ENTERPRISE RELIABILITY GROUP

ENTERPRISE RELIABILITY

FOUNDATIONAL WHITE PAPER

The Case for Managing Decision Reliability as an Enterprise Capability

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1. Executive Argument

The Case for Managing Decision Reliability as an Enterprise Capability.

For many years, several factors have enabled private equity to generate returns well in excess of the cost of financing an investment in a company. Financing costs have trended down over time, holding periods have on average increased, exit performance has remained strong and expansion (multiple) has been a source of additional returns. As the unrealized value in buyout funds now stands at $3.8tn (Bain & Company, 2026), the returns that can be earned within a portfolio company's operating performance have become a far greater proportion of overall returns than in the past. Higher financing costs and longer holding periods are two key factors that have driven this shift in the nature of returns from private equity investments.

Bain & Company reports that some $3.8 trillion of value held by buyout funds worldwide is 'unrealized' – in other words, it is locked up in companies that have yet to be sold. Higher borrowing costs, coupled with longer holding periods, make it more critical that returns are generated by the portfolio companies. As noted above, on average, companies are held for some seven years at the time of exit from private equity. Moreover, over 40% of these are held for five years or more.

Thus, it is revenue, margin, cash and effective execution that comprise the key investment returns for private equity owners of companies. There is pressure to generate revenue, to improve margin, to create cash, and to execute well. So a value-creation plan has individual value-creation objectives (better pricing, a stronger sales function, cost reduction, etc.). These are normally analyzed individually.

Their impact on management in aggregate is not analyzed sufficiently. If the value-creation plan looks financially attractive and is operationally possible, then the issue remains whether or not all of the needed decisions can be made and implemented. That is the central argument of this paper.

1.1 A Foundational Case

Around 10 years ago, the founder and CEO of a small private company based in the Western part of the US went in one shot from a small private company to a very large Enterprise in terms of number of employees and customers. The company in question was a private telecommunications company. Around the same time, the founder's personal life began to deteriorate and consume a significant amount of attention. Yet he continued running the company, managing the acquisition, negotiating with key outside parties, and assembling the required financing package.

To the outside world it seemed that business as usual was continuing but internally the behavior of the founder and CEO was changing. He got worse. He became less patient. He would not trust others with important decisions and had to make them himself.

These decisions were normally left to his senior managers and the various foremen that he had appointed while he was building the company. The outside world is none the wiser as the CEO of this growing company is sucked into the problems outside of the business. As the CEO's time is consumed by external matters he has less and less time to deal with problems inside the business. He is forced into making quick decisions, many of which are poor, rather than taking the time to make good ones.

Over time, his behavior continued to deteriorate. Many of the company's senior managers departed in quick succession, leaving behind a number of foremen who had previously been appointed by the company's founder. As these individuals struggled to deal with the company's many operational problems, the CEO became ever more dependent. The failure of the acquisition and related financing ultimately led to the demise of the company.

No business failure is ever caused by a single event or circumstance. What is more important to note is how the relationship between the business and the founder developed during the time the business was under pressure. In retrospect, the financial information and the operational statistics of the company showed a decrease in performance. Yet, the founder of the company had all the time, judgment and willingness to accept the responsibility to fix any problems which may have arisen.

But he did not have the time, the judgment or the willingness to accept the responsibility to fix any problems. He relied on himself even more to run the company as he had when he was the only person to run the company. The result was that the company failed. In retrospect, the financial information and the operating statistics did not reveal how much of the CEO's time was consumed by these problems, how his patience was wearing down, and how more and more decisions were concentrated on his desk.

It was only when things started to show in the numbers that it became apparent. The experience changed how I viewed execution risk. Sponsors and boards monitor information about the past and current performance of a company (i.e. revenue, EBITDA, cash, working capital, customer retention etc.). But they also rely on information about the people responsible for future performance of the company and whether they can continue to make good decisions with due care.

1.2 What Conventional Reporting Misses

The revenue, EBITDA, cash flow, working capital, customer retention and other financial metrics as well as the sales pipeline and project milestones all trend in the right direction. Sponsors and the Board also receive regular updates on the management team and their execution of the value-creation plan set forth in the Business Plan. These metrics do not reveal how results are being achieved. We can never know for certain whether or not a senior executive is 'holding things together' in this way but the risk is certainly present.

Even where such 'overspill' is temporary it can create serious problems for the individual concerned and for the organization as a whole in the longer term. All the additional efforts of these senior individuals hide the growing dependence of the organization on their efforts. A monthly Operating Report may show that an individual initiative is late but not highlight that the CEO is personally approving work of several other initiatives. A financial forecast may continue to decrease in value over time but not surface the competing priorities that are consuming the time of senior management.

Project reviews may highlight a lack of Accountability but reveal that there is no clear Decision Making Authority for key decisions. While individual problems are typically portrayed before a board of governors in a clear, manageable and fixable fashion (a sales problem leading to missed revenue, poor co-ordination between departments leading to delays of projects, inadequate service to customers leading to their loss, and unfavorable operating results for the quarter leading to pressure on covenants), collectively they paint a less than rosy picture of the organization's decision-making processes. This is not to say that each of these individual problems does not have a perfectly rational

explanation. It is just that collectively they give one cause for concern about the decision-making processes of the company.

By their very nature, these are all lagging indicators which by the time they appear in reported performance, conditions in the decision-making function may have deteriorated for months. Each single problem will have its individual causes. However, when problems occur frequently within different departments, on different decisions and even on a time-span basis, it is wise to investigate whether the root cause of these problems is not the decision system as such.

1.3 Capability and Accessible Capacity

A second case study looks at the issue of capability and accessible capacity. This case involved a client who was a CEO of a client company, a network engineering company, which was growing rapidly and expanding into several new markets. The executive had assembled a very senior team and had tremendous technical capability but the responsibilities that that team took on grew faster than they could handle while trying to manage the core of the business. By entering into new markets for growth, the work of senior team members to serve clients, in order to deliver quality services, would have decreased significantly.

As a result, client-service problems arose and the quality of the systems delivered to clients started to decline. As an executive responsible for driving an organization's growth, the other senior managers and I spent an increasing amount of time dealing with problems created by our rapid expansion. I couldn't work as hard as I would have liked to ensure that we were delivering the same level of service to our existing customers, as the problems were creating more work for each of us. I found that I was spending an increasing amount of time dealing with problems rather than working on new initiatives and, as a result, we made very little progress in the additional meetings that were scheduled.

This would be defined as the executive's knowledge, experience, judgment and ability to solve problems. This is the organization's understanding of the executive's accessible capacity. Accessible capacity decreases when an executive is responsible for too many initiatives, constantly solving problems of customers and employees, trying to manage conflicts that have not been resolved yet, or working too long without recovery time. This capability is still relevant although the organization's current operating conditions do not allow for the full utilization of that executive's relevant experience.

Private equity sponsors look for management experience to deliver a value-creation plan. But experience is not equally accessible when a CEO is handling the launch of M&A activity, deal reporting, employee issues and new business operating issues of recently acquired businesses. A CEO who has managed an acquisition, assembled a senior management team, repositioned the commercial organization and implemented a major restructuring within a company still has a responsibility to run that business in a proper manner. How will he or she have the time and capability to manage all these additional demands whilst still delivering the same level of quality and care as before?

The mere fact that decisions are being made does not necessarily mean that they are being considered thoroughly and carefully enough. Just because experienced managers are on board does not mean that their accessible capacity will increase in line with the value-creation plan's additional decision-making requirements. Every individual has a finite amount of accessible capacity, regardless of how experienced they are. The value-creation plan increases the number and types of decisions that are required and these must be made very quickly.

Sponsors monitor the key decisions of experienced management teams but this in itself does not increase the individual's accessible capacity to make additional decisions. The practical question is therefore: Are the right people in place and do they have the sufficient accessible capacity to manage all the additional decisions the value-creation plan generates?

1.4 The Decision System Behind Execution

A decision system always exists, whether recognized by management or not. The system consists of: The people who make decisions The information available to them Their formal and practical authority The routes through which decisions travel The conditions under which judgment is exercised Organizational charts may indicate that there is a senior management team responsible for key decisions. However, in reality, the CEO continues to make all of the key decisions. For example, although a senior executive may have formal responsibilities documented in an organizational chart, he or she may lack the confidence to make tough decisions.

A management committee may meet frequently to discuss matters, but fail to make any decisions. The sponsor and management team may even use identical words when talking about "accountability" but have very different perceptions of who is ultimately in charge. These differences have practical consequences. Decisions will typically take longer when there is uncertainty regarding who has the authority to make a decision.

Work will escalate upwards within the hierarchical structure until it reaches the senior management team. Because senior leaders typically are removed from the 'on the ground' operating environment, they will often not have sufficient information to render proper judgment and will have to reconstruct the issue before making a decision. When critical initiatives are reliant on the same small group of senior leaders, the progress of the whole organization will be affected by their availability to contribute to decision-making. These problems are often referred to as communication failures, accountability failures or even execution failures.

Although these problems do occur from time to time, they often do so because the basic decision-making system of the organization has not changed. A decision-systems perspective explores how the flow of information, the degree of formal authority held by others, the volume of decisions to be made, the degree of time pressure, and the organization's operating environment all affect the quality of a leader's judgment.

1.5 The Enterprise Reliability Paradox

Organizations put their most critical work in the hands of people they trust. A founder continues to make major decisions for his/her business because he/she has in-depth knowledge of the business. A CEO continues to protect the high standards of his/her organization by approving items in increasing depth. Very capable leaders are repeatedly given the toughest tasks.

The point at which great ability and responsibility are focused is also the point at which such focused ability and responsibility can become a huge liability. This is the Enterprise Reliability Paradox: The same set of individuals who manage to keep the enterprise reliable are also the biggest potential points of failure. The fact that a few executives are responsible for making key decisions does not automatically present a problem. Only when their capacity to make decisions is stretched, i.e. by a sharp increase in volume, variety or degree of required decision-making, does the risk of unsound judgment increase.

New work then has to compete with the founder's/CEO's current work for his or her time, and, inevitably, decisions will slow down, accumulate, find ways to circumvent formal processes, and eventually get escalated up to other senior executives already overburdened with critical responsibilities. Although surface-level performance may hold up, and even improve, the inability to consistently render sound judgment will become a much deeper problem for the organization as a whole. This is how a capable leader becomes both an asset and a source of risk.

1.6 Pressure Often Becomes Visible Late

The argument of a skeptical private equity partner – that a strong management team can handle pressure and that material weaknesses will surface in the KPIs of the operating reviews or even in the board papers – is true but too late. Founders and CEOs are very good at telling a story about how tough things are right now. They explain a single poor quarter, a single errant decision, and they project confidence about other parts of the business even when things are not going well around them. Many continue to function until they can no longer compensate for the deterioration of the business around them.

A gradual transition to more control by the CEO and other senior leaders can occur. At first, the CEO may simply have less time to deal with details. As the other senior leaders are dealing with their increasing work loads, issues that previously were dealt with by others now come to the CEO for resolution. As pressure to make quick decisions mounts, the nature of discussions and decisions becomes more and more compressed.

At first, each warning sign may have an apparent and even innocent explanation. It is only when a same pattern repeats, is reported by several people in virtually identical words, a problem apparently solved re-emerges, and more pressure is piled on top of all this, that execution starts to deteriorate. This may take some time to become visible in the organization's KPIs and in the reports that it prepares for its board of directors. By then, customers may have left the shop of the company, key employees may have left, the financing conditions may have not been met and initiatives that were intended to take a few months to implement may have been stalled for years.

A Board can never prevent a personal crisis, a market downturn or an executive failure. However, they should be alert to whether an enterprise is increasingly depending on one person for decisions while that person is already overburdened with responsibilities.

1.7 Decision Demand, Reliability Gaps, and Margin

Every strategy creates Decision Demand. These strategies generate more decisions, more coordination, and more cross-functional decisions than a company can normally handle. The volume of decisions is not the only factor; the complexity, speed, amount of critical information, and degree of uncertainty and conflict also play important roles. Decision Demand must be met by the organization's available decision capacity.

Decision capacity is affected by the number of people qualified to make a decision, the amount of time they have to make it, their level of relevant experience, the quality of the information on which they base their decisions and the degree to which they have been given clear authority to make them. A Reliability Gap develops when: Decision Demand exceeds the organization's capacity to make consequential decisions reliably. Everything seems to be in order at first but when decisions start to pile up, a number of features start to appear: Increasing escalation Slower approvals Unresolved

cross-functional disputes Frequent changes in priorities Reconsideration of previous decisions Multiple initiatives dependent on the same executives Senior leaders drawn into detailed operating work Strategic work displaced by immediate demands More meetings accompanied by less progress The fact that one of these conditions is occurring is not in itself evidence of failure. Rather, it is the repeated occurrence of the same condition across decisions, across functions, and across information sources that provides real evidence of failure in the organization's decision-making system.

A single number will not confirm whether a Reliability Gap exists. You must collect evidence from various aspects of your organization's decision making such as how decisions are made and implemented, where practical authority resides, how many critical initiatives depend on the same executives, and whether similar problems exist in other parts of the organization. A reliable system also requires Reliability Margin. Reliability Margin = Available Decision Capacity − Current Decision Demand Reliability Margin = Available Decision Capacity − Current Decision Demand.

This figure determines the extent to which an enterprise can react to unexpected events, such as the loss of a major customer, a security incident, problems with financing, the departure of a key executive, or unexpected business opportunities. This does not have to mean idle executives or additional unnecessary management levels. A decision system of material consequence can no longer function optimally in the long term if there is no room for variation. Such an organization may function well under normal circumstances yet collapse under unexpected changes in circumstances, even though the organization appears to be operating effectively.

1.8 Why This Matters Across the Investment Cycle

Decision Reliability is relevant from diligence through exit. During the diligence period, the sponsoring investor can assess whether the management team and the underlying operating structure are able to support the proposed value creation plan. In the first 100 days of a portfolio company the sponsor also tries to identify unclear authority, emerging dependencies and the reality of the operating environment of the management team. When the sponsor is dealing with the enterprise during transformation or integration, decision-making in terms of a decision system can assist the sponsor to make a distinction between a weak strategy and a good strategy which is not delivered due to unreliable execution.

Exec problems appear to be unrelated to each other during periods of difficult operation of the enterprise. They are caused by recurring problems in the management system of the enterprise. Before exit, the CEO and management team should check whether sustainable performance is being generated by a solid operating structure or by the extraordinary efforts of a few key individuals. The governing question remains constant: Does the enterprise have enough reliable decision capacity to meet the demands created by its strategy?

For a sponsor, the decision capability of an enterprise to create value and to run a business in a successful manner in a timely and consistent manner is not an abstract question. It will affect the speed of value creation, the predictability of a business's performance, the risk of key individuals, and the credibility of any evidence that a sponsor will rely on to support his or her investment decisions to investors and potential acquirors.

1.9 A Matter for Governance

Boards review enterprises on an ongoing basis to establish whether they have the necessary capital, talent, technology and operating capability to execute their strategies. Decision capacity of an

enterprise should receive the same attention. A board is not responsible for the personal health of individual executives. However, the board does need to understand the process by which key and critical decisions are made within the organization.

While pressure might be affecting an individual executive privately, it remains a matter for governance only when it affects that individual's ability to perform their duties for an extended period of time and becomes an operating risk for the organization. Note also that Enterprise Reliability does not assume all disappointing outcomes are the result of pressure on the key executive(s). Markets, customers, technology and strategy all change in ways that can catch out even the best executives. The key executive may simply not have the required capability to perform the required tasks.

The claim made is narrower: Sustained pressure on an executive can reduce the amount of executive capability that is available to an organization, and typically this impact will be visible before it affects standard performance measures. Relevant governance questions include: Where does practical decision authority reside? Which critical initiatives depend on the same leaders? Is escalation increasing?

Can the management team absorb another strategic priority? Is the executive's performance supported by repeatable systems and processes or is it largely dependent on the individual's effort? How much capacity remains if conditions change? A simple question captures the issue: Is the decision making capability of the enterprise sufficient to support the strategy?

This means a financially very attractive and operationally very sensible strategy still requires sufficient decision making capacity which the organization does not have. It has a Reliability Feasibility problem.

1.10 The Scope of the Argument

Business failure can result from a host of factors, such as changes in the market, loss of key customers, competitive pressure, failure of key technologies, poor strategy, and management failure in its various forms. The argument developed in this book is also significantly narrower than that: While many factors can cause a business to fail (a poor strategy, technology failure, an unsuitable executive, etc.), the conditions under which consequential decisions are made affect an organization's reliability in executing its strategy. That proposition can be tested. A diagnostic assessment of current decision processes with a comparison between formal authority structures and current operating practice would provide sufficient evidence of current decision capacity demands placed upon critical senior managers via operating information, current and past interviews as well as review of material consequential decisions.

All accounts are given in the work where they support the author's conclusions. The extent to which these accounts are contradictory is indicated where this forms part of the author's conclusions. The purpose of this diagnostic inquiry is to provide the sponsors, the Board of Directors and senior management with insight to the controllable aspects of the organization's operating and governance variables that may be contributing to the variability in the organization's execution of its strategy. Enterprise Reliability is an operating and governance discipline, and all underperformance is not caused by the behavior of the senior executives of the organization.

