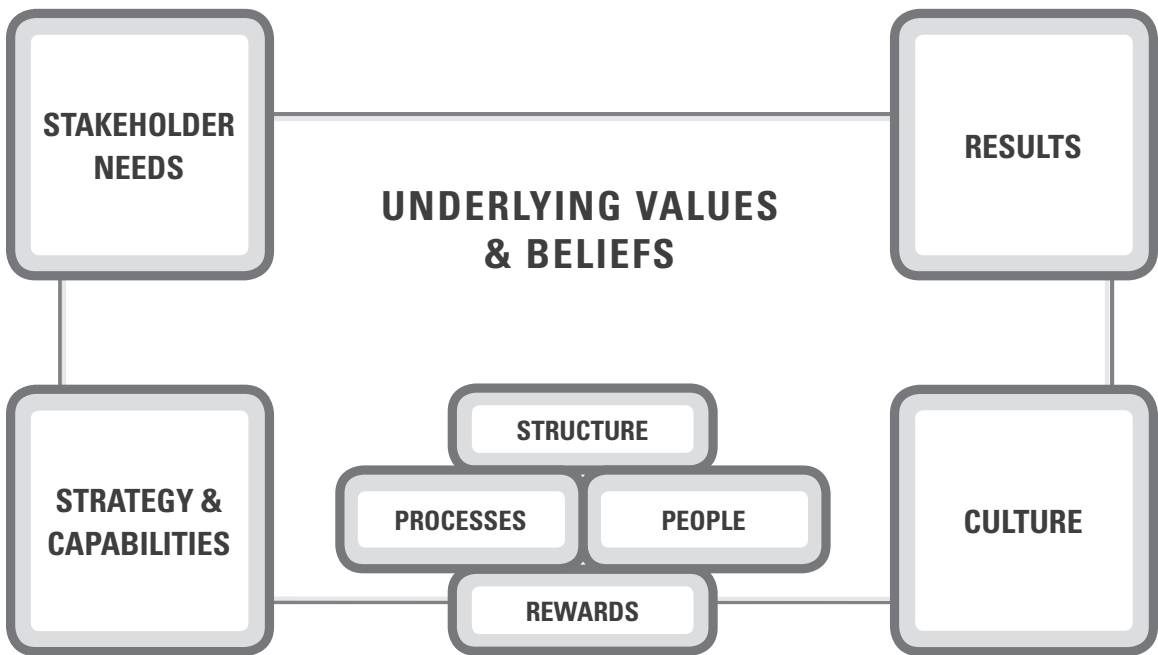


THE ORGANIZATIONAL SYSTEMS MODEL




A tool for developing high performance



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THANK YOU



“For years managing our business was like playing chess. You could be slow, deliberate, and methodical. But things have changed. We’ve got to cut cycle times. Our quality has to improve dramatically. Our associates have more demanding work expectations. And the competition is much tougher than it used to be. Now it’s more like playing ice hockey than chess. We’re getting pushed and shoved while we’re trying to keep our balance and work as a team. The problem is, all of our people still think they are chess players. And they think all the pushing and shoving is unfair.”

This is how a manager once described his dilemma. Does this sound familiar to you? Have the Information Age, the global market place, fluctuating economic cycles, and evolving stakeholder needs combined to raise the standards of excellence for your organization?

In this paper I would like to share a tool with you that has helped many managers improve their organizations—and help chess players see themselves as hockey players—in many cultures around the world. It can help you shape what is called a High Performance Organization (HPO)—an organization that surpasses the most important expectations of its key stakeholders.

