance to recover it.

We must act, not react. The competition in the product and labor markets can put us out of business before we see it coming. We never know how who is competing with us to hire away our people. We often miss who is taking away our customers or our funding. If we lose our focus, people lose faith in our organization. Our competition grows greedier. Our best people find other jobs. Those who use our goods and services drift away. We must not wait for this to happen.

In a competitive market, we must avoid losing the initiative. We need to maintain a vibrant, focused organization that people find attractive. We must avoid stumbling because we cannot recover. We must discourage people from competing with us, not encourage it.

Question Five:

How can you minimize the risks of a competitive market?

A. You can hide from your competition.

B. You can make quick decisions.

C. You can limit your goals.

D. You can carefully pick your opponents.

> You can sometimes decide to act too quickly.
> Still, the slower your decisions, the more often you fail.
>
> **From *The Art of Management***

Answer:

B. You can make quick decisions.

Sun Tzu doesn't want us to be hasty our decisions, but he always wants us to act quickly. Speed is the essence of successful competition. Quick decisions keep the organization moving. They keep it fresh and interesting. People want to work for organizations that are energetic and lively. They don't want to work in moribund environments.

What happens when a decision drags on? Everyone is confused. The costs of a decision mount. People are frustrated. The advantages of every course of action grow more confused and uncertain. Our strategy must be to make decisions as quickly as possible to stem this drain on the organization.

Bad decisions are always possible, but quick mistakes are easier to right from than a long, drawn-out time in limbo. The world of competition is dangerous and uncertain. Small, quick decisions resulting in small mistakes are preferable to large, expensive "successful" decisions that cost the organization its momentum.

Many decisions will not go as planned. We must accept this fact. We must also realize that slow, agonizing indecision is more costly to the organization. Few decisions are fatal. We cannot recover our organization's initiative once we have lost it, but we can always recover from a bad decision.

Question Six:

Why does Sun Tzu warn you about the dangers of decision-making?

A. Because success comes from being careful.
B. Because success comes from being certain.
C. Because decision-making is uncertain.
D. Because decision-making requires commitment.

> You can try to play it safe when you make decisions or you can be successful.
> You can't have it both ways.
>
> **From *The Art of Management***

Answer:
D. Because decision-making requires commitment.

Sun Tzu warns us in the most severe terms about the costs our decisions. He doesn't do this to discourage us from making decisions. He doesn't want this warning to make us slow and cautious. We cannot win if we hesitate or doubt.

He warns us so that we understand the risks. Management is serious. We can bet the future of our organization on our decisions. We must be totally committed to success. We can't make these decisions lightly. Nor can we avoid or delay decisions.

Success requires that we take a chance. We are never going to be successful if we play it safe. An ordinary organization will never excel. We will fail if we do only what everyone else does. Decision-making is a dynamic activity. We must keep one step ahead of our competition. We cannot do that by being predictable.

We can never be certain about our current management plan working. We *can* be certain about our eventual success. We make decisions that take risks, but we must avoid fatal mistakes. We must walk the line. We must be confident enough to act, but not so confident that we can't recognize when our plans aren't working.

Question Seven

How do the risks of decision-making affect its awards?

A. You must minimize the risks to maximize the awards.

B. You must avoid the risks to assure the rewards.

C. You must embrace the risks to discover the rewards.

D. You must understand the risks to understand the rewards.

> You can never completely understand the consequences of any decision.
> You can therefore never completely understand the potential in any decision either.
>
> **From *The Art of Management***

Answer:

C. You must embrace the risks to discover the rewards.

After all his warnings, Sun Tzu puts the dangers of management into perspective. Decision-making is risky. We must appreciate exactly how risky it is. Nevertheless, decision-making is also the source of all success. If we don't embrace decision-making and its risks, we will never know how successful we could have been. How should we react to this dilemma?

We must always be aware that failure is a possibility, but we can't let this knowledge paralyze us. Remember that speed is the essence of competitive management.

We can never completely protect ourselves against failure. Don't try. The future is never certain, but the uncertainty of the future has an upside. The contest may turn out to be more rewarding that we can possibly foresee. The variables that make success uncertain also make wild success possible *if* we take the chance.

We must prepare for unforeseen levels of success just as we prepare for failure. If we are ready for one, we must be equally ready for the other. The problem is that neither the cost nor the payoff is as predictable as we would like to think.

Question Eight:

How do you minimize the risks of decision-making?

