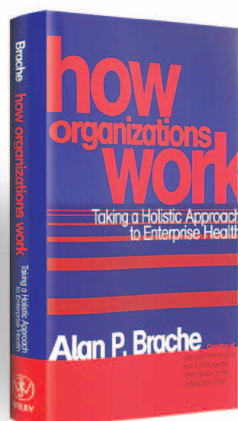


# SOUNDVIEW Executive Book Summaries®



By Alan P. Brache

## Taking a Holistic Approach to Enterprise Health

# HOW ORGANIZATIONS WORK

### THE SUMMARY IN BRIEF

*Change management initiatives or organizational wellness fads can oversimplify the process. They are noble ideas, but do they address the unique needs of your organization or company? Do they cover all the variables influencing the success of your situation? Are they sustained long enough to achieve their objectives?*

*Organizations are like humans. Each organ, muscle, bone and nerve plays a unique part within the whole. A strong contribution from one component can't make up for deficiencies in others, and understanding each component doesn't explain the health of the whole person. Body functions are integrated and their interactions are as important as their individual roles. So are the different functions in an organization. By influencing these factors, managers can strive for organizational wellness.*

*This summary shows you how to take a holistic approach to organizational wellness by identifying the different parts that make up the whole.*

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### What You'll Learn In This Summary

✓ **How to look at the whole organization.** *How Organizations Work* introduces managers to a new, integrated Enterprise Model of the organization. This model provides a 360-degree picture of organizational dynamics; managers can see all of the parts of an organization and how they fit together.

✓ **The features and healthy functions of each variable of the organization.** You'll learn the roles that each variable (or "part") of your company.

✓ **Examples of how the variable can go wrong.** This summary includes illustrations of managers working on the variables in their companies.

✓ **How to improve the functions of the variables.** The summary offers step-by-step processes for fixing each variable.

✓ **How to pull all of the variables together into a well-functioning whole.** You'll learn where to look first when addressing organizational problems.

# HOW ORGANIZATIONS WORK

by Alan P. Brache

## — THE COMPLETE SUMMARY

### The Parts of an Organization

The diagram on the opposite page presents the Enterprise Model, which includes all of the variables (or “parts”) of a business enterprise.

There are four kinds of variables: external variables, or the context in which the organization exists; structural variables including business processes, goals, information management and organization structure; human variables including leadership, culture and human capabilities; and variables that are both structural and human such as strategy and issue resolution. All of these variables work together; to solve any complex issue, you cannot address only one. Successful managers of healthy organizations understand that these variables must be treated regularly and holistically to effect change and improve performance.

In this summary, we examine each of the variables, one by one. ■

### Understanding the External Business Environment

Good physicians and psychologists need context. Before they can examine your inner person, they need to understand the environment in which you function — your work setting, your job responsibilities and demands, your pressures at home, and so forth.

The external business environment is the context in which your business operates — both the areas that you can and cannot control. Before focusing on your internal variables, you must first assess and manage these external variables.

#### The Value Chain

The first step in addressing the external variables is to identify your industry’s value chain (notably your suppliers and customers) and your organization’s current and future place in that value chain. Specifically, you need to ask questions such as: In which steps of the current value chain do we participate? What are the likely future steps in that value chain? What are the Critical Success Factors in each step in the likely future value chain?

Assessing the value chain includes clearly identifying

- **Your current and potential markets and customers and their needs;**

- **Your customers’ customers, their needs, and whether your company can meet those needs directly;**
- **Your suppliers and potential suppliers, especially their influence on your effectiveness and efficiency;**
- **Your suppliers’ suppliers, their strategies and status as potential competitors.**

#### Identify Other External Valuables

The next step in addressing the external variables of your company is to identify the other external variables that will have the most influence on your business. These external variables include the following:

- **Your resource providers who do not provide tangible materials or components for your products, but who provide money, work, technology and non-core functions.**
- **Competitors, whether they are direct, indirect, or root-need customers.**
- **Shareholders, or owners of the business, who are not interested in the daily operations of your business, but are interested in strategy and returns.**
- **The government and its regulations.**
- **The economy and its shifts.**
- **The society and community within which your organization exists.**
- **The parent company.**

#### Monitor External Environment

Once you have identified your company’s value chain and the other important external variable that affect the success of your business, you need to establish an environmental monitoring system. In other words, be sure

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## Understanding the External Business Environment

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that you have supplemented your internal performance monitoring with external performance tracking. For example, you should monitor industry, competitor, technological, legislative and economic trends.

