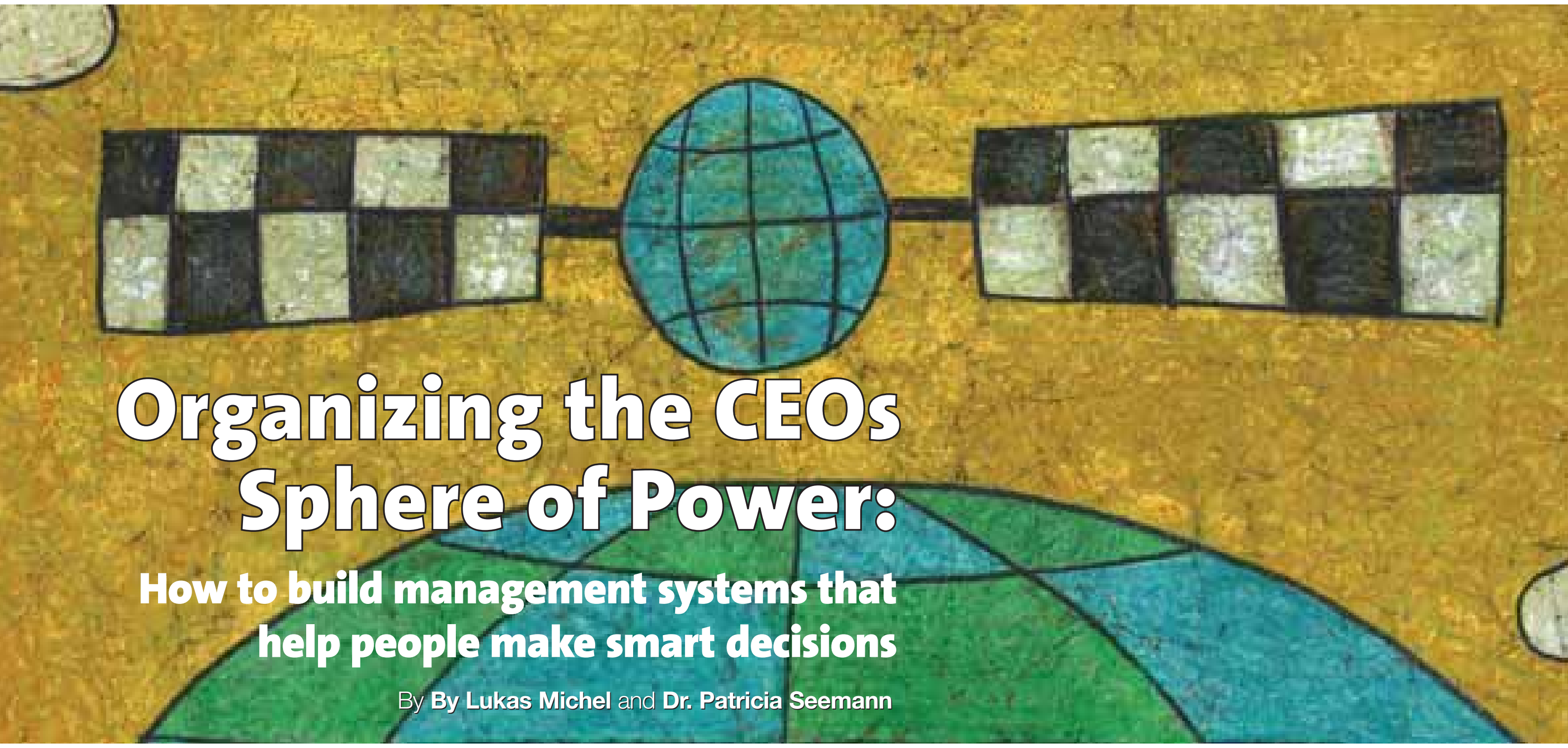


Organizing the CEOs Sphere of Power:

How to build management systems that help people make smart decisions

By **By Lukas Michel** and **Dr. Patricia Seemann**

How CEOs distribute decision-making responsibilities throughout an organisation can be called a smart management system. Such systems need to go beyond fixed decision-making and control mechanisms, and must also empower each employee to use his or her experience and judgment. To encourage “smart” decisions, CEOs need “smart” management systems that let them exercise power with more traction, greater flexibility and reduced complexity. Such systems can be configured in a systematic way to improve an organisation’s performance. Successful implementation can be measured by the number of employees who perform at or above desired performance levels, who take on acceptable risk and who capture opportunities in line with corporate strategy and values.

