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Increasing agility in decision-making to improve competitiveness

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Corporations must increasingly be agile and timely decisions are critical to initiate changes. Complex organizational structures, management by consensus and unstructured decision-making processes hinder agility in decision-making.

Executive Summary

Problem
As markets evolve at an increasingly fast pace, large corporations must be agile in decision-making. Yet organizations commonly miss opportunities or react slowly to threats due to slow or inefficient decision-making.

Why it happens?
Facing complex structures and processes, management by consensus and too many non-strategic topics to oversee, executives lack focus and spend too much time in the process of decision-making rather than substance.

Why it happens?
A simple checklist about people, governance and strategic planning helps managers recognize decision-making issues and increase agility proactively in their firm, notably by adjusting the required consensus level for key decisions.

As markets become increasingly fast paced, organizations constantly face the need to evolve to keep their competitive edge. Initiating changes timely and providing enough flexibility in the process to adapt to different situations are the first steps to successful organizational transformations. Thus, agility in decision-making is key to capitalize on business opportunities or to respond to market threats. Yahoo, during the 2000's, lacked urgency and provided Google an opportunity to catch up. Reportedly, a preliminary agreement was in place to acquire Facebook, but Semel, then CEO, reviewed the offer downwards at the last minute, causing the deal to fail. Yahoo also underwent a lengthy process before acquiring Overture. In the movie industry, Blockbuster did offer additional services to compete with Netflix's model, such as DVD-by-mail, streaming services and rental kiosks. Yet, this decision proved too little too late. These are a few of the many examples of the dangers of slow

decision-making.

Top management and executives, especially in large organizations, face several challenges hindering agility in decision-making. According to Corporate Execute Board Innovation and Strategy (CEB, later acquired by Gartner), "…executives' ability to get things done quickly is slowed by the complexity of large 'matrixed' organizations, by leaders made risk averse by all the uncertainty, and by far more information on every aspect of a company's markets and operations than has ever existed before. And all this makes it far more common for managers to seek consensus before making a big decision". Managers are fragmented over many strategic initiatives they must support. In addition, they commonly face cumbersome decision-making processes driven by strict governance rules.

Recognize early bottlenecks with people, governance, or planning

To address the issue of slow decision making, the underlying process and key levers need to be understood. Decision-making ability within large organizations is driven through three key levers: people, governance and strategic planning. (figure 1) The first lever is to ensure that the decision-makers in place are qualified, decisive and committed to support the outcome of the decision. Once these people are identified, establishing flexible governance ensures that they receive the support needed and removes the bureaucratic barriers in the process. To streamline the activities and ensure focus, introducing standard planning provides decision-makers the tools to succeed and reduce the decision cycle time.

