

## DECISION MAKING MODELS IN THE JOB PLAN

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### ABSTRACT

VE/VA increases value by reducing cost while retaining performance and customer satisfaction. Practitioners know this, and can show managers and executives repeated and presumably compelling examples of success. Still, managers do not use VE/VA as much as we think they should, much to the frustration of VE/VA practitioners. Why? Because VE/VA practitioners often use an economic model of administrative behavior. This model assumes managers want to maximize profit and value. A more useful model is Herbert Simon's administrative behavior model, for which he was awarded (in part) a Nobel Prize in economics. Incorporating Simon's model in the VE/VA job plan better equips practitioners to practice VE/VA effectively.

### INTRODUCTION

Too often, we, as VE/VA practitioners, use the incorrect model of managerial behavior when we try to sell VE/VA to management.

Someone once said the best ideas fit on the back of a business card. Important ideas are often concise. I suggest understanding how managers make decisions is an important idea. Understanding the "right" model of managerial behavior and decision making can help answer the perennial question "Why can't we get management to do more VE?". Understanding the problem is the first step toward finding a solution.

"Why can't we get management to do more VE/VA?". Given the diligence with which practitioners work to improve their value increasing skills (so in evident at each year's SAVE Conference), there is genuine puzzlement.

I suggest we often falter in our efforts to convince managers and decision makers to use VE/VA because we assume, wrongly, that if we show them good analyses and rationale, they will see the logic and reasonableness of our cause, and direct increased use of VE/VA. We show them good analyses and rationale because that's what we do well - analyze and reason. We assume this information is persuasive. We assume this because we use, perhaps not consciously, what some describe as an "economic model" (what some might call the "one best way" Frederick Taylor model) in our methodology.

### DISCUSSION - ECONOMIC vs ADMINISTRATIVE MODELS

*If you're going to try to sell something to someone, it helps if you have some idea of what they want to buy.*

We sell analysis and reason in the effort to sell increased value. Too often, decision makers aren't buying.

Former President of France George's Pompidou once commented on the pitfalls of politics, and we can take a lesson from this when we consider how

we deal with decision makers in general. He said "There are three ways for a politician (manager) to end his career - chasing women, gambling, and trusting experts. Chasing women is the most pleasant way to end your career, gambling was the fastest, and trusting experts the most sure way to end your career."

Often decision makers don't trust experts, however excellent and compelling the analysis.

We use an economic model and approach in our analyses because if we can't make at least a *prima facie* case, in a reasonably rigorous manner, that our recommendations will retain/increase performance while reducing cost, we'll get thrown out of the office, and deservedly so. So, we use the "economic model" in our Job Plan. We get good at it. We study this model/approach. And, when you present your recommendations to management, you "dance with the one you brought to the dance", and you present based exclusively on the rational economic model.

*If all you have is a hammer, everything looks like a nail.*

We need to be more refined in our use of models and assumptions. The economic model is necessary for the Job Plan, but the last step - the Presentation Phase, also must use another set of assumptions if it is to be persuasive - the presentation phase must recognize decision makers use what Herbert Simon called "satisficing" in the decision making process.

If we are aware of other models other than the economic model, we can begin the process of determining how to incorporate that information in the Job Plan.

Decision makers are subject to what Simon calls "bounded rationality":

"The capacity of the human mind for formulating and solving complex problems is very small compared with the size of the problems whose solution is required for objectively rational behavior in the real world - or even for a reasonable approximation to such objective rationality." (Simon 1957: 198)

Simon defines three categories of bounds:

- Mental skills, habits, and reflexes;

- Extent of knowledge and information possessed;
- Values or conceptions of purpose differentiation between the individual and organization.

Simon calls the decision maker "The Administrative Man", as opposed to "Economic Man". The Administrative Man knows all possible outcomes cannot be considered - even important outcomes can be and are often overlooked.

This next paragraph summarizes Simon's ideas insofar as they are germane to this paper. Read it carefully.

Simon believes decision makers work to simplify their task by trying (and generally succeeding) to make decisions incrementally. They look for a decision that includes elements in which he/she has confidence (pattern recognition), which doesn't necessarily maximize value, but is "good enough". The manager "satisfices" - the manager looks for a course of action that is satisfactory, rather than seeking the optimal solution, and follows routines and applies learned rules of thumb in order to avoid uncertainty and reduce complexity.

When we, using VE/VA, offer "out of the box" solutions, often radically differently from current situations. We do this to maximize value. That's not always what the decision maker is looking to buy.

