

UNDERSTANDING
THE POWER OF

DECENTRALIZED DECISION-MAKING

by James C. Morgan

In this 5-page document you'll find a targeted discussion of the specifics of the decentralization of decision-making: the implications, and how it's done.





UNDERSTANDING THE POWER OF DECENTRALIZED DECISION-MAKING

Are you a leader who wants to improve decision-making within your organization? You can achieve this by focusing on your delegation skills and, in larger organizations, by developing a decentralized decision-making culture.

Delegating is the practice of assigning to an individual the authority to make specific decisions. Decentralization is “assigning final decision-making authority on a task to the lowest practicable management level within an organization.”

The key is ensuring the right organizational culture. Every successful organization focuses on three pillars – Culture, Planning, Implementation.

My overriding Morganism has always been to build and model a culture of mutual trust and respect. You have to have confidence in people and a culture that accepts responsibility for its decisions. Without mutual trust and respect you are not going to succeed.

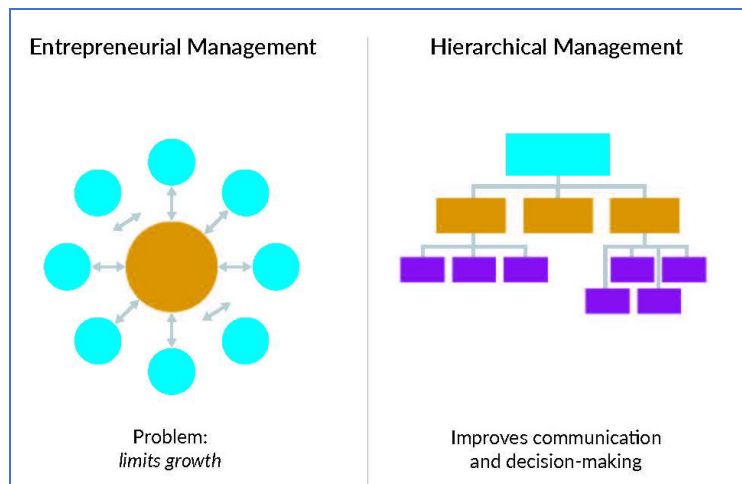
1. Hubs and Spokes

I’ve come to believe that almost all start-up organizations, including new nonprofits, resemble a wheel with a hub (the founders and top management) and spokes (the functional departments). Information comes in from the spokes, and decisions go out to the spokes. The center may delegate some decisions but that is not “Decentralization”.

In a hub-and-spokes structure, the people on the end of spokes are often unsure of who is in charge of what or who has authority to do what, and they often don’t have the latest information on what’s going on along the other spokes.

As organizations grow the people on the spokes get more and more distant from the hub and isolated from the other spokes. They don’t talk as much to each other and they may send in recommendations or plans that don’t take into account issues occurring on the other spokes. Conflicts develop that delay decisions. There are reversals of decisions that employees thought were settled. If you don’t define processes to handle how decisions should be made, your people will stop making them, or the staff who don’t like a particular decision will ignore it, hoping it will be overturned.

Management must recognize that change is occurring and adapt the structure and processes. It demands a transition to a more hierarchical structure; one or two top leaders cannot successfully manage a hub-and-spoke structure past a fairly small size.



2. Good News, Bad News and Decentralized Decision-Making

We had a well-known saying at Applied Materials: “Good news is no news. No news is bad news. And bad news is good news – if you do something about it.”

Of course people want to celebrate their successes and share good news within an organization. But even in the midst of success there are invariably problems just under the surface. When things are quiet, it’s time to listen carefully. You’ll always find something. We saw bad news as an opportunity – bad news is good news because it gives you a chance to address problems before they spiral out of control.

I’ve come to realize how important this saying is when decision-making is moved down within the organization. You hire the best people you can and then you trust them to use their judgment to do the right thing. People, at all levels, need to learn to consistently recognize, confront, and fix problems early, to emphasize finding solutions, and not assigning blame. When decision paths are predictable, people will make decisions.

Within their area of responsibility, most people will make the right decisions most of the time. I’ve learned that the odds of people making a mistake are small. They just need to decide to decide.

3. Who Owns the Monkey?

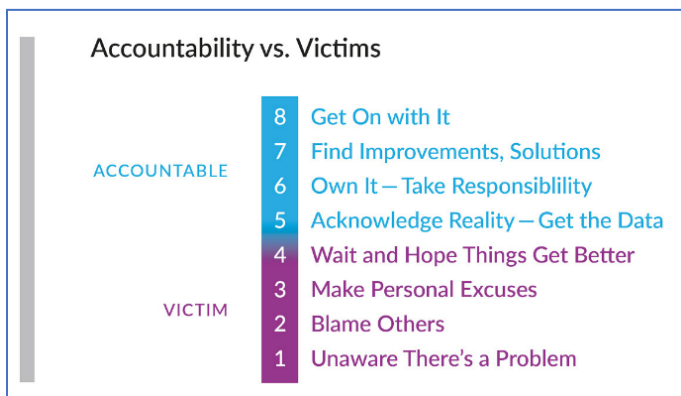
Nonprofit leaders are often overworked and under-resourced. As a result, staff problems can easily move up the chain of command. You need to create a culture of accountability to ensure that the only issues that land on your plate are the ones for which you hold clear responsibility.

