

How to improve project funding decisions

By **Marcel van Rinsum**

Companies tend to over-focus on outcomes when evaluating the performance of their managers. For best results with your company's next big decision, focus on the process used to reach it. We verified our insights by an innovative use of eye-tracking technology.

Most organisations place high emphasis on achieving good results. Not surprisingly, this often leads to an excessive focus on "objective" outcomes in performance evaluations. Similarly, "transparency" in performance measurement is often over-emphasised, because a simple way of keeping score is more easily understood and seems fairer.

These kinds of results-focused evaluations are popular with managers, but can have negative side effects, because they may add to executive stress levels and blind them to creative opportunities to achieve positive outcomes that lie outside the predefined parameters of success.

Fortunately, there is an alternative that can help improve decisions: to

hold the decision-makers accountable not for the outcome of the decision, but for the process underlying their decision-making. Process accountability can help managers take better decisions, by encouraging them to look for more decision-relevant information in a more systematic way before they make their decision and to weigh their choices more critically, knowing that they will have to justify their decision later.

Accounting studies have already shown that process accountability can reduce auditors' information-processing biases and improve their judgment accuracy and consistency, increase their effort, and enhance their professional scepticism. But this mode has its own potential downside: it can lead to in-

formation overload, driving the decision-maker to focus too much on unimportant details. There might also be other problems lurking that we do not yet know about, as there has not been much research yet on the effects of process accountability on managers' decision-making in a more complex financial context.

To understand more about the differential effects of these types of accountability, my co-authors and I set up a decision-making study that used eye-tracking technology. Although, as expected, a process focus does lead to higher decision quality and generates best results more frequently than an outcome focus, an alternative solution turns out to be almost as good: providing managers with a "strategy map" or "casual chain" that they can refer to before making their decision (see Fig 1). ▶

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Fig 1. Part of a causal chain.

How to improve project funding decisions (continued)

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In our study, we found that including such a cause-and-effect chain that connects strategic performance dimensions in a linear fashion can strongly improve decision quality. Surprisingly, this holds even when the true effects of decisions on performance are actually non-linear, which shows that the chain does not have to accurately reflect all possible effects to still be helpful.

Process or outcome?

To understand more about the cognitive paths that people follow under each methodology, we asked the 83 student participants in our experiment to assume the role of a manager in a retail clothing company, for which they were given performance data laid out in the popular balanced scorecard format.

Participants were asked to make a follow-up project-funding decision based on the pilot test data. They needed to indicate how much they would like to invest; they could choose any amount from €0 to €100,000. If analysed properly, the performance data revealed that the optimal project investment amount was €52,000. Over that amount, the company would begin to lose money.

We formed two participant groups. Outcome-accountable participants received instructions specifying that their evaluation would be based only on how closely their invested amount came to the optimal amount. Process-accountable participants, on the other hand, were asked to provide a written justification for their decision, and were informed that the quality of

other half basically had to make their decision with only the balanced scorecard data given to all the participants.

We found that, on average, process accountability led to better decisions. Additionally, although having the causal chain diagram handy did not further improve decision quality for participants in the process-accountable group, it did spur dramatic improvement in the performance of those who were held accountable for outcomes.

The eyes have it

To better understand exactly how people worked under these different conditions, we monitored our subjects' work on their assigned tasks using eye-tracking technology. This gave us very detailed insights regarding the processes that underlay their decision-making.

Eye tracking enabled us to gather verifiable, quantifiable data about how the participants consulted each piece of information, and how they worked their way through the decision problem. We recorded how long they looked at the data and the causal chain, and how often they moved their eyes from one piece of information to the other.

The results confirmed our expectation that process accountability enhances decision quality because it motivates a more thorough information search. Additionally, the study revealed that causal chain diagrams are helpful because they reduce cognitive complexity, focusing attention on the information cues most relevant to the decision at hand. Being able to refer to a causal chain diagram enabled

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The case dealt with a for-profit company that had introduced a strategic initiative involving the extension of their shops' opening hours. The goal of this one-year pilot test project was to improve customer satisfaction.

their reasoning would be the basis for their evaluation.

Each of these two groups was further subdivided in two more groups: half of the participants within each group were given causal chain diagrams, while the

subjects to quickly focus on the most relevant parts of the data, reducing the overall effort they needed to put into searching for information while still making it likely that they would find the right answer.

Bring a map!

Our study suggests that process accountability and a reporting format with a causal chain are both likely to lead to

better project investment decisions than accountability for outcomes. In fact, our study showed that only five per cent of subjects made the optimal decision when they knew they would be assessed only on the outcome, compared to about 30 per cent of those who would be assessed on the outcome but could refer to a causal chain, and on average 33 per cent of those who would be assessed based on process accountability.

These differences in decision quality are startling and have important implications for company practice. They show that objectivity and transparency in performance measurement and evaluation are frequently not the best way to achieve desired results. Ironically, the way to achieve the best results turns out to be to focus not on the outcomes but the decision-making process. Or, to use a strategy map! ■

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