

The Two Dimensions of an Organization:

An Architecture for Achieving Business Results

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September 25, 2008



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Our Background...



- ◆ 1950's – IE (All About Process)
- ◆ 1960's & 70's – *Performance* Improvement
 - 1965 – Job/**Process**/Organization Levels
- ◆ 1980's & 90's – All About Process (Again)
 - Motorola ('81-'91)
 - Rummler-Brache Group ('87-'97)
 - Improving Performance ("Whitespace" book)
1990/1995
- ◆ 1997 – Retirement
- ◆ 2001 – Un-retirement and PDL



Our Interest/Perspective Remains...



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- ◆ Business Results
- ◆ How Organizations Achieve those Results



Agenda



- ◆ Activity: Current Management Practices

- ◆ The 2 Dimensions of Organization
 - Resource Dimension
 - Value Dimension

- ◆ Discussion: Implications
 - For business management
 - For HPT/performance consultants



Current Management Practices



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- ◆ Identify 3-5 current management practices that interfere with good organizational performance
 - Start your own list
 - Then discuss and consolidate

- ◆ Time limit: 10 minutes



The 2 Dimensions of Organization

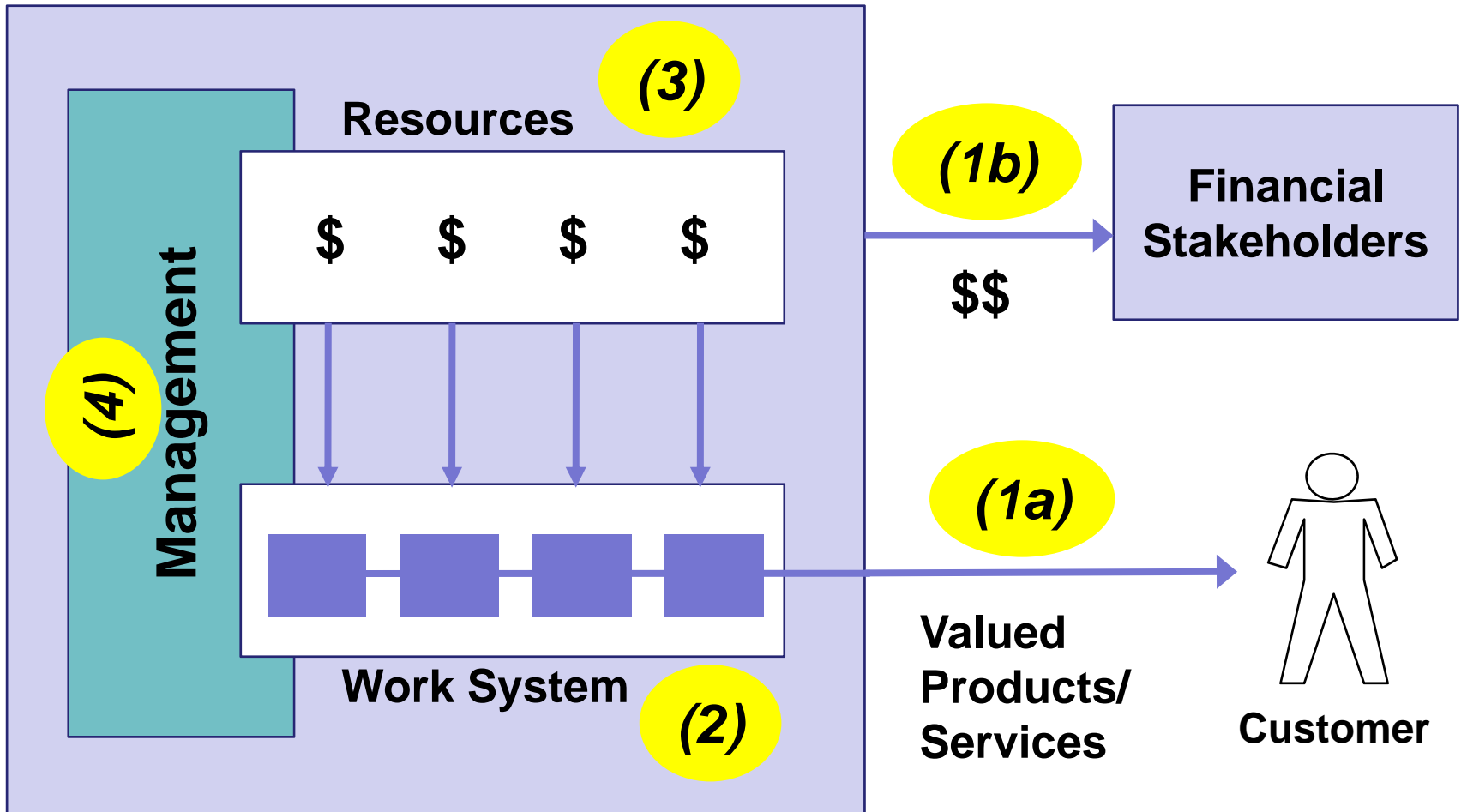


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Requirements for a Successful Business...



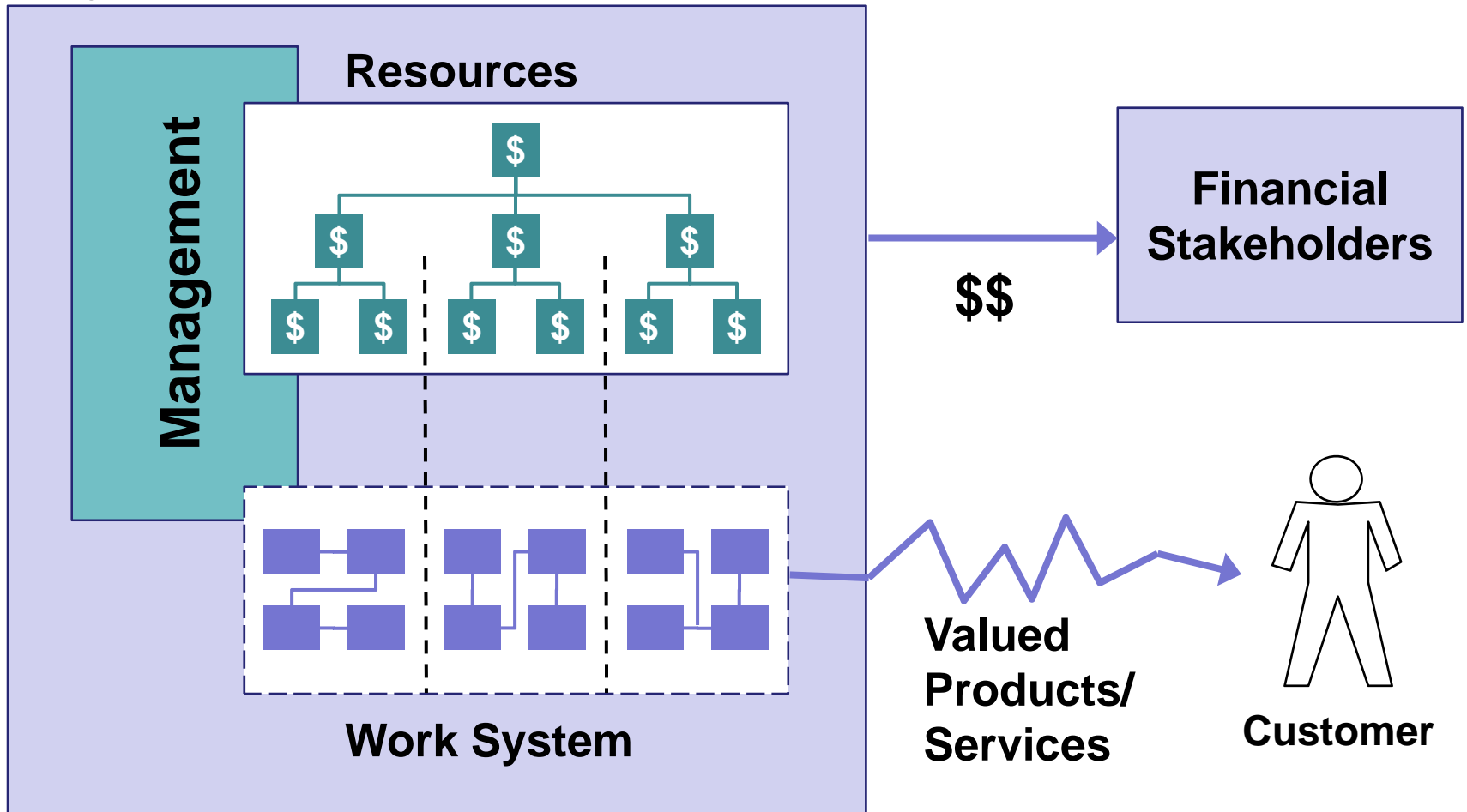
Any Business



What Has Evolved...

