

## Chapter

# Exploring the New Enterprise Model

### ■ AVOIDING THE CHANGE TRAP

A couple of years ago, I addressed an in-house group of telecommunications company executives. I was introduced by the quality director, who was concerned that my message would be seen as too complex for the “distill it to three bullet points” orientation of this group. She wisely began by saying, “We talk a lot about making things simple, and that is good; however, we do not want to make things simpler than they are.”

If organizations were simple, we would have broken the code long ago. The typical company or agency would be a well-oiled machine. However, even small enterprises are typically a complex network of interlocking factors.

Executives, most often characterized by short attention spans, dissatisfaction with the status quo, and impatience with the mere mortals in their employ, delight in launching crusades. As in the Middle Ages, the objectives of these improvement crusades are to capture the Holy Land (the target market) and to convert the infidels (prospective customers and current/potential employees) to the faith. Like the Christian Crusades, they are launched with religious fervor. They are well funded. They are highly visible. They are championed by true believers. They are populated with the best and brightest. And they produce mixed results.

Sometimes these improvement crusades are massive and multiyear. In the late 1980s, we saw quality crusades. In the

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early 1990s, reengineering was the cause célèbre. In the late 1990s, the business landscape was awash in enterprise resource planning. The early 2000s have been characterized by acquisitions juggernauts, modeled after the growth strategy of companies like GE and Tyco. Along the way, these holy wars have spawned denominations and cults that pursue subcrusades that ride under banners such as Six Sigma, high-performance teams, supply chain management, cycle time reduction, activity-based costing, and the balanced scorecard.

The noble intent of these initiatives is beyond question, as is the sincerity of the beliefs that underpin them. The issue is the degree to which growth and efficiency programs (1) address an organization's unique needs, (2) cover all of the variables that influence their success, and (3) are sustained long enough to achieve their objectives.

To change metaphors, improving organizational health is like improving human health. If there were a pill, exercise program, or diet regimen that cured all ills and prevented future maladies, doctors would have even more time for golf. The elixirs that claim to address the full spectrum of physical wellness make it "simpler than it is." The same is true of the potions that tout organizational wellness.

### ■ GETTING TO ORGANIZATIONAL HEALTH

Even after a few thousand years of study, the functionality of a human being—especially the nonmechanical aspects of behavior and performance—is not fully understood. While the owner's manual will become more complete as insights are derived from the recently sequenced genome, mysteries will remain. However, three truths have emerged from the study of anatomy, physiology, and psychology:

1. Each organ, muscle, bone, and nerve plays a unique role.
2. An outstanding contribution from one component of the body-mind engine (well-developed muscles, a robust heart, a strong sense of smell, a quick wit) can not fully compensate for deficiencies in another com-

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ponent (low-capacity lungs, a broken wrist, impaired hearing, poor short-term memory).

3. The understanding of each component does not provide a complete explanation of a person's health. Like a sports team, which may be less or more effective than the sum of its individual players' talents, a body is an integrated system in which the interactions are as important as the individual roles.

These same truths hold true for an organization, be it a business, a part of a business (profit center, product line, region, department, plant, store), a government agency, a union, a charity, a church, or even a family. Organizational health is a function of understanding and managing an intricate and entwined set of variables.

### ■ CHANGING ORGANIZATIONAL DNA

Most people, including those without any visible signs of disease, do not optimize their physical and mental fitness or establish the foundation of a long, healthy life. Similarly, most organizations do not follow a diet and exercise program that maximizes performance. Why? Because most executives and managers:

- *Do not understand the factors that influence health.* They are probably aware of the importance of leadership and goals and structure, for example, but may not fully grasp the nature and extent of the impact that each has on performance.
- *Do not understand how the factors interact.* For example, they may not appreciate the ways in which culture affects decision making or the nuances of the symbiotic relationship between business processes and skills.
- *Do not know the actions they need to take to manage their organization's health.* For example, they may know that information systems need to serve the strategy but not understand how to make that happen. They may understand conceptually that reward systems need to be linked to business processes but not know how to align them.

