

Leadership

Is this any way to make a decision?

By Robert J. Thomas, Rob Cross and Yaarit Silverstone

Informal networks can play a pivotal role in how organizational decisions are framed and executed. But they can also result in too much collaboration—the kind of lengthy and expensive decision making that can cost companies dearly in missed opportunities.

Bad decisions waste management's time, cost a tremendous amount of money (which often goes undetected on the balance sheet) and slow innovation to a crawl. But in their efforts to identify and correct inefficient and ineffective decision-making processes, executives frequently overlook a key factor: the role of informal networks, especially those involving senior leaders, in the way decisions are framed and carried out.

The problem is not that leadership is unaware of the power of informal networks to shape decisions or to influence the fate of decisions once they're made. It is that senior leaders often have a limited understanding of how

those networks operate and, therefore, they cannot actively influence their behavior.

When Accenture delved more deeply into the issue, we were surprised to find that decision framing and execution were hampered not by the existence of informal networks opposed to change or by failures to get the right people involved but by the fact that in many instances, companies expect far too much collaboration. Moreover, even when they sense that decision framing and execution are going awry, senior managers usually lack a way to “see” what’s going wrong. By the time the problem is evident, it’s often too late to intervene.

A network perspective—a clear understanding of how informal collaboration networks actually work—can help leaders ensure that decision making is efficiently supporting strategic objectives.

When it comes to decision-making collaboration, most organizations take a more-is-better approach. Whether moving to a matrix structure, adding another collaborative technology or embarking on a program of cultural transformation, management simply looks for more ways to connect people. Such initiatives can make leaders feel that they are increasing alignment and organizational focus on strategic objectives; in fact, these plans more often create unmanageable demands and fail to bring about changes in behaviors and networks. Speedy decision making is a casualty of excessive collaboration.

A network perspective—a clear understanding of how informal collaboration networks actually work—can rectify that unproductive approach. It can help leaders ensure that decision-making interactions deep within an organization are efficiently supporting strategic objectives.

High stakes

The case of Cedarwood Pharmaceuticals, related below, reveals lessons for companies in other industries struggling to improve decision-making processes and dysfunctional organizational cultures. (“Cedarwood” is a real company; its name and other details have been changed to ensure its anonymity.)

Leaders in the pharmaceuticals sector face tremendous pressure to make good decisions. The stakes in this game are extraordinarily high. According to the Tufts Center for the Study of Drug Development, the average cost of a new drug, from development to FDA approval, is nearly \$1 billion and takes more than 14 years; post-approval R&D runs about another \$100 million. Still, the cultures and formal structures of most pharmaceuticals organizations emphasize getting it done right over getting it done fast. In fact, both speed *and* safety are critical: In addition to the staggering

bill for R&D, the opportunity cost in the market of a delayed new-product launch can range from an estimated \$1 million per day to more than \$5 million, depending on the drug.

An obsolete culture

As long as it was a 25-person, single-product startup, Cedarwood Pharmaceuticals didn’t need to worry about these kinds of numbers. But over a 10-year period, Cedarwood grew into a multidrug company with more than 3,000 employees. Throughout this rapid growth, senior management attributed Cedarwood’s success to a unique entrepreneurial culture of collaboration and inclusion, all of which fed innovation. However, by 2006, the CEO was concerned that the culture that had made the company successful had become an obstacle to efficient and effective decision making.

An employee survey had revealed that decision making was seen as inefficient and unfocused; that decisions, once made, were often overturned; and that conflicting goals across functions hampered important decision-making processes. Companywide, nearly three-quarters of employees said they spent the majority of their time in meetings that lacked an agenda and that led to action less than 50 percent of the time.

Bowing to intuition and the results of the employee survey, the CEO impaneled a multidivisional team to design a more effective decision-making process. The team’s first gambit was to track a series of decisions as they made their way through the organization, recording the duration and ultimate result of each decision maker’s involvement. Process maps drawn from this effort revealed that decisions tended to involve many more people than anyone had imagined, traveling to high places in the organizational hierarchy, where they would circle, waiting to be addressed.

Are you the bottleneck?

The following questions can help executives determine if they are impeding efficient decision making and can lead to new behaviors that reduce the density of their networks.

