# The Organization Level of Performance

All are but parts of one stupendous whole.

—Alexander Pope

A wealthy owner of a baseball franchise will often recruit the most highly skilled (and highly priced) talent and wonder why his or her team doesn't win the World Series. A championship team often pales in position-to-position matchups; it wins because somehow the whole is greater than the sum of its parts. The distinction is usually that the winning team as a whole not just each individual player and function (hitting, pitching, defense), is being managed.

Similarly, an organization can be greater than the sum of its parts only if the whole organization is managed. An organization may have people with outstanding experiential and academic credentials. Its functions, such as marketing, production, and research, may look good when benchmarked against those departments in other organizations. However, its results may be less than stellar because its executives manage functions and people without placing them in a larger organizational context. This practice is a prescription for suboptimization, a situation in which the whole equals less than the sum of its parts. Our first step in managing organization performance—Level I of the Three Levels—is to acknowledge the viewpoints that often characterize the current situation.

## The Customer's View of the Organization

- What is going on with these people?
- Why can't they give me a product that does what I need it to do and is available when I need it?
- Where is the follow-up service I was told I'd be getting?
- Why do I feel that I know more about the product than they do?
- Why do I have to deal with a different person each time I contact them?
- Why can't these people get their act together?

## The Supplier's View of the Organization

- Why don't these people ever know what parts they need more than three days ahead of time?
- Do they realize that because we have to expedite nearly every order, they end up paying top dollar?
- Why do they keep changing the specifications?
- Why do they discontinue at least one product every six months, which results in a large number of part returns?
- Why don't they ever take us up on our offer to visit their plant, at our expense, so we can learn what's happening in their business?
- Why can't these people get their act together?

## The Employees' View of the Organization

- Why can we match our competitor's quality only by dramatically increasing inspection (which drives our costs through the roof)?
- Who told sales that we have the capability to offer that service and meet that deadline?
- Where do the product development people come up with all these ideas?
- So, what are our priorities this week?
- Why don't section managers cooperate with each other?

- Don't these people realize that if we don't change the way we approach our business, we will not survive?
- Why are these people, who are paid above the industry average, still not motivated?
- Why can't we get our act together?"

## Shareholders' View of the Organization

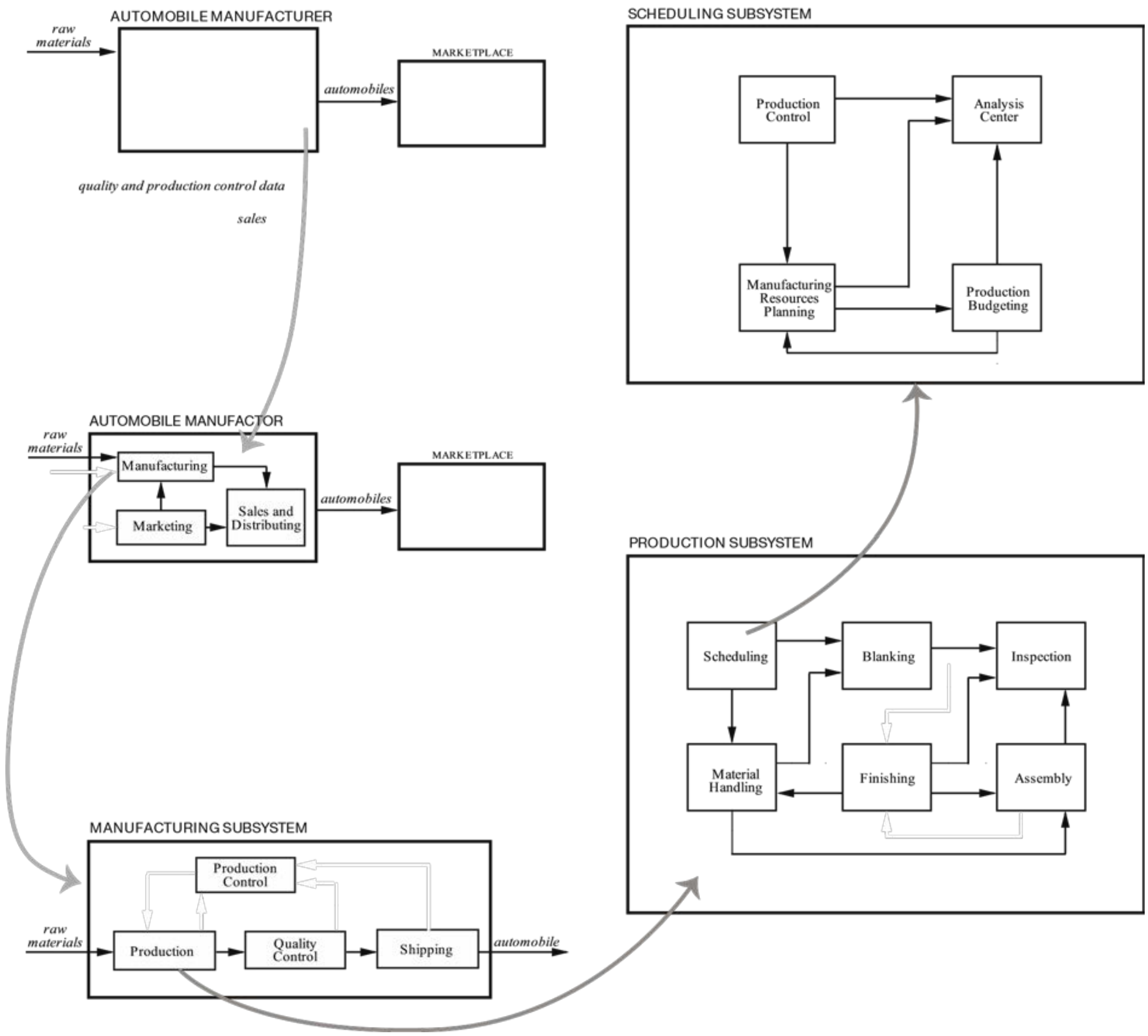
- We continuously see reorganizations, product launches, executive shuffles, and improvement campaigns, but no money in my pocket or increase in the value of my stock?
- Why can't these people get their act together?"