1.11 The Executive Proposition

These observations and analogies are offered to support one central proposition. A company creates value through the decisions it makes to grow, transform or merge for increased scale, and to deliver results through its operating businesses. As a company grows, transforms or merges, the volume of consequential decisions required increases exponentially. However, the management capability of the organization may not scale at the same rate.

A company can still go to make good financial returns and continue to develop while its execution is becoming less consistent. The key decisions will be taken by a few people. A systems-based assessment of these issues can identify potential problems before they cause serious problems for financial performance. In private equity, markets, capital structure, growth, and above all management are analyzed in great detail in order to create value.

The operation of the decision-making system of an enterprise constitutes its operating system. A value-creation plan is essentially a portfolio of decisions, and the organization's ability to make and execute these decisions in due time and of required quality and consistency will ultimately translate into value for the enterprise. Reliable execution of value-creation plans supports consistent and predictable performance. The organizational judgment on which to rely supports this execution.

Hence, in order to analyze decision capacity as a valuable enterprise resource, it is seen in the same way as other critical resources of the enterprise.

Notes

1. Bain & Company, *Global Private Equity Report 2026* and "Welcome to a New Era in Private Equity," February 2026.

2) Bain & Company, *Private Equity Midyear Report 2026*, June 2026. The report discusses longer holding periods, the need to refresh value-creation plans, and the increasing importance of portfolio-company leadership.

2. SECTION 2

The Overlooked Enterprise System

How Decisions Actually Move Through an Organization

A decision system is the sum of information, judgment, authority, decisions, and actions following from the decisions made in a company.

Much of the working system for making and implementing decisions is informal and is embedded in the information, judgment, authority, decision and actions that flow through the organization on a daily basis. This working system is often formalized in organizational charts, formal approval policies and procedures, governance documents and operating procedures but much of it is developed through habit, trust, experience and personal relationships as well as through the organization's previous decisions and actions.

Typically included in a company's decision making structure are the people who actually do the work of implementing a decision, such as a front line employee notifying a department of a customer problem. Other people included in a company's decision making structure are the analysts who develop information to distribute to decision makers, and the operating leaders who translate organizational direction into action for their employees.

As mentioned previously, the normal workings of a company are typically managed in separate silos, i.e. the HR department takes care of the people, Finance develops reports and monitoring tools, approval processes assign responsibilities and Operating Reviews monitor the execution of decisions.

This major component of the organizational structure is usually only viewed in segments. Thus, the major enterprise system of a company is generally viewed in a rather unknown state.

2.1 The Organization Chart and the Working System

The working decision structure of an organization can differ substantially from its formal organization chart.

When I worked at a West telecommunications company, the executive vice president was also the chief operating officer. The organization chart for that company showed that he had the major operating decisions, but the capital expenditures were approved by the CEO.

Contrary to the organization chart, the way work was done was to have Engineers, Field Supervisors and Operating Managers report formally to the COO (Chief Operating Officer), but in reality, they would go straight to the CEO (Chief Executive Officer) for operating issues and problems. As the CEO would also get involved with very routine issues of the company, the mid-level managers would often avoid making any decisions at all, fearing that their decisions would be wrong, and that they would be held accountable for those.

Even fairly routine decisions often got funneled up to the CEO's office for final approval by mid-level managers. Many of these managers had a visceral fear of being overruled on key decisions or facing the CEO's wrath for having made a "wrong" decision. As a result, frequently they would simply avoid making a decision and hoping that the problem would go away.

According to the organization chart, operating authority resided in the COO's office. But in practice, a host of operating decisions were being approved by the CEO.

Two immediate problems followed:

- Decisions took longer because they had to reach the CEO.
- A CEO spends an inordinate amount of time resolving issues that were supposed to be handled by the COO or people even closer to the work.

The formal governance structure was still in place, but the working decision system had diverged from this formal structure.

This is important for boards and for sponsors of change initiatives. An organization chart may look clear but the decision system may not. Governance documents establish formal authority but do not necessarily determine how people behave on a daily basis. The chief executive can outline how a process is intended to work but has no idea whether it actually does.

The working system becomes visible through different questions:

- Where are issues first recognized?
- How are they framed?
- When and why are they escalated?
- Who actually makes the decision?
- What information does that person receive?
- Whom does the decision-maker consult?
- How long does the process take?
- Are formal reporting lines routinely bypassed?
- Does the individual with formal authority use it?

These are the questions that reveal how real decisions are actually made within an organization's working system.

2.2 How Authority Changes Information

The influence of authority extends beyond the individual making a decision; it can also determine the information which individuals are willing to report.

Employees of the telecommunications company studied in order to soften information that was not positive before they presented it to the CEO. In some cases they described the problem in less severe terms than they actually were, in other cases they did not present information at all because they were afraid of the CEO's reaction and were not prepared to deal with it. Their intention was to communicate in an appropriate way and to protect themselves against the CEO's reaction.

The resulting information became less useful.

The CEO can only make decisions on the basis of the signal he receives from others. Employees and managers of the organization decide whether to escalate an issue, what information to include, how much uncertainty to reveal and whether to complain about a previous decision.

It is possible to overfilter information. That is to say, there are many situations in which a CEO cannot possibly look at every transaction, every customer complaint, every service problem or employee query. The organization has to make decisions about what is material and what is not 'noise'. Weak filtering means that relevant information as well as irrelevant detail is stripped from the signal.

Although all information reported upwards could technically be correct and the reporting employee understands that he has communicated all necessary information (even if others might interpret it differently), in reality, a wrong overall picture might be emerging. Thus, even though individually all reports might be correct, as a whole, they could be very misleading. For example, a customer complaint having been resolved could be reported even though the customer had to call back repeatedly.

This represents a serious risk to Decision System Integrity.

The information that Decision Makers receive may be accurate in individual instances, but create a misleading overall impression. Senior Leaders may believe that adequate information is being provided to support their Decisions, and that employees are providing the information that they expect to receive in order to support their work.

Information and authority are intertwined. A culture of fear of unfavorable information can mean that a decision system is losing valuable signal.

2.3 A Decision Is a Process

A consequential decision consists of more than the moment of the actual decision by the executive.

First, someone has to recognize that a decision is required and set the right frame. Then all relevant information has to be distributed to the right people. And they have to have the right amount of authority and context to choose between the different options that are available.

After a decision has been made, those responsible for implementing it need to understand 5 key points relating to the decision:

- What was decided
- Why it was decided
- What actions are required
- Who is accountable for those actions
- When implementation must occur
- How conflicting priorities will be resolved

Reliability can break down at any point.

However, there are many occasions when issues are ‘downgraded’ as they are passed up a hierarchy of management. Thus critical information may reach a decision maker too late to be of value. People within organizations have different objectives and thus different perspectives on issues. Often the responsibility for decision making is so distributed that no one ends up taking responsibility.

Even when the initial decision was good, poor execution can render the end result ineffective. For example, people might believe that someone else is responsible for executing parts of work that have been assigned to them.

Decision Reliability is the full process of deciding to make a decision through faithful execution of the resulting decision.

2.4 Escalation, Fear, and Decision Concentration

All systems have escalation points. Strategic, material, major capital commitments are best decided by senior management.

Most systems of escalation for major problems work reasonably well. However, when most decisions of normal management are escalated to the top, there are usually significant problems.

Managers at the telecommunications company were wary of making a decision for fear of getting it wrong. As a result, decisions which were clearly within the remit of the operating organization were referred up to the COO (or circumvented him and gone straight to the CEO). In the end, employees took the safer option of referring matters up to the CEO for approval. As a result, the company was weakened.

Operational managers ceased exercising their formal authority. The COO was unable to exercise practical control over functions for which he was accountable. All his subordinates were focused on obtaining approval for decisions that they knew they should be taking themselves.

Because the CEO lacked the context for making these operating decisions in detail, the CEO became responsible for deciding the vast number of matters that were raised. These decisions, which were made mostly on incomplete information, accumulated as the CEO's time was consumed by trying to make decisions on behalf of others. Most of these decisions required additional explanation and some of them even had to be reversed by others because they were incorrect.

The system trained people to wait.

The image of a CEO's crowded calendar might give the impression that the company is being managed at senior level. However, in reality the CEO had become the major decision making bottleneck for the company.

The tendency for decisions to be escalated upwards also means that the time senior managers could devote to strategy and major decisions would be further reduced. Time pressure in turn leads to faster and more directive decisions. These in turn require more explanation or a change of decision.

A formal delegation of duties will not work if it is contradicted by the workings of the organization.

2.5 The Economic Cost of Delay

Decision delay appears to be a pure administrative problem. However, for a portfolio company this can consume time, revenue, margin and above all credibility.

The telecommunications company was operating as if it were one large top-level organization. The CEO was making too many operating decisions, while the COO had no influence on the major operating decisions for the operating organizations that he was responsible for managing.

Clients experienced the effects first.

In particular, service requests and complaints were left unresolved, unanswered follow-up calls were made, late deliveries and missed schedules were reported, all resulting in a decline in service quality perceived by customers, who started to doubt the company's ability to deliver in due time.

These sales were eventually written off in a hasty asset disposal. Subsequent reports outlined the decline of the business but never revealed the long sequence of decisions that had led to its downfall.

All reports written after the decline of the telecommunications company into an asset sale looked at the individual issues that declined but never looked at the individual decisions and the delays in between each decision to determine how they all affected the company as a whole to decline in the manner that they did.

The same economic losses can occur as a result of less extreme delays:

- Delayed hiring leaves critical functions understaffed.
- Delayed pricing decisions reduce average revenue.
- Unresolved integration matters create duplicated or discarded work.
- Delayed customer responses weaken retention and reputation.
- Deferred operating decisions increase rework and service costs.

Furthermore, as time is allowed to pass, the scope of the necessary decision(s) to be made increases. What may have been considered at length, can now be decided in an instant, with less scope for negotiation or the gathering of further information and less choice in the decisions that are made.

All of these events feed into one another in the worst of ways and the end result is often that employees and team members have to find ways to work around the delay or the problem to get on with their jobs and deliver their work. This can often become the ‘normal way of working’ around the formal process, indeed even informal processes can start to replicate the formal organizational structure in all but name.

The company continues operating, but with less predictability.

2.6 Strategy Adds Decision Load

A system to make decisions that is working well for an organization dealing with normal business decisions and strategies is not necessarily going to be up to the demands of a major strategic change.

As experienced executives, we generally operate the day-to-day aspects of our businesses. We have all of the necessary information about our businesses and are able to informally coordinate with other senior executives to handle exceptions on an as needed basis.

A value-creation plan changes the load.

An acquisition for instance brings a whole host of new decisions around people, customers, systems, pricing and financial reporting; capital and authority too. A major commercial transformation requires a mass of decisions to be taken by sales, marketing, finance and operational management.

While one is setting up new projects and innovation initiatives for growth, the existing business and customers and employees and cash cannot be ignored and left to deteriorate.

The accumulation of more priority, approvals, operating issues and sponsor requests to be dealt with by the same set of individuals increases Decision Demand even further. However, most standard project tracking tools, budgets, headcount reports and project milestones do not reveal this increased management complexity.

The CEO with responsibility for six strategic priorities may need to make hundreds of related decisions. Similarly, a functional leader trying to drive a major change will also need to continue to manage the day to day activity of their function. In both cases, decisions about new initiatives will involve decisions about what to delay, reassign or stop doing in order to release capacity.

As the business continues to grow, more activity is generated. While much of this will be useful and actually contribute to better decision-making, it also absorbs capacity. And the question remains: does it add value to the process of making and executing key decisions?

More activity does not prove greater control.

However, this increased activity does not automatically translate into better means for making important decisions.

2.7 Signals From the Middle of the Organization

Boards and Sponsors generally get their information about the organization through the Senior Management Team for the business. So there is a layer of removal from the actual operating problems that customers and frontline employees are experiencing and the managers in the middle trying to run the organization.

That distance is important.

These issues are typically visible to mid-level managers in the organization and are sometimes continuing for some time before they start to impact financial reporting and hence the Board. This can be a huge signal of potential problems before they have a big impact on financial reporting.

Each individual instance may seem minor but instances of similar nature occurring with customers, employees and departments could signal a major problem.

Each of these instances may appear to be an isolated event, but they can become a pattern of behavior for customers, employees and departments alike. The repeated failure of a company's operating model to deliver its objectives will bring about changes in behavior to all involved.

Boards need access to these signals prior to them becoming a trend in financial results.

No, it does not require the Board to start managing around the Executive Team. Rather it requires a disciplined way to determine where decisions are getting stuck, where the same problems are repeatedly occurring and whether employees feel it safe to bring unfavorable information to management.

Information from mid-level managers becomes more meaningful when considered in conjunction with other information regarding the company's operating performance, such as:

- Recurring customer complaints
- Lost sales or service opportunities
- Increased returns or repeat service calls
- Late deliveries and missed schedules
- Repeated rework
- Lengthening decision cycles
- Unresolved issues spanning several departments

A single negative event is unlikely to constitute a system failure; however repeated occurrences of a pattern of events from different information sources would warrant closer scrutiny by the Board and senior management.

Early warning creates options.

However, by the time a series of indicators of failing conditions have appeared in financial statements, it is likely that customers have gone elsewhere, margins have been eroded and, most importantly, the company is likely to be finding it difficult to get finance – and all of these problems are going to cost more to fix than they would have done earlier.

2.8 Examining the Working System

An investigation into a Working System should start with the decisions of greatest consequence and examine the conditions which lead to those decisions.

For the assessment it is useful to follow consequential decisions step by step and to analyze the conditions surrounding these decisions. The assessment should investigate how important matters are perceived, defined, judged, decided, communicated and executed. It should also analyze and check the formal authority and the authority that is actually exercised.

Looking at the Working System: An organization chart may indicate that operations are run by the Chief Operating Officer but operating records show that the CEO is involved in almost all decision-making for operations on a routine basis. Approval policies may indicate that functional department managers have authority to approve matters but in reality they expect to have their decisions overruled by others, either the CEO or other senior managers.

While one instance may not establish a systemic problem, the same pattern of behavior repeatedly occurring will provide more substance for investigation and should be supported by decision records, enterprise performance, customer feedback and accounts from various levels within the organization.

See, for example, Keegan and Ulrich (2011) for research on organizational learning and high-reliability organizations. Organizational theory and studies of system failure, such as that of Robson (1994), also explore the ways that a company's organizational structure, incentives, communication, and operating conditions affect its organizational outcomes.

The Board does not need to get involved in individual operating decisions but needs to understand whether consequential decisions are being moved through the enterprise timely, where any delays are occurring and whether current performance is being delivered via a repeatable system or via senior management compensating for shortcomings elsewhere in the organization.

At a minimum, Decision Reliability depends on:

- Clear authority
- Useful and sufficiently complete information
- Adequate decision capacity
- Faithful execution

The 4 elements of Decision Reliability are interdependent: Authority, Information, Capacity and Execution. Without information, a person with Authority makes a poor decision. Without Authority, information sits idle. A person with Authority and sufficient information, but not enough Capacity to make timely decisions creates a Bottleneck. Sound Decisions without Execution add little value.

2.9 The Governance Question

A lot of things are run by formal systems (organization charts, decision making processes, committees, reports etc). However, there is always a large difference between the formal system and

the way things actually work. The real system is the way that people, information, decision making, execution etc actually work to make decisions and deliver results.

For boards and sponsors, the central question is:

Is the board getting reliable insight into the working enterprise (including early operating signals of mid-level managers and front line staff)?

The purpose of broader visibility is not to challenge management's authority. The purpose of broader visibility is to verify whether the formal and working systems within a company are aligned or not.

The board should be able to understand:

- Where consequential decisions are becoming delayed
- Whether managers use the authority assigned to them
- Whether unfavorable information reaches senior leadership intact
- Whether important decisions depend on too few people
- Whether repeated operating problems share common system conditions
- Whether current results are supported by a reliable process or extraordinary individual effort

Enterprise Reliability views these issues as part of the wider context of how a company operates as well as how a company is governed. The way a company executes the consequences of any judgment is dependent on the wider system through which that judgment was made.

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SECTION 3

Capability and Accessible Capacity

The Difference Between What an Executive Possesses and What the Enterprise Can Reliably Use

Organizations routinely evaluate an executive's capability to lead an enterprise. The assessment usually considers experience, judgment, technical expertise, leadership record, industry relationships, and past performance.

That evaluation addresses an important question:

Does this executive possess the capability required to perform the work?

A different question receives less attention:

How much of that capability can the enterprise reliably access under current conditions?

A leader may possess the experience required for a role yet operate in an environment that limits the practical application of that experience. The knowledge and judgment remain. Under sustained pressure however, the organization may have less reliable access to the executive's full capabilities.

Enterprise Reliability distinguishes between **capability** and **accessible capacity**.

Capability refers to the knowledge, judgment, experience, skill, and authority an executive possesses.

Accessible capacity refers to the portion of that capability the enterprise can reliably use under current operating conditions.

The distinction became apparent to me after observing capable executives being asked to carry a larger load than their organizations could realistically support.

3.1 A Case of Constrained Capacity

The senior team of a network engineering firm had performed well for its established clients. The CEO, himself an accomplished engineer, began developing new markets for the company. He worked to build prospective client relationships and design services suited to those markets. The company expected the senior team to continue delivering technical services to existing clients while designing and implementing new services for emerging markets.