Let’s say that one of your staff shows up in your office with a problem – a monkey – on their shoulder. As a manager, you want to acknowledge that you see the monkey and that you care about the monkey. You may even feed the monkey for a few minutes. But you can’t let that employee leave the monkey behind for you to take care of. Be sure that when they walk out the door of your office, the monkey goes too.

Owning the monkey means the person responsible cannot pass the buck; they must think through the consequences of decisions and try to solve the problems that arise. Ask yourself, “Who owns the monkey?” Create an accountable culture; don’t accept a victim mindset. If you set an example of taking responsibility for your own decisions, your people will do the same.

4. Accountability vs. Victims

When things aren’t going well there is a tendency for staff to personalize their anxiety and frustration and create “villains” and “victims.”



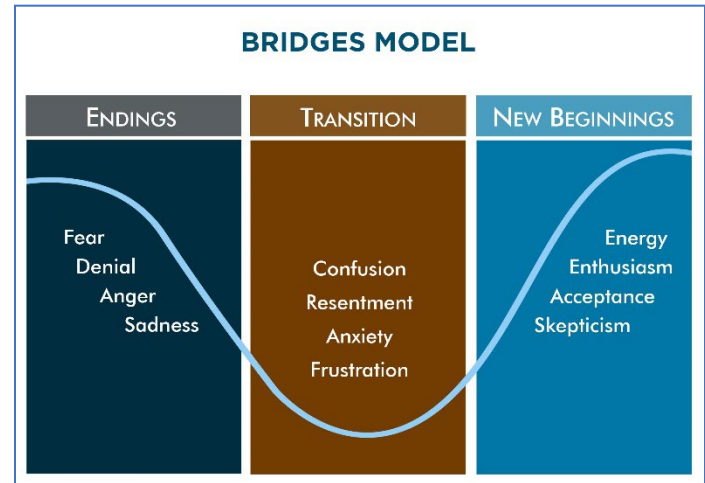
This illustration shows the difference between an organizational culture characterized by accountability, versus one characterized by a victim mentality. An accountable attitude is the opposite of a victim mindset. In an accountable culture, employees are comfortable acknowledging reality, warts and all. Individuals do not just wait and hope things get better or spend their time crafting excuses or pointing fingers at others for mistakes. They take responsibility for finding solutions and improvement.

5. The Bridges Model of Change

Organizational consultant William Bridges developed a model of the human side of change that I've always found helpful. The model looks at the three stages people experience during change: Endings (of what currently is), followed by a period of Transition, and then to New Beginnings. It's valuable to have all employees understand the model.

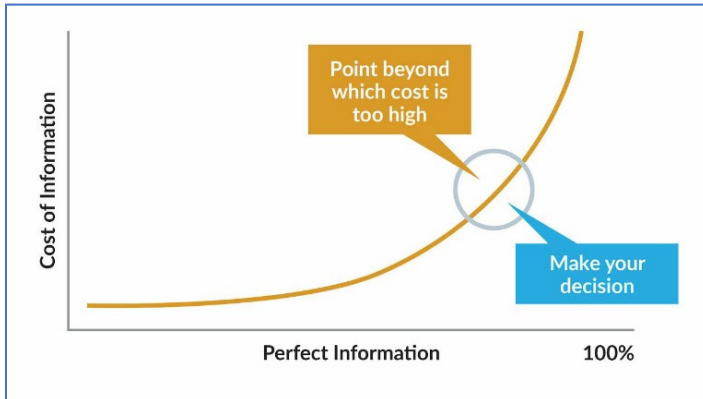
As a manager I've learned that different people will always be at different places on the Bridges curve at different times. A good leader understands where employees are on the curve, and anticipates the next stage where they are headed.

I always found that it's important to validate staff concerns by talking about the challenges and paradoxes that we all face. By painting a path that acknowledges their stress but offers optimism and confidence, you can inspire employees to attack the new reality with energy and enthusiasm.



6. The Cost of Perfect Information

Time is wasted and opportunities are lost when people become fixated on having perfect information, rather than trusting their instincts, making decisions, and then managing the consequences. The cost of perfect information is too high for most decisions. Too many people agonize too long making a decision and then they don't pay enough attention to managing the outcome. They neglect to establish contingency plans and milestones and then do an honest assessment of whether the plan is working. Organizations in motion can alter course much faster than they can go from zero to 60. Decisions create momentum.



More complex decisions require a staged process. Gather a few people with the best perspective to frame the decision needed. Assign for appropriate analysis and recommendation. Get used to not having perfect

information to make the decision. Of course, the decision is important, but more important is how you manage next steps. Establish a written set of milestones to assess each decision and how you are managing the consequences of the decision over time.

