Musings from Gate 44 is a series of papers written from one of the most sacred reflective places in a consultant’s life – the airport. As we depart our client’s cities, we are often decompressing, celebrating, venting, strategizing and reflecting on behalf of those we serve. We’re inviting you into our private thoughts about….you. “You” means those of you leading complex organizations trying to grow, change, improve and compete. These “musings” are stimulated by patterns we see over and over again as we work. Our hope is that letting you into our inner thoughts will help you grapple with the issues that frustrate your noblest aspirations and thwart what you seek to achieve. (We hope we’ll also have a chance to laugh gently together at some of the silly things organizations can do.)

Demystifying Organizational Governance: Ensuring the Right Leaders are Making the Right Decisions With the Right Resources

By Mindy Millward and Ron A. Carucci

Have you ever seen the film “How to Succeed in Business Without Really Trying?” It’s a classic we watched on our laptop on the ride back from a client who was dealing with some significant governance issues in his organization. If only achieving your objective was as easy and carefree as it is in old movies.

We worked recently with a CEO named Jack whose frustration level had reached a virtual fever pitch. “I’ve instituted a Senior Leadership Team to help push my agenda for our organization as we restructure our business units,” he lamented, “but the meetings are terrifically disappointing. The organization is not moving fast enough, and no matter how many times we meet, people just aren’t staying on track. It’s as if they leave the meeting and then figure out what they’re actually going to do in the hallway. And a lot of those decisions seem to be around creative ways to avoid change.” Both through his Senior Leadership Team and through other targeted initiatives to bring his top leaders together, Jack had tried to create a more focused organization, but the result seemed to be adrift at the top. He admitted that the harder he tried and the more resources he applied, the more intractable the problem became. At his request, we surveyed the top 400 leaders in his organization to get a better picture of what was happening.

We found that Jack’s organization displayed many of the governance problems we have seen in a broad variety of large enterprises. Jack had been more on target that he realized – several of his key leaders were meeting informally in hallways and taking snap decisions on what to do next that weren’t discussed or even shared at the formal meetings. Ownership for decisions and resource allocation was unclear throughout the senior leadership. Many in the top 400 were leading at the wrong level, getting too involved with issues further down in
the organization and losing the ability to see the big picture. (This is a common leadership malady we call compression – for more on this see the Musing Leading at the Right Level I: The Phenomenon of Leadership & Decision Compression.) There were far too many unproductive meetings, with no clear ownership or outcomes. Indeed, the sheer number of different committees, teams and task forces had created significant fragmentation, provoking conflict between different groups. Information and decisions moved so slowly across this uneven terrain that productivity was severely impaired. Jack’s organization was suffering from significant governance deficits, and despite his frustration level, our study showed that the cost was actually greater than he had initially imagined. He’s not alone – governance in many large enterprises is often a train wreck. But at its most elegant, governance is refreshingly simple. You need:

• The right people, equipped...
• With the right data and authority,
• Making the right decisions, aligned against agreed upon priorities,
• Allocating the appropriate resources,
• And figuring out the right steps to execute.

Despite the elegance of what is required, organizations continually fail to construct governance models closely linked to strategy execution. Truth is the integration of strategy, financial and talent processes that allocate authority, priorities, and resources in the service of executing an enterprise strategy is one of the most profoundly differentiating activities a company can undertake. It is the very lever, when pulled that can deliver the efficiency, effectiveness, and results that optimize a company’s competitive positioning.

Our hope in this Musing is to lay the foundation for what executives need to be doing to secure a governance model that drives performance. So let’s look more closely at what governance is – and isn’t – and then figure out how you put it to work in your organization.

Ask yourself this question: Have You Intentionally Built Your Organization’s Governance?

We’re always amazed to find how many organizations of all sizes consider that they have a governance model without having applied a comprehensive intentional review of what it is and how it works. Some small and mid-sized organizations seem to think that governance is a topic for large organizations only. They operate more “organically” or as they pride themselves, “we’re an informal company.” We disagree. Regardless of whether you lead a start-up, a small to medium sized business or a large publicly traded company, well designed governance defines and promotes desirable behaviors in your organization and helps avoid negative ones. It helps clarify leaders’ expectations, their spheres of power, appropriate performance measures, relationships among key stakeholders and how they intend to function.

If you want a simple definition, think of governance as the set of authority structures, roles, accountabilities and processes by which critical aspects of the organization are managed, and the various groups of leaders who gather to make and execute the decisions vital to those critical aspects. “Critical aspects” include things like, strategic prioritization, resource allocation and performance measurement around the enterprise strategy, the planning and building of P&Ls and budgets, managing the portfolios of products, clients, and talent, and the long term financial and strategy processes that plan for results.

