The decision-driven organization

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Making good decisions and making them happen
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Making good decisions and making them happen

An effective organization is vital to success. Yet, Bain & Company research shows that only 15% of companies have an organization that helps them outperform. (See Figure 1.) For these few, the organization itself is becoming a source of competitive advantage.

What sets apart the top performers is the quality of their decision making. They make the most important decisions well, and then they make them happen, quickly and consistently. We found again and again that these achievers are decision-driven organizations, built for effective decision making and execution.

Making good decisions means being clear about which decisions really matter. It requires getting the right people focused on those decisions at the right time. That’s true whether the decisions involve the largest issues that a company faces (what’s our strategy? should we buy or sell this company? should we move manufacturing to China?) or more tactical, day-to-day concerns (should we buy more components now or next month? should we accept this customer’s return?). Decision-driven organizations are distinguished by the consistency and caliber of their decision making and execution at every level.

The difference is striking: More than 90% of high-performance organizations we surveyed believe that significant decisions get made well in their organizations, resulting in prompt, effective action. By contrast, nearly half of those who rated their organizations less effective believe that they often fail at making and executing decisions, and only about 10% of them think they truly succeed at decision making. (See Figure 2, above, and the sidebar “In Search of the Decision-Driven Organization,” on page 7.)
Building a system

How do companies come to excel at decision making and execution? The top performers recognize that the org chart—who reports to whom—is only a small part of the equation. They put their energy into building an integrated system, one that supports a decision-driven organization. They aim to outperform competitors on five vital dimensions:

- **Strong leadership** that provides compelling vision and direction based on the sources of value in the business
- **Clear accountability** for the most important decisions, reinforced by the organization’s structure
- **Talented people**, placed in the jobs where they can have the biggest impact, and focused on the measures that matter
- **Outstanding frontline execution**, enabled by the right tools and working practices
- **A performance culture** that motivates people at all levels to get things done and to strive for excellence

The high performers we studied recognize how the attributes of effective organization reinforce one another: Clear vision and cohesive leadership contribute to crisp decision making and vice versa; and a performance culture keeps frontline employees intent on high-quality execution, which feeds the expectations and shared objectives that reinforce the culture. (See Figure 3.)

Most organizations don’t achieve this kind of performance. What holds them back? Complacency is part of the problem. Many firms are willing to settle for “good enough.” Raising the performance of an entire organization can seem overwhelming, and some companies simply don’t know where to focus. But these companies are making a costly mistake. An effective organization is an enormous asset that’s difficult to copy.

Figure 3: Top performers build a system, not just a structure
The five attributes of decision-driven organizations

1. Provide compelling direction and leadership

“Leadership is the art of accomplishing more than the science of management says is possible.”
—Colin Powell

When there’s clarity from the top, the rest of the organization knows what to focus on. The best leaders can express a compelling vision and clear priorities for what it takes to succeed in the business, as well as “the way we do things around here,” usually in a single breath. Michael Dell’s two-word strategic principle—“Be direct”—sums it up for Dell’s 55,000 global employees. All employees of GE know their priorities, articulated in 1995 by Jack Welch: “No. 1 or No. 2—or fix, sell or close.”

A compelling vision goes beyond stirring words. Top-performing teams reinforce the company’s business priorities and values by creating “distributed leadership”—leaders at every level who send the same messages about the company’s direction. “We don’t want one leader,” remarks Terry Leahy, chief executive of UK retailer Tesco, “we want thousands.” Yet, even the most talented and energetic group can fail if they are not aligned. Cohesive leadership teams trust one another. They aren’t afraid to engage in conflict around ideas. Once they commit to a decision, they walk out of a meeting with a common plan of action.

How much better are the top performers? In our survey, executives of 365 companies rated their effectiveness across 10 dimensions. Seventy-four percent of executives at the top performers agreed strongly with their company’s vision and priorities, a remarkable vote of confidence in leadership, compared with only 12% who agreed strongly with the vision and priorities at average organizations.