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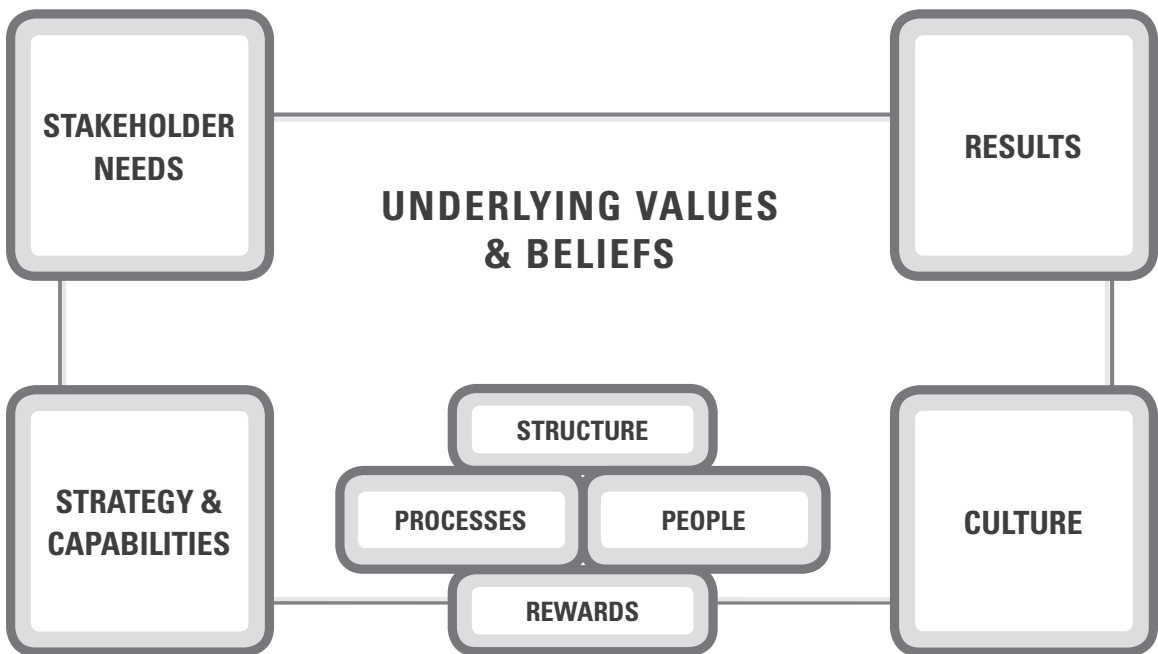
A common error in organizational improvement work is to address certain design elements in isolation. Because of this flaw in approach, setting a strategy, adjusting the executive compensation system, revising hiring criteria, downsizing, outsourcing, and similar activities too often do not deliver the desired outcomes. The missing piece is a framework that enables leaders to see the organization as a whole system. The holistic picture of your organization will help you identify the few things you can do to have an enormous impact on your bottom line—and eventual survival.

The Organizational Systems Model (OSM) is a framework for keeping in perspective the big picture of key variables that impact organizational performance.

Indeed, the organization is a system that can appear to be complex and puzzling to those who manage it. Arthur Jones, a former colleague of mine at Procter & Gamble, first coined this phrase: “All organizations are

perfectly designed to get the results they get.” Think about this statement for a minute. What this means is every organization has ways of balancing out the many demands for its time, attention, resources and energy. Depending on the balance struck, the organization performs and delivers results. Think of this balancing act as “design.” Design is not just structure. It is not always formal or conscious. This balancing of resources isn’t always fixed—you may not do things the same way every time and your results may vary (even drastically!) from month to month. However, you can’t really argue with this statement—the fact that certain results occur (and not others) verifies that *some design* has been perfectly executed.

The key point this process model illustrates is that organizational performance can be influenced by the degree to which critical elements harmonize. So what are these elements?



1 Stakeholders Needs

First, the Stakeholder Needs the organization must fulfill, such as:

- Shareholder expectations.
- Customer expectations of product quality and service.
- Supplier expectations around product, cost, timing, flexibility and trust.
- Employee expectations of income, challenging work, job security and personal growth.
- Community expectations concerning corporate citizenship, environmental responsibility, and social standards.

Identifying and meeting the most essential of these needs and expectations are the very keys of organizational survival.