Governance is typically designed and spearheaded by the CEO and executive team of an organization, and a company with well designed governance provides great support to these senior leaders as they guide the business, its units, its functions and related investments to ensure alignment and superior performance. Just as there are symptoms of poor governance, companies that excel at organizational governance all show strong abilities and performance in key areas. Their people are deployed and perform optimally, for example.

Well governed organizations will fulfill their fiduciary responsibilities while mitigating risk. You’ll see a clear alignment between business and operational objectives in these companies. These performance measures are themselves driven by the concrete things an effective governance model can provide. Core processes, policies and plans can be defined for optimal organizational impact. Structure, accountabilities and clear lines of sight can be defined and established. Appropriate performance measures that reflect the organization’s current strategy can be
implemented. Information and decision making can flow at the right levels. Ineffective expenditures of time and resources can be sharply curtailed.

While effective governance designs can look like all those things, of course all have some degree of imperfection amidst their effectiveness. The complexities of organizational life and the dynamics of so many simultaneously moving parts would make static perfection impossible. Nonetheless, when it works well, the synchronization is impressive. One CEO client of ours, pained by the lack of integrated planning processes and the proliferation of committees and task forces intended to work around all of the organizations painfully bureaucratic processes, insisted on a governance overhaul. He wanted one set of metrics with clear line of sight to the company’s four business units, and he wanted the option of making resource tradeoffs at the enterprise level, not just at the business level where they currently were fought. He declared a moratorium on four distinct strategy and resource allocation processes, as well as the capital allocation team that was predominantly staffed and run by the largest BU and had no representation from the smallest. He reformulated and streamlined the executive team, and established an operating team that consisted of members of all four BU leadership teams, and it was owned by him and the COO. Decision rights were clearly distributed across these six governing bodies, and charters for each established with linkages and synchronization of information flow between them. Now there was a forum to openly debate strategic priorities, one integrated data set that replaced dueling fact bases derived from an individual BU’s agenda, and the ability to manage the enterprise portfolio as an integrated business rather than a loose confederation of discrete businesses. He was able to leverage the Supply Chain, HR, and IT in ways that the old governance design prevented, both decreasing some bloated costs and raising the visibility of emerging talent that was previously obscured. Over the coming year, they were able to launch a new major product in one of the emerging BUs into a new market, integrate

### Mechanisms of Well Designed Governance

- **Philosophy and operating principles** – a clear articulation of philosophy and principles related to such issues as risk tolerance, expected autonomy of business units, delegation of authority and council charters.

- **Clearly defined structure and roles** – the design of the specific governance structures, such as boards or councils, as well as the definition of roles of involved stakeholders both within and outside any governance board, council, departmental, functional or business unit team. Also applies to the enterprise’s leadership team.

- **Synchronization** – Clearly defined linkages and interdependencies among teams and groups mandated with enterprise governance charters; coordinated meeting cadences and information linkages, and transparent information and decision flows.

- **Core processes** – the processes used to set direction and priorities, allocate resources (e.g., both planned resource allocation as well as ad-hoc reallocation), and ensure effective execution or internal control.

- **Performance and accountability** – the methods and processes used to evaluate and communicate execution relative to compliance, efficiency, and effectiveness criteria.

- **Effectiveness** – the personal, interpersonal, and group effectiveness of the governance board or council and other key stakeholders.
an acquisition into the largest BU, and increased their
talent retention by 38%, reversing a trend of unwanted
defections. By the end of the first year, one of the BU
leaders had to be replaced because of his inability to
operate in the new world order – his need for severe
autonomy having been greatly challenged by the
transparency and coordination required of him. To be
clear, cohesive governance designs, or re-designs,
won’t come without disruption, but the gains they yield
usually far outweigh the pain of getting there if you are
willing to stick with the process of change, resisting
the pushback of the parts of the organization greatly
vested in protecting the old design that serves some
agenda or advantage for them.

Given all the things you get from governance that are
vital to the performance of your enterprise, it might seem
that just about all organizations would have a robust,
deliberate process for governance design. Yet time and
again, we see a lack of intentionality in organizational
governance that is staggering. Compared to other
more defined aspects of organizations like strategies,
cultures, performance and reward systems or budgets,
the interconnected set of mechanisms that govern the
direction, resources and talent of an enterprise in a
coordinated fashion too frequently goes undefined or
even unattended to impressively destructive degrees.

