Who Re Makes t Decisio Your Co

Not every top executive is in the CEO's inner circle. But kitchen cabinets and executive committees are both essential. *by Bob Frisch*

TOM, THE CHIEF MARKETING OFFICER of a company I'll call LawnCare, is sitting in the biweekly executive committee meeting, and he's becoming increasingly uncomfortable. The business development group is presenting the case for acquiring a competitor whose grass trimmers and lawn mowers are sold through big-box retailers. The acquisition, the team explains, would complement LawnCare's high-end offerings, which are sold exclusively through a network of 600 distributors.

ally he Big ns in mpany?

ILLUSTRATION: HARRY MALT

The slide deck clicks by, the lights come up, and Mark, LawnCare's CEO, thanks the team for its hard work. Casting his gaze around the table, he asks, "Well, what do you think?"

Gus, the head of sales, pipes up: "I have to admit I was concerned when you and I talked about this a few weeks ago, but strategically it's a great move. By the time the deal is announced, we'll have the sales force focused on retaining the major distributors." Ellen, the CFO, adds: "We took another look at the volume projections after last week's meeting with sales, and I'm comfortable with the assumptions that Gus and I developed for dealer defections."

"Good," Mark replies. "Any questions or concerns before we proceed? I plan to take this to the board next week."

Tom has no quarrel with the numbers, and he knows the acquisition is a sound idea. But he can also see that it means distancing LawnCare from its strong customer value proposition, not to mention its 80 years of advertising that has consistently stressed the expertise of those 600 dealers. The executive committee hasn't discussed this issue, and unless someone objects right now, they'll all go on record as having unanimously approved the deal without ever having talked about the consumer, except as a sales-volume projection.

"That's the way it always is," Tom thinks to himself. "Mark, Ellen, and a couple of others make the big calls in private, and the rest of us are out of the loop. Why bother to have an executive committee if all we do is rubber-stamp decisions?"

But the train has clearly left the station. No point in jumping in front of it. So when Mark looks in his direction, Tom nods and says, "Sounds good. We'll make it work."

The Unnamed Decision Makers

Who really makes the major strategic decisions in your company: the acquisition and divestiture decisions; the capital investment decisions; the where, when, and how to go to market decisions; the decisions to expand or shut down operations?

I'll wager that two or three names are popping into your head right now—confidants the CEO always consults. Maybe the CFO, the head of sales or HR, a major division head, a trusted board member? They are always the same few, occasionally joined by others with special knowledge of the issue at hand. Almost every organization I've encountered has such a group that the CEO consistently taps.

Despite its power, this team rarely has a name. Ad hoc, unofficial, and flexible in its makeup, it doesn't formally exist. It has no charter. It doesn't appear on org charts or process maps. Yet most executives can name its core members. At Berkshire Hathaway, it's Warren Buffett and Charlie Munger. At Microsoft, it was Bill Gates and Steve Ballmer. At the property and casualty division of Cigna, CEO Gerry Isom had a standing weekend golf game with his chief lieutenants, Bill Palgutt and Dick Wratten. The word around the watercoolers at Cigna was that the three had made the major decisions for the week by the time they took the clubhouse turn, and they would spend the back nine planning the week ahead.

Research conducted during the past decade shows that the roles—and even the roster—of senior management teams can be far from self-evident, even to those who serve on them. In their book *Senior Leadership Teams,* Harvard's J. Richard Hackman, Ruth Wageman, and others identified four types of top management teams, with varying levels of influence. The smallest and most critical is the decision-making team; the others have a coordinating, consultative, or informational role—or a combination of the four. The authors make a compelling case for clarifying the roles of various teams at the senior management level—as they've found that many, like LawnCare's executive committee, serve a multitude of ambiguous purposes.

Tom is not alone in his belief that decision making should be the province of an executive committee, or that as a member of the C-suite he's responsible for helping to make the major strategic decisions. During nearly three decades of consulting to senior executive teams of all kinds, at *Fortune* 500 companies to family-held businesses, in 14 countries on five continents, I've run across any number of top teams whose charters officially designate them as the company's lead decision-making body. And I've met many senior executives who, like Tom, are frustrated that the major decisions are nevertheless being made elsewhere. This apparent conflict can lead to very real problems, most notably these:

- The senior team is brought in too late in the process for its input to matter.
- The team members appear to have power to protect the interests of the departments they oversee—but they really don't.
- The way the CEO actually makes decisions is unacknowledged and underconsidered.

