EVIDENCE-BASED MANAGEMENT

Bernard Marr explains the five key steps that organisations should take if they want to adopt the EBM approach to strategic decision-making.

Today’s challenging economic times demand that companies make the right management decisions if they are to survive. It’s a common complaint that managers are swamped with information on which to base their choices. Technological developments mean that companies can now capture and store vast quantities of material, yet they often still fail to use this effectively to support decision-making.

Organisations such as Tesco and Google are addressing this problem by using evidence-based management (EBM) to guide their decision-making processes so that they extract maximum value from the information they obtain and thereby secure a competitive advantage. According to Robert Sutton, professor of management science and engineering at Stanford University, EBM is a simple idea based on finding the best available evidence, accepting these facts and acting upon them – rather than doing what everyone else does or doing what your company has always done and thought was the right thing.

The effective deployment of EBM follows a five-step sequence:

1. Defining goals and information needs. You need to ask the following two questions first: what are our strategic objectives and what do we need to know in order to achieve them? This initial step ensures that the organisation’s real information requirements are clearly articulated and it clarifies who needs to know what, when and why.

2. Collecting the right evidence. The emphasis here is on gathering and organising the relevant facts and figures to meet the information requirements identified in the first step. Organisations must either assess whether they already hold the necessary data or devise the best way of collecting it.

3. Analysing data. The material that has been collected needs to be converted into relevant insights. Data has to be analysed and put into context to extract information.

4. Presenting information. This stage focuses on communicating the insights extracted in the previous step. The main focus here is to get the information to the organisation’s decision-makers in the most appropriate form.

5. Making evidence-based decisions. The final stage is all about converting information into action. Here the emphasis is on ensuring that the evidence that has been extracted is used to make the best decisions. It is important to avoid the “knowing-doing gap” that’s so prevalent in many organisations.

These five steps provide a blueprint for EBM. But the logic of good EBM is not only linear – i.e., following a sequence from step one to step five – because there is a feedback loop from step five back to step one. In other words, the decisions that are made inform the organisation’s future information needs in turn.

IT and business intelligence (BI) play a crucial role in EBM. They can’t make it happen on their own, but they do need to be used to support the five-step process. IT infrastructure and applications are crucial enablers of data collection and analysis, and of the presentation and dissemination of information. Although IT infrastructure and BI applications are important elements of EBM, I will not cover them any further as I discuss the five steps in more detail below. This is to highlight the importance of identifying the right steps, thereby helping to steer organisations away from the belief that all they need is a state-of-the-art BI infrastructure.

1. Defining goals and information needs

Instead of focusing on collecting everything that is easily measured and counted, organisations must be more systematic and selective about what they gather. Managers need to establish clear objectives and information requirements. This can be achieved by taking the following steps:

- Identify the strategic objective or information need. Here the data collected is linked to the most important drivers of value and performance. This ensures that the analytics generated: are relevant to the organisation’s competitive positioning; support its greatest information needs; and aren’t wasted on irrelevant “interesting to know” matters. Strategy maps, for example, are powerful tools for identifying high-level objectives and key performance enablers.

- Identify who needs the information. It is important to define the target audience. This can be groups of people – including the board of directors, senior managers, the HR department and marketing managers – or one individual.

- Clarify which questions the decision-makers want answered. The purpose is to ensure that the analytics provide the relevant knowledge to help them make the best decisions. For example, the executive team of Google identified a mere 17 key questions to guide the collection of corporate data.

- Clarify which decisions the organisation wants the data to support.

2. Collecting the right evidence

An essential part of EBM is having the relevant information to support decision-making. Building evidence requires the careful collection of the right data. Yet the word “data” is often misunderstood. People often wrongly believe that it has a narrow numerical definition. Data actually comes in many forms, including text and images.

Organisations need to become better at collecting more qualitative data and triangulating material from different sources to build up more relevant evidence. Asking people for their opinion is usually a good way of collecting more qualitative data. A police initiative to understand the extent of knife crime provides a good example of triangulation. A key source of police information was a national crime survey that recorded people’s experiences and views of crime levels. But extensive press coverage
of certain crimes can affect people’s perceptions of the threat. To avoid bias, the police now collect data from hospitals about the treatment of stab wounds to put their own figures into perspective and to generate a more realistic picture of knife crime.

3 Analysing data
The data has to be analysed before it can be put into context. Data analysis is a core requirement in creating evidence used in decision-making. Yet research shows that most organisations are still more focused on simply collecting and distributing the material than on doing any meaningful analysis.

4 Presenting information
To ensure that decision-makers understand what’s given to them, it is important to present and package the information in the most appropriate way. Good communication should be simple and focused on the key messages. Instead, data reports tend either to provide too much detail or distract the reader’s attention by using complex graphics and hiding the key messages in large tables.

5 Making evidence-based decisions
The final step looks at how to turn information into knowledge and better decisions on which organisations can act. This can create a culture that helps to transform knowledge into action. It is recommended that companies create a passion for learning and improvement; ensure that there is support from the leadership; develop widespread analytical capabilities throughout the organisation; use judgment; share information; reward EBM; and build an appropriate IT infrastructure.

Organisations will succeed in this unpredictable environment only if they can learn faster than their rivals and act on insights that drive competitive advantage. Any company can boost its competitive position by aligning its data collection to strategic value drivers and by gathering the best available evidence. It should then use this evidence to extract valuable insights and communicate the information in such a way that allows it to act on those insights.

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Further information
This article is based on “Evidence-based decision-making: using business intelligence to drive value”, a Management Accounting Guideline written by Bernard Marr and published by CIMA, the American Institute of Certified Public Accountants and the Society of Management Accountants of Canada. CIMA members can access the full version at www.cimaglobal.com/mags.