Consider how Vodafone’s clear priorities and cohesive leadership enabled the company to change the rules of wireless phone services. In the 1990s, the company succeeded by focusing exclusively on mobile communications, acquiring shareholdings in new mobile licenses in attractive markets, primarily in Europe. The leadership team then was a small group who ran the business with a lean management structure and a knack for resourcefulness. With a deep understanding of one another’s roles and capabilities, Vodafone’s team excelled at setting and achieving audacious goals. That was true whether the challenge was achieving organic growth in its UK market or making acquisitions across Europe, in Japan and in the US.

Following this strategy, Vodafone built a portfolio of investments in various national mobile operators. At that point, Vodafone’s leadership team recognized that they had a unique opportunity: By consolidating Vodafone’s portfolio and achieving majority control in each of its investments, Vodafone could steal a march on other competitors in the industry, which thus far had been exclusively national businesses. Vodafone’s new vision: The future of communications was mobile, and Vodafone would be the only truly global player in the industry.

That strategy led Vodafone to two consecutive large mergers with other telecommunication “conglomerates,” AirTouch and Mannesmann. Like Vodafone, those companies owned stakes in a variety of national mobile operators and very often were co-investors with Vodafone in the same national companies.
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Such a radical step up in strategy required a new model of leadership and a new organizational design. The senior team became a larger group, drawn from the companies with which Vodafone had merged and from multiple nations. A new company with a new “DNA” was emerging.

One of the first steps in creating a cohesive team was to bring the company’s leaders together to define the core values of the new Vodafone. The resulting values—passion for customers, passion for our people, passion for results and passion for the world around us—became the operating system for Vodafone’s strategy. Vodafone’s leadership team made a major investment in time and energy to spread the values across the multitude of companies now rebranded with one single brand, Vodafone. To speed the process of integration, Vodafone executives started to move from national operating companies to the center and vice versa.

The maturing mobile business also required a greater focus on retaining and satisfying existing customers. So Vodafone’s leadership team made a priority of building awareness of customer spending, phone usage, requirements and desires across the organization. To prove it, members of the leadership team logged time in a Vodafone store or call center one day each month. Customer satisfaction became a larger element of Vodafone’s pay and incentive systems.

Clear leadership has made Vodafone an unequivocal global leader. A well-focused organization helped Vodafone achieve more than £1.1 billion in post-merger synergies, exceeding its targets, even as it continued to grow through acquisitions. And the company has grown from being one of several domestic UK players to the global leader that it is today.

2. Define clear decision roles—and hold the people in them accountable

“The key is to be clear—who gets to decide, who gets input and who gets out of the way.”

—Anonymous Bain client

Good decision making begins with clear roles and accountabilities. People know which decisions they are responsible for, when to provide input and who is accountable for following through. Just as important, they know what’s out of their scope.

Many of the most important decisions cut across different functions. But it’s not as simple as making one person accountable and ensuring that he or she has the proper interactions. Top performers also make sure their organizational structure is aligned with the sources of value in the business. At one global transportation company, for instance, determining optimum loads and pricing freight accordingly makes or breaks profitability. As a result, the organizational boxes, reporting lines and formal working groups are built around the company’s core business process—route deployment.

If a company’s decision roles and structure are out of line with its most important sources of value, it can cripple the business. When the roles are well-defined, however, and the organization’s structure lines up with the value in the business, the speed of decision making improves along with the quality of those decisions.

British American Tobacco is a case in point. The world’s second-largest tobacco company was falling behind when a new chief executive officer, Martin Broughton, was appointed in the
mid-'90s. Broughton knew that British American Tobacco needed to take better advantage of its global scale. But the organization’s structure was working against it. Four autonomous geographic operating units were producing a lot of cash, but the units were expanding mostly by moving into one another’s markets. Industry insiders joked that “there are seven major tobacco companies in the world—and four of them are British American Tobacco.” Broughton vowed to change the punch line.