Before long, service to existing clients began to suffer. Daily operating problems received less attention, and the most senior members of the team became responsible for addressing the growing number of issues created by the expansion.

Meetings accumulated. Important matters remained unresolved. The volume of work reaching the CEO increased until he struggled to keep pace. Eventually, the load became too great to manage consistently.

The CEO had not lost his capability, experience, or technical knowledge. The company had lost reliable access to part of that capability because his time and attention were being consumed by the work entering his office. There is a significant difference between possessing capability and being able to use it.

3.2 Experience Has Limits

Experienced executives can make good decisions under pressure. They recognize familiar situations, identify patterns, and draw on accumulated knowledge to reach conclusions more quickly. That success naturally attracts more responsibility.

As a leader continues delivering results, more complex work is placed in that person's hands. Difficult decisions are directed toward the executive who has resolved similar matters before. New initiatives are added because colleagues, boards, and investors trust that executive to deliver. At first, the arrangement appears effective. It may even create the impression that the executive has unlimited capacity. That impression is misleading.

As responsibilities accumulate, the conditions supporting good judgment can gradually erode. Preparation time declines. Complex questions are addressed between meetings. Immediate operating problems displace strategic work. Unresolved matters remain active while new ones are added.

Experience can help an executive manage additional demand. It cannot eliminate the limits imposed by time, attention, information, and operating conditions.

Herbert Simon's work on bounded rationality established that organizational decisions are made under conditions of incomplete information and practical constraint.[6] Daniel Kahneman's research similarly treated attention and mental effort as finite resources.[7] An executive's capacity to exercise sound judgment cannot be separated from the circumstances in which that judgment is required.

An experienced CEO may be capable of overseeing an acquisition, replacing a senior manager, reorganizing a sales function, and negotiating financing. That does not mean the CEO can perform all those activities simultaneously while running the existing business with the same depth of consideration.

Past performance does not provide a complete answer. It was achieved under a particular set of conditions. A new value-creation plan may require a grater decision load, greater speed, unfamiliar judgment, and closer scrutiny from the board, shareholders, employees, customers, and suppliers.

Even when an executive has successfully completed similar work before, the capacity available for the new assignment must still be considered.

3.3 The Nature of Decision Demand

An executive's calendar shows how time has been scheduled. It is an inadequate measure of the demand placed on judgment.

An hour spent reviewing a familiar operating report is different from an hour spent deciding whether to close a facility, replace a senior executive, or modify a value-creation plan. Routine matters may be processed in volume. Unfamiliar and consequential decisions require more attention.

Decision Demand has several dimensions:

• **Volume:** the number of decisions requiring attention

• **Complexity:** the difficulty of understanding the issue

• **Consequence:** the potential effect of the decision

• **Urgency:** the time available to decide

• **Novelty:** the executive's familiarity with the matter

• **Ambiguity:** the degree of uncertainty surrounding the available information

• **Interdependence:** the number of people, functions, or initiatives affected

A senior executive may process a substantial volume of routine matters without difficulty. A small number of unusual and consequential decisions may require far more capacity.

The calendar also fails to capture unresolved work carried from one meeting into another. An executive may appear to have moved to a new matter while continuing to think about an earlier problem.

Sophie Leroy's research describes this effect as **attention residue**, the portion of attention that remains attached to a previous task after a person has switched to another.[8] The cost becomes significant for an executive moving repeatedly among financial performance, customer problems, personnel matters, operating issues, strategic priorities, and board responsibilities.

The executive may appear fully present in the next discussion while still processing the previous one. Recovering the necessary context takes time. Preparation becomes thinner, and the leader relies more heavily on memory and familiar patterns.

Assessing accessible capacity therefore requires attention to the character of the work. Counting meetings or working hours is not enough.

3.4 What Consumes Accessible Capacity

There is no doubt that decision volume is one source of pressure. Fragmentation can be equally as important.

Senior executives move continuously among financial results, customer issues, personnel matters, operating problems, strategic decisions, and sponsor or board requirements. Some switching is unavoidable. Repeated switching, however, reduces the time available to understand difficult matters in depth. Information or signal quality also affects capacity.

Late, incomplete, or poorly framed information forces the executive to reconstruct the problem before making a decision. Data may be abundant while understanding remains limited.

The useful questions are often straightforward:

• What has changed?

• Which assumptions matter?

• Where is the uncertainty?

• Who has authority to decide?

• What is the cost of delay?

• What alternatives remain available?

Poor information transfers analytical work upward. The executive must perform work that should have been completed before the issue arrived.

Unnecessary escalation has a similar effect. When managers are uncertain about their decision rights or fear being overruled, routine matters move upward. The manager's time as well as the senior executive's time are both consumed.

Managers begin functioning less like managers because they believe decisions will be made above them. Senior executives become more directive, even reactive, because they are overwhelmed by the resulting volume.

Recovery matters as well. In operational terms, recovery includes sleep, but it also includes uninterrupted time to prepare, reflect, process information, and consider alternatives.

A management system that fills every available hour consumes the capacity required for careful judgment. Decisions are then made more quickly, with less preparation and reduced consistency.

3.5 Why Results Can Remain Acceptable

A decline in accessible capacity does not necessarily produce an immediate decline in output. Experienced executives can compensate for a period of time. They work longer hours, reduce preparation, shorten discussions, rely more heavily on experience, and use familiar solutions. They may intervene personally when managers below them cannot absorb additional work.

Robert Hockey's compensatory-control model describes how people can increase effort to preserve task performance under stress and high workload.[9] This compensation can sustain visible output while costs emerge elsewhere or remain concealed.

Strategic work is often pushed into evenings because operating demands consume the day. Communication becomes increasingly directive. Senior managers spend less time developing others and more time functioning as highly compensated individual contributors. The organization sees continued output and assumes that sufficient capacity remains. That conclusion may be wrong.

Financial performance records results. It does not disclose how much executive capacity was consumed to produce them or, more importantly, how long that effort can continue.

For a time, the CEO and senior executives of the network engineering company kept both the expansion and the core business moving. Eventually, however, operating and client problems surfaced faster than management could resolve them. By then, little capacity remained for correction.

3.6 Interpreting Changes in Behavior

Colleagues often notice changes in an executive's behavior before formal reports reveal a performance problem.

A leader may become less patient, more directive, or less receptive to questions. Decisions previously discussed at length may be made quickly or repeatedly deferred. Important matters may be resolved between meetings rather than through the organization's established processes.

Observation should be separated from explanation.

Impatience may result from workload, pressure from the board, unresolved conflict, poor information, personality, or circumstances outside the business. Delayed decisions may reflect constrained capacity, inadequate information, excessive caution, or uncertainty about authority.

Enterprise Reliability should not draw conclusions from one behavioral event. It should look for recurring patterns supported by different forms of evidence.

Relevant questions include:

• Has Decision Demand increased?

• Are the same executives responsible for more matters?

• Has preparation time declined?

• Are important decisions frequently reopened?

• Is strategic work repeatedly displaced by operating issues?

• Are senior executives making decisions once handled by managers below them?

• Do actual decisions support the accounts provided by colleagues?

Understanding the conditions associated with a change in behavior is more useful than assigning a psychological label. The response depends on the cause.

An executive may ultimately need to leave a role. Before reaching that conclusion, the organization should examine whether decision rights are unclear, management depth is insufficient, information is inadequate, an initiative requires more capacity than anticipated, or circumstances prevent the executive from giving the role sufficient attention.

3.7 Accessible Capacity Is an Operating Condition

Accessible capacity should not be confused with productivity. A highly productive executive may process a large volume of routine work while having little capacity remaining for an unfamiliar strategic decision. Another executive may appear less busy while managing a small number of matters requiring extensive analysis and careful judgment.

Speed is also an unreliable proxy. Some executives decide quickly because they recognize the situation and think clearly under pressure. Others decide quickly because they are attempting to clear a crowded agenda or respond to demands from above.

Accessible capacity is not a permanent personal score.

An executive may have substantial capacity for strategic work during one phase of a company’s development and far less during another. Clear responsibilities, useful information, management depth, and disciplined escalation preserve capacity. Too many simultaneous initiatives, inadequate support, and uncertain authority consume it.

The purpose of assessing accessible capacity is not to rank executives according to how much additional work they can tolerate. It is to understand whether current operating conditions permit the

organization to use their judgment reliably. This prevents a system problem from being misinterpreted as an individual failing.

Decision-making also extends beyond the CEO and senior management. Managers throughout the organization participate in identifying issues, interpreting information, making choices, and implementing decisions.

A company with poorly defined decision rights moves routine matters upward. Its organization chart may appear appropriate while practical authority remains concentrated at the top.

Expanding the senior team alone will not necessarily increase accessible capacity. The decision system must also distribute information, authority, and accountability in a way that allows those executives to operate effectively.

3.8 Assessing Accessible Capacity

Accessible capacity cannot be measured with the precision applied to cashflow or headcount. Evidence sufficient for a disciplined assessment is nevertheless available.

The inquiry can consider:

• The executive’s major responsibilities

• The number and nature of current initiatives

• The timing, complexity, and overlap of those initiatives

• Formal and practical decision rights

• Areas in which the executive becomes involved outside the stated role

• Patterns of escalation

• Recurring requests for reconsideration or approval

• Meeting volume and preparation time

• Reporting cycles and interruptions

• Accounts from the sponsor, executive, peers, and direct reports

Responsibilities often extend beyond those recorded formally. An executive may review routine operating decisions, settle customer complaints, intervene in personnel matters, or approve ordinary expenditures even though those responsibilities belong elsewhere.

Escalation patterns can reveal which matters are moving upward and why. Some decisions reach senior management because their consequences justify escalation. Others arrive because managers are uncertain about authority or fear that their decisions will be reversed.

Selected decisions may also be examined from initial recognition through implementation. This can reveal late information, unclear authority, delayed approvals, and conflicting interpretations.

Calendar information can help, but it must be treated carefully. An available hour does not necessarily represent an hour of capacity for complex judgment. The executive may be carrying unresolved matters, shifting rapidly between unrelated issues, or entering the period without sufficient preparation.

No single metric establishes an executive's accessible capacity. The assessment depends on recurring patterns across responsibilities, decisions, escalation, information, and time. Where evidence conflicts, the disagreement should be recorded and examined. Conclusions should remain qualified to the extent required by the evidence.

3.9 Capacity, Demand, and Reliability Margin

Accessible capacity becomes most meaningful when considered against the Decision Demand created by the company's strategy.

A company with an experienced management team may still develop a Reliability Gap if its value-creation plan is not supported by the current decision system. A small team may produce reliable decisions when priorities are limited, information is useful, and authority is clear. A larger team may struggle when these conditions are absent.

The relationship can be expressed as:

Reliability Margin = Accessible Decision Capacity − Current Decision Demand

This is a management relationship, not a precise mathematical calculation.

When adequate margin exists, the management team can absorb unplanned work. As demand approaches capacity, delay and variability tend to increase. If excessive demand continues for an extended period, extraordinary effort may preserve results temporarily, but the cost eventually appears in execution and reported performance.

The enterprise needs a reserve for unexpected variation. This does not mean that management capacity should remain unused as a matter of policy. It means that operating continually without any reserve leaves the company exposed.

Sponsor and board requirements also create demand. New reporting obligations, additional analyses, revised decision rights, and new priorities all require management attention. Each request may be valid. Their cumulative effect may be greater than the sum of the individual requirements.

Before approving a major initiative, the board should understand:

• Which executives the initiative will depend upon

• Which consequential decisions it will require

• What existing responsibilities will compete for the same capacity

• What work may be delayed, delegated, or discontinued

• How much margin will remain if conditions change

The governing question is direct:

How much of the company's critical leadership capability remains reliably accessible after the demands of current work have been met?

The answer will rarely be a single number. Private equity firms with strong balance sheets do not assume that capital is unlimited. They determine how much is available, what claims already exist against it, and what reserve is required. Executive judgment deserves comparable discipline.

Capability is what leadership possesses. Accessible capacity is the portion the enterprise can reliably access under current conditions. Decision Demand is what the strategy requires. Reliability Margin indicates whether the decision system has room to absorb more.

A company may have exceptional leaders. The board must still determine whether their capability remains accessible for the decisions required by the new strategy demands.

Notes

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SECTION 4

How Organizational Strength Becomes Concentrated Risk

Why the Leaders Who Make an Enterprise Reliable Can Also Become Its Greatest Points of Vulnerability

Successful companies depend on capable people. A founder understands the history behind important customer relationships. A chief financial officer recognizes financial risks that others may miss. An experienced operating executive can resolve a problem that would occupy a less seasoned team for weeks.

As their decisions produce results, their judgment becomes increasingly important to the organization. They are brought into critical customer matters, asked to restore stalled initiatives, and consulted when information is incomplete, or others are uncertain about what to do.

Each intervention may be rational. The risk develops through accumulation.

The leaders who contribute most to an organization's reliability can also become its largest points of vulnerability as the organization relies more heavily on their time, knowledge, relationships, and judgment.

This is the **Enterprise Reliability Paradox**:

The people who contribute most to an organization's reliability are often among its greatest sources of concentrated risk.

Their strength is not the problem. The risk arises when organizational performance becomes dependent on continued access to a limited supply of individual capacity.

4.1 How Reliance Becomes Dependency

The concentration of responsibility in one person is rarely the result of a single decision. It usually develops through a series of reasonable choices.

A founder remains involved in pricing for longstanding customers because those relationships are personal. A CEO reviews senior hires because a poor appointment could delay the value-creation plan. A CFO participates deeply in contract negotiations because the terms may affect liquidity and lender compliance. An operating executive intervenes because several initiatives have fallen behind.

Each intervention may be appropriate. Collectively, however, they create an expanding range of matters that depend on the same executives for resolution.

The West Coast telecommunications company discussed earlier illustrates this progression. The chief operating officer formally held responsibility for major operating activities, while the CEO retained authority over capital expenditures and financing.

The working arrangement differed from the formal structure.

Because the relationship between the CEO and COO was strained, managers regularly bypassed the established reporting lines. Engineers, field supervisors, and operating leaders sought guidance from senior executives through informal channels. Some matters reached the CEO directly because employees had relied on those channels when the company was smaller.

The CEO was known for making difficult decisions and accepting responsibility for them. That strength made him a source of protection for managers below him. Seeking the CEO's approval appeared safer than making a decision independently and risking an unfavorable outcome.

More operating decisions therefore moved upward. Routine matters accumulated alongside capital-allocation, financing, and strategic decisions. The CEO became responsible for work that other managers could have handled if they had possessed the practical authority and confidence to act.

Over time, the company adapted to this arrangement. Managers passed upward decisions that fell within their formal authority. Operating matters were delayed while the CEO attended to financing and capital requirements. Others worked around him, but important decisions continued to depend on him. The company had become dependent on the person who was already overloaded.

4.2 Success Can Weaken the Surrounding System

Senior intervention often produces the desired result. A customer remains with the company. A contract is corrected. A delayed project resumes. A difficult issue is resolved. Success reinforces confidence in the executive. It also teaches the organization where difficult decisions should go.

Managers learn that complex, sensitive, or uncertain matters are best directed to the person with the strongest record. They prepare recommendations for senior review, narrow the available alternatives, and wait for the executive's judgment.

Employees receive fewer opportunities to develop their own decision-making ability. Formal authority may remain distributed on the organization chart while practical authority becomes concentrated among a few individuals. The system gradually reorganizes itself around senior intervention.

Managers become gatekeepers rather than decision-makers. They package issues for the CEO and reduce conflicting views in an effort to minimize uncertainty. Employees delay action until they understand the senior executive's position.

For a long period, this system may generate good results. Its apparent success conceals the structural weakness created by dependence on a limited number of people.

The business appears well managed because its most capable leaders are involved in important matters. In practice, the organization is becoming less able to operate without them.

4.3 Extraordinary Effort Conceals the Exposure

Concentrated authority can produce acceptable results for an extended period.

Experienced executives compensate for weak management depth, unclear authority, incomplete information, and ineffective processes by relying on their knowledge of the business and their personal relationships.

Their effort keeps the company moving. It also conceals the weaknesses around them.

Revenue may continue growing. Customer problems are resolved. Promised work is completed. Operating reports remain positive, and the financial statements appear sound.

The cost often appears first in the effort required to sustain those results.

Senior executives work longer hours. More decisions require their attention. Strategic work moves to evenings and weekends because the working day is consumed by operating matters. Executives spend increasing amounts of time handling responsibilities that should belong to other managers.

This level of involvement can be misinterpreted as evidence of exceptional leadership. A CEO may be praised for personal participation in critical transactions. A founder may remain deeply involved in customer problems. A CFO may review decisions across nearly every function.

None of these activities is inherently problematic. A recurring pattern, however, may indicate insufficient decision capacity below the senior level.

Boards must distinguish productive senior involvement from organizational dependency.

Relevant questions include:

• Does the decision require the executive's authority or experience?

• Could another qualified person decide the matter during the executive's absence?

• Has the executive's intervention become routine?

• Does the intervention improve the judgment of others?

• Does it make future dependence more likely?