Based on information gathered from your environmental monitoring, determine future external threats and opportunities and use them to design strategy. We'll examine in more detail how to address strategic issues (see article page four) and business or tactical issues (see article page eight). ■

## Leading the Enterprise

Leadership is setting an organization's direction and motivating people in that direction. Though all Enterprise Model variables are critical, leadership is "first among equals" and required for development and implementation of all the other components.

### Addressing the Leadership Variable

To address weaknesses in your organization's leadership variable:

**1. Identify areas in which your organization most needs leadership.** For example, Westbrook Plastics is a contract-manufacturing firm that operates steadily but is generally unexceptional. With many opportunities to improve, the new CEO is unable to choose which spe-

cific direction for growth he should pursue.

Westbrook's outside directors identified a clear need for a more focused strategy, a more motivated work force, and a different customer profile.

**2. Define your organization's current leadership profile and identify the gaps between that and your needs.**

For example, Westbrook's directors realized that though the current executives were competent managers, they lacked vision, motivating skills and communications ability. None had the intangible qualities that inspire followers.

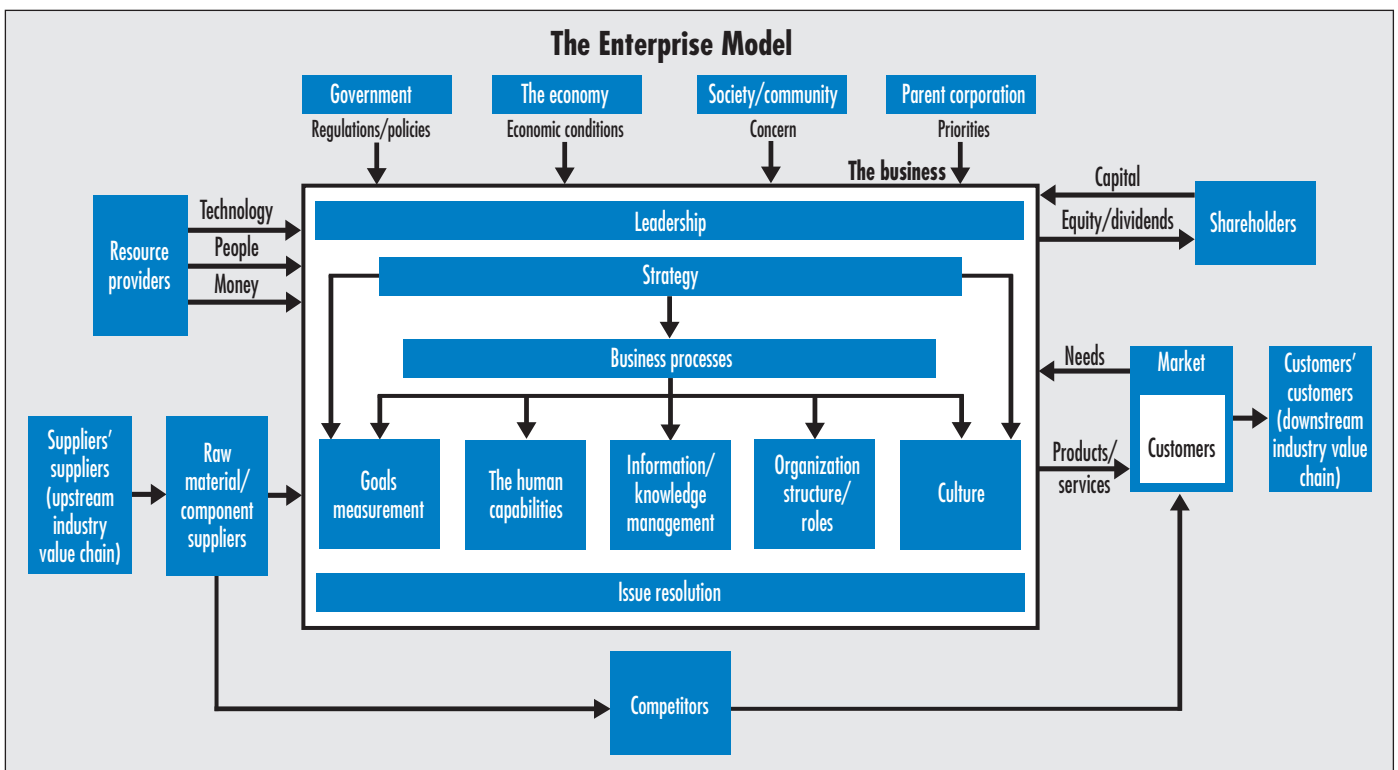
**3. Close the leadership gap by establishing clear expectations and consequences for executives.** Promote individuals with demonstrated leadership into higher-impact positions, and recruit leadership talent from outside.

