THE MACRIS GROUP

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From Dean's Desk: "prudent risk"

Traditionally, risk is considered to be negative and even a threat. Consequently, in attempts to minimize the negative impact of risk, the easy way is to minimize risk was to eliminate it. *In reality, the elimination of risk (zero risk) always and now more than ever carries with it an incredible cost.*

Prudent Risk:

"Decisions made and actions taken, involving a possible loss or injury, after careful consideration of: (a) circumstances, (b) potential safety or business results; and, (c) potential personal consequences."

Quotes:

"So much of what we call management consists in making it difficult for people to work." Peter Drucker

"The ancient Greek definition of happiness was the full use of your powers along the lines of excellence. John F. Kennedy

"Strive for excellence, not perfection." H. Jackson Brown Jr.

"A sense of humor is part of the art of leadership, of getting along with people, of getting things done." Dwight D. Eisenhower.

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Driving down decision making
– maturing the organization while increasing efficiency –

Lawrence A. Reiter A. C. Macris Anthony J. Ameo

Background

In the previous three issues of Update, we have been discussing various aspects of decision-making. The first of these articles explored concerns with strictly numbers-driven decision-making and the loss of relying on instinct to validate decisions. We suggested that while metrics and performance indicators are important, too often decision makers will rely strictly on those measures rather than their instincts and "cultural knowledge" to validate the decisions.

Our second article discussed what we called the lost art of observation. We feel that in business and government environments in particular, the ability to observe, understand and interpret information and occurrences contributes to the inability of leaders to rely on their instincts for validation. We are teaching people *how* to do things without teaching them *why* things are done the way they are; consequently, in unscripted situations their "knowledge" is hardly applicable.

In our most recent article, we introduced leadership as a key aspect of decision-making. We noted how global studies decry the disappointing state of leadership. We talked about incomplete succession planning, developing leaders, and giving high-potential individuals the opportunity to make decisions without fear.

Feedback that we received on all three articles has been very positive. Many of our readers wrote and told us that we were right on the mark with our thoughts. The April 6, 2009 issue of *Business Week* presented the annual list of 50 Best Performing companies. In a sidebar to the article, the editors discussed how they selected the top 50, finally explaining that over the years they realized after analyzing the metrics to make adjustments beyond the numbers. In other words, the numbers didn't necessarily tell the whole story.

In this issue we want to further explore organizational decision-making and the necessity of driving decision-making down within the organization. A truly successful organization supports and encourages appropriate decision-making at all levels. We'll look at what can hinder driving decision-making down, what can be gained, and how to build a decision-making culture in an organization.

<u>Are you (or your boss) a Control Freak?</u>

Probably one of the biggest obstacles to driving down decision-making is the people at the top of the organization. Clearly, if they don't actively support this process it will not happen. Why would someone not want to see appropriate decisions made at all levels? Is it a question of ego – no one can do it as well as I can? Is it lack of trust? Is it that the top decision makers are simply control freaks? Probably it is a mixture of all of these and more. But the bottom line is that it is hurting the organization and probably not at all recognized as a problem. Control may be viewed as good or necessary but if you have properly trained people who understand their jobs too much control is unnecessary.

If you are a CEO, a manager, a supervisor, or a team leader, think about your level of control. Perform an honest assessment of how much control you exert in your organization. Do you have to make all decisions?

A sports example can shed some light. During the recent NCAA Men's Basketball tournament, the Villanova Wildcats were in a tight game. As the final minutes started ticking down Coach Jay Wright found himself with no timeouts remaining. Coach Wright always likes to have a timeout for the final seconds because he is a self-avowed Control Freak. When the coach couldn't call a timeout he had to rely on his players and they came through with a victory. When asked about the situation after the game, Coach Wright stated that despite his overwhelming desire to want to control everything he realized that he had trained his team well and they knew his expectations and what to do in the situation. In other words, having skilled people who are properly trained can yield success without excessive control. Do you have skilled employees? Have you given them good and effective training? Do you trust them? If so, give up some of that control.

If you are a CEO, a manager, a supervisor, or a team leader, think about your level of control. Perform an honest assessment of how much control you exert in your organization. Do you have to make all decisions? You may not even realize that you are making all the decisions. If your employees come to you for all the answers or check in with you before making any decisions, you are probably exerting too much control. You may not overtly be asking to be part of every decision but if they come to you for permission or confirmation on everything you need to ask "Why". There are many reasons people want approval before taking action – they may not have self confidence, they may want to avoid making mistakes, or they may simply want to "kiss up to you" and stay visible with you. Each of these behaviors is symptomatic of other issues. If people lack self-confidence it may be because they are not sufficiently trained or have insufficient experience. A simple, yet effective technique when people defer to you to make a decision is to talk them through the situation and help them reach the decision. This method takes more of your time but builds their confidence and saves you time in the future. If decision-making gets deferred in an attempt to avoid mistakes, it may be because of a culture of "no mistakes allowed". We'll discuss this below. If people are trying to "kiss up", you may have a cultural issue within the organization or it simply may be someone who needs to reorient to acceptable behavior.