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- *Focus on one or two variables, rather than the whole system.* They embark on a culture transformation effort or an enterprise resource planning (ERP) system installation or a Total Productive Maintenance initiative without considering the effect of and on other variables. Like other integrated systems—the human body, an automobile engine, a multilateral trade alliance—tinkering with one component can have a positive or negative effect on other components.

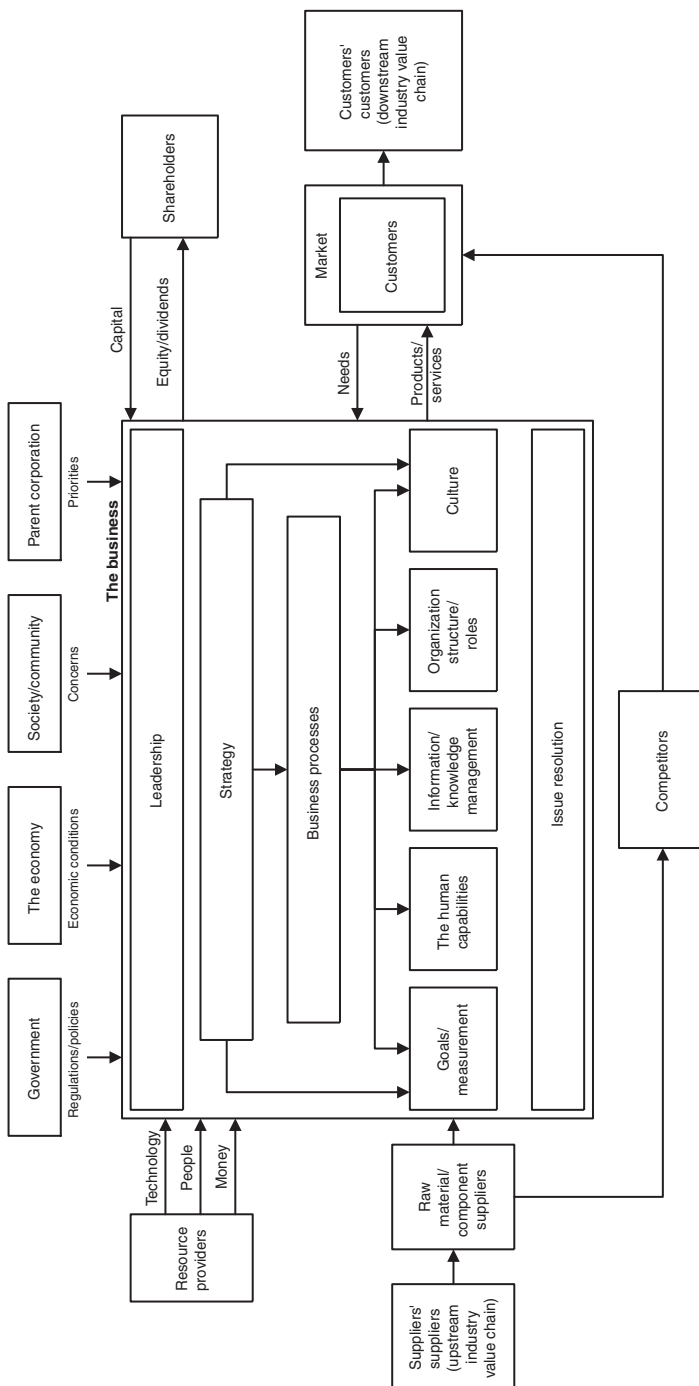
Is there anything that is hardwired? The answer is no. Organizations have DNA, made up of their historical products/services, markets, brand, and culture. However, unlike in the human body, organizational DNA can be changed. The transformation begins with understanding.

### ■ PRESCRIPTION FOR ORGANIZATIONAL WELLNESS

A program for managing your organization's health is founded on the answers to four questions:

1. What are the variables that influence your organization's performance?
2. What is the role that each variable should perform?
3. How do the variables interact in a way that contributes to your overall performance mosaic?
4. What can you do to improve performance?

