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Organization Practice

Decision making in the age of urgency

Decision making takes up a lot of time, much of it used ineffectively. New survey results offer lessons for making quick, high-quality decisions that support outperformance.

April 2019

Making good business decisions is a critical part of every executive's job and is vital to every company's well-being. Yet in a new McKinsey Global Survey on the topic,[1] only 20 percent of respondents say their organizations excel at decision making. Further, a majority say much of the time they devote to decision making is used ineffectively.

The survey asked about three common decision types, ranging from those that are infrequent but significant in scope to smaller, routine decisions that can be delegated.[2] Most respondents report poor decision making across the decision types we tested. And while most organizations seem to make trade-offs between velocity (how fast was the decision made and executed?) and quality (how good was the decision?), faster decisions tend to be higher quality, suggesting that speed does not undercut the merit of a given decision. Rather, good decision-making practices tend to yield decisions that are both high quality and fast.

Indeed, respondents at the few companies that excel at decision making, which we call decision-making "winners," report the ability to perform well on both measures while also seeing better financial results.[3] Specifically, the winners make good decisions fast, execute them quickly, and see higher growth rates and/or overall returns from their decisions. What's more, respondents at these organizations are twice as likely as others to report superior returns from their most recent decisions.[4] Our analysis of their responses points to the specific decision-making practices that are most associated with being a winner.

Only 20 percent of respondents say their organizations excel at decision making. Further, a majority say much of the time they devote to decision making is used ineffectively.

[1] The online survey was in the field from February 13, 2018, to February 23, 2018, and garnered responses from 1,259 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of them, 1,228 are familiar with decision making at their organizations.
[2] For more on common decision types, see Aaron De Smet, Gerald Lackey, and Leigh M. Weiss, "Untangling your organization's decision making," *McKinsey Quarterly*, June 2017, McKinsey.com.
[3] These findings confirm our earlier research on decision making. For more, see Tim Koller, Dan Lovallo, and Zane Williams, "How to catch those fleeting investment opportunities," December 2014, McKinsey.com.
[4] That is, a financial return of 20 percent or more from the most recent big-bet or cross-cutting decision at respondents' organizations. We measured market outperformance as the rate of revenue growth in the past three years, relative to peers, and for respondents who answered for big-bet or cross-cutting decisions, the average financial returns from their organizations' decisions of that type.

The state of play of organizational decision making

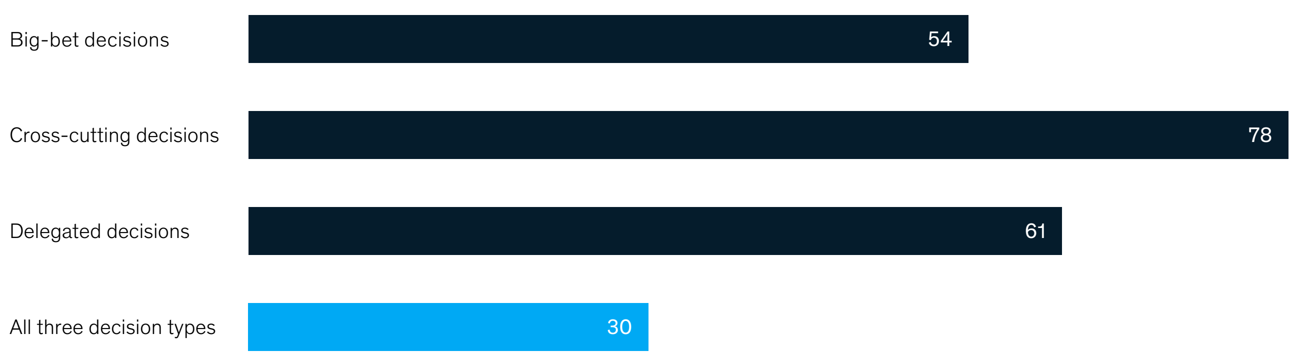
Consistent with our earlier work,[5] the survey results confirm that not all decisions are created equal; different types of decisions require different approaches. We asked about three decision types in particular: big-bet, cross-cutting, and delegated decisions.[6] Big bets are infrequent and high-stakes decisions, often with the potential to shape the company's future—for example, acquisitions and annual resource allocation. Cross-cutting decisions, like big bets, are broad in scope, but they are more frequent and familiar. They consist of a series of smaller, interconnected decisions made by different groups in the company as part of a collaborative, end-to-end decision process, as with a pricing decision. Finally, delegated decisions are frequent decisions that are much narrower in scope, such as changes to HR policy. These decisions are effectively handled by a single individual or working team made accountable for the decision, and they usually require limited input from others.