Instead of replacing the management team, the Westbrook board expressed new leadership expectations individually to the executives and encouraged them to adopt them. They also urged the executive to recruit outside fast-track leadership talent.

**4. Fill the leadership pipeline** by identifying individuals with leadership traits, closing leadership ability gaps in potential leaders, and cultivating leadership ability in those without intrinsic leadership traits.

At Westbrook the board implemented just such a leadership development program to be reviewed over time. ■

For a list of questions that will help you assess all of the organizational variables in this summary, go to: <http://my.summary.com>



### Creating Strategic Alignment

Strategy is the framework of choices that determine the nature and direction of an organization. Top management must take the time to develop strategy to position the organization in its external environment and focus decisions such as whom to hire, priority of product development projects, capabilities to build into business processes, the structure of the organization, as well as daily decisions.

A strategy must stand up to two reality checks: Will it work? Can we implement it?

#### *Addressing the Strategy Variable*

To address the strategy variable, the book offers a five phase plan.

**Phase 1. Collect and analyze information on the external and internal environment.** The internal environment includes current strategy, performance information, culture, employee perception, and product/market successes and failures.

**Phase 2. Establish the time frame for the strategy, articulate values, and make tough choices** about what products and services you will and will not offer, competitive advantages, capabilities, goals, and critical issues. The output of this phase will be the strategy.

**Phase 3. Develop a plan to communicate the strategy to lower levels of the organization,** align the culture and policies, and determine how to monitor the strategy.

**Phase 4. Work at all levels of the organization to carry out the initiatives of Phase 3.** This phase will require the greatest investment of time and money.

**Phase 5. Continually monitor the strategy** in terms of its viability, underpinnings, and implementation. ■

For a case study in creating strategic alignment, go to: <http://my.summary.com>

### (Re)designing Business Processes

Whether you like them or not, business processes are the way work gets done. Recently they have been relegated to back-burner status because of a focus on strategy, and the belief that processes were inflexible and uncreative. But a well-designed process can stimulate creativity.

#### *Steps in Process Design (or Redesign)*

The process for designing or redesigning your organization's business processes includes the following steps:

**Step 1. Identify the process to be improved or designed.**

**Step 2. Structure a process improvement project** that sets goals, identifies boundaries, and designates a process design team.

### Designing Business Processes: A Case Study

Jorge Sanchez is president of the Resorts Division of Wethersfield Hotels. He is happy with his new strategy to drive growth in the hot market of luxury resorts, but he is not looking forward to the daunting task of implementing this new strategy.

Jorge and his team used the framework in this summary to redesign his business processes.

**They identified the process to be improved or designed.** Jorge Sanchez decided he could not handle everything at once, so he focused on the acquisitions process, market research process and the end-to-end customer service process.