- Are you too responsive or quick to help too many people?
- Are you creating too great a reliance on your own expertise in areas that have become less central to your company's success now and in the future?
- Are there ways you could create connections around or beneath—rather than through—you?
- Can you keep followers from pushing you back into too central a position in the network?
- Can you teach people to tap your expertise more selectively?
- Do you hold people accountable for lack of execution (in as positive a way as possible)?
- Do you act quickly to correct collaborative problems before they escalate?
- Do you execute quickly and at the right point on decisions requiring your involvement?
- Can you remove yourself from meetings or use them as a way to develop key talent around you?
- Can you better set expectations—your own and others'—so that there might be a delay in answering their requests?

For example, at one point, four directors began a conversation about a relatively simple capital expenditure. From this initial “no-brainer” discussion, the budget request went on a five-month journey that consumed the time of two lower-level managers, the analysts who had to run numbers several times, a director in a third department, two other executives and the original four directors several times—all to approve a decision that ultimately had negligible impact on the initial plan. Had the original four directors possessed even minimal authority to make capital-expenditure decisions, the purchase would have been made months earlier at a fraction of the labor cost (and frustration).

The team found, in fact, that such inefficiency permeated Cedarwood. Decision-making authority was not clearly delineated, and as a result, even mundane approvals generated high collaborative costs. One decision for a \$39,000 purchase logged \$17,000

in labor costs over two months. Another decision took five months to make, costing the company more than \$60,000 and involving 25 people over the course of one month alone.

Moreover, labor costs reflect only a portion of the economic impact of inefficient decision-making processes. In the pharmaceuticals industry, the high cost of a delayed product introduction can often be traced to managers' grappling with routine, even trivial, decisions.

Too much communication

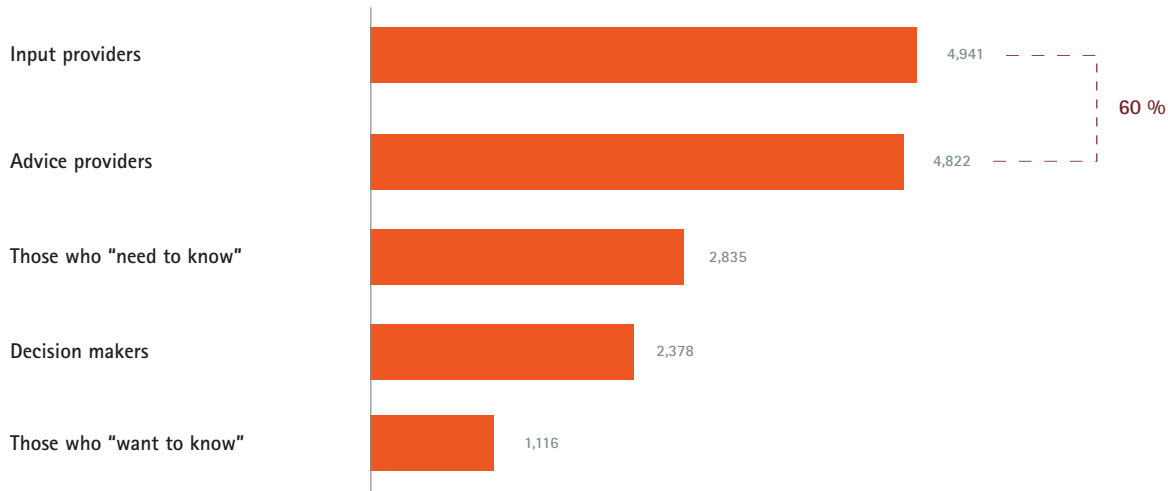
After examining the decision maps, the Cedarwood team began to wonder if “workarounds”—the seemingly inevitable companions to ambiguous processes—might also help explain why decisions took so long. They decided to conduct a network analysis.

This process revealed opportunities to improve the efficiency of decision making by streamlining networks. For

Decision-making roles at "Cedarwood"

In order to discover inefficiencies in decision-making processes at the company, we asked people how much time they spent with others as part of the process. We learned that they were spending far too much time with people who were simply providing input or advice but had no actual stake in the decision itself.

Number of hours employees reported spending with . . .



Source: Accenture analysis

example, an analysis of Cedarwood's information flow revealed a much higher level of communication than in similar networks at other companies. In other words, as decisions worked their way slowly through the Cedarwood network, employees sought the support of many others within the company. Simply paring down the size of these networks to meet a best-practice benchmark would reduce the average number of interactions by 33 percent on a monthly basis, and by almost 40 percent on a weekly basis.

To identify the root causes of excessive collaboration, the team used the network analysis to assess the primary and secondary roles that colleagues played in decision-making interactions—roles such as decision maker, input provider, advice provider, someone who "wanted to know" or someone who simply felt "a need to know." By allocating time to activities or roles, the team was able to quantify

the costs of over-inclusion and to isolate where costs could be reduced.