One of the culprits is frequently “process supremacy.”
A publishing organization we worked with had a
truly encyclopedic collection of process documents,
delineating every task performed by all of about a
dozens interlinked work groups, both for print and digital
media. These were complemented by exhaustive
standard operating procedures that governed how
the work groups and functions interacted. Yet despite
intensive focus on quality, the organization had great
difficulty meeting deadlines and every quarter there
was at least one instance of an expensive reprint
caused by an error. Procedure called for root cause
analysis and remediation. But the deep underlying
problem in this company was an assumption that
“process” and “governance” were the same thing. In
reality, the publishing company was deeply siloed and
under managed. Process militancy was presumed
to neutralize variance in managerial judgment, but in
reality, it neutered it. Various functions were expert
at not talking to each other. Meetings between
groups alternated between frustration and boredom.
The senior VP of client accounts – the most senior
leader in the company behind the CEO and COO –
tended to play with his iPhone during meetings and
then clap whoever led the group on the back at the
end, saying “Good meeting!” Root cause analysis of
problems was more akin to finger pointing, with the
least “prestigious” function (the editorial group) usually
taking the blame for “breaking process.” The result
was disenfranchisement, resentment, reinforcement of
silos and persistent errors and scheduling problems,
against a backdrop of an ever increasing number of
meetings to ascertain why “process breaks” kept
occurring. Further, decision making was impaired, and
and candid and open dialogue to foster better decisions
squelched.

Traditional views of organizations have driven leaders
to assume that the hierarchy symbolized by organization
charts, process documents and procedures is the
way work actually gets done and decisions get made.
But accepting and following these documents without
going into the intent behind them leads to ritualized
behavior instead of value producing activities. Many
organizations hold meetings, for example, because
they are called for or implied on the chart. These
meetings tend to become “staff meetings” where
work gets “reported on,” but there is no real sense of
value creation. This gets compounded by the ever
broadening circle of invitees who you can’t then un-
invite, so the room becomes too big and cumbersome
to get anything real done. In the publishing company
we just talked about, meetings were even worse –
everyone attended to cover their department and avoid
being blamed for a problem. Constantly trying to shift
blame away is hardly a way to foster a high growth
organization.

The Staying Power of Inherited Systems: The Pain
of Committee Proliferation

Needless to say, a leader would never set out to
construct such a dysfunctional governance system, so
how do they come to be? The answer is that most
people often inherit their organization’s governance
when they assume their leadership role and they don’t
think to stop it or re-do it. Indeed, though the implications
of poor governance cause a lot of discomfort in the
organization, governance itself is hard to “see.”
Ownership for bad governance is so distributed in most
organizations as to be nearly invisible. As a result, bad
governance can take on a life of its own and people
survive it instead of redesigning it. When leaders don’t
equate governance with how real work gets done,
they often see it as something to work around to get
real work done – one executive we spoke to said, “I’d rather be working than spending the day talking about working.” In this line of thinking, governance gets reduced from a potent lever for driving performance in the enterprise to nothing more than show and tell at next Monday’s regular monthly meeting of BU heads. Like layers of wallpaper and paint on a wall, so too do layers of governance layer up over generations of management regimes. You keep gluing on new layers over the old ones because you think it’s easier than removing the old stuff, until you’re left with walls that are unsightly, distorted and collapsing. Task forces and councils founded a decade ago take on lives of their own and survive under the radar through dramatic and disruptive changes. In one company we worked with, an example of such a sacred cow was the “Diversity Council.” Chartered back in the early 90’s in response to very negative feedback about the company’s lack of diverse workforce demographics, it was led out of Human Resources, and staffed with representatives of the company’s token diverse workforce. They had no budget, and their only activities were to host a diversity conference once a year for the diverse members of the workforce. They also oversaw the required training, mostly for white men and those charged with Title VII violations, on “Respecting Differences.” As a result of one law suit, the company was required to conduct an annual diversity awareness workshop (a one hour video) which became sanctimoniously known as “the diversity flu shot.” The painful result of this task force was people of minority status feeling more marginalized, and the task force a self-help group for people to vent their frustrations about feeling disempowered, disrespected, and discriminated against. The demographic of the workforce has shifted nominally, but the chairmanship of the council rest with the same woman who began it almost two decades ago. And because of the depth with which she has cherished this role, nobody has dared suggest (out loud anyway) of disbanding this group that has no strategic relevance. In fact, even the Manager of Diversity & Inclusion, a role added to the HR team back in 2003, wants nothing to do with the group. But they continue to meet because, well, they always have.

Many organizations convene committees to deal with persistent issues that arise from bad governance – but the use of committees to work around bad decision making is a perilous undertaking. A colleague of ours once said, “A camel is a horse designed by a committee.” The likelihood that you will get a camel of a decision from your committee is increased as you assemble more people. Optimal decision making groups are small – 5 to 8 people, with 12 being on the large size. Whenever we see boards, councils, committees, task forces, and forums, however, we always find that places have been found for everyone for a dozen reasons – but “because they can help make a decision focused on results” is seldom the most important one of them. Setting up these committees can be seductive – you can say “they stand outside the organization and can really critique what’s going on.” But bad governance is not a new problem – and committees to deal with it aren’t new either. In fact, we regularly encounter organizations with dozens of these committees, all commissioned at various times and all stiff functioning outside of the formal architecture of the organization. Some leaders will be on several committees, and of course they are all holding down day jobs inside as well. So the net result is very little outside perspective (the insiders are usually all invited), enormous expenditure of time, and confusion as more and more exceptions to the organizations structure come into semi-permanent existence. And it can be hard to find the courage to shut down these mechanisms when they have outlived their utility. Many leaders avoid doing this until their organization is in crisis. (See the Musing Priorititis for more on curbing in these runaway initiatives.)

