

“If organizations were simple, we’d have broken the code long ago.”

How Organizations Work: Taking a Holistic Approach to Enterprise Health

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Synopsis by Rod Cox

Even small enterprises are complex networks of interlocking factors. Not understanding this, well-meaning leaders and managers introduce a “fix du jour” with mixed results. Remember MBO? Quality Circles? Reengineering? Enterprise resource planning? ISO 9000 (and variations)? Supply chain management? Activity-based costing? All of these efforts have merit; they can be powerful interventions or tool kits. ***“The noble intent of these initiatives is beyond question, as is the sincerity of the beliefs that underpin them. At issue is the degree to which growth and efficiency programs address an organization’s unique needs, cover all of the variables that influence their success, and are sustained long enough to achieve their objectives.”***

Brache argues that ***“too often, organizations take medicine without understanding their disease.”*** Rather than undergoing the equivalent of a comprehensive physical exam, they focus on repairing the heart without regarding the pancreas, or the teeth, or the spleen. *“It’s critical to understand the organization from a holistic approach which takes into account all of the components. Which are critical? Which are not needed? Which are in need of improvement?”* Pulling just one lever -- focusing improvement in just one area -- doesn’t enable substantial change to take root. Successful organizations need to recognize and understand the other levers. How do they interact? Are they the *right* levers? When this doesn’t happen, improvement efforts fail to achieve their potential ROI because the necessary variables aren’t in the equation.

In this session, Brache:

- Explores a model or process for strategy formulation and implementation as well as change management: strategy + strategy implementation = the organization.
 - Broadens and deepens your understanding of the variables that influence performance and the ways in which they interact: Few of these are new, but you may not be familiar with their interrelationship.
 - Shows you how to diagnose your organization’s strengths and weaknesses by undertaking an introspective look at yourself.
 - Helps you decide on the action to be taken based on the diagnosis, answering the question: “So what am I going to do about this?”
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An organization’s health depends on understanding and managing a complex set of components. Each plays a unique role, and none of them can be ignored. All of them influence its success. Thus, ***“organizational health is a function of understanding and managing an intricate and entwined set of variables.”***

Most organizations -- most executives, managers and implementers -- don’t understand the factors that influence their organization’s health, the role that each variable should perform, nor how they interact. They focus on relatively few variables rather than on the whole system, and they don’t know the actions they need to take alone and in concert to fundamentally improve their organization’s performance. They may be distracted by the promised benefits of a one-size-fits-all organizational development program.

But organizational health rests in large part in understanding the components as well as how they interact. Using a medical metaphor, a cardiologist is unlikely to pay much attention to your bunions. For your well-being, you need a general practitioner to oversee your health holistically and refer you to a podiatrist when necessary. Healthy organizations require both specialists and general practitioners.

The following nine variables are non-sequential (other than Strategy which is foundational) and can be examined individually. But keep in mind that none of them, absent the others, will lead to organizational success. *Organizational variables are necessary components that work within a comprehensive organizational system.*

To understand how organizational components intertwine, Executive Forum recommends the comprehensive Enterprise Model graphic found in Brache’s *How Organizations Work*, Figure 1.1: John Wiley and Sons, 2002.

The Strategy Variable: the foundational framework of choices that determine the nature and direction of your business; i.e., an articulation of what business you’re in, and how you’ll be successful.

All of the other variables rest on strategy. Unfortunately often watered down, strategy should include choice and focus: “we will be this” as well as “we won’t be that.” This provides a foundation to the question, “Where do we employ our precious resources?”

The first task is to actively and thoughtfully examine your strategy with the goal of forcing your executive team to define an appropriate set of expectations and celebrations. Few strategies don’t have expectations, but how strong and unique are they? Too many organizations base their strategy on table stakes only; i.e., on the minimum ante required just to get into the game. For example, furniture stores routinely quote a 6-8 weeks delivery when the actual production time is seldom more than one day. Do you survive because you are good, or because you and all of your competitors are equally bad?