A. You must be always be willing to spend more resources.

B. You must get more resources than you think you need.

C. You must stop worrying about profit and loss.

D. You must keep costs low and make the organization productive.

> You want to make good use of your people.
> Don’t keep replacing your employees.
> Find ways to minimize your expenditures.
> Concentrate on creating value for your customers.
> Your customers must support you.
> Give your people only whet they need to create value.
>
> **From *The Art of Management***

Answer:

D. You must keep costs low and make the organization productive.

Sun Tzu approach to building a productive organization might be called “smaller, faster, better.”

We win by being smart, by “making good use our people,” that is, by using the competitive system that Sun Tzu teaches. We keep our investments small and on going costs minimal. We act quickly, before resistance can form against us. We “have our customer support” us that is, we find a way to make the organization pay for itself.

To make this strategy work, we have to avoid being bogged down. We don’t build up large inventories, stockpiles of supplies, or resources that we don’t need. We travel light, without encumbering ourselves with excess baggage. The less baggage we have, the more quickly we can move and the faster we can respond.

We don’t worry about winning. We worry about keeping costs low and quickly generating productivity. We must be prepared to take what the situation gives us. We can’t know beforehand what will work. We can put ourselves in a position to take advantage of whatever we find.

Question Nine:

How should geographic distance affect an organization?

A. You want to spread out over the widest area possible.

B. You want to keep the part of your organization close by.

C. In a modern economy, all organizations are global.

D. Distance should not matter in building an organization.

> You cannot afford to run an organization that is too spread out.
> Coordination becomes too costly.
> Using your internal resources exclusively is also expensive.
> You must continually work to reduce costs.
> Failure comes from exhausting your resources supporting poor decisions.
> Management decisions are what bankrupt a company.
> Poor management can destroy even the most successful organization.
>
> **From *The Art of Management***

Answer:

B. You want to keep the part of your organization close by.

Distance is the most basic cost of running an organization. The smallest organization starts with the advantage of location. People are physically close to one another. They get to know one another and understand each other's responsibilities.

Larger organizations are naturally more spread out. This creates problems in communication even when all the departments are in the same building. Matters become worse when departments are spread out geographical. Physical distance equals psychological distance. E-mail and other such communication tools help, but they don't solve the problem entirely.

Sun Tzu's concern with distance was avoiding the unnecessary costs. Despite dramatic improvement in travel and communication, distance still equals costs. Compact organizations are simply more cost effective. We must make our decisions accordingly.

Question Ten:

All things being equal, what percentage of organizations are successful?

A. All organizations are successful on some level.
B. Most organizations are successful.
C. Half of all organizations are successful.
D. Most organizations are unsuccessful over time.

> Poor management destroys hundreds of companies.
> Bad decision-making destroys organizations.
> Poor organizational structure depletes company resources.
> Lack of resources forces you to abandon assets.
> Your people will lose their faith and forget their abilities.
> They will forget both production and maintenance.
> The machinery of the organization will break down.
> The organization's productivity depends on management.
>
> **From *The Art of Management***

Answer:
D. Most organizations are unsuccessful over time.

This is reality. Organizations are almost temporary structures. Eight out of ten new businesses fail within one year. Most of the Fortune 500 vanishes from the list within twenty years. Large organizations reorganize regularly. Organizations are a formula for productivity. In a competitive world, new and better formulas are constantly displacing old ones.

Many of our decisions as managers are simply wrong. A few can be fatal. The secret is making sure that our decisions don't risk the organization. We must never destroy the faith of our people in our eventual success. Once people lose heart, we create a downward spiral the can easily destroy the organization.

We prepare for losses by keeping our risks small and our decisions quick. Small, quick failures are easier to sustain and recover from the larger major mistakes. They also get us more quickly to the successful efforts that count. Management and all other learning is largely a matter of trial and error. The secret is in surviving the errors.

Question Eleven:

Given the risk of failure, what approach should we have to financial decisions?

A. You should generate more income than expenses.
B. You should continually be looking for new financing.
C. You should show your investors future profitability.
D. You should make sure that losses can be covered by borrowing.

> Because of this, you must make sure that you must run the organization profitably.
>
> **From *The Art of Management***

Answer:
A. You should generate more income than expenses.

At this level, organizations are very simple. We get confused by the modern economy and the vagaries of financial markets. In the end, all organizations must product more value than they consume. If they do not, they will disappear.

Productivity is measured on the same scale as our costs. People must be willing to pay for the goods and services that we produce. Usually, those people are our customers, but not always. Politicians decide on the value of government organizations. Contributors decide on the value of charitable organizations. In every case, these people must see the dollar value in what is produced. They must also see that they cannot get that same value elsewhere at a lesser price.

Profit is the only way we can objectively measure our ability to produce value. We compete for resources and compete for customers and other supporters. In that competition, profit measures our ability to produce value relative to our consumption of resources.

We are in a competitive struggle in every phase of organization. Customers, resellers, and investors choose us because we offer them more than our competition does.