• Which higher-value responsibility is receiving less attention as a result?

These questions help determine whether senior executives are applying their judgment to matters that warrant it or compensating for limitations in the decision system.

Extraordinary effort may be appropriate during a transaction, crisis, or unusually demanding operating period. When that effort becomes the normal means of producing results, it becomes part of the company's risk structure.

4.4 Useful Centralization and Chronic Concentration

Centralized authority has a legitimate place in management. A crisis may require clear authority and rapid decisions. A transaction may require confidentiality. A restructuring may need to be managed by a small group with access to sensitive information. A founder may temporarily retain knowledge that has not yet been transferred to the management team.

The significant aspect is duration and purpose.

Useful centralization is established to address a defined need. The arrangement has a clear purpose and should be reconsidered when that need has passed.

Chronic concentration has no planned conclusion. The organization adapts to continued dependence, and the temporary arrangement becomes the normal operating model.

A crisis structure may remain in place after the crisis ends. An additional approval level introduced after a mistake may continue long after the underlying problem has been corrected. Authority temporarily retained by the CEO may never be returned to the appropriate management level. The business changes. The decision system does not.

Signs of chronic concentration include:

• Decisions remain with one executive for extended periods.

• Managers seek approval for matters within their authority.

• Several major initiatives depend on the same individual.

• Institutional knowledge remains undocumented.

• Teams wait for an executive to return before proceeding.

• Senior titles exist without practical decision authority.

• Temporary approval requirements become permanent.

• Decisions repeatedly return to the same small group.

Dependence becomes material when the organization cannot make consequential decisions or complete important work without a particular individual's involvement.

The executive does not need to leave the company for this exposure to affect performance. Traditional key-person analysis focuses on departure, disability, or succession. Enterprise Reliability considers a related but more immediate risk: the critical executive remains in place but cannot provide judgment at the volume, speed, or depth the organization requires.

4.5 Pressure Increases Dependence

The Enterprise Reliability Paradox becomes more consequential during periods of change. Value-creation initiatives require greater involvement from senior leaders. Their experience is needed to set priorities, make trade-offs, resolve conflicts, and exercise judgment under uncertainty. As a result, the organization places additional work on the same leaders it already depends upon.

An acquisition, restructuring, or period of rapid growth increases decision volume and disrupts established routines. In a private equity portfolio company, new reporting requirements, financial controls, technology implementations, and transaction-related demands add further work.

Ans yet, the core business must continue operating. The portfolio-company CEO must lead the existing business, in addition to responding to sponsor requirements, and align management around new priorities. The CFO may become responsible for lender reporting, cash management, new financial systems, internal controls, and transaction support while continuing to oversee the finance function.

The sponsor and CEO naturally assign important work to the people most capable of delivering it. Those people then carry a disproportionate share of the additional Decision Demand created by the plan. Execution risk becomes concentrated precisely when performance expectations are highest.

The sponsor sees a strong management team working hard against the investment plan. The company may simultaneously be losing Reliability Margin because excessive workstreams become dependent on the same executives.

The relevant issue is whether the decision system can process all the consequential decisions required by the plan without allowing existing responsibilities to deteriorate. This shift in load can increase dependence on senior judgment faster than the organization can expand its capacity to supply it.

4.6 Why Boards See the Problem Late

Concentration often becomes obvious only after a visible event. A founder leaves. A senior executive resigns. A transaction stalls because one person holds the necessary knowledge and authority. A major decision cannot be made during an executive's absence. By then, the dependency is difficult to miss.

Earlier indications are more easily dismissed:

• Approval times lengthen.

• More senior executives attend routine meetings.

• Managers wait for decisions.

• Previously settled decisions are reopened.

• Informal conversations become more important than established processes.

• Strategic work is repeatedly displaced.

• Several initiatives compete for the same executive's attention.

While the organization continues functioning normally, these conditions may look like ordinary inefficiencies. In combination, they may indicate that authority, knowledge, and judgment have become excessively concentrated.

Research on high-reliability organizations shows how locally reasonable adaptations can combine in ways that increase system exposure. [10] James Reason's work on organizational accidents similarly explains how latent weaknesses may remain concealed until circumstances bring them together. [11] Diane Vaughan's examination of the Challenger launch decision illustrates how deviations can gradually become accepted as normal practice.[12]

A similar process can occur in decision systems. Each accommodation solves an immediate problem. Collectively, though, accommodations reduce organizational capacity and deepen dependence.

The financial effects may then appear through missed opportunities, delayed hiring, duplicated effort, inconsistent direction, weak integration, customer losses, or the departure of key managers.

Concentration also deprives senior leaders of necessary capacity for decisions that determine the company's trajectory, including evaluating acquisitions, responding to market changes, or preparing the business for a change in ownership.

At exit, a buyer will examine whether performance is transferable. Results closely tied to a founder or small executive group carry a different risk from results supported by a management system operating across functions and organizational levels.

4.7 Testing for Concentration

A board can begin with two practical questions:

If one or two critical leaders were unavailable for 30 days, which decisions would stop, slow materially, or be made with significant uncertainty?

Which important decisions are currently being delayed because the executives required to make them are already fully committed?

The first question tests prospective key-person exposure. The second tests the current decision capacity.

Together, they reveal where authority, information, relationships, knowledge, and confidence have become concentrated. They also help distinguish a future succession issue from a dependency already affecting execution.

Additional questions may include:

• Which decisions routinely rise above the level formally assigned to them?

• Which work was delayed because a senior executive intervened elsewhere?

• Was authority returned after a crisis or special initiative ended?

• Which customer or financial relationships depend primarily on one person?

• Where does important institutional knowledge remain undocumented?

• Which initiatives depend on the same small group of executives?

• Can managers act confidently within their formal authority?

• Does the executive’s calendar reflect the highest-value use of that person’s judgment?

A busy calendar does not necessarily represent productive use of executive capacity. The goal is not to remove senior leaders from consequential decisions. It is to determine whether their involvement is deliberate, necessary, and sustainable.

4.8 Reducing Unnecessary Dependence

Removing decisions from a senior executive without preparing the surrounding system only creates additional problems. The executive’s authority is supported by information, experience, relationships, and accountability. If responsibility is transferred without these supporting conditions, the decision may return to the executive or be made poorly elsewhere.

Reducing unnecessary dependence begins by distinguishing between decisions that require senior judgment and those that can be made closer to the point of action.

The organization can then:

• Clarify practical decision rights

• Establish appropriate escalation thresholds

• Strengthen management depth

• Transfer relevant information and context

• Document critical institutional knowledge

• Return temporary authority when special conditions end

• Review the cumulative demands created by major initiatives

• Develop managers through meaningful decision responsibility

Important knowledge should not reside exclusively with one individual. Customer histories, financing relationships, operating assumptions, and the reasoning behind consequential past decisions should remain available to the enterprise.

Sponsors and boards should also examine the cumulative scope of current initiatives. A new priority should be accompanied by a decision about which existing activity will be reduced, delayed, delegated, or discontinued.

Experienced executives should remain involved in the decisions that truly require their judgment. They should not be necessary for every element of routine execution.

A reliable organization uses senior judgment deliberately. It also develops other people who can make decisions, preserves enough capacity to absorb unexpected events, and builds systems that continue functioning when key individuals are unavailable.

4.9 Organizational Strength Is Not Permanent

A company correctly recognizes the value of an experienced executive. It may fail to recognize the concentration risk that develops as more responsibility accumulates around that person.

Organizational strength does not come merely from having exceptional leaders. It comes from making their judgment available for the decisions that matter while ensuring that the enterprise can continue operating without their constant involvement.

A company tends to become vulnerable when exceptional effort is required indefinitely, when practical authority becomes concentrated despite formal delegation, or when too many strategic initiatives depend on the same people. That type of strength can turn into a risk.

The answer is not to reduce the influence of capable leaders indiscriminately, but to use their judgment with discipline, transfer that knowledge, develop an effective decision-making capacity below them, and preserve sufficient Reliability Margin.

The enterprise should benefit from its strongest people without becoming dependent on their unlimited availability. That is the practical response to the Enterprise Reliability Paradox.

Notes

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SECTION 5

The Mechanics of Decision Reliability

A Practical Model of Demand, Capacity, Consumption, Margin, Allocation, and Feasibility

Decision Reliability is an organization's ability to make and implement sound decisions when they are required, under its actual operating conditions.

Business decisions are often made with incomplete information. Even a well-reasoned decision can produce a poor outcome because markets, customers, competitors, and other conditions remain uncertain. Decision Reliability therefore concerns the integrity of the decision process, not whether every decision ultimately proves correct.

A reliable decision system consistently performs several essential functions:

• It identifies the material issue.

• It provides useful signal or information to the appropriate people.

• It assigns clear authority.

• It welcomes serious challenge.

• It converts decisions into coordinated action.

• It remains dependable as conditions change.

The most important tests usually occur under pressure. Decision Demand may rise because of growth, contractual commitments, transactions, or unexpected operating events. At the same time, the capacity available to respond may become constrained.

Enterprise Reliability examines this relationship through six connected concepts:

Concept	Management question
Reliability Demand	What does the strategy require from the decision system?
Reliability Capacity	What can the system reliably handle?
Reliability Consumption	Where and how is that capacity being used?

Reliability Margin	What capacity remains after current demands are met?
Reliability Capacity Allocation	Is judgment being applied to the work where it creates the most value?
Reliability Feasibility	Can the organization execute the proposed strategy reliably under current conditions?

Together, these concepts describe the relationship between what the enterprise demands from its decision system and what that system can reliably deliver.

5.1 Reliability Demand

Growth creates decisions about markets, pricing, sales, investment, hiring, and operating capacity. Acquisitions add decisions concerning integration, leadership, systems, products, customers, and culture.

Restructuring creates a different form of demand. Management must make difficult choices while preserving the core operation. Few of these decisions can be made without affecting other priorities.

Some demands become visible when a strategy is approved. Others emerge only during execution. Both consume management time, attention, information, and judgment.

Reliability Demand is the total demand placed on a decision system, considering the volume, complexity, consequence, urgency, uncertainty, novelty, and interdependence of the decisions required.

Reliability Demand is not the same as workload. An executive may spend an entire day on familiar operating matters that require limited judgment. Another executive may address only two or three issues, each carrying substantial financial, strategic, or organizational consequences.

A full calendar does not establish high Decision Demand. An apparently open calendar does not establish available capacity. The nature of the decisions matters.

Routine decisions governed by established criteria can often be made quickly and close to the work. Novel decisions involving incomplete information, several functions, and material consequences require more preparation, discussion, challenge, and authority.

Interdependence adds further demand. A pricing decision may affect sales incentives, customer retention, operating capacity, cash flow, and lender expectations. Each decision may appear sensible when considered independently, yet conflicts may become evident only after implementation. Reliability Demand must therefore be considered across the full portfolio of consequential decisions, not merely by counting initiatives.

Planned and Unplanned Demand

Planned Demand comes from work the organization has chosen to undertake. Examples include:

• Value-creation initiatives

• Acquisitions and integrations

• Budgeting and strategic planning

• Technology implementations

• Leadership changes

• Board and sponsor requirements

• Restructuring programs

Much of this demand can be anticipated.

Unplanned Demand arises from events outside the expected course of operations. Examples include:

• The loss of a major customer

• A supplier failure

• A financing disruption

• An unexpected competitive action

• A security incident

• The departure of a critical executive

• An unforeseen strategic opportunity

The timing of these events is uncertain. Their occurrence is not. A decision system fully committed to planned work has little ability to address an urgent disruption without displacing an existing priority or forcing leaders to operate beyond sustainable limits.

A realistic assessment of demand must consider known commitments while preserving capacity for ordinary uncertainty. Unexpected events will occur.

5.2 Reliability Capacity

Reliability Capacity is the decision system's ability to make and implement sound decisions within the time and conditions required by the enterprise.

At the individual level, capacity depends on more than experience. It is influenced by the executive's judgment, time, attention, familiarity with the issue, quality of information, authority, and surrounding operating conditions. A manager with exceptional judgment provides limited value if that judgment is not accessible when the organization requires it.

At the organizational level, Reliability Capacity depends upon:

• Management depth

• Clear and usable authority

• Relevant and timely information

• Effective decision forums

• Appropriate distribution of responsibility

• Sufficient coordination across functions

• Faithful implementation

Individual and organizational capacity are closely connected. Managers with appropriate information, authority, and support can make effective decisions within their expertise. Senior leaders can then reserve their attention for issues requiring enterprise judgment.

Low trust produces the opposite result. When leaders do not trust decisions made below them, routine matters are escalated. When managers believe their decisions will be reversed, they stop using their authority. Both conditions consume senior capacity and reduce the organization's practical ability to decide.

Adding managers does not automatically increase Reliability Capacity. New managers must have defined responsibilities, adequate information, organizational trust, and practical authority. Without those conditions, additional headcount may produce more meetings and coordination requirements without increasing usable capacity.

The work may also have changed. Growth, transformation, and integration can require knowledge and judgment that the existing management system was never designed to provide. The relevant question is not whether the board has confidence in management. It is whether available management capacity is sufficient for the decisions the strategy requires.

5.3 Reliability Consumption

Decision capacity is consumed as the organization identifies, evaluates, makes, communicates, and implements decisions. Every consequential decision uses some combination of time, information, analysis, discussion, judgment, coordination, and follow-through. How much capacity it consumes depends partly on how well the decision is structured.

A well-structured decision uses senior judgment where it is needed. A poorly structured decision may require senior leaders to determine what the problem is, gather missing information, resolve uncertainty about authority, reconcile competing interpretations, and intervene again when implementation stalls. Necessary work consumes capacity. Friction consumes just as much.

Common sources of unnecessary consumption include:

• Repeated escalation of routine matters

• Meetings without a defined decision purpose

• Incomplete or poorly prepared information

• Unclear or overlapping authority

• Decisions reopened without material new evidence

• Frequent changes in priority

• Several initiatives competing for the same leaders

• Failure to record consequential decisions

• Corrective intervention caused by weak follow-through

• Reporting that adds little to management judgment

Each activity may appear minor when considered separately. Cumulatively, their effect can be substantial.

Consumption also continues after a decision is made. Poor communication creates questions and rework. Unclear ownership causes implementation to stall. A decision made without sufficient context may return to management for reconsideration. The original decision was never complete.

Counting decisions alone does not reveal how effectively decision capacity is being converted into coordinated action. Two organizations may make the same number of decisions while consuming very different amounts of senior judgment. Reliability Consumption reveals where capacity is being used and where avoidable friction is depleting it.

5.4 Reliability Margin

No organization can predict every demand. Some reserve margin is necessary.

This relationship may be expressed as:

Reliability Margin = Accessible Decision Capacity − Current Decision Demand

This is a management relationship, not a precise physical or numerical equation.

Reliability Margin is the decision capacity remaining after current demands have been met. With adequate margin, leaders have room to process unfamiliar information, question assumptions, consider consequences, and respond when conditions change.

As margin narrows, the system becomes more sensitive to disruption. A new initiative, customer problem, financing issue, or executive departure competes with work already in progress.

The early consequences may be subtle:

• Decisions take longer.

• Analysis becomes less thorough.

• Strategic questions are deferred.

• Immediate operating demands receive priority.

• Existing commitments receive less attention.

• Decision quality becomes less consistent.

When demand exceeds accessible capacity for an extended period, the organization operates with a negative margin and must compensate.

Common responses include:

• Leaders working beyond sustainable limits

• Delaying decisions

• Shortening analysis

• Transferring responsibility without adequate preparation

• Deferring existing priorities

• Continuing low-value work because no one has time to stop it

• Accepting greater variability in judgment

• Using temporary workarounds as normal practice

These responses may preserve activity levels. They do not restore reliability margin.

Margin as an Operating Reserve

Boards and sponsors may view unused capacity as inefficiency. Full utilization appears disciplined, particularly when organizations are under pressure to reduce costs.

Operating without reserve, however, creates exposure.

Companies maintain working capital to support operations, liquidity for unexpected cash requirements, and redundancy for critical systems. Reliability Margin serves a comparable purpose for organizational judgment. It protects and preserves the enterprise's ability to respond.

The appropriate margin depends upon the operating environment.

A stable company with a relatively predictable Decision Demand may require less margin. A company undergoing integration, transformation, rapid growth, restructuring, or leadership change requires increased margin reserves because both demand and variability are higher.

A universal margin standard has never been established. The required reserve must reflect the company's strategy, operating volatility, management depth, concentration of authority, and exposure to unexpected events.

5.5 Reliability Capacity Allocation

Reliability Capacity can exist and still be poorly allocated. CEOs and senior managers may spend substantial time approving routine matters, reconstructing incomplete information, or resolving decisions that should have been made elsewhere.

Reliability Capacity Allocation is the deliberate assignment of available decision capacity to the work where it can create the greatest value.

It addresses three questions:

1. Which decisions require senior judgment?

2) Which decisions belong closer to the relevant expertise?

3. Which activities should stop consuming decision capacity?

Capacity Allocation is not simply delegation. Delegation transfers responsibility. Reliable allocation ensures that the person receiving the responsibility also has the necessary authority, information, skill, context, and support.

Poorly allocated work usually returns through escalation, delay, or corrective intervention. The organization appears to have distributed responsibility adequately, but senior leaders remain the practical decision-makers.