Getting the structure right required an organization that recognized the main source of the business’s value—strong global brands that could compete with established winners such as Altria Group’s Marlboro. Broughton and his team reconfigured the operating units. They grouped countries together in clusters, determined by both their strategic importance and market overlap. Five regional directors ran the clusters, and new global positions were created at the corporate level.

The difficult part was reallocating decision-making power so the new roles would create value, not confusion. That required Broughton and his team to think through the key decisions in each area of the business. Global scale in brand management and distribution was vital, but Broughton didn’t want to lose British American Tobacco’s nimbleness in local markets. The objective, as one team member put it, was to “strike a balance between being mindlessly global and hopelessly local.”

The first step was to make sure that roles were clear for the most important decisions. Executives at corporate headquarters were accountable for developing global strategy and ensuring operational excellence. They were responsible for developing senior managers, establishing brand and market priorities, and managing the global supply chain. For regional managers, the primary role was to “deliver strategy and develop people.” They had responsibility for monitoring business performance, developing regional plant capacity and ensuring manufacturing excellence. Regional and country-level executives were also accountable for their respective markets—managing the country brand portfolio, building customer relationships and so on.

The process wasn’t easy. Broughton needed to persuade the autonomous units to change. The competitive urgency helped to get them on board. He also rolled out changes in waves, devising “quick hits” to convince an initially skeptical organization. At the same time, Broughton didn’t make the common mistake of seeking consensus. He made it clear that the objective was not deciding whether to change but how to make change as effective as possible.

The new decision roles provided the direction the company needed to manage its brands effectively on a global basis, while retaining flexibility at the local level. The results were dramatic: In the two years before the changes were made, British American Tobacco’s revenue declined an average of 3% a year; in the three years following the changes, revenue grew 8% annually. In the years since, the company has gone on to have one of the best-performing stocks on the UK market—and has reemerged as a major global player in the industry.
3. Develop and deploy talented people

“If you get the right people on the bus, the right people in the right seats, and the wrong people off the bus, then you can figure out how to take it someplace great.”

—Jim Collins, author of Good to Great

High-performance organizations routinely find people who think and act like owners—people with high aspirations who make decisions and take prompt action. That requires companies to consider what types of people they need to succeed, selecting for skill as well as will—for capability and attitude. Companies expanding from products into services, for instance, need to become more customer focused and less product driven. It requires a certain set of people skills that won’t just happen—they need to be developed.

One key to success is getting the right people in the right jobs, a discipline that we call “leadership supply.” Companies that practice this discipline find, develop and deploy top talent in key jobs, all of the time. They track their people to ensure that talent is deployed where it can have the most impact. Often, that means leaving people in jobs long enough to make a difference. Lots of companies rotate executives so frequently that they hardly have time enough to learn the job before thinking about the next move.

Top performers also use aligned measures and incentives to keep people pointed toward growth. Typically, the most effective organizations avoid overloading on metrics, taking care instead to measure what matters. Often, a few dozen key metrics will serve to measure most of the economic value of the business, allowing management to focus clearly on company and individual performance. Top-performing organizations also link measures with incentives in ways that are easy to understand. Nucor, the US steelmaker, has pushed production incentives out to its mill workers, who are vital to determining productivity. The company pays hourly workers about half as much as the competition does but then adds weekly cash bonuses that can double or triple wages, depending on the amount of quality steel produced by a work team on its shift. The same principle should apply to any group of employees whose actions are critical to achieving a company’s goals: Measures and incentives that are properly aligned keep people focused on the right behaviors.

Kraft has an impressive record of building management bench strength. Not only has the company cultivated its own current leaders, but it has also produced a roster of impressive alumni, including the current or former CEOs of Gillette, Marks & Spencer, Campbell Soup, Quaker Oats, Hershey Foods, Mattel, Young & Rubicam and Sears Roebuck. Talent that deep doesn’t just happen; it’s the result of Kraft’s leadership development process. The company has a formal training program, but for the most part executive development takes place on the job and, more important, for the job. Throughout, it’s designed to reinforce Kraft’s business model—reducing costs systematically to free up cash that the company can invest in strengthening brands.