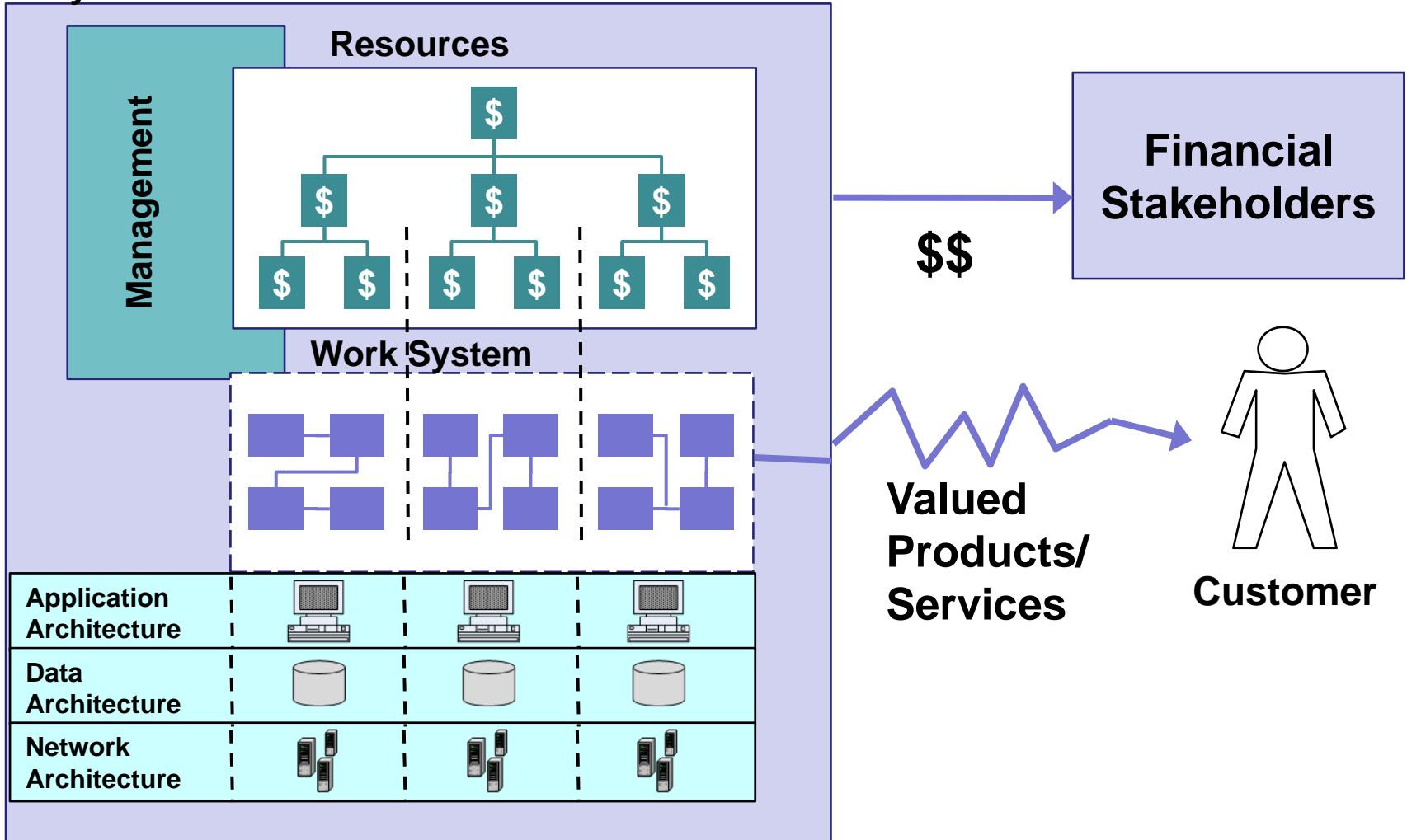


Any Business



The Impact of Technology

Any Business



Result...



- ◆ Work System invisible
- ◆ Management left trying to manage scarce resources without any value adding work system context.
- ◆ Management working with only one dimension of a business – RESOURCES.



Managing by Just Resources Leads to...



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- ◆ Reorganizations that seldom work because the only thing “reorganized” is the names in the functional resource buckets.
 - No change in the end-to-end work required to deliver value to customers.
 - Continued functional sub-optimization of the work required to deliver value.



Managing by Just Resources Leads to..



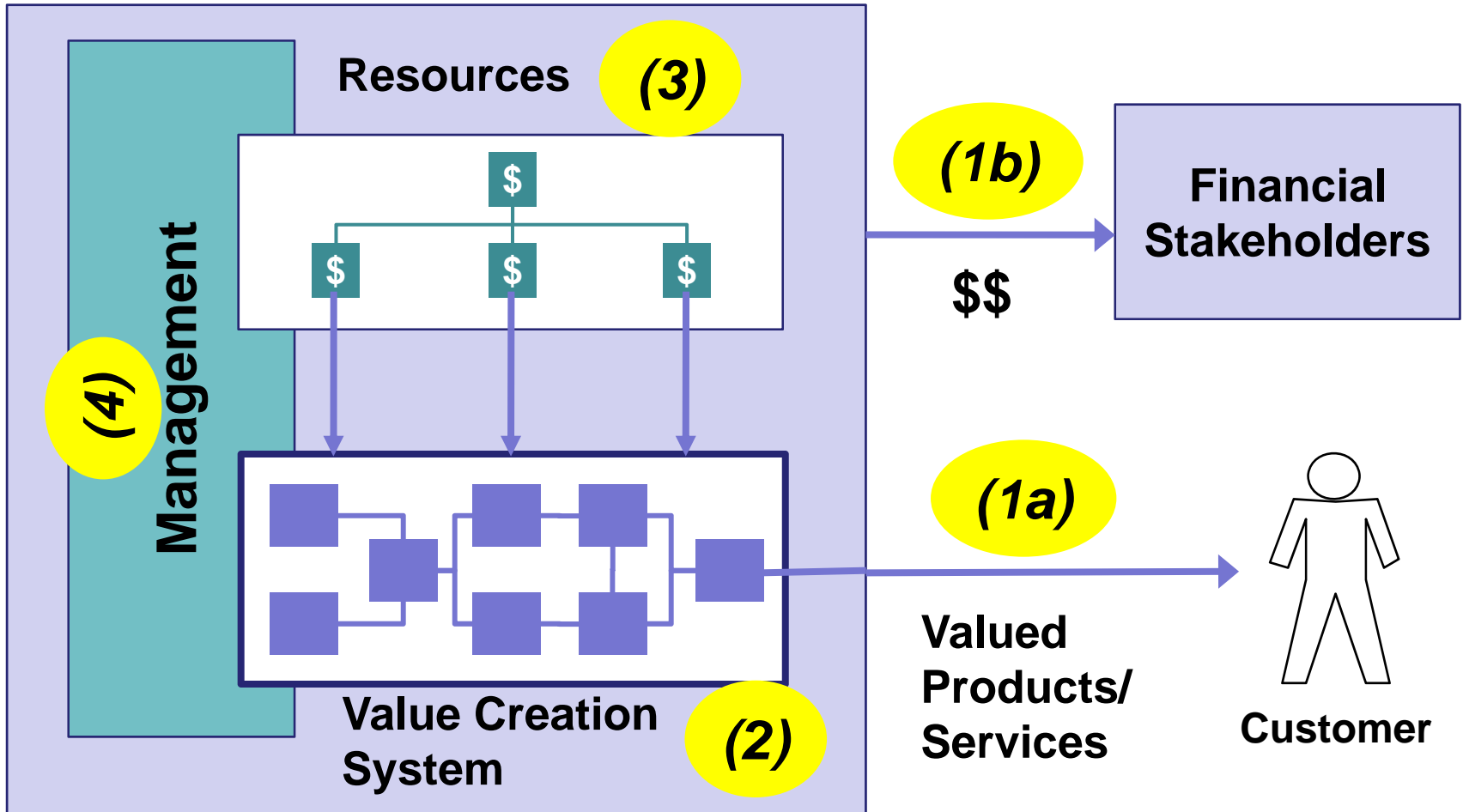
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- ◆ Failed product/service launches because key functions can't/don't participate in the design and development due to their functional resource requirements.
- ◆ Customer revolts because their supplier is focused on resource management, not the work required to deliver value.
- ◆ Downsizing death-spirals as companies try to Resource Manage to profitability.



The Business as a Value Producing Machine

Value Machine (Any Business)



Key Points: (The aha!)



- ◆ There are two distinct dimensions of a business that must be managed – in concert
- ◆ The Value Creation Dimension needs to be articulated so
 - It can be designed effectively
 - It can be managed
- ◆ Process as part of something much bigger





- ◆ What poor management practices are attributable to focusing too much on the Resource Dimension?
- ◆ What management practices would effectively align management of both dimensions?