Traditional management systems focus on refined metrics. While measurement is important, it only addresses an isolated part of an integrated management system. Take the ‘Balanced Scorecard’ measurement approach, for example. While this approach provides management with certain data, it may still leave employees poorly informed, lacking focus and purpose, and not empowered to make decisions in line with corporate strategy. As a result, potential business opportunities are missed. Too often, the results of such measurement projects are disappointing. Employees lack the ability to make smart decisions, and CEOs are constrained in how they can effectively distribute decision-making responsibilities throughout the organisation.

The purpose of this article is to demonstrate how CEOs can organize their sphere of power with a ‘smart’ configured management system that, in turn, enables employees to make smart decisions. The management system can be described as follows:

Strategic - Focuses the employees’ attention by instilling a *shared* mind-set

Measurable - Determines what things get done by establishing a *shared* agenda

Adaptable - Calibrates how things get done according to *shared* beliefs

Relevant - Frames what is ‘in’ and ‘out’ of

the system based on *shared* norms
Trusted - Enables informed decisions founded on a *shared* understanding

The value of the management system comes from the strength of the 'shared' attributes. If a CEO can instill a shared mind-set, get buy-in on a shared agenda and cultivate shared beliefs, norms and understanding, he or she can create a powerful incentive for employees to collaborate and align and coordinate their activities.

DEVELOPING SMART MANAGEMENT SYSTEMS

CEOs are vested with considerable power and responsibility. The power is conferred so that they can get things done. CEOs are also fully accountable for how they add value and how the organisation performs. Consider the following metaphor: A CEO sits in the middle of a sphere at the center of the organisation's universe. As the sphere grows in size, the CEO is faced with a dilemma. He or she needs to delegate some of that power. Now to whom? The CEO could delegate to people at the periphery of the sphere who are enabled to make decisions quickly, who can react fast and in a way that fits the local context or situation. On the other hand, the CEO needs to mitigate the risk of misalignment with the strategic intent or the values of the organisation.

This is the balancing act required when CEOs want their organisations to be responsive at a local level yet effective and aligned on a global level. When decision-making is distributed, organisations must ensure that each of the many decisions employees make are in alignment with the organisation's interests, including its strategy and values. Distributed decision-making at the periphery has many benefits. At the same time, the possible risks include duplication of efforts, an increase in 'silo' thinking and lost opportunities to learn through sharing experiences. By enabling employees to coordinate decisions at the periphery, organisations can utilize scarce resources more effectively. Formal coordination reduces duplication, and encourages employees to share and learn from the practices of others. Coordinated decisions enhance local flexibility and increase overall efficiencies.

As the interactions between the CEO and the employees on the periphery increase in size, intensity and complexity, the CEO needs to put in place structures that reconcile conflicting goals. These tensions are addressed with management systems. These systems provide a directional 'force' and a compass to guide the decisions employees make.

The five interconnected modules provide organisations with the processes, tools and practices to formally organize distributed decision-making. The challenge is that all these systems must be 'smart.'

Fig 1. SMART Management Systems

TRUSTED DIAGNOSTICS ENABLE INFORMED DECISIONS

CEOs need to implement sensing mechanisms or feedback systems that provide data about the environment in which the organisation exists, including information about competitors, customers, market developments, economic trends and socio-political developments. This information helps keep leaders and employees abreast of the needs and concerns of the organisation's stakeholders. The entire organisation thereby continues to learn as it conducts business in a constantly changing environment. Employees have the knowledge to make informed decisions, to capture opportunities and to address risks and uncertainties.

Trusted Diagnostics provide the organisation with the ability to set standards, monitor capabilities, and establish feedback loops for learning. This creates a shared understanding among employees wherever they are. Trusted Diagnostics are performed with the following practices:

Sensing - Captures opportunities, helps management and employees understand the organisation's performance, market and competitive forces, and risks and uncertainties

Standards - Develops objectives and supports measurement

Feedback - Communicates insights

When there is a shared understanding of the organisation's strategic goals and objectives, CEOs can rely on employees to take the initiative and pursue opportunities without exposing the business to excessive risks. Traditional control systems often create pressure 'to make the numbers'. These systems may reinforce the temptation to 'bend the rules' or deviate from strategic direction. Unlike traditional control systems, Measurable Diagnostics do not function in isolation. They complement the response and action systems by providing a feedback mechanism. This helps ensure that employees establish realistic objectives and that their behaviors and actions are guided by the organisation's shared beliefs and established boundaries.

