Strategy, Organization and Performance Management

From Basics to Best Practices

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Strategy, Organization and Performance Management:
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To my wife, Sandra

Strategy, Organization and Performance Management
–From Basics to Best Practices –

Contents – Overview

The Challenge of Organization Management
"Why are some Companies simply better than others?"

Strategic Direction Setting: Organizational Context
"Understanding Strategic Direction and Organizational Capabilities"

Strategic Alignment: Key Design & Delivery Elements
"Why Businesses still need org charts"

Strategic Control: Performance Management and Target Setting
"The new strategic weapon"

Case Studies for Organizational Effectiveness
"Best Practices applied"

Table of Contents

Preface

This book took me almost two years to complete. When I started this project I would never have believed it would be such a tedious and lengthy process. The hectic consulting schedule, work as adjunct professor and family life made it quite challenging to rewrite numerous revisions of my initial idea into a final draft. The organization management discipline is a fast-moving space and requires constant updating. Also, the inclusion of a more comprehensive chapter on Business Process Outsourcing and Offshoring were other reasons that delayed the completion of this project.

This project was made possible only by assistance and guidance from a number of people. I don't want to attempt to mention all of them but I would like to highlight a few and thank for their special input and contribution.

First of all, I thank John Kostolansky and the Department of Management at the Loyola University Chicago Graduate School of Business for giving me the opportunity to teach the course on Strategy and Organization. Working with the students has influenced me and the way I have structured and presented the various aspects of Organizational Effectiveness in this book. Also, I want to thank my colleagues at A.T. Kearney who have been very helpful in offering their expertise on the framework of Organizational Effectiveness. Omer Abdullah, Simon Gilles and Laura Sue D'Annunzio were heavily involved in the early stages of this project. Furthermore, I would also like to thank the many clients over the past decade that have given me the opportunity to gather valuable insights and to apply the organization and performance management toolkit. Shereen Siddiqui from Universal Publishers was a tremendous help to assist me with any administrative issues and Maude Merriman is a talented Graphic Designer who assisted me with the exhibits and layout of the book.

I hope this book will be of great use for students generations to come and for interested business practitioners in advanced organization and performance management. The mix of basics, such as organizational designs with innovative approaches, such as Business Process Outsourcing, illustrates the span and complexity of organization management. Hopefully it satisfies the interest of a wide variety of readers – those who want to understand key principles and those who are always curious to learn new and innovative things.

Soeren Dressler

"Why are some companies simply better than others?"

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The Challenge of Organization Management

Organizational Effectiveness is a phenomenon that can be applied to all different types of groups, teams, and, of course, business organizations. Wherever groups operate in a competitive environment, the question whether they are organized "right" almost automatically comes up. And, subsequently, the question of how to do "better" than others is posed after that. It doesn't matter if people discuss sports, politics, or business: "Why are some better than others?" always occupies their minds. One thing they have in common is the secret of being "better organized," a secret that this book will reveal. Focus of the discussion will exclusively be on the business world. However, sometimes analogies to other areas will be used to make the complex content easier to understand.

Organizations are complex and the result of multiple guiding actions. As Alfred Chandler already pointed out in his ground-breaking work on "Strategy and Structure" in the early 1960s, in most cases the strategy comes first.[1] It is – or at least should be – the overriding designing principle for the organizational structure. However, what has to be

summarized under "organizational structure"? Does this mean simply the units in terms of the departmental structure? Does organization structure mean having well-oiled work-flows to make sure the organization is the most adaptive player reacting to changing business conditions? Or does organization structure mean having the best skills, teams and individuals available in order to effectively execute a particular strategic goal? Probably all these features characterize the effective organization. Eventually, how well they are interacting and how closely they are aligned with the strategy will determine the Organizational Effectiveness.