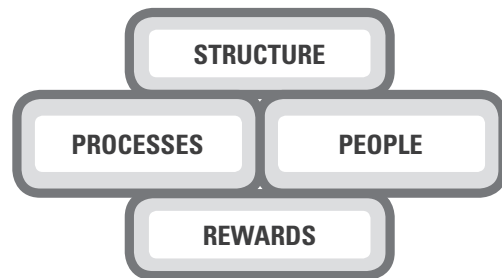
2 Strategy & Capabilities

The second element is the Strategy & Capabilities. The strategy sets the direction for what's important in the system. It may be expressed as a mission, vision, and/or strategy. It may also include more operational elements like operating principles, values, and goals. These define what things will be done and what things won't be done. They determine what the critical tasks of the organization will be. Organizational Capabilities are those intangibles that are required to fulfill the strategy. They include such things as efficiency, collaboration, leadership, strategic clarity, shared mindset, innovation, accountability, and customer connectivity. An accounting firm competing on a strategic platform of matchless customer service might require customer connectivity, shared mindset, and efficiency to be successful. The Strategy & Capabilities serve as design specifications to shape the specific organizational systems.

3 Organizational Systems

The third element is Organizational Systems. These are the organizational tools used to implement the Strategy and deliver the organizational capabilities. These systems include *Processes* (meaning work processes), *Structure* (how work is divided up and connected), *Rewards* (the incentives and consequences for either delivering or not delivering what the strategy and capabilities require), and *People* (including talent management systems and leadership competencies).

These tools provide structure to work tasks and reinforce patterns of behavior. They are the “glue” holding the culture in place. A key to consistent results is to ensure that all of these systems are aligned with one another.



4 Culture

Fourth, the Culture of the organization, or the work habits and norms that explain how the organization really operates. The way the system really operates is what produces results—whether they are good or bad.

5 Results

Fifth, the actual Results being delivered currently. These results either fulfill or fall short of the stakeholder needs listed earlier.

6 Underlying Values & Beliefs

Sixth, the Underlying Values & Beliefs of people in the organization. This includes the often-invisible elements such as individual values, beliefs and assumptions. These influence how all the other elements are viewed and designed. These beliefs also tell the system when changes are needed or that the status quo is okay.

These are the key elements that affect an organization's results. Now let's see what an organization diagnosis process looks like in this framework.

The Diagnosis Process

Diagnosis is a critical component of an organization design process because the end prescription is only as good as the diagnosis that precedes it. Knowing what the organization must do to survive and understanding what is hindering it from doing so are both vital to prescribing the appropriate organization design that will truly make a difference in results.

All too often, managers and the consultants they employ believe they already know how the organization needs to be reconfigured to improve their results. They attack the problem by immediately making design changes. For example, some common reactions to poor results are to set new goals, or to modify the bonus system, or to restructure or to replace the manager. As managers and consultants have suggested such things in the past, I have asked them, "Have you ever tried this before?"

"Yes," is their frequent answer.

"Has this always produced better results?" is my next question.

"Well . . . no," is usually the embarrassed reply.

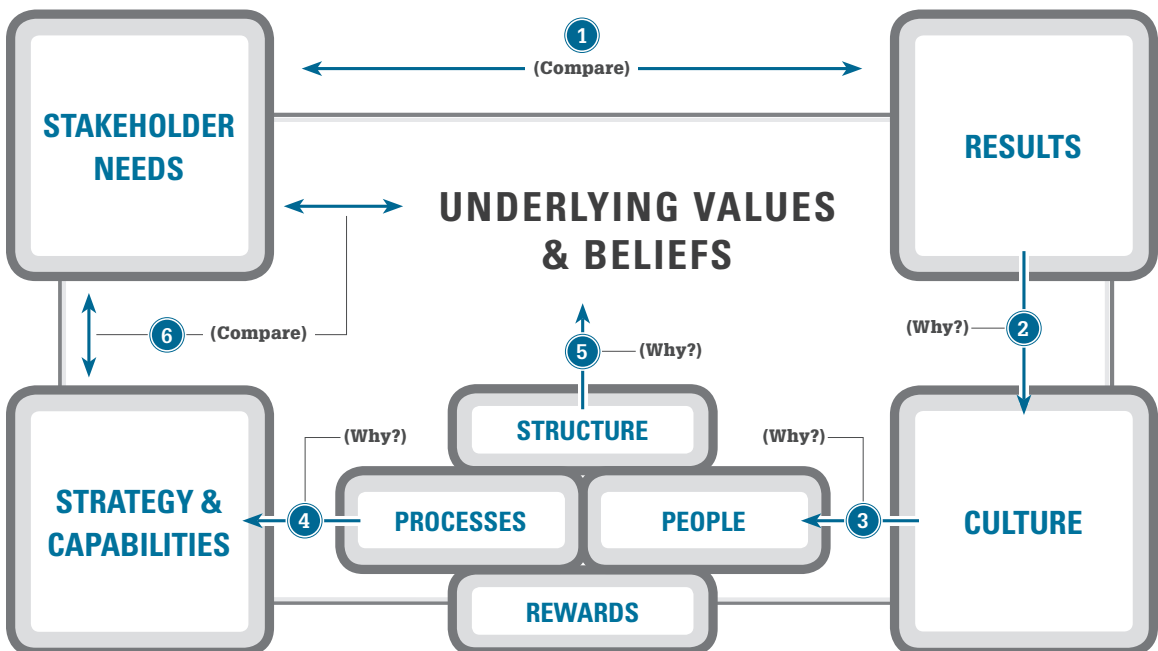
Prescribing without first diagnosing doesn't work any better for organizations than it does for purchasing your