With regard to failure within an organization, business sense would say that of course we don't want our organization to fail. In a perfect world this would be the ideal but we don't live in that perfect world. All organizations are made up of people and people are not perfect – they make mistakes. The successful organization recognizes this and accepts that mistakes will be made. The key is to establish sufficient controls so that mistakes will be relatively minor in terms of the overall functioning of the organization, and that mistakes can be tolerated if they were not done maliciously. The effective organization tolerates some mistakes and uses them as learning experiences so they will be avoided in the future. Do you tolerate mistakes? Do you "cut off heads" when mistakes are made? These questions may tell you if you are exerting too much control.

<u>What are the costs of not driving decision-making down?</u>

Let's be fair – while we have been quite critical of the strictly numbers-driven decision-making, we also realize that 'our industry,' those of us who have been involved in the "softer" side of the business model, have struggled with one of the most significant business issues – the business case for what we do. Years ago, following the accident at Three Mile Island, human factors came into vogue in the power industry. Mandated by the NRC, the public utility companies complied, and those of us who drink the human factors Kool Aid were ecstatic – not even so much because of the business opportunity, but because we finally got some respect. But one of the fundamental questions we were routinely confronted with is how do all these "human factors" improvements ensure that we won't have another significant incident? If we as human factors professionals could have assured the operators that we definitely could reduce the number of reactor trips by even one, the business case would have been amazing to them.

But all we could say is that we can reduce the potential for human error. You can imagine the reaction we got.

Today in the world of leadership and decision-making, similar challenges confront us. But now we can answer the question more definitively. First, we address it by studying what it costs to continue doing business as usual. We can and will provide case study summaries illustrating how costs increase when decision-making bottlenecks at the top of the organization. In contrast, we will further illustrate how driving decision-making down through the organization does have a business benefit. One way of characterizing the phenomenon is that of zero risk. In the context of the Control Freak, there is a zero risk phenomenon. Well, zero risk is really expensive. In a regulated nuclear power environment, zero risk was the norm, but costs were skyrocketing. In a deregulated business environment, a dramatic change was necessary. Running the decision-making process up and down the management ladder is time-consuming, distracting, inefficient and ineffective – all resulting in additional low value added work, additional burden on already reduced staff and resulting higher cost. The alternative is better problem solving and decision-making at lower levels in the organization.

It will require providing leadership training at all levels of the organization. The training itself must be based on a clear organizational philosophy that embraces appropriate lower level decision-making, otherwise it will be insufficient.

One specific engagement involved a disagreement between the general contractor and one of the sub-contractors involved in building the Aladdin Casino in Las Vegas. It seemed that every decision ended up involving the owner, the general contactor and the vice president of the sub-contractor. Hundreds of thousands of dollars were involved with payments being held up all along the line from the owner to the sub-contractor. All because the people on the job could not resolve their problems and make appropriate decisions. During the intervention, it became blatantly clear that the problems could have been resolved much lower in the hierarchy (actually most right on the job site). We made some agreements and commitments toward that goal, established some ground rules and set a trial period to test the concept. It worked. Work started getting done, schedules were not in jeopardy, and moneys started flowing. The cost up to this point was significant in terms of accounts payable, delayed schedules, work distractions and bickering, not to mention the cost of bringing eight people in a room for the better part of a day to come to these realizations.

The lesson learned is that of the obvious direct costs and indirect costs associated with not driving decision-making down. The loss of productivity caused by idle chit chat, back and forth finger pointing and those additional people that are drawn in because they are sympathetic to the cause. If none of this happened, think of the work that can be accomplished. The lack of problem solving and decision-making at lower levels of organizations is very expensive. If the actual decision-making process were to be visualized on a process flow map all would be shocked at the wasted steps each of which cause delay and costs money. The solution is not trivial, but it is real, achievable and measurable.

What can you gain from driving decision-making down?

The advantages of driving decision-making down in an organization are many, but they are not easy to achieve. It takes time, it takes effort, it takes patience, and it may cost some money. The results will be a more efficient organization, reduced direct and indirect costs, a more empowered and motivated staff, and early identification of future leaders. Let's take a look at each of these.