Idea in Brief

The executive committee is often officially responsible for making a company's big decisions while another, unofficial group, led by the CEO, seems to hold the real decision-making power. Although that informal "kitchen cabinet" lacks a proper name, everyone knows who's in it.

This disconnect can cause senior executives to:

Learn about important decisions after the fact;

Assume they have the power to protect their departments when they really don't; and

Endure a system in which the way decisions are actually made goes unacknowledged.

The ultimate decision maker is, of course, the CEO, who should consult both groups deliberatively. The key is to give the executive committee specific advisory and coordinating responsibilities while building a small, effective, and still-nameless kitchen cabinet that is free of the tyranny of the org chart.

Rather than trying to resolve the conflict in favor of one team or another, I'd like to suggest a simpler approach: Acknowledge that these nameless teams exist and ask how you can make more deliberate use of them, along with the senior management team. After all, as any CEO will tell you, neither team is ultimately responsible for the company's major decisions. That's the job of the CEO, who can—and should—have access to the best possible advice.

Acknowledge that the nameless decision-making teams exist, and ask how you can make more deliberate use of them.

Why Senior Teams Don't Make the Big Decisions

Over the course of a year, a senior management team sees itself making lots of decisions, many of which generate little dissent. So what looks like a group decision is often merely ritualistic approval. It's the rare business case, for instance, that is turned down at the final presentation. As one CEO I interviewed put it, "Only an idiot would bring a business case for final approval in front of an executive committee without having every single person in that room wired ahead of time."

More subtle are the situations when a boss brings a decision to the team for consensus and remains at the table for the discussion. Because the group may reach a different conclusion than the boss might have arrived at on his own, both he and the group are likely to believe that he genuinely delegated the decision making. But because the boss participates in a discussion whose final outcome is within a range of possibilities that he finds acceptable, he never actually relinquishes his decision-making authority. Therefore, it's something of an illusion that the executive committee makes many of the top decisions. But it could hardly be otherwise, for some fairly straightforward reasons.

First, organizational accountability for making important decisions virtually always rests with individuals, not teams. I can't think of a single case when an executive has been put in charge of a division or function and her boss has said, "Jill, I want you and your team to make good decisions together to run the business well. And I'm holding the entire group accountable for the outcome." It's no different at the top. Ajay Banga, CEO of MasterCard, is typical of the CEOs I've interviewed. He says, "The collective brains of the group and their diverse set of experiences add enormous value, but the CEO has to make the decisions and live with them."

What's more, teams in general are unwieldy vehicles for rapidly making difficult decisions. In top teams, this challenge is compounded by the dual and sometimes conflicting roles that members play as both corporate officers and heads of divisions and functions, not to mention the wide disparities in power and influence among them. Bob Selander, Banga's predecessor as MasterCard's CEO, put it this way: "If you have somebody on the team who is responsible for $2 billion in revenue, and he says that this course of action is really going to adversely affect his unit, then you're more likely to take that into consideration than if it came from someone with $100 million in revenue."

Perhaps less obvious are the opportunity costs. When, for instance, was Tom supposed to bring up his concerns about the acquisition? As a practical matter, if you focus the top team on decision making, the result may be too much collective, holistic review of preordained outcomes and too little emphasis on raising more-parochial nuts-and-bolts

issues that could improve the chances of successful implementation. That's what my colleagues and I found when we researched senior management teams. We surveyed senior executives and asked, "What percentage of the time in senior team meetings would you estimate that you are expected to take the overall corporate perspective versus the functional perspective?" Answers ranged from 75% up to 90% for the corporate view and from 25% down to a mere 10% for the functional view.

That's not much scope for issues like Tom's or for more-urgent concerns. Consider the case of a CIO who told me about a discussion within his company's senior management team about expanding a plant in China. When he tried to point out that the timing of the initiative coincided with a major ERP upgrade, potentially straining IT resources, the CEO replied, "The senior management team isn't a forum for parochial concerns. Work that off-line. We're here to talk about our strategic commitment to expand in China, not resource planning for IT." But "off-line" in this case meant the CIO had no opportunity to discuss alternatives with all his colleagues around the table, leaving him and his own IT leadership team with responsibility for two trains speeding along a collision course.

