GUIDING DECENTRALIZED DECISION-MAKING BY ACTING ON PURPOSE

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Recent MIT CISR research showed that large, established organizations gain a competitive edge when they decentralize decision-making. In this approach, senior leaders set strategic objectives for the organization but empower most of its teams with the authority and accountability to decide how best to achieve those objectives. As teams are closest to emerging opportunities, they are best positioned to quickly sense and seize them. This increases organizational agility, and produces higher returns from innovation as well as net profit margins and revenue growth rates well above industry averages.[1]

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However, the success of decentralized decision-making hinges on the organization having a *comprehensive organizational purpose*: a multi-faceted statement that articulates why the organization exists by outlining future aspirations, value propositions, and core values. An organization's purpose can serve as a source of inspiration to teams, inform strategic planning, and guide decision-making.

We found that the performance benefits organizations achieve from decentralized decision-making were amplified in organizations where purpose was ingrained in leaders' planning and teams' decision-making processes. In our survey, these organizations reported average net profit margins and revenue growth rates that were respectively 5.4 and 12.9 percentage points above their industry averages. Without an ingrained purpose, however, decentralized organizations fell behind their industry peers, reporting net profit margins and revenue growth rates that were respectively -0.2 and -0.7 percentage points below industry averages.[2]

In this briefing, we describe the three core components that make up a comprehensive organizational purpose and discuss how these components support decentralized decision-making by aligning leaders' strategic objectives and teams' decisions.

COMPREHENSIVE PURPOSE

The idea that organizations should define their purpose is hardly new. In fact, our recent survey showed that 96 percent of organizations have done just that, by focusing on one or more of the following key components of organizational purpose (see figure 1 on the next page):

- **Aspirations**, which outline what the organization aims to achieve in the future or the overall positive social impact it seeks to make
- **Propositions**, which describe the organization's offerings and target customers—highlighting what sets it apart in the marketplace
- **Values**, which specify how the organization intends to conduct itself and engage with stakeholders

While articulating any component of organizational purpose is a step in the right direction, only 50 percent of organizations in our survey had crafted a comprehensive purpose

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1 These findings are based on data from the MIT CISR 2022 Decision Rights for the Digital Era Survey (N=342). Compared to reports from peers at large centralized organizations, respondents from large decentralized organizations reported average net profit margins and revenue growth rates that were respectively 6.2 and 9.8 percentage points higher, and their revenues from products and services introduced in the last three years (a key measure of innovation) were 1.5 times as high, measuring 28.8 percent. We classified organizations as decentralized if ≥50 percent of teams had operational decision rights. For a full overview of these findings, see N. van der Meulen, "Realizing Decentralized Economies of Scale," MIT CISR Research Briefing, Vol. XXIII, No. 1, January 2023, https://cisr.mit.edu/publication/2023_0101_DecentralizedDecisionMaking_VanderMeulen.

2 MIT CISR 2022 Decision Rights for the Digital Era Survey (N=342). To measure how ingrained an organization's purpose was, we asked about the extent to which purpose was integrated into employee decision-making processes and ways of working, purpose informed strategic objectives and metrics, and teams linked their decisions to strategic objectives and metrics.

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statement that included aspirations, propositions, *and* values. Yet we found that such comprehensiveness is crucial, as it positively correlates with organizations' effectiveness at ingraining purpose into strategic planning and team decision-making. To illustrate this relationship, consider the case of Allstate, which stands as an example of how a comprehensive and ingrained purpose can support decentralized decision-making.