- Is your strategy underpinned by assumptions about the future external environment? Has your executive team examined the future and determined where your organization will be? Does it contain a strong, specific, measurable set of values and beliefs?
- Does your strategy define the markets you will and will not serve? The services and products you will and will not offer? The tough questions are, who not to serve and what not to offer. The reality is, you can’t be totally entrepreneurial because no organization has bottomless pockets. You have to set the boundaries. So what will represent your edge? Do you understand what your core business is? What will make the shareholders, customers, and other stakeholders ecstatic?

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- Does your strategy indicate the emphasis you will place on each product and market, and describe how you will win or succeed? Will your quality be the highest? Your pricing the cheapest? Will you be the fastest? Give the greatest care? What will truly help you succeed in the market place?

The focus comes back to the foundational question: where will you put your precious resources, and does your strategy take this into account? Having determined this, implementation becomes key. Good strategies are poorly implemented far more often than bad strategies (or no strategies) are implemented. Are you effectively and efficiently implementing your strategy? Is it understood and energizing at all levels? Does it guide behavior? As measured by what?

The fundamental questions are the same regardless of the organization.

- What’s happening in the outside world that will inform your internal discussions?
- You have tough choices to make. How will you measure yourself and your performance? What are the leading and lagging indicators? Have you established a strategic scorecard? In your organization, what is muscle and what is fat?
- How do you plan to implement the plan?
- How will you change to accommodate changes in the environment? What are the metrics and/or update indicators? (This question often serves as a switch to return you to an earlier phase of the process.)

At the table for strategy development should be the top team. To be sure, this narrowly-defined team may draw from others, but it’s not a democratic process. Later, at the implementation stage, the cast of characters becomes much broader.

The Business Processes Variable: the flow of steps that convert inputs to outputs; i.e., how the work gets done.

The question to ask at this juncture is, how do you do what you do? Have you identified the processes that are key to implementing your strategy?

- Are they well documented? Can people understand them and accomplish them?
- Are they working well? Have design flaws been identified and removed? Which steps are not adding value? Are there steps being done in series that can be done in parallel?
- Are the procedures adequate to the task? Have the process execution flaws been identified and removed? Is process performance being measured and managed with the focus on the flow of work?
- Are the processes driving information systems deployment? Human capability development? The organizational structure?

The process drives the organizational chart, not the reverse. In many organizations, the process is fine but the execution isn’t.

The Goals and Measurement Variable: the financial and non-financial goals that define strategic success.

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What are the right areas to measure? What are the critical few metrics you need to pay attention to? Consider the outputs, measures, goals, actual performance, gaps, causes and needed actions.

Strategic goals need to cascade into business process goals (often a missing link), department goals and team/individual goals. **You should be able to connect anyone at any level to the strategy.**

- Do you have a manageable number of goals?
- Does your measurement system efficiently capture and disseminate performance information? This is not necessarily fun, but it’s critical and worth the struggle if you keep it to the critical few, and if you continuously tune and shape it.
- Are you using your measurement system to its full potential? Is it specific: i.e., is it the basis for feedback and other components of human performance management?
- Consider that the right measurements can capture the value that is or is not being provided by marketing, manufacturing, sales and so forth.

The Human Capabilities Variable: the combination of human capabilities, skills, knowledge and personal values (ethics) that are key to your strategic and business processes.

Have you identified the key positions? Which of them are more important than others?

- Have you identified and codified the skills, knowledge and values required by each of these positions?
- Do your actual capabilities match your required capabilities? Do you have vehicles for developing future capabilities? What kinds of people should you bring in to fill any shortfalls?

The Information and Knowledge Management Variable: Data > Information > Knowledge > Wisdom.

This is where the computers live, plus more. How do you obtain and handle the information and knowledge you have? Are you capturing the right stuff? Do you allow access to the people who need access? Are they intelligently using it?

- Have you identified the knowledge required by your strategy and core processes; i.e., what do you need to know to do your business?
- Are you capturing critical external and internal knowledge as well as lessons learned? Have regular lessons-learned meetings and debriefings to capture the learning for the next time? *“What has become clear to us since we last spoke?” (Ralph Waldo Emerson)* Find ways to make sure that something intelligent is done with the lessons learned? Find ways to get the word out in a way that fits your culture, and codify it so the right people have access to it? Information doesn’t have to be data-base driven. Organizations may find that informal gatherings (Friday afternoon pizza parties, for instance) offer a regular opportunity for information distribution.
- Are people effectively using this knowledge? Are they working by fact as opposed to working by hunches or assumptions?