Question Twelve:

Which type of income is the most valuable?
A. Income from key long-term relationships.
B. Income that you can win today.
C. Income that create more income opportunities.
D. Income that bring in new sources of revenue.

> Take a dollar's worth of productivity today.
> It is worth twenty dollars tomorrow.
> Create a dollar's worth of customer's value today.
> It is worth twenty dollars of future potential.
>
> **From *The Art of Management***

Answer:
B. **Income** that you can win today.

Time is a problem. There is a delay between production and the measurement of its value by income flow. The production of value is too complex for us to accurately predict in the future. The longer the time between doing the work and understanding its value, the more risky the enterprise.

Sun Tzu is in a hurry. We can't perfectly predict the future, but we must make decisions about the future. The further we go into the future, the less accurate our predictions are. The longer the production cycle, the less likely we are to predict the value of that production.

Different industries require different cycle times for their products to reach their customers. It takes longer to build and sell a new jet plane than it does to make and sell a new suit of clothes. Making suits is inherently less risky than building jets. In both cases, ever-shorter development-sales cycles are desirable. No matter how long our traditional cycle is, we must work to shorten it. If we don't, competing organizations will.

Only the market can tell us the value of what we do. We can make all types of assumptions about productivity. We don't know anything about value until customers measure it with their dollars.

Question Thirteen:

What is the best way to win the confidence of your employees?
A. Your organization must be well known.
B. Your organization must search for excellence.
C. Your organization must share ownership.
D. Your organization must create more value than it consumes.

> You must support the organization and build confidence.
> You need to create more value in the marketplace than you consume.
>
> **From *The Art of Management***

Answer:
D. Your organization must create more value than it consumes.

Here we come to the heart of Sun Tzu's advice on managing the costs of decision-making. All the warnings about the risks of decision-making come down to this. We must produce more value than we consume. If we do, our people will feel good about what they do and support the organization. If our decisions don't produce good value, no one will be satisfied working with us. Of course, this is way of emphasizing the profitability principle on the pervious page.

Profitability requires mastering two skills.

First, we must minimize our consumption of resources. We don't do this for any idealistic reason. We do it because consumption equals cost. This especially means making the best use of people's time.

Secondly, we must maximize the value we produce. That value is tangible. It is measure by customers who pay us for our goods and services.

We cannot produce value unless we understand what people want from our organization and why. All organizations must be experts in understanding their customers and their needs.

Question Fourteen:

How can your organization find success while competing in the marketplace?

A. By properly managing your financial resources.
B. By doing only what creates overwhelming value.
C. By copying the methods of your competition.
D. By keeping your employees happy.

> You compete for resources against all other organizations.
> Find what is undervalued in the external market and buy it.
> Reward those who find the right products.
> Put your name and logo on these products.
> Mix internal and external products to increase their value.
> Retain your customers by being successful.
> This is what it means to compete in the marketplace while growing more powerful.
>
> **From *The Art of Management***

Answer:

B. By doing only what creates overwhelming value.

Our decisions must limit what our organization does. Our task is to do only what our organization can do better than anyone else. Our organization must know its specialty so well that our people can improve on the best processes available. We must reward those who make us competitive in our narrow specialty.

If we narrow our activities to what we do extremely well, we need support from the broader marketplace to complete our product. Customers only pay for complete solutions. We should provide the rare, critical elements, but we must combine them with everything else our customers need to get the value out of what we offer.

Since our organization's central asset is the skill of our people, we need to keep our people happy. The best way to keep them is to run a successful organization. The more successful we are, the more we can reward our people.

Question Fifteen:
What is the key to your ability to make decisions in a competitive market?
A. Your knowledge.
B. Your strength.
C. Your leadership.
D. Your planning.

> Make success pay for itself.
> Avoid long, expensive projects.
> Your management decisions are the key.
> They determine whether or not you can lead.
> Your decisions determine if your organization is productive or wasteful.
>
> **From *The Art of Management***

Answer:
A. Your knowledge.

We see this theme repeated over repeatedly in Sun Tzu. Success comes from knowledge and information. We must know what resources are available. We must know how to organize people and processes. We must know how to control costs. We must know how to minimize risks. We must know how to make decisions quickly. We must avoid dangerous decisions.

People want to work for managers that know their business. We can never know too much about our business. We need to know understand our industry inside and out. We can never stop learning more. We must recognize a true innovation when we see it.

Most importantly, we must know how to "make success pay for itself." As managers, we control the flow of resources into the organization. Our decisions determine the type of value the organization generates. Our decisions determine whether we create more value than we consume. In the end, building an competitive organization depends upon our knowledge as managers.