Judgment should be used where it generates the greatest consequence. Routine matters should not consume the capacity required for strategic decisions.

Allocation as an Economic Decision

Executive attention is a scarce enterprise resource. Time applied to one matter cannot be applied elsewhere. An hour spent reviewing a routine pricing exception is an hour unavailable for evaluating a market change or an acquisition opportunity. Time a CFO spends rebuilding an incomplete operating plan cannot be applied to financing, liquidity, or strategic planning.

The same principle applies to ownership. An operating partner repeatedly drawn into avoidable portfolio-company disputes has less time for matters requiring sponsor judgment. These costs rarely appear in a budget.

Capacity Allocation is therefore an economic decision. It asks:

Where will scarce, high-value judgment have the greatest effect on enterprise value?

5.6 Reliability Feasibility

A strategy may be financially attractive and operationally plausible while exceeding the decision capacity of the current organization.

The financial model works. The operating plan appears sound. Yet management cannot make the required decisions within the available time without displacing other essential work. This creates a Reliability Feasibility problem.

Reliability Feasibility tests whether the organization can make and implement the decisions required by a proposed strategy, within the necessary time and without exhausting the capacity required to operate the core business.

Consider an add-on acquisition that meets the sponsor's financial criteria, has a credible integration plan, and will be managed by an experienced team. The same executives may already be leading a technology implementation, commercial transformation, and cost-reduction program.

The acquisition does more than add work. It introduces additional decisions, interdependencies, conflicts, and demands for senior judgment. That may push Decision Demand beyond accessible capacity. The opportunity may remain attractive. The organizational conditions may need to change.

A Reliability Feasibility review may support several responses:

• Proceed as planned

• Add management or specialist capacity first

• Clarify decision rights before launch

• Change the sequence of initiatives

• Reduce concurrent work

• Preserve additional margin during demanding phases

• Narrow the scope

• Defer the initiative until capacity becomes available

Reliability Feasibility does not determine whether a particular strategy is correct or appropriate. It considers whether the company is presently capable of executing it reliably. This is not indiscriminate caution. It is an effort to understand the capacity consequences of a strategic commitment before they become execution failures.

5.7 How the Six Concepts Interact

The six concepts operate as one system.

Concept	Role in the system
Reliability Demand	Defines what the strategy requires
Reliability Capacity	Establishes what the decision system can support
Reliability Consumption	Shows how capacity is being used
Reliability Margin	Identifies the capacity remaining
Reliability Capacity Allocation	Directs judgment toward its highest-value use
Reliability Feasibility	Determines whether proposed work can be supported reliably

A change in one element affects the others. An acquisition increases demand. Unclear integration authority increases unnecessary consumption. Additional CEO involvement concentrates capacity and reduces margin for other initiatives. Work previously considered feasible may no longer be supportable under the new conditions.

The relationship also works in the opposite direction. Clear decision rights can reduce unnecessary escalation. Better information reduces the time senior leaders spend reconstructing issues. Stronger management below the executive level can increase accessible capacity. Ending initiatives that no longer justify their demands can restore margin. Enterprise Reliability examines the system as a whole.

5.8 The Reliability Gap

The **Reliability Gap** is the difference between the Decision Demand placed on an organization and the accessible capacity available to meet it reliably.

Several conditions can produce a gap:

• Demand increases faster than capacity.

• Available capacity declines.

• Inefficient consumption depletes capacity.

• Judgment is poorly allocated.

• Several conditions occur simultaneously.

A rapidly growing company may develop a demand-driven gap because its management system has not scaled with the business. A company with stable demand may develop a capacity-driven gap after an experienced executive departs.

Another company may appear to possess sufficient management capacity but consume so much of it through escalation, poor information, and unclear authority leaving little available for consequential work.

Adding executives will not resolve an allocation problem if decisions continue flowing through the same individual. Reducing meeting density will not correct inadequate management capability. Clarifying decision rights will not close a gap created by too many simultaneous initiatives. The response must address the source of the constraint.

5.9 Decision Reliability and Outcome Variability

Business outcomes as a rule always vary. Markets change. Customers behave unpredictably. Competitors act. Technologies fail. Some uncertainty lies outside management's control. Decision Reliability concerns the avoidable variability created by the organization's own decision system.

Avoidable variability may appear when:

• Similar issues are handled differently without a strategic reason.

• Decisions depend on who happens to attend a meeting.

• Informal access determines whose concerns receive attention.

• Different functions interpret the same priority differently.

• Authority changes according to circumstances without explanation.

• Decisions are implemented inconsistently.

Not all variation should be eliminated. Different circumstances may require different judgments.

Reliability means that the organization consistently identifies the issue, gathers relevant information, assigns decision authority, records consequential decisions where appropriate, and ensures that implementation follows. Routine decisions may be standardized. Consequential decisions always require experienced judgment.

Enterprise Reliability supports the reliable use of judgement.

5.10 How the Model Should Be Used

The six concepts are management constructs. They are intended to assist boards, and management teams organize evidence and examine the decision conditions supporting execution. They should not be treated as precise physical measurements.

Any assessment must remain grounded in observable evidence. A conclusion that demand is unusually high should identify the strategies, initiatives, or decisions creating that demand. A finding of constrained capacity should identify the operating conditions limiting it. A conclusion that margin is narrow should explain which work is likely to be delayed or displaced by additional demand. No single event establishes a pattern. One person's account should be considered in context and compared

with other available information. The strength of any conclusion depends on the strength of the supporting evidence.

This framework is intended to impose discipline on the interpretation of organizational conditions. Its use should never create a false sense of precision.

5.11 From Observation to Management

Many organizations already recognize the individual indicators of a constrained decision system. Too much work reaches the CEO. Priorities change frequently. Meetings become longer and more numerous. Important decisions take more time. A few senior executives carry a disproportionate share of the organization's consequential work. The facts may be visible without being connected.

The six concepts give boards and management teams a common way to consider:

• The Decision Demand created by strategy.

• The capacity available to meet it.

• The activities consuming that capacity.

• The remaining margin.

• The allocation of senior judgment.

• The feasibility of the next strategic commitment.

The practical purpose is not to determine whether executives are simply working too hard.

The more practical question is:

Is the enterprise using its decision capacity deliberately, and does it have enough remaining capacity to execute its strategy reliably?

That is the goal of the model.

Notes

14. W. Edwards Deming, *Out of the Crisis*. MIT Press, 1986. Deming's treatment of variation informs the distinction between unavoidable outcome uncertainty and variation influenced by the design and operation of a system.

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SECTION 6

The Foundational Case

How Direct Experience Under Sustained Pressure Led to Enterprise Reliability

Enterprise Reliability began with my own experience leading a financial consulting firm through some of the most difficult operating conditions it had faced. The adversity developed gradually. I had to make continuing decisions about the company, its clients, its obligations, and its future. The same underlying problems persisted. Important questions remained unanswered, and new demands continued to arrive.

Pressure is part of senior leadership. Adversity is not unusual. What matters is how the conditions surrounding judgment change when adversity persists.

I still possessed the professional business experience. My ability to apply that experience consistently, however, had begun to decline. Over time, I became less patient and less empathetic. My sense of urgency increased. I began seeking shortcuts around our established decision processes. The change was gradual.

What had changed was my ability to access the full extent of my capabilities reliably under the conditions in which I was operating.

6.1 A Change in the Conditions of Judgment

Adverse business conditions usually become visible through financial and operating events. Revenue declines. Liquidity tightens. Clients defer decisions. Important matters remain unresolved. This creates further uncertainty about how management should respond. Less attention is given to the cumulative effect of these conditions on individual judgment, particularly when leaders must make more consequential decisions with limited information.

The decisions also become increasingly interconnected. A financing decision can affect staffing, client commitments, cash flow, and payment obligations. A decision in one area narrows the options available elsewhere.

Senior executives generally become more involved. They make faster decisions to resolve problems and keep the business operating.

As more matters reach the same person, that executive begins performing several roles at once. Each role draws on the same capacity. Attention devoted to one matter is unavailable for another. Meeting time appears on a calendar. The judgment consumed between meetings does not.

For many months, I continued working under pressure, making difficult decisions, and trying to preserve normal operations despite uncertainty. From the outside, the business appeared to be functioning. My decision process had shifted.

Resolving urgent issues increasingly took precedence over understanding them fully. I became more willing to compromise in order to reach decisions quickly. Many matters required prompt action, but urgency influenced judgment even when more deliberate consideration remained possible. Not every

decision I made during that period was poor. Many were sensible. The primary concern was the gradual deterioration of the conditions required for consistently sound judgment.

6.2 When Expediency Becomes Attractive

Expediency has a legitimate place in management. At times, a decision must be made quickly with incomplete information, especially when the cost of delay exceeds the risk created by uncertainty. The risk appears when expediency becomes a routine way of operating.

Initially, a fast decision provides relief. It resolves an immediate problem or reduces pressure, even if it does not produce the best long-term result. A more methodical process begins to seem too costly because other priorities consume the time and attention required for analysis, discussion, and challenge. The executive starts deciding according to what can be done immediately rather than what has been fully understood.

My own process narrowed. Questions that once merited careful consideration received less attention. Disagreement began to feel obstructive because it threatened to delay action.

Familiar solutions became more attractive. They were faster and had worked before. Yet relying on them could obscure changes in the circumstances that deserved closer examination. Immediate consequences received attention. Secondary effects received less.

The components of the decision system were still present. Signal continued to arrive. Discussions occurred. Decisions were made and implemented. But the system's effective capacity had narrowed considerably.

6.3 Patience and Empathy as Operating Signals

Patience and empathy are often treated as personality characteristics. In management, they also influence how an executive receives and interprets information.

Patience creates room to understand a problem, explore competing explanations, test assumptions, and consider consequences that may not be immediately apparent.

Empathy helps a leader understand how other people see a situation and why they may reach different conclusions from the information available. It can reveal knowledge located elsewhere in the organization.

That perspective extends beyond employees. It applies to customers, lenders, investors, suppliers, and other parties and how they'll interpret and respond to management decisions. Their reactions form part of the decision context.

A decline in patience or empathy does not establish that judgment has failed. It may indicate that the conditions supporting judgment have changed. During the period described here, I noticed a marked decline in patience, reduced empathy, and a greater sense of urgency.

These observations did not establish that I had lost the ability to make decisions under pressure. They indicated that operating conditions had changed, and accessible capacity had narrowed.

Enterprise Reliability examines the executive in relation to the conditions under which that person is operating. It is not an evaluation of calmness, resilience, temperament, or personality.

The relevant questions are operational:

• Is Decision Demand increasing?

• Has accessible capacity declined?

• Are more decisions being made by fewer people?

• Is preparation time decreasing?

• Is urgency displacing deliberation?

• Are important alternatives receiving less consideration?

Changes in behavior can provide an early signal.

6.4 The Role of Recovery

Sustained adversity differs from a short crisis. During an emergency, management can temporarily operate at high intensity and defer lower-priority work. Once the emergency subsides, normal routines can resume, and capacity can begin to recover.

Extended pressure has no clear endpoint. Unresolved decisions and open questions remain active even during periods of apparent calm. The executive continues running current operations while anticipating the next demand.

Recovery requires more than rest. It includes time to restore context, integrate information, reconsider assumptions, and understand how decisions are being made throughout the organization. It should provide the necessary space to think.

I had not previously recognized this form of capacity, but its absence became clear. Each problem was soon followed by another. Outstanding questions remained active, leaving little room to recover before the next period of pressure. As a result, urgency became self-reinforcing. Fast decisions created further questions and operating problems that also required attention. Work intended to reduce demand often increased it.

This experience led me to a central proposition:

Accessible executive capacity can be reduced when sustained Decision Demand is not offset by sufficient recovery, regardless of the leader’s experience or commitment.

The boundary of this proposition is important. Recovery does not correct a flawed strategy, inadequate capital, poor management, or adverse market conditions. Those problems must be addressed directly.

Nor does recovery solve the underlying business problem. It does, however, help to preserve access to the judgment required to address that problem.

6.5 From Personal Experience to a Systems Question

My original observation concerned one executive. The implications extended to the organization that depended upon the individual's judgment. When sustained pressure reduced my access to that

judgment, the issue reached beyond personal performance and affected the enterprise. Sometimes its effects were carried beyond.

That realization raised a different set of questions:

• How much Decision Demand reaches critical leaders?

• How many material decisions depend upon them?

• Which decisions truly require senior involvement?

• Which matters rise because authority is unclear?

• How much time remains for deliberate judgment?

• What happens when accessible capacity declines?

• Can the organization recognize that change early?

These questions were more useful than assessing an executive's endurance. The inquiry shifted toward the design of the decision system and the conditions under which it operates. Individual stability remained important, but its value to an enterprise depends on whether it supports reliable decisions and execution.

The personal experience had become an organizational question:

What happens when an enterprise remains dependent on a capable executive whose judgment has become less accessible under current conditions?

This became part of the basis for Enterprise Reliability.

6.6 External Context: Bear Stearns and Lehman Brothers

The failures of Bear Stearns and Lehman Brothers offer a broader context, but the comparison must be made cautiously.

Neither failure can be reduced to one executive operating under pressure. The public record identifies multiple contributing conditions, including leverage, liquidity exposure, risk-management failures, governance weaknesses, market deterioration, and regulatory shortcomings.[19],[20] Nor does the available evidence establish that concentrated executive decision-making caused either collapse.

The cases nevertheless illustrate a broader organizational problem. As conditions deteriorated, the volume and consequence of critical decisions increased while the time available to make them declined.

Senior leaders had to respond to changing market information, counterparty demands, liquidity constraints, internal risk questions, and possible government intervention. The most consequential decisions became concentrated among a small number of people precisely when the surrounding conditions were becoming most difficult. Their best judgment was needed under the worst conditions.

That observation leads to a broader question:

What happens when an organization most needs the judgment of its senior leaders at the same time that the conditions required to exercise that judgment are deteriorating?

The public accounts of these failures establish the financial, market, and governance context in which consequential decisions were made. They do not test or validate the Enterprise Reliability framework.

The inference drawn here is deliberately limited: as an adverse situation continues, the need for sound judgment may increase while the time, capacity, information, and range of available options decline. By the final stages of a crisis, the organization may have little remaining capacity and few good choices.

That is the reason the decision conditions preceding a crisis deserve attention.

6.7 What the Foundational Case Establishes

The foundational case is based on direct experience and retrospective reflection. It was not a controlled research study.

Within those limits, it contributed several observations.

1. Capability differs from accessible capacity

An experienced leader may retain deep knowledge and commitment while losing reliable access to part of that capability under sustained demand.

2. The conditions surrounding judgment can change gradually

Patience, perspective, and adherence to established decision processes may decline over time as urgency and unresolved work accumulate.

3. Continued activity does not establish stable capacity

An overextended executive may continue working long hours, making decisions, and sustaining visible output while the conditions supporting sound judgment deteriorate.

4. Demand and recovery interact

As pressure persists, the executive has less opportunity to restore perspective, integrate information, and reconsider how decisions are being made.

5. Individual constraints can become enterprise risks

When authority, knowledge, relationships, or decision responsibility are concentrated in one person, a reduction in that individual’s accessible capacity can affect the entire organization.

The concepts of Reliability Demand, accessible capacity, Reliability Consumption, Reliability Margin, and decision concentration were informed by these observations.

They originated in practical experience.

6.8 What the Case Does Not Establish

The limits of the case are equally important. This is a retrospective account of a single experience. I was the executive involved. The observations were reconstructed from my own experience and later reflection.

There was no control group. Information concerning executive capacity and Decision Reliability was not collected through a standardized process at the time.

The case does not establish that sustained pressure caused any particular financial outcome. Changes in decision behavior could have resulted from multiple factors, and other influences existed alongside any change in accessible capacity.

It also does not prove that an Enterprise Reliability intervention would have changed the outcome.

The discussions of Bear Stearns and Lehman Brothers are presented only for context purposes. They are not evidentiary tests of the framework. Public records document serious financial, risk-management, and governance conditions, but they do not contain the information required to evaluate the framework directly.

The foundational case identifies a management question that can be examined more systematically through further observation and fieldwork. That question concerns the conditions surrounding executive judgment.

Organizations depend on senior leaders to allocate capital, manage risk, and implement strategy. The conditions under which those leaders exercise judgment should therefore receive appropriate management and governance attention.

A credible framework must not claim more than its evidence supports.

6.9 From Foundational Observation to Field Inquiry

The experience became the starting point for a broader inquiry into Decision Reliability.

No single source provides a complete account of how consequential decisions are made. Financial records, operating reports, executive accounts, and organizational documents each offer only part of the picture.

A disciplined inquiry can examine actual decisions and the conditions surrounding them without treating one event or one person’s account as conclusive.

The evidence should support observable operating questions:

• Is Decision Demand increasing?

• Are important decisions becoming concentrated?

• Is strategic work being displaced?

• Are decisions taking longer?

• Is authority functioning as formally intended?

• Are the same executives repeatedly required to intervene?

• Is current performance being sustained through exceptional effort?

A busy executive does not prove that the organization lacks capacity. A disputed decision does not establish a problem with Decision Reliability. Identifying the patterns matter.