THINKING BIG, ACTING SMALL AT ALLSTATE

Allstate Insurance Company (Allstate) is a US insurance provider that covers cars, homes, motorcycles, health, disability, lives, personal devices, and identities. Its largest division, Claims, employs nearly 17,000 people who assess risk, communicate with customers, deal with payouts on damages, and defend policyholders in the auto, property, and casualty domains when legal matters are brought against them.[3]

With customers increasingly looking to file claims and engage with their insurer via digital channels, a key strategic objective for Claims is to improve the customer experience by allowing customers to self-serve whenever possible. Additionally, the speed at which claims adjusters can resolve a claim has a great effect on the customer experience. Improving both these front- and back-end experiences requires an operational backbone that streamlines the organization's complex tangle

3 This description of Allstate is based on N. van der Meulen and C. M. Beath, "Allstate's Digital Operating Model: Think Big, Act Small," MIT CISR Working Paper No. 460, June 2023, https://cisr.mit.edu/publication/MIT_CISRwp460_AllstateDigitalOperatingModel_VanderMeulenBeath.

of systems, processes, and data. To realize such an operational backbone, Claims moved to a decentralized decision-making model where leaders empower cross-functional teams to identify, analyze, decide on, and experiment with opportunities to solve business- and customer-related problems.

Rethinking Big Thinking

For Claims' leadership, developing the decentralized decision-making model required a different approach to strategic planning. Prior to 2021, the division followed a traditional annual strategic planning process. Using a highly prescriptive approach, leaders outlined not just organizational objectives for the upcoming fiscal year but also the specific projects expected to achieve them. Crafted over a six-month period, the strategic plan appeared to offer considerable predictability and transparency, particularly in terms of activities and expected costs. However, given Allstate's continuously shifting market landscape, new potential objectives emerged faster than the planning process could accommodate. Moreover, the commitments and projects listed in the plan not only locked-up resources but also kept teams from pivoting to potentially more promising initiatives. Claims leaders thus concluded that this method of planning had become counterproductive.

In 2021, Claims leaders transformed Allstate's strategic planning approach from project- to purpose-oriented. Now, instead of constructing a strategic plan that specifies organizational objectives and prescribes how to achieve them, leaders craft a plan focused on how those objectives enable Allstate

Figure 1: Purpose in Action
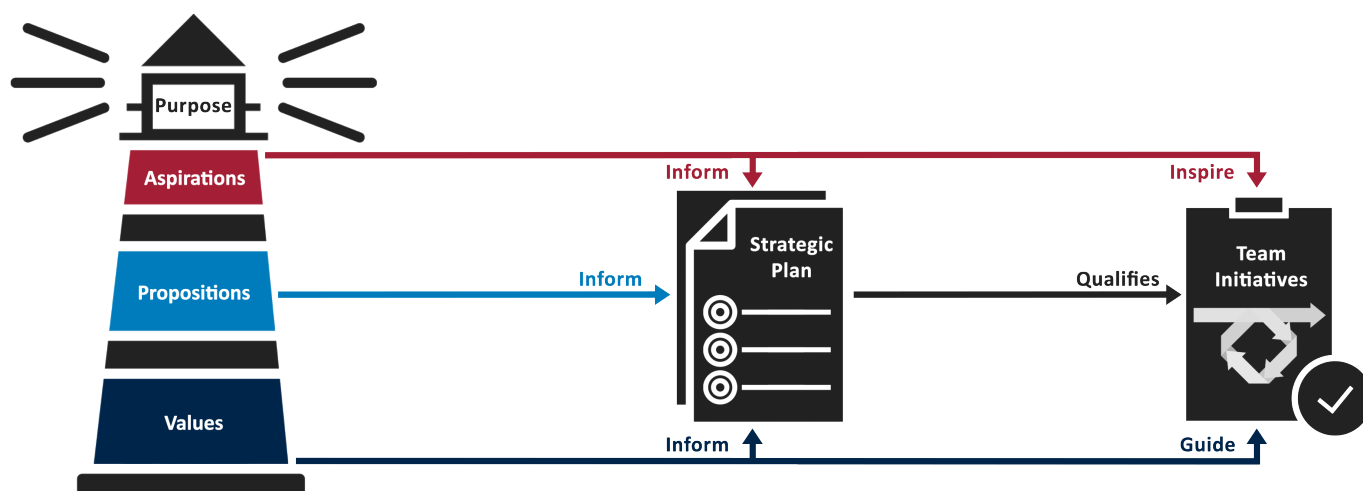
An organization's aspirations, propositions, and values combine to comprise a comprehensive organizational purpose statement that can become ingrained in leaders' strategic planning and teams' decision-making.

