Dealing with Corporate Sluggishness

When everyone agrees but nothing changes, it's a sign that organizational inertia is holding your business back. Many companies suffer from corporate dysfunction and curing it could mean the difference between achieving success and fame or standing in the line that leads to Chapter 11.

The symptoms of corporate dysfunction are disturbingly familiar. We've all sat in meetings where people constantly advance their own agendas over that of the company. Likewise, we've all seen situations that take 10 executives to make routine business decisions. Everyone suffers when decision makers — overburdened or lacking access to the right information — impose unnecessary delays or inject other inefficiencies into programs and processes. And who hasn't experienced the maddening struggle to get different organizational units or functions to work together toward a common goal? From the CEO on down, business leaders routinely express variations on the same fundamental laments:

"We have the right strategy and a clear action plan, but we can't seem to execute."

"Our industry is in upheaval, but our people don't recognize it or won't do anything about it."

"The merger is supposed to be behind us, yet even Wall Street recognizes that we're still acting like separate organizations."

In essence, they're all asking the same question: Why is it that everyone agrees but nothing changes?

Individually, these dysfunctional behaviors are irritating. Collectively, they can stunt the growth of an organization and make the difference between success and failure. The corporation is, in effect, paralyzed by its own misalignment — as one Tudog client described it, "we can't seem to get out of our own way."

People, Knowledge, Incentives

Actually, the seeds of this corporate paralysis are more visible than one might think. Although we often view companies as monolithic wholes, they're not. Organizations are collections of individuals who typically act in their own self-interest. People make decisions that are based on their ability to process the information available to them, and they rely on others to act on their behalf, or in coordination with their own efforts. As a result, superior and consistent corporate performance is produced only when the actions of individuals within the company are aligned and in synch with the overall strategic interests of the organization. Achieving this becomes more difficult as companies become larger, because growth, while obviously a critical goal, increases complexity. As complexity increases, aligning the interests of an individual with the company's interests becomes much more difficult.

Still, for small and large corporations the answer is the same. Organizations thrive when the right people, armed with the right information and motivated by the right incentives, wield clear authority to make crucial decisions. In other words, companies need to build themselves with three critical dimensions: people, knowledge, and incentives. Let's look more closely at these dimensions:

Dimension 1: People: Who Decides What?

Organizations are communities of individuals and groups that act, more or less, selfishly. To turn this to a corporation's advantage, it's important to understand how authority is distributed among business units and company roles so that individuals are given appropriate tasks and tools to perform at their highest level. This is where they produce the best results for themselves and ultimately for the organization. This exploration into the company management moves quickly past the lines and boxes of the organizational chart into the underlying mechanics of how and where decisions are truly made. As organizations refine the assignment of authority and roles, they must actively address potential trade-offs. For example, the complexity of the information processing required in a single position may dictate decentralizing operations to simplify the job and clarify the purpose of the activity. Or business units may have to be combined in order to reduce interdivisional transaction and coordination costs.

Dimension 2: Knowledge: What They Need to Know

Information is the lifeblood of the large modern corporation. Almost every manager has been in a situation when, despite having the best intentions and even explicit incentives, he or she didn't have the right information to make an effective decision. The key to success for a company is to identify the critical information required to make the correct decisions and to ensure that this information is in the decision maker's hands when he or she needs it.

Dimension 3: Incentives: What's in It for Them?

A successful operating model must ensure that reward and incentive systems provide decision makers with clear direction and compelling reasons to act in the firm's best interest. In other words, incentives — defined broadly to include both financial compensation and non-financial rewards, such as promotions, recognition, and perks — should be carefully crafted to motivate people to make the right decisions. At the front-line employee level, where decision authority is limited and success is predicated on how well the individual manages the trade-off between quality and quantity of output, an ideal incentive program might be a variable pay structure based on quantity of output and number of defects. A division manager with broad decision-making authority, on the other hand, might require a wider array of incentives, some financial and some not, such as stock options, fast-track promotions, and enhanced exposure to the CEO.

A New Model Is Born

A focus on organizational concerns, or rather the critical organizational constraints that underlie them in a systemic fashion, is often the key to unlocking unrealized potential and vastly improving financial performance.

To resolve persistent organizational problems, executives must first understand where critical breakdowns are occurring and why they're happening. They must then determine what changes to the operating model are necessary to create the conditions for optimal performance. In designing these changes, leaders must be mindful of the ripple effects that can cascade across an organization once one element of its architecture is altered.

In summary, executives need to determine how to effect deliberate and major change and then pursue and support their strategy for change across the enterprise. The "people, knowledge, incentives" framework may seem spare for such an enormous undertaking, but we believe its very simplicity and clarity gives it the power to help people not just agree, but also act.

With the success of the overall organization depending on an honest self-assessment and an even more honest remodeling of the corporation, there is really no other option. Think of it this way: It’s a lot cheaper, and potentially far more profitable, than bringing in a team of therapists — or, worse yet, a band of lawyers.

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