The purpose of field inquiry is to determine whether several forms of evidence point toward the same operating condition while preserving clear limits on what can reasonably be inferred. The method must remain testable and evidence-based.

6.10 The Enduring Question

The experience behind Enterprise Reliability produced one enduring question:

What happens to an enterprise when a capable leader remains in place but has less reliable access to the judgment the organization requires?

Traditional performance reports may not provide an adequate answer. Financial results may remain acceptable. The executive may appear productive. Decisions continue to be made, and, on the surface, nothing appears materially wrong.

Conditions can still change beneath reported performance. Pressure mounts. Authority contracts. Speed is favored over deliberation. Reflection declines. More decisions become dependent on the same individuals. These changes often precede visible deterioration.

Enterprise Reliability examines the period in which a leader remains active and capable, but the enterprise's access to that capability is becoming less reliable. The practical question is how the organization can recognize these changing decision conditions, preserve its best judgment, execute decisions faithfully, and retain its options before the consequences become prohibitively expensive.

That is the enduring question raised by the foundational case.

Notes

19. Financial Crisis Inquiry Commission, [*The Financial Crisis Inquiry Report*](https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf). U.S. Government Printing Office, 2011.

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SECTION 7

Implications for Private Equity

Decision Reliability Across the Investment Cycle

Under private equity ownership, the demand to create value within a defined investment thesis and holding period becomes more acute. Management is expected to produce measurable improvement from the outset.

Sponsors contribute capital, operating experience, governance, and professional relationships. Value creation, however, rarely results from a single change. It requires a portfolio of decisions affecting several parts of the business.

Pricing initiatives influence sales, customer retention, margins, and forecasts. Add-on acquisitions require decisions about leadership, technology, operations, reporting, and culture. Cost reductions may improve short-term earnings while placing more pressure on a smaller management team. A new reporting system may improve visibility while initially consuming considerable executive time.

An investment thesis is ultimately implemented through a multitude of decisions. Its success depends on whether the company can make and execute those decisions at the required pace and quality.

Decision Reliability should be an important consideration throughout the investment cycle. It complements financial, commercial, operational, and management due diligence by asking whether the company has enough accessible decision capacity to execute the sponsor's plan.

7.1 Before the Transaction

Pre-acquisition management assessments typically consider whether the target's leadership can deliver the investment thesis. They examine past performance, industry knowledge, functional expertise, leadership style, and the willingness to work with the sponsor. They also consider which management additions or changes may be required after closing.

Enterprise Reliability adds a systems question:

Can the existing organization handle the decisions that the new ownership structure and value-creation plan will require?

The individual qualifications of the CEO and senior team remain important. The emerging issue is whether those executives collectively possess enough accessible capacity to manage the decisions created by the investment while continuing to operate the business.

Founder-led companies deserve particular attention. A founder may have grown the business through direct involvement in customer relationships, hiring, pricing, and operations. That model can produce strong performance, but it may not transfer easily into a more professionally managed organization after acquisition.

The founder may be expected to grow the company, transform management into a professional organized group, improve financial reporting, and support additional acquisitions. At the same time, customers and employees may continue expecting direct founder involvement.

A pre-close review should therefore look beyond the organization chart and consider:

• Where consequential decisions are actually made.

• Which decisions depend on the founder or CEO.

• Whether formal authority matches operating practice.

• Where institutional knowledge is concentrated.

• How often routine matters are escalated.

• Whether the senior team has relevant experience.

• How many initiatives depend on the same executives.

• What additional Decision Demand the investment thesis will create.

No assessment can promise that management will succeed. It can help identify material dependencies and capacity constraints before the sponsor commits further resources to the plan.

7.2 Testing the Value-Creation Plan

A value-creation plan can be tested for financial attractiveness and operational practicality. Decision Reliability introduces another consideration: **Reliability Feasibility**.

Reliability Feasibility asks whether the organization has enough accessible decision capacity to execute the proposed value-creation plan while continuing to operate the core business.

Consider a service company expected to complete two add-on acquisitions, implement an enterprise system, increase prices, and build a more professional sales organization. Each initiative may have a strong business case.

The combined plan may assume that the CEO, CFO, and operating executives will remain fully available for every initiative. In reality, those same leaders must continue serving customers, supporting employees, managing cash, resolving operating problems, and running the core business.

A capacity constraint does not necessarily invalidate the investment thesis. The sponsor may adjust the sequence, narrow the scope, add interim or specialist resources, clarify governance, or assign responsibility elsewhere. The objective is to design the work so that the company can execute it reliably.

A reliability review can identify foreseeable capacity problems while there is still time to adjust the plan.

7.3 The First 100 Days

The first 100 days tend to create unusual Decision Demand. Management must continue running the business while responding to a new owner, adopting new reporting requirements, clarifying authority, and creating early momentum against the investment thesis.

Early decisions about how the sponsor and management will work together often persist. If expectations are unclear, management may overcompensate by seeking approval too frequently, treating every initiative as urgent, or producing more information than the sponsor can use.

Conflict creates additional risk. The sponsor and CEO may provide competing direction to different functions without realizing it. The inconsistency may not become visible until workstreams begin to collide. Delayed recognition increases the cost.

During this period, the sponsor and management should establish:

• Which decisions belong to management.

• Which decisions require board or sponsor approval.

• What information the sponsor requires.

• Why that information is needed.

• Which initiatives have priority.

• Who is accountable for each initiative.

• Where dependencies exist among workstreams.

• How disagreements will be resolved.

• What conditions require escalation.

• Which consequential decisions should be documented.

• How much capacity the initial plan will consume.

Clear agreements reduce avoidable ambiguity when the company is already adjusting to significant change. Every new priority draws on the same management capacity required by work already underway. Sequencing is therefore essential.

7.4 Sponsor Involvement and Unintended Demand

Sponsor experience, pattern recognition, resources, and ownership perspective can materially improve portfolio-company decisions.

Sponsor involvement also creates demand. A request for analysis that appears minor may require the CFO, controller, operating managers, and analysts to reorganize several days of work. Requests from deal and operating teams may reach the same executives separately. Each request may be reasonable while their cumulative effect becomes excessive.

The cost is not always visible to the sponsor. When a portfolio company underperforms, concern naturally leads to more reporting, more meetings, and additional approval requirements. These measures may improve control. They may also consume the management capacity needed to correct performance. More activity does not automatically create better oversight.

The relevant question is whether the additional work improves decision quality sufficiently to justify the capacity it consumes. Sponsors should treat management attention as a scarce portfolio-company resource. Before requesting another report, meeting, or approval, the sponsor should ask:

What decision will this new requirement sypport, and what existing work will it displace?

Oversight should strengthen judgment. It should not unintentionally reduce management’s ability to operate the business.

7.5 Board Governance

A portfolio-company board approves major commitments, evaluates the CEO, oversees management, and represents the shareholders. These responsibilities require clear boundaries.

Board members may also belong to the sponsor's deal team, operating group, or investment committee. Their knowledge is valuable, but the distinction between governance and management can become blurred when the same individuals participate in several capacities. It is important for the board to define which decisions it will make and which belong to management. Uncertainty in this area tends to slow execution.

Decision Reliability gives the board practical questions without requiring it to assume responsibility for daily operations:

• Is authority clear among the board, sponsor, CEO, and management team?

• Are consequential decisions reaching the appropriate level?

• Where is execution waiting for approval?

• Which initiatives depend on the same executives?

• Is management reporting activity or directing it?

• Are board and sponsor requests coordinated?

• Does the company retain adequate Reliability Margin?

• Do current results depend on extraordinary effort?

These questions help the board assess the company's decision capacity while preserving the boundary between oversight and management.

7.6 Founder-Led Companies

Founder-led companies present a different set of decision-system risks because practical authority, institutional knowledge, customer relationships, and confidence may be concentrated in one person. That knowledge cannot always be transferred efficiently.

After an acquisition, the sponsor may ask the founder to concentrate on strategy, key relationships, and growth while a professional manager assumes responsibility for daily operations. The organization may continue operating as it did before.

Managers may continue to seek the founder's approval. It isn't unusual for some customers to expect personal involvement. I tis not uncommon for employees to consider the founder's views more authoritative than formal structure. The founder may delegate a decision and later reverse it when the result is unsatisfactory.

Changing the organization chart does not eliminate dependency. Knowledge, relationships, authority, and confidence must move deliberately. The company should identify which decisions continue to require founder involvement, and which should begin moving through a different route.

The objective is to preserve the founder's value while reducing the need for constant intervention.

7.7 Add-On Acquisitions and Integration

Add-on acquisitions increase Decision Demand quickly.

Integration requires consequential decisions about leadership, organizational structure, systems, reporting, customers, personnel, and operating practices. Some decisions must be made immediately. Others should wait until more information becomes available.

These decisions tend to be highly interdependent. Structure affects systems, reporting, staffing, and customer ownership. Delay in one area can impede progress elsewhere.

Most integration plans identify tasks, timelines, and workstream leaders. They may not identify how many consequential decisions each executive must make or how many workstreams depend on the same people.

An integration leader may also retain responsibility for the existing business. Several workstreams then become dependent on that person's availability.

A reliability review should consider:

• Critical decisions required during each phase.

• Executives needed for those decisions.

• Decisions dependent on the same people or information.

• Differences in authority between the companies.

• Knowledge concentrated in critical leaders.

• Decisions that can be defined before closing.

• Escalation routes for unresolved conflicts.

• Capacity required to protect core operations.

The purpose is to identify constraints early and preserve the company's options during integration.

7.8 Transformation and Initiative Overload

Portfolio companies often pursue several improvement programs simultaneously because the holding period is often limited and value creation must proceed quickly.

Parallel activity can become difficult when the same executives are required across multiple initiatives. An enterprise-system implementation may compete with a pricing initiative for finance and commercial leadership. A sales transformation may depend on data being developed by another workstream. A cost program may remove employees whose institutional knowledge is needed for an upcoming integration.

As such, the timing of these decisions has economic consequences. Individual initiative reports may show satisfactory progress while the combined workload creates increasing pressure on management. The aggregate condition may remain invisible because each workstream is reported separately.

Enterprise Reliability asks:

• Which initiatives depend on the same leaders?

• Where do workstream trade-offs require enterprise judgment?

• How often must the executive team reset priorities?

• Which current responsibilities will be displaced?

• Does the organization have sufficient margin for unexpected problems?

Responding to an excessive initiative load may require changing the sequence, narrowing the scope, adding targeted resources, or stopping work that can no longer be justified. And some work must cease.

A credible value-creation plan should explain not only what the company intends to accomplish but how management will make and execute the required decisions effectively and reliably.

7.9 Interpreting Underperformance

Portfolio-company underperformance can result from market conditions, chosen strategy, the operating model, management capability, execution, or several factors at once.

Decision-system conditions can complicate the diagnosis. A sales problem may result from delayed pricing exceptions caused by unclear authority. Inconsistent assumptions across functions may appear as a forecasting problem. A margin initiative may stall because management shifts priorities before corrective work is complete. An apparent accountability failure may involve a decision that was never recorded or assigned.

Responsibility cannot be enforced if it was never made clear.

Treating each result as an isolated failure may obscure a common system condition.

A Decision Reliability inquiry can connect operating results to the decisions that preceded them. It considers whether appropriate information and authority were available, where delay occurred, and whether the decision was communicated and implemented coherently.

The purpose is not to excuse or minimize underwhelming performance. It is to identify the conditions that must change if performance is to improve. One event is not a pattern. Repetition across decisions, functions, and evidence provides a stronger basis for judgment.

7.10 Management Changes

An executive may need to be replaced because of capability, conduct, or performance. The decision-system consequences of the change should still be considered. An outgoing executive may hold knowledge not captured in the job description, including customer relationships, unresolved decisions, operating context, and informal authority.

A replacement needs time to acquire information, develop relationships, and build the trust required to exercise necessary practical authority. The new executive may have the right skills without having immediate access to the conditions needed to use them.

Full capacity should not be expected on the first day. The transition becomes more consequential when several management positions change in quick succession. Each appointment may be justified

independently while the combined changes reduce the organization's decision capacity. The sequence of events plays a significant role.

A transition review should consider the consequential decisions held by the departing executive, the location of important knowledge, temporary authority arrangements, and accountabilities that might otherwise be lost.

Selecting the right individual for a open slot is essential. So is supporting the decision system through which that person must lead.

7.11 Exit Readiness

A company whose results depend heavily on a founder, CEO, or small group of executives carries more transfer risk than its financial history may indicate. The buyer will inherit the company's decision system.

Exit readiness should therefore consider:

• Can management sustain performance without unusual sponsor involvement?

• Are consequential decisions made through repeatable processes?

• Is authority distributed clearly?

• Does institutional knowledge extend beyond a few individuals?

• Can the company absorb leadership turnover?

• Do forecasts reflect consistent operating judgment?

• Will the buyer inherit a functioning system or personal dependencies?

A reliable decision system makes performance more transferable. This paper does not claim that Decision Reliability produces a specific valuation premium. Evidence sufficient to support that claim has not been established. This work identifies an attribute affecting the durability and transferability of future performance.

Enterprise Reliability can assist a buyer to distinguish between results produced by a functioning enterprise from results held together by a few exceptional people.

7.12 Portfolio-Level Visibility

Enterprise Reliability can also be considered across a sponsor's portfolio. A private equity firm may have several companies undergoing integrations, transformations, or leadership changes. Financial and operating performance is usually reported for each company, but a consistent view of decision conditions across the portfolio is often absent.

Portfolio-level visibility may identify:

• Companies with significant founder dependence.

• Management teams carrying excessive initiative loads.

• CFOs supporting several critical workstreams.

• Increasing escalation to sponsor teams.

• Unclear authority following acquisitions.

• Limited capacity for further transformation.

• Results dependent on extraordinary executive effort.

This information can help the operating team determine where intervention may add value and where another sponsor-led initiative might create more demand than benefit.

Context remains essential. Companies operating under different circumstances should not be reduced to a simplistic ranking or treated as exact equivalents. Greater visibility does not justify unwarranted precision.

7.13 What Enterprise Reliability Adds

Private equity firms already use management assessments, operating reviews, value-creation plans, talent advisers, executive coaches, and organizational consultants.

Enterprise Reliability addresses a different question:

Do the conditions surrounding organizational judgment support reliable execution expecations?

A management assessment may establish that the CEO possesses the skills required to create value. Enterprise Reliability considers whether enough of that capability remains accessible after current demands are taken into account.

An operating review may identify delayed initiatives. Enterprise Reliability examines whether delay is associated with unclear authority, concentrated decisions, inadequate capacity, or competing demands.

A talent review may identify succession risk. Enterprise Reliability also considers the current exposure created when the organization is already too dependent on one leader.

The unit of analysis is the organization and its decision system, not the personality or endurance of an individual executive. That distinction gives Enterprise Reliability a separate role within the sponsor's existing review activities.

7.14 A Practical Role for the Sponsor

Sponsors influence Decision Reliability through the strategies they approve, reports they require, authority they reserve, and pace of change they expect.

They can reduce unnecessary Decision Demand by coordinating requests, maintaining clear governance, sequencing initiatives, and ensuring that decisions are made at the appropriate level.

Sponsors should distinguish information required for oversight from information collected as part of ordinary company reporting. Both consume management resources. Each should contribute to better judgment. The sponsor does not need to run the company's daily affairs. It needs reasonable assurance that the enterprise can make decisions and convert those decisions into coordinated action.

This is the central implication for private equity. A value-creation plan depends primarily on management's ability to exercise judgment and implement it reliably. Management experience matters, but the sponsor must ask whether that experience remains accessible as demands increase.

Decision Reliability can effectively assist sponsors, boards, and executives identify constrained conditions before they produce delayed decisions, inconsistent execution, poor performance, and lost value. Earlier recognition preserves more options.

Notes

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SECTION 8

The Diagnostic Method

How Enterprise Reliability Is Examined in Practice

A framework is useful only if it helps identify and address a real organizational problem. Application is key. Enterprise Reliability uses a structured inquiry into the conditions surrounding consequential organizational decisions and the actions that follow. The assessment considers Decision Demand, authority, information, management capacity, and operating practice.

No conclusion should be reached before the business concern that prompted the assessment is clearly understood by the sponsor, board, or management team.

The concern may appear in different forms:

• An important initiative is losing momentum.

• Similar decisions are being handled inconsistently.

• More matters require the CEO's attention.

• Priorities are changing frequently.

• Approvals are taking longer.

• Previously settled decisions are being reopened.

• Strategic work is being displaced by operating demands.

These conditions may have different causes. The central question should be:

Can the organization's decision system support the volume and nature of the decisions the business is expected to make?

This section describes the principles and scope of the diagnostic approach. The underlying instruments, scoring methods, analytical standards, and implementation protocols remain proprietary.

8.1 The Focus of the Assessment

Enterprise Reliability focuses on consequential decisions. A broad question about the overall quality of decision-making has limited value. Different people will interpret it differently and may answer according to recent experiences, personal relationships, or isolated outcomes.

Specific business decisions provide a far stronger foundation. They allow the assessment to consider what happened, who was involved, where authority resided, and how the decision affected execution.

