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# The Best Decisions Are Clustered

by **Matt Calderone, Karla Martin, and Decio Mendes**

**D**ecision making is the lifeblood of any productive organization: The ability of an organization to execute its strategies effectively is determined by who makes which decisions, and how they are made. But most organizations are unnecessarily burdened by widespread breakdowns in the decision-making process.

Senior managers know the symptoms well. Their inboxes overflow with e-mails from subordinates escalating a conflict that should have been resolved weeks earlier, two management layers down. Their calendars are crammed with meetings at which many issues are discussed but no decisions are made, so the issues are taken up yet again more urgently the following month. Or after the rare meeting in which a decision *is* made, executives are lobbied in the halls and over lunch to rethink the agreement all over again.

In most cases, decision making fails because decision rights are unclear. Decision rights are the rules — either consciously designed or tacit and informal — that establish individual responsibilities. When these rules are ambiguous or contradictory, then people don't know where their own authority ends and another's begins. Such lack of clarity about who does what in an organization leads to missed opportunities, duplication of effort, overlap or erosion of accountability, and enormous amounts of time

and resources wasted.

In a startling illustration of this organizational dysfunction, we asked 13 managers at a manufacturing unit in a biotechnology company to indicate which individual was currently assigned the decision to finalize the group's monthly production sequence. They identified no fewer than six people as being "in charge." Upon seeing the results of this simple exercise, the managers immediately understood why they found themselves trapped in a seemingly endless cycle of repetitive daily meetings: The same decision was being made, unmade, and remade through six different processes, led by different managers, and the processes and managers were connected to one another only loosely.

To clarify decision rights, many managers use what we call the "decision inventory" method. Simply put, this approach involves making a list of the specific decisions that routinely must be made in an organization and defining the roles of particular individuals or groups with respect to each decision. Because decision inventories force companies to take stock of the everyday decisions that have quietly multiplied throughout the organization — something that few companies do with any regularity — they can be powerful tools for identifying and resolving overlaps and gaps in the allocation of decision rights. Indeed, the use of these frameworks often provides a dramatic one-time improvement in an organization's decision-making process.

But such inventories have significant limitations. In particular, decision inventories are static, whereas decision-making environments change constantly. Organizations routinely face situations that arise unexpectedly: Will we invest in a new technology? How should we respond to a natural disaster that disrupts our supply chain? Since no one can predict all of the possible combinations of decisions the company may face, it's simply not possible to preassign decision roles to cover all possible scenarios. Eventually, even the most comprehensive decision inventory will encounter a situation that wasn't imagined.

To allow decision makers to maintain coherence in the face of uncertainty, organizational leaders can frame their decisions as clusters. Rather than treating each decision as a separate entity requiring a specific assignment, this approach helps companies understand why certain calls should be made in particular locations or by particular groups of individuals. The design of these decision clusters is determined by the scope of the organization affected by the decisions and the

degree of associated risk.

For example, consider the way a multinational manufacturing firm decides whether to outsource maintenance services for its network of plant facilities. If no supplier can provide global maintenance services and offer significantly better terms for a firmwide contract, then there is little harm, in the form of lost discounts, in making the decision at the local level — in a “low-risk, narrow scope” cluster. Each plant could decide which firm to hire.

But if a supplier has the wherewithal to provide maintenance services to multiple, geographically dispersed locations and offers a significant discount for doing so, then the risks associated with the decision are escalated: The discount would be forfeited if each plant chose its own maintenance supplier.

Furthermore, since a multiplant contract would affect more than one plant, the scope of the decision has also increased. Consequently, a “high-risk, broad scope” cluster — at the level of territory, country, or even region — would be the best option for making the decision.