**They structured a process improvement project.** Jorge created a team to develop an acquisitions process. Wethersfield established process goals, such as having one acquisition by the end of the year and two in the pipeline.

**They analyzed the current process.** Since the Resorts Division had only had one acquisition, it examined the steps and determined which worked and which did not.

**They designed the future process.** The acquisitions process design team benchmarked other companies, and with the lessons learned from their past acquisition, developed a new process.

**They developed process metrics and goals.** New metrics included financial targets and cycle time from candidate identification to assimilation.

**They developed an implementation plan, and put the plan into effect.** The team created a list of steps to implement the plan and determined the maximum cost and time for each step.

**They managed the new process.** Wethersfield appointed the team leader as the process owner and designated a permanent cross-functional process management team. A three-year process plan and budget was developed.

**Step 3. Document and analyze the current process.**

**Step 4. Design the future process.**

**Step 5. Develop process metrics and goals.**

**Steps 6 and 7. Develop an implementation plan, and put the plan into effect.**

**Step 8. Manage the new process,** including establishing process plans and budgets, building a measurement system around the process metrics, and conducting process reviews. ■

### Setting Goals and Measuring Progress

Setting goals and measuring performance ranges from activity-based costing to the resurgence of Six Sigma. Goals are objectives that reflect what your customers and other external constituencies need so that your organization can thrive. Measures answer the question “as evidence by what?” about reaching your goals. Goals and measurement should be established at five different levels: strategic, business-wide operational, process, departmental, and team or individual goals.

Perhaps you are like Ellen Robbins, who wishes the corporate Performance Enhancement (PE) staff would just go away. As district manager of 15 Fill Your Tank convenience stores, she takes a dim view of the mantras “What gets measured gets done” and “If it is not being measured, it is not being managed.” She believes:

- **Organizations measure what is easy, not what is important.**
- **Measurement systems can always be beaten.**
- **Employees are encouraged to work the metrics like educators teach to the test.**
- **Measurement is often used as a club to punish managers who go astray.**
- **Even legitimate goals take too much time to collect, document and report.**

#### Addressing Goals and Measurement

There are four steps to a successful goal/measurement process.

First, **identify the performance dimensions that are important to measure.** At Fill Your Tank, the top executive team reviewed and updated the corporate strategy, and came up with some goals such as 20% annual same-store sales growth, six new stores opened per year, and shrinkage of less than 0.5%.

The next two steps involve **selecting the most informative units of measurement, and selecting a goal for each measure.** After identifying inventories management, staff scheduling and customer service as core processes, the executive team at Fill Your Tank identified dimensions, measures and goals for each process. For instance, for cycle time, the measure was order-to-receipt time for impulse-buy products, while the goal was less than six business days. A series of defined measures and goals like these allows management to tie information back to strategy.

The greatest challenge is the fourth and final step, **developing a measurement system that tracks actual performance.** To ensure the goals were realistic, Ellen and her peers participated in developing the system. They developed metrics to assess store and individual job per-

### Good Measurement Systems

- ✓ **Maximize information accuracy**
- ✓ **Optimize information volume**
- ✓ **Maximize usefulness as a performance management tool**
- ✓ **Maximize timelines (not too delayed to be actionable)**
- ✓ **Maximize ease of understanding**
- ✓ **Minimize information collection cost and time**
- ✓ **Minimize opportunities for “beating the system”**

formance. The PE team developed an automated measurement system using the staff’s input, and were careful to balance completeness with practicality, to ensure appropriate access to the system, and to link job performance measures to HR processes, such as performance evaluation. ■