You Can’t Live Without It

So far we’ve said a lot about bad governance, but “no governance” isn’t the solution either. Small to midsized companies have natural aversions to process and structures. The CEO of a software company we worked with prided herself on having a flat organization. Her company counted employees by the dozens instead of the hundreds or thousands, and it made sense to her to adopt an “open architecture” where ideas could come from anywhere and people were encouraged to come up with approaches and solutions more organically, in the interest of preserving their informal and collegial culture. Process and regular meetings were frowned on. But so little was formalized that “we have to check with Shirley” became the mantra – and Shirley, the CEO, was on the road a lot. Since she knew the most about the business and its clients, the reasons for her decisions weren’t always clear to others – their lack of information sharply curtailed their willingness to risk their necks on decisions. The flatness of Shirley’s organization brought her down to the point where a myriad of operational decisions required her attention. When she was not present, people were unsure of direction to take and these decisions didn’t get made. Shirley found herself having to decide between coming into the office regularly another day when she would have usually been on the road with clients. What
was happening here is a form of compression – in the absence of governance, Shirley was being pulled down to an operational level. Indeed, this flatness was actually a trap for this software company. In any organization, there will be strategic roles (what market space to compete in, whether to expand through acquisition) that correspond to what the CEO and senior team should be doing, coordinating roles (promoting optimal performance between functions) that correspond to the leadership roles below the C suite and operational roles that have to do with the day to day business of the enterprise. Shirley was playing at the wrong level, and was actually taking time away from her strategic role – which she alone could do for her business – to make decisions that should have been happening easily in her absence. She was also compressing the roles under her – people in her company who could have played coordinating roles were also pushed down into the operational level. Shirley had been wondering for a while why her organization could never push past a certain revenue target no matter how much talent they brought on board, and compression with people playing at the wrong level, compounded by the absence of a well orchestrated design for governing the organization, was a big part of the answer. (For more on compression and playing at the right level in the organization, see the Musings Leading at the Right Level I: The Phenomenon of Leadership and Decision Compression and Leading at the Right Level II: Understanding the Different Roles in the System.)

Getting the Right People in the Right Meetings

Whenever we see bad governance in an organization, we see dysfunctional meetings – people languishing with impossibly full calendars, spending more time in meetings than at their desk. In one large global company, governance proliferation was so out of control, and meetings so predominantly a source of power and visibility, the CEO commissioned us to conduct a full governance inventory to determine why the anguishing lament of “we have too many meetings” was the constant source of pain for senior management. We isolated the organization’s top 400 leaders as our study target. What was revealed stunned even the CEO. There were more than 500 standing meetings “owned” by someone in these top 400 leaders, and attended by all of them as well. The resource consumption of those 500+ standing meetings was a total of nearly 2000 different people’s time, more than 57,000 hours of time per annum – the equivalent of more than SIX years, and close to $10M in run rate time. The culture had perpetuated the notion of “meeting presence as power,” where everyone believed that being seen at the right meeting by the right people secured your level of importance. Thus, giving up a meeting, or worse, shutting one down altogether, was tantamount to career suicide.

The gross resource waste of sloppy governance not only applies broadly to companies in different industries, it also scales down as well as up. For example, the publishing company we mentioned earlier only had about 200 people working in two offices, one on the east coast and one in the mid-west. The head of digital publishing, the fastest growing function by far in terms of increasing number of projects, spent nearly 60% of one of his weeks in mandatory meetings covering scheduling, a quality initiative, separate remediation meetings for three projects, and the weekly dashboard meeting. The same week, he had a problem with site updates generated by an external vendor which compromised delivery to clients. We got emails from him all week time stamped at 4 o’clock in the morning. When we asked him about that, he said he was used to it – for him it wasn’t such a big deal. His staff, however, hated having to work nights and weekends, when so much time during the week was spent as hostages in meeting rooms – this company, like many small and medium-sized businesses doesn’t pay staff overtime. This leader was surprised by the level of resentment his staff harbored towards him. He hadn’t scheduled these meetings – but he also hadn’t pushed back on attending either, much less questioned their fundamental value or if they were the optimal way to move work forward.

