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Understanding Data-Driven Management

More than half of business leaders rely on their intuition, their gut feeling, to decide whether something is going right or wrong.
The geniuses of our time are often credited with enormous intuitive skill, for example Albert Einstein is quoted as saying: "The intuitive mind is a sacred gift", and Steve Jobs: "Have the courage to follow your heart and your intuition; in a way, they already know what you want to become."

Intuition can be a useful tool, but it would be a mistake to base all decisions on a mere hunch. Intuition can only be verified, understood, and quantified through data.

Below you will find information on the benefits of becoming more data-driven and a series of steps you can take to become more analytical in your innovation and transformation initiatives. Data-driven decision-making will lead you to greater effectiveness.

Data-driven decision-making is an approach in which decisions are collected, analyzed, and interpreted based on data from a variety of sources to make sound and informed business decisions.

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1. Definition of a Data-Driven Business

Data-driven management is a strategic concept according to which decisions are made based on the analysis and interpretation of data. Data-driven management is more than just collecting data. With the help of this strategy, you can obtain consistent data to personalize your products and services as well as the entire customer experience journey. Facts, metrics, and data are used to make strategic business decisions that align with your goals and initiatives.

In the business world, data-driven decision-making can be observed in a variety of ways. For example, a company can:

- Collect survey responses to identify products, services, and features that customers want.
- Conduct user testing to observe how customers use the products or services and identify potential issues that need to be resolved before a full launch.

- Launch a new product or service on a test market to see how they perform on the market.
- Analyze demographic changes to identify business opportunities or threats.

How exactly data can be included in the decision-making process depends, for example, on your business objectives and the type and quality of data you have access to.

When companies realize the full value of their data, making data-driven decision-making the norm, everyone from business analysts to sales managers to HR specialists can use data to make better decisions.

However, this is not achieved simply by selecting the right analytics technology. Rather, you need to create a culture in your organization that encourages critical thinking and curiosity. Employees at all levels need to develop, practice, and apply their data skills. This requires that data be available within the framework of security and governance, and that training and development opportunities are provided to give employees the skills to handle and manage data.

Building these core competencies will help to promote data-driven decision-making at all levels of work.

2. Terminology

To get the best out of the available data volumes, it is particularly important to know the specialist terminology, also to master the various methodological areas of application.

- **Data-Driven Decision-Making**
  Data-driven decision-making is the use of continuously optimized data, analytics, and software from various sources to make strategic business decisions.

For this method to be successful and for the right decisions to be made at all times, the sources of information must be made available to all members of the company.

- **Data-Driven Design**
  Data-driven design is the use of data analysis in the design and development of products and services.

  In general, it is about designing data about the company's goals and digital environment (apps or websites), users, and the measurability of the strategy in such a way that successful services and user experiences (UX) are created.

  The use of data analysis in the design process enables the creation of customized, efficient, and sustainable products and services.

- **Data-Driven Enterprise**
  Data-driven companies are always making data-driven decisions to improve their agility and efficiency. A profound digital transformation enables these companies to use the necessary technologies to optimize the use of data from various information sources.

  A characteristic of these data- driven companies is their ability to capture, organize, and share information with all members of the organization, facilitating collaboration and innovation.

- **Data-Driven Marketing**
  Data-driven marketing is a set of marketing decisions or strategies that are developed after analyzing, processing, and using the vast amounts of data that come from users and their preferences.

  These substantial amounts of data are collected through interactions with consumers and used to make predictions about their future behavior. The

aim of this methodology is to understand consumer habits to develop more accurate and result-oriented digital marketing initiatives.

- **Data-Driven Mindset**
  With increasing digitalization, companies are being put in a position to make the best possible use of the huge amount of data they generate. To do this, it is important to develop a data culture or a data-driven mindset that extends to all areas.

  A data-driven mindset is not just about incorporating innovative technologies. It is about creating a data architecture that encompasses the entire value chain, from the operational system to management solutions, analysis tools, employees, and corporate culture. Data analysis is at the heart of entrepreneurial activity.