## Exploring the Organization Level

Before we can effectively address the bleak but the all-too-common situation just depicted, we have to understand it. The best way to understand how an organization truly functions is to see it as an adaptive system. This view maintains that every organization operates as a processing system, which converts inputs (such as resources and customer orders) into outputs (products and/or services) that it provides to its customers. The organization continuously adapts in order maintain equilibrium with its environment, which includes its market, its competition, its resource pool and the socio-economic context in which it functions. An organization that adapts nimbly is likely to succeed; an organization that adapts lethargically is likely to fail.

The systems view does not only apply to the entire company. If we look inside an organization, we see that it is made up of layer upon layer of systems. As the Figure 1 (next page) illustrates, one of the systems in an automobile company is its manufacturing system. One manufacturing component is its production system. Production is made up of a number of systems, one of which is scheduling. By peeling the organization like an onion, in this manner, we have found that we can understand how it operates, as well as the variables affecting its performance at any level of detail.

Figure 1.  Layers of Organization Systems in an Automobile Company.



## Understanding and Managing the Organization Level

If executives do not manage performance at the Organization Level, the best they can expect is modest performance improvement. At worst, efforts at other levels will be counter-productive. We have observed a number of companies in which quality improvement is a major thrust. They have embraced Statistical Process Control (SPC) tools, Just-In-Time (JIT) techniques, Manufacturing Resource Planning (MRP II) systems, and employee empowerment practices. They wonder why the quality gains aren't more dramatic. Inevitably, it is because:

- The various quality efforts are not driven by a clear statement of organization strategy. The strategy should define the role of quality in the business, the types of quality that represent the competitive advantage, and the organization-wide, customer-driven measures of quality.
- The organization has not been designed in a way that supports maximum quality. The impact of the noble efforts in training, tools, systems, and procedures is limited by the organization structure and relationships among departments.
- The organization is not managed with quality as the driver. Quality has not been built into tactical goals, performance tracking and feedback, problem solving, or resource allocation. Quality is typically rolled out function by function (there is a design quality program, an engineering quality program, a manufacturing quality program). The tremendous threats and opportunities within the "white space" on the organization chart are ignored.

Each of these shortcomings represents a failure to manage one of the three Performance Variables at the Organization Level. We believe that an organization's managers can "get their act together" (the plea of the customers, suppliers, shareholders, and employees quoted at the beginning of this article) only by understanding and pulling the levers of Organization Goals, Organization Design, and Organization Management.