There are a number of reasons why it is hard to pull the plug on endlessly proliferating meetings. For one thing, the ability to issue invitations and own meetings is frequently a great source of power. Depending on the leader, people in the organization can feel either a deep desire to attend to show that they are in the loop or to avoid offending the owner by saying “no” to the invite. Some leaders seek to establish the legitimacy of their teams by holding meetings – that’s what teams do, right? Meetings can easily become a visible indicator of power in the organization. One BU head actually said to us, “We executives. We go to meetings. That’s what we do. If we weren’t there making the decisions, what would we do? Go play golf?” The inherent and dangerous underlying belief is that without my presence to adjudicate, I would have no value. Pulling groups
of senior leaders together under your chairpersonship certainly looks important and influential, and when you control the agenda, you can report and pontificate as much as you’d like. Many leaders use meetings as exercises in faux inclusion – the age old strategy of trying to make people feel ownership and inclusion in decisions you’ve already made. You can create a false sense of security that you can hold people accountable if we can see them and later can say, “You were in the meeting – you agreed to the decision by virtue of your presence.” Of course, from the other side of the table, attending a meeting can actually be a great place to hide from accountability as well. When voluminous decks are being trolled through, lots of opinions being aired, and no clear sense of who is supposed to do what, you can feel a false sense of security that you’re off the hook because your equally as clueless as everyone else about what’s supposed to happen next, plus, you get to complain about what a waste of time the meeting was.

While you might find it hard to cut down on the number of meetings, your people are in agony. A recent report polled several hundred leaders, 62% of whom reported that they attend between 1-5 meetings and 28% attend 6-10 meetings per week. “The comments reflect a general discontent with the amount of time spent in meetings, and the lack of adequate preparation.” The report went on to say that meetings took up 4 hours a day in light periods but could consume 7 hours daily during crisis times. One comment in the report was particularly telling: “The less meetings, the better. Most meeting organizers have no idea how to run a meeting.”

Meeting agendas themselves can be terrific stumbling blocks. Instead of promoting a thoughtful design of leadership decision making, problem solving and learning, many agendas that we see are crammed with discussion topics, arranged in a way that reflects the silos in the enterprise. When you list topics on agendas, you disaggregate the very things that need to be viewed holistically – HR is now talking about talent; CFO is now talking about money and so on when what could take place is a dynamic interaction of executives talking about the business. Topic driven agendas create the round robin effect, and you can rest assured that people aren’t paying full attention while waiting their turn. In one organization that relied heavily on conference calls as meetings, leaders would habitually mute their end the line and get other things done, only paying attention when they could hear they were getting close to their part. It’s easy to catch when what could take place is a dynamic interaction of executives talking about the business. Topic driven agendas create the round robin effect, and you can rest assured that people aren’t paying full attention while waiting their turn. In one organization that relied heavily on conference calls as meetings, leaders would habitually mute their end the line and get other things done, only paying attention when they could hear they were getting close to their part. It’s easy to catch when you receive — and exchange — several emails with colleagues who are in the same meeting with you. And, no, it doesn’t count as legitimate multi-tasking.

The challenge of course is that if you bring real issues into the room, you open yourself up for real conflict, accountability, and dissent. You have to have the skin to embrace dialogues that are spirited with differing ideas, passion to champion ideas and that sometimes gets heated, and critique that can be translated into deep ownership once ideas have been ratified.

So at the end of the day, you need to ask yourself, “what actually are meetings?” With some rethinking of why and how to convene leaders, you can wind up in a very different place. A good place to start is getting honest about the run rates – what it costs to have a room full of executives for several hours. Then ask yourself some key questions: If your share holders were in the room with you, would they buy more stock at the end of the meeting or sell? What is the value add of gathering a set of leaders around a table to do something unique they couldn’t do if they didn’t meet? What is the risk? What could be the payoff?

Convenings of senior leaders should be designed for maximum participation and productive work, not show-and-tell. Never discuss anything that could be read in advance. Think about what the beauty of a convening really is – the opportunity to meet the core desires of human beings to connect with other human beings and stand on common ground. It is tragic not to leverage it toward that end, and instead continue to proliferate useless convenings that make people feel smaller and less significant than if they had not come at all. The charter of a standing team has to answer several key questions:

- What is the value added work only this group can accomplish together?
- Who comprises the right composition of the team?
- What are the boundaries of their decision rights and with whom must they interconnect?
- What is the appropriate amount of time that must be allocated to each area of value added work?
- How frequently should the group convene?

These simple dimensions of a charter can drive effective agenda building and management, and dramatically increase the value and productivity of the convenings of your leaders.
Making the Right Decisions

Just as you did with meetings, you need to examine your answer to “What is a decision?” and rethink how leaders make and communicate choices in your organization. Despite it being 2012 as we set these words on this page, we are amazed that so many of our clients still lack adequate decision support with analytics that keep them ahead of issues, able to predict performance, and course correct well when unforeseen setbacks occur. Yet ironically, when we go looking, all of the relevant information needed to do so is in the building somewhere – it’s just dispersed across people and groups and spreadsheets in ways that make it nearly impossible to stitch together a coherent fact base and story. Consequently, dueling fact bases enter the room with competing agendas that set up conversations which yield proverbial winners and losers. The problem is exacerbated in many organizations when emotion and exaggeration take the place of hard data. Obviously, none of this is conducive to great decision making or leadership – it only leads to training people to be self involved, to spin data or be hyperbolic to make their cases in support of their narrow agenda.

