# Organizational decision-making for conscious capitalism

## Greater business efficiency can be achieved if we acknowledge the intended and unintended effects of our decisions on employees and other stakeholders.

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The career of an executive is fraught with risk. When a company undertakes a big investment, for example, managers must first weigh up a host of complex variables. As there are no universal answers to these complex business problems, managers can never be sure that the final decision they make will be the right one. Yet managers cannot afford to lose their nerve, pass the buck or hide behind the opinions of "experts."
After calculating the risks and thoroughly analyzing the full range of alternatives available, the manager may conclude that the new investment will require added commitment and effort from staff. As such, implementing a decision will almost always run into an obstacle: people.

Contrary to what some theories on productivity state, IESE Prof. Josep M. Rosanas argues in his book, *Decision-Making in an Organizational Context*, that keeping stakeholders in mind will increase business efficiency.

This work extends and updates a previous book on organizational decision-making published in Catalan in 2010.

## People: The engine that drives a company

As difficult as it may be for executives to formulate decisions that meet with employees and other stakeholders' general approval, it is essential to keep them on side as far as possible.

Lest we forget, the main driving force behind a company's success is its people and the interactions between them. In essence, personal relationships are to an organization what transactions are to markets.

The way companies treat their workforce and other stakeholders is, therefore, decisive. Changes that might occur in a relationship will determine what interactions take place further down the line.

The author says this is the advantage that organizations have over markets: "To the extent that the learning is positive, trust grows between the two people, and transaction costs are reduced."

## Efficiency = execution + motivation

The efficiency of any relationship depends both on the extent to which a person is able to carry out the action with which they have been entrusted, and the ease with which they are able to execute it.

If the learning that stems from this relationship is positive, the people involved will be motivated to interact at lower costs. If it is negative, though, then failure is guaranteed.

Thus, as Rosanas states, you do not obtain something of real value from someone else through rewards and punishment, but rather by "inducing them to cooperate through identification."

Let's suppose that a business owner tells the manager to implement an aggressive cost-cutting program that will impact negatively on the company's workers -- all in the name of raising productivity. The manager, yielding to pressure and the lure of financial gain, caves in and agrees to do the owner's bidding.

While results may improve in the short term, insubordination among the workers will almost certainly grow, resulting in a poorer quality product or service.

If the owner and manager prolong or even intensify the cost-cutting program, the company's learning experience will be negative and the results over the long term will be disastrous.

Rosanas uses this example to stress the importance of considering what people learn when it comes to making decisions. If employee trust and motivation suffer as a consequence of a company's decisions, then productivity over the long term will also suffer.

## Managing motivation

People's response to interaction depends on their motivation. In labor relations, what have traditionally dominated are external or material drivers, such as salaries and bonuses.

This is a big mistake, as the global financial crisis made clear: The incentive system encouraged shady professional practices aimed exclusively at boosting companies' share prices.

Nor is this simply a question of intrinsic motivation, such as an employee liking his or her job. A successful interaction requires motivations that go much deeper, such as the desire to enhance the well-being and career development of other people.

Crucially, to instill trust, one must first understand other people's system of values and not focus exclusively on serving one's own interests.

Companies should, therefore, be mindful of the motivations of all stakeholders, in particular employees, and not let themselves be guided purely by share price concerns.

## The three requirements for success

Any organization that wishes to prosper and grow should pursue the following three goals:

- *Efficiency*. Achieving concrete and tangible results.
- *Attractiveness*. Offering activities that can satisfy people's intrinsic motivations.
- *Unity*. Getting people to identify with the organization and its goals, winning over their trust through ethical behavior.

By meeting these three requirements, managers can minimize the risk of making the wrong decision, while also facing an uncertain future with greater security.

## Two practical examples

To illustrate the application of these approaches, Rosanas presents two case studies. One involves a bank that has to decide whether to outsource or handle training internally, and the other is a company that has to decide what to do about a controversial but highly skilled sales representative.

The author shows how the theories behind his book can provide a foundation for conscious capitalism and corporate social responsibility, which, together with stakeholder theory, have been among the most discussed subjects in management in recent decades.