We recently applied the deci-

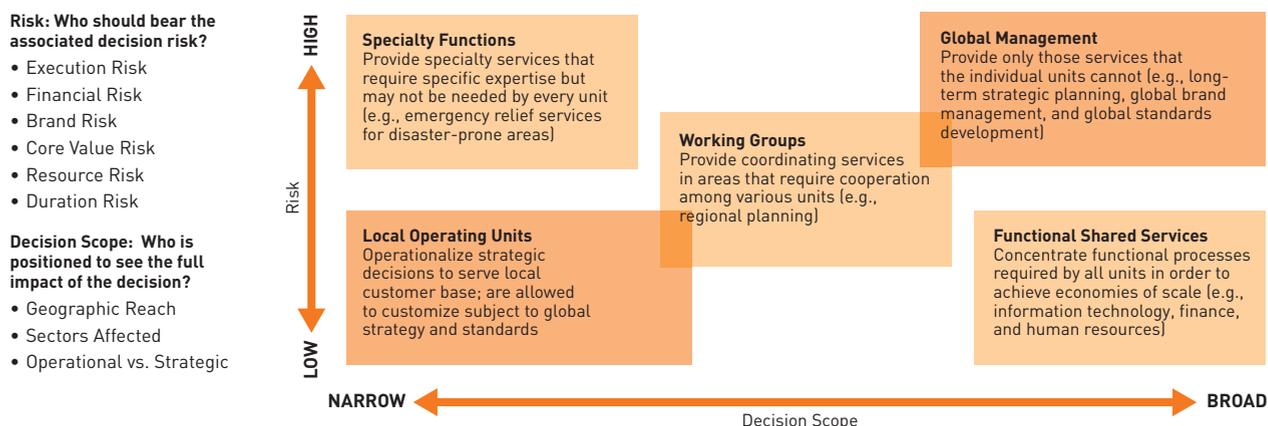
sion cluster approach to a global nongovernmental organization. (See Exhibit 1.) We developed decision clusters based in part on who had the right information and incentives to make each type of decision well. For example, a decision such as the selection of future project sites within a country would affect only a single office, and was relatively low risk and narrow in scope. This category of decision could be made at the local operating unit level, since there was little in the way of organizational perspective or risk protection to be gained by involving global headquarters.

But other decisions, such as an investment in a organization-wide project management information system, would alter activities in virtually every location. These decisions required broader oversight that only global management could provide.

The cluster approach ensured that decisions were assigned to people who had appropriate information and perspective. By articulating the logic behind the decision-making clout of each cluster of

### Exhibit 1: Decision Clusters at an International NGO

Each box represents a group (“cluster”) of people who were assigned to a category of decision making on the basis of the risk they can manage and the breadth of their responsibilities.



Source: Booz Allen Hamilton

people, this method manages the changing dynamics of the business environment much more effectively than a decision inventory alone. +

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ples from cybernetics — the science of steering and control — and used it successfully to manage the family business, Eindhoven Electrotechniek, for many years.

In its modern form, sociocracy harnesses self-organization to provide organizational agility and a voice in governance to all participants. Hundreds of companies in the Netherlands have successfully adopted it. Dutch companies using sociocracy are exempt from labor laws requiring the Dutch works councils (organizations similar to unions), because it is believed that the workers are already represented daily through the sociocratic method.

Sociocracy is composed of four primary practices.

#### **Decision Making by Consent.**

Decisions are made only when no one involved knows of a significant argument against the decision; before that point is reached, each reasoned argument is included in the discussion. All decisions at Ternary must be made by consent, unless the group agrees to use another method. We wouldn't want our office manager calling a meeting each time she wants to buy pencils, so we created a policy (by consent) that grants her autocratic authority to make decisions relating to keeping the office running smoothly.

**Circle Organization.** The organization's hierarchy is made up of semiautonomous circles. Each circle has its own goals and the responsibility to execute, measure, and control its own processes. Each circle exists within the context of a higher-level circle. No circle is fully autonomous; the needs of its higher-level circles and lower-level circles must be taken into account.

Initially, the founders of Ternary worked together on one software

## The Sociocratic Method

by **Brian Robertson**

**B**usiness is the first truly global social organization. It crosses geopolitical and ethnic boundaries and has the potential to be a uniting force in the world, inspiring deep levels of cooperation among enterprises of all types. Yet our current corporate governance models dictate against this: They push companies toward unhealthy autonomy.

Five years ago, when we launched Ternary Software, we wanted to experiment with new methods of organizational governance. The typical structure and decision-making model of the modern corporation — a CEO with near-supreme control who delegates down a chain of command — is essentially a feudal hierarchy, and we knew that would not work for us.

In purely top-down structures, key information and insights from

below are often missed. Decisions take too long and are not as targeted and effective as they would be if information from front-line employees were taken into account.

But what governance system to use? Not a model based on consensus or democracy. Consensus often devolves into the least-common-denominator approach. People give in to what the largest egos or most insistent people in the room demand. And democracy tends to crush minority voices. Besides, the majority rarely knows best.