"Most ailing organizations have developed a functional blindness to their own defects. They are not suffering because they cannot resolve their problems but because they cannot see their problems."

– John Gardner

next pair of glasses or contact lenses. Well-intentioned but faulty prescriptions perpetuate what John Gardner referred to as "a functional blindness" to an organization's defects. Diagnosis is key to seeing what the real problems are.

We use the Organizational Systems Model for diagnosis by beginning with the top two boxes—Stakeholder Needs and Results—and proceed clockwise around the map.





1 Step One. We compare the requirements of the Stakeholder Needs with the Results actually delivered at present. Given this comparison and extrapolating today's performance vs. evolving stakeholder needs, we can determine what needs to change and what needs to remain the same.

2 Step Two. Next we move down to Culture from Results. There are many definitions of culture in the literature today due to its particularly complex nature. Culture is much like air; it is everywhere we look and touches everything that goes on in organizations. It is both a cause and an effect of organizational behavior. The more we learn about organizations, the more elements of culture we discover. There are behaviors, values, assumptions, rites, rituals, folklore, heroes, creeds, physical artifacts, climate, etc. Unfortunately, the definitions of culture that are the most inclusive are also the most esoteric and unwieldy to the manager. They cause many managers to shrug at the prospect of ever understanding—or managing—culture.

I propose a more limited but pragmatic definition of culture to be used in the context of the OSM. When focusing on the culture box in the model, I prefer to think of culture as the observable work habits and practices that explain how the organization really operates. When viewed this way, culture is not some mystical phenomenon that has no relevance to effectiveness. On the contrary, it is a critical factor of organizational performance—and something every manager needs to understand. There is a “hidden” side of culture (underlying values and beliefs) that is included in the heart of the model because values, beliefs and assumptions are causal forces that shape many of the other system's dynamics.

These two elements, 1) the behaviors and work patterns one can observe and 2) the underlying values and beliefs, are generally regarded by most theorists as being core components of culture. Focusing on them simplifies things considerably. We can't fully understand everything about culture, but we can understand the essential behaviors and values, and these two areas have the most critical influence on results.

A cultural diagnosis is done by examining each result (good or bad) currently produced and asking

the question “Why?” For instance, *why is profit satisfactory? Why is product quality below the acceptable level? Why is turnover rising in the last quarter?* To answer each of these questions, we identify the observable daily behaviors that logically explain the results. In the above example of unacceptable product quality, we might identify the following behaviors:

- Associates don't perform the quality checks using the standard process.
- The Quality department frequently changes the standard process.
- If production falls behind its commitments, everyone focuses on getting products shipped, not quality.

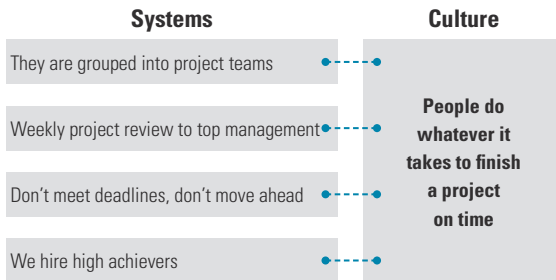
In the above example, do these behaviors give a logical explanation for the poor result? Will the result improve if these behaviors stay the same? This is the kind of connection we are looking for in Step Two.