1   Organizations, Teams, and Individuals make the Difference

When **Henry Ford** began to produce his T-Car by using an assembly line in 1913, this was certainly a radical innovation in terms of organization management. The scientific foundation of the proactive and innovative car manufacturer was provided by **Frederick W. Taylor**, who invented in 1911 "The Principles of Scientific Management," better known as the "Taylorism."[2] While Ford was focusing on a streamlined production that allowed producing as many cars as possible, Taylor was highlighting the principle of efficient allocation of work by segregating work steps in the smallest units possible and synthesizing them later on. Both men had one goal in common: A more effective organization. By strictly applying Taylorism like Henry Ford did, the concepts of compartmentalization and organizational boundaries were introduced. The workforce was systematically divided according to specific functions and specific skill sets. Although the organization was considered to be more effective in terms of output, some restrictions were soon clearly evident: Communication and new product ideas could not flow around like they did previously when businesses were arranged in houses or workshops.

Innovation and social fulfillment through work were eroding. Allocation of work required reconciliation of activities. Communication had to be re-arranged to fulfill business needs. Thus, scientists like **Henri Fayol** further improved Taylor's work. He, for example, introduced the "Fayol-Bridge" that allowed direct communication between departments without involving the manager level. Back in 1916, this was truly a breakthrough and is, even today, still relevant.[3] This short detour to the history of organization management should be mandatory for all work in this arena. It stresses the basics of what Organizational Effectiveness is all about: Strategic Guidance as pointed out by Chandler; structure, skills and output orientation as discussed by Taylor; and process and communication flow as targeted by Fayol. It is nearly a century since these principles have been seen as a source for competitive advantages – and they are still relevant today.

Successful Organizations

In today's challenging business world, companies have to cope with the overarching basic question: "How do we allocate and *organize* our work?" Implicitly, the organization management has long ago bought in the decades-old "scientific" principles – simply as a necessity to get the work done – nobody would seriously ask today a small group of people to actually design, engineer, build, market, and sell a car all at once. Organizing the work, however, has become quite a complex task since there are multiple organizational design alternatives applicable.

- The **Functional Organization** is normally the first logical structure a company chooses as soon as it hits the start-up phase. That is what Henry Ford did: He clearly separated engineering, procurement,

manufacturing, and distribution tasks. So, for a relatively young business, the allocation of work along the various functions appears to be rational, logical, and manageable. Recent experiences with thousands of eBusiness start-ups have brought this principle back in our minds. Most start-ups have automatically chosen the functional logic first. Somebody was assigned to do the product development, somebody took over manufacturing responsibilities, somebody was declared the financial officer, and somebody developed the market. The functional simplistic way of doing business works as long as the business is small enough and transactions are manageable.

- The **Divisional Organization** is the next organizational structure in this evolution. The key principle is allocation of work by *divisions,* business units or product groups. Now, the perspective changes: the organization is seen from a product or product group view. For companies that run more than one product or product group, the demand for allocation of work according to products will further emerge and eventually take over as the guiding organizational principle. The Divisional Organization structure requires some clarification with respect to the chosen terminology. The basic principle of turning from a functional to a product perspective with regard to allocation of work can be done on various levels:

  o Product grouping is basically the first level. Product groups typically incorporate product management functions as well as product innovation and engineering.
  o Business units are the next level. All business activities around a product group that are directly

perceived by the customer take place in the business unit. In addition to the characteristics mentioned under product groups, the order-to-cash process and customer management process are often integrated into the units.

o The next level is basically the full-blown division that operates as an independent business operation. Since product groups and business units still require general "functional" support in terms of finance and accounting, human resource management, and especially operations management, the division takes care of most of them on its own. It acts like an independent company within the broader organization.

The table below summarizes guidelines of how to differentiate the various product-oriented structures:

	Characteristics	**Typical Functions**
Product Groups	Different products but strong similarities in design, production, and customer base	Product Management
Business Units	Customer perception of single entity Distinct product and market strategies Use of company-wide production and distribution network	Product Management Product Development Order-to-Cash Processes Customer Management
Divisions	Distinct operations, engineering and distribution, Requirements of products	All core functions except typical HQ roles like Investor Relations

