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Decision Rights and Information Flows

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Having the right people, processes and technology are widely viewed as main ingredients to business success. Of course there are many more variables such as: capitalization, markets, R&D, competitors, regulation and the quality of what is being sold. But what are the true culprits behind business failures like the acquisition that destroys value or the cost reduction strategy that backfires? The answers can often be traced to flawed mechanics in the decision making process, including the intelligence that feeds into the process. This article examines some research on this front and offers some practical action items for businesses of all sizes and industries to consider.

Too often companies focus their internal audit and compliance efforts disproportionally on financial reporting and external compliance areas. While these areas are obviously important and should remain a focus, many organizations have surprisingly very little governance, risk and compliance resources funneled towards operations despite the reality that it is the operational areas that commend the vast majority of capital allocations. This occurs thanks to the focus on financial reporting and external compliance requirements triggered by governmental regulations, such as the Sarbanes-Oxley Act and Dodd-Frank in the United States. Resources are disproportionally monopolized to follow governmental mandates rather than what truly may be in the best interests of shareholders. The result often is a greater degree of unmitigated risk surrounding the operational and strategic decision making process that can spin an organization into chaos upon a poor decision.

Organizational Capital

It is no surprise that companies are quick to point to their people as a key reason for their success. While great for press relations since it is a 'feel-good' story, how many employees truly feel they are part of the success? There is no shortage of studies in this area, but one that sticks out is *Strategy Maps: Converting Intangible Assets Into Tangible Outcomes,* authored by Robert S. Kaplan and David P. Norton, 2004, Harvard Business School Publishing Corp. The authors argue that alignment and teamwork hinges on the 3 E's of enablement, empowerment and encouragement. The implications for a robust decision making process are significant. Enablement involves understanding of the strategy and how employees' activities contribute to its attainment. Empowerment relates to the rules of engagement and how to get things done on a daily basis. This can be a powerful force in cultivating ideas and fostering innovation into the decision making process. Finally, encouragement pertains to incentives and performance measures to encourage and reward the right behavior and activities.

While enablement, empowerment and encouragement are hard to argue against, one cannot forget about the tie-in to 'accountability.' People must be held responsibility for their actions and decisions. Studies support the notion that while many people should be involved in the decision making process, only one should have the ultimate decision making power for accountability purposes.

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Who

Arguably, the most important step in unclogging decision-making bottlenecks is assigning clear roles and responsibilities. This is an essential point made by Paul Rogers and Marcia Blenko in an article entitled *Who Has the D? How Clear Decision Roles Enhance Organizational Performance*, January 2006, Harvard Business Review. In this article, they identify the following roles in the decision making process:

- **Recommend**: Making a proposal on a key decision, gathering input, and providing data and analysis to make a sensible choice in a timely fashion. Also, consulting with input providers.
- **Agree**: Negotiating a modified proposal with the recommender if they have concerns about the original proposal. In addition, exercising veto power over the recommendation as necessary.
- **Perform**: Executing the decision once made and ensuring that the decision is implemented promptly and effectively.
- **Input**: Providing relevant facts to the recommender that shed light on the proposal's feasibility and practical implications.
- **Decide**: Serving as the single point of accountability by bringing the decision to closure, including resolving any impasse in the decision-making process. The 'decider' commits the organization to the decision and is ideally a sole person.

In addition to the roles identified by Rogers and Blenko, the following should also be considered:

- **Verification**: Ensuring independent verification of the completeness, accuracy and timeliness of information flowing into decision-making.
- **External Relations**: Assigning a point person for external communications pertaining to the consequences of the decision, especially to investors and key stakeholder groups.
- **Monitoring**: Providing on-going monitoring of key decisions to measure status (i.e., performance) and determine if 'change' is necessary.
- **Enforcement**: Ensuring accountability of all involved in the decision-making process, ideally through a formal performance evaluation process.

The roles above should be dispersed between the board of directors, executives, managers, auditors and others. While no single recipe is appropriate for all organizations, the board should generally approve a decision-making policy for important decisions and be the ultimate decider for strategic plan approval, the CEO's performance evaluation and very large capital allocations (such as mergers and acquisitions). However, the great majority of decisions should appropriately be made by executives and managers. What is important to remember is that no matter who makes the decision, there should be other roles built into the process based on the importance of the decision. These additional roles should help foster a culture of accountability while also mitigating the risks associated with poor decisions, especially due to incomplete or inaccurate information feeding into the decision-making process.

Information Flows

Intelligence feeding into the decision making process is an important critical success factor, thus posing one of the greatest risks to organizations. Why? – Because information (or 'intelligence') is by definition

biased. Essentially, information is data that is 'value-added' through analysis, interpretation, assumptions, conclusions and presentations. While 'data' is simply raw-factual elements, information is the processing of data for dissemination as a basis for taking action. Thus lies the risks in terms of who is interpreting the data and for what purposes. It is human nature to present data in the best possible light as it relates to the people presenting it. Whether it is a vendor making a pitch for business or the CEO arguing a position to the board, a lack of independence is most often a reality.

Organizations should seek to acquire complete, accurate and timely information for important decisions independent of the sources with vested interests. Relying too heavily on a particular source or two can prove to be catastrophic. This is where a robust internal audit function or board appointed resource can pay dividends by helping to ensure that the intelligence feeding into the decision making process is relevant, reliable and timely. In any event, the board should be comfortable with the intelligence and assumptions behind key decisions. The CEO must also be comfortable with independent fact checking activities, understanding that it is for the ultimate good of shareholders.

Action Items

Companies have a lot riding on important decisions as the strategic and capital implications are significant. It is critical to have a well-defined process and the controls in place to help ensure compliance. The process and relating controls should include:

1. Understand and live the full definition of 'governance.' While there are many definitions afloat, I define it as: "*The decision-making process of directing, managing and monitoring an organization with the goal of creating value while also protecting the interests of key stakeholders such as customers, communities, creditors, employees, suppliers and regulators.*" This definition is important as strong execution on only part of it can leave the company vulnerable.

2. Develop and adhere to a decision-making policy that defines clear roles and responsibilities. The policy should be scalable to include more roles as the importance of the decision increases.

3. Implement controls (i.e., policies and procedures) to help ensure that the information feeding into the decision making process is accurate, complete and timely. This includes a keen understanding on the risks associated with a lack of independence, and how to confront them.

Not heeding this advice can result in the destruction of shareholder value; just ask any of the organizations in the news lately for the wrong reasons.

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