to achieve its purpose.[4] The plan creation process, which takes place over approximately six weeks near the end of each year, starts with the leaders reflecting on the aspirations, propositions, and values articulated in Allstate's purpose statement. After firmly grounding strategic objectives in the organization's purpose, leaders go on to detail how the company's current business climate—including customer and employee expectations, macroeconomic trends, and digital developments—informed what objectives they set. Then they present this, not as a cold, sterile set of facts, but as an understandable and inspirational story illustrated through the experiences of fictional customer personas. This relatable narrative guides teams to more accurately identify and qualify initiatives to pursue—and ensures better alignment with Allstate's purpose.

Acting Small, to a Strategic Plan

Allstate's strategic plan provides clear direction, but it's the organization's cross-functional teams that ultimately realize its purpose, through initiatives that aim to solve specific business or customer problems. Each team, led by a product manager and business architect, embarks on a process called Discovery and Framing. This process involves aligning potential initiatives with the strategic plan, breaking them down into a road map of actionable deliverables, and designing experiments with defined success metrics. After weighing the required effort against potential value, team members collectively decide on their top-priority initiative and the best initial step to pursue it. This is because every team member, regardless of their specific role or administrative reporting lines, is accountable for achieving the initiative's stated measures of success.

Once the team has clearly defined its initiative and success measures, business architects work with directors to conduct cost-benefit analyses, leading to a case for change proposal. Claims' senior leaders review these proposals monthly, determining resource allocation based on priority. Teams bear full responsibility for executing the approved initiatives, and focus on achieving the proposed success measures through a series of experiments.

Teams monitor their own progress, referring to both the strategic plan and Allstate's purpose statement to guide their

decisions. To further ensure alignment, retain stakeholder support, and remove impediments to progress, teams also rely on frequent and open communication. They update their road map on a weekly basis, and invite key stakeholders to daily stand-ups, weekly problem-solving sessions, and demos. As per the values described in Allstate's purpose statement, attendees of these gatherings are all expected to be bold with original ideas; collaborate early and often; challenge ideas; and provide feedback that is candid, actionable, independent of hierarchy, and safe. And when an experiment doesn't work out as expected or if priorities shift, Allstate's purpose statement encourages teams to pivot to more promising initiatives. The result is rapid learning and accelerated realization of strategic objectives.

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Allstate's comprehensive and ingrained purpose statement supports decentralized decision-making, enabling the organization's cross-functional teams to learn rapidly and realize strategic objectives quickly.

UNLEASH YOUR TEAMS

The shift by Allstate's Claims division to a decentralized decision-making model—combined with a deeply ingrained and comprehensive organizational purpose—has already paid off. In 2022, its cross-functional teams delivered on the division's strategic objective to enhance self-service, increasing self-reporting of claims (by use of mobile apps and web portals) from five percent to thirty-eight percent, with the ongoing use of self-service during the management of a claim increasing at a similar rate. This has streamlined the claims process. By 2023, the division reported a better customer experience, increased accuracy of payouts to (and on behalf of) customers, and improved operational efficiency—all saving Allstate millions of dollars in costs per year.

The journey of Allstate's Claims division serves to illustrate that an organizational purpose should not just be hung on the wall. It should be used: informing how we make decisions, plan, inspire, and guide our teams. Unlocking your teams' full potential starts with using a comprehensive purpose to draw the finish line in an understandable strategic plan. Then, give your teams the authority and accountability to speed toward your strategic objectives. Now's the time to act—with purpose.

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4 Allstate's aspiration is to "empower customers with protection to help them achieve their hopes and dreams" via the organization's proposition: "providing [customers with] affordable, simple, and connected protection solutions." In addition, Allstate defined eleven values, such as "collective success is achieved through empathy and prioritizing enterprise outcomes ahead of individuals" and "earn attractive returns by providing customer value, proactively accepting risk, and using analytics." For a full overview of Allstate's comprehensive purpose, see Van der Meulen and Beath, "Allstate's Digital Operating Model: Think Big, Act Small."

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