Only 30 percent of all respondents report familiarity with all three decision types. Among the three, respondents report the greatest exposure to cross-cutting decisions and the least exposure to big-bet decisions (Exhibit 1).

Exhibit 1

Less than one-third of respondents say they are familiar with every decision type, and the largest share report exposure to cross-cutting decisions.

Decision types with which respondents are familiar, % of respondents[1]



[1] Respondents who said "none of the above" are not shown; total n = 1,259.

[5] Aaron De Smet, Gerald Lackey, and Leigh M. Weiss, "Untangling your organization's decision making," *McKinsey Quarterly*, June 2017, McKinsey.com.

[6] We have also observed a fourth decision type: ad hoc. These decisions arise episodically, and their impact depends on how concentrated they are. In this survey, we did not ask about this decision type, because ad hoc decisions are circumstantial by nature and vary too greatly.

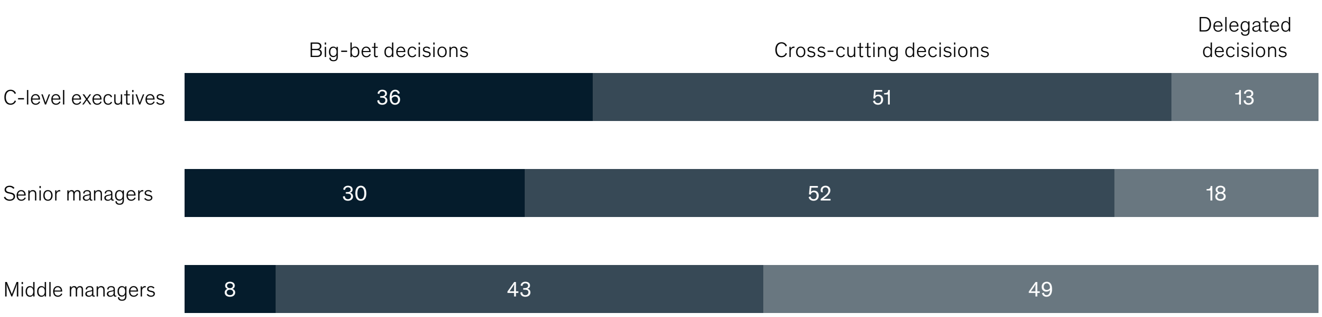
This is not so surprising, given that cross-cutting decisions are broad in their scope and impact, and are made frequently. But even at the top, C-level executives and senior managers report the greatest exposure to cross-cutting decisions (Exhibit 2). By contrast, middle managers say they are most familiar with delegated decisions and least so with big bets.

One of the survey's most noteworthy insights is how much time decision making really consumes. On average, just over half of respondents report spending more than 30 percent of their working time on decision making, and more than one-quarter spend a majority of their time making decisions. That share of time increases with seniority; for example, 14 percent of C-suite respondents say they spend more than 70 percent of their time making decisions. Even so, many respondents say this time is not well spent—and this inefficiency is an expensive problem (see sidebar "The potential costs of ineffective decision making: A thought experiment"). On average, 61 percent say most of their decision-making time is used ineffectively. Among C-levels, 57 percent say the same.

Exhibit 2

Across the three decision types, C-level executives and senior managers report the greatest exposure to cross-cutting decision making.

Decision type with which respondents are most familiar, % of respondents[1]



[1] Question was asked only of respondents who said they are familiar with more than 1 decision type. For C-level executives, n = 273; for senior managers, n = 323; and for middle managers, n = 213.