Table: Product-oriented Organizational Structures

- The **Matrix Organization** is the next form of organizational design. From a developmental perspective, matrix structures are often found as a result of divisional forms that never performed as expected or have caused even more coordination and reconciliation efforts than the previous functional structure. The matrix idea operates with the basic principle of having at least two reporting lines. It integrates the functional and product-oriented organization and, in variations, the geographic perspective as well. On the one side, allocation of work will be made functionally, and on the other side, divisions or regions will be installed. On a global perspective, matrix organizations have gained significant recognition and are often used due to the tremendous advantage of improved information flow. Additionally, the matrix enables decentralized control. Regional or business-unit leaders make decisions that affect their own areas. On the other hand, bundling of functions supports gaining economies of scale, application of benchmarks, and best practices that lead to high performing service functions. The major drawback of matrix structures is their partly overwhelming need to manage their inherent complexity. Eventually, employees have to cope with the requirement to report to different superiors. They need to balance their tasks sensitively, and have to apply several informal processes to effectively leverage the strength of the matrix. Skills and personal characteristics of employees have to be quite sophisticated to run a successful matrix organization. Hence, concerning the life cycle of companies, the matrix structure basically comes after the company has reached a mature and experienced stage. The following graph illustrates the relation of company life cycle and

company size with regard to typical basic organizational structures. As already mentioned, the functional structure usually comes first. With growth and multiple products, the divisional structure emerges. Eventually, matrix organizations will be introduced to leverage functional strength more effectively and to enable operation on a multi-region platform.
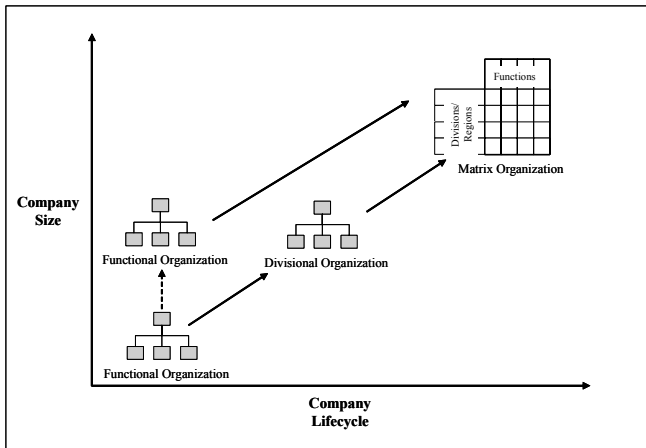
Exhibit I-1: Organizational Structure Development

The timing with regard to company size and its life cycle stage is especially a trigger for redesign. Some companies, in particular those belonging to the previously highly regulated industries such as utilities, telecommunications, or railroads, are still facing strong needs to redesign their current functional structures. They have survived, protected by regulations and subsidization with functional models because they had limited need for customer and product focus. With more and more competition in these industries, customer focus and customized product offerings are required and will ultimately lead to increased use of divisional and matrix structures.

Secrets of Powerful Teams

Besides the plain organizational structure that is the prerequisite to operate successfully, the people working within these structures certainly make the difference. There are a number of characteristics that are typical of powerful teams:

- **Leadership Capabilities**
  The one-great-leader concept has come to an end.[4] In today's business world it is a widely accepted fact that there is little advantage to be achieved through individual performance. Success depends mostly on effective teamwork, although the team in itself is heavily influenced by its leader. Therefore, the team leadership capabilities and the ability of leaders to integrate themselves effectively into their teams are cornerstones for team success.

- **Creativity**
  Responding to new competitive situations with organizational creativity will enable companies to react faster to the market's requirements and fine-tune its operations more effectively. Creativity will be borne by teams, not by single great individuals.[5] Teams often have outstanding forward-thinkers and leaders who, however, will only be part of the team. The real strength of great leaders lies in the ability to connect things and to identify linkages based on knowledge and experience.[6]

- **Overriding Goals**
  There needs to be a clear and overriding goal for the team that is thrilling and challenging but not unreachable at all. Ideally, the defined goal will be

broken down into realistic parts.[7] But still, the goal has to be a real stretch. The desire of the team to reach the goal must be extreme. It is an art to define those types of balanced goals.