The decisions examined depend upon the agreed mandate. They may concern:

• Pricing

• Capital commitments

• Senior personnel

• Commercial strategy

• Acquisitions

• Restructuring

• Major customer matters

• Strategic initiatives

The assessment does not begin by deciding whether the outcome was good or bad. Outcomes are typically influenced by markets, customers, competitors, timing, and other conditions beyond management's control.

A sound decision can produce a poor result. A weak decision can occasionally produce a favorable one. Enterprise Reliability therefore examines whether the organization's operating conditions consistently support informed judgment, clear authority, timely decisions, and coordinated execution.

8.2 The Business Mandate

A useful assessment requires a clear business mandate. The sponsor and company should agree on the business question, organizational scope, relevant period, intended recipients, and confidentiality requirements before the work begins.

A focused question is generally more useful than an open-ended evaluation of leadership.

Examples include:

Is decision concentration delaying an important commercial initiative?

Does management have enough accessible capacity to pursue additional acquisitions while completing its current work?

The question and therefore, the findings, must remain open and unbiased during the assessment. If the conclusion has already been determined, the inquiry will lack credibility.

Enterprise Reliability is not a tool for an investigation into an executive's private life. Its sole focus is on the operating environment and its effects on organizational judgment and execution.

8.3 What the Assessment Examines

Formal responsibility is only one part of the decision system. A CEO sponsoring several initiatives may also be making dozens of related decisions. A CFO responsible for reporting may simultaneously be managing financing, liquidity, acquisitions, technology systems, and commercial matters.

The assessment considers several connected conditions:

• The Decision Demand created by current strategies and initiatives.

• The distribution of formal and practical authority.

• The information available to decision-makers.

• The accessible capacity of critical executives.

• The extent of decision concentration.

• The ability of managers to act within their authority.

• The consistency of implementation.

• The degree to which organizational performance depends on extraordinary effort.

Late information, reduced preparation, conflicting priorities, and repeated interruptions can all affect the conditions under which judgment is exercised.

Management depth is also considered. The relevant question is not merely how many layers or managers the organization has. It is whether qualified managers possess the information, authority, confidence, and support required to make decisions at the appropriate level.

These conditions must be considered together. No single indicator establishes that a decision system is reliable or impaired.

8.4 Formal Authority and Operating Practice

Decision rights may be clearly described in policies and organization charts while operating practice tells a different story. A functional executive may possess formal authority but still refer important matters to the CEO. That may result from previous reversals, ambiguous boundaries, inadequate information, or concern about an unfavorable response.

A committee may formally make decisions while one influential executive dominates the practical outcome. Managers often develop an accurate understanding of who must support a decision, regardless of what the written policy says.

Not every difference between formal policy and actual practice indicates a problem. Informal coordination is part of organizational life. The issue becomes material when uncertainty about authority consumes capacity through waiting, escalation, repeated approval, or disagreement over accountability.

Enterprise Reliability therefore asks:

• Is formal authority used in practice?

• Do managers believe their decisions will be supported?

• Are important matters repeatedly escalated?

• Does practical authority reside with the person formally accountable?

• Does uncertainty delay action or create rework?

The purpose is to understand the working system, not merely the documented structure.

8.5 Decision Concentration and Accessible Capacity

Decisions with major enterprise consequences must require senior authority. Routine progress should not repeatedly depend on an executive who is already responsible for other critical work.

Decision concentration can arise for a multitude of reasons. In a founder-led company, customer knowledge, commercial judgment, operating history, and institutional confidence may remain concentrated in the founder. Formal delegation does not immediately transfer that knowledge. Concentration can also increase during an acquisition, transformation, crisis, or leadership transition. Several initiatives may appear independent while relying on the same executive for critical judgment.

The critical questions to consider are:

• Which decisions truly require this executive?

• Is the current level of concentration necessary?

• Can the executive support all the work dependent upon them?

• What other responsibilities are displaced when an unexpected problem arises?

Enterprise Reliability distinguishes between a leader’s capability and accessible capacity. An executive may possess the required knowledge and judgment while lacking sufficient time, attention, information, or support to apply them consistently.

Long hours do not establish available capacity. Evidence may appear through delayed decisions, strategic work displaced by operating demands, repeated reconsideration, or unexpected issues continually disrupting existing priorities. No individual event is conclusive on its own. The significance depends on recurring patterns, business context, and corroborating evidence.

8.6 Reliability Margin

Reliability Margin is the decision capacity remaining after current demands have been met. The reserve allows an organization to address unexpected problems without abandoning other critical

work. Such events may include a major customer issue, an urgent financing requirement, the absence of a key executive, or additional work created by an acquisition.

A narrow margin does not mean failure is inevitable. It means the company will have less time and fewer options when conditions change. The required margin depends on context. A stable company with predictable operations may require less reserve than a company integrating acquisitions, changing senior management, or pursuing several major transformations.

There is no universal threshold. Enterprise Reliability evaluates margin in relation to the company's operating conditions, strategic commitments, management depth, and exposure to variation. The associated calculations, thresholds, and tests are part of the proprietary diagnostic methodology and are not reproduced in this paper.

The principle is straightforward:

A decision system operating continually at its limit has little capacity to absorb the unexpected.

8.7 Building a Credible Evidence Base

No single source is likely to explain an important organizational problem completely. Written policies may clearly assign responsibility while employees remain uncertain about their practical authority. Senior leaders may describe an intended process that differs from what operating managers experience.

A credible assessment considers relevant business evidence within the agreed mandate. It does not require unlimited access to every document, communication, or meeting.

A bounded scope serves two purposes:

1. It protects sensitive information.

2) It keeps the inquiry focused on the business question.

Direct operating evidence may reveal differences between stated procedures and actual practice. Those differences can be significant, but one incident does not establish a pattern. The same event may be described differently by several people. Corroboration and context therefore matter.

Conflicting accounts are also considered as evidence. A CEO may believe authority has been delegated, while a functional leader believes the CEO's approval remains necessary. That disagreement may reveal that formal delegation has not produced practical authority.

The assessment should neither accept management's account automatically nor search for discrepancies. Its purpose is only to establish the relevant facts as far as the evidence reasonably permits and to report uncertainty honestly.

8.8 Interpreting Findings

The seriousness of an alleged problem should not be confused with the strength or lack thereof, or type of evidence supporting it. A severe concern may innitially rest on weak evidence. A thoroughly documented issue may have little operating consequence.

Findings should therefore explain:

• The relevant operating condition.

• The evidence supporting the conclusion.

• Why the condition matters.

• The observed or foreseeable consequence.

• The remaining degree of uncertainty.

A summary classification should never replace a clear written explanation. The internal standards and classifications used in Enterprise Reliability assessments remain proprietary. Public disclosure of those methods could encourage unqualified application and create a false impression of precision.

The essential principle can nevertheless be stated as follows:

Every material conclusion should be traceable to relevant evidence, and presented with no greater certainty than that evidence supports.

8.9 Management Review and Recommendations

Management should have an opportunity to comment on the factual basis of material findings. Management may identify missing information, explain unusual circumstances, supply additional context, or provide evidence that changes a conclusion.

Disagreement should be recorded and understood. It may involve a factual correction, a different interpretation, or a genuine difference in how the parties understand authority and operating practice.

Recommendations should respond to the conditions supported by the evidence. Unclear authority requires a different response from inadequate management capacity. Decision concentration differs from excessive reporting, weak preparation, or initiative overload.

In may instances, recommendations may address governance, decision rights, management capacity, information, initiative sequencing, or sponsor involvement issues.

They should also be proportionate. The report should not create a large transformation program that consumes more capacity than the problem warrants. Some matters may require immediate correction. Others will require longer-term changes to management structure or operating practice.

8.10 What the Assessment Is Not Intended to Provide

Enterprise Reliability is not:

• A psychological evaluation.

• A clinical assessment.

• A personality test.

• A judgment about an executive’s private life.

• An attempt to determine whether every decision was correct.

• A substitute for commercial, financial, legal, operational, or management diligence.

Each of those disciplines addresses different questions. Enterprise Reliability examines a defined set of decision-system conditions that may affect execution. Findings and conclusions remain within that scope.

The assessment is also subject to practical limitations. Interviews may be incomplete. Records may omit informal influences. The review period may not capture an entire operating cycle. People may change their behavior when they know they are being observed.

In all cases, these limitations should be acknowledged. They do not, however, eliminate the value of a careful and deliberate assessment. They define the boundaries within which its conclusions should be understood.

8.11 Confidentiality and Responsible Use

Enterprise Reliability assessments involve sensitive organizational information and require strict confidentiality. Findings should be shared only with those authorized under the engagement mandate. Personal comments should not be attributed unless attribution is necessary, relevant, and appropriately authorized.

Reports should focus on operating conditions and their business consequences.

Employees and managers must be able to describe uncertainty, disagreement, and operating constraints without fearing inappropriate disclosure. Important information often remains hidden when people do not believe it can be raised safely.

Responsible use also protects the integrity of the discipline. Proprietary instruments, scoring systems, work papers, models, and implementation protocols should be used only within authorized engagements.

8.12 The Standard of Credibility

Enterprise Reliability earns credibility through evidence and restraint.

A persuasive assessment explains:

• What was observed.

• Why it matters.

• What evidence supports the finding.

• Where uncertainty remains .

• What action is proportionate to the condition identified.

It does not claim certainty that the evidence cannot support. Enterprise Reliability examines the relationship between formal and informal organizational structures and a defined business concern. It considers whether the company’s decision processes can support the work required to achieve its objectives.

The published framework explains the discipline’s purpose, scope, and governing principles. It does not disclose the proprietary methods used to score, interpret, or implement individual assessments. That boundary protects the value of the method and reduces the risk of unqualified use.

The standard is simple:

Findings must be evidence-based, appropriately qualified, operationally relevant, and confined to the agreed mandate.

Enterprise Reliability gives sponsors, boards, and management teams a disciplined way to consider whether the company's decision system can support reliable execution.

Notes

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SECTION 9

Illustrative Application

Applying the Enterprise Reliability Diagnostic to a Portfolio-Company Decision

Important disclosure: *The following case study is a fictional composite created to illustrate the type of problem that can be analyzed using the Enterprise Reliability Diagnostic. Northbridge Capital Partners, Apex Industrial Systems, their executives, and all events described are entirely fictional. No client information or actual financial or operating results are presented. The proprietary instruments, assessment methods, scoring standards, and implementation practices used by Enterprise Reliability in actual engagements are not disclosed.*

9.1 The Company and the Mandate

Northbridge Capital Partners owns Apex Industrial Systems, a portfolio company operating under an active value-creation plan. Apex has an experienced management team led by a highly capable CEO. Management quality is not the issue in this case.

The company is addressing several significant matters involving commercial performance, integration, senior talent, and sponsor reporting. Each area requires consequential decisions, and many of those decisions depend on the same executives.

Despite its confidence in the CEO, Northbridge wants to determine whether Apex's decision system can manage the volume and nature of the decisions required by the value-creation plan.

Several operating indicators have raised concern:

• Cross-functional decisions are taking too long to reach agreement.

• Forecasts are being settled late.

• Issues assigned to sales, finance, and integration are repeatedly referred to the CEO.

• Some decisions made by the CEO are reopened during implementation.

• Different functions interpret the same decisions differently.

Viewed separately, each issue appears manageable. Considered together, they raise a more fundamental question about how the company operates.

Northbridge commissions an Enterprise Reliability assessment to examine where decision demand is concentrated, whether adequate accessible capacity exists, and what operating changes may be required to support reliable execution.

The mandate inquiry is:

Can Apex's current decision system meet the demands of the value-creation plan without creating excessive dependence on the CEO?

9.2 The Overall Finding

The assessment does not identify an incapable CEO. It identifies a capable CEO compensating for weaknesses in the surrounding decision system.

The CEO’s knowledge, judgment, and operating experience remain essential. Strategic capital allocation, senior appointments, enterprise pricing policy, and material integration decisions carry substantial enterprise consequences and properly require the CEO’s involvement.

The issue is the growing range of other decisions that also depend on the CEO's involment.

Customer exceptions, pricing disputes, forecasting disagreements, integration trade-offs, and other operating matters are reaching the CEO because authority below that level is unclear or is not trusted in practice. Functional leaders may possess the relevant expertise, but they do not consistently believe that their decisions will be accepted and implemented by other parts of the organization.

That finding is important:

Some decisions reach the CEO because they require the CEO’s judgment. Others reach the CEO because the organization has no reliable way to resolve them elsewhere.

The CEO’s underlying capability is strong, but accessible capacity is becoming constrained by demands. Time is fragmented by recurring escalations, late information, unresolved disagreements, and decisions that are reopened during implementation.

Apex can continue operating under current conditions, but it has limited Reliability Margin. Another significant increase in demand would likely require the company to delay, compress, or displace existing work.

The principal risk is therefore not the quality or capabiulities of the CEO. It is the increasing amount of intervention required from the CEO to compensate for the inability of other parts of the decision system to reach and implement timely decisions.

9.3 The Decision System in Practice

Apex’s formal organization defines responsibilities for the commercial, finance, integration, and executive functions. On paper, the division of responsibility appears appropriate. Operating practice is less clear.

Some matters resolved by the CEO could have been decided by other members of the senior management team. Those executives had sufficient knowledge, but they lacked confidence that their decisions would be respected or implemented across functions.

Reducing the CEO’s involvement without addressing this condition would create additional risk. Delegation alone wasn't likely to solve the problem simply because formal authority had not translated into practical authority.

Capital allocation

The CEO and board appropriately retain authority over strategic capital allocation. The concern lies in how those decisions are prepared.

Proposals frequently reach the CEO and board before important operating and financial assumptions have been reconciled. The CEO must then reconstruct the issue, resolve inconsistencies, and obtain missing information before a decision can be made.

The decision belongs at the senior level. Much of the preparatory work does not.

Senior talent

Senior talent decisions affect strategy, culture, and execution. The CEO has final authority and should remain involved.

These matters properly compete for senior attention. They should do so through well-prepared and appropriately sequenced processes, rather than alongside avoidable operating escalations.

Pricing

The CEO and board establish enterprise pricing policy. Within that policy, the commercial organization manages customer pricing, while finance reviews exceptions that may have a material effect on margin or cash flow.

This division of responsibility appears sound. In practice, sales and finance do not share a clear understanding of where consultation ends, who holds final authority, or when a decision becomes binding.

Neither function is confident that it can make a decision the other will not subsequently challenge or reverse. Disagreements therefore rise to the CEO, often requiring an immediate response.

Occasional customer exceptions are not the central problem. Their recurrence, and the repeated need for the CEO to resolve substantially similar disputes, consume capacity and reinforce dependency.

Integration

Many of the CEO's interventions in integration matters are also avoidable. Functional leaders understand their individual responsibilities, but ownership of cross-functional trade-offs is unclear. When a decision affects several workstreams, no single leader has recognized authority to resolve the conflict.

The CEO becomes the point of integration because the operating system has not established another reliable route.

Forecasting

Sales and finance maintain different views of customer timing, probability, and expected revenue. Material differences are not consistently resolved before the end of the reporting period.

The CEO is therefore asked to settle forecasts that would ordinarily be resolved by management. What appears to be a forecasting problem is also an authority, information, and timing problem.

Across these areas, the pattern is consistent. Formal responsibilities exist, but the organization repeatedly relies on the CEO to integrate competing views and make decisions that the management system cannot reliably complete.

9.4 The Reconstructed Pricing Decision

The assessment focuses on one pricing exception to examine how this broader condition operates in practice.

Sales believes that a temporary price reduction is necessary to win a competitive opportunity. Finance believes that any exception must be supported by sufficient committed volume to protect margin quality and avoid creating an unfavorable precedent.

The disagreement does not reflect poor judgment. Each function views the decision through the responsibilities it is expected to protect.

Sales is concerned with timing, competition, and customer risk. Finance is concerned with margin, consequences for cash possition, and precedent.

The decision requires commercial judgment and financial analysis. Apex does not have a sufficiently reliable process for combining those perspectives below the CEO.

Under the company's formal pricing policy, commercial leadership has authority over customer pricing. Finance has a consultation and control role when the economics cross defined limits.

In practice, sales does not believe it has sufficient authority to approve the exception. Finance believes it can withhold or later withdraw support if the required economic conditions are not met. Responsibility for the final decision is therefore uncertain.

The CEO intervenes and approves a temporary price concession subject to customer volume commitments. The decision appears to address the concerns of both functions.

Sales interprets the decision as authorization to implement the new pricing. Finance interprets it as conditional approval that becomes effective only after the required volume has been established.

Both functions believe their interpretation is correct.

Sales proceeds with the pricing. Finance later concludes that the required volume has not been secured and begins to reverse the concession. The result is internal rework and customer confusion.

The CEO's judgment is not the central failure. The decision is a reasonable response to the information and disagreement presented.

The surrounding decision system is the problem:

• Final authority for the exception was not clearly understood.

• The conditions attached to the approval were not documented with sufficient precision.

• Sales and finance did not share the same understanding of when those conditions had been satisfied.

• Execution began before responsibility for verifying the conditions had been established.

• No continuing process was created for resolving similar exceptions.

The immediate pricing question was answered. The underlying operating condition remained.

9.5 What the Pricing Decision Revealed

The pricing case is more than a simple communication failure. Sales and finance each contributed relevant judgment, but neither had sufficient practical authority to complete the decision in a manner accepted by the other. The CEO therefore became the point of integration.