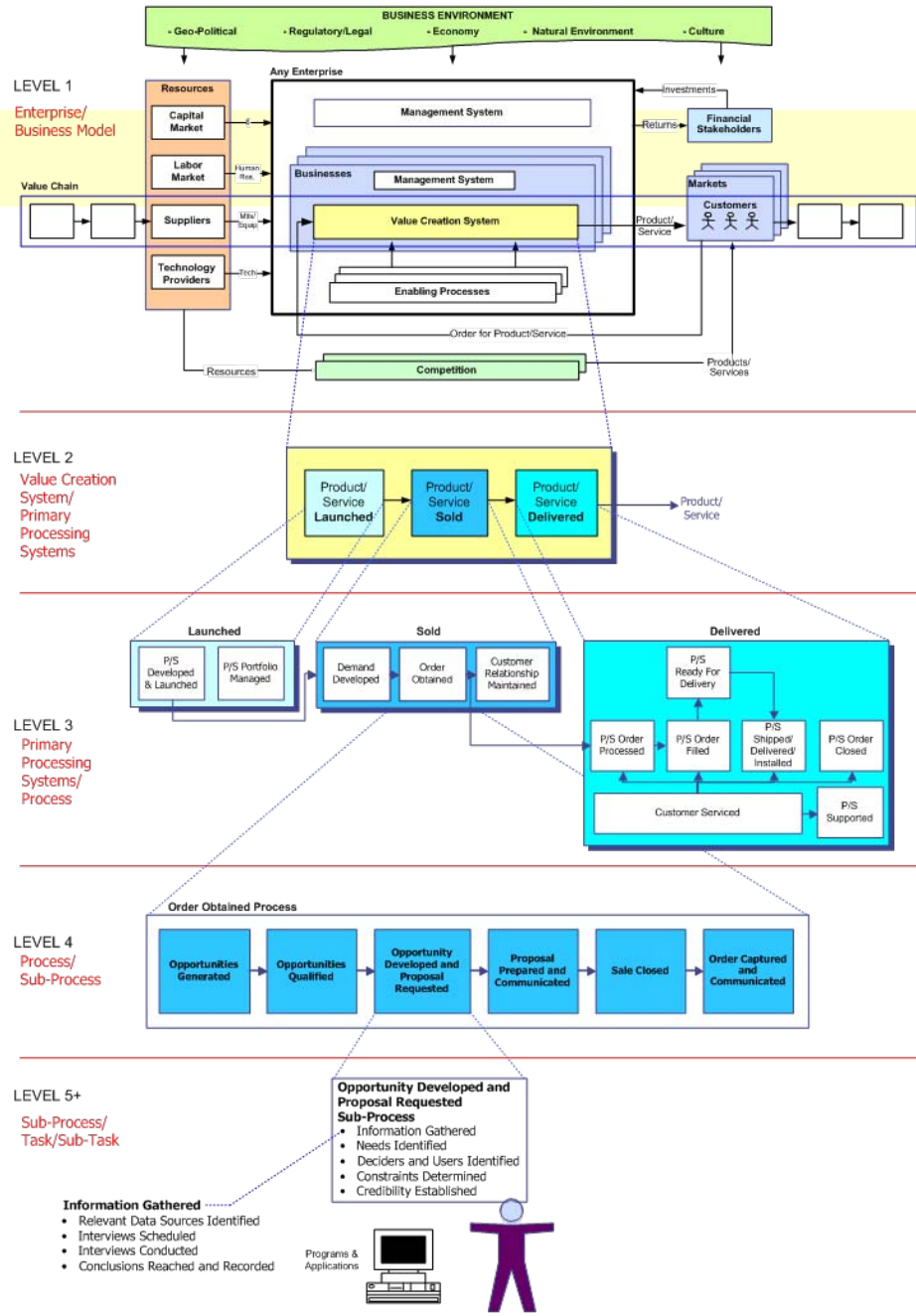


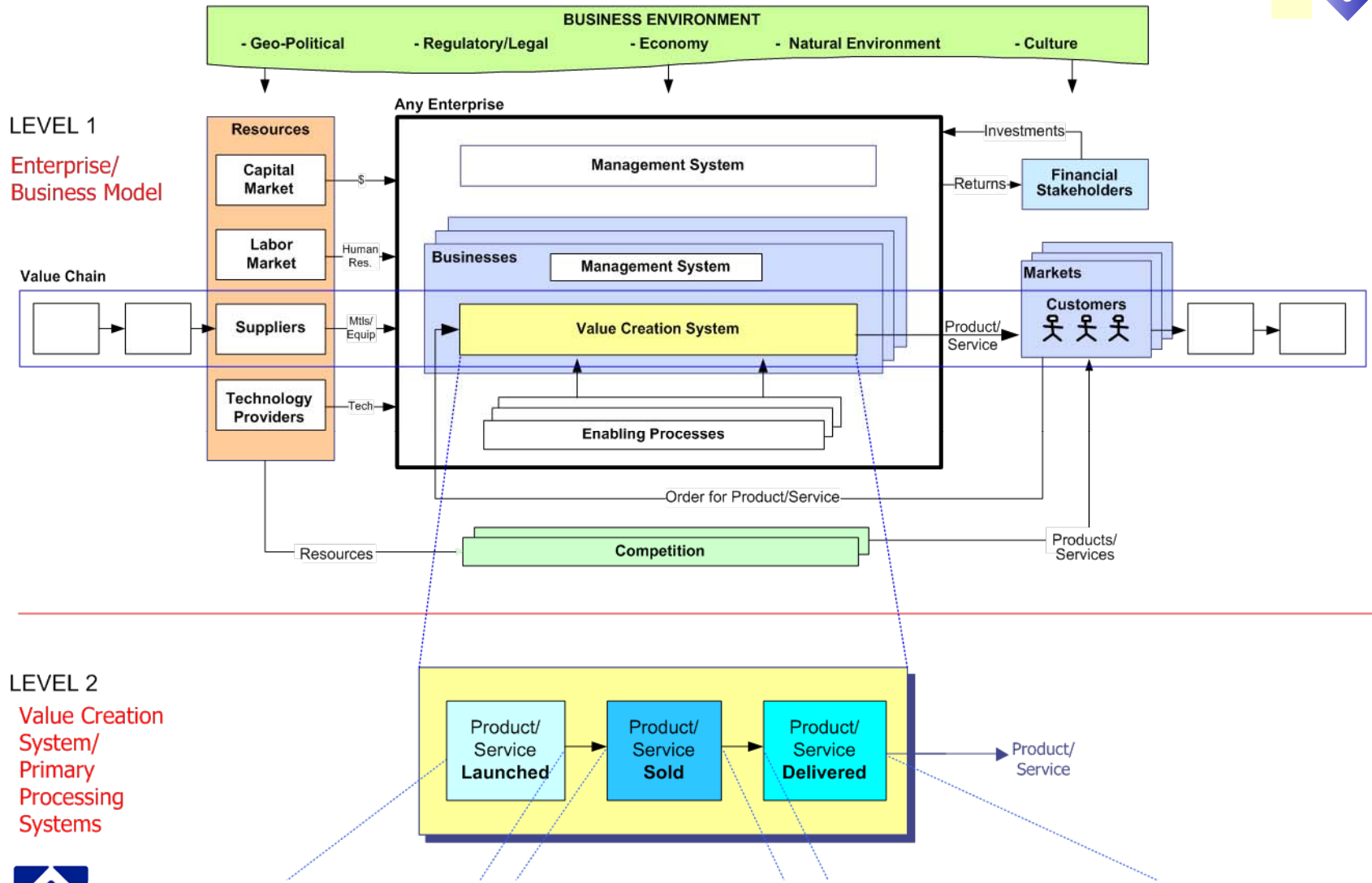
A Future Perspective



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Value Creation Hierarchy





A New Definition of Process...



Not only...

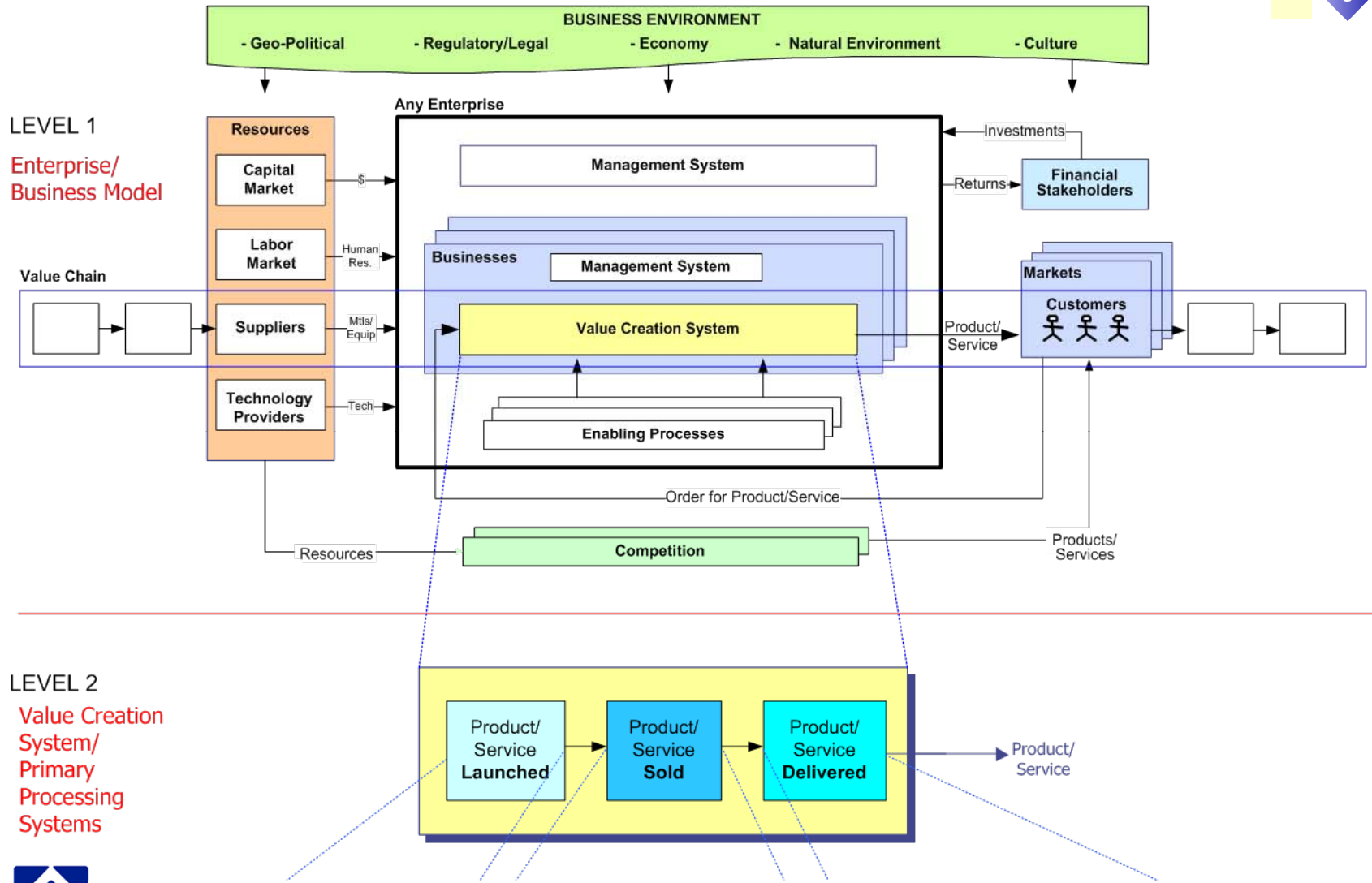
- ◆ "...a series of planned activities that convert a given input into a desired output"
- ◆ "Any repeatable set of activities"