I would argue that to make the most of the senior management team's abilities, the proportion of time spent on holistic versus functional perspectives should be reversed. Although meetings of senior management teams are excellent forums for brainstorming, developing options, sharing information, coordinating resources, mapping dependencies, fostering creativity, and a host of other functions, they are not optimal for making difficult decisions. Those are typically made by the accountable executive, supported by a very different type of team. And there are good reasons for that.

The Virtues of the Kitchen Cabinet

Informal kitchen cabinets may be used well or badly (see the sidebar "Building a Better Kitchen Cabinet"), but their advantages help explain why leaders almost invariably turn to them—not to make decisions, as people around the watercooler may assume, but for advice. Here are some advantages:

The kitchen cabinet frees the CEO from the tyranny of the org chart. Much of the ambiguity about corporate decision making stems from the misconception that an org chart reflects how a company is run. In fact, it merely describes reporting relationships. Members of a kitchen cabinet may answer directly to the CEO, but that's not why they're being consulted. One person might nearly always be in the room, because he's the adviser the CEO trusts most to tell the truth or question assumptions. Another, perhaps a key board member, may offer both seasoned counsel and a preview of how the board will react to a particular decision. Someone else, an old friend or consultant, might provide an outside perspective. Another person may have special knowledge of the issue at hand. What's certain is that the kitchen cabinet will be smaller than the CEO's staff of direct reports, which leads to my next point.

Much of the ambiguity about corporate decision making stems from the misconception that an org chart reflects how a company is run.

Small groups are much better than large groups at considering critical decisions. This is the logical corollary of the premise that large teams don't make complicated decisions effectively. A small team—by preempting the problems of uneven organizational power, turf issues, and the inability to reach closure—is much better at providing the tightly focused advice CEOs need.

The kitchen cabinet's small size and its composition foster candor and discretion. Floating trial balloons and shooting them down can be a messy process that unnecessarily unsettles larger groups such as the executive committee. These groups include people who may be alarmed by what-if scenarios—say, the divestiture of a line of business—that, in all likelihood, are fleeting ideas that will never be implemented.

Cabinet membership isn't fixed, so CEOs can get precisely the counsel they need when they need it. Who is in the group at any one time can vary, depending on the issue the CEO faces. That simple fact ensures the group's flexibility.

The group has no name, so people can't easily lobby to be included. Naming a kitchen cabinet would only increase the likelihood that people in particular roles will think they deserve a voice:

Building a Better Kitchen Cabinet

Today, the term "kitchen cabinet" applies to any leader's unofficial group of top advisers, but it's worth remembering that the label originated as a term of abuse. It was applied by political opponents of President Andrew Jackson to the loose collection of advisers he used, in parallel with his official ("parlor") cabinet, to make important decisions. In nineteenth-century American dwellings, the kitchen was a smoke-filled room hidden from guests, whereas the parlor presented the publicly acceptable face of the home.

As CEO, you can go a long way toward improving the relationship between parlor and kitchen by publicly acknowledging that ad hoc groups do—and should—exist. Make it clear that just as decisions are yours to make, so are the choices of input mode and forums in which to do that. Once these groups are openly recognized, it becomes easier to consciously plan their deployment, defuse unnecessary conflict, and create official, truly integrated decision-support channels. That said, there is no one best way to manage a kitchen cabinet, but you can begin with a few basic considerations:

Rethink the usual suspects. The criterion should not be "With whom do I feel comfortable?" but rather "Will the discussion and the final decision be better if that person is brought into the inner circle?"

Consider including a contrarian. As annoying as they may be, devil's advocates can nevertheless help in neutralizing the influence of yes-men (and women) and in providing antidotes to groupthink.

Remember your high-level objectives. Finance and operations executives tend to dominate kitchen cabinets. But if the customer figures prominently in your strategic objectives, you would do well to regularly include someone from marketing or sales in certain huddles.

Anticipate development and succession. It may sound like a waste of precious resources to include high potentials in your kitchen cabinet when the topic falls outside their immediate scope of responsibility. But participation can prepare them well for unfamiliar decisions they may one day face.

Select outsiders with care. Relying on outsiders as trusted advisers can create political volatility. Still, even the most trusted subordinate is, in the end, a subordinate. External counsel, consultants, other CEOs, retired executives, and peers outside the organization have proven to be the most valuable sounding boards for many CEOs.