As noted the benefits of delegating decision-making are not easily achieved. It will require providing leadership training at all levels of the organization. The training itself must be based on a clear organizational philosophy that embraces appropriate lower level decision-making, otherwise it will be insufficient. The organization and the management team have to be ready to relinquish some decision-making and allow some decisions to be made by their staff. This requires patience and a willingness to accept some mistakes. The death-knell of a program to drive down decision-making is for a subordinate to make a wrong decision and then have his head chopped off. Mistakes have to be turned into learning experiences.

Once an organization has gone through the effort to develop leaders at lower levels and staff has been given the green light to make appropriate decisions, the efficiency of the organization will rise. Thinking again about the process flow map of the current up/down decision-making process, you will see many unnecessary steps eliminated. This will automatically save time and money. Even more importantly, you will now see a staff that is more highly motivated, more dedicated to the organization, and more attuned to the goals and success of the company. They will exhibit more ownership in the success of the organization because they are making decisions that affect the organization.

Again, this is not an easy process or one that happens overnight, but it will yield a tangible business case once it is fully implemented. Now, this process, even at its end result, is not a nirvana. We have already discussed the time and effort involved. You will also find that not every employee wants to be making decisions. Some of those you identify as potential future leaders will not prove to be what you expected. That is why it is a process. You need to be prepared to look for other leaders when some do not work out. Those who don't work out may still be very valuable employees, but not those you will continue to cultivate as leaders. Some of these decisions will be difficult but we contend the overall business case of driving down decision-making is strong and beneficial to the organization.

<u>How do you build a decision-making culture?</u>
Is it easy to build a decision-making culture? Absolutely not! It takes work and it takes patience. There are a number of factors that must be considered and put in place to successfully drive down decision-making in an organization. Below we'll discuss these factors.

<u>Empowerment and prudent risk</u>
One of the basic precepts behind a decision-making culture is empowerment. For some leaders this is easily accepted and for others it is an extremely difficult concept to accept. Empowerment is not just handing over the keys to the organization to subordinates. It is accepting the skills and the capability of those subordinates. It takes a level of trust both in the subordinates and in yourself for establishing the appropriate guidance and training to ensure appropriate decisions made at appropriate levels.