After investigating several alternatives, we were impressed most by sociocracy, an organizational governance system envisioned in 1945 by a Dutch entrepreneur as a way to adapt Quaker egalitarian principles to secular organizations. The model was refined for corporate use in the 1960s by Gerard Eindhoven, a Dutch electrical engineer who enhanced the concept with princi-

development project and formed a single circle. Eventually, we grew and took on two projects at once. Two new circles emerged: our second project team circle, and a new higher-level development department circle that integrated both project teams. At the highest level, we have a “Top Circle,” which is similar to a traditional board of directors, except each member represents a distinct interest: One represents the workers, another the investors, a third the industry, and a fourth Ternary’s social purpose, which is largely to spread the sociocratic model.

**Double-Linking.** Circles are connected through a double link: One person is elected by the lower-level circle and one (who has overall accountability for the lower-level circle’s results) is chosen by the higher-level circle. Each belongs to and takes part in the decision making of both circles.

**Elections by Consent.** Individuals are elected to roles only after open discussion results in a clear choice, with no reasoned objections. First, each person writes his or her name on a ballot, as well as the name of a nominee. The meeting leader reads each nomination, asking members to explain why they chose their candidate. After discussion, people can (and often do) change their nominations. Finally, the chairperson formally proposes the person the group seems to be leaning toward (typically the person with the most nominations), and everyone then has a chance to present objections. This may continue for a few rounds, and when there are no more objections to a candidate, he or she is selected.

Decision-making meetings, as practiced in sociocracy, are an

extremely efficient means of communication and an excellent way to establish trust. Early in Ternary’s history with sociocracy, a programming team circle held an election for its representative to the development department circle. Woody, who had been at the company longest, received the most nominations. But during the objection round, Najati, another programmer, noted that Woody was skeptical about sociocracy. At this early stage, he suggested, the representative should really believe in the process. Everyone, including Woody, felt this argument made sense, and another programmer (in fact, Najati) was elected instead. This was a potentially charged situation; Woody and Najati had butted heads before. But the process cut through the problem entirely; Woody was happy to have Najati elected in his stead. The group converged on the decision that actually made the most sense for the success of the organization, with egos set aside. Despite the sound of it, consent is usually much faster than autocratic decision

making. The highly disciplined process helps the group stay focused and move swiftly through examination of an issue and actual decision making.

Sociocracy has been extremely beneficial for us at Ternary. We’re one of the fastest-growing companies in Philadelphia — with revenue growth of 38 percent last year and an average of 50 percent per year over the last three years. We could never have achieved this under a traditional management system. We plan to find or create other companies ready to adopt our governance model, in hopes of creating a sociocratic collective that would make it easier for our organizations to do business with one another. +

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## How to Slim Down a Brand Portfolio

by **Nikhil Bahadur, Edward Landry,  
and Steven Treppo**

**A** wave of supersizing in the brand portfolios of consumer packaged-goods (CPG) companies is coming to an end. Decades of unfocused growth, with acquisitions that doubled or tripled portfolios overnight, had left CPG companies, including such notables as H.J. Heinz, Sara Lee,

and Kraft, suffering the economic health hazards of portfolio obesity. These include swollen costs, poor circulation of information, inflexibility, slow decision making, and stressful relations with shareholders impatient for returns.

To their credit, CPG companies have awakened to the risks of an overextended brand portfolio and begun to cut the fat with a vengeance. Unfortunately, brand-

portfolio liposuction can be high-risk surgery. CPG companies must walk a fine line. They must rid themselves of second- and third-tier brands that consume resources while receiving little space on store shelves, without losing the strong portfolios and geographic breadth that allow them to be influential, valued partners of major retailers.

In 2003, however, the plan faltered. As competition intensified, the top-line growth rate slowed from 5.4 percent to below 4 percent. New product fads, such as that for low-carbohydrate foods, seemed to pass Unilever by.

What had happened? Unilever had pruned its brands without identifying its competitive advan-

## The objective is not merely to divest brands, but to achieve higher growth for the brands that remain.

To understand how this complex undertaking can go wrong, consider the example of Unilever. A bold acquisition strategy had turned it into one of the largest and most powerful consumer product companies in the world, but the growth came with the extra expenses and managerial headaches of proliferating brand complexity. Therefore, in 2000, Unilever announced a five-year “Path to Growth” that called for trimming 1,200 brands from its portfolio — including such once-popular brands as Elizabeth Arden perfumes and Golden Griddle syrup — and closing numerous manufacturing plants.

Over the next three years, Unilever divested more than 100 businesses. Today, Unilever has 12 brands, up from four brands in 1999, that generate sales over €1 billion (about \$1.27 billion). These include Knorr, Dove, Hellman’s, Lipton, and Bird’s Eye. Procurement standardization and improved product mix supported operating margins of close to 15 percent, compared with 11.2 percent in 1999.

tages or the regional differences in consumers’ tastes. Net result: The company ended up needing much higher sales from the remaining brands in its portfolio than they could deliver.