- **Clearly Defined Opponent**
  Great teams often identify their competitors as mystified "enemies" whom overcoming is a kind of honor and duty from the company's perspective. When Apple established itself as a competitor to the mighty IBM, the team around founder Steve Jobs often referred to IBM as the "*Great Satan.*" Jobs and his team considered themselves as pirates breaking down the old-fashioned, single-minded, computer-hardware culture for which IBM stood. Having a fearsome enemy obviously creates a strong spirit and encourages successful teams to outperform.

- **Common Social Characteristics**
  Successful teams do not require a demographically homogeneous group of individuals. By contrast, successful teams fuel their potential through diversity and multiple talents. That is one of the reasons why product innovation teams are mostly multi-functionally staffed. Social characteristics of powerful teams are more important but they have to be balanced: Too strong social ties can limit innovative potential, too loose ties can hinder creativity because the team members do not have enough mutual understanding and trust. Common social characteristics are things like a commitment, common language, common behavior, confidential rituals, and sometimes even common clothes.[8] The Manhattan Project team that eventually succeeded in inventing the first atomic bomb developed nicknames for the various scientist groups: physicists were called the "fizzlers" and chemists the "stinkers."

Even the bomb itself got the name "gadget." Through common language, behaviors, and rituals, teams express their strong mutual understanding and respect for each other. A strong team can develop an entirely unique value framework for the period of the teamwork. The team's values are the beliefs and principles that guide the team's behavior.[9] They glue the team together, building team confidence and trust.[10] These are essential requirements for powerful teams.[11]

There are further important characteristics always found in good teamwork. The term **"team spirit"** summarizes the emotions and moods that exist, but nobody can really point them out or describe them in detail. People obviously respect and have fun working with each other. As an analogy to sports illustrates, there is a certain atmosphere in the locker room that indicates that a team "clicks." People trust each other, are absolutely convinced of their potential, believe in all the individual talent around, and are confident of their ability to outplay competitors. In these situations even the head coach doesn't need to motivate the team.

Eventually team spirit is heavily influenced by its members. Being part of a group can be tremendous fun for each individual. Sharing work with outstanding individuals who all have a common goal, a threatening enemy, and certain social characteristics in common can be the most fulfilling and enriching time in the professional life of each member.

The tool to monitor and assess the current potential of teams is the Team Characteristic Potential Analysis. This tool basically integrates the criteria discussed above and enables a systematic evaluation. The exhibit below illustrates how it works:
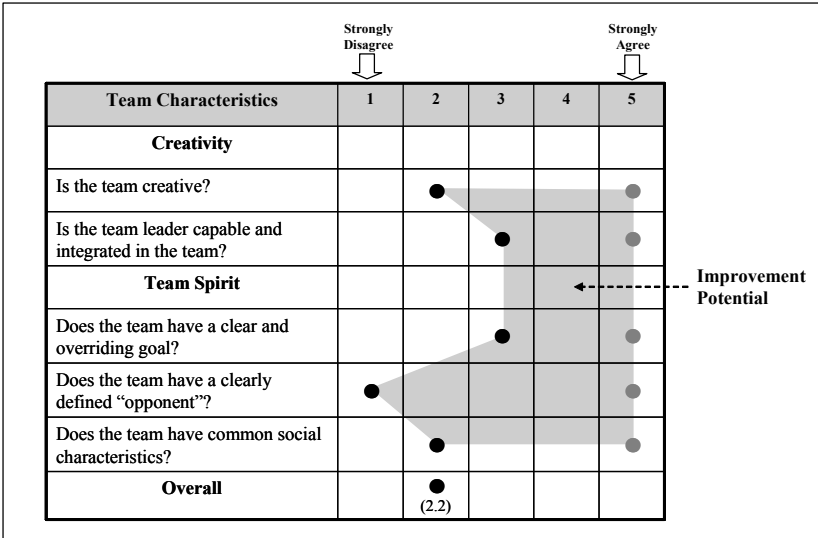
Team Characteristics	1	2	3	4	5
Creativity					
Is the team creative?		●			●
Is the team leader capable and integrated in the team?			●		●
Team Spirit					●
Does the team have a clear and overriding goal?			●		●
Does the team have a clearly defined "opponent"?	●				●
Does the team have common social characteristics?		●			●
Overall		● (2.2)			