### Reframing Culture

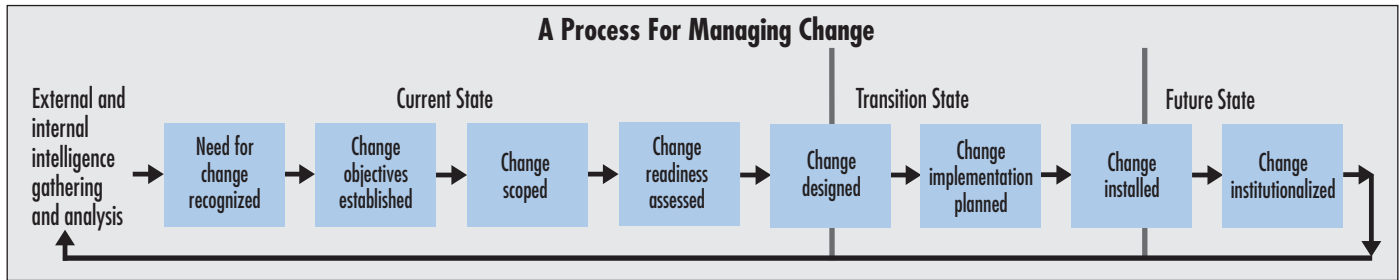
Culture describes how businesses are run, and influences strategy formulation and implementation as well as employee satisfaction. It includes the values, rules, practices, rituals and norms that conduct business and how they are communicated, and is determined by a company’s current leadership, founders, strategy and customers.

#### Addressing the Culture Variable

The following steps will help you tackle the cultural dimension of your enterprise:

- 1. Profile the culture that best supports your strategy,** particularly the parts of your strategy that cover values, competitive advantage, sources of growth, and capabilities.
- 2. Use surveys, interviews and observation to define your current culture.**
- 3. Identify the highest-priority gaps between the culture you have and the culture you require.**
- 4. Identify the key positions in your organization as evidenced by your strategy and business processes.** (For example, does your business revolve around your field service engineers? your call center personnel? your ad copywriters? your product managers?)
- 5. Diagnose the cultural influences on these key positions.** The cultural influences of an organization can be grouped into five categories: *strategy and leadership* (do employees understand and support the strategy and leadership of the organization?); *the job itself* (do the employees’ jobs fit their skills and do they find their jobs satisfying?); *inputs* (do employees get the training and

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### Reframing Culture

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resources they need to do their jobs well?); *work setting* (are the day-to-day practices and physical surroundings acceptable to the employees?); and *feedback and incentives* (do the employees get regular feedback and find the incentives and benefits encouraging and rewarding?)

**6. Determine what actions will be required to turn all the no answers in Step 5 to yes.**

**7. Lay out a plan, including responsibilities and realistic time frames for taking the actions identified in Step 6.**

**8. Test your plan against the gaps identified in Step 3. Add gap-closing actions for needs that are not addressed.**

**9. Implement the plan, making midcourse corrections when needed.**

Changing an organization's culture is very difficult and will be measured in years, not months. The diagram above offers a structured framework for managing change. ■

### Managing Human Capabilities

Human capabilities are the skills, knowledge and personal values and beliefs of those performing tasks in the organization. They are determined by the strategy, which in turn sets the business process requirements, department requirements, job requirements and, finally, the human capability requirements.

An example is a company having a strategic requirement to offer only differentiated products. The business process requirement — in this case, the process involved is inventory management — is to eliminate inventory of commodity products. The departmental requirement, which involves the finance department, is to manage the balance sheet impact. The job requirement is for the financial analyst to calculate write-offs. Finally, the human capabilities required are write-off policies, basic math, depreciation formulas, accounting rules and spreadsheet skills.

#### Address Human Capability Weaknesses

To deal with human capabilities, it is first necessary to **develop a business strategy** (see the article on page four).

The next step is to **identify and redesign your strategic and key support processes** (for example, inventory management). Then **define the outputs required of each department and its contribution to each key process** (for example, managing the balance sheet impact of inventory). Based on the department outputs, **identify the outputs expected from individuals or teams** (for example, calculating write-offs).

It is then possible to **identify the skills, knowledge, and personal values and beliefs that are required by each job output**. You should pinpoint the physical, intellectual and psychological capabilities needed for each skill, and the intellectual capabilities essential for each knowledge requirement.