Organizational wellness, like human wellness, is a destination that is never reached. The remainder of this book uses these four questions as the vehicles for describing the journey. To begin, we need an organization model that is the rough equivalent of a cutaway view of the human body. This Enterprise Model,<sup>1</sup> Figure 1.1, will serve as the anchor for our exploration of performance improvement.



**Figure 1.1** The Enterprise Model

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### ■ ORGANIZATION PERFORMANCE: KNOWING THE VARIABLES

At the most macro level, there are two sets of performance variables: those that are outside the organization (and, in many cases, outside its control) and those that are internal (and often seem to be out of control). There are three factors in the internal equation: structural variables, human variables, and variables that have both a structural and human dimension.

#### **What Are the External Variables?**

Effective physicians and psychologists understand that long-term wellness programs are based on an understanding not only of patients' inner workings but also of external influences on them. Similarly, you are better able to improve your organization's performance if you understand its context, which is made up of these components:

- *Customers and customers' customers.* The price of admission to the world-class performance game is "profound knowledge" of your customers and the not-yet-customers in your target markets. If your customers are not end users, you can better meet their needs if you know the requirements and buying criteria of those whom they serve.

An industry's value chain is the flow of activities that extends from the first step (for example, identifying potential oil drilling sites) through the last (providing gasoline to consumers). Each step adds value to the one that precedes it.

Value chains are dynamic. By eliminating intermediaries and facilitating business-to-business and business-to-customer linkages, the digital world is turning traditional value chains on their heads. As an organization evolves, it expands and contracts its scope. However, if you freeze-frame your organization at a moment in time, it is occupying a defined space in its industry. Markets serve as the right-hand boundary of your place in this value chain.

- *Suppliers and suppliers' suppliers.* Suppliers, who represent the left-hand boundary of your organization's position in its value chain, provide the raw material, components, and

## Organization Performance: Knowing the Variables ► 7

goods that go into your products and services. They, in turn, may have suppliers.

- *Resource providers*, which include:
  - Schools, companies, and agencies that provide workers.
  - Banks and venture capitalists that provide money.
  - Academic institutions, research labs, and other companies that provide technology.
  - Organizations to which your company or agency outsources functions such as manufacturing, distribution, accounting, market research, and human resource administration.
- *Competitors*, who meet the needs of the market with similar or substitute products and services.
- *Government*, which includes elected officials, courts, central banks, and regulatory agencies.
- *The economy*, which is not merely a function of government. It includes factors such as growth or contraction, inflation or deflation, financial optimism or fear, currency valuations, commodity prices, household income, and job creation.
- The *society and community*, which have interests in and concerns about quality of life, the environment, employment, and corporate citizenship.
- If your organization is part of a larger entity, your *corporate parent*, which influences a subsidiary through its strategy, culture, funding, mandates, and priorities.
- *Shareholders*, who provide funding and general direction in return for equity growth and dividends.

These universal variables may need to be supplemented by industry-specific external factors. For example, weather is a key variable for agriculture and leisure businesses.

Healthy interfaces with these external entities are built on a platform of understanding. For each of the factors defined above:

- How well do you understand the trends, strategy, needs, priorities, and processes of this variable?

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- How well do you understand the ways in which this variable does and should influence you?
- How well do you understand the ways in which you do and should influence this variable?

The more deeply you understand these variables, the greater your appreciation for the water in which your organization swims.

These external variables are addressed in more depth in Chapter 2.

### **What Are the Structural Variables?**

Four of the internal variables install a system, procedure, or mechanism for doing business. While these structural variables all need people to make them work, their primary contribution is to establish the floors and framing of the organizational house in which people live.

- *Business processes* are at the heart of your operations because they are the vehicles through which work gets done. Customer-touch processes include business development, order fulfillment, customer service, and product development. They are supported by internal processes such as hiring, planning, financial reporting, and resource allocation.

