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DISTRIBUTED DECISION MAKING A POWERFUL LEADERSHIP PARADIGMS

a non-traditional way to share leadership duties throughout the organization

HIGHLIGHTS

In any moment of decision the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing

Complexities facing organizations today, from rapidly changing market and environmental conditions to difficult, multi-faceted internal configurations make decision-making, using old paradigms, nearly impossible. Decision-making is essentially the craft of leadership and great leaders are artful negotiators and decision-makers. Great leaders and great decisions are essentially intertwined. But, as the environment, the problems, the predicaments and information gets ever so complex, hierarchical decision-making where a few individuals rule the decision-making roost nears a critical failure point. One solution is to share and distribute decision-making responsibility throughout the organization. With the right guidance and well-designed metrics, distributed leadership – an unusually efficient and effective decision-making paradigm – can lead to unexpected boosts in performance.

Decisions and leadership are regular bed-fellows – great leaders seem to make more than their share of good decisions. As Peter Drucker says, "decision making is the specific executive task." Decisiveness is regarded by many as the single largest contributor of successful leadership. "In any moment of decision the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing" noted former US President Theodore Roosevelt. Great leaders like Roosevelt are revered for their decisiveness when making difficult choices. But, they often make their choices in less than ideal conditions with less than perfect information.

There are actually different types of decisions. The first type is the "autonomous" decision where the individual is not even aware that she is being presented with a choice. In this case, our instincts seem to make the right choice for us automatically. We all make many of these types of decisions in our daily life. Driving a car, far example, involves many small decisions that are made outside of the purview of our conscious decision-making mechanism.

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The second type is a “routine” decision where the individual has an abundance of knowledge regarding the situation at hand. This experiential knowledge is gained through repeated exposure to the same condition. In other words, an individual was faced with a similar situation in the past and based on the choice and outcome from that event, can make an informed decision. There are many business decisions that fall into this category. For instance, a call center manager makes many routine staffing decisions over the course of a week to counteract the daily and weekly ebb-and flow of calls.

A third type – the “elaborate” decision – occurs when there is a certain amount of knowledge about the situation, but there is a considerable amount of uncertainty. In these unclear situations with uncertain outcomes, certain amount of weighing and analysis is needed prior to decision making. These situations tend to conform nicely to leaders who are analyzers – different options can be evaluated analytically before arriving at a decision. Some business decisions that involve large investments fall into this category; for instance, a company opening up a new mine would probably use elaborate modeling before arriving at a final investment decision.

The last type of decision, the “novel” decision occurs when the decision-maker does not have access to much information. There is a lot of uncertainty regarding the decision parameters and a historical perspective does not exist. In this case, leaders tend to rely on judgment and intuition, on creativity and out-of-the-box thinking to arrive at a final decision. Although few business decisions fall into this category, they inevitably tend to be the paradigm shifting ones.

Although we have presented a simplistic decision-making model, it helps us distinguish a key aspect of decisions within organizations today. Organizations tend to play it very "close-to-the-vest" when faced with decisions of the last two types and only disseminate the seemingly easier decisions to the “rank-and-file”. While this is understandable and indeed desirable due to the higher degree of difficulty and criticality that usually accompany the last two types of decisions, the difficulty is often over-estimated.

As the environment, the problems, the predicaments and information in business settings gets ever so complex, senior leadership is not able to be as able and responsive as it needs to be. Business decisions are often more difficult than they need to be because senior leadership does not have access to the right information at the right time.

This difficulty is somewhat curbed by the increasing prevalence of powerful, fact-based decision-support tools. Business Intelligence systems, dashboards and scorecards have mushroomed in business over the last few years. These tools, while providing a mostly retrospective information library, do supply decision-makers with ammunition that only years before was unavailable. The information embedded in a smartly-designed decision-support tool is immeasurably valuable as it potentially provides an entire organization the core information to make critical and difficult decisions. Furthermore, the process of analysis that serves as a preamble to scientific decision-making provides discussion and reflection that breeds organizational creativity.

Providing a consistent, real-time fact-base enables the organization to spread decision-making as it sees fit. One model would be to push out some of the decision-making to customer-facing individuals who can make smarter business choices more quickly than