After determining the human capabilities you need, **assess and document your current capabilities** in terms of the requirements established in the previous steps. **Identify and set priorities on the gaps between your current and required capabilities**, including skills or knowledge that are missing, possessed by too few people, or are misplaced.

**Develop a human capability plan** describing how to close the gaps through skill development, succession planning and career development, mentoring, retention and acquisition.

**Use your measuring system to determine which performance gaps are being caused by human capability deficiencies.**

Finally, **monitor and update your plan regularly.** ■

### Leveraging Information and Knowledge

People believe that information technology will take business to the Promised Land, but most gains from IT are in quality and speed, not value. The goal is not to store information, but to turn it into knowledge and wisdom, because all variables that affect an organization are only as effective as the information that drives and sustains them.

The first step in addressing information systems is to **develop an overall business strategy and an e-business strategy**, which will provide the compass for information management.

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### Leveraging Information and Knowledge

(continued from page 6)

Next, **identify your different information needs**, including strategic, business process, measurement and issue resolution needs.

Your *strategic* information needs include external intelligence for strategic decision making, information to fuel your competitive advantage, and information to monitor performance of products, markets, and competitive advantages.

Your *business process* information system needs include information related to customers and suppliers, electronic links that would facilitate that information flow, and the process steps where automation could improve quality, reduce cost or cycle time.

Your *measurement system* needs allow you to track business performance metrics and compare them to goals.

Finally, your *resolution* needs include ways to electronically capture problem resolutions for future use and how to make that information readily available to all who need it.

You are now ready to **make decisions regarding architecture, hardware, software and database for information capture**.

You must also **determine how best practices will be shared across the organization**.

The final step is to **install the information and knowledge system you've developed**, including pilot testing and training where needed. ■

For a case study on addressing information systems, go to:  
<http://my.summary.com>

### Redesigning the Organizational Structure

Redesigning the organizational structure is the most common executive response to trouble, because it is highly visible and quickly implementable, at least on paper. But beware. If the underlying causes of organizational problems aren't addressed, reorganization of structure will not solve them. Reorganization is only justified when the current structure impedes implementation of strategy and disrupts the flow of key business processes.

Anthony Harrison, CEO of computer hardware manufacturing Giddings Technology, has to make an impact because growth has plateaued, customers are complaining, competitors are encroaching, and shareholders are selling. He has many options, including redefining strategy, bringing in consultants, and modifying compensations systems. But should he restructure the organization?

#### Steps to Restructuring

The following steps will help you determine whether you need to reorganize your organizational structure, and

### An E-Business Strategy

To create an informed e-business strategy, remember that e-business is first about business, then about "e." The following questions will help:

- ✓ **What parts of the overall strategy should be digitally enabled?**
- ✓ **Can you prevent the Internet from taking your place in the value chain?**
- ✓ **How will you protect your customer base in the digital world?**
- ✓ **How will e-business help you to attract new customers?**
- ✓ **How will you interface electronically with customers, suppliers and yourself?**
- ✓ **What role will your Web site play?**
- ✓ **How can technology improve your business processes?**
- ✓ **How can technology improve knowledge management?**
- ✓ **How can technology improve measurement?**
- ✓ **How can technology improve speed and effectiveness of issue resolution?**
- ✓ **How will you ensure that you have the systems and technology to implement the vision?**
- ✓ **What is the priority of each digital initiative?**
- ✓ **What is your implementation plan?**

if so, which structure will best fit your company's needs.

The first step, as always, is to **evaluate and refine your business strategy**. For example, what products and services are you going to offer? Which markets will you serve? Anthony decided the company would offer a wide variety of computing appliances, but not software or peripherals. It would also target corporate markets and commit to winning based on custom features, quick delivery, and ease of use. He assessed its performance in terms of revenue growth, profitability, and repeat business.

Next, **identify the business processes most critical to successful strategy implementation**. At Giddings, core processes were customer-need identification, product customization, order fulfillment and technical support.