Think through the implications for senior team members. Before meeting with a kitchen cabinet about a particular issue, give senior management team members a chance to express their concerns. Better to have fair warning if their arguments aren't going to win the day. They can use that time to reset their own teams' expectations and plan redeployment of resources. No one gains if by the time the senior management discussion takes place, all that's left to decide is whether to step in front of the moving train or to wave approval as it speeds by.

"Shouldn't marketing be in on these conversations?" Instead, members should be chosen for their potential to improve the quality of the decision.

These advantages make kitchen cabinets an ineradicable fact of corporate life. CEOs are no more likely to give them up than they are to make them official—and that's as it should be.

A Better Use of the Top Team's Time

Let's return to LawnCare and engage in a thought experiment. What would happen if the company's executive committee were not perceived as a decision-making body, leaving Mark feeling unobligated to seek its formal approval for the acquisition?

In a sense, the answer is "nothing." Mark would have, as before, consulted Ellen, the CFO, and Gus, the sales head, and would have made the decision to do the deal. But that final meeting—in which Tom nodded his assent to a course of action whose implications hadn't been fully considered—would probably not have occurred. If Mark had wanted Tom's input, he would have had to ask for it. If Mark didn't consult Tom, well, that would say something, too.

Tom was accustomed to having many major decisions made without his real involvement. But explicitly relieving the executive committee of the burden of major decision making would close the gap between that reality and what Tom's subordinates and some of his colleagues believed. Tom's team would realize that he isn't always in a position to defend their interests as well as they might like. They would expect sometimes to accommodate and implement decisions they might not necessarily agree with. And the executive committee would be free to spend its time on more-productive pursuits.

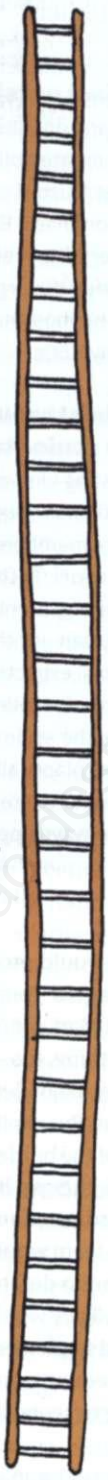
In such a world, I would argue, the senior management team still has three very central roles to play as a group. Let's look at each one:

WHO *REALLY* MAKES THE BIG DECISIONS IN YOUR COMPANY?

Attitude Adjustment for the Senior Management Team

A company that conceives of its senior management team in an advisory and coordinating role can focus its efforts far more productively than a company that treats it as a decision-making body. Here's what a CEO can do to shift the team's focus.

Instead of having the senior team...	Get the senior team to...
rely on team-building exercises to improve cohesion	understand its role in decision-making processes and build its effectiveness through members' collective impact on the business
expect to make key strategic decisions	focus on alignment, coordination, issue identification, trade-off management, development of possible solutions, and so on
attempt to precisely rank-order initiatives and leave accountability to the sponsors	prioritize initiatives in loose clusters by relative importance, integrate them for maximum impact, and take collective responsibility for the most important ones
rubber-stamp business cases and strategic initiatives	identify and manage the critical dependencies within and among the organization's most strategically important activities



Establish a common worldview as the basis for decision making. Few would dispute that the various members of a senior team could see their company's competitive environment and its future prospects very differently. What's truly astonishing is not that they might disagree; it's that they may not know they disagree. All too often, that's because they've never discussed the topic.

Several years ago, for instance, I was working with the senior team of a large non-U.S. carpet manufacturer. Domestic new-home construction was in a trough, depressing demand—a reality that every team member recognized. But the head of sales believed firmly that the market would rebound in the next two years, whereas the operations head was equally sure that the downturn would persist for at least three more years. The two of them were making hundreds of day-to-day decisions guided by these fundamentally different assumptions. I found this persistent divergence in worldviews surprising, given that the senior management team met every other Monday morning. When I asked the CFO about it, he told me, simply, "We've never actually discussed as a team what's likely to happen in the housing market."

This team needed to develop a shared view of the world their company was operating in. Even if its members couldn't ultimately agree, they needed to know that operations, which planned plant capacity and inventory levels, and sales, which drove and forecast revenue, were proceeding under vastly different assumptions.