The need to understand the Organization Level is not limited to managers. Analysts (human resource specialists, systems analysts, industrial engineers) also need to understand the nature and dynamics of the Organization Level. With the context that this understanding provides, they are better able to design improvements that have the maximum positive impact on the performance of their organizations.

## The Performance Variables at the Organization Level

***Organization Goals***. At the Organization Level, goals are strategic. A good strategy identifies the organization's:

- Products and services

- Customer groups (markets)
- Competitive advantage(s)
- Product and market priorities (emphasis areas)

Organization Goals, therefore, are stated in terms of how well products and services are expected to do in the various markets to which they are offered. An effective set of Organization Goals includes:

- The values of the organization
- Customers' requirements
- Financial and nonfinancial expectations
- Targets for each product family and market
- Expectations for each competitive advantage to be established or enhanced

Procedurally, Organization Goals should be:

- Based on the Critical Success Factors for the company's industry
- Derived from competitive and environmental scanning information
- Derived from benchmarking information (intelligence on the performance of systems and functions in exemplary organizations)
- Quantifiable whenever possible
- Clear to all who have to understand and be guided by them

Organization Goals for Computec (our software and engineering company example) might include:

- Never sacrifice quality for short-term income
- Increase the company's customer satisfaction rating to 98 percent by the end of the year
- Introduce three new software products and two new systems integration services within two years
- Capture 60 percent of the aerospace project management market within three years
- By the end of the year, introduce two new customer services that differentiate Computec from its competitors
- Reduce software package order cycle time to an average of seventy-two hours by the end of next year
- By the end of next year, fill orders with 100 percent accuracy
- Generate $300 million of revenue, $35 million of profit, and $16 million of economic value added (EVA) next year

These Organization Goals are quantitative, customer-oriented, competitive advantage-driven, and easily understood. With these and other goals as a context, Computec can embark on performance improvement efforts in the areas of quality, productivity, total cycle time, and cost control. These Organization Goals will serve as high level measures of the success of these efforts. Most importantly, the Computec Organization Goals are clearly derived from its strategy. They reflect the executives' very difficult choices regarding products, markets, competitive advantages, and priorities. (To help identify those tough choices, we have developed a detailed set of questions that need to be answered in applying the systems view and the Three Levels of Performance to strategy development and implementation).

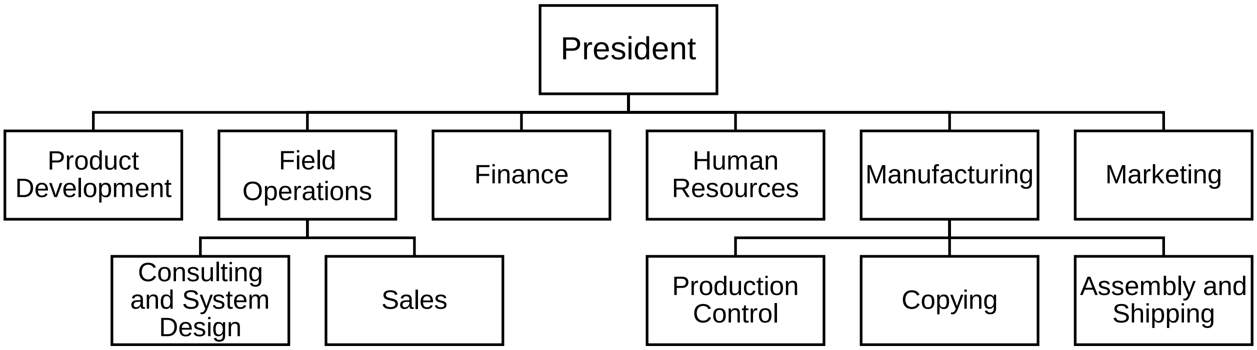
In summary, these are the questions for the Organization Goals:

1. Has the organization's strategy/direction been articulated and communicated?
2. Does this strategy make sense in terms of external threats and opportunities and internal strengths and weaknesses?
3. Given this strategy, have the required outputs of the organization and the level of performance expected from each output been determined and communicated?

Since this is our first discussion of goals, it is probably a good place to take a stand. Some of the followers of the late quality-and-productivity guru W. Edwards Deming are avidly against goal setting. They believe that goal achievement leads to complacency, which serves as a barrier to continuous improvement. That can happen. However, we believe that goals should be continually evaluated and reset to fit changing requirements and capabilities. If goals are adapted in this way, they can support rather than hinder the noble pursuit of continuous improvement. (Please note that reestablishment of goals is one of the key steps in Performance Management, which is discussed later in this article.)