3 Step Three. Having identified the cultural elements (behaviors) influencing results, we now move into the Organization Systems. The culture is largely determined by the quality of, and fit between, the *processes, structure, rewards, and people* systems. This diagnostic step takes each element of culture previously identified and asks why these cultural behaviors exist. The answers are then traced into each of the four organizational systems categories. Again, we can ask ourselves which of these design features we want to keep and which we want to change.

For example, let's say we are tracing the causes of an organizational culture in which people do whatever it takes to finish a project on time. Looking at the systems, we might find:

- People are organized into specific project teams. (Structure)
- Each project team has a weekly project review with top management to assure everyone that the project is on track. (Process)
- Those who don't meet deadlines don't move ahead career-wise in the company. (Rewards)
- The company has a reputation for hiring high achievers, usually in the top 10 percent of their graduating class. (People)

In this example, the four systems are perfectly designed to have people finish projects on time. The cause and effect connections look like this:



4 Step Four. We ask ourselves why the particular organizational systems have been chosen and/or perpetuated. This step looks at the formal Strategy & Capabilities for the cause of the cultural behaviors. Is there something in the mission, vision, strategy, values, or goals/objectives that explains the systems design choices? Is our strategy of “low cost producer” reflected in our organizational systems? Has the drive to establish the capabilities of engineering excellence and innovation shaped information systems around technical standards to the omission of employee opinions? There may be many or few connections between strategy and capabilities and systems. Make a note of whatever is evident or missing between the two, then move on to Step Five.

5 Step Five. This is where the deeper level of culture comes in. Frequently, organizational systems are chosen based on Underlying Values and Beliefs of people. To find out what these values, beliefs and assumptions are, we deduce them from the pattern of organizational systems, cultural behaviors, and results from the previous steps. For instance,

- If the **result** is an unacceptable cycle time, and
- The **culture** is one of people waiting for the boss to give orders and to always ask permission before acting,
- And, the **organizational systems** show this behavior is rewarded and initiative without prior approval is punished.

What underlying value or belief would explain the whole dynamic? It might be something like, “*The boss knows best.*” These beliefs do not always correspond to the published or agreed-upon strategy, just as the organization’s culture doesn’t always match the formal organization chart. However, uncovering these underlying values is crucial, because any improvement you attempt to make will likely fail if these underlying elements are not addressed.

6 Step Six. We compare the Strategy/Capabilities and Underlying Values and Beliefs with the Stakeholder Needs and note areas of alignment or misalignment. It is at this point that many leaders understand they have become their own worst enemy. They recognize their beliefs have supported ineffective design choices that have sustained a culture that delivers today’s poor results. (In the above example, the belief that “*the boss knows best*” is actually a driving force for *unacceptable cycle time*.) The good news is, I have seen some leaders willingly change their values and beliefs once they recognized these were self-defeating.