Big data-driven decisions enable companies to anticipate customer needs, mitigate risks, and offer more relevant products and personalized services.

3. Examples of Data-Driven Decisions

Today's largest and most successful companies are using data to their advantage to make important business decisions. The success stories of the following companies show how data analysis influences decision-making processes.

Leadership development at Google
Google is focusing heavily on what it calls "people analytics." As part of one if its well-known people analytics initiatives, Project Oxygen, Google analyzed data from more than 10,000 performance reviews and compared them to employee retention rates.

Google used the information to identify common behaviors of high-performing managers and developed training programs to develop these skills. As a result of these measures, the popularity of managers increased on average from 83% to 88%.

Real estate decisions at Starbucks
Following the closure of hundreds of Starbucks stores in 2008, then-CEO Howard Schultz promised that the company would take a more analytical approach to identifying future store locations.

Starbucks is now working with a location analytics company to determine the ideal locations based on demographic data and traffic patterns. The company also considers feedback from its regional teams before making decisions.
Starbucks uses this data to determine the likelihood of success of a particular location before embarking on a new investment.

Driving sales on Amazon
Amazon uses data to decide which products to recommend to its customers based on their previous purchases and search patterns. So instead of blindly suggesting a product, amazon uses data analytics and machine learning to drive its recommendation engine.

McKinsey estimates that 35% of Amazon customer purchases could be linked to the company's recommendation system.

4. Importance of Data-Driven Business

A data-driven corporate culture works well in any company. Solid planning that is based not only on hunches and intuition, but also on thoroughly collected and analyzed data, leads to a successful future. This form of decision-making is also of immense value for strategic decisions.

The data-driven approach offers companies several advantages, in particular the following:

- It leads to more accurate decision making as it reduces errors through a more informed and reliable process.
- It promotes the development of more agile strategies, as data-driven tools increase productivity and efficiency. It also significantly reduces the time required for decision-making.
- By incorporating objectives and key results (OKRs), key performance indicators (KPIs), and measurement programs with metrics, a more complete overview of the company is made possible in real time.
- It helps to improve customer experience and satisfaction by providing better information on customer tastes and consumption trends.
- The introduction of technologies such as artificial intelligence, blockchain, and big data is optimizing processes and making products and services more sustainable.

5. Challenges of a Data-Driven Business

Technologies that help organizations make better use of their data are easy to acquire and deploy. However, the harsh reality is that the transition to a data-driven decision-making framework requires more than just technology.

Some of the challenges and what can be done to overcome them are:

- **People, process, funding, and prioritization all pose challenges.**
  Getting actionable information in real time requires more than just a strategy. Many data teams are buried under aspects of business strategy. They lack sufficient resources and authority to support data operations and gain new strategic insights. Whether at the team, departmental or corporate level, data analytics, and resources are often pushed to the back burner in favor of other short-term initiatives that are deemed more important.

In this respect, the data strategy should clearly define which priorities apply. It is important to establish sensible rules for data governance and to trust the data team and the collected data.

- **Focusing too much on the technology and not enough on the data itself.**
  Both digital migration and data transformation are important activities on the journey through the world of data, whether it is to grow a business, attract new customers, or increase operational efficiency.

  You can implement the best technology in the world, but if your data is poor on quality, unlinkable, and undiscoverable, or if you are not collecting the right data to answer questions relevant to your business strategy, you will not get the most value from your technology investment.

- **Neglecting to educate workers on data ethics.**
  Data analytics is still seen as the work of a few, with only certain teams owning and using data to drive the rest of the business forward.

  But anyone who works with data should understand data ethics.

  Without proper training, situations can arise where information is duplicated, the correct source of truth is not known, or quality issues arise. Or data is not managed ethically because people do not know how to deal with it.

  To anticipate these challenges, leaders and managers need to frame the challenges with hypotheticals, demonstrate how tactics and strategy are connected, reinforce the idea that data and technology literacy is critical to professional outcomes and impact, invest in skills, policies, ethics, and data management, and exemplify data stewardship.

  And finally, data must also be findable and linkable so that it brings maximum benefit to your strategy.