This company is hardly alone. Few senior teams, in my experience, spend time engaged in this kind of discussion, and those that do often focus too narrowly. They begin by examining their core capabilities and their competitors rather than the broader economic, demographic, social, technological, and other powerful trends that determine the shape of an industry and the future of a business.

Broadly prioritize initiatives. Consider the CIO who could so clearly see that the China plant expansion was on a collision course with the ERP upgrade. If a meeting to decide whether to expand into China is not the place to raise that issue, the senior management team is nevertheless the right group to be uncovering and discussing such relative priorities. "Relative" is the operative word. Conflicts inherent within the team get it into trouble when members try to precisely rank-order initiatives or, worse, kill projects outright. But the team's representativeness makes it the ideal body for general discussions of the

relative importance of, interrelationships between, and opportunity costs among current and potential courses of action. Discussions of this sort can prevent serious misalignment.

For example, in a survey preceding an off-site my firm recently conducted with a major midwestern company, we asked senior team members to identify the three most important obstacles to overcome in the next two years in order to meet shareholder commitments. Each of the 17 members gave us different answers, reflecting 25 unique priorities. We spent the next two days shaping that list into a manageable set that everyone could get behind—not by trying to rank the 25 in order but by grouping them broadly into must-do, should-do, and nice-to-do buckets. Imagine the confusion just one level down if instead all 17 leaders had pursued their separate priorities.

Allocate resources and manage dependencies. Business cases, like the one Tom felt compelled to approve, often sail through senior team meetings without attendees' knowing exactly what they're signing up for. However, the value of the top management team really comes into play in coordinating resources so that the most important initiatives actually get executed. When you realize that *what* gets done is really in the hands of the leader—but that *how* it gets done is where the senior team needs to spend its time and attention—you can make real progress (see the exhibit "Attitude Adjustment for the Senior Management Team"). Instead of ritually approving business cases, senior management teams can convene to assure the CEO that each executive around the table will commit the specific resources required to make a proposal succeed. If not, the business case can be reconfigured to reflect the realities of those resource constraints.

That's precisely what the CEO and leadership team of Talisman Energy, a Calgary-based oil and gas company, do when they consider a business case. "We don't challenge the numbers, say, for a $1 billion capital investment," says Jim Noble, senior vice president of IT and business services. "That's already been decided by the CEO, CFO, and the relevant executives. Instead, we talk about the ability of the organization to accommodate it. It's sort of like corporate air traffic control. It requires the intellect of everyone in the room because no one person knows all the subtle things going on in all of the functions."

High-level management of initiatives is the bridge between setting a strategy and seeing it successfully implemented. Probing, formal, and regular conversations about the senior team's view of the world; the general prioritization of potentially competing initiatives; and the ownership, coordination, and execution of initiatives are the hallmarks of a strategically well-managed business.

Having regular dialogue about the senior team's worldview is one hallmark of a strategically well-managed business.

WHAT MIGHT Mark, LawnCare's CEO, have done differently to make more deliberate use of his kitchen cabinet and his executive committee? He could have discussed the acquisition idea with the entire committee far earlier and asked team members to respond to it in two ways—once from their corporate perspective and, separately, from a functional point of view. At that point, Tom could have raised his concerns about the customer value proposition. Backers of the acquisition might have been pressed into thinking more about how implementation of a multichannel strategy would work. Tom would have had time to consider new marketing approaches with his own team, to reallocate resources, and to adjust plans accordingly. Most important, the organization as a whole would have gained a clearer view of the decision and its implications.

Whichever approach a CEO chooses, the goal is not necessarily to win the consent, real or resigned, of all members of the executive committee but instead to base a decision on the best possible input. CEOs who acknowledge and think through the role of their kitchen cabinets and refocus their senior management teams on the tasks to which they are best suited will more ably avoid clashes between appearance and reality. Their teams will waste less time and talent. The enterprise will free itself from the tyranny of the org chart, and then leaders can create the structures that let them manage best.

Bob Frisch is the managing partner of the Strategic Offsites Group and the author of two previous HBR articles, "When Teams Can't Decide" (November 2008) and "Off-Sites That Work" (June 2006). His forthcoming book is *Who's in the Room? How Great Leaders Structure and Manage the Teams Around Them* (Jossey-Bass, January 2012).

Fonte: Harvard Business Review International, Boston, v. 89, n. 12, p. 104-111, Dec. 2011.