Remember: *Success is only 10% based on strategy; the other 90% is implementation!*

A Framework for Decentralization

The following discussion of the details of managing for decentralized decision-making is based on a report from my days serving with the Army Materiel Command Board (AMCB).

General Frank Besson, the Commander of the entire Army Materiel Command, was a four-star general and the youngest head of the logistics command in U.S. Army history. The Army Materiel Command Board usually had six or seven strategic studies going on simultaneously. The studies would take a significant amount of work and analysis, and then twice a year we'd present three big projects to the 23-member board.

General Besson would convene the meeting and we'd tee up our findings and make conclusions and recommendations. In fact, he did something I've copied all my life: he required us to begin every presentation by starting the first slide with conclusions and recommendations. Particularly with technical or complicated subject matter, a long presentation where listeners don't know where you're going often becomes tedious and confusing.

Instead, General Besson made sure the group around the table was focused on the key issues and had the opportunity to question and make suggestions. Most impressive, he made sure the headquarters staff and the leaders of the various commands did not leave the meeting without making decisions on every recommendation.

If there was concern or confusion, he'd schedule an early morning golf game and hash over the problem until relevant commanders felt sufficiently clear on the issue to vote. He did not always get the decision he favored, but he did not allow the project to get swamped in dithering or internal politics. He insisted on a yes or no. General Besson was an impressive manager, and I was lucky to be there.

Decentralization can be defined as:

“Assigning final decision-making authority on a task
to the lowest practical management level within an organization.”

Note: The use of “level” in this definition distinguishes decentralization from delegation (which is granting authority to a specific person or group).

So where is the lowest practical point (level) for final decision making? Research and conversations with government and industry leaders suggest that one or more of these nine factors determine where a key decision should be made within an organization:

1. The personal philosophy of the top executive.
2. Organizational level involved.
3. Higher authority control mechanisms.
4. Response time required.
5. Information availability.
6. Susceptibility of subject to measurement.
7. Personal competence.
8. Scope, impact, and frequency of decision.
9. Comparative economic advantage.

Let's unpack each of these factors:

1. The Personal Philosophy and Motivation of the Top Executive has arguably the largest influence on where decision points sit within an organization. This also accounts for the greatest differences between organizations.

There's nothing inherently better about centralization. But when decisions have broad impacts, they may need to be made centrally rather than by department managers who are only focused on their part of the picture. In this case, even a committee with representatives from different areas won't be effective.

For highly complex issues especially, experienced decision-makers should frame the key decision points and then assign the supporting data gathering to the right levels. In other words, top leaders chart the course, while lower levels fill in the details.

2. The Organizational Level Involved matters to the extent that decisions made higher up leave no wiggle room for lower levels. It also brings in the issue of how broad an understanding and perspective is needed for decisions that affect multiple parts of the organization. The higher the level, the more coordination is required.

3. Higher Authority Control Mechanisms. In any large organization, the impact of external groups like government agencies, the IRS, unions, and financial institutions can't be ignored. As certain areas come under extra scrutiny, the middle levels tend to take on a bigger role in decision-making. External pressures and oversight shift power dynamics.

4. The Response Time Required between a decision and taking action is key in figuring out where decisions should happen. If an immediate response is needed, the decision is usually made at the lowest level that has the right info, with only after-the-fact monitoring. Need for speed pushes decisions down.

5. Information Availability from management information systems can dictate the decision point. Often, the need to connect different data means the decision has to be made where there are tools to do that. Data integration needs can centralize decision-making.

6. The Susceptibility of the Subject to Measurement determines whether realistic quantitative controls can be developed. Management guru Peter Drucker has noted that being able to measure progress toward a goal is an important prerequisite for decentralization. If it can't be measured, it's harder to delegate.

7. Individual Competence accounts for more variation in decentralization practices among similar organizations than perhaps any other factor. Pushing decision-making down for a function may require skills that lower levels don't have. On the flip side, keeping certain decision powers up top requires sustained competence that may be hard to maintain at higher levels. Available skills dictate what can be delegated.

8. As organizations grow, so do the Scope, Impact, and Frequency of Decisions and the risks involved in major calls. Where similar decisions come up often, they may get pushed down as lower levels gain experience. Organizations need to get comfortable with risk. Scale enables decentralization through repetition.

9. The Comparative Economic Advantage of having decisions made by those closer to day-to-day operations has to be weighed against the benefits of a later, but more broadly coordinated decision. Avoiding duplicate facilities, equipment, talent and effort is great, but shouldn't paralyze decision-making. This factor can be tricky to measure precisely. Decentralization has to be balanced with efficiency.

Looking at each of these nine factors helps pinpoint the best spot for key decision-making powers on any given issue. So while "decentralization" is an abstract concept, a deep understanding of its many moving parts allows leaders to build decision-making structures that work.