The Kraft process immerses young executives in the details of how the business really works, in part by giving them extraordinarily broad authority. They’re called on to deal with commodity markets, manufacturing and cash management on a day-to-day basis. It isn’t unusual for young managers to find themselves talking to farmers about crop yields or troubleshooting a production glitch on the plant floor with machine operators. And once they have mastered the basics of the business, they’re given unusually broad leeway in deciding how to meet their targets.
In search of the decision-driven organization

What enables top performers to be so much better at decision making and execution? For the past few years, Bain & Company has worked systematically to understand what distinguishes high-performance organizations and what average performers can do to break into the top echelon. Our findings are based on our experience working on more than 1,000 organization cases for more than 500 clients, as well as research and analysis. We have found that awareness of the power of an effective organization runs high. Even when they don’t yet know what a high-performance organization might look like, senior executives understand that a lackluster organization can cut into company results. When we surveyed executives from 365 companies in seven countries, every single one identified internal barriers as their company’s main obstacle to growth. Only 21% blamed a lack of opportunity in the marketplace.

To understand the components of high-performance organizations in greater detail, we interviewed more than 40 high-performance companies, probing for both the design criteria of their organizations and the attributes that allow them to excel. We compared the organizations of several industry leaders in our study with those of trailing competitors. (See Figure 4.)

Sometimes the development of a high-performance organization can coincide with other factors that propel a firm to achieve success. In order to isolate the organizational elements that truly move the needle in terms of performance, we also looked in depth at a number of transformations where organizational change was clearly a leading factor.

Our research confirmed our experience: high-performance organizations are particularly strong in making good decisions and making them happen.

Figure 4: Decision-driven organizations outperform other companies on all dimensions

Note: Average scores are based on a 1 to 4 scale in which respondents rated their performance on each dimension, with 4 points for “strongly positive,” 3 points for “positive,” 2 points for “negative,” and 1 point for “strongly negative.”

Source: Bain & Company high-performance organization database (n=365)
For a mining company, frontline execution is all about miners’ increasing their productivity “at the coal face.” The front line also needs the right back-office support, another area where effective organizations excel.

When the front line fumbles, the company is weakened—through poor service, poor quality or unnecessary cost. Ultimately, a company’s ability to execute is impaired, and customers suffer. The key is to view the front line as a source of competitive advantage, applying the same rigor in setting it up that a company’s leaders apply to the rest of the organization. Strong leadership is important, along with constant communication of the company’s vision and priorities. Clear rules for making decisions, with reinforcing measures and incentives, also are vital. At eBay, for instance, customer feedback is weighed alongside productivity in employees’ performance reviews. Finally, frontline employees must be equipped with the right tools, working practices and technology to do their job effectively.

UK retailer ASDA, now owned by Wal-Mart, displays a strong front line. ASDA has developed an enviable reputation for the quality and consistency of its frontline execution, despite the fact that its employees are paid less than those of other leading retailers. More than half of its 135,000 employees are part-time, and a high proportion are seniors, drawn to the community and flexibility of working for the company.

ASDA’s success predates its acquisition by Wal-Mart. After a move into higher-end supermarkets stalled, ASDA’s leaders refocused the company’s vision on its core: delivering value through everyday low prices and a deep commitment to local customer needs.
They recruited new executives who quickly established clear direction on strategy and values. From the beginning, the new team set the company’s sights on rebuilding ASDA’s market position as a low-price leader.

The new vision quickly permeated the front line. Customer service employees became conditioned to considering the lifetime value of the customer. To further improve frontline execution, ASDA turned its expertise in branding and marketing on itself. A data room that collects best demonstrated practices from stores around the system was promoted as “air traffic control,” helping to document and coordinate the most effective approaches in stores. Senior executives have spent years refining the practices that help store managers motivate and manage frontline employees, ranging from the employee selection process (“we don’t interview, we audition”) to “ASDA Best,” where good ideas in a particular store are reapplied and celebrated across the whole network. One example is the golden trolley, a piece of backroom equipment painted gold and reserved in the stockroom for the outstanding warehouse employee of the month.