Other CPG companies slimming down their own brand portfolios can follow three basic precepts to avoid similar mistakes.

**Exploit Advantaged Capabilities.** The first step is for companies to answer the question, What do we do better than anyone else? and then build the brand portfolio around those distinctive strengths. For example, Frito-Lay has invested in a unique direct store delivery system, built on advanced database technology, that ensures a just-in-time presence across the retail spectrum for its wide range of potato, corn, and tortilla chip products. Wrigley brand gums and candies dominate the real estate closest to the cash register in retail locations, particularly in the hard-to-reach, fragmented convenience channel, thanks to a sales operation and product-delivery system more sophisticated than that

of any of its competitors. And Kraft has identified scale as its differentiating factor; each of the consumer giant's mainstream brands, such as Lunchables, Jell-O, and Oscar Mayer must be large and in a core category, providing more than 5 percent of total revenues. As a result, Kraft has sold off its confectionery, fruit snacks, and yogurt businesses in the United States, along with its desserts line in the United Kingdom.

**Pursue Strategic Coherence.** The second question that CPG companies need to answer is, In which brands, categories, or segments can we potentially lead the field? This lets management focus on a set of categories in which the company has clear advantages, such as strong trademarks, a well-positioned portfolio, or greater opportunities to capitalize on expanding its brand into other similar categories — the way, for instance, that a cigarette company might enhance its product mix by developing a smokeless tobacco.

Unfortunately, many companies have gotten into the habit of investing in nonstrategic brands. These often include low-performing brands within high-performing product segments. Recognizing this weakness, leading CPG companies have begun to put more emphasis on strategic coherence. For example, Cadbury-Schweppes has recently moved aggressively to strengthen its confectionery business and to exit the poorly performing European beverages business.

**Enhance Economic Currency.** The final question for companies to ask is, Are there sufficient growth opportunities in the brands that we're keeping to make up for the loss in revenue from the brands that we're shedding, and are we in the

best position in the category to capture these opportunities?

No matter how bad brands are, no matter how nonstrategic, they do generate earnings. Companies that slim down their brand portfolios must rely on cost reductions or increased sales in their remaining brands to replace the earnings from those that they've sold. Of course, if a company can realize a significant sale price for its divested brands, its current brands will have less distance to cover in giving the operation a neutral, or preferably positive, net present value; alternatively, a weak sale price necessitates more sales or tighter cost cutting for the rest of the portfolio.

The objective of brand-portfolio restructuring is not merely to divest brands, but to remove some brands to achieve higher rates of growth for the brands that remain. View the portfolio-management process as an ongoing economic fitness program. Establish brand portfolio metrics, and use them for a regular portfolio checkup. One round of portfolio contraction is not enough: Cutting

portfolio fat and building brand muscle will take ongoing and disciplined effort. +

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## Looking for Privacy in All the Wrong Places

by **George Tillmann**

**D**ata theft is a potentially disastrous threat to organizations of every sort, yet executives have long been content to let it be someone else's problem. That could soon change.

With the incidence of such crimes on the rise, along with consumer outrage — more than 180 million computer files containing

such sensitive information as Social Security numbers, birthdates, credit card numbers, and financial or medical histories have been poached since early 2005 — legislators around the world have introduced bills that would hold organizations more accountable for safeguarding confidential information. In the United States, the most punitive proposed law, sponsored by Senators Arlen Specter, Republican from

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Pennsylvania, and Patrick Leahy, Democrat from Vermont, would require that companies with at least 10,000 digital files on individuals design a security system to protect sensitive records from unauthorized access. In addition, these companies would have to publish their data

in one of two states: dynamic (or moving) and static (or fixed). For every transaction involving dynamic data, there are millions of records in a static mode sitting on hard drives, magnetic tapes, CDs, and DVDs, in memory sticks and cards, and in mobile equipment like laptops,

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## Few IT executives would relish telling a user that the 40 gigabytes of data on his or her laptop are unrecoverable.

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privacy procedures and conduct routine audits to evaluate vulnerabilities. Failure to follow these rules would result in fines and possible federal prosecution.

If this bill passes in anything near its current form, it could have a Sarbanes-Oxley-like effect on companies. Faced with this possibility, CEOs can no longer neglect the potential impact of data theft on customer loyalty, Wall Street confidence, shareholder support, litigation, and regulatory compliance.

