Less Talking And More Doing From Businesses In The New Year

By Gregory Milano, Fortuna Advisors

Back in the 1990s, I was consulting for a large European company and introduced a management team to an exercise where they competed against a computer to make a host of business decisions. The game provided plenty of information but also required the team to make judgments in the absence of certainty. The group manually created spreadsheets on flip charts to try to precisely make each decision. Yet, after several hours, they hadn't entered their first decision. This is a classic example of "analysis paralysis."

The phrase "perfect is the enemy of the good," often attributed to Voltaire, describes how the pursuit of perfection often stands in the way of achieving greatness. In evaluating a decision, there are diminishing returns and, at a certain point, the marginal benefits of dwelling on the decision begin to be outweighed by the financial and human resources spent deliberating. Said in financial terms, if we make a decision that creates $1,000 of profit but spend $2,000 evaluating decision options, we have actually destroyed value.

In the context of the corporate cultures I have encountered in my advisory work over the past 30 years, a vast majority of companies have too many meetings ending with "let's study it further." In business, managers can be so worried about getting it wrong that they are unwilling to make a decision to proceed (or not) with a project unless they have absolute certainty — which is rare, if it exists at all, in the business world.

An impactful moment for me occurred when I reconnected with an executive who had been at one of my large public company clients and then moved to a smaller, though still large, privately-owned company. He described the difference in culture by the approach taken by each to evaluating bolt-on acquisitions. The large public company conducted meeting after meeting and struggled to gather all the information it felt it needed to pull the trigger on the acquisition.

In contrast, the private company had about one-fourth as many meetings before arriving at a conclusion, as it was more conscious of the costs of continually punting on a decision. Once the leaders felt they had enough information to be reasonably confident in their forecasts, they put their pencils down and made up their minds.

A common complaint from executives is they don't have enough time to tackle everything on their plates. But with more doing and less talking, they can carve out more time to devote to these important tasks, including time to just sit back and think.

One of the causes of analysis paralysis is the multitude of performance metrics used to evaluate investment decisions. These "scorecards" don't provide a clear indication of whether they actually add value. What if a decision is expected to improve growth and return on capital but causes margins and working capital metrics to worsen? What if customer satisfaction increases while employee satisfaction declines?

Sure, there may be some benefits to tracking a scorecard of various metrics. But it's likely to slow down decision-making, especially when many managers and executives don't fully understand how the various metrics interact and trade-off in the overall value creation equation. And although combining financial and non-financial indicators does indeed require careful thought and analysis, performance measurement shouldn't be as complex as most companies make it.

All that is really needed is a single, comprehensive measure of financial performance, one that captures and balances growth, profit margins and investment. Fortunately, such a measure exists. It's known as economic profit, and contemporary iterations of economic profit are some of the most accurate indicators of market value creation. The concept of economic profit has been part of the economic language for well over a century, so it is by no means new. It is typically calculated as profit minus the "required return" on the capital in the business, which effectively measures the opportunity cost of capital deployed. In other words, economic profit is the excess profit after accounting for the expected returns of all investors.

The CFO of one of the longest-running public-company users of economic profit joined me for an online roundtable last October. When I asked him about his experience with economic profit over the years, he summed it up nicely: "It makes the meetings shorter."

The economist George Stigler once said, "If you never miss a plane, you're spending too much time at the airport," which I think explains analysis paralysis pretty well. Would your company benefit from a more streamlined decision-making process, with more doing and less talking?

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