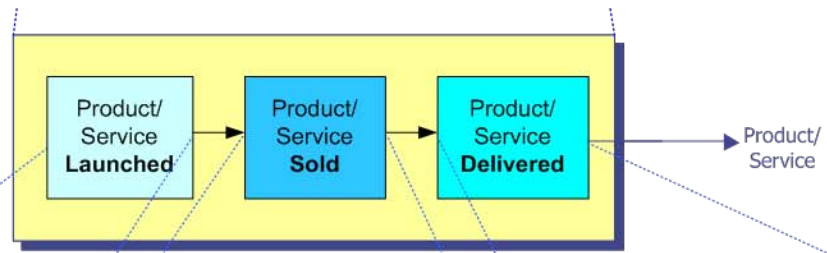
PROCESS is a construct or artifice for organizing value-add work so it:

- Can be **Performed** effectively and efficiently
- Can be **Managed** effectively
- Offers the potential for a **Competitive Advantage**

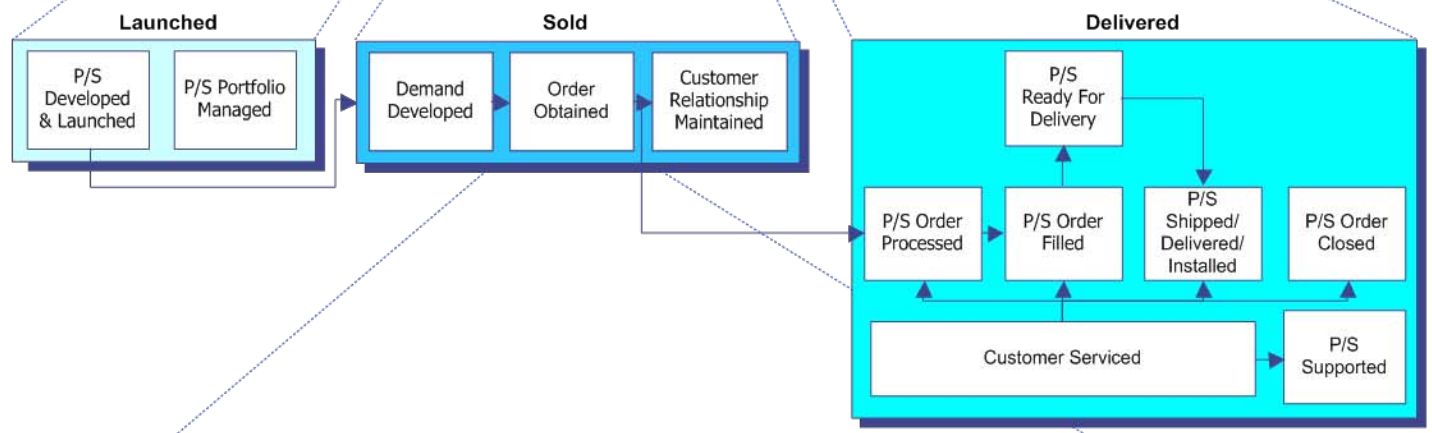


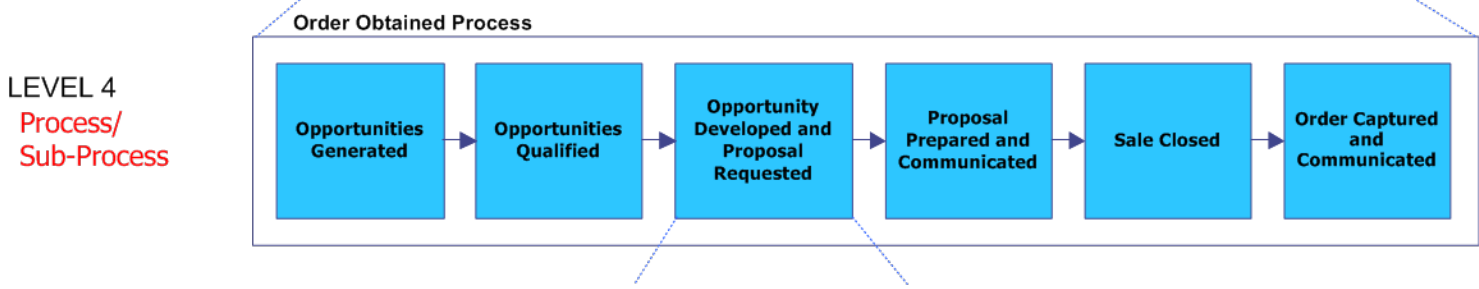
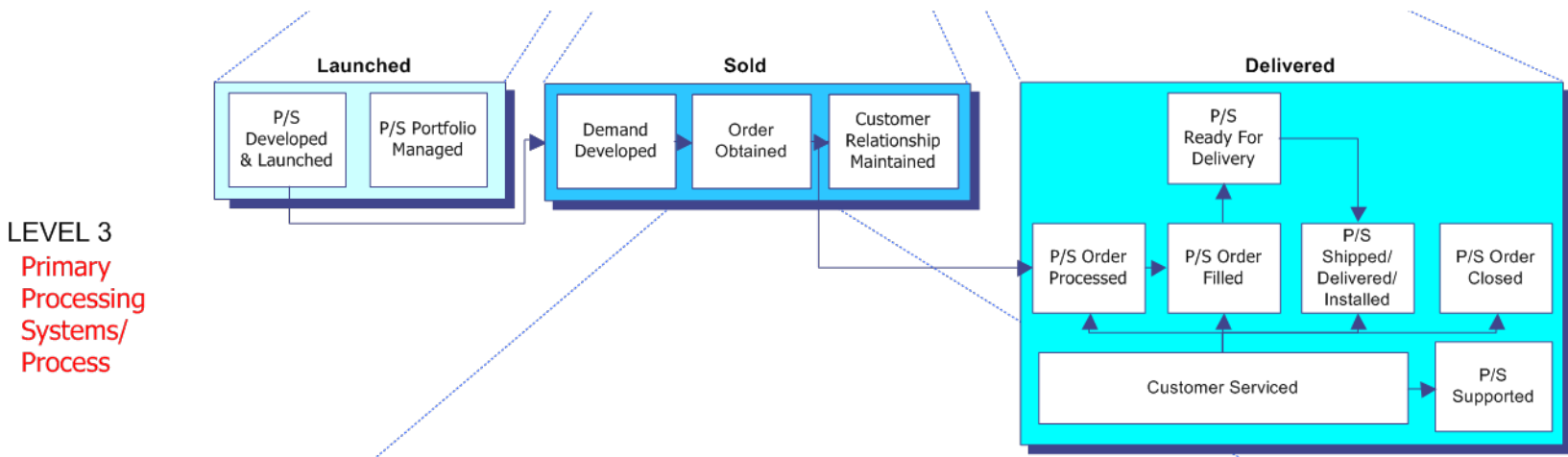


LEVEL 2
Value Creation
System/
Primary
Processing
Systems

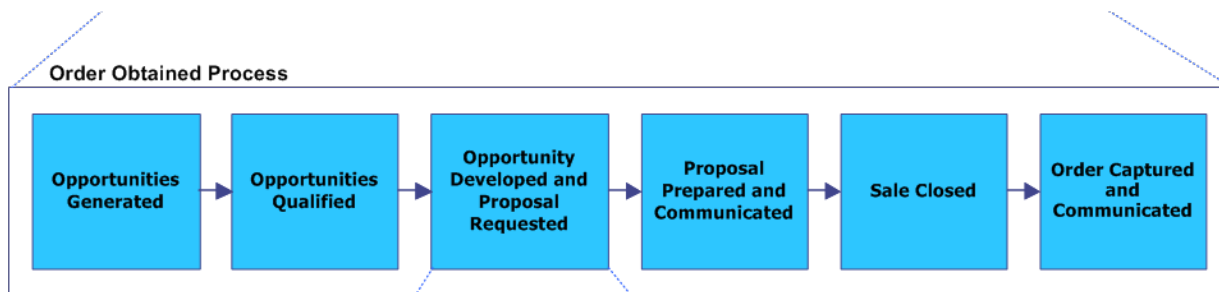


LEVEL 3
Primary
Processing
Systems/
Process

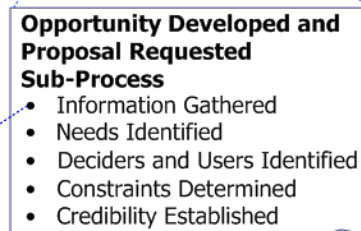




LEVEL 4
Process/
Sub-Process



LEVEL 5+
Sub-Process/
Task/Sub-Task



Information Gathered

- Relevant Data Sources Identified
- Interviews Scheduled
- Interviews Conducted
- Conclusions Reached and Recorded

Programs & Applications



Implications



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Implications for...