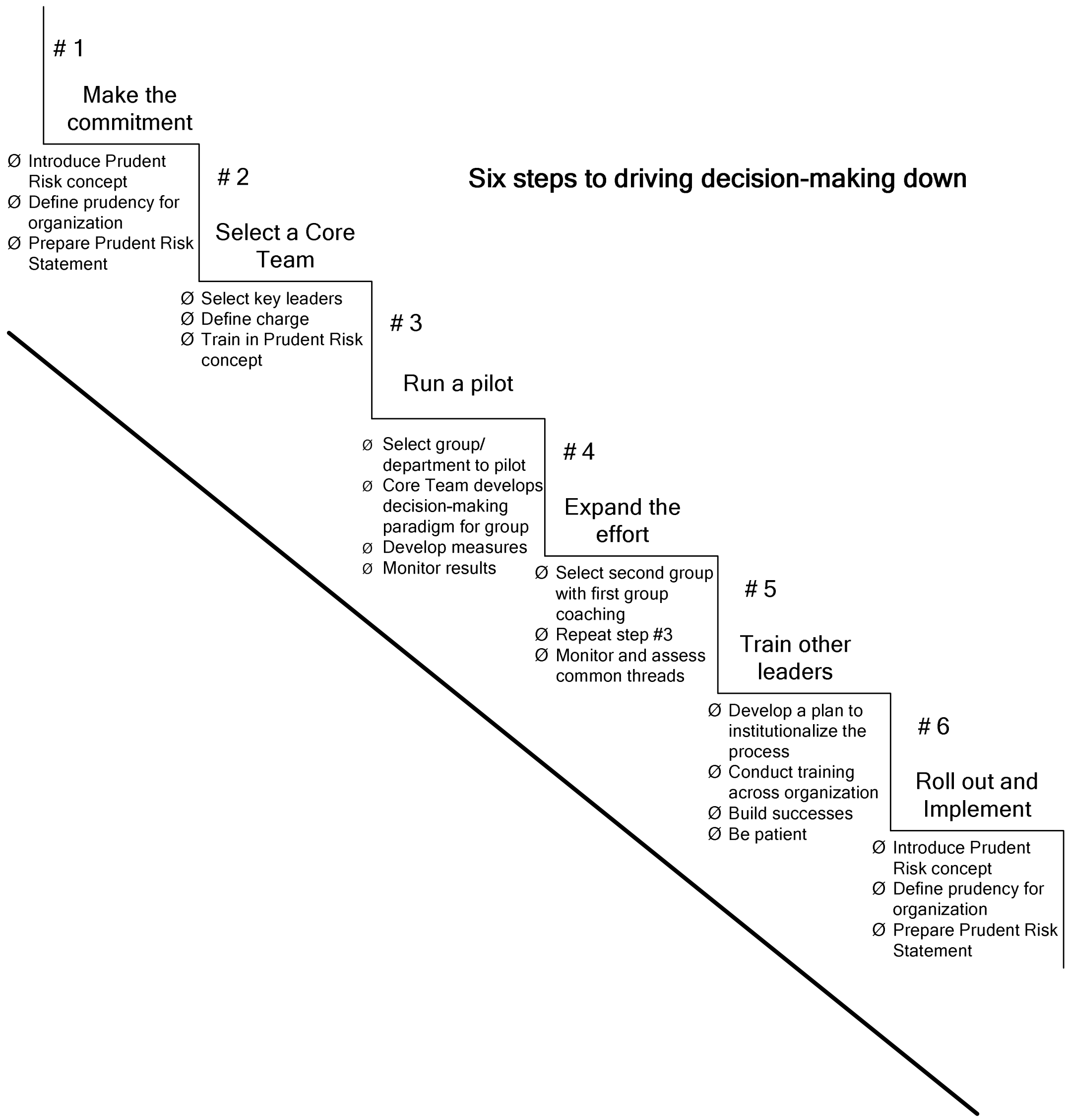
In order to provide proper guidance, some decisions do need to be made at higher levels. Executives and senior managers have legal and fiduciary responsibilities that must remain with them. However, there are many examples of over-applying these responsibilities. For example, in our long careers we have seen a wide variation of spending authority. In one company the authority rested in our office to approve expenditures up to $250,000. And yet in another company of similar size and complexity the corresponding approval level was under $1,000. It made no sense to go to a senior vice president for approval to purchase a $1,500 piece of software that was already in the approved annual budget. Yes, there are many decisions that need to be made at upper levels but does the existing guidance (if there is any) make sense? There are no hard and fast rules for developing appropriate guidance since every organization is different and many are subject to stringent regulation that may directly influence the guidance. Rules from federal and state regulatory agencies may dictate some decision-making and sometimes will be excessive.

The guidance adopted must also consider the concept of Prudent Risk. Prudent Risk is a model that compares value added to level of risk. The higher the value added, a higher level of risk can be accepted to be considered prudent to a point when the negative consequences overshadow the benefit and the value added begins to decrease. That is the point that needs defining. (The Summer/Fall 2000 issue of Update contained an in-depth article on Prudent Risk – that issue will be available on our web site) Every decision involves some risk. To minimize that risk, some leaders want to make all decisions. As we have seen in the past few years many leaders don't do a very good job with their decisions. However, accepting that the leaders of an organization are capable, knowledgeable, and astute they do not have to make every decision for the organization to succeed. They need to determine what level of risk can be pushed down. They need to determine at what level of risk they need to be brought into the decision-making process.

Once the acceptable level of risk is determined and the guidance developed it must be clearly defined and communicated. In some cases this might be a formal communication program and it other cases it might be communicated one-on-one to a subordinate. Regardless of how it is handled, it must be very clear. What is the guidance? What are the expectations? When should the decision be first cleared? What happens when the guidance is followed and the decision is wrong? (Remember "off with their head" is not the correct response.)

To support this there are two other items that should be made a part of the overall process. First, there needs to be a clear and well understood mission statement for the organization. This definition will go a long way in helping the understanding of the guidance and the impact of those lower level decisions. Second, there should be a system of cascading goals. Now the goals and measures for senior management will of course be different than those of a supervisor. But the goals should cascade so the supervisor's goals clearly roll up to the manager's goals and so forth.

One last factor that will help bring success to driving down decision-making is effective leadership development at all levels. If you are granting someone down in the organization the authority to make certain decisions they also deserve some leadership development. Our goal here is not to expound on leadership development but to stress how important it is – for all levels of your organization. The leadership development need not be as extensive as that provided for your managers but it should provide new skills and the opportunity to identify the future leaders for your organization.