Managers will never have all the information they want prior to making a decision. Given the limits of what they know, in making decisions, they tend NOT to look at the value increased, but at the RISK involved in making the decision. In other words, we brief value, they listen for risk, and look for familiar patterns. VE/VA practitioners are good at briefing value. We tend not to focus on risk, but that's what our customers want to hear. We must address both.

#### INFORMATION vs LEARNING

Simon's view grew out of his study of the nature of reason, and the relation of reason to our ability to process information. The way we process information influences, if not determines, how we make decisions.

Simon believe management is best understood as, essentially, a decision making process. How do organizations use information? What is the effect

of organization values, culture, and norms on how we process information and make decisions? What is the relationship between how we process information and how we react to the world around us? These are complex questions. Relevant to our discipline, they are questions that impact how much organizations use VE/VA.

Simon says that management is decision making, so the best way to analyze organization behavior is to analyze the structure and processes of decision making in organizations.

Other students of organization behavior have built on this approach, most notably Peter Senge at the Sloan School of Management at MIT. Senge focuses on how organizations process organizations from the perspective of learning. He describes organizations as “knowing” organizations, or “learning” organizations.

Senge believes that a frequent obstacle to effective organization change (defined in this context as an organization’s ability to be flexible and adaptive – a critical capacity in today’s competitive environment) is an organization’s unwillingness to “unlearn their past”.

Senge notes organizations instead tend to rely on familiar, incremental patterns of decision making. Sound familiar? This is a perspective Simon evolved over 25 years of study and analysis. Senge builds on this. Simon was awarded a Nobel prize for his work, and Senge is considered by many to be at the conceptual cutting edge on organization analysis. Senge builds on Simon, and we can learn from both.

Organizations that cannot effectively process information that does not fit familiar patterns, specifically information relating to changing business conditions, will fail. Senge calls these organizations learning disabled.

Be aware (and beware!) if you’re briefing a “learning disabled” organization. Deal with the situation accordingly.

### SUMMARY

Follow the Job Plan. Your presentation must include rigorous ‘economic’ analysis.

In the Presentation Phase, present your analysis – it must pass muster. But – don’t forget to also speak to the “Administrative Man”. That’s who you

must, in the final analysis, persuade. If you’re going to try to sell something to someone, it helps if you have some idea of what they want to buy.

We, as VE/VA practitioners, need to look up once in awhile from our discipline and see what’s going on in other parts of the world. Generally, I believe we’re pretty good at doing this. VE/VA incorporates a broad range of analytic tools and concepts in the effort to support and buttress the core VE/VA discipline of function analysis. We do a good job “borrowing” and using a broad range of tools to support our efforts. Picasso said (when questioned about the similarity between a recent innovation his painting style and a recent exhibit of primitive ceremonial masks at a Paris museum) – “Good artists borrow – great artists steal”.

I suggest we borrow from Herbert Simon, Peter Senge, and others, who will help us understand the organizational world within which we, as VE/VA practitioners, must operate.

I strongly recommend VE/VA practitioners read Simon and Senge. Neither author is what I would call an “easy read”. Their ideas (particularly Simon’s) are closely reasoned, and deal with abstract concepts often based in the murky world of social science. But - VE/VA practitioners regularly call upon others to do ‘out of the box’ thinking. We ask others to help develop new and different ways to doing business, and we regularly ask management approve and implement often radically new approaches.

I suggest it is reasonable to impose on ourselves the requirement that we, too, do some out of the box thinking, and examine how management makes decisions. We should take what we learn from our examination, and incorporate it into our VE/VA procedures, and increase the effectiveness of our practices.

We need to understand that when we make a presentation, we must consider more than is required by the analysis at hand – we must first understand, and then act upon, the larger dynamic at hand – we operate within an information/decision processing context, subject to prejudices and forces both apparent and obscure. The better we understand this dynamic, the better job we can do increasing value.

CONCLUSION

A methodology with great potential, with a proven track record, is useless if it is not used.

Great VE/VA studies and analyses mean nothing if the recommendations are not approved and implemented.

Understanding organization/managerial behavior and effectively acting on that understanding to increase the use of VE/VA can go a long way to helping us – the VE/VA community, to increase the use of VE/VA.

Simon, Herbert A. 1976. Administrative Behavior: A Study of Decision-Making Processes in Administrative Organization. 3<sup>rd</sup> ed. New York: Free Press.

Senge, Peter M. 1990. The Fifth Discipline: The Art and Practice of the Learning Organization. New York, NY: Doubleday Currency.