At many retailers, store managers attend to every aspect of operations, from the front door to the loading dock. ASDA’s store managers are accountable for one overriding task—managing the people working in the store. To help sharpen their focus on the interaction between the stores’ customers and employees, even the company’s senior managers spend half a day each month on the checkouts.

The results have been impressive: ASDA moved from the brink of bankruptcy in the early ’90s to one of the best-performing companies in the UK retail sector.

5. Tap into the “extra 10%” with a high-performance culture

“I came to see in my time at IBM that culture isn’t just one aspect of the game—it is the game.”

—Lou Gerstner

Plenty of companies have “fun” or “vibrant” cultures. But relatively few manage to make their business objectives and their overall vision live and breathe through their employees, from senior executives to the front line. Great companies foster a passion for the business that encourages people to give their best and at the same time creates a more fulfilling workplace for the employee.

Companies with high-performance values and behaviors inspire loyalty from employees, who want to stay and be part of a team. They create advocates, who are positive about the business to customers, colleagues and recruits. They generate commitment to go the extra mile, and to do the right thing, rather than necessarily just the easy thing.

High-performance organizations are 31% more likely than the average company to have a culture focused on performance. They don’t take culture for granted; they manage it. That’s a tall order, because it requires engaging people’s inherent beliefs—about the value they place on their work and contributing to a common enterprise. High-performance cultures also show a strong capacity to change—a critical attribute since organizations must continue to evolve as strategic goals shift.

Enterprise Rent-A-Car knows the value of a strong culture. The largest car-rental agency in the United States—it passed Hertz for the #1 ranking in 1996—Enterprise leads the
market for neighborhood and off-airport rental cars, where people rent because they need a replacement vehicle while theirs is in the shop for repairs or because they want to take a short business or leisure trip. Enterprise built its industry leadership in large part by establishing a culture that connects performance with customer loyalty and instills the conviction among employees that attention to customers’ needs leads to success. The rental-car company has pioneered the use of clear, simple customer-advocacy metrics. One of these is the “Enterprise Service Quality index” (ESQi), which measures how satisfied customers were with their rental on a five-point scale. Rental branches’ scores on that metric are the key variable in determining promotions for branch managers and employees. So they’re watched closely, and everyone in the branch learns that he or she must take personal responsibility for turning customers into enthusiastic promoters of Enterprise.

What makes it all work is the company’s strong values-based culture. “Put customers and employees first, and profit will take care of itself,” declared founder Jack Taylor, and Enterprise leaders ever since have taught that philosophy to managers and employees throughout the organization. CEO Andy Taylor and President Don Ross make a point of addressing training classes of new managers on Saturday mornings. They reinforce their message by relating examples of outstanding customer service, like the story of one branch employee who accompanied the wife of a customer stricken by a heart attack to the hospital and stayed with her for hours until relatives arrived. When it comes to ordinary day-to-day operations, the company says, ESQi is “one of many ways in which we remind ourselves to put customer needs first.”

Another important attribute of performance cultures is personal accountability. With its policy of hiring college graduates—Enterprise is the largest employer of university graduates in the US—the company gives regional managers more autonomy than competitors typically do. For example, regional managers for Enterprise buy and sell the cars for their fleets. They also try to keep the fleets small, typically breaking off to form a new branch when a fleet grows above 150 cars, in order to inspire a sense of personal accountability.

Cultures such as Enterprise’s truly emerge in a crisis, when employees must think and act quickly without guidance from headquarters. Enterprise faced a dilemma in the aftermath of September 11, 2001, as stranded travelers desperately sought cars to return to their homes. Enterprise ordinarily doesn’t rent one way; its neighborhood branch system lacks the logistics and operations to track and offer one-way rentals. But many branch managers quickly decided to give customers the cars anyway and worry about how they would get them back later on.