The information technology departments of many corporations have been trying to get ahead of data theft for more than a decade. Encryption — the scrambling of data using a secret key — continues to be the standard approach for protecting information that travels over the Internet or is sent outside the company's protective firewall to remote laptops, PDAs, and cell phones. Intercepting transmitted data is still perceived as the primary threat. In most companies, it remains the area of greatest security focus. But it is also the least likely way data will be lost or stolen.

Data can be viewed as existing

PDAs, and BlackBerrys. These records are almost never encrypted. So it is not really surprising that most data theft isn't the work of hackers breaking into corporate networks. Digital thieves most often intercept unencrypted static data as the hardware it is stored on travels to remote storage sites, or they steal the data from portable devices.

In the last 18 months, dozens of organizations have been victimized in this way. In May, it was revealed that the U.S. Department of Veterans Affairs lost 26.5 million military records stored on a laptop that was stolen from the home of an agency employee. This came on the heels of similarly low-tech incidents at Wells Fargo, Ernst & Young, Fidelity Investments, the University of Pittsburgh Medical Center, and the University of Washington Medical Center.

Nevertheless, IT units have, on the whole, chosen to leave static data unencoded. Meanwhile, the urgent need to address this vulnerability continues to grow. While so many files remain unencrypted, the cost of computer storage is plummeting, allowing organizations to

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maintain vast amounts of data for longer periods of time more cheaply than ever before. Many companies now house multiple terabytes of data (one terabyte is 1,000 gigabytes), and petabyte volume is just around the corner. That's a lot of data sitting defenseless.

The main reason is that it's more expensive to protect static data than dynamic data because it involves modifying the hardware or software on every storage device. To encrypt data on personal devices, such as personal computers, the encryption software is usually inserted between application programs and the disk drives. As data is recorded on the storage device, it is intercepted and encrypted, and the

the 40 gigabytes of data on his or her laptop are unrecoverable. Moreover, encryption can slow performance of PCs by anywhere from 1 to 20 percent, depending on implementation, so user dissatisfaction can become a significant issue.

But those problems are minor compared to the threat of data theft. With breaches occurring literally every week, few senior managers can afford to do nothing. The situation is analogous to that of the late 1990s, when the Y2K threat presented an IT problem urgent enough to require senior management involvement to marshal the resources necessary to complete the task.

If protecting static data isn't already a high priority for corporate

stored. The policies need to address all types of data (customer, employee, and supplier records), not just financial information, and they should include guidelines for getting rid of obsolete information as soon as it is not needed, to reduce the amount of information stored.

- **Allocating resources, such as money, staff, and time.** This will likely require postponing other IT work. CEOs must be vigilant that the data security program should at no point be put on the back burner while more popular projects are completed.

- **Running interference.** Users need to be told explicitly that the decision to protect sensitive data comes from the CEO and that IT management is simply the CEO's agent for implementation.

The best guess is that in five to seven years, all data — be it stored in a data center, on tapes sent by messenger to off-site storage, on laptops, cell phones, PDAs, or who knows where — will be encrypted. But before then, many organizations will suffer embarrassing data losses and information theft. Smart CEOs will act now before they are victimized; others will pay the price for dismissing the vital importance of keeping data private. +

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## In five to seven years, all data will be encrypted. Before then, expect embarrassing losses.

encoded information is written to the disk. The cost of adding encryption to individual PCs and mobile equipment could exceed the cost of encrypting the company's entire data center. And businesses traditionally balk at paying for infrastructure initiatives when they see little functional benefit.

Moreover, encryption of stored data carries significant risks. If the decryption of a transaction involving dynamic data fails, resulting in a mishmash of the original message, the data can be resent. But when the decryption of a disk drive goes wrong — an infrequent but nonetheless disturbing prospect — in most cases nothing can be done unless there is an unencrypted backup stored elsewhere. Few IT executives would relish telling a user that

leaders, it needs to become one — and fast. Theft of data can be catastrophic: It can destroy the trust a company has built with its customers, negatively affect earnings, and result in intervention by regulators or prosecutors, which could be costly. With so much at stake, the responsibility for leading the effort to safeguard confidential information must reside at the highest levels of the organization.

To minimize data theft, CEOs should oversee an enterprise-wide initiative that includes:

- **Implementing stringent corporate information retention policies and processes.** These rules should state explicitly what data can be stored, where it can be stored (on PCs, laptops, PDAs, etc.), and how (encrypted or not) it should be