Strongly Disagree (above column 1) · Strongly Agree (above column 5) · Improvement Potential (right of Team Spirit row)

Exhibit I-2: Team Characteristic Potential Analysis

The tool allows both the assessment of today's condition and identification of potential improvements. The assessment to the left indicates the current performance of the team. The assessment to the right describes the desired highest performance levels. A simple Web-based, anonymous survey among a representative group of employees currently involved in team efforts can surface tremendous valuable insights and help to improve the overall team performance.

High-Performing Employees

From an outside perspective, Employee Performance is often evaluated by indicators such as employee turnover and absenteeism.[12] These metrics are important; however, they don't allow any insights about how effectively an individual employee takes care of assigned work and tasks.

Absenteeism is a first indicator that employees do not like being at work. They use minor excuses not to show up and trade pay against free time. Employee turnover provides some additional insights regarding how comfortable employees are with their current work environment. Besides the tangible issues of talent loss and soaring recruiting costs, turnover denotes that something is wrong inside the company. There are hard facts such as pay, benefits, location, or commute that cause employees to change jobs. There are also soft facts such as management style, colleagues, or lack of team spirit.

There are a number of characteristics that provide insights into the individual performance:

- *Commitment*
  Employees need to be fully committed to their work and the company. Some studies describe this phenomenon as the "good soldier" syndrome or organization citizenship behavior.[13] The good soldier is in essence an employee who serves to advance the company's purpose.

- *Balanced Social and Work Life*
  Each individual needs a balanced social and work life. If employees have a misbalanced personal life due to a heavy workload, if they are not able to maintain social relationships, lifestyle, and personal interests, then work must compensate for all the unfulfilled necessities of life. In the short-term, the company can profit from these people; they appear to be fully committed and strong performers. In the long-term, the once-strong commitment can turn completely around, especially when compensation and career goals have not been realized. Those employees often become cynical and negative towards the company and often poison the office or

workshop atmosphere. Or, probably, they will resume their neglected social life and, in the same way they overly invested in their work life in the past, they start to highly prioritize their private life.

- *Appreciation and Career Development*
  Individuals are satisfied and motivated if their contribution is highly valued and appreciated by their superiors and the company. Employees should have confidence that their individual contribution is extremely important to the business. Therefore, tasks assigned to employees have to be meaningful. Superiors have to follow up and provide feedback on everything an employee was asked to work on. Also, employees would like to understand development opportunities. Career perspectives can be a strong driver of individual performance.

A similar tool to that which has been discussed to evaluate team performance works to assess the current state of individual performance:
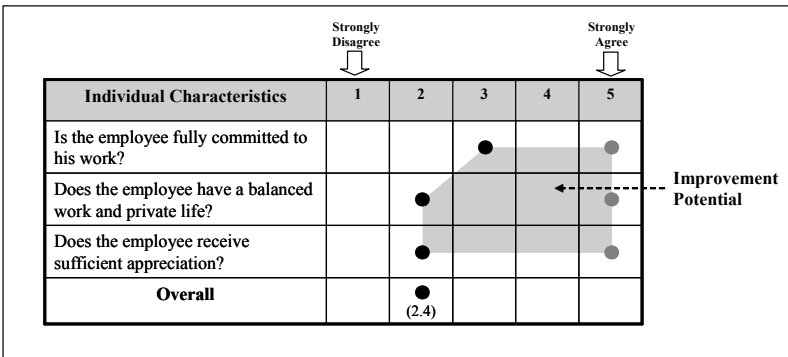
Individual Characteristics	1	2	3	4	5
Is the employee fully committed to his work?			●		●
Does the employee have a balanced work and private life?		●		◀	●
Does the employee receive sufficient appreciation?		●			●
Overall		● (2.4)			

