shortcut

Why You Need **Smart Enough Systems**

This Short Cut is an adaptation of the forthcoming book ***Smart (Enough) Systems*** (www.prenhallprofessional.com/title/0132347962, Prentice Hall)

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Often this alignment, or lack of it, can be seen in the organization's operational or front-line activities. Indeed, divergent agendas and miscommunication between those working on an organization's strategy and those carrying it out operationally are chronic problems. These disconnects can hinder executive leadership's access to information about what's actually going on and their ability to effect change in organizational behavior when they see the need. A recent study[7] included the following statement:

> *"Most devastating, 95 percent of employees in most organizations do not understand their [organization's] strategy."*

Many things contribute to these disconnects between strategy and operations, among them a lack of agility (the strategy has changed too often for the employees to keep track), execution problems (the decisions made by front-line employees aren't affected by the strategy), and secrecy (the strategy is confidential, proprietary, and a competitive advantage, so fear it will "get out" prevents its dissemination). You must solve these problems to ensure that your strategy is carried out continuously and effectively, top to bottom, by both people and information systems.

Therefore, a dynamic, agile strategy means deciding to act differently and then applying that decision to the way your operations work. However, to change the way your operations work, you have to change the way you make operational decisions.

Operational Decisions Matter

> *"Most discussions of decision making assume that only senior executives make decisions or that only senior executives' decisions matter. This is a dangerous mistake."*[8]
>
> *—Peter Drucker*

When most organizations think about the decisions that matter, they think about the decisions executives or boards make: the major strategic decisions that can make or break an organization. However, Peter Drucker noted that the decisions front-line workers make matter. They interact directly with your customers,

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[7] Q&A with Robert Kaplan, "The Office of Strategy Management," Working Knowledge for Business Leaders, Harvard Business School. March 27, 2006.

[8] Drucker, Peter. "What Makes an Effective Executive," Harvard Business Review, Vol. 82, No. 6, June 2004.

partners, suppliers, and other associates[9] but are often among the lowest paid staff you have. They probably also have the highest turnover and are among the most likely to work for a third party or on a contract basis, yet they make crucial decisions about how your organization treats associates every day.

However, at least you actually have someone interacting with your customers or other associates when front-line workers are making decisions. Sometimes, no person is involved when your computer systems interact directly with your associates. The options your interactive voice response (IVR) system lists, the way your Web site promotes products, the letter your campaign management system decides to send, the price your online booking system calculates for a customer—these operational decisions also influence your associates.

Although the influence of each operational decision is small, their cumulative effect can be huge. As shown in Figure 1, the value of individual strategic decisions is much higher than that of individual operational decisions. However, the cumulative value shows a more balanced picture. The large volumes involved in operational decisions mean that their cumulative impact can meet or exceed that of strategic decisions.

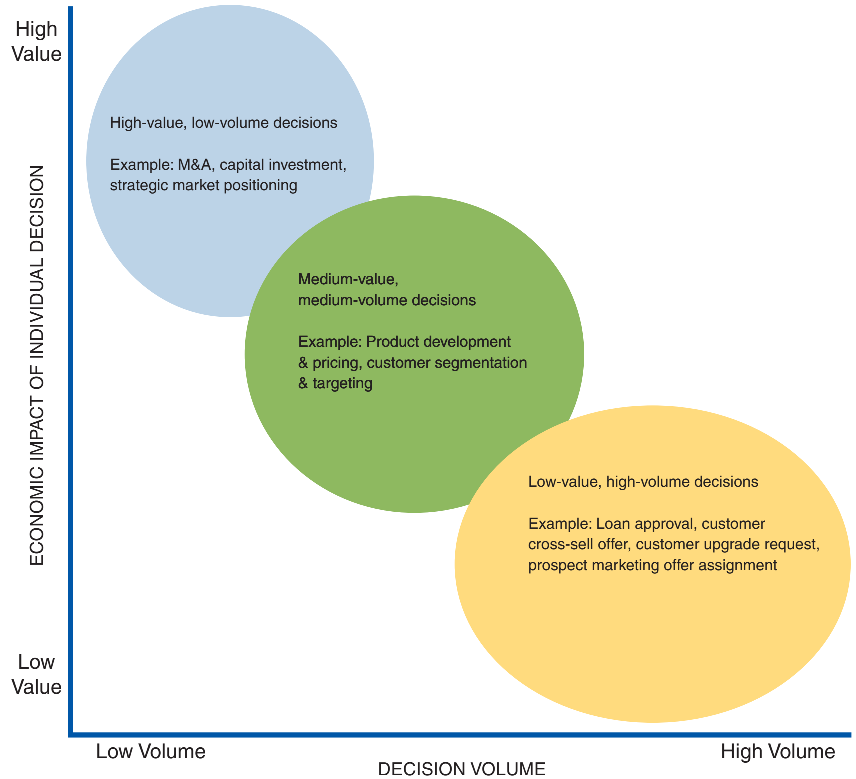

FIGURE 1 The value and volume of different kinds of decisions

[9] *For the remainder of this Short Cut, we will use "associates" to represent customers, partners, suppliers, employees or anyone who might be affected by an operational decision*