The CEO's intervention allowed the commercial matter to proceed, but it did not establish a repeatable way to address similar decisions. The conditions attached to the approval did not become a shared operating rule. Different interpretations persisted after the meeting.

Rework followed across sales, finance, and the executive office. Uncertainty also reached the customer.

This illustrates how capable leaders can conceal weaknesses in the systems around them. The CEO resolved the immediate issue and reached a commercially reasonable conclusion. Because the immediate pressure subsided, there was little incentive to address the reason the intervention had been necessary. The short-term success therefore reinforced the organization's dependence on the CEO.

9.6 Evidence and Judgment

The fictional evidence in this illustration supports a concern that cross-functional decisions involving pricing, integration, and forecasting have become overly dependent on the CEO.

Several conditions recur:

• Formal authority exists below the CEO, but functional leaders do not consistently believe they possess practical authority.

• Cross-functional disagreements remain unresolved until they reach the CEO.

• Important information arrives late.

• Decision terms are interpreted differently during implementation.

• Matters thought to have been resolved are reopened.

• Senior attention is consumed reconstructing questions that should have been prepared before escalation.

The strength of the evidence would not necessarily be equal across every area or reporting period. A credible assessment should distinguish the overall conclusion from the degree of confidence attached to individual findings.

It should also distinguish evidence from inference. One delayed decision would not establish constrained capacity. A recurring pattern across several decisions, functions, and forms of operating evidence would support a stronger conclusion.

9.7 The Sponsor's Decision

The assessment does not support replacing the CEO. It also does not support preserving the current decision system.

The CEO is compensating for a structural weakness the organization has allowed to persist. Apex needs the CEO's judgment and operating knowledge, but it also needs to reduce the volume of avoidable decisions reaching the CEO.

The appropriate sponsor response is:

Support and redesign.

Northbridge should work with the CEO to clarify authority, strengthen cross-functional decision-making, and preserve senior capacity for matters of the highest enterprise value.

The objective is not broad delegation. It is a more efficient and reliable allocation of judgment and authority.

Removing decisions from the CEO without preparing the rest of the organization to make and implement them would be detrimental to the company. The organization must first establish who owns each decision, what information is required, which functions must be consulted, what conditions trigger escalation, and finally, when a decision becomes final.

The sponsor's role is to support that work without taking over the company's day-to-day management.

9.8 Direction of Corrective Action

Corrective action begins with the recurring decisions creating the greatest friction in pricing, forecasting, and integration.

The public description of the proposed direction is deliberately limited. The proprietary engagement method used to design, prioritize, test, and govern specific interventions is not disclosed.

Clarify practical authority

Each recurring operating decision should have a recognized owner with sufficient practical authority.

That leader should understand:

• Which decisions they are responsible for making.

• Which other functions must be consulted.

• What information must be available.

• What conditions must be satisfied.

• When escalation is required.

• When the decision becomes final.

The authority must be understood and respected across the organization. Written delegation without practical acceptance will not be sufficient.

Define conditional decisions

Conditional decisions require a common understanding of what has been approved, what conditions remain outstanding, who determines whether those conditions have been met, and when implementation may begin.

In the pricing case, approval of the concession should not depend on competing interpretations after the meeting.

Address forecasting disagreements earlier

Material differences between sales and finance should surface before the end of the reporting cycle.

A disagreement that remains unresolved until the reporting deadline becomes an unnecessary urgent senior-management matter. Earlier identification allows the responsible leaders to examine assumptions and resolve differences before CEO intervention becomes necessary.

Assign cross-functional integration authority

Routine integration trade-offs should be owned below the CEO by a leader or recognized management forum with authority to resolve them.

The CEO should remain involved when a trade-off carries material enterprise consequences. The CEO should not be required to integrate every routine disagreement among functions.

Release avoidable work from the CEO

Apex should distinguish between work that genuinely requires the CEO's judgment and work elevated because others do not trust the organization's distribution of authority.

Some decisions must remain with the CEO. Others can move only after the relevant authority, information, experience, and accountability have been established elsewhere.

Examine longer-term capacity

Longer-term work should consider management depth, the transfer of concentrated knowledge, and whether the value-creation plan can be implemented with the senior capacity available.

The answer may involve changes in capacity, sequencing, scope, governance, or the number of initiatives being pursued concurrently.

9.9 What Improvement Would Look Like

The CEO should always remain responsible for decisions involving strategic capital allocation, senior talent, enterprise pricing policy, and material integration strategy. These matters warrant the CEO's authority and judgment.

Improvement would be reflected in the handling of other decisions:

• Routine commercial exceptions are decided by leaders with recognized authority.

• Sales and finance agree on material conditions before implementation.

• Forecast differences surface earlier and are resolved through clear ownership.

• Material integration trade-offs move through an established management process.

• The CEO becomes involved when enterprise consequences require senior judgment.

• Fewer decisions are reopened because the original terms and responsibilities are understood.

• Information reaching the CEO and board is better prepared.

• Senior capacity becomes available for strategy, leadership, customers, and new demands.

The goal is not to remove the CEO from operating decisions entirely. It is to prevent the CEO from being required to resolve recurring matters that do not require that level of experience.

Note: Because this case is fictional, no claim is made that these improvements were implemented or produced actual results.

9.10 What the Illustration Demonstrates

This case illustrates how Enterprise Reliability approaches an execution problem by examining organizational dependence.

The central question is not whether the CEO is strong or weak. It is how the organization utilizes the CEO's authority and capacity, and whether that capacity is being consumed unnecessarily.

A delayed or reopened decision does not, by itself, establish that the CEO exercised poor judgment. The surrounding circumstances must be examined.

There is a significant difference between a decision that belongs with the CEO and one referred to the CEO because no reliable alternative exists. That difference cannot be addressed through delegation alone.

The Apex illustration avoids linking a single financial outcome to a single decision. It instead highlights recurring conditions that can increase execution variability:

• Unclear practical authority.

• Cross-functional friction.

• Late or incomplete information.

• Inconsistent interpretation.

• Repeated escalation.

• Concentrated dependence.

• Reduced Reliability Margin.

The case presents a capable CEO compensating for deficiencies in the surrounding system. That compensation carries a cost: greater dependence on the CEO and less capacity to absorb new demand.

9.11 Limits of the Illustration

This case does not constitute field validation. The company, sponsor, executives, evidence, findings, and events are entirely fictional. No client information, intervention records, or financial data are presented. Nothing in the case can be used to verify the effectiveness of the Enterprise Reliability framework or any resulting intervention.

Field validation would require a live organizational setting, relevant evidence, documented management action, and responsible evaluation of subsequent results.

This illustration serves a much narrower purpose. It makes the central reasoning behind Enterprise Reliability concrete without disclosing proprietary methodology.

9.12 The Practical Conclusion

At first glance, Apex appears to have several separate operating problems. Decisions are delayed, reopened, or interpreted differently by different functions. Considered together, those problems reveal a common condition: the decision system relies too heavily on a capable CEO to resolve matters that other parts of the organization cannot complete because practical authority is unclear.

The CEO’s involvement protects short-term execution. It does not correct the underlying weakness.

This is the type of condition Enterprise Reliability is designed to identify, particularly when it remains concealed by the effort and capability of a strong executive.

Northbridge’s inquiry therefore extends beyond an evaluation of management quality. The sponsor wants to know whether the system surrounding management can meet the demands created by the value-creation plan. The answer is not replacement. The answer is support and redesign.

SECTION 10

Executive Stability Is an Enterprise Responsibility

How Organizations Preserve Access to Senior Judgment Under Pressure

Many organizations consider the stability of their senior executives to be entirely an individual matter. They expect executives to manage their workloads, deal with pressure, delegate effectively, and seek help when needed.

The organization, however, determines much of the environment in which an executive operates. It influences the number of decisions funneled to senior management, how authority is distributed, how information moves, how frequently priorities change, and how many major initiatives are pursued at one time.

An executive cannot personally correct a decision system that concentrates authority in a few people, encourages escalation to the next level of approval, and continuously consumes leadership capacity without recognizing practical limitations. Personal discipline may temporarily relieve the pressure. It cannot correct the structure that produces it. The stability of its executives should therefore be viewed as an enterprise responsibility.

10.1 The Limits of Individual Solutions

Organizations often respond to an overworked senior executive with personal solutions. The executive may be encouraged to manage time more carefully, delegate more, set better boundaries, exercise, rest, or become more resilient. These measures may help. They are unlikely to be sufficient when the demand originates in the organization’s decision system.

Most individual solutions assume that the leader controls the volume and nature of the demands being placed upon them. That assumption is often incomplete. A chief executive cannot preserve time for strategy if routine decisions continue to arrive at his desk because others are unclear about their responsibilities. A functional leader cannot withdraw from operating matters when others lack the information or authority required to make decisions and ensure that those decisions are implemented.

Delegation illustrates the problem. A decision authority may be formally transferred to another executive only to return to the person who originally held it. This can happen because the person receiving the decision is not recognized as having the practical authority, or accountability for the result remains unclear, or the organization penalizes reasonable risk-taking, or when senior executives routinely reverse decisions made below them.

A changed calendar may last for several weeks. Eventually, the same questions, approvals, and escalations return to the same decision-maker. The delegation reassignment may have addressed an aspect of the executive’s schedule without actually addressing how demand is created and distributed. Individual measures have value, but they cannot substitute for enterprise action.

10.2 The Board’s Responsibility Extends Beyond Succession

Boards commonly consider executive risk in terms of departure, incapacity, or replacement. The resulting discussion focuses on whether another person could step into the role and preserve continuity. In some cases, an organization does not have to actually lose an executive to lose access to part of that executive’s capacity.

The executive may still attend meetings, read board papers, authorize expenditures, and run the business. Yet the environment surrounding those activities may be deteriorating. The volume of decisions may increase, information may not arrive in time, authority may be concentrating, and the time available for deliberate judgment may decline.

Presence is not the same as availability.

The risk of losing a leader therefore has two dimensions:

• **Continuity:** whether the organization can replace the executive if that person becomes unavailable.

• **Accessibility:** whether the current executive has the time, focus, information, authority, and organizational support needed to perform reliably.

A well-regarded chief executive and a sound succession plan do not establish that the organization is free from excessive dependence on that executive’s ongoing intervention. Likewise, the presence of a strong management team does not prove that operating authority is distributed effectively.

A company can have formal coverage for an executive’s absence while still concentrating practical decision-making in a few people.

10.3 Oversight Should Include the Decision Environment

Board responsibility does not require directors to supervise an executive’s calendar or become involved in daily management. It requires sufficient visibility to determine whether the company’s decision environment supports reliable performance. Financial results alone cannot provide that visibility.

Reported results reflect the consequences of decisions already made. They reveal relatively little about the conditions under which current decisions are being considered. An executive may continue producing acceptable results while the capacity supporting future judgment steadily declines.

Earlier evidence may appear in operating conditions such as:

• Repeated escalation of similar decisions.

• Longer approval cycles.

• Unresolved conflict between functions.

• Frequent changes in priority.

• Overreliance on a small number of individuals.

• Strategic work displaced by recurring operating issues.

• Important information reaching decision-makers late.

• Decisions reopened after implementation has begun.

No single condition proves that executive capacity is constrained. A recurring pattern may indicate that the organization's accessible capacity and Reliability Margin are declining.

This inquiry need not be intrusive. It begins with several practical questions:

• How are the company's most consequential decisions made?

• Which executives are responsible for several critical initiatives?

• What important issues are not receiving sufficient attention?

• Are management responsibilities and decision rights clearly defined?

• Does relevant information reach decision-makers in time?

• Are decisions being softened, filtered, or delayed?

• Which decisions are repeatedly escalated or reopened?

• How would the organization respond to an unexpected event without abandoning existing priorities?

The purpose is not to determine whether an individual can tolerate additional pressure. It is to determine whether the decision system is creating excessive or poorly distributed demand.

10.4 Management Must Examine How Demand Is Created

The management team often has direct responsibility for determining how the organization's leadership capacity is used. Decision demand is created by strategy, governance, reporting requirements, management processes, meetings, initiatives, and escalation practices. Some of these demands are necessary. Some are avoidable.

Avoidable demand often arises from unclear ownership, fragmented information, competing priorities, weak preparation, and insufficient decision-making capability at the appropriate level of the organization.

When every issue is treated as a high priority, senior capacity becomes difficult to allocate. When decision rights are unclear, managers tend to protect themselves by elevating matters to more senior levels. When information arrives without context or defined alternatives, the executive frequently must reconstruct the problem before making a decision.

These consumption patterns are rarely visible in the budget. Their cost appears in executive time, slower decisions, repeated work, and the displacement of more valuable responsibilities.

Management teams should periodically examine how critical decisions are handled. The review need not become an intrusive rating exercise. Its purpose is to identify recurring patterns of concentration, friction, delay, and avoidable consumption.

Useful questions include:

• Which decisions genuinely require senior judgment?

• Which decisions reach senior management because ownership is unclear?

• Where does formal authority differ from operating practice?

• Which executives are supporting multiple major initiatives?

• What work is repeatedly displaced?

• Where could better information reduce decision effort?

• Which activities consume capacity without improving judgment?

• How much capacity remains for unexpected demand?

The governing issue is whether leadership capacity is being applied where it can create the greatest value.

10.5 Private Equity Sponsors Face a Distinct Exposure

In private equity, the value-creation plan creates additional demand on the same executives responsible for running the company.

Following an acquisition, management may be expected to integrate another business, implement new information systems, enter new markets, improve margins, strengthen reporting, and prepare the company for refinancing or exit. These initiatives may begin quickly and proceed concurrently. They can also place substantial demand on the company's decision system.

An experienced management team does not necessarily make the value-creation plan operationally feasible. Management may possess the capability required for every initiative while lacking sufficient accessible capacity to execute all of them at the same time.

This is not an argument for reducing value-creation ambitions or goals. It is an argument for sequencing the work and matching it to the authority, information, management depth, and leadership capacity available.

The financial model may present each initiative attractively. It is less likely to show the decision demand created by pursuing them together. That demand becomes visible later through missed targets, delayed initiatives, management turnover, inconsistent execution, or conflict between management and the sponsor. By then, the plan may already have consumed substantial time and capital. The plan may have asked too much at once.

Sponsors should therefore evaluate not only whether management is capable of delivering the value-creation plan, but whether enough of that capability will remain accessible throughout its implementation.

10.6 Stability Does Not Mean Avoiding Pressure

Executive stability does not require protecting senior leaders from difficult work. Senior roles necessarily involve pressure, uncertainty, and consequential decisions. The goal is not comfort. The goal is to preserve enough Reliability Margin for leaders to distinguish between urgent and important matters, test assumptions, receive unwelcome information, consider alternatives, and examine the consequences of decisions.

An organization with little remaining decision capacity may continue to function under expected conditions. Its vulnerability becomes apparent when circumstances change. A customer may leave.

Financing may become difficult. A legal dispute may arise. A key executive may depart. An operating problem may demand senior intervention.

Each event creates additional demand. Reliability means being able to absorb the unexpected without losing control of current obligations. Pressure is part of enterprise life. The relevant issue is whether the organization has enough capacity and margin to respond to it reliably.

10.7 Accountability for Executive Stability

Executive stability exists within the organization's broader structure for making decisions and converting them into action. The system influences the conditions under which leaders perform. When the system preserves accessible capacity, leaders are better positioned to identify important changes, challenge weak assumptions, and make sound decisions over time. When the system consumes nearly all available capacity, even highly capable executives may become more reactive and less consistent. Responsibility is shared, but the roles differ.

The CEO and senior management team

The CEO and senior management team are responsible for how work is distributed, how authority is exercised, and how the organization's decision capacity is used. They should identify unnecessary escalation, clarify decision rights, strengthen management depth, and preserve senior attention for matters that require enterprise judgment.

The board

The board is responsible for determining whether the company's governance and decision environment support reliable execution. Its oversight should extend beyond succession to include concentration, accessible capacity, and the organization's ability to absorb unexpected demand.

The sponsor

In a private equity portfolio company, the sponsor influences decision demand through the strategy it approves, the reporting it requires, the authority it reserves, and the pace of change it expects. The sponsor should determine whether those demands can be supported by the portfolio company's current decision system.

The individual executive

Executives remain responsible for their conduct, preparation, delegation, and use of authority. Enterprise responsibility does not remove individual accountability. It recognizes that individual discipline operates within conditions substantially shaped by the organization.

10.8 From Individual Performance to Enterprise Reliability

Reliable execution cannot depend indefinitely on the exceptional endurance of a few executives. Leadership capacity is finite. It is also valuable. The enterprise must therefore allocate and protect it with discipline. The central issue is not how much pressure an individual can tolerate. It is whether the organization has created a decision environment in which its best judgment remains accessible as demands increase and circumstances deteriorate.

An organization cannot make performance more predictable by relying on extraordinary individual effort over the long term. It must construct a decision environment that preserves access to the

judgment of its best executives under difficult conditions. This requires clear authority, useful information, sufficient management depth, disciplined escalation, realistic initiative loads, and adequate Reliability Margin.

Executive stability is therefore more than a personal condition. It is an operating result produced partly by the design and management of the enterprise. That is where executive stability becomes Enterprise Reliability.