While processes are only as good as the people who populate them, you cannot rely on exemplary talent to triumph over flawed systems. Business processes are structural because they provide the steps, protocols, and roles within which people do their jobs.

The *business processes* variable is addressed in Chapter 5.

- *Goals* begin with the financial and nonfinancial targets for your overall business. These goals cascade through all organizational levels and ultimately describe the expectations of all individuals and teams. Goals become a management tool through a *measurement* system in which performance information is gathered, monitored, and used as the basis for problem solving and decision making.

The *goals/measurement* variable is addressed in Chapter 6.

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- *Information management* is the backbone of an organization. This variable includes your computer systems and the information they house, generate, correlate, and massage. It also includes the facts and perceptions that are in nondigital files and people's heads. In an organization managing this variable well, valuable information and learning are captured and made accessible in a *knowledge management* system. Those who need information on products, customers, processes, and capabilities can readily access it.

The *information/knowledge management* variable is addressed in Chapter 9.

- *Organization structure* is the formal grouping of *roles* and *responsibilities* (for example, by function, product, customer, or geography) and the reporting hierarchy. It reflects the positional power in the organization and has a significant influence on workflows, day-to-day management, and career development.

The *organization structure* variable is addressed in Chapter 10.

### What Are the Human Variables?

The three human variables focus on the skills, motivation, and behaviors of people. They explore what people are able to do and what they actually do in their organizational lives.

- *Leadership* is the set of behaviors through which those with both positional power and influencing power steer the priorities, activities, and results of others in your organization. Leadership includes visioning, contextualizing, communicating, aligning, mobilizing, energizing, inspiring, enabling, rewarding, and developing.

The *leadership* variable is addressed in Chapter 3.

- *Culture* includes the norms, folkways, practices, and unwritten rules that guide the way an organization conducts business. By examining your organization's culture, you gain insight into participation, risk orientation, innovation, interaction style, pace, and communication.

The *culture* variable is addressed in Chapter 7.

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- *Human capabilities* are the skills and knowledge of your workforce. Managerial skills, technical skills, and physical skills are the lifeblood of even the most automated operations. This variable also includes the individual values that support or inhibit performance.

The *human capabilities* variable is addressed in Chapter 8.

### **What Are the Variables That Are Equally Structural and Human?**

Two variables strike a balance between the human and structural dimensions.

- *Strategy* is the framework of choices that define the nature and direction of your organization. Your strategy should answer these questions:
  1. What values and beliefs will drive our decisions and culture?
  2. What products/services will we offer?
  3. What markets/customers will we serve?
  4. What will make us successful?
  5. What results will we achieve?

Strategy defines your organization's place in the economy and society. It is the variable that defines the "what" of your organization. The other eight internal variables are components of the "how."

The structural dimension of strategy is the product decisions, market decisions, and goals that define the boundaries within which you conduct business. The human dimension is the vision that guides those decisions and steers your organization to their implementation.

The *strategy* variable is addressed in Chapter 4.

- *Issue resolution* is the way in which you and your colleagues identify concerns, set priorities, solve problems, make decisions, and develop and implement plans. Issues may be current or future and present threats or opportunities. As issues surface in each of the other variables (for example, business process issues, organization structure issues, cul-

## Taking a Holistic View ► II

ture issues, capability issues), world-class organizations effectively and efficiently resolve them.

The structural aspect of *issue resolution* is comprised of the steps people follow and the templates they use when addressing their concerns. The human dimension is the analytical and creative thinking that has to flow through those steps and the nature and extent of participation in each step.

The *issue resolution* variable is addressed in Chapter 11.

The overarching internal variable questions are:

- Do you understand how each of these factors influences the performance of your organization?
- Do you know how you are performing in each of these areas?
- Do you know which of these factors represent the most significant current and future threats and opportunities?

Each chapter has a detailed self-assessment that should enable you to answer yes to each of these questions.

### ■ TAKING A HOLISTIC VIEW

As Figure 1.2 shows, these variables, like the organs in the body or the components of a bicycle, do not exist in isolation.