When we entered a large, global food services company, there had recently been a massive regime toppling – the exiting of a CEO that had long controlled nearly every decision the organization had to make. Buoyed by the CFO, together they managed the complete portfolio of product and customers, decided the sales targets, set all the budgets, made the customer tradeoffs and priorities, and decided who got what bonuses. There was absolutely no transparency in their process, and the executives simply had to live with what was handed to them – whether it was rational or not. Hallway deals had to get cut when impossible targets were dealt, and back channel communications enabled leaders to try and keep the organization stable when surprise decisions – like major joint ventures and acquisitions, and the launch of new businesses – were unveiled absent anyone’s input or participation. This scenario is far less extreme than you might think. “Controlled by the few” is a common default governance model that many organizations stumble their way into when their leadership hasn’t developed its capacity to effectively govern. Nearly a year of massive redesign efforts of the organization’s entire architecture, including governance, has revealed an enormous amount about the stifling and disabling effects of the previous regime’s governance approach.

Most significantly, the five different business units that comprised the enterprise had such differing levers to drive their P&Ls, and significantly different sales and pricing models, but they all sold essentially the same product. So in a “one decision maker” mode, the simplicity of all selling the same product grossly masked the enormous complexity and tensions that inherently existing across the five businesses. Consequently, the GMs now running these businesses naturally struggled in the early days of the new organization to both focus on their own BU performance while making the painful tradeoffs across the enterprise that their businesses demanded.

Having one enterprise priority set that governed how tradeoffs would be made, accompanied by a transparent data set that showed the implications to margins, customers, and manufacturing capacity that varying options held when tradeoffs had to be made, was the transformative governance mechanism that has allowed the enterprise to begin thriving. Now, complex portfolio decisions are carefully constructed among the five GMs instead of lobbied for behind the scenes. There are no “winners and losers” because enterprise performance is considered first, and BU performance second. This type of governance clarity is essential in any enterprise, but if you have aspirations for growth in any business that has significant complexity, you’ll get nowhere without it.

Though we work with leaders across a broad variety of industries and in organizations of different sizes, we are constantly struck by the commonalities we see in decision making problems. These four issues appear crop up repeatedly:

- **Composition:** The wrong people are present when decisions are being discussed and made.
- **Conflict:** Avoidance, attack, or collusion keeps the decision vague or results in decisions that have no genuine discussion, input or buy-in.
- **Clarity:** There is unresolved confusion over what the decision is, who will carry it out, or when it will happen.
- **Methods:** An inappropriate decision process is selected, either deliberately or by default because leaders cannot agree.

As with good governance itself, there is no real mystery behind effective decision making, and there are some organizations that do it very well. We know an organization is employing an effective decision making process when we see that:
• The right people are involved and making value-added contributions.
• People are satisfied with the integrity of the process.
• People are committed to the decisions reached.
• The skills and approaches applied lead to reduced conflict impacts.
• Effective actions and results follow decisions.

Having the “right people” involved in decision making means linking leader’s proximity to requisite information, authority, resources, and relationships to determine decision rights. When leaders have proximity, but no authority, or authority without the needed resources, or control of the budget but not the people, and so on, the disaggregation of all the decision components renders a decision weaker, and many times impossible to implement. This leads to frustration that turns otherwise decent leaders in to victims with their hands thrown up saying things like, “What do you expect me to do? It wasn’t really my decision to make, though it should have been.”

A media client of ours never failed to impress clients with his ability to derive meaning from enormous amounts of data. One of his most effective presentations involved asking clients what they thought they were communicating then plotting the frequency of key words actually drawn from their communications. There was frequently an eye-opening realization about messages actually being communicated – and then steps taken to get the message back on track. The point here is that until the right kind of critical thinking and analysis has been applied, a mountain of data is really nothing more that a large agglomeration of unrelated fact, which may or may not still be relevant. Being able to cite facts and figures can lend authority to a speaker – someone who says “we’re most of the way there” is given less credence that someone who says “we’ve reached a level of 87.375 percent,” even though both really say the same thing. And the problem is that a listener without access to the information you have will not know if the number you’re quoting is actually relevant to the business or just an impressive sounding, yet irrelevant factoid. We have seen many instances of leaders in meetings shooting ideas down – or selling ideas of their own – with fact and figures that invest their position with authority. But it is a wiser leader who learns how to differentiate piles of aggregated information with information that synthesizes into insights, and ultimately foresight, about the business – these are the leaders who should have decision rights.