- ◆ Business Management
- ◆ HPT/performance architect work



Implications for Business Management

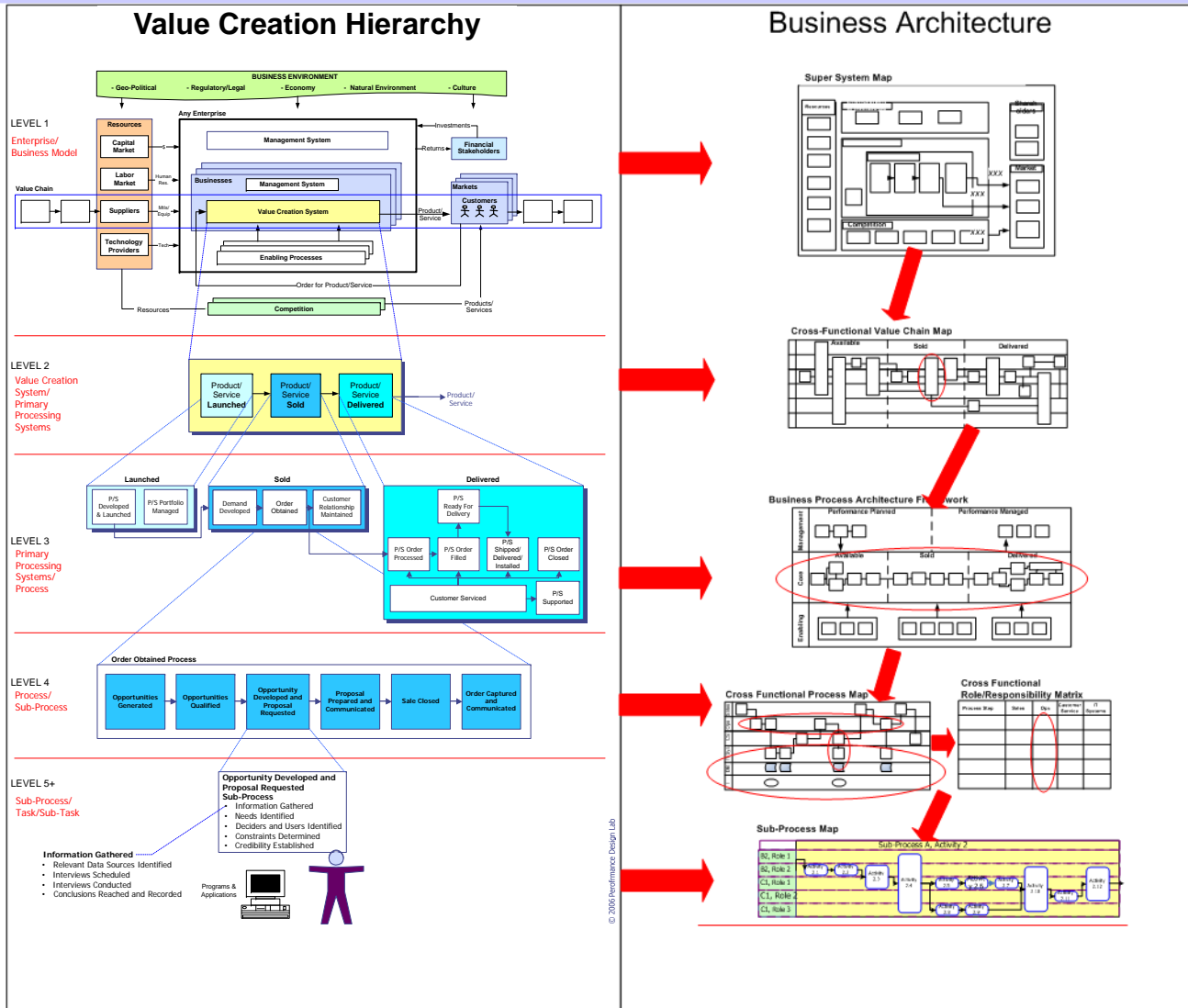


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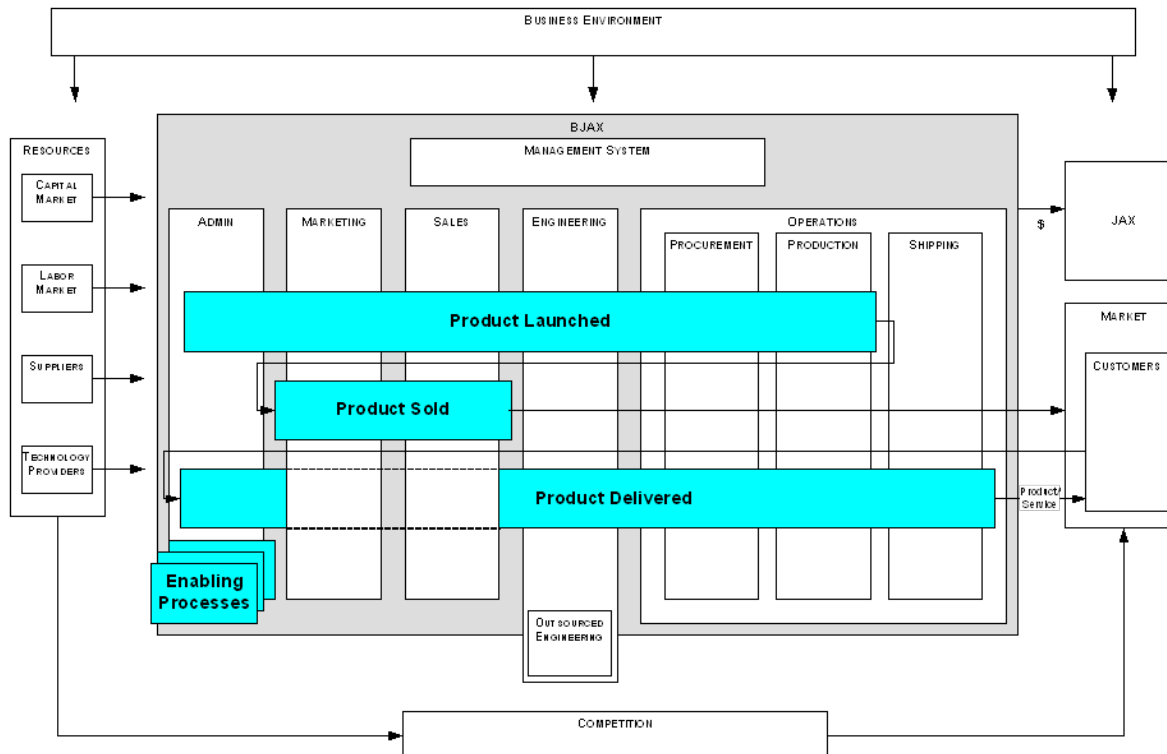
- ◆ The what & how of value creation has to become visible
- ◆ Planning for process performance has to precede planning for resources
- ◆ Resource allocation has to be based on required process performance
- ◆ Performance management has to be based on value creation management



Value Creation has to Become Visible



Horizontal & Vertical Management

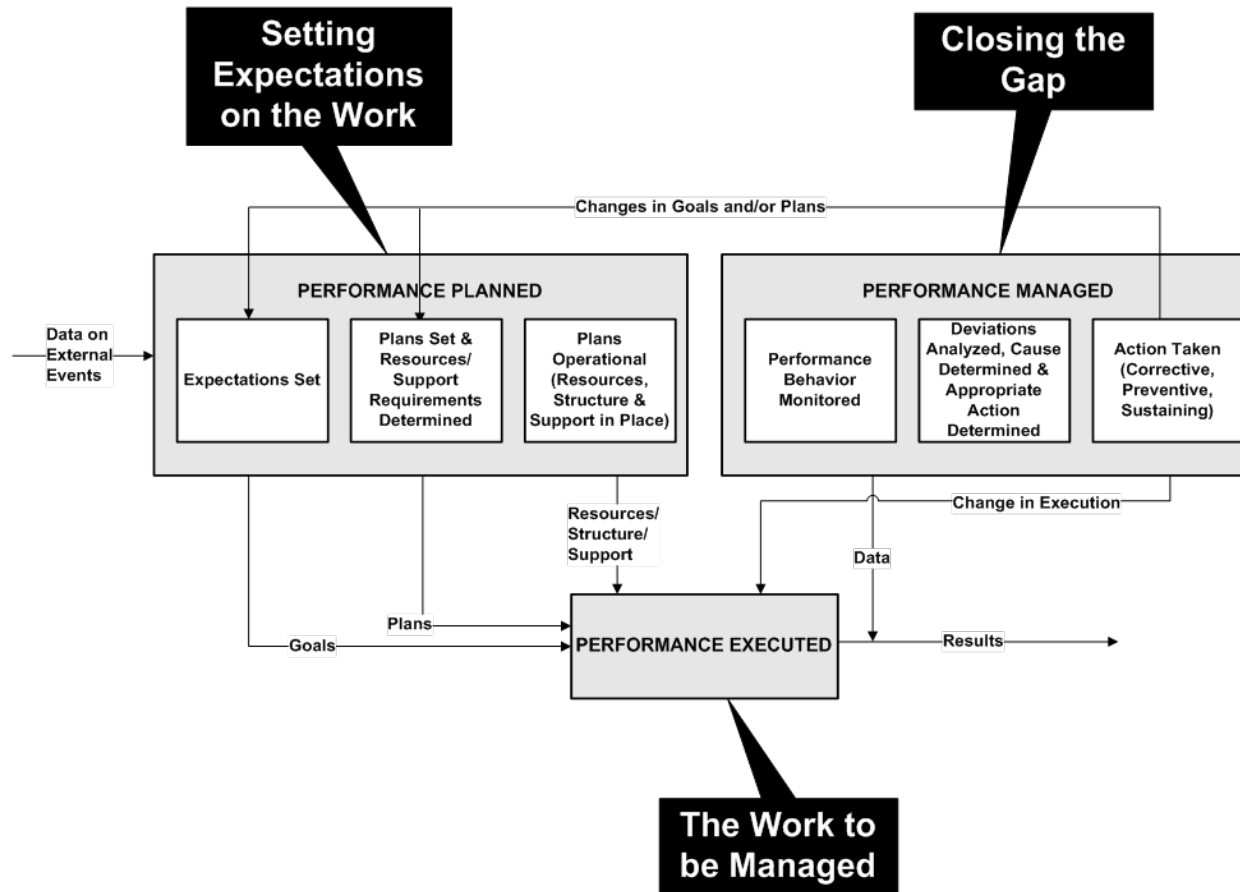


The critical roles of management are:

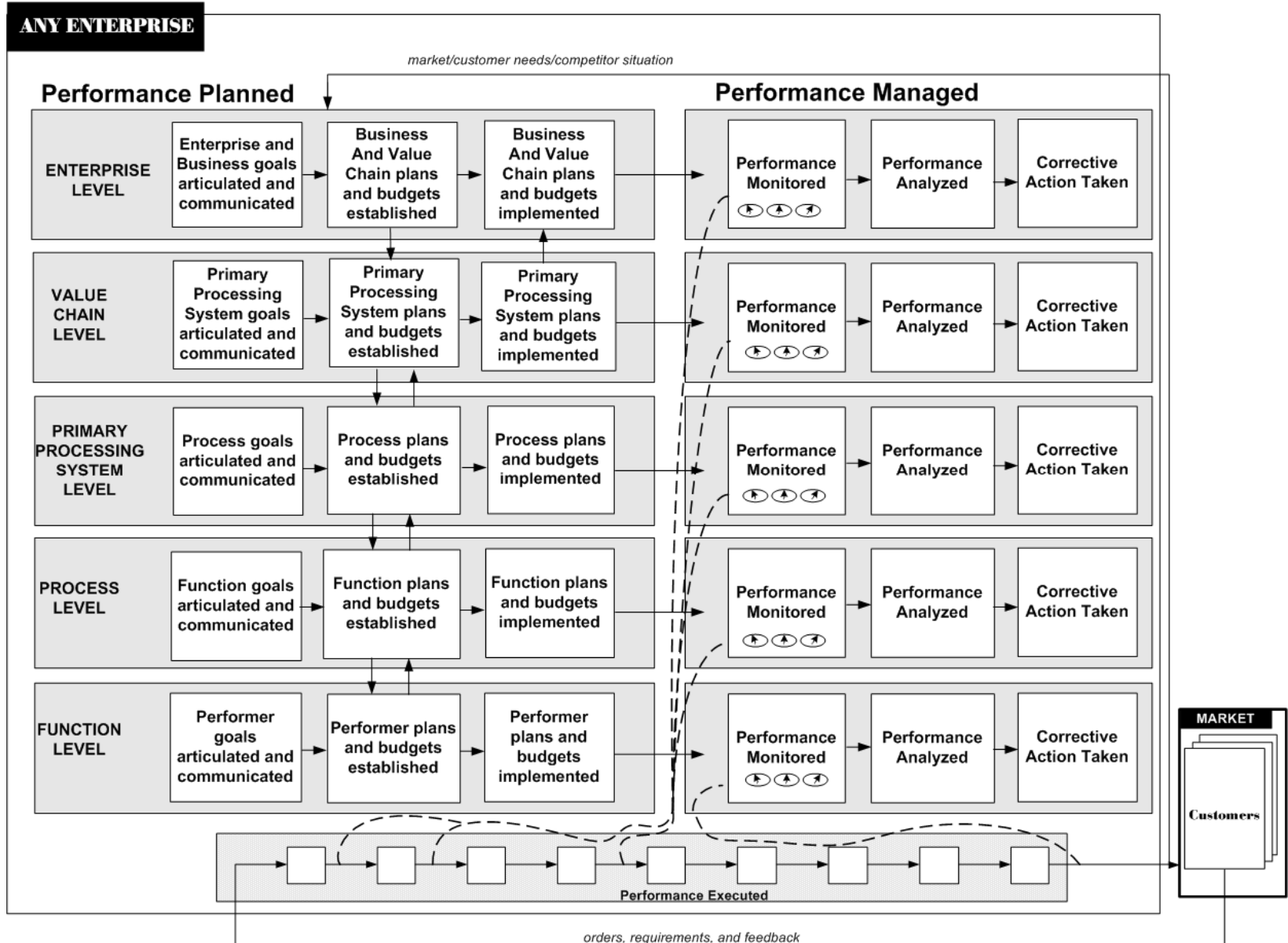
Alignment of the organization's goals, strategies and priorities with the reality of the super-system. (Management of the Adaptive System through strategy formulation.)

Effective and efficient operation of the internal processing system to meet customer and financial stakeholder needs – i.e., manage the work. (Management of the Processing System through Value Creation Management.)

Management Model

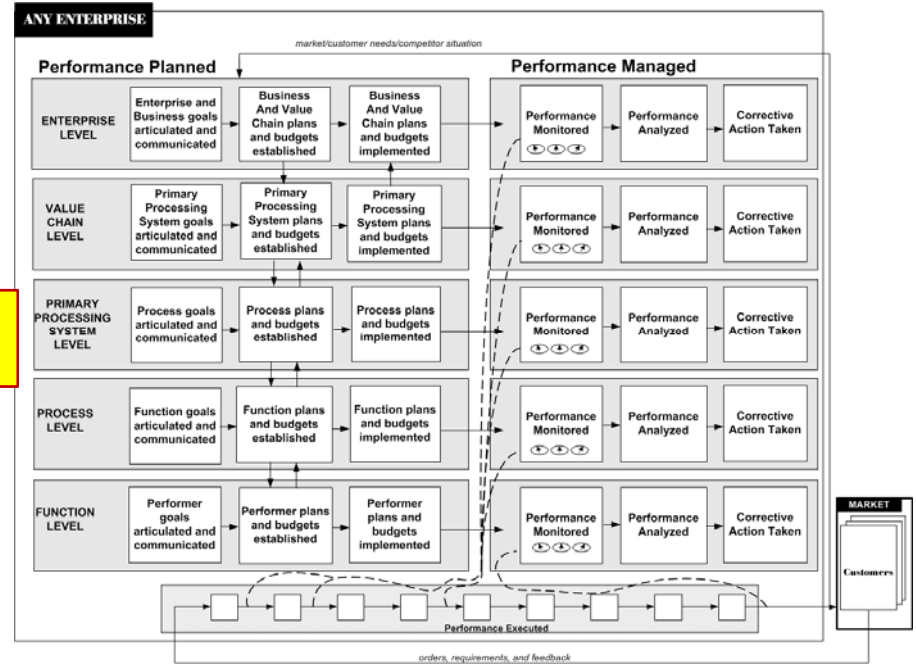
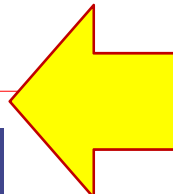
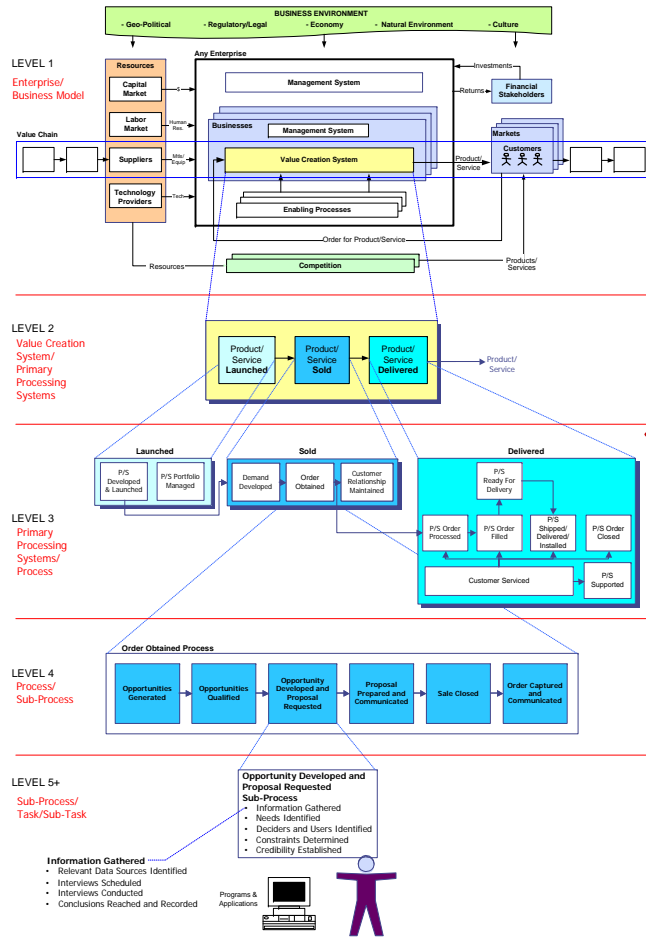