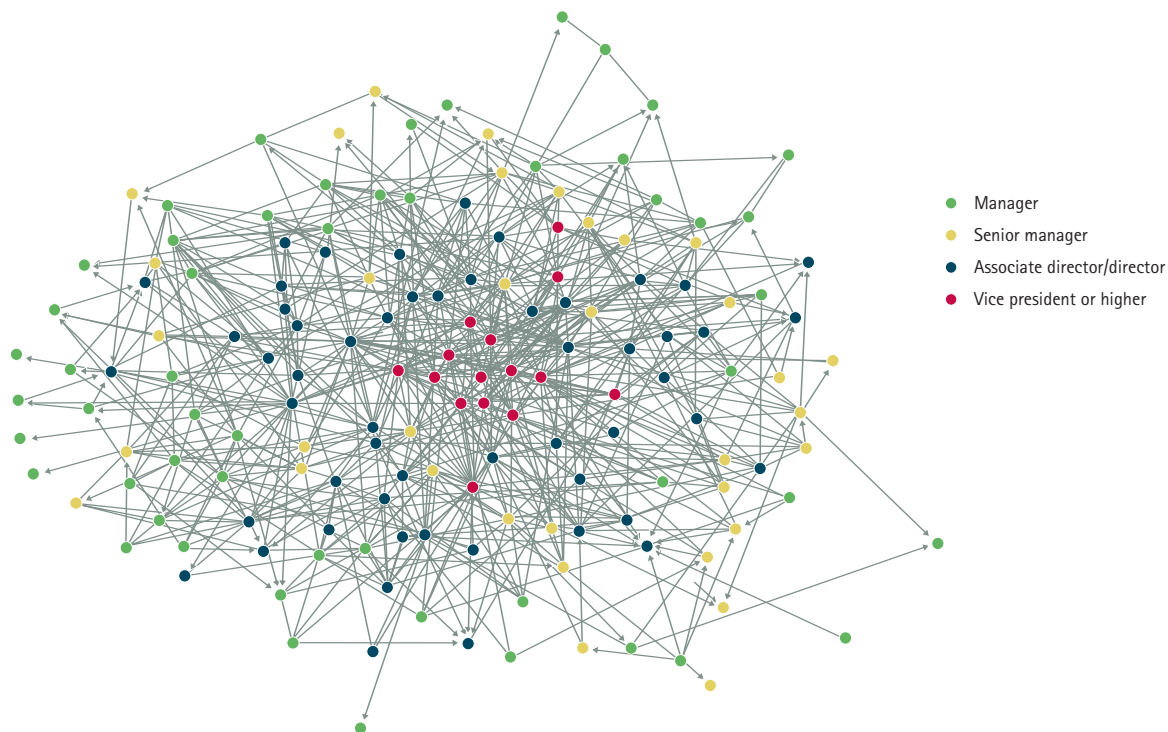
For example, the team learned that 60 percent of the time employees spent on decision making was with colleagues they identified as either input or advice providers—people who were not directly involved in making the actual decision. The network analysis also showed that the average employee at or above the level of manager involved 13 people in his or her decision making each week, nine of whom were simply providing input or advice and so were not instrumental in the decision.

By contrast, in comparable networks at other companies, the average employee would involve only between five and seven colleagues in similar decision cycles (see chart, above). Even in a company (like Cedarwood) where inclusion was a valued part of the work culture, employees and managers agreed

Decision-making interactions at "Cedarwood"

The concentration of red dots in the center of this network shows how hierarchical decision making at Cedarwood had become, with vice presidents and above acting as significant bottlenecks to efficiency.

How often do you go to this person for approval of a proposed action?



Source: Accenture analysis

that too much time was being spent consulting, persuading and informing (“statusing”) people who either wanted or felt they needed to know.

Without a doubt, the company’s rapid growth played a part in this overcommunication. For example, as the number of Cedarwood’s products grew, so, too, did the company’s legal department. But what wasn’t obvious was why the workload of the legal staff grew not only in volume but in complexity. In fact, the network analysis revealed that Cedarwood’s legal department was often asked to weigh in on routine decisions.

Follow-up interviews offered two explanations: The company had many newcomers who were unclear about procedures and solicited guidance

from legal staff, and the organization was being especially cautious because mistakes on new-product filings had prompted recent sanctions from the FDA. Efforts on the part of the legal department to streamline its involvement by means of well-publicized decision guidelines made only a small dent in the demand for legal’s participation in what lawyers regarded to be routine decisions.