6. Ten Commandments of Data-Driven Culture

Driven by the hope of better satisfying customers, backing up innovative ideas with solid evidence, streamlining operations and clarifying strategy, companies have spent the last decade collecting data, investing in technology, and spending heavily on analytics talent. However, data is rarely the universal basis for decision making: a strong data-driven culture must also be created. Experience has shown that this is the bigger challenge.

Why is this so difficult?

Our work across a wide range of industries shows that the biggest barriers to building data-driven businesses are not technical, but cultural.
It is easy to describe how to incorporate data into a decision-making process. But it is much less easy to make this the norm, even automatic. It is a huge challenge for employees to change their way of thinking.

That is why we have put together ten commandments for data to help create and maintain a culture centered around data.

1. **Data culture starts at the top**
   Companies with a strong data-driven culture have leaders who exemplify that decisions should be data-driven, that this is normal and not new or exceptional. They lead by example. This good example from the top of the organization can lead to significant changes in company-wide norms.

2. **Choose metrics carefully and wisely**
   Managers can have a strong influence on behavior if they are smart about what to measure and how to measure it. For example, companies can benefit from closely monitoring competitors' price movements.
3. **Bring your data scientist to the center**
   Data scientists are often isolated within an organization. However, analytics cannot exist and deliver value if it operates separately from the rest of the

organization. Leaders must recognize and promote the importance of a data-driven culture.

4. **Quickly fix basic data access problems**
   Data analysis is not possible if there are difficulties accessing the required data. Consistently ensure that the data is reliably available. Implement processes and use tools that facilitate the collection, analysis, and use of data. Check the completeness and quality of the data.

5. **Take advantage of the uncertainty**
   Absolute certainty is impossible. Ask your team to also state the uncertainties explicitly and quantitatively. This has three strong effects.
   - Decision-makers deal directly with potential sources of uncertainty.
   - Analysts gain a deeper understanding of their models when they must rigorously evaluate uncertainty.
   - The emphasis on understanding uncertainty leads companies to leave the beaten track.

6. **Keep the proof of concepts simple and solid**
   Develop proofs of concept where feasibility in production is an essential part of the concept. Start simple with implementation construction and increase the level of sophistication later.

7. **Specialized training must be offered in suitable time, but not too early**
   Basic knowledge should be part of the basic training. Training employees in special analytical concepts and tools, on the other hand, should only take place shortly before they are needed.

8. **Use analytics to help employees, not just customers**
   Data literacy can play a significant role in employee satisfaction. Make sure that data literacy is not only demonstrated, but also tried out and practiced, then employees will be able to implement data literacy in their work.
9. **Be prepared to trade flexibility for consistency in the short term**
   It is easier and more efficient to work with standardized metrics and programming languages and in a standardized way than having to

constantly clarify discrepancies and translate collected data. Use universal methods to save time and effort.

10. **Explain analytical options**
    For most analytical problems, there is rarely a single correct approach. Data scientists approach problems differently, choose from several alternatives, make compromises, and decide on the selection. All of this leads to a deeper understanding of the approaches and an open decision-making culture.

7. Conclusion

A data-driven corporate culture is about creating an environment in which all employees understand the value of data and use it to optimize their work. It goes far beyond using data to make business decisions.
Such a culture promotes innovation and the exchange of ideas and improves overall company performance.

A data-driven culture is critical because it enables organizations to be more agile and proactive, respond quickly to change, underpin their business strategy with sound data and achieve their goals effectively.

About advisio

The advisio GmbH team consists of competent employees with many years of experience in the fields of business innovation and transformation, organizational project management, and governance of information and technology.

The use of frameworks and practices to innovate and transform organizations is one of our core competencies. Our specialists perform, upon request, advisory, consulting, and training services in business transformation, customer experience, business innovation, product management, value management, and change management. Together with its knowledge and experience, advisio accompanies its clients on their innovation and transformation journey for the digital era.

If you are not sure how to start the innovation and transformation process in your organization, advisio will help you determine it. Do not hesitate to make an appointment for a no-obligation consultation.

About the Autor

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