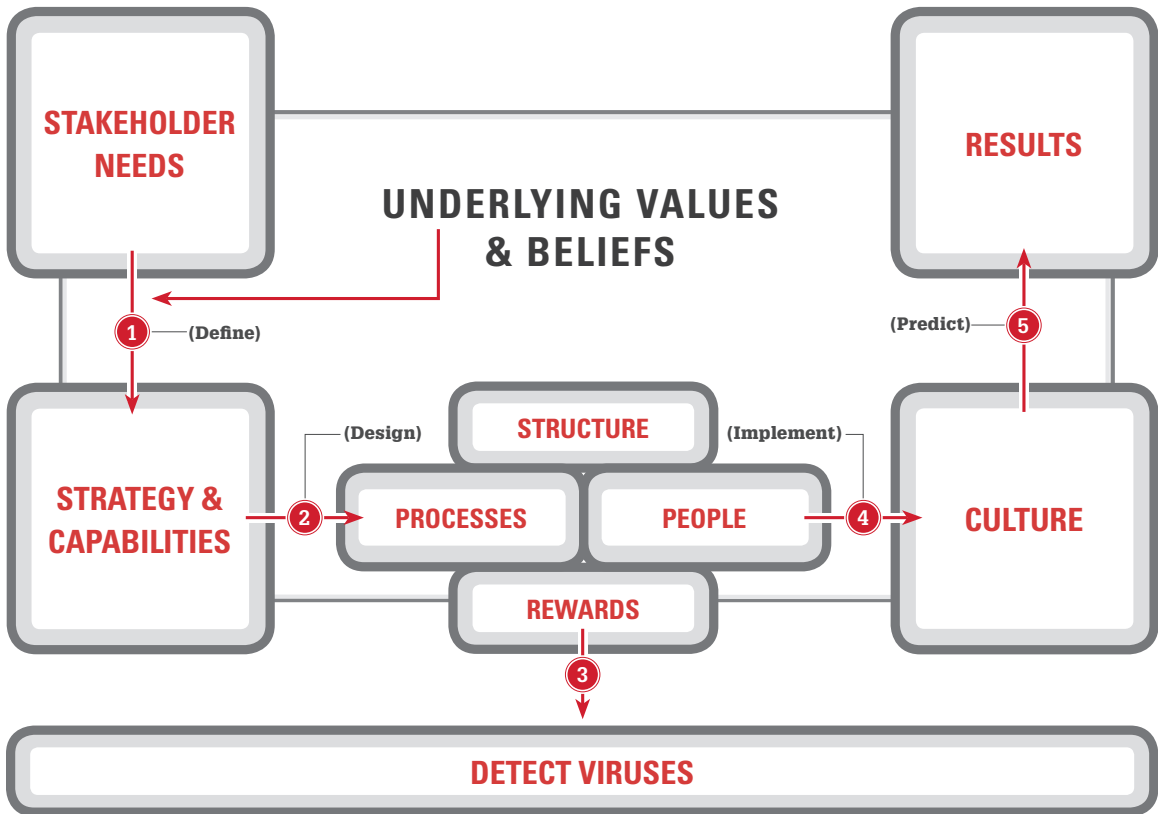
This completes the diagnosis process. We should now have a better understanding of why our results are exceptional or in need of improvement, and we should be clear about the elements that are helping or hindering our results.

“If you see in any given situation only what everybody else can see, you can be said to be so much a representative of your culture that you are a victim of it.”

– S. I. Hayakawa

The Design Process>

Now let's examine the process of designing the organization to get the results you want.



1 Step One. We start by defining the elements of Strategy/ Capabilities that align with the Stakeholder Needs.

This step considers the basic strategy of the organization (in the context of key stakeholder needs) by asking such questions as:

- What is our reason for being?
- What business are we in?
- How do we choose to compete in our businesses?
- What are our core technologies?

Many organizations also take time to get a clear sense of mission. Mission supplements the Strategy by identifying:

- The organization's distinctive competencies.
- The organization's unique contribution.
- How our life's desires can be expressed in our work.
- Our core values (or operating principles).

An important note to this last point on core values: this is a good opportunity to address some of the dysfunctional underlying values and beliefs uncovered in the diagnosis process. An underlying value is technically a part of the strategy that people are following to get today's results. If this direction is actually moving people away from delivering the needed results, the underlying belief must be uprooted and removed from the system. For example, if the diagnosis reveals that many associates in the system believe *"the boss knows best,"* and this is causing cycle times to be too long, then this belief must be countered. As part of the new strategy, one might define a value or operating principle such as, *"whoever sees a problem is responsible to solve it."* The new value promotes what associates *should* have in their mind rather than the current self-defeating belief.



Once the strategy has been defined with as many (or as few) elements as desired, the organization then can set measurable short-term objectives and goals that will lead to the strategy's fulfillment.

The second half of this step is to define a few organizational capabilities that will be required to deliver the strategy. Must we have speed, accountability and strategic clarity to deliver the strategy? Or are the requirements for customer connectivity, innovation, and collaboration the critical few? The combination of the Strategy & Organizational Capabilities give you the design specs for the rest of the organizational elements.

