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CEO's Are Only As Good As Their Last Decision

Over the last two months Netflix has been making headlines regarding the strategic decisions they made on their DVD and video streaming services. Reed Hastings, CEO and Founder, has received enormous criticism for Netflix's decision to separate the two services and raise prices by 60%. Netflix has been severely punished by the market for losing customers from its strategy flip-flop, compounded by problems with its international expansion and content. So how did Reed Hastings and Netflix's management bungle these strategic decisions? The root cause was a broken decision making process. Over relying on his own judgment undermined his ability to make a good decision. In the now famous blog post, CEO Hastings said "I messed up," and added "In hindsight, I slid into arrogance based upon past success."

Recent research cited in *Organizational Behavior and Human Decision Processes Journal* found that people in positions of power are less likely to take advice from others. They have a high level of confidence in their own judgment and therefore do not feel the need for outside views. This over confidence bias leads to more flawed decisions.

So how can CEOs reduce the chance of making bad strategic decisions? They need to embrace a decision making style that: gathers and analyzes facts; listens to opinions from managers; and implement a process that turns insights and judgments into sound decisions. In making major strategic decisions like, changing pricing strategy, launching a new-product, or investing in a large capital expenditure, the critical thing to do is to ask for opinions of managers before acting, so choices and judgments can be challenged.

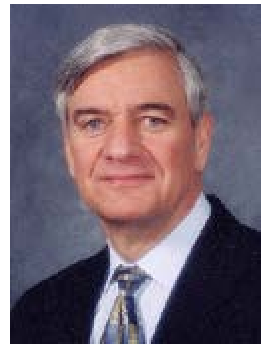
Based on research by McKinsey & Co ("The Case for Behavioral Strategy," *McKinsey Quarterly, March 2010*), process is the most important element. The study concludes that by fostering a collaborative approach to strategic decision making, CEOs can improve the overall quality of decisions by incorporating the collective intelligence of their managers.

Embracing a collaborative style of strategic decision making requires significant effort and commitment. However, it can provide an attractive payoff. Based on McKinsey's research, organizations that reduced the effect of bias in their strategic decision making achieved returns of up to seven percentage points higher.

We are always interested in your thoughts and comments. E-mail us about your experiences. We'd like to hear from you.

AlbuInfo

Albu consulting is a strategy management consulting firm. We work closely with goal driven, proactive owners/CEOs of middle market companies that are open to new ideas and passionate about increasing the value of their businesses today and tomorrow. We engage and energize leadership teams to formulate robust business strategies and follow through on execution of strategic initiatives. We help our clients achieve and exceed all their business objectives by making strategy management an organization competency and part of everyone's day-to-day



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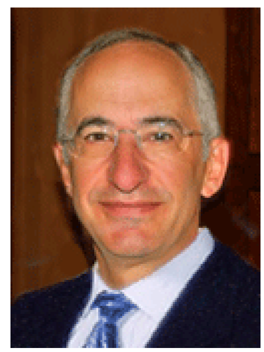

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"Leadership is a team game. You have to solicit help from others or you're likely to under-achieve your potential"

Robert Steven Kaplan (From his book: Looking in the Mirror: Questions Every Leader Must Ask) responsibility.

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