STRATEGIC RESPONSES FOCUS ATTENTION

CEOs need to continually develop the organisation's capacity to respond to market challenges. The diagnostic feedback provides insights that can be integrated into the organisation's strategy so that it remains 'smart.' A desired outcome of this approach is that employees bring business opportunities and risks to management's attention. Communication about such insights usually spreads quickly throughout the organisation, helping to ensure that the same mistakes are not repeated. With a clear strategic framework in place, CEOs can direct employees to focus on the search for new opportunities and limit the risks of distraction.

Strategic Responses provide organisations with a shared mind-set about how to approach business problems, how to articulate that thinking and how to learn from the insights of other employees. This module supports

BOX 1: INSTANT FORECAST

Unlike meteorologists, leaders of fast-moving consumer goods businesses can't just look out the window and make reasonable predictions about future trends. To forecast market growth, managers have to rely on data from the past. They can improve their sensing capabilities to detect and respond to new trends by assessing customer preferences with instant feedback tools. Rather than wait for industry analyses and decisions from the boardroom, fast-moving businesses use instant feedback to get forecasts to employees at the frontlines.

ONCE THE STRATEGY IS DEFINED, IT NEEDS TO BE ENACTED WITH THE MEASURABLE ACTIONS MODULE

BOX 2: TARGETING SOLUTION

A global financial services firm decided to change its marketing approach towards specific target client groups by offering tailored integrated solutions. The CEO endorsed the use of diagnostics to measure product density (the number of products per client), contact frequency (the number of times the clients had contacts with the organisation) and growth in the number of clients over a given period. The data provided early feedback on successes and also highlighted areas where the offering could be refined. The CEOs obvious commitment created the necessary shared understanding among managers and employees about the value that the new marketing approach provided to clients and to the organisation.

organisations with the following practices:
Learning - Addresses opportunities and uncertainties, and provides the channels and means to communicate them to management
Analysis - Chooses among options and sets the priorities
Strategy - Decides on the response and provides a strategic framework
Alignment - Guides the investments to build the critical capabilities

With a shared mind-set, employees capture those opportunities that provide the best value to the organisation. Responses are considered 'strategic' when they are brought to the attention of the CEO and can be translated into value for stakeholders. Furthermore, a shared mind-set strengthens the willingness among employees to share experiences and best practices. When the Response Systems are used diagnostically, they foster a collaborative management approach.

Once the strategy is defined, it needs to be enacted with the Measurable Actions module.

MEASURABLE ACTIONS DETERMINE WHAT THINGS GET DONE

As organisations become larger, employees make daily decisions at the periphery of the CEOs sphere of power. These decisions have to be coordinated to eliminate duplication, and they need to be aligned to the strategic direction of the organisation. Through cascading objectives, leaders guide employees operating at the periphery and determine what gets done. This ensures efficient and effective implementation of the strategy.

Measurable Actions provide organisations with the ability to create a shared agenda. The strategy is translated into coordinated plans with the same overall objective and which ensure the regular review of performance and progress. What things get done is determined through:
Planning - Translates strategy into objectives, facilitates performance and defines distinct steps for implementation
Reviews - Assess business performance, provide data to inform management and update business strategy

A shared agenda maximizes coordination and alignment. CEOs therefore are encouraged to use the Measurable Actions interactively. By participating at the planning and business reviews of their managers, CEOs actively support the cascading of objectives. They emphasize what is important, facilitate the translation of strategy into action and thereby help establish the shared agenda. Furthermore, planning and business reviews are used diagnostically and help ensure that strategy is implemented effectively. As one CEO put it, "This ensures that the video matches the audio."

BOX 3: ATTRACTING THE BEST

A well-recognised non-profit organisation uses its belief system to attract the best talent. Unlike profit-oriented organisations that use financial incentives to motivate employees to perform, this non-profit has aligned its mission, vision and values. By carefully nurturing the belief system over the years, management has created a credible identity and brand that attracts the best talent in the field. This approach has reduced the need for incentive systems and focused the attention of employees towards a common purpose.

ADAPTABLE BELIEFS ARE USED TO CALIBRATE HOW THINGS GET DONE

Shared beliefs and behaviors provide CEOs with the gravitational 'force' that drives employees' attitudes and behaviors. Organisations use vision and values to draw the attention of employees to the fundamental principles on how to conduct business. By defining their individual objectives, employees frame their contributions within a specific context and time period.

Adaptable Beliefs enable employees to make decisions in line with the strategic intent and the values of the organisation. How things will be done is determined using the following practices:
Vision - Communicates the inspirational and gravitational force that guides actions
Values - Draws attention to key tenets of the business
Individual objectives - Establish and direct commitment
Shared beliefs and behaviors work like the

BOX 4: COPING WITH GROWTH

An international insurance firm recognized its growth potential and expanded its operations to many remote locations. To cope with the additional complexity of a decentralised organisation, the firm decided to also delegate more underwriting authority to the entities closest to the clients. Before distributing the additional capacity, management ensured that guidelines and clear boundaries were in place to facilitate entrepreneurship and growth while at the same time limiting the risk of unprofitable business.