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Are you intelligently and cost-effectively using automated information systems (the IT piece)? Asked differently, how can you use IT as a tool to achieve the above? Do you have lots of information technology, but are lacking information? Is IT delivering “the goods?” Start with “the goods” and back into the technology rather than the other way around.

The Organization Structure and Roles Variable: the structure that supports your strategy as well as the flow of your business processes.

- Does your structure facilitate or impede the process?
- Do your departments have clear, universally understood roles?
- Do you reorganize *only* when structure is impeding strategy or process success? There is no other valid reason to restructure or reorganize, a process so traumatic, wrenching and anti-production that it should be used only for critical situations. People pull this lever far too often, and they dump energy when they do. The results are generally not dramatic, financially enhancing or productive. An elegant structure takes a distant second place to doing your business well.

The Culture Variable: The values, rules, practices, rituals and norms through which your business is conducted.

Do you trust each other? Are meetings started on time? Culture is the milieu in which the business happens. Is there a gap in your organization between what your cultural “should be” and your cultural “is”?

- Have you defined the culture you need for strategic and operational success? Does it support your strategy and business processes? Has it been codified?
- Does your culture enable people to make their maximum contribution? Can they bring all of themselves to work?
- Does your culture attract and retain first-class talent? This is a big driver in terms of bringing in or driving off talent.

Strive for a substantive culture that supports your strategy and operation rather than one that is symbolic or looks good on your website.

The Leadership Variable: Setting a direction and motivating people to go in that direction.

Leadership is behaviors, not attributes. The leadership dimension includes a number of key behaviors: visioning, inspiring, mobilizing, dramatizing, developing, contextualizing, aligning, risk-taking, enabling, role modeling, energizing, cheerleading, rewarding, and taking responsibility.

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- Does your organization’s executive pool include leaders as well as managers? (Point of clarification: a leader is the person who thinks of having a train, a manager is the person in charge of making the train work. These abilities are not often found in the same person.) Do they effectively play the roles described above?
- Do you have sufficient leaders at lower levels, including untitled leaders? Do you have vehicles for acquiring and developing leaders? Do you have healthy followers?

The Issue Resolution Variable: how your organization handles issues.

Do you have common, effective processes for surfacing and resolving them? Are you good at it or is the process highly fragmented? Does your organization resolve issues effectively and efficiently?

- Do your people have problem-solving, decision-making and planning skills?
- Do you routinely prevent potential problems and capitalize on opportunities?
- Do teams that work in different locations and/or at different times efficiently resolve issues?
- How well do you capture the learning? Do you capture and ensure access to what you’ve learned?

Consider looking at issue resolution throughout the organization, low levels as well as high. Consider capitalizing on your strength by building your issue resolution around a core of clarifying and planning to resolve concerns (situation appraisal) and then moving in sequence to:

- setting direction (strategy formulation)
- finding causes (problem analysis)
- making a choice (decision analysis)
- planning and taking action or carrying it out (project management)
- minimizing future trouble (potential problem analysis)
- maximizing future benefits potential (opportunity analysis).

Learning Applications

Drawing from the diagnostic tools above:

- Ask forthright questions and take personal responsibility for the nine variables in your own area of responsibility.
- Become the strategy / cultural / process / metrix driver in your domain. “Every manager is a CEO in his / her own area.”
- Select the variables that would be most illuminating to assess and discuss.
- Identify the steps that you can take to convert any “no” answers to “yes” answers. “No’s” are a sign of low organizational health.

We recommend that you purchase and use Brache’s *How Organizations Work* to illustrate and guide you through this process. Begin with the foundational Strategy Variable, and then choose the next Variable based upon which one appears to have the greatest potential impact on your organization. Again, there is no implied sequence. ***“A change effort needs to consider all nine variables. This does not mean that all levers need to be pulled with the same force. However, rarely can a major issue be addressed or transformation be accomplished by pulling one or two levers and ignoring the others.”***