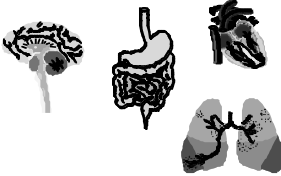
To resolve almost every complex issue, you must address more than one variable. Furthermore, the installation of any significant change requires managing multiple variables.

For example, the executives of a hotel chain may go off to the mountain and come down with the tablets of a new *strategy* that places their future focus on the business traveler. This new vision will not be successfully implemented without changes to *business processes* (for example, check-in/out, messaging), *human capabilities* (for example, meeting planning, customer service), and *culture* (for example, emphasis on speed, establishing decision-making authority at the customer contact point).

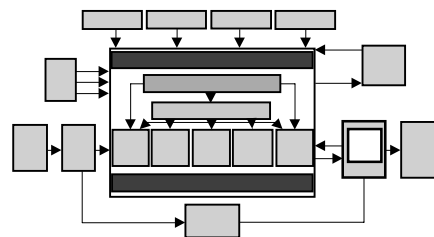
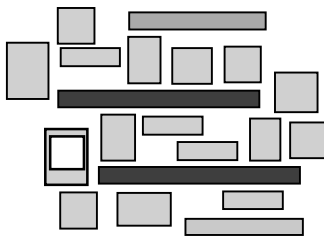
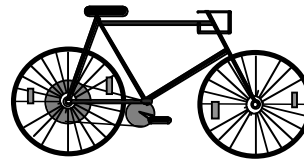
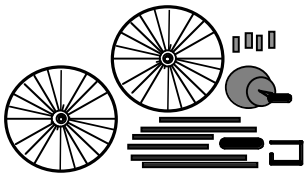
You cannot effectively address *organization structure* without examining the *strategy* and *business processes* that structure should support. You cannot change *culture* without developing

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Compartmental View



Integrated View



**Figure 1.2** The Compartmental View and the Integrated View

*human capabilities.* You cannot formulate or implement *strategy* without *leadership*. The key to successful change is the *identification and integration of the relevant variables*.

The sequence and integration of variables are addressed in Chapter 12.

### ■ HOW CAN WE IMPROVE PERFORMANCE?

Executives in healthy organizations have learned a number of lessons from the Enterprise Model's holistic view of performance:

## How Can We Improve Performance? ► 13

- The first step on the road to performance improvement is recognizing the external and internal variables and the role played by each.
- You can only achieve strategic results—increased shareholder value, growth in revenue and return, an enhanced brand—and operational results—increased quality, reduced cost, reduced cycle time—through the management of these variables.
- Most improvements require the integrated treatment of more than one variable. An enterprise is a system, not a collection of independent components.
- The variables are more than treatments for an existing disease. Like people who address elevated cholesterol levels before they lead to heart problems, world-class executives continuously assess each variable and address deficiencies before they become issues that affect their financial results.
- Organizations should have regular comprehensive physical exams that diagnose each factor that affects organizational health. Address weaknesses within the context of the other factors, ensuring that the treatment does not have side effects that are worse than the disease.
- Executives should manage all of the variables that can impact the outcome of a change initiative.

People have different health goals. Some are striving for longevity. Others simply want to be strong for whatever period of time they have on the planet. Some want to accomplish something athletically. Others see physical and mental health as part of a spiritual journey. Some just want to look good.

Similarly, organizations have different definitions of health. For some, the sole goal is increasing shareholder value. For others, it is to grow to a certain size. For some, it is doing something meaningful and lasting for the earth and its inhabitants. For others, it is providing a place in which employees can fulfill their intellectual and/or financial dreams. Some just want to look good.

Managing organizational health, like managing physical and mental health, requires a major commitment of time. However, there is no investment that has a higher potential return.

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### ■ NOTE

1. For an earlier and less comprehensive version of the Enterprise Model, see the systems model in Geary Rummler and Alan Brache, *Improving Performance: How to Manage the White Space on the Organization Chart* (San Francisco: Jossey-Bass, 1995).