***Organization Design***. Unfortunately, establishing clear Organization Goals is only the first step. Managers and analysts need to design an organization that enables the Goals to be met. To find out if the existing organization supports the achievement of the Organization Goals, we develop a Relationship Map. As the name indicates, the purpose of this picture of the business is to depict the customer-supplier relationships among the line and staff functions that make up the business. Because the Relationship Map makes visible the inputs and outputs that flow among functions, it shows what is going on in the "white space" between the boxes on the organization chart. Figure 2 (next page) contains a traditional organization chart for Computec. Figure 3 (page 9) displays a Computec Relationship Map.

Figure 2. Computec, Inc., Organization Chart




We use the Relationship Map to:

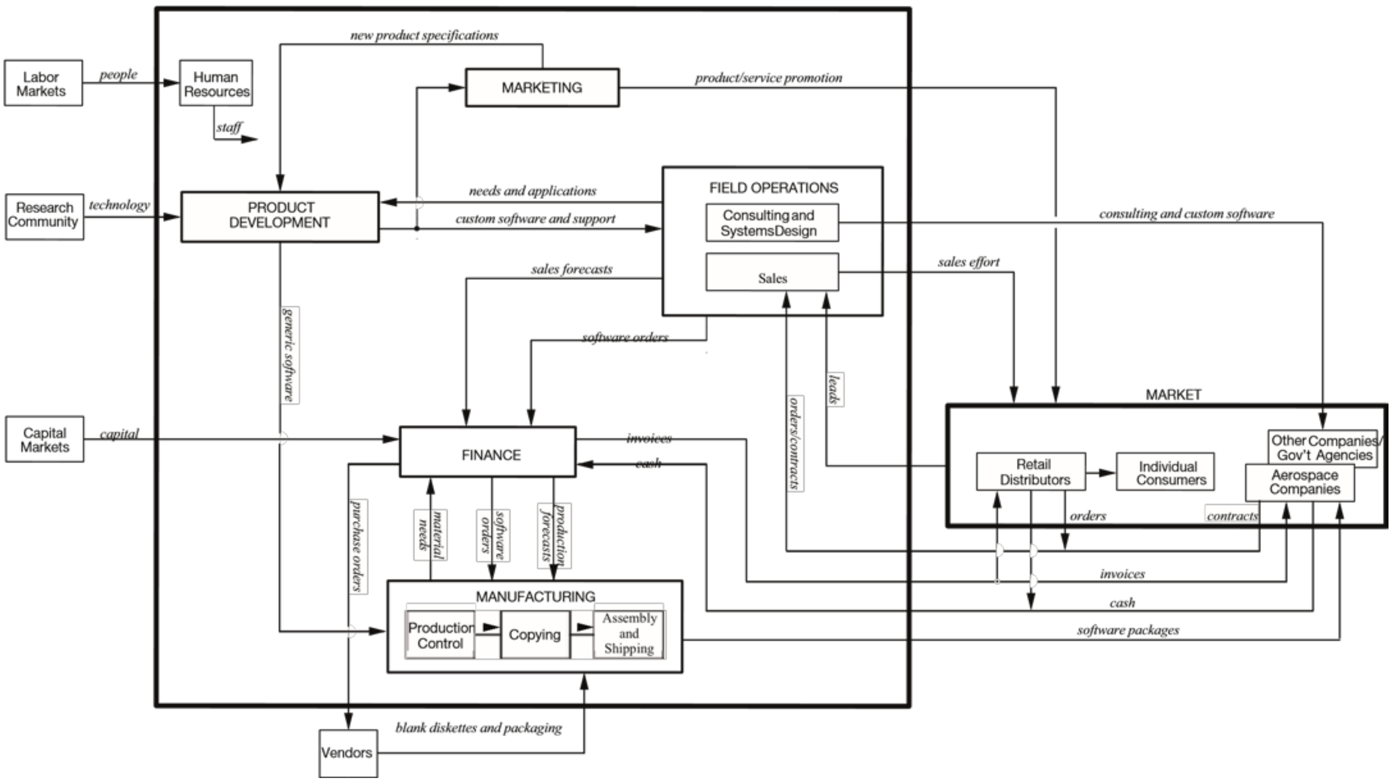
- Understand how work currently gets done (how the organization behaves as a system