Although a single, big strategic decision has a high value, it's likely to be made with planning and analysis, thoughtfully and by the best minds in your organization. In contrast, operational decisions often aren't made so deliberately. This lack of focus is the result of several factors:

- Each decision has a low individual value; it doesn't seem that important to get the cross-sell offer for this customer just right, for example.
- The sheer volume of decisions involved is high; hundreds, thousands, and even millions for larger organizations.
- The number of workers who handle operational decisions makes managing these decisions seem impossible.
- The time available to make most operational decisions is short, not lending itself to time spent in analysis.
- The "right" way to make these decisions changes constantly, so investing in the current approach can seem ill advised.
- Many of these decisions have been effectively delegated to the IT department by embedding them in the code of an existing system, making the decision logic hard to find or change.

Your organization can perform at its best if these high-volume operational decisions can be made at a lower cost, in real time, and with maximum consistency. The systems front-line workers use aren't smart enough to make decisions, however—certainly not good ones. These workers also need technology to help them discover, assess, and address new opportunities and threats as they present themselves. The first person in a position to notice a customer who's unhappy or seems interested in a new product or service is likely to be a front-line worker, not someone in an office looking at a report.

What front-line workers need is better decisions. They need to make decisions in high volume and narrow time windows. If they can't make or execute decisions, they can't deliver good service or effective support. If the decisions are wrong or even suboptimal, your organization suffers. Operational decisions are critical, and making them poorly undermines productivity, prevents customer-centricity and lowers revenue. Poor decision making reduces your organization's overall ability to be successful.

Likewise, your associates assume that the way your systems treat them is the way you want them to be treated. If the Web site, ATM, or IVR system is ineffective, that reflects badly on you. If the systems can't do what customers want, customers will call and speak to representatives, creating wait times that delay other customers.

The operational decisions at the front line of your organization are, cumulatively, essential to your ability to run your organization in the way you intend. Unless these decisions, too, are driven by your strategy and carried out with maximum effectiveness and efficiency, your organization won't perform at its best. Making good operational decisions, however, is getting harder.

Operational Decisions Are Under Pressure

Napoleon Bonaparte said, "Nothing is more difficult, and therefore more precious, than to be able to decide." Making the right operational decision is only getting harder as pressures on the decisions you must make grow:

- Decisions that once might have taken days now have to be made at the speed of the transaction, such as while your customer is completing an online purchase.
- Business objectives used to be simpler and set at the local level. Now those objectives are often set at the corporate level and involve trade-offs between risk, resource constraints, opportunity costs, and other factors.
- You're forced to comply with more new regulations, stricter and more complex rules, shorter deadlines, and more serious consequences for noncompliance.
- You need to change your strategy—such as how to manage customers to retain them in the face of competition—more frequently and more rapidly to deal with competitive forces, environmental changes, and changes in your customer base.
- Decisions once owned by a single group might now be shared by multiple departments and have to be coordinated across channels and regions.

- Some decisions that were handled with manual review processes now occur in volumes or time frames that make manual processes impractical.
- The value of a decision could once be measured in terms of the cost and time needed to make it; now other objectives are also used to measure value.

Implementing your strategy means making decisions that support it every day and at all levels. It means making these decisions quickly and keeping those decisions aligned with a strategy that adapts and changes. It means turning operational decision making into an asset, not a liability.

Operational Decision Making as a Corporate Asset

If operational decisions must be made well for your organization to deliver on its strategy, they can't be made randomly. They have to be made systematically. You have to turn operational decision making into a corporate asset you can measure, control, and improve. After all, when associates interact with you, they consider every decision you make to be a "corporate" one—that is, a deliberate one.

Every day, you must make decisions faster and across more channels and product lines, which makes it harder to ensure that the decisions your organization makes are the best ones *and* the ones you intended to make. What makes an operational decision the right one?

Characteristics of Operational Decisions

To be effective, an operational decision must be precise, agile, consistent, fast, and cost effective:

- **Precise**—Good operational decisions use data quickly and effectively to take the right action, behaving like a knowledgeable employee with the right reports and analyses. They use this data to derive insight about the future, not just awareness of the past, and use this insight to act more appropriately. They use information about customers to target them through micro-segmentation and extreme personalization. They use behavioral predictions for each transaction or customer to ensure that risk and return are balanced properly, and they use the information a customer (or supplier or partner) has provided (explicitly or implicitly) to improve the customer experience.