2 Step Two. Design the Organizational Systems to successfully deliver the Strategy. In organization design, as in architecture, *form follows function*. Therefore, the organizational systems should be derived from the strategy/capabilities, not the other way around. This is a complicated step, one that requires more explanation than can be given here. In the coming chapters I will review some approaches and design tools that have helped many organizations dramatically improve their results. The basic sequence, however, is quite simple. Design the Processes first, and then align Structure and Rewards and finally the People systems.

3 Step Three. This step calls for the organization designers to take a step back from the new strategy and organizational systems they have put together and consider if the present culture has any "organizational viruses" that might defeat the chosen design. An organizational virus is a deeply-rooted underlying belief

or behavior that is a barrier to the progress you seek. You may uncover such viruses during the diagnosis process. However, there may be some viruses that will specifically attack the organization design you are proposing. Many design plans that are completely logical and could have been considered best practices have flopped in implementation because they were attacked by such viruses.

For example, one client told us their culture was one in which everyone was always inventing something new. A new product would be conceptualized, initial testing and prototyping would be completed, and then everyone's attention would leap forward to find the next big idea. Someone else was supposed to finalize the product and introduce it into the market place. This virus (often a strength becomes a virus if taken to extremes) of "find the new idea" was hurting them because very few of their big ideas became commercially viable. If this virus were left untreated, what do you suppose the organization's response would be to a new system requiring the inventor to continue with the project through final market release? Some inventors might leave, in hopes of finding another inventor's paradise somewhere else. Some might quickly go through the motions to deliver the product even if it might lead to surprises in the market place and bring disappointing results.

This practical step invites you to check for some unseen forces that might defeat a well-constructed organization design and plan to eradicate them during the design implementation phase.

Once the strategy has been defined with as many (or as few) elements as desired, the organization then can set measurable short-term objectives and goals that will lead to the strategy's fulfillment.



4 Step Four. Design falls short unless it is able to accomplish a lasting change in the daily behaviors so that the desired results are produced. I have been disappointed at the number of organization designs that have never truly delivered what they were capable of delivering because the implementation phase was done hastily or ignored altogether. Remember the immortal words of Peter Drucker, “Plans are only good intentions unless they immediately degenerate into hard work.” Effectively implementing an organization design is hard work that requires several things:

1. An action plan for rolling out the new design. Who needs to do what by when, with whom to transition from the current design to the better design?
2. A commitment plan that anticipates how the different stakeholders might react to the changes and also plans to earn their commitment to the new order of things. Who needs to make it happen, help it happen, let it happen or stay out of the process? A well-conceived commitment plan is one way of eradicating organizational viruses.
3. A communication plan that tells everyone affected by the new design why things will be different in the future and why. This plan needs to incorporate elements from the previous two planning steps.
4. A monitoring plan to track progress on items 1–3, defining the metrics to be used and communication methods to be employed.
5. A contingency plan that addresses any developments in implementation that do not match expectations for the new design. What happens if the new structure does not improve collaboration between functions? What if the leadership training does not change underlying beliefs? Who should come together to decide what needs to be done? Thought should be given to such questions in the planning phase rather during the rollout phase when emotions can run high and distort the big picture.

Feel free to use any other tools you have found to be successful. Just check to make sure these five elements are included (in whatever form) as you move forward.

5 Step Five. This is the final sanity check for the design process: to predict what effect the new culture (after successful implementation of the design) will have on results. Will you in fact be better, faster, cheaper (or whatever your intended targets are) than competition? Will the associates actually perform at the needed levels? Is the logic between the new behaviors in culture and the desired results clear and compelling? If all answers are affirmative, then the project is ready to be launched!

Design Choices

One thing to remember about organization designing: you will never find one design that solves all of your problems. When you design an organization, you are only choosing the kinds of problems you are willing to live with. There are many ways to organize, depending on your choices and preferences. Let's examine a couple of examples that demonstrate organizational design choices and their impact on the work culture.