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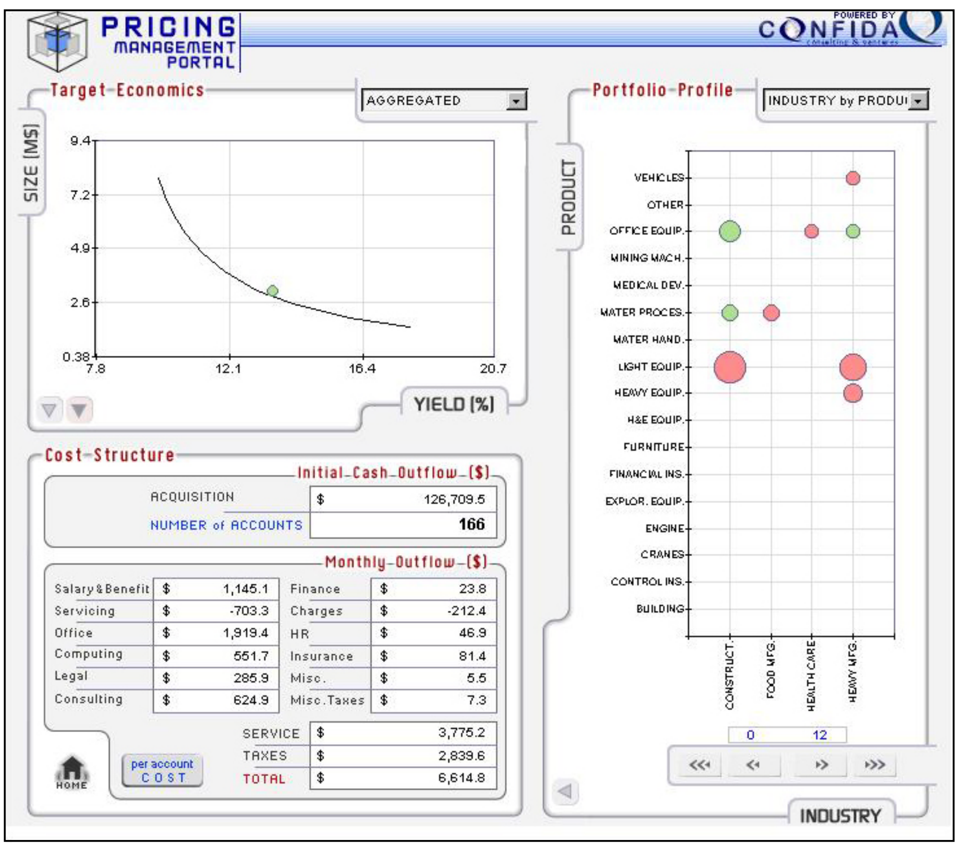
senior leadership. This model has many benefits. More people are learning about the decision-making process and feel involved in key company decisions. But, the key benefit of such a model might be that organizations that can make simultaneous decisions become agile in the same manner that a computer processing becomes quicker when switched to a parallel processing environment.

While "distributed leadership" has obvious appeal especially in terms of efficiency and possibly even effectiveness, it is also fraught with possible dangers. How does one ensure that multiple people make consistent decisions across a large organization? This is the most difficult challenge of a distributed leadership scheme. Consistency can be achieved through the use of a common language and a set of easy-to-understand metrics.

One of the areas that we believe distributed leadership can be most easily implemented is in sales organizations. Salespersons work best when they are treated like franchise-owners or small business people. The organization provides the salespersons with easy-to-use, quantitative targets and a way to track progress versus the targets. In the following example from Confida's Profitability Management Portal (a web-enabled performance measurement system), a financial services company has set a target ROE (return-on-equity) for its salespeople (ROE appears as a curve in the top-left panel). Each salesperson needs to ensure that her portfolio lies above the target ROE line.



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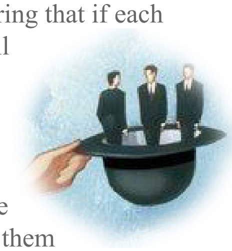
Salespersons are then free to write business as long as they meet the agreed upon macro targets. Akin to money managers who aim for a targeted return (and who might make a couple of risky investments in their portfolio), salespersons unencumbered by the shortsighted of micromanagement could demonstrate surprising performance gains. The salesperson has complete authority and accountability for customer decisions within her purview.

In this manner, decisions are disseminated to individual salespersons who are, in effect, in key leadership positions in the organization. The organization, meanwhile, is keeping everything synchronized by providing a set of target metrics ensuring that if each individual exceeds her target, then the organization as a whole will perform well. Thus, key customer decisions do not need to be filtered to the top of the organization, a journey which causes large time delays and synthesis errors.



One reason distributed leadership is empowering is because unlike other methods that give accountability to employees, it also gives them authority. Accountability without authority is a disabling recipe. Distributed leadership where both authority and accountability are disseminated in an organic manner throughout the entire organization is a responsive decision-making paradigm.

Over the last decade, we have witnessed a shift in marketing from one-size-fits-all to one-to-one marketing. In the same vein, we are now viewing the beginnings of a shift from centralized to distributed decision-making (which is essentially one-on-one decision making). For this to happen, it is necessary for organizations to adopt a more analytical, fact-based approach to decision-making. This parallel decision-making paradigm holds the promise of fostering true empowered, agile organizations that make consistent decisions based on one vision, one compass, one strategy and one set of facts.

HIGHLIGHTS

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