Once appropriate decisions are made, they must be communicated in a way that is clear – avoiding misinterpretation – and not shot down by pocket vetoes. Alignment gets built before the decision is made, not after. There should be great clarity in the room around decision rights. One of the most common, but painfully ineffective approaches to this is RASCI charts (Responsible, Accountable, Supporting, Consulted, and Informed). Most leaders have figured out that it doesn’t work. RASCI presumes that relationships are stable and non-dynamic – but it’s relationships that at the end of the day determine the quality of shared decision making. RASCI also presumes linear decision making – that processes are event driven rather than outcome driven. This doesn’t address the level of true complexity that exists in enterprise-level decisions. Plus, people aren’t going to walk into a colleague’s office with the filled-out RASCI chart when things go wrong, and declare, “You committed a RASCI foul – you consulted when you were supposed to support!” Trying to reduce the complexity, dynamics, and human engagement in a decision making process with tools like RASCI is like paying for expensive tickets to virtuoso concert pianist, and getting there only to find an electronic player piano on the stage with a stagehand putting quarters in to get it to play the music of the famous musician you came to see – and trying to convince the audience there’s no difference. At the end of the day, human beings in the context of vibrant and effective relationships are what comprise the making and execution of great decisions.

**Linking the Right Resources Together**

A large financial services company we worked with had a regimented approach to integrated governance. The process for setting strategy, including a rolling three year strategic planning process, the process for building budgets across their multiple commercial, individual and investment asset classes, and the process for evaluating, promoting and calibrating their senior most talent to deploy against those strategies with the allocated resources ran like a machine. Meetings and governing bodies were designed around these core planning processes, and their meeting cadences set a year in advance. Not surprisingly the organization consistently delivered against its performance targets. And, it took the organization decades to get its governance to such a competitive differentiating place, and where it was not regime-dependent.
The right decision making process with the right participants in the right kind of meetings with the right resources is a big part of getting there. But the subject of those decisions is the very heart of designing governance – how direction setting processes, resource allocation processes, and talent management processes link the organization together. When these core processes and core meetings don’t intersect, the meeting becomes a substitute for the actual work.

Though strategy, finance and talent collectively ARE the core work of running a business, attaching them to meetings shifts focus and those processes become about “presenting,” “advocating,” “filling out forms,” etc. People will say, “I have to prepare the budget for the meeting,” rather than “we have financial decisions to make.” This kind of meeting can become a place where leaders hide from the real work they need to do, then complain they don’t have time to do the real work because they spend so much time in meetings.

The basis of organization alignment is the common ground on which people set and execute strategic direction, deploy financial and talent resources, and convene to monitor progress, course correct, and learn. The processes should drive the convenings of top leaders for interdisciplinary dialogic and business decisions driven with shared ownership and accountability. In this sense, you can think of enterprise governance as an integrated system of processes and convenings that moves information, resources and decisions out from the leadership team and down to every level of the organization. The figure below is an illustration of the governance design of a large consumer products company we worked with – it displays a transparent cadence and rhythm that enables expectations to be understood and met.

### Integrated Business Planning Process (example)

<table>
<thead>
<tr>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
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<tbody>
<tr>
<td><strong>Corporate Strategy Development</strong></td>
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<td>- Corporate Business Portfolio Review</td>
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<td>- Strategic &quot;Deep Dives&quot;</td>
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<td>- Business &amp; Financial Priorities</td>
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<td>- Business Metrics</td>
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<td>- Strategic Resources</td>
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<td>- Capital Allocation</td>
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<td><strong>Revenue &amp; Profit Targets Set</strong></td>
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<td><strong>Corporate Support Allocations</strong></td>
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<td><strong>Business Unit Strategy Development</strong></td>
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<td>- Financial expectations</td>
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<tr>
<td>- Capital allocations made</td>
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<tr>
<td>- Corporate operating budget set as a percent of revenue</td>
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<td>- Initial operating budget allocations defined</td>
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<tr>
<td><strong>Business Unit Operational Planning</strong></td>
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<tr>
<td>- Business Units define financial plans within guidelines and templates provided</td>
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<tr>
<td><strong>Talent &amp; Succession Planning</strong></td>
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<tr>
<td>- States linked to strategy</td>
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<td>- Development and selection planning alignment to future plans</td>
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<td>- HR leads facilitation, BU leads overall execution</td>
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<tr>
<td><strong>Business Operating Unit</strong></td>
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<td>- Discussions to strategy for overall execution</td>
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<tr>
<td><strong>Final Budget Planning &amp; Allocation</strong></td>
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<tr>
<td>- Negotiate and finalize budget allocations to support business units objectives</td>
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<td>- Budgets allocated</td>
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<td>- Internal/External</td>
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<tr>
<td>- Business Units and Support (Financial, Legal)</td>
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<td>- Support roles from Corporate</td>
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<tr>
<td>- Support from Business Leaders for execution of strategic objectives</td>
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Musings
Finding Valence: Getting all the Right Elements in Place