Decision speed and quality

Two other noteworthy opportunities for improvement are the quality and speed of decision making. Overall, 57 percent of respondents agree that their organizations consistently make high-quality decisions—just slightly likelier than a coin toss. With respect to speed, only 48 percent of respondents agree that their organizations make decisions quickly. And just 37 percent of respondents say their organizations' decisions are both high in quality and velocity.

The data suggest that speed is a bigger challenge than quality when making all three types of

The potential costs of ineffective decision making: A thought experiment

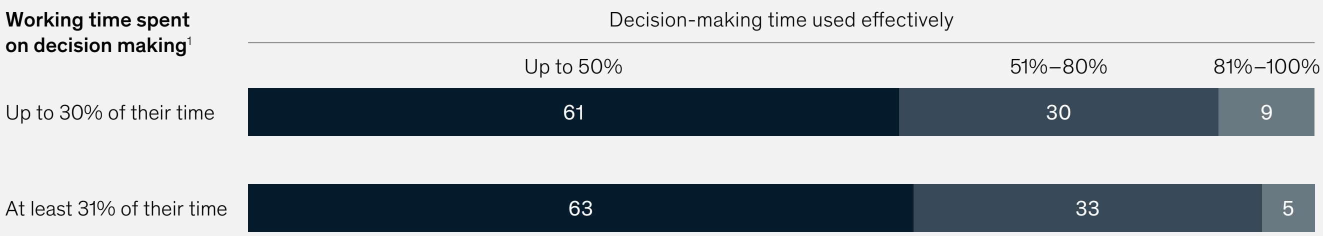
Ineffective decision making has significant implications for company productivity. On average, respondents spend 37 percent of their time making decisions, and more than half of this time was thought to be spent ineffectively. For managers at an average Fortune 500 company, this could translate into more than 530,000 days of lost working time and roughly $250 million of wasted labor costs per year.[1]

According to our results, the level of inefficiency does decrease with seniority. While 68 percent of middle managers say most of their decision-making time is inefficient, 57 percent of C-level executives report the same. Looking more closely at the data, there is little evidence of economies of scale. The respondents who dedicate most of their time to decision making rate themselves no better than their peers at using that time well (exhibit).

Exhibit

Respondents who devote much of their time to decision making indicate no advantage in using that time more effectively.

Share and effectiveness of time spent on decision making, % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1] For respondents who spend up to 30% of their time on decision making, n = 493; for respondents who spend at least 31% of their time on decision making, n = 571.

[1] Assuming that at an average Fortune 500 company of 56,400 employees, 20 percent are managers who work 220 eight-hour days per year: these managers spend an average of 37 percent of their time making decisions, and 58 percent of this time is used ineffectively. The estimate of lost labor cost is based on the 2017 median salary of management occupations in the United States, which was $102,590. "Fortune 500," *Fortune*, 2018, fortune.com. "Management occupations," *Occupational Outlook Handbook*, US Bureau of Labor Statistics, 2018, bls.gov.

decisions, and that the results on both measures vary significantly by type.[7] Sixty-five percent of respondents agree that their organizations' big-bet decisions are high quality, while 54 percent of respondents say the same for cross-cutting decisions, and just 46 percent for delegated decisions (Exhibit 3).

What the winning organizations do

While speed and quality issues plague many companies' decision-making processes, the results also reveal a group of organizations that are excelling. We define these winning organizations—which are represented by only 20 percent of respondents—as those making high-quality

Exhibit 3

While speed is a bigger decision-making challenge than quality, the results on both measures vary by decision type.

Respondents who agree that their organizations' decisions are high quality and high velocity,[1] %

	Description of decision type		
Most familiar decision type	High quality	High velocity	High quality and high velocity
Big-bet decisions	65	55	44
Cross-cutting decisions	54	43	34
Delegated decisions	46	40	27
Average across all decisions	57	48	37

[1] For respondents familiar with big-bet decisions, n = 522; for respondents familiar with cross-cutting decisions, n = 447; for respondents familiar with delegated decisions, n = 243; and for all respondents, n = 1,212.