Certainly each of you has experienced various forms of bureaucracy. If we were making design choices based solely on bureaucratic policies, here are six steps we would follow:

1. Tasks would be specialized and reduced to the smallest possible work cycle.
2. Work would be performed the same way every time.
3. Decision-making would be exclusive to those in authority.
4. Uniform policies would be approved to provide consistency.
5. There would be no duplication of functions. Tasks would be handled exclusively by those assigned.
6. Reward physical activity. Hired hands would be given incentives to work hard and produce the targeted outputs.

For centuries these principles have been some of management's core assumptions about how to run a large organization. They have definitely added predictability and consistency to many work tasks. However, this theory also has consistently produced the following:

1. Alienation from work, poor quality, even sabotage
2. Uneven performance
3. Delays in action, distrust, "I just work here," "Ask the boss."
4. Poor customer service, "That's what the book says," "The Company doesn't care about me."
5. "That's not my job," special crafts and technologies valued over results.

Now let's contrast the policies of bureaucracy with the organizational attributes of what I call The Organizational Survival Code. What are this code's design specifications?

Ecological Order: Strategize to fulfill the most important needs and expectations of your key stakeholders.

1. *Purpose:* Develop a compelling purpose and strategy so that each member instinctively acts to fulfill it.
2. *Steady State:* Design work processes that consistently deliver high quality outputs.
3. *Mobilization:* Solve problems at their source.
4. *Complexity:* Empower more self-sufficient, flexible, multi-skilled people and work units.
5. *Synergy:* Develop true partnerships with all stakeholders to always enjoy a competitive advantage.
6. *Adaptation:* Re-strategize and redeploy resources in the midst of external changes to stay at the top of your game.

Now, what would you expect the culture of such an organization to look like?

- You have a constant connection with key stakeholders and balance your strategic choices with their most important needs.
- Everyone acts like an owner and is personally committed to the company's success.
- Work processes are constantly improving—no one gets complacent with today's success.
- The right individuals are assembled to solve problems.
- There are no artificial barriers. People don't say, "That's not my job."
- Innovative ideas are welcome, used, and not criticized.
- People do whatever it takes to get the job done.
- Teamwork and partnerships are a way of life.
- Strong leaders are found at all levels of the organization.
- "Pushing back" on top management is a norm. One's ability to contribute to a problem or opportunity is more important than one's rank or status in the organization.

The bottom line of all this is the organization is able to align, survive, and even thrive despite intense competition and changes in the market place.

Conclusion

In conclusion, let me offer a few final thoughts.

First, *the competitive advantage in the organizational arena is the ability to produce true performance improvements that are enduring.* This requires two things:

- 1. Changing values, beliefs and assumptions**—the core culture—when they are out of sync with stakeholder needs.
- 2. Structurally reinforcing work behaviors through the design** of the organization to be congruent with the desired culture.

This is an enormous challenge. But then, if it were easy, it would be common to most organizations and would not represent a competitive advantage.

Second, *the processes of diagnosis and design can make a difference in creating and sustaining high performance.* These processes not only provide the rational analysis for structural integrity, but also develop commitment (even passion) in the necessary critical mass. It goes without saying that these processes are iterative. Improving performance isn't something that you launch and then revisit in 10 years.

Third, many organizations attempt to diagnose their effectiveness. *The real art is to be able to distinguish critical issues from extraneous ones and focus on true systems "nerve centers" rather than "quick fix" solutions.*

Finally, many organizations understand the need for missions, work teams, pay for contribution, etc. But *few are able to build real understanding and commitment in a critical mass so that assumptions and behaviors are changed.* That is why the number of high performers is still relatively small.

All of this presents a big challenge to those working to improve an organization's results. Creating high performance is one of the most difficult undertakings we can think of. It would certainly be easier to issue

executive orders, run training seminars, revise policy manuals, and mediate boss-subordinate conflicts. Without fitting under the umbrella of a true systems strategy, however, each of these will probably be of little lasting value.

"Competent (people), doing their best on their jobs, know all that there is to know about their work, except how to improve it."

—W. Edwards Deming

Remember:

All organizations are perfectly designed to get the results they get.

Using the Organizational Systems Model as a template for the processes of diagnosis and design can help you reshape your organization to deliver more of what your stakeholders require.