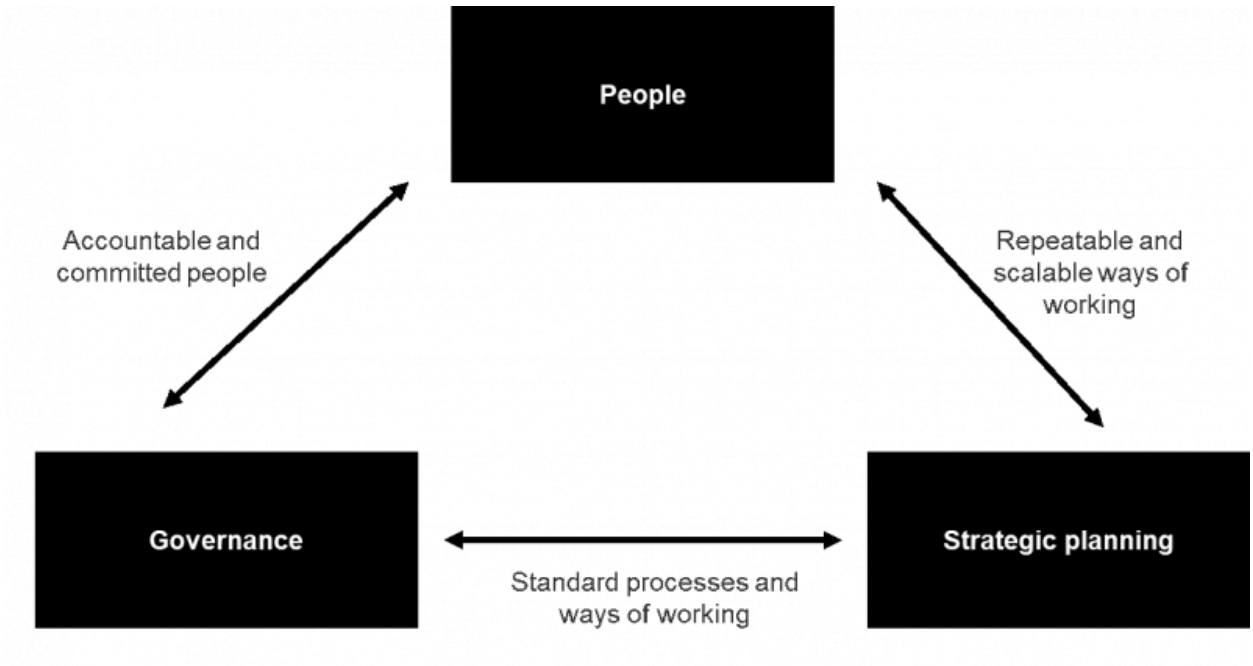


Figure 1: the levers of agile corporate decision-making

Efficient decision-making is characterized by right decisions made timely through a flexible process. It mobilizes the stakeholders to support the execution. Recognizing bottlenecks in decision-making prompts a need to understand better the dynamics within and between the three levers. Such signs are that key opportunities have been missed, lack of support for an initiative after the decision is taken, or people openly pointing out tedious processes. Noticing in hindsight that several decisions were not the optimal ones might also be a red flag. As

organizations differ and exert different levels of control over the three identified levers, a deeper evaluation of the three levers can shed light on challenges and help to identify solutions.

Identify the key pain points and prioritize improvements

For each of the levers, some symptoms highlight the need for change in decision making. (figure 2) If several of these symptoms are visible within specific levers, initiatives to review decision-making could be undertaken. Once the principal areas for improvements are identified, organizations can focus on one or more at a time. The three levers can be developed independently from others. Hence, starting with the levers where the pain and friction are the most acute has the highest potential for immediate impact, without transforming completely the way decisions are made.

People	Governance	Strategic planning
❑ Highly risk averse behaviors in most of situations ❑ Decisions often delayed ❑ No specific individual identified to make the decision ❑ Lack of support for following execution ❑ Lack of substance knowledge from decision-makers	❑ More than 5 people on decision-making core teams ❑ No clear outcomes in meetings ❑ More time spent in processes rather than substance ❑ Open complaints about tedious processes ❑ Rigid "one-size-fits-all" process	❑ Senior executives feel thinly spread ❑ Lack of direct involvement in business from seniors ❑ Challenging comparison between proposals ❑ No clear guidance on requirements and data to be gathered ❑ Regular lack of depth in proposals

Figure 2: symptoms of inefficiencies within the three levers

The symptoms can be identified from the outcomes of decisions taken, or often reported by stakeholders. Early identification of the symptoms can be through casual discussions in the hallway, for example. Once there is a desire to understand better the situation, more formal interviews of the people involved can provide valuable insights to review the processes, governance or planning. The input received facilitates the prioritization of the initiatives to increase agility in decision-making.

Identify decision-makers, support them with core team and incentivize them

The single most important element to improve decision-making is to ensure the right individuals are mandated to make the decisions. Although being obvious, the people dimension is complex to assess and can be overlooked. If an organization notices overly high risk-averse behaviors, decisions being often reported, or that no person seems to be leading, some changes could benefit decision-making. When nominating specific people, corporations should pay attention to their skill profile. The person accountable should not only have deep substance understanding, but also the courage to make tough calls, effective communication skills and the ability to maintain the big picture view even while deep-diving in narrow substance. Ideally, the person should also be structured for efficient coordination, but core team members can contribute complementing skills.

A core team of one to three people supporting the decision-maker is important to ensure the consideration of different perspectives and alternatives. The core team's role is also to offset some possible decision biases that may face the decision-maker, such as anchoring, framing and confirmation bias. In a global processing organization, a steering committee of five people was responsible to make strategic decisions. Through managing by consensus, the decision to move forward with a strategic initiative was delayed for several months. The project team was confused from receiving differing guidance from the steering committee members and by the lack of decisiveness. The project saw multiple changes of direction, delaying execution. The team got clarity only after a member of the steering committee was identified as the main decision-maker and provided guidance to the stakeholders involved.

Organizations can ensure that the person is committed to support the initiative and reach success also during execution. The initiative goals, the company strategy and the personal incentives of the person should be aligned. Establishing KPIs and milestones and including them in the person's scorecard will promote personal commitment. Aligning personal incentives and performance evaluation require time from different management levels. It will however result in increased commitment and indirectly more focus for the person, as only a limited set of elements can be embedded in an incentive scheme. An energy and growth media company includes specific projects or initiatives in managers' scorecards, allowing them to see a direct link between their work and rewards. In addition, it enables the company to align longer-term vision as opposed to encouraging short-sighted actions.