The Macris Group
PO Box 535
Mystic, CT 06355

860.572.0043
www.themacrisgroup.com

Six steps to driving decision-making down

1. Make the Commitment

The commitment to driving decision-making down in the organization needs to be made at the highest level in the organization. Experience has shown us that without true commitment at the top of the organization such an initiative will fail. Those in the organization can tell when those at the top have not truly bought in to this or any other key initiative. To do this, a clear definition of what prudent risk means must be established and what happens when a prudent risk goes bad.

2. Select a core team

Start with a select group of respected leaders and those who know how to work within the organization. Define their charge and train them in what prudent risk means and how this team will aid/facilitate driven down decisions. Define for them what decision-making should be driven down and how to monitor and respond to such decisions including those that prove to be poor decisions.

3. Run a pilot – build success

Select either a department or a group and have the leadership team work with the group in their decision-making process and how they can benefit from improving their decisions and how to determine which issues are resolved at their level and what to do with the others.

Conduct periodic feedback/lesson learned session to illustrate the success and areas to improve.

4. Expand the effort

Like ripples in a lake – build concentric circles of successes. Use the first group to coach the next selected group. Build upon the successes of each group. The timeframe to do this is highly dependent on each organization and can be addressed as desired or necessary. Remember that Rome was not built in a day – this will take time and patience. It is also important to recognize that within an organization one size may not fit all. Things that can be driven down in one department may not be prudent to drive down in another because of risk or legal/regulatory constraints. Don't let this keep you from your goal of driving down decision-making.

5. Train other leaders in the organization

Once the model has demonstrated success beyond just a few examples conduct a broader training initiative to bring other leaders in the organization into the program. This too is highly contingent on each unique organization. The initially selected teams can be a great asset in achieving this portion of the program. This training prepares the organizational leaders to implement the organizationally wide program.

Build the broader program by engaging the leaders at each successive lower level of the organization. Knowing that the leaders above support and believe in this will help each subsequent level reach acceptance.

6. Roll-out and implement across organization

This is an extremely critical step and needs to be well developed and orchestrated. It may be small group meetings, there may be a large roll-out session followed by smaller meetings. It is contingent on the organizational structure and best ways to communicate with the people across the organization. The follow-up is equally important to ensure success are recognized and those decisions that were not handled as well as they should have been are learning opportunities rather than punitive.

<u>Closing thoughts</u>

Measuring organizational health traditionally involved only a financial analysis and report. We all know how that works depending on how those who do the analysis, those who pay for the analysis and the vested interest in the parties. All that aside, the financial measure is an important one and hopefully it will be honest and comprehensive. But, health is more than financial, because financial health is essentially a snapshot, particularly in an exceptionally dynamic financial and business environment. In addition to the financial portion, we are suggesting another measure of organizational health, and that is the level at which decisions are made within the organization as well as how low in the organization problems are resolved. This obviously has a financial impact, but it has a more enduring impact and consequence. Hopefully we have established the case for associated direct and indirect costs of not resolving problems except at the highest levels and having to run decisions up the organization and then back down. More importantly the ability to make good decisions at all levels of an organization becomes a way of doing business, a part of the culture of the organization. The organization as a whole understands acceptable levels of risk, decisions are made with a holistic view of the organization and associated consequences and frees the leadership to focus on those issues and strategies necessary to move the organization forward. In closing, achieving this level of sophistication requires commitment, tenacity and work, but with small successes that build to bigger successes, people feel better about what they are doing, realize that the process yields positive results and builds into the organizational culture for a lasting organizational benefit. For more information on how our process or how we can tailor this process for your organization please contact us.

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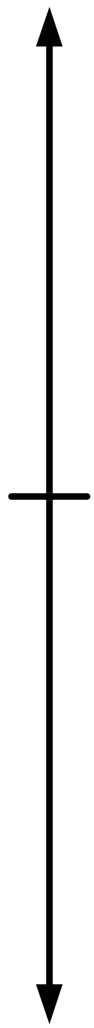
Print and Cut
Sometimes it helps to use a graphic as an ongoing reminder

How healthy is your organization's Decision-making?

Decisions made at the highest level



Characteristics

- ✓ Negative consequences for those who make mistakes
- ✓ Egos that require everyone coming to the boss
- ✓ Train your people but not your leaders
- ✓ Inefficiencies
- ✓ Zero risk mentality

Characteristics

- ✓ Demonstrated leadership commitment and consistency
- ✓ Leaders who take the time to understand the thought process of those who make decisions
- ✓ Organizational guidance on prudent risk taking
- ✓ Problems solved more efficiently
- ✓ Improved organizational efficiency
- ✓ increased commitment of employees

Decisions made at the lowest appropriate level