Strongly Disagree ⬇   *Strongly Agree* ⬇   **Improvement Potential**

Exhibit I-3: Individual Characteristic Potential Analysis

The two potential analyses (Team and Individual) provide flash snapshots about how well the company is

utilizing its inherent hidden potentials. The Team/Individual Effectiveness Portfolio brings the results into context.
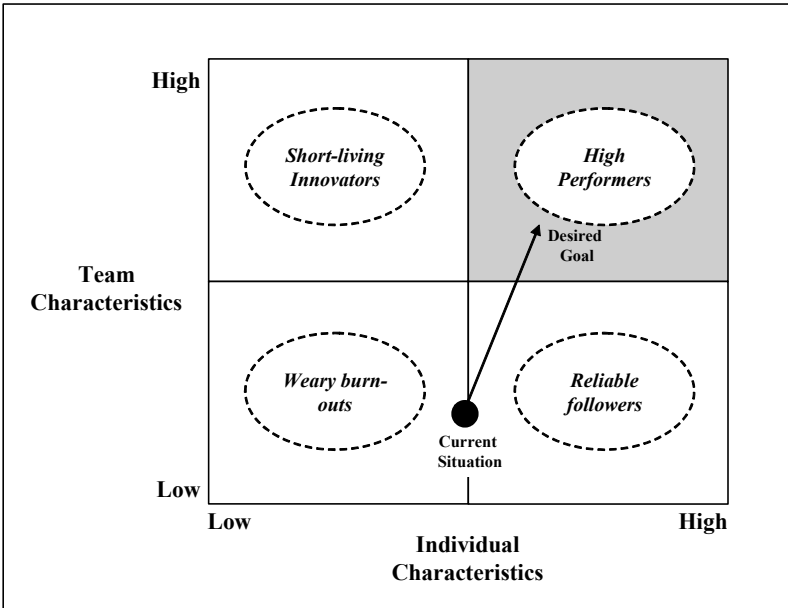

Exhibit I-4: Team/Individual Effectiveness Portfolio

The portfolio clearly displays where a company stands. Strong team characteristics but relatively weak individual characteristics indicate a strong innovative project culture. It tends to be short-living because members are often overstressed, and the project atmosphere gets rocky because individuals' lives are not balanced any more. They are called the *Short-living Innovators*. Another group can be described as the exact opposite: the *Reliable Followers.* Although individuals are pretty happy with their professional lives, these companies are lacking the capability to set up effective teamwork. It's not necessarily a threat, but if the fate of the company relies on innovation and product breakthroughs it represents a serious issue. A real threat arises if the assessment indicates the *Weary Burn-outs* group. Employees

have positively no fun working for the company, and team efforts regularly fail. No doubt, immediate action is required. Happy are those companies with *High Performers*. People appreciate their work, seek the extra-mile, and volunteer for team efforts.

2 Optimizing Value Chains

Invented in the late 1980s, *Business Process Reengineering* (BPR) has become one of the most important buzzwords around organizational sciences and practices ever since.[14] The value chain as first introduced by **Michael Porter** illustrates the flow of goods, services, and information through the various functional stages of an organization, as illustrated in the slightly modified version below.[15]
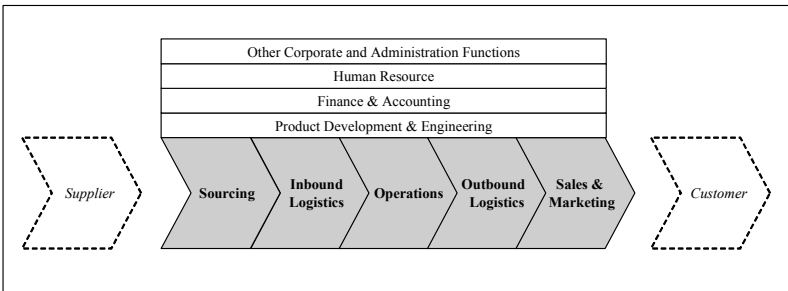

Exhibit I-5: Value Chain

The basic principle of the value chain is quite simple and very relevant today. Supply chain management and optimizing distribution networks is top-ranked on CEO agendas. Value chain management has two perspectives: Internal Value Chains and Vertical Networks.