RELEVANT BOUNDARIES HELP TO PROTECT THE REPUTATION OF THE ORGANISATION. CEOS KNOW THAT INTANGIBLE ASSETS, SUCH AS REPUTATION, ARE DIFFICULT TO REGAIN ONCE THEY ARE LOST

organisations' 'gas pedal.' CEOs employ distinct communications methods to promote direction and emphasize core values. Leaders interactively engage employees in conversations about their performance to direct their commitment.

Establishing shared beliefs and behaviors takes time. Leaders build credible beliefs by demonstrating consistent behavior over a long period. Employees look out for these signals and compare them with what the leaders say. When the values and behaviors of all employees are aligned with the intent of the organisation, the organisation becomes a deliberate brand – from the inside out – and it shines to the outside. These shared beliefs need to be adaptable so that the CEO can change the speed or the direction of strategy implementation as necessary. Therefore, the shared beliefs must be articulated broadly enough to allow for diversity and precisely enough to ensure direction. So, in addition to having the gas pedal, the organisation ensures it also has the brakes to manage the shared beliefs and behaviors.

RELEVANT BOUNDARIES FRAME WHAT IT IS 'IN' AND WHAT IS 'OUT'

Boundaries provide CEOs with the frame with which to encompass the beliefs. They establish the distinct and self-determined limits

COMPLEMENTARY PRACTICES

Trusted Diagnostic	Strategic Responses	Measurable Action	Adaptable Beliefs	Relevant Boundaries
Sensing * * * Standards * * * Feedback	Learning * * * Analysis * * * Strategy * * * Alignment	Planning * * * Review	Vision * * * Values * * * Individual Objectives	Mission * * * Rewards * * * Leadership standards * * * Governance norms * * * Risk limits

Table 1. Management System Practices

to the behaviors and the actions of the employees. These entrepreneurial and behavioral boundaries are configured to help clarify accountability and distribute responsibilities. CEOs establish boundaries to define shared norms of behavior, or what behavior is 'in' and what is 'out'.

The shared norms are determined using the following practices:
Mission - Sets the strategic boundaries
Rewards - Encourages risk taking
Leadership standards - Selects the team
Governance norms - Enable collaboration
Risk limits - Restrict risk exposure and safeguard the organisations' assets

Shared norms are relevant when they are defined as minimum standards or activities that are 'off-limits.' Telling employees *what not to do* leaves room for creativity within clearly defined limits. Telling them *what to do* inhibits innovation and decreases motivation.

Relevant Boundaries help to protect the reputation of the organisation. CEOs know that intangible assets, such as reputation, are difficult to regain once they are lost.

In summary, smart management systems use the following complementary practices to orchestrate distributed decision-making

Strategic Responses help CEOs make informed strategic decisions. Guided by the established boundaries and beliefs, CEOs distribute decision-making responsibilities to employees at the periphery of their organisations. Action systems align and coordinate decisions through cascading and sharing of objectives. Diagnostics are used to refine the action and the response systems to enable learning and informed decision-making.

CONFIGURING MANAGEMENT SYSTEMS

A CEO can exercise power with more traction, greater flexibility and reduced complexity by configuring the management system to address specific situations.

The five management system modules and their practices are complementary and interdependent. Their full potential to organize a CEOs sphere of power can only be realized when all five modules are implemented together. As with metrics and stretch goals, tools and techniques used sporadically or applied here and there to address organisational trouble spots do not necessarily encourage employees to perform in the best

BOX 5: DEVELOPING A SHARED LANGUAGE

The CEO of a highly decentralised global services organisation recognized the necessity of a stronger client focus. He decided to strengthen local decision-making while maintaining adequate control over the process. His solution was to implement 'Roadmap' as the firm's strategic management process. It supported leaders anywhere in the world in making decisions aligned with the overall strategy. The most important success of Roadmap was that it created a shared language and vocabulary. This empowered and encouraged managers throughout the organisation to share best practices and collaborate across national boundaries. 'Roadmap' enabled the CEO to balance the inevitable inefficiencies of a decentralised organisation while increasing the speed of information flow and decision-making.

interest of the organisation. In fact, employees might be tempted to make decisions regardless of the inherent risks to the organisation. Boundaries help to frame such excessive entrepreneurial aspirations.