Unclear governance creates risk aversion and fear because you can never be confident in your own choices – it winds up being safer to do less, or nothing. But this is also an admission that your organization cannot change, and in today’s marketplace, that translates into having a very limited future no matter how successful you may be at the moment. All of the organizations we’ve encountered have had at least some degree of sub-optimal governance. But the ones that are poised for growth tomorrow as well as today are those who have built a bias for action into the culture. This bias for action is vital because there is never a point where you will clap your hands and say, “That’s it folks! We’ve arrived at solid good governance! Our job here is done.” Organizational life is far too volatile for any structure you select to be immortal. What should be permanent is your bias for action, ability to understand what’s really going on and what needs to change, ability to learn and ability to harness governance as a key lever for change, and to adapt your governance model when it is no longer serving its intended purpose.

Figure Out What’s Really Going On

Any large organization will have an inherited governance structure, series of meetings, list of initiatives and behaviors around meeting and decisions that are its legacy governance. Organizations that have growth through acquisition strategies may have multiple legacy governance structures, complete with additional layers of task forces and coordinating mechanisms. It’s not at all unusual for governance to seem bewilderingly complex, simply because of all the things that have been glued on over time. Start by auditing your governance and get real about what’s really going on. What should be permanent is your bias for action, ability to understand what’s really going on and what needs to change, ability to learn and ability to harness governance as a key lever for change, and to adapt your governance model when it is no longer serving its intended purpose.

(Re)Define the Charter for Governance Mechanisms

Charter major governing mechanisms and measure and monitor their effectiveness. Work from the outside in – you need the external landscape to be centric to organizational decision making or you risk insularity and becoming inadaptable. Redefine what meetings and decisions mean in your organization. Again, rely on your audit and think about what meetings really need to happen and who really needs to be in them. Fully link strategic, financial and talent processes as one integrated resource allocation approach.

Adjust Decision Altitude

Stratify decision rights and clarify boundaries horizontally and vertically. This means getting everyone – yourself included – on the right level. Get all your top, senior-most leaders on the strategic level where they belong. Resolve compression issues and information flows so that appropriate decisions are being made with appropriate data and insights throughout your organization. Be honest about the performance impact of severe decision compression...
in your governance model. Launching “empowerment campaigns” or inserting modules in your management development process on “strategic thinking” won’t help if the governance design inherently draws people to participate at lower levels than their roles demand.

**Make Learning Safe**

Governance and learning are inextricably linked, so people walk out of every meeting having learned something. It might be a positive or it might be that meetings in your organization are dreadful – you get to decide what that is. They learn about themselves and their impact – that they are relevant and can apply information and insight to drive the business forward, or they learn that that are irrelevant pawns in someone else’s organization – only there as an audience. They learn that the convening of leaders in your organization is proposition that, though expensive, is taken seriously and expected to produce meaningful results and all members expected to actively participate…or they learn that meetings are cosmetic gatherings for the benefit of a small number of those in power, relatively futile with little or no direct impact on performance, and a good place to keep checking their blackberry, stock portfolio, and fantasy football results.

As such, in too many organizations learning is not safe. Having the right answer, or looking like you do, or sounding smart without asking hard and ambiguous questions, or admitting you don’t know something and asking for help are not safe things to do. Offering ideas that are off the beaten path more heretical.

The time people spend in the presence of their colleagues is the richest time to foster shared learning – which leads to a shared understanding and shared reality – and nothing accelerates decision execution faster than that. Your task is to facilitate convenings that bring out the best in the organization without straying from the path.

**Exploit Governance as a Lever for Change**

CEOs and business leaders can drive far more change and performance by taking advantage of the asset well designed governance can be. Since it addresses how everything links together, governance is one of the greatest imprints leaders make on their organizations. Think of it – you can banish ritualistic meetings, empower people in your organization to make decisions at all levels in your enterprise and get the right resources to leaders in an organization that is closely attuned to your strategy. The convenings you have can be both a changed way of interacting, generating new ideas, and making decisions as well as the way people learn about the new norms in the organization. The alternative is to accept that the evolved governance structure is for show, but we “all know they don’t really mean anything anyway,” And “everyone knows how things really get done around here.” We can think of no bigger missed opportunity to improve every facet of the organization, including its bottom line performance, than to take on the challenging and transformative work of building a governance model that reflects the greatest aspirations and thinking of the enterprise.

*We’re about to come in for our landing, so we have to shut down our laptops. We hope we’ve given you some ideas for addressing the governance needs of your organization. It wouldn’t surprise us to hear that you’ve spent a lot of time in meetings and special work groups trying to deal with governance – and not getting the traction you need. Get ready to shut down those meetings and change your approach to one that really works with your aspirations for your company. It’s hard work – but you won’t regret doing it.*

*If you want to hear more, drop us a line at: mindy@navalent.com or ron@navalet.com*

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