Incorporate flexibility in the process and decision-making support

The organization's role is to ensure support to the decision-makers through support and processes to increase agility and speed of decision. Working teams of five or more people, meetings without clear next steps and multiple complaints about tedious processes are signs that governance must be revisited. To support the core team, subject-matter experts can be brought in and out of the team to provide specific input as needed. Such setups ensure that people involved can all provide fact-based input and challenge constructively the decision-makers. For example, a technology conglomerate, during an acquisition process, formed a sub-working group among the board members. The collective knowledge of the selected people was sufficient to cover all substance. It was also easier to arrange meetings, and the group came faster to a decision. Furthermore, it is critical within the core team that a culture of openness is promoted, where participants challenge themselves and each other, and where honest discussions are held openly.

Levels of consensus required to reach a decision depend on the associated risks and benefits. In statistics, there are two types of error. An omission error in business is missing a valuable opportunity, while a commission error consists of chasing the wrong one. Research from Csaszar for MIT Sloan Management Review in 2015 determined that funds managed requiring unanimous consensus faced less commission errors, but more omission errors. The opposite outcome occurred for funds using a low consensus level for picking stocks. For organizations, the conclusions suggest that high level of consensus is appropriate when the costs of a commission error are larger than the implications of an omission error. For a pharmaceutical company, the risk of launching a new medicine with unexpected secondary effects may be

larger than the potential benefits of launching it. Oppositely, if the risks of not pursuing and opportunity are higher than the costs of failure, a low consensus level is appropriate. Blockbuster and Yahoo fall in this category. It is the role of the decision-maker, or problem-solver leader, in the team to decide on the level of consensus required and guide the team members throughout the decision-making process.

To match the agility required in the decision-making set up, processes play a vital role on the time needed for a conclusive decision. One best practice is to review the existing processes and evaluate if all the governance touchpoints are needed. A large IT company has a multi-gated approach to its sales process, where opportunity assessment is performed before putting a team together. Then, approval is required for the solution setup, and finally for financials. After realizing that a particularly small deal with a key customer required the CEO to sign off as the profitability margin was under target prompted the sales organization to review the process. Different signoffs and touchpoints are now required based on the opportunity type, associated risks, and size. Bottlenecks and approvals for smaller deals are removed to speed up the sales cycle and to decrease unnecessary sales costs.

Ensure focus for managers and introduce tools to standardize decision-making

As individuals and supporting processes are in place, streamlined and focused strategic planning can remove bottlenecks and make the process repeatable. Strategic planning could benefit from improvements if executives feel thinly spread or if comparing investment opportunities is challenging. The senior executives can objectively evaluate the possible topics to ensure only the strategic issues are addressed at the board or leadership team level. Topics should directly relate to the corporate strategy and/or involve significant investments or potential risks for the organization. An ICT conglomerate faces similar challenges. With many business sub-units acquired over time, the organization suffers from silos, and top management struggles to maintain visibility over all units. With their time a scarce resource, executives are often firefighting and lack focus to spend enough time in the front-lines to optimize value creation. Thus, carefully selecting the scope of each executive will provide them the necessary focus to create more value.

Another element facilitating decision-making and avoid confusion is a standard set of tools and templates. Allocating scarce resources among different investment proposals is challenging when proposals are hardly comparable and contain different data points. By harmonizing the expected data and the proposals, committees and leadership teams can evaluate more easily the opportunities. For decision-makers, more time can be spent on solving the problems rather than on deciding what information is needed for the proposal or its structure. The large IT conglomerate lacked visibility on its investment portfolio for solution development, worth of tens of millions Euros. Each unit reported the status in different formats, hindering both speed and quality of decisions about continuing investments, causing sub-optimal ROI. By defining a simple set of two templates to track its investment portfolio, monitoring progress and intervening became easier. One pertains to the development and its progress against timeline, targets and budget. The second one focuses on the importance of the investment in relation to the company strategy. Such simple implementation has allowed for more efficient investment decisions, and less time spent by

contributors gathering the required data.

Prioritize strategic topics and standardize ways of working to lay basis for agility

During times where the ability to evolve as an organization and agility drive competitiveness, decision-making is increasingly challenging due to increased collaboration, complex structures and cumbersome organizational processes. The first concrete step to increase agility in decision-making is to define a standard process and templates to be used consistently to make a specific type of decision. Once the process is documented, piloting it enables iteration before rolling it out. Longer-term actions that can be taken is to align the incentives models with the corporate strategy and the responsibilities each senior manager has, and to continue to improve the process and tools based on experience. Before AI significantly impacts speed and quality of decisions, streamlining decision-making will ensure a powerful base to increase agility and optimize practices such as sales cases or investment portfolios management.

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