Making Great Decisions in Business and Life

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The phrase "work smarter, not harder" has been repeatedly ridiculed in the Dilbert comic strip, not because it's a bad idea, but because it's thrown like a brick lifesaver to drowning managers and workers. To tell someone to work smarter is like telling him or her to be happier, healthier, and richer. It's not much help to merely repeat the objective; what you need is a plan for achieving the objective.

In our book, Making Great Decisions in Business and Life (Chicago Park Press, 2006), my co-author Charles L. Hooper and I show that a little clear thinking about economics goes a long way. It can help you make good to great decisions in all aspects of your life, business and personal. I focus on the business aspects here.

Think how often you've heard business owners or managers say that they want to grow their business from annual revenues of x (fill in the blank) to annual revenues of 2x. Does this make sense? In a word: no. Unless they have a fetish for revenues, what they really mean is that they want to increase profits. Does this sound obvious? It is. Yet, once they hear that the goal is to increase revenues, various decision-makers in the firm will come up with ways to boost revenues, even at the expense of profits. A little clear thinking would have made a big difference.

Of course, even with the goal of increasing profits, decision-makers need to have a series of steps, and maybe some rules, to follow to get there. How do you increase profits? It seems reasonable that satisfying customers would be one way. Then that needs to be broken down further: How do you satisfy customers?

It's here that the thinking gets fuzzy. Someone somewhere came up with the idea that you satisfy the customer by assuming that the customer is always right. Businesses often teach it to their employees and often tell an apocryphal story of a woman who "returned" four tires to Nordstrom and received a "refund." Why the quotation marks? Nordstrom doesn't sell tires and never has. Nevertheless, this bit of retailing legend is told as if Nordstrom had had a stroke of marketing genius.

But, even if the story were true, would Nordstrom's return policy have been wise? Think about the incentive effects. If word got out that Nordstrom would give refunds even for products it had never sold, imagine the avalanche of bizarre products it would have to deal with -- as well as the distraction from the actual business that Nordstrom does so well.

Or consider a situation that my co-author faced in his consulting business when a client asked him to estimate sales for its new product. The client had looked forward to annual sales of $200 million, but, because the product was appropriate only for a small slice of the market, Hooper estimated annual sales of only $17 million. This made for an awkward presentation to the CEO and management team. The CEO yelled at Hooper for not presenting "creative ideas" to fix the problem and kicked him out of the boardroom. Goodbye client and goodbye future business.

A few years later, this product did launch and Hooper's midpoint forecast value was only about 8 percent too low. In the forecasting business, this is considered hitting the bull's-eye. The CEO's estimate, on the other hand, was about 1,000 percent too high.

Was the customer happy? Certainly not! Did Hooper and his colleagues do the right thing? Yes, and they have done the same thing since. If you kowtow to a customer's unreasonable expectations, your reputation suffers and you cease to provide a valuable service to all your customers, even the unreasonable ones.

Speaking of doing the right thing, another commonly held view is that one should go about his business with integrity, being honest and keeping his word. This is a view that we share. Interestingly, so did P.T. Barnum, who is most famous for his statement, "There's a sucker born every minute." It's catchy, but Barnum never said it.

The truth is that Barnum made an important financial discovery early in his career. He noticed that nearly all his deceptive schemes "ended in disaster," reducing him to a low income of only $4 per week. His fortune, however, came almost wholly from his legitimate enterprises. "Barnum's great discovery," writes John Mueller, "was not so much that such behavior is immoral but that from a business standpoint it is stupid."

Barnum argued that honesty is sound business, and his argument was virtually identical to the one I make here. As Barnum put it, "[N]o man can be dishonest without soon being found out and when his lack of principle is discovered, nearly every avenue to success is closed against him forever." "As a mere matter of selfishness," he concluded, "honesty is the best policy."

As hard as this may be for many to believe, P.T. Barnum actually deserves credit not for knowing the birth rate of suckers, but for discovering that it is easier to make money honestly than dishonestly. Barnum went so far as to write, "Poor fool! Not to know that the most difficult thing in life is to make money dishonestly!" To take advantage of P.T. Barnum's experience, I suggest two techniques. One comes from pharmaceutical company Merck & Co., named as America's Most Admired Corporation seven years in a row by Fortune magazine. Merck had an informal policy for avoiding ethical mishaps: "Ask yourself how you would feel to see your latest policy or behavior on the front page of the New York Times. If you don't feel proud knowing this, don't do it." Try this yourself and you'll see how much more clearly you think about questionable practices.

The second technique is to live by higher standards than the times require. Over time, some standards rise, which makes the second technique generally a good idea.

In my next article, I'll consider some others ways to make good decisions in business and life.