

Make Decisions Like a Fighter Pilot

Corporate strategy goes through phases. Companies have been restructuring their business portfolios and operations through the mid-1980's to raise stock prices and cut costs, and many are asking what to do next. How will the next round of competitive advantage be created? Leading-edge companies across a variety of industries are beginning to give the answer: build an organization with fast response time in serving customers and preempting competitors, and you will grow profitably.

Restructuring meant competitive survival rather than competitive advantage for many large older companies. Raiders forced these companies to jettison underperforming business while their Japanese competitors made them downsize and outsource high-cost manufacturing activities. Organizationally, layers of management were collapsed and individual business units made smaller, all to get the company closer to its customers and its managers closer to employees. Useful as this restructuring was, it was only a correction, a catch-up to competitive realities.

Real advantage requires of management something uniquely active and not easily achieved. Consistently greater speed in making management decisions, in developing new products and in delivering orders to customers ahead of the competitor creates that advantage. Fast-response companies are also likely to have lower costs and be more innovative than their competitors.

The best analogy for this kind of highly competitive management comes from the Air Force, which studied why certain pilots consistently won dogfights in wartime. Their findings were that winners complete the so-called O.O.D.A. loop – the cycle of observation, orientation, decision and then action – faster than losers.

The outcome between comparable planes was decided by which pilot could size up the situation and read opportunities in each encounter and then

decide and act before the enemy. By preempting an adversary's move, the winner throws the loser into confusion and into a reactive cycle. After gaining this insight the Air Force designed aircraft and trained pilots to process sensory data into decisions faster.

The business world moves faster today. Business competition has become more like an encounter between fighter planes than a chess game, which had been our prevailing analogy. Product life cycles are much shorter. New products that utilize hybrid technologies are more frequent. Mass markets are dissolving into smaller customer segments, making competition messy. New materials and technology are multiplying company choices in how to design, make and distribute a product.

Fast-response companies manage their O.O.D.A. loops, starting with timely observation and orientation. For example, they collect today's sales data at the retail level because wholesale data are too late and distorted. They visit advanced university labs as research is taking shape and do not just read the papers. They study their customers thoroughly from several different points of view. Reactive companies suffer late recognition and disparate views, then incur the extra cost of studies and dispute resolution to fix them.

Fast-response companies accelerate decisions by better preparing the participants. They move senior executives around temporarily, forming new teams to vary the interaction patterns and fracture old assumptions. They move decisions down the corporate ladder and make the small decisions continually, without putting them off. No organizational habit is more insidious than constant formal, upward review and the need to wait for the big decision.

Speed in the action stage of the O.O.D.A. loop requires a particular operations architecture and a lot of high-quality work. The company's operations architecture – how the elements in its value-added chain are designed and interconnected – must be rooted in systems thinking. If each working part of the company is closely linked with others and work is done right the first time, the company will do everything faster than its competitors. When manufac-

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turing people join the product development team, the new product and the process to make it can match, eliminating later redesign and retooling. When new orders enter the plant's production schedule directly, customers get their shipments faster.

Typically, less than 10 percent of the total time devoted to any work in an organization is truly value-added. The rest is wasted because of unnecessary steps or unbalanced operations. A few, multi-functional working teams perform better than many departments that separately handle and slow down information. New product development is usually authorized by top management in big, discrete projects, but is done better in a continuous flow.

Fast-response companies not only have marketing advantages, but also tend to have lower costs because when production materials and information move through a company's operation quickly, they collect less overhead and do not accumulate as inventory. Also, the company can innovate more effectively because more new products can be conceived and engineered in a given period, giving customers more choices.

Management's focus on O.O.D.A. loop improvement will heavily influence our concept of business strategy. Competitive strategy has to be dynamic and recognize the system-like nature of a company. But the planning lexicon has become too reliant on static and positional notions. Our concept of competitive advantage must shift to more of an operations and real-time orientation.

To accomplish this, the analytic questions become: How can my company build faster capability? Where does my current operations architecture and mind-set slow the company? What is the performance of my competitor's O.O.D.A. loop?

Governments carefully design aircraft/pilot systems for superior O.O.D.A. loop performance, and companies are starting to follow. The basic building

blocks are the flow of information, the organization of work and the perceptual range of people. Building such an organization is not hard science, it is rigorous craft.

The focus of the O.O.D.A. loop will ultimately influence the nation's competitiveness and trade balance. American companies with fast response time and high-quality products will close the gap against imports. But highly competitive foreign companies seeking greater shares of the American market will also be establishing self-sufficient operations in the United States. They will be removing the delays that long distances impose on their own performance in order to quicken their response time in today's fast-changing environment.

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"Make Decisions Like a Fighter Pilot" is the ninth in a series of Perspectives examining how leading-edge companies can use time and variety as competitive weapons. Other Perspectives in the series include:

I. Instant Gratification

II. Competing With Time and Variety: Are Services Different?

III. The Variety Trend

IV. Consumer Draw

V. Time and Trade

VI. Rules of Response

VII. The Time Elasticity of Profitability

VIII. Working Better and Faster with Fewer People

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