Management Hierarchy





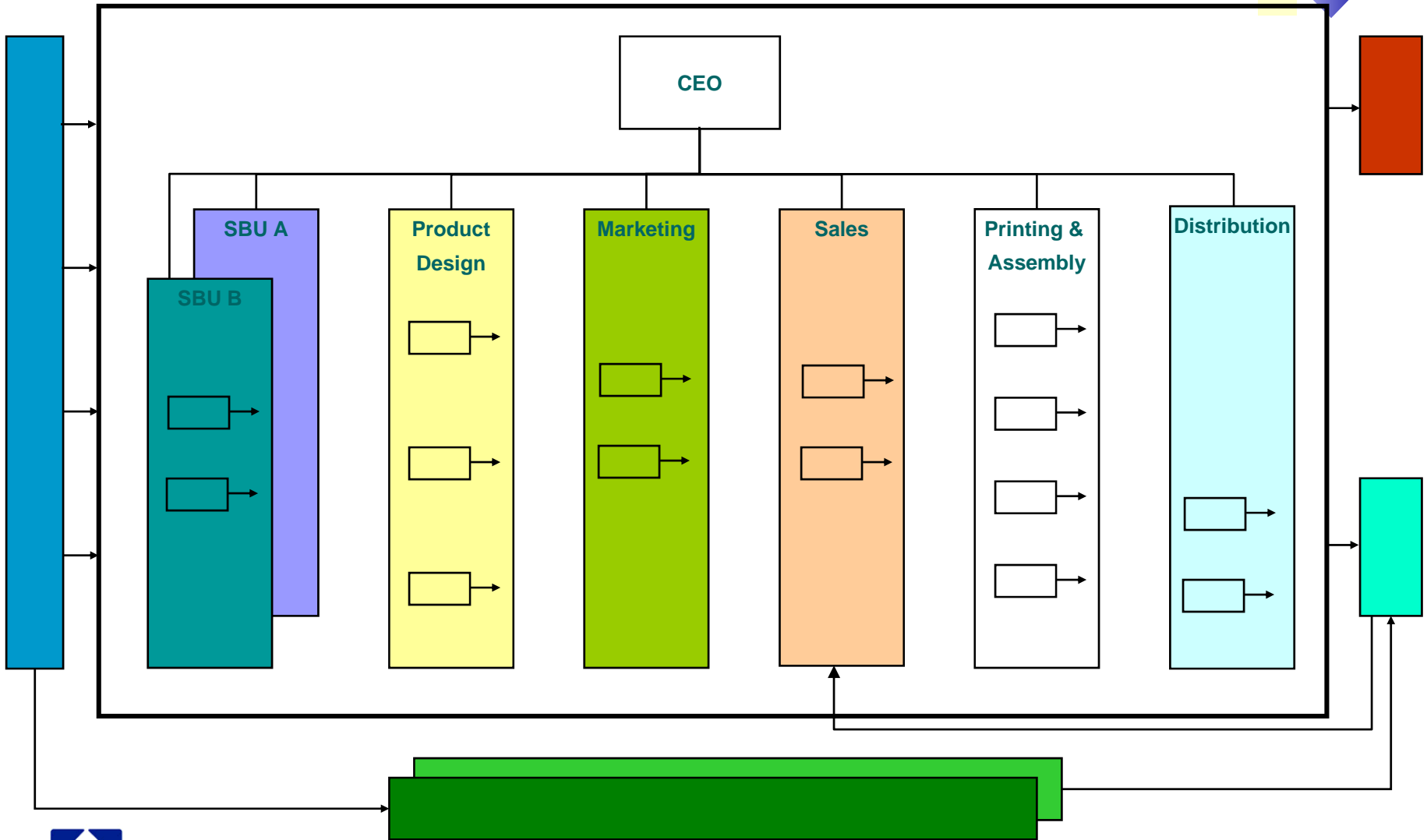
Value Creation Hierarchy



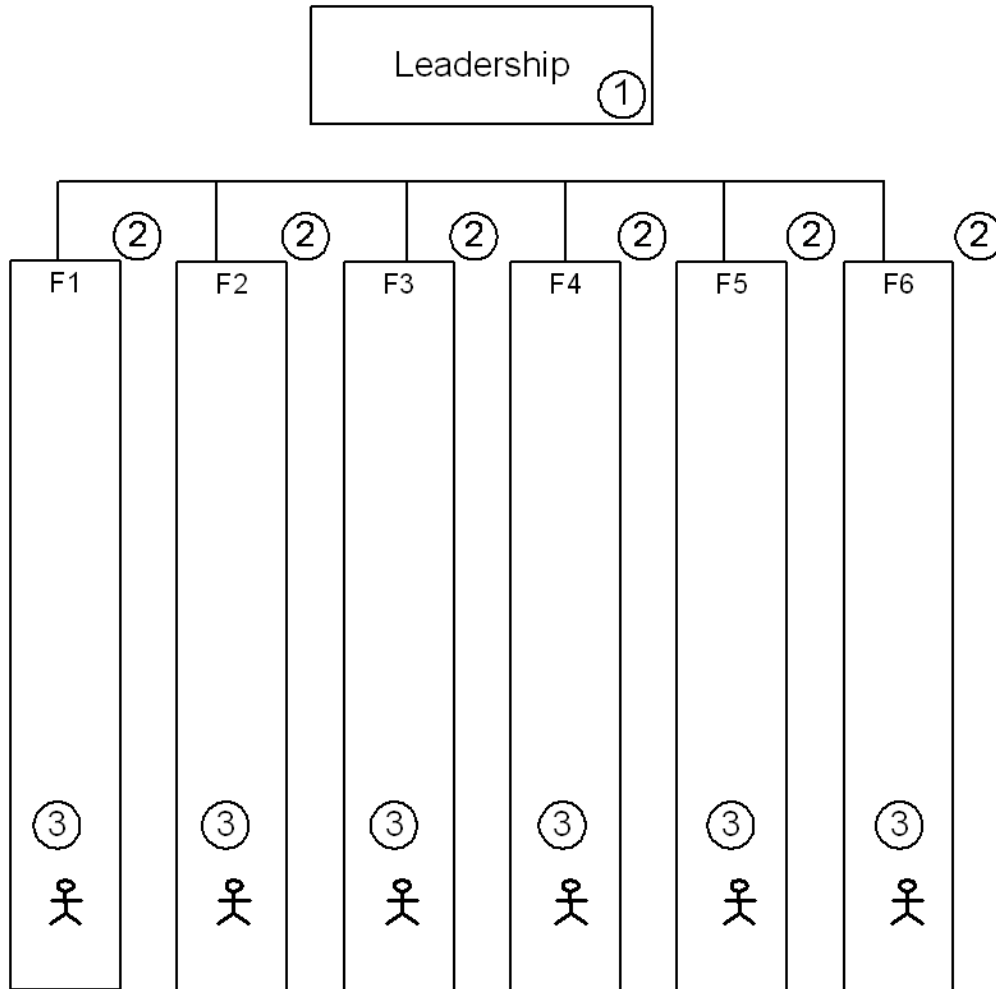
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Typical Planning & Resource Allocation Approach



Typical (Vertical) Planning Process



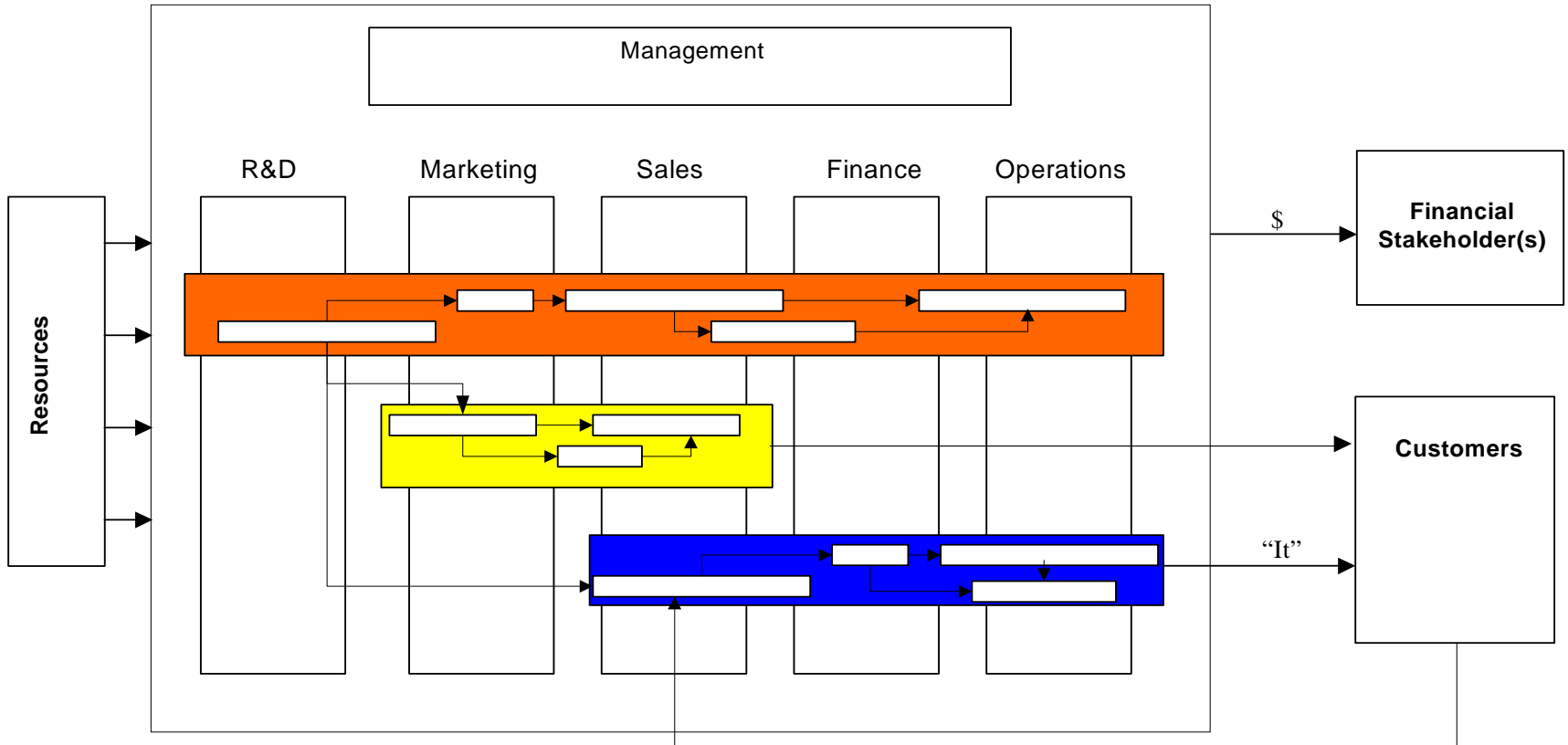
Sequence:

1. Enterprise Goals set by Organization Leadership
2. Function Goals then set to support Enterprise Goals
3. Function Goals then cascaded down to sub-functions and individuals

