For long-term effectiveness, focus on quality

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When it comes to company performance, it's all about the quality of the organization and, closely correlated, the quality of management.

In the wake of September 11, 2001, it was difficult to imagine that any of the major airlines could remain profitable. Who would have guessed that Southwest Airlines would be one of the rare exceptions?

In their article, *Managerial Decision-Making and Long-term Effectiveness*, published in *Effective Executive*, IESE Prof. Miguel A. Ariño and Roberto Garcia-Castro admit that external factors such as economic environment, industry or strategic positioning play some role in an organization's performance. Yet the fact that a company like Southwest Airlines has remained profitable every year since its inception in the late '60s is largely down to the quality of the organization.

"We define the quality of an organization as the organization's capacity to achieve its long-term goals, while the quality of management is the management's capacity to develop a high-quality organization," they explain.

Making a direct link between managerial action and organizational quality, the authors go on to present a model for decision making designed to nurture the conditions for creating long-term quality and effectiveness.

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Create a healthy context

Building a high-quality organization doesn't happen overnight. Managers must learn to draw upon their internal resources, as well as the capabilities from within the organization, to create a long-term strategy for success.

One of the first steps in this process is for the manager to create an organizational context. Put simply, this means that a manager must create an environment that fosters productivity and willingness in their employees to work toward set goals. An ideal organizational context would lead employees to strive to meet the management's goals as if they were their own.

This is what Agilent Technologies effectively did in the example cited earlier. In 2002, this U.S.-based company went through hard times. Even though its performance may not have been the best in the short-term, and required short-term measures such as slashing salaries and laying off thousands of people, employees still gave the company their all, believing that their management had tried everything possible to avoid layoffs. This demonstrates that when the right organizational context has been created, a company will be able to weather any storm.

"The objectives of a firm can be easily achieved if its members own them rather than seeking only economic rewards," the authors explain.

The lesson for managers is clear: having a sound strategy is not enough. Even the best strategic decisions will be doomed to failure if you have not first gained the commitment of your employees in moving together toward some shared, long-term objective.

Decisions, decisions

In addition to creating a healthy organizational context, a successful manager must be able to make decisions and solve problems. It is through these decisions that managers have the ability to impact both the quality and long-term success of their organizations.

In the managerial scheme of decision making, a functioning model should operate like a line of dominos: There is an action, followed by reaction, which propels forth a chain reaction.

The manager normally serves as the active agent, by taking a decision and carrying out a specific action. The reactive agent is the person who is affected by this decision and, in turn, reacts and takes another decision. This decision affects the next person, and the chain continues. Problems occur when one of the agents in the chain fails to create a reaction.

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To function correctly, the manager must foster a cooperative, positive set of relationships within and among various groups and teams. Failure to do so means there will be a break in the chain. When this occurs, the manager needs to go straight to the root of the problem and address it at once, or else risk breaching any long-term strategy that he or she may have been laying the groundwork for.

Enron is a classic example of a break in the chain. Its management was focused solely on earning a profit and making themselves wealthier. All was well till the company stopped making a profit and then the management panicked, marking up the company's accounts and creating a false profit. The fake numbers made the company stock go up, until finally the investors became aware of the problem and started selling off their stock. The mass selling nearly brought the value of the stock to zero and greatly damaged the company. If the managers had been honest and tackled the problem head-on - and also learned from and corrected their mistakes - things might have been better for Enron.

Learning in the process

When it comes to making these managerial decisions, three important factors must be taken into account: Managers must understand the operationality, instrumentality and validity of their decisions. In other words, the plan must be able to be carried out, executed and solved.

In terms of operationality, the manager should be able to devise a plan that is not only plausible, but one that he or she has the skill to execute.

With instrumentality, the plan or action formulated should be something that can be executed by the reactive agent.

Finally, with respect to validity, both the action and reaction that have taken place should effectively solve the problem.

Besides making and executing effective decisions, good managers must be able to understand the aftereffects of their decision-making plans. Their teams should be able to come away from the process with a positive learning experience. No easy task, but vital.

Yes, an effective manager is someone highly skilled, with the ability to make smart decisions - yet not just for present problems, but over the long term. It is crucial to know how to lead a team, involving them in the decision making and problem solving. Paying attention to the consequences of actions and learning from them is ultimately what builds and maintains a quality organization fit for the future.

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