**Develop a set of decision criteria or objectives and then define the characteristics of a structure that supports your strategy and core processes**. Use the criteria to compare strengths and weaknesses as you decide among alternative structures. Anthony decided that the structure should allow Giddings to identify customer needs quickly and accurately, configure solutions to needs, minimize order fulfillment time, and resolve customer problems quickly.

(continued on page 8)

### Redesigning the Organizational Structure

(continued from page 7)

Also **define any other objectives to be met** by the organizational structure, such as administrative, cost, and people needs. Giddings decided that its structure should also motivate employees, minimize cost, support career development and maximize role clarity.

**Generate alternative organization designs** in enough detail to assess them against the decision criteria.

Anthony and his team decided the company could organize by product, market, geography, function, process, project (i.e. Asian expansion team), or a hybrid structure using both product and projects.

**Select the best structure** by using the criteria to assess relative strength of each alternative. Anthony and his team decided that a market-based structure was best.

When you have decided on a structure, **develop and carry out an implementation plan** that takes into account technical and human factors, as well as the other variables in the Enterprise Model. ■

### Putting It All Together

After examining each variable in the Enterprise Model, remember that they are an integrated system. While not every variable needs to be fixed to solve every problem, you cannot adjust one variable and expect that the others will not be affected.

There are four ways to use the process for addressing each of the Enterprise Model variables.

First, **use the process as a comprehensive diagnostic**. Assess each variable to discover weaknesses. Customize and weigh the criteria in considering which lever to pull first. Take action to address priority needs, following the process for each variable. Consider which other Enterprise Model variables to address to influence the success of your intervention.

Second, **use the enterprise model in response to an issue**. Determine what issue type you have (see box). Follow the process for that type of issue, and as you do, identify the Enterprise Model variables that you will address. Follow the directions for treating those variables, being alert to influencing other variables.

Third, you may need to **use the summary in response to a change** someone has suggested for your organization. Identify the businesses needs that the change is intended to address. Use the Enterprise Model framework, questions, and guidelines to determine if the recommendation addresses the appropriate variables. Request a cost benefit analysis to evaluate the merit of the recommendation, and if it is approved, make sure the implementation plan addresses all the variables that

### Resolving Business Issues

Issue resolution is a necessary support system for all other variables in the Enterprise Model. Even if everything else going well, business issues arise continually and they require a response. An issue may be a threat, an opportunity or both. Although business issues come in all shapes and sizes, they can be grouped into seven types. The seven types of issues, along with steps to address them, are listed below:

**1. Where We Are Going?** This occurs when the organization's direction is unclear, questionable or not viable. These issues can be addressed through strategy formulation.

**2. Why Did This Happen?** Describe the problem, identify possible causes, evaluate each possible cause, and confirm the true cause.

**3. Which Way Should We Go?** To address this type of issue, clarify the purpose of the decision, evaluate each alternative, assess the risks associated with each alternatives, and, then, make the decision.

**4. How Do We Get There?** Here, it is necessary to successfully implement a decision in response to a problem or opportunity. Define the project, plan the project out, and then, implement the project.

**5. How Can We Avoid Serious Problems?** First, identify potential problems, then, identify likely causes of those problems, take preventative actions against these causes, and plan contingent actions.

**6. How Can We Take Advantage of an Opportunity?** Identify all potential opportunities, identify likely causes, take promoting actions to maximize the probability that the opportunity will present itself, and plan capitalizing actions to maximize the benefits you will receive.

**7. How We Find Our Way Through This Thicket?** This issue involves a complex situation that might actually be a mix of other types of issues. To address this issue type, identify and clarify concerns, set the priority of your concerns, plan next steps and identify which types of issues each concern represents, and plan the involvement of those who will be involved in the resolution of the issue.

will influence success.

The final way to use the framework is as a **change management tool**. Make sure that the change initiative is focusing on the correct variables. Assure that the change plan is addressing the variables in the right sequence. Be alert to the possible need to address unforeseen needs in the variables that will influence success. ■

For three in-depth case studies illustrating the interaction of all the variables, go to: <http://mg.summary.com>