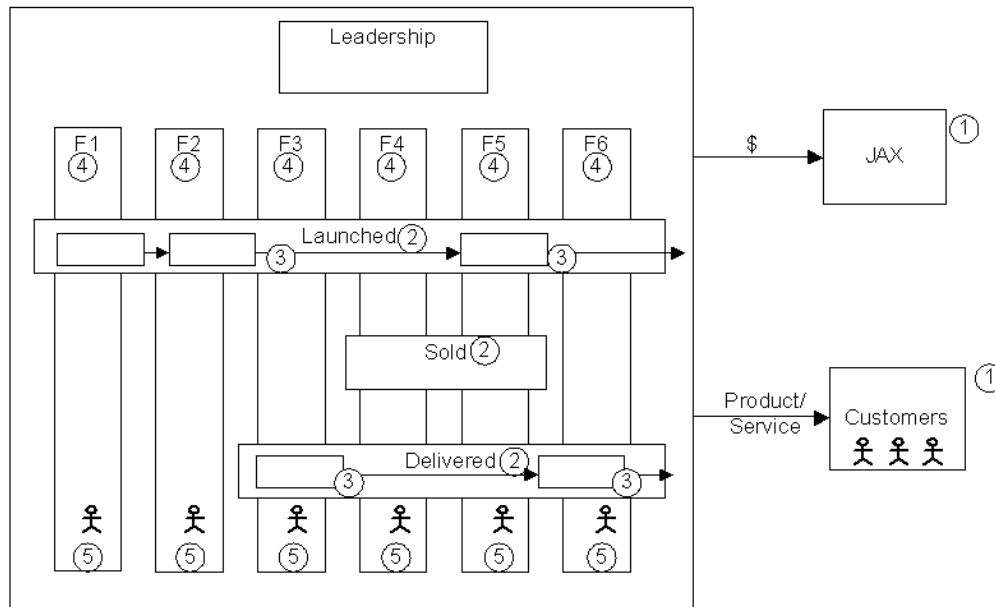
Emphasis:

- Management of the Vertical Organization
- Resource Management
- Trade-offs made way down in the organization – with no view to customer requirements

2-Dimensions Performance Planning



2-Dimensions Performance Planning



Planning is the starting point for Value Creation Hierarchy alignment. The Planning System is concerned with:

- The goals of the Primary Processes must be aligned horizontally across the Value Chain to achieve LOB/Enterprise goals.
- The goals of the processes within each Primary Processing System must be aligned with the Primary Processing goals.
- The processes within each Primary Processing System must be designed to achieve Primary Processing System goals.
- Resource allocation for all processes must be balanced to avoid sub-optimization



2-Dimensions Planning



Sequence:

1. Enterprise Goals set by Organization Leadership, based on Customer requirements and Financial Stakeholder expectations.
2. Value Creation and Primary Processing System Goals set to achieve Enterprise Goals.
3. Process Goals set to support Primary Processing System Goals
4. Function Goals set to support Process and Primary Processing System Goals.
5. Sub-function and individual goals set to support Function and Process Goals

Emphasis:

- Process is driven by the external forces of Customer and Financial Stakeholder expectations
- External expectations are converted into internal value-add work requirements via the Value Creation System
- Alignment and Management of the Vertical and Horizontal Organization
- Value-add and Resource Management
- Trade-off decisions made at the value creation level which has a view of customer requirements as well as shareholder requirements.



Features Implicit in the 2-Dimensions Performance **Planning** System



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- Recognition that the most important role of senior executives is the alignment and optimization of the Value Creation System
- Senior executives wear two hats
- Planning sequence that emphasizes both resource and value management (process goals set before function goals)
- The Performance Planned and Managed System provides an effective process for managing “matrixed” organizations.



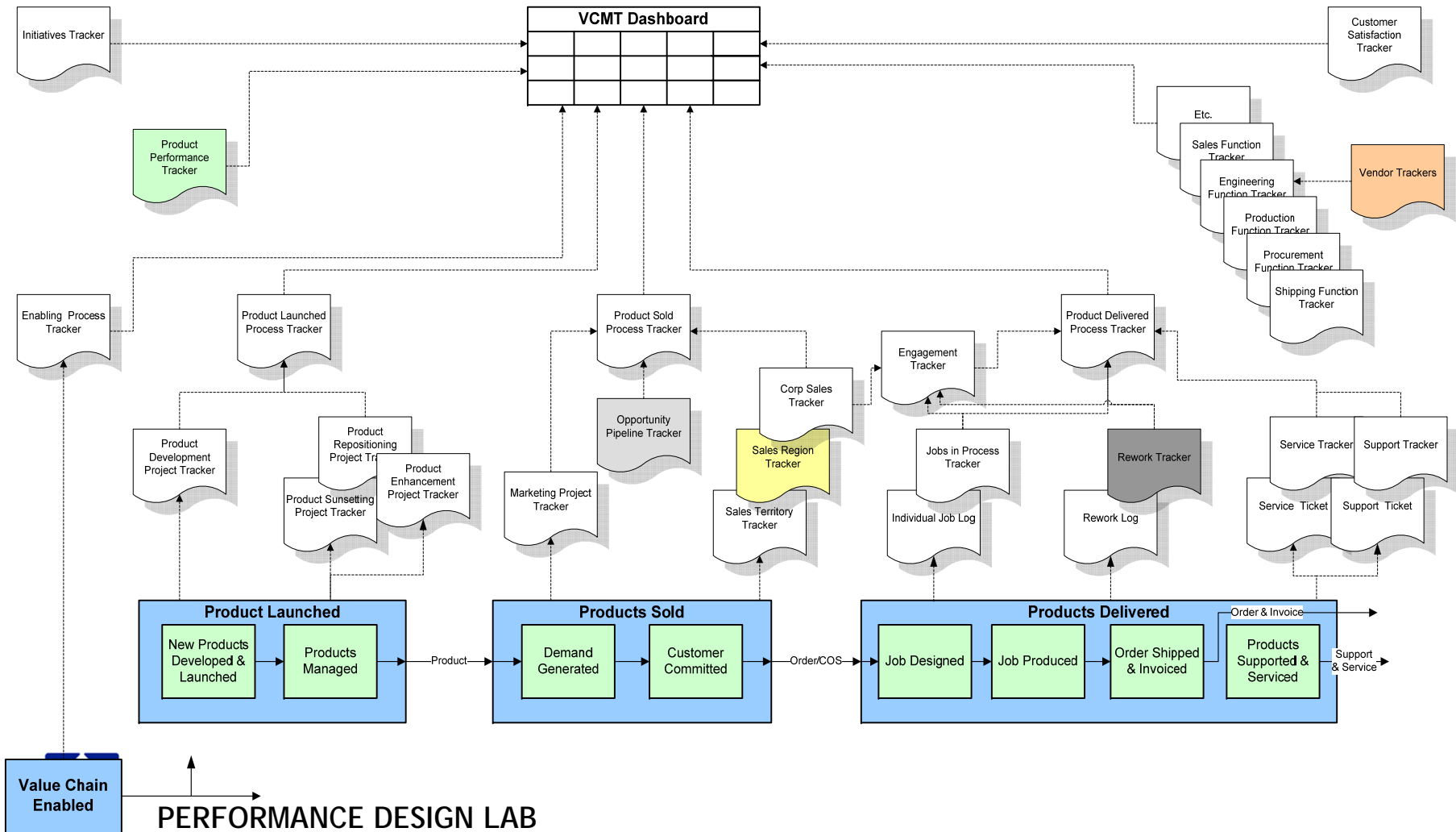
2-Dimensions Performance Management



Domain	Mission/Value Add	Performance Planned	Performance Monitored	Looking for...	Corrective Actions
Role: Executive Team Players: <ul style="list-style-type: none"> • CEO • All VPs 	<ul style="list-style-type: none"> • Optimize the • Set direction and strategy: which markets, which offering, competitive advantage • Determine business model • Determine the optimal organization structure • Determine markets to abandon, LOBs to abandon • Final arbitrator of corporate leverage opportunities (efficiencies of scale – i.e. one process, one facility, one flavor, etc) and unique value creation opportunities (effectiveness in market/for customer i.e. best, only, easiest, fastest, customized). 	<ul style="list-style-type: none"> • LOB goals: Revenues, Margin contribution • Allocate resources and asset base to LOBs • Strategic Initiatives • Plans for acquisition/divestiture of assets. • Plans for acquisition/divestiture of LOBs • Major capital expenditures for business infrastructure 	<ul style="list-style-type: none"> • B-Jax Performance plan to actual • LOB and Value Chain performance plan to actual – Original, Complex & New • Function performance to plan to actual • Super system trends • Strategic Initiatives performance plan to actual (milestones and results) • Development Projects plan to actual (milestones) • Pipeline Leading Indicators: 	<ul style="list-style-type: none"> • Trends across LOBs, Functions that indicate a systemic issue/misalignment • Super system trends that signal the need for the organization to adapt • Initiatives and Projects that are off plan – leading indicators of future performance of the organization • Trends in the pipelines – leading indicators of Revenue and Profitability 	<ul style="list-style-type: none"> • Abandon LOBs (Divest, Sunset) • Initiate development of new LOBs • Adjust LOB & Function goals and plans • Adjust Resource and Asset Allocation across LOBs, Functions, and strategic Initiatives • Divest of Assets • Build/Acquire new assets • Acquire additional capital • Restructure the business



2-Dimensions Performance Management



Features Implicit in the 2-Dimensions Performance **Management** System



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- Executives and managers play multiple roles defined by where they need to contribute to critical trade-off decisions. (In contrast to the formulation of teams based on reporting relationships.)
- Recognition that the most important role of a senior executive is the alignment and optimization of the Value Creation System.



- ◆ The 2 Dimensions?
- ◆ The Value Creation Architecture?
- ◆ Your organizational role?



Conclusions



- ◆ The most important challenge of management is managing both dimensions of organization (value creation and resources)
- ◆ Most managers fixate on the resource dimension because that's where they are held most accountable
- ◆ The root cause of most mis-management is traceable to focusing on the resource dimension



- ◆ We can help managers to effectively manage both dimensions by:
 - Assisting them in making the value creation dimension visible
 - Helping them to change their performance planning & management systems to address both dimensions in the right sequence
 - Helping them make decisions that reflect the primacy of value creation