The response came as no surprise to Enterprise employees. One sign of a strong, effective culture is that everyone in the company understands what to do without being told. Three days later, with the nation’s transportation system still crippled, Enterprise headquarters issued a policy instructing branches to permit out-of-state one-way rentals for stranded travelers and to waive or reimburse drop-off fees. “There will be losses,” said CEO Taylor, who stayed in touch with employees via email during the crisis. “But right now we’re just concerned about taking care of our customers.” His managers, as it happened, were out ahead of him.
Some executives dismiss the Enterprise philosophy—customers and employees come first, and profit will take care of itself—as disingenuous or naïve. But a fundamental component of the Enterprise formula is to pay employees a share of the profits they help generate. With that reward system, and a culture that enables Enterprise employees instinctively to do the right thing, profits do tend to take care of themselves. Privately held Enterprise doesn’t report its profits, but the firm’s worldwide revenues have grown 32% between 2000 and 2004, to $7.4 billion, helping to establish Enterprise as the leading car-rental company in North America.

The path to high performance

The hallmark of any highly effective organization is making good decisions and making them happen—better, faster and more consistently than their competitors. To achieve this, the top performers excel across all elements of the organizational system—effective leadership, clear accountability for the key decisions, the right people in the right jobs, strong frontline execution and a performance culture.

Because it’s a system, not just a structure, companies often find it difficult to know where to start. To help address this, Bain has developed a simple “scorecard” to measure organizational effectiveness. It allows a company
to benchmark its own performance against the businesses in our database and to develop a picture of how its organization compares with that of industry leaders. (See Figure 5.)

The scorecard probes each of the five attributes of high performance. (See sidebar, “Measuring an Organization’s Effectiveness,” above.) By isolating the root causes of underperformance, a company can focus action where it is most needed. The scorecard also gives companies a tool to guide change. After all, no organization is forever. Even high-performance organizations need to evolve.

Sustaining high performance is difficult. No single lever turns a company’s people into a decision-driven organization, capable of making good decisions and executing them again and again, and no blueprint can provide for all the contingencies and business shifts that a company is bound to encounter. The most successful companies take a holistic approach, integrating capabilities across the organization, from the boardroom to the front line. That’s difficult to achieve—and even more difficult for competitors to copy. But the steps required to build a decision-driven organization are practical and measurable. Any company can make its organization more effective, beginning with its next decision.

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**Measuring an organization’s effectiveness**

You can diagnose your organization’s effectiveness and assess its path toward high performance by gathering answers—typically through a survey—to 10 key questions:

1. Is our organization clear about the **top three priorities** for making our business more valuable?
2. Is our **leadership team** cohesive and aligned?
3. Are **individual roles**, accountabilities and authority clear for the **most important decisions**?
4. Does the organization’s **structure** reflect the **sources of value** in the business?
5. Do we have enough high-performing **people**, in the jobs where they can have the most impact?
6. Do we **measure** what matters—and link incentives for our people to those measures?
7. Does our **front line** consistently execute well on the activities that are critical to success?
8. Does our **back-office support** contribute value commensurate with its cost?
9. Do we have a high-performance **culture**?
10. Do we have the capacity to **change**?
Bain’s business is helping to make companies more valuable.

Founded in 1973 on the principle that consultants must measure their success in terms of their clients’ financial results, Bain works with top management teams to beat their competitors and generate substantial, lasting financial impact. Our clients have historically outperformed the stock market by 4:1.

Who we work with

Our clients are typically bold, ambitious business leaders. They have the talent, the will, and the open-mindedness required to succeed. They are not satisfied with the status quo.

What we do

We help companies find where to make their money, make more of it faster and sustain their growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions, and organization. Where appropriate, we work with them to make it happen.

How we do it

We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients’ shoes and focus on practical actions.