Configuring the management system means that the individual practices are calibrated and then aligned through the various processes and modules until they fit the specific leadership situation.

Four activities are recommended. First, all practices (see **Table 1.**) are *calibrated* and aligned with each other. For example, how performance is measured needs to reflect the specific business strategy. An organisation with a certain customer focus uses metrics that delineate how well it does in satisfying the customer needs with differentiated solutions. These critical performance variables are very different to those of a low cost producer.

As these practice cross organisational boundaries and as they are interdisciplinary, their calibration and alignment requires a joint effort between the CEO, the CFO, HR, Planning, and Communications functions to succeed.

Second, the various systems need to be configured for *diagnostic* use. This means, for example, that managers and employees are

CONFIGURING THE CEO MANAGEMENT SYSTEM

	Trusted Diagnostic	Strategic Responses	Measurable Action	Adaptable Beliefs	Relevant Boundaries
Increased **traction**	**Calibrated** performance measurement	**Calibrated** practices			
		Diagnostic strategic learning and **planning**	**Diagnostic** performance management	**Diagnostic** management by objectives	**Diagnostic** risk management
Increased **flexibility**		**Framed** strategic management system	**Framed** performance management system		**Framed** governance system * * * **Framed** incentive system
Reduced **complexity**		**Interactive** strategic dialogue	**Interactive** performance conversations	**Interactive** leadership communications	**Interactive** risk dialogue

Table 2. Configuring the Management System

CONFIGURING THE MANAGEMENT SYSTEM MEANS THAT THE INDIVIDUAL PRACTICES ARE CALIBRATED AND THEN ALIGNED THROUGH THE VARIOUS PROCESSES AND MODULES UNTIL THEY FIT THE SPECIFIC LEADERSHIP SITUATION

encouraged to use their "management by objectives" processes primarily as feedback and learning opportunities rather than as the classic performance evaluation and reward program. Most managerial processes can be used diagnostically with sensing, objective setting and feedback mechanisms. To calibrate them, CEOs remove the excess baggage from their "comprehensive" management processes by reducing them to the key elements that help them learn, plan performance and reduce risk. Then, they complement the processes with the diagnostic capabilities.

Organisations calibrate all practices by using the systems diagnostically with more 'traction' – that improve performance and create value.

Third, *framing* ensures that the management systems feature an organisation-specific model and language. A proprietary approach creates competitive advantage since these practices are hard to copy and as they are not transferable. For example,

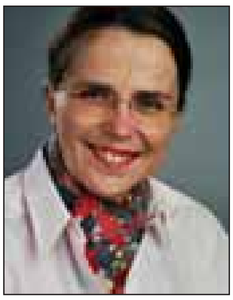
ORGANIZED DISTRIBUTION OF DECISION-MAKING RESPONSIBILITY

Features	Benefits	Outcomes
Enables informed decisions * * * Focuses attention * * * Determines what things get done * * * Calibrates how things get done * * * Frames what is 'in' and what is 'out'	Shared understanding * * * Shared mind-set * * * Shared agenda * * * Shared beliefs and behaviors * * * Shared norms	Employees who perform, take on acceptable risks, capture opportunities in line with strategy and values * * * CEOs who delegate with more traction, greater flexibility and reduced complexity

Table 3. Organized distribution of decision-making

organisations may use metaphors to promote *how* to do things rather than to promote distinct steps or processes. This way, employees learn the principles of good practices rather than to follow orders. Framed management systems give CEOs flexibility. Employees will adapt more easily to changes in strategy or direction. CEOs achieve this framing by defining unique approaches, training employees in how to apply them and by cultivating them as 'Our way'.

Fourth, managers reach out to the employees at the periphery of the organisation by using *interactive* communications. They participate in their subordinates' decision-making activities. They listen, coach, and reinforce the strategic intent and shared beliefs. Conversation techniques such as Decisive Dialogue, Performance Conversation, and Strategic Conversation are some of the available techniques used successfully by organisations. CEOs can help develop the interactive communication skills in their organisations by acting as role models and making good communication practices a key part of their personal leadership style.



EXERCISING POWER: THE CEOS MANAGEMENT SYSTEM

CEOs are vested with considerable power and responsibility to get things done, to drive performance and to deliver results. Diligent application of a smart management system enables CEOs to effectively distribute responsibility throughout the organisation and leverage their sphere of power.

By configuring the management system to address specific situations rather than trying to fix problem areas in isolation, CEOs can exercise their power with more traction, greater flexibility and reduced complexity. The benefits of this approach for organisations include employees who perform at or above desired performance levels, take on acceptable risks and capture opportunities in line with corporate strategy and values.

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