The network analysis also highlighted the overly hierarchical nature of Cedarwood’s decision-making network, a revelation that surprised the company’s leadership, which saw the culture as egalitarian and empowering. When decision-making authority is not clear or well allocated throughout an organization, the common tendency is for decisions

To identify the root causes of excessive collaboration, use a network analysis to assess the primary and secondary roles colleagues play in decision-making interactions.

to get pushed upward in the organization—and this was exactly the case at Cedarwood. Managers at the vice president level and above were working to their limits, but they still kept people waiting for weeks or even months for answers (see chart, page 5).

One vice president noted that it wasn't until he saw that he and his fellow VPs were at the center of these networks that he realized just how reliant other positions were on this group of senior leaders. "I thought that I was making things happen all the time, but that really wasn't true," he says. "It's just a bubble of activity around me, and I was missing a lot of things on the edge of the network where key innovations should be happening. I suddenly felt horrible about the stack of things on my desk and in my e-mail that I wasn't executing and so holding up a tremendous amount of activity." Far more than any other position, senior leaders had become unintentional decision blockers for employees at all levels.

What became clear was that Cedarwood's rapid growth had blurred the definitions of roles, responsibilities, authority and empowerment within the company. As a result, executive leadership had become overinvolved in too many decisions. So a challenge for the team at Cedarwood was to convince top leaders to rethink their involvement. By quantifying the economic impact of impractical decision making, the network analysis made it very clear that senior leadership desperately needed to distance itself from some decisions while empowering future leaders to own them.

Since the network survey asked people to estimate the number of hours they spent actively involved in decision making with other individuals, the results could be aggregated and converted to interac-

tion costs, with prorated amounts used for different levels of management. The team found that Cedarwood's decision-making network consumed 17,400 hours of employees' time each month, incurring labor costs totaling a staggering \$1.4 million. Further, the time employees reported spending with "input or advice providers" cost the company nearly \$800,000—the salary equivalent of 50 or so people—each month in labor costs. Interactions with the real decision makers, by contrast, cost only \$180,000.

Streamlining the process

Armed with these insights, Cedarwood undertook a three-step enterprisewide program to revamp decision-making processes.

First, the team drafted guides on overall decision-making principles and practices, and produced optimal decision-flow schematics for two categories of decision types: the most common and the most important. The goal was to drastically reduce both the number of steps in key decision-making processes as well as the number of participants who were necessary for making decisions.

By simplifying the decision-making network (and effectively delegating and communicating routine decision-making roles and authority), the number of costly and time-consuming interactions with input or advice providers was cut dramatically. For example, decisions on pricing and distribution associated with an upgraded product were commonly considered by two separate committees—one for pricing and one for distribution. The two groups were integrated into a single team, reduced in size and given broader decision-making authority so that proposals would not need to be sent up the hierarchy for a decision to be made.

Second, senior leadership established a steering committee to reconsider governance principles and practices.

Encourage behavioral change by adding decision-making proficiency to the key personal competencies examined in performance evaluations.

One key action of this group was to quickly and dramatically reduce the number and size of committees. Those that remained involved in strategic initiatives were held accountable for being more timely and decisive. The combined pricing and distribution committee, for example, was given an explicit mandate to move faster. In addition, common practices were instituted so that meetings would run more smoothly.

Third, Cedarwood began a cultural and behavioral change program to highlight individual accountability and reduce people's sense that they had to be consulted on even trivial

decisions. This program included revised leadership training on decision making. Conflict resolution training was instituted to ensure that disputes didn't bog down the decision-making process.

Behavioral change was also encouraged by adding decision-making proficiency to the key personal competencies that would be examined in performance evaluations. Specifically, leaders were evaluated on how well they adhered to their assigned roles in routine decisions, as well as the extent to which they helped minimize the time and interactions involved in non-routine decisions.

Overall, these and other changes were extremely well received by the company's employees and managers, who saw the effort as a step toward reversing the crippling effects of hierarchy and revitalizing Cedarwood's egalitarian and entrepreneurial culture. Senior leadership was thrilled. A few months after the program was implemented, the company's grateful president told the original team that "in the end, the project was a huge success based on savings generated on a handful of decisions—not to mention the impact on the organization's culture and behavior. It's also going to prove invaluable as we prepare for aggressive growth in the near future."

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