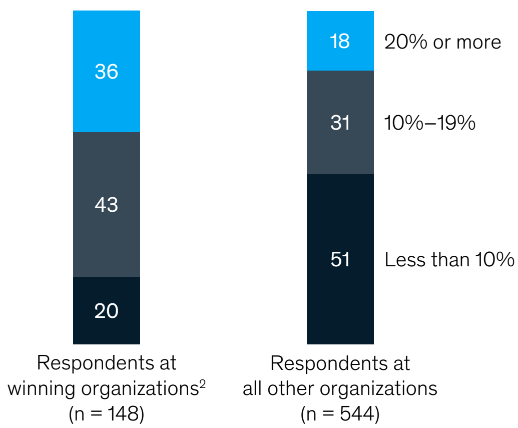
[7] In the survey, respondents were asked the extent to which they agree that their organizations—or their organizations' senior executives, for big bets—consistently make high-quality decisions.

decisions fast, executing them quickly, and demonstrating higher growth and/or overall returns from their decisions, relative to their peers (see sidebar “Our survey methodology”). What’s more, the data suggest that respondents at winning organizations are twice as likely as others to say their most recent decisions have delivered financial returns of at least 20 percent (Exhibit 4).[8]

Exhibit 4

Respondents at winning organizations are twice as likely as others to say their recent decisions have delivered returns of 20 percent or more.

Financial returns from organizations’ most recent decisions,[1] % of respondents



Note: Figures may not sum to 100%, because of rounding.
[1] Question was asked only of respondents who say they are most familiar with big-bet decisions or cross-cutting decisions.
[2] Respondents who said (a) that their organizations make high-quality decisions, (b) that their organizations make and execute decisions quickly, and (c) that their organizations see higher growth rates and/or overall returns from their decisions.

Our research indicates that the quality and speed of decision making are both strongly associated with overall company performance. For example, having high-quality big bets can deliver substantial increases in the returns from recent decisions.[9] The same is true of speed: faster decision-making processes and faster execution of decisions both link to higher returns.

Further analyses reveal the importance of making decisions that are both high quality and fast, a combination that is much more common at the winning organizations. One might expect that consistently excellent decisions involve much deliberation and therefore take longer to make, so companies must compromise quality if they want to make decisions more quickly. However, the results indicate that speed and quality outcomes are highly interrelated. According to respondents, the organizations that make decisions quickly are twice as likely to make high-quality decisions, compared with the slow decision makers.

To understand how the winning organizations make decisions differently from all others, we ran logistic regressions to identify the specific decision-making practices that are most associated with being a winner (Exhibit 5).

These organizations have adopted a few foundational best practices that support good decision making across all three decision types:

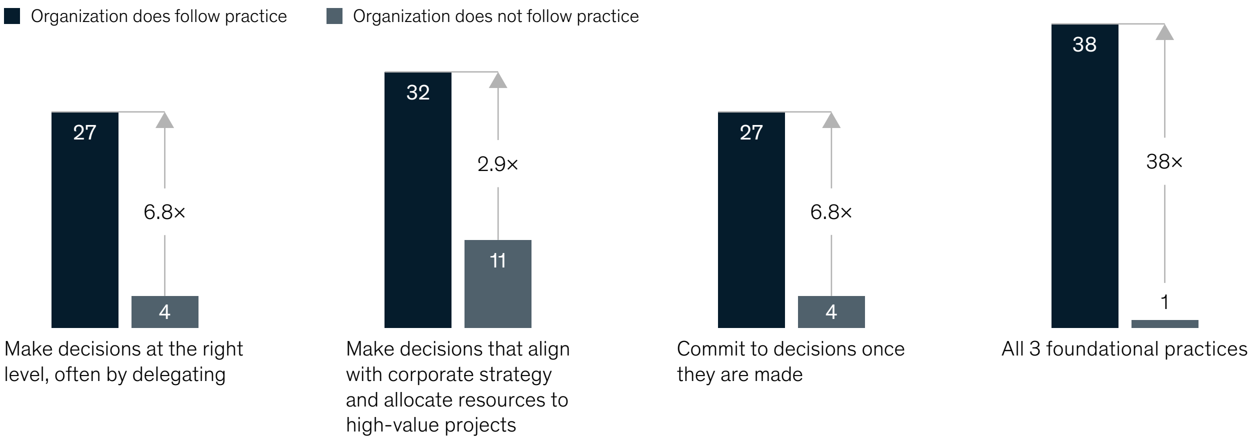
1. *Make decisions at the right level.* When respondents say decisions are made at the right level—which, in many cases, means delegating decisions down to lower levels of the organization—they are 6.8 times more likely to

[8] This analysis included only responses from those answering for big-bet or for cross-cutting decisions. Respondents who answered the survey with respect to delegated decisions were not asked about the financial returns from their organizations’ most recent delegated decisions.
[9] We define “substantial” as a double-digit percentage-point increase in the returns that respondents report from their companies’ most recent decisions.

Exhibit 5

The results reveal three foundational practices that support good decision making across every decision type.

% likelihood of being a winner,[1] by organizations' adoption of foundational practices



[1] Respondents who said (a) that their organizations make high-quality decisions, (b) that their organizations make and execute decisions quickly, and (c) that their organizations see higher growth rates and/or overall returns from their decisions.

be part of a winning company. This result is closely related to another finding: both high-quality decisions and quick ones are much more common at organizations with fewer reporting layers.[10]

2. *Focus relentlessly on enterprise-level value.* It might seem intuitive, but only 41 percent of respondents say their organizations' decisions align with the corporate strategy and that they allocate human and financial resources toward high-value projects. Those that do focus on enterprise-level value in this way are much more likely (2.9 times) than others to be a winner.

3. *Get commitment from the relevant stakeholders.* The winning organizations also build commitment to executing decisions once they are made, especially among the people who are ultimately accountable for a given decision. When respondents say their companies are committed to execution—which requires that accountable stakeholders know the decision process was robust and that these people were involved in a meaningful way—they are 6.8 times more likely to be at winning companies. While fostering commitment can mean involving more people and getting more buy-in, that doesn't mean companies have to compromise on speed. Neither

[10] Overall, 70 percent of respondents at organizations with one to three reporting layers agree that their companies make high-quality decisions, compared with 53 percent at organizations with four to six layers and 45 percent of those with seven or more. Similarly, 61 percent of respondents at organizations with one to three layers agree that their companies make decisions quickly, compared with 47 percent at organizations with four to six layers and 38 percent at organizations with seven or more.

of those actions necessarily requires giving everyone a vote or requiring unanimous agreement, which could slow a decision.

Beyond the foundational practices, the winners also demonstrate best practices that are specific to each decision type (Exhibit 6):

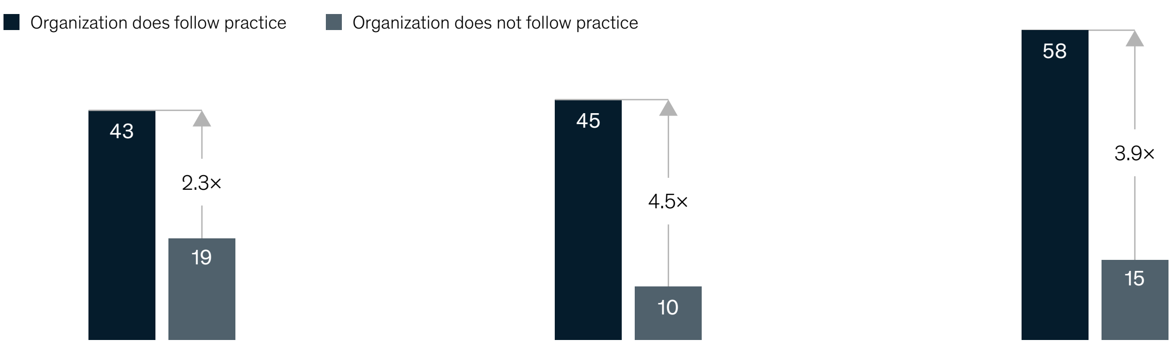
— For **big bets**, the most significant predictor of successful decision making is the quality of discussions and debate. Ensuring high-quality debate when making a big-bet decision involves three things: that decision makers explore assumptions and alternatives beyond the given information, that they actively seek information that would disconfirm their initial hypotheses, and that they designate one more or more members of the senior-executive committee to play devil's advocate and present counterarguments to the group. When respondents say their companies do all three, they are 2.3 times more likely to be winners. The results also show that, while speed is important for decision making, quickly committing to big-bet decisions without reaching consensus among leaders does not beget success.

— For **cross-cutting decisions**, the winning organizations focus on process and how to run decision meetings as effectively as possible. Since cross-cutting decisions are often the culmination of many smaller decisions made over time and involve people in different parts of the organization, the process for how the decision

Exhibit 6

Winning organizations tend to demonstrate best practices that are specific to each decision type.

% likelihood of being a winner,[1] by organizations' adoption of decision-specific practices



Big-bet decisions: Increase quality of interactions during decision making by exploring alternatives, challenging initial hypotheses, and appointing a devil's advocate to present counterarguments.

Cross-cutting decisions: Focus on process and coordination of decision meetings to encourage collaboration among individuals and avoid silos.

Delegated decisions: Empower employees to make decisions by creating a strong sense of ownership and accountability and encouraging a greater inclination toward action.

[1] Respondents who said (a) that their organizations make high-quality decisions, (b) that their organizations make and execute decisions quickly, and (c) that their organizations see higher growth rates and/or overall returns from their decisions.

is made, who is involved (and when), and how dialogues and discussions occur is a key success factor. But what does a good process look like? The companies that excel at making cross-cutting decisions emphasize effective coordination among different stakeholders. They are also focused on critical issues—for example, that committees spend their time and resources on the decisions that are most important to the business. When these practices are followed, organizations are 4.5 times more likely to be a winner.

By contrast, the results show that having only clearly defined roles, accountability, or decision rights is not sufficient to win.

— And with **delegated decisions**, the winning organizations empower their employees to make decisions through coaching and providing space for people to fail safely. Doing both makes the odds of being a winning organization 3.9 times greater. According to the results, the key ingredients for empowerment are giving people a strong sense of ownership and accountability for the decisions in which they're involved, as well as fostering a bias for action—especially when people are making time-sensitive decisions.

These practices are far more important to decision-making success, the data suggest, than establishing clear roles or processes or giving guidelines for when to escalate a decision for approval.

What's more, we found that the effects of these practices on success are cumulative. When companies follow more of the foundational practices and those that are decision specific, the chance of being a winner is much higher. With delegated decisions, for instance, respondents are 1.7 times as likely to say their organizations are winners if they follow both types of best practices than if they follow only the foundational ones (Exhibit 7).

Exhibit 7

The likelihood of being a winner is higher when an organization follows both the foundational practices and those that are decision specific.

% likelihood of being a winner,[1] by organizations' adoption of practices for delegated decisions[2]

[1] Respondents who said (a) that their organizations make high-quality decisions, (b) that their organizations make and execute decisions quickly, and (c) that their organizations see higher growth rates and/or overall returns from their decisions.
[2] Includes only respondents who answered about delegated decisions. For respondents at organizations following both foundational and best practices for delegated decisions, n = 20; for respondents at organizations following all foundational practices, n = 38; and for respondents at organizations following neither type of best practices, n = 74.

Looking ahead

Getting to great decision making is not easy. But there are ample opportunities for organizations to increase their odds for success, including the practices that follow:

— *Segment your decisions.* Each decision type relies on fundamentally different success factors, so it's imperative that companies and decision makers approach each one differently. For instance, empowerment is critical to making effective delegated decisions, while defined processes can slow down those types of decisions. The opposite is true for cross-cutting decisions, where well-designed processes and well-run decision meetings are the keys to effective decision making.

— *Understand the root causes of decision-making pitfalls.* Many factors can lower the quality and slow the speed of decision making. So identifying these factors through tools such as employee surveys or diagnostics—and then addressing them effectively—requires a nuanced approach. If a too-high number of stakeholders is the root cause of slow decision making, for example, there is a huge risk that organizations could overcorrect by excluding the inputs from too many key decision makers and, potentially, reduce those people's commitment once the decision is made. Instead, the root cause of the problem to solve would be *how*—rather than how many—stakeholders are involved in decision meetings.

— *Go after quality and speed.* Quality and speed are both critical outcomes for every decision type and are keys to our definition of decision-making success. Yet the relative significance of each one can vary depending on the situation. For any decision where the level of organizational risk is low or can be easily mitigated, or where the decision can be undone once it has been made, velocity is more important than quality. With delegated decisions in particular, speed is extremely critical and enabled by decision making at the right level of the organization. When the people closest to a decision are empowered to act autonomously as changes arise, the conditions are better for speedier (and more successful) decision making. However, quality is much more critical with big-bet and cross-cutting decisions. With these types of decisions, the risks involved are much more significant and require more care to manage, which is enabled by having the right people in the room, well-managed meetings, robust debate, and good coordination. One way to achieve both quality and speed, across decision types, is through agile organizational structures: for example, small and autonomous teams that are empowered to make rapid, iterative decisions and have the best understanding of the decision at hand.[11]

The survey content and analysis were developed by **Iskandar Aminov**, an associate partner in McKinsey's Perth office; **Aaron De Smet**, a senior partner in the Houston office; **Gregor Jost**, a partner in the Vienna office; and **David Mendelsohn**, an analyst in the New York office.

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[11] For more on agile teams, see Olivier Bossert, Alena Kretzberg, and Jürgen Laartz, "Unleashing the power of small, independent teams," *McKinsey Quarterly*, July 2018, McKinsey.com.

Our survey methodology

The online survey was in the field from February 13 to February 23, 2018, and garnered responses from 1,259 participants in 91 countries, all of whom are members of McKinsey's Online Executive Panel. Of those respondents, 1,228 said they were familiar with at least one decision type at their organizations; only those who were familiar with decision making answered the full survey and are included in the results. By and large, the sample reflects the panel's overall characteristics. The largest proportion of respondents (36 percent) are located in Europe, followed by those in North America (25 percent), and no single industry represents more than 15 percent of the total responses. Forty percent of respondents work in the general-management or strategy functions, and the sample skews toward upper management: one-third of respondents are C-level executives, and 35 percent are senior managers. A slight majority (55 percent) work for privately owned companies, while nearly one-third work for publicly owned firms, and 62 percent are at companies with annual revenue of less than $1 billion.

Unweighted data were used in our analyses, which included a range of statistical techniques. For instance, exploratory and confirmatory factor analyses were used to identify related practices within each decision type, and logistic regression was used to determine the impact of each practice on the probability of being a decision-making winner.

To determine which organizations were decision-making winners, based on the survey responses, we created an index of three outcomes of decision making:

1. **Decision speed.** Respondents say the average speed of their organizations' decision making is "about right" or "too fast," as opposed to "far too slow," "too slow," or "far too fast." For big-bet and cross-cutting decisions, this also includes respondents who say the average speed at which their organizations execute decisions is "about right" or "too fast," as opposed to "far too slow," "too slow," or "far too fast."[1]

2. **High quality of decisions.** Respondents "agree" or "strongly agree" that the decisions made by their organizations (or their senior executives, in the case of big bets) are consistently of high quality.

3. **Superior market performance.** Respondents say their organizations' rate of revenue growth in the past three years is "much higher," "higher," or "about the same" as that of their industry peers, as opposed to "much lower" or "lower." For big-bet and cross-cutting decisions, this also includes respondents who say the average financial returns from their decisions are "far above average," "above average," or "average" compared with the average returns of their peers' decisions. Big-bet and cross-cutting respondents are considered winners if they meet one or both of these criteria.

Of the total sample, 20 percent (or 234 respondents) qualified as winners.

[1] The question on organizations' speed at executing decisions was asked only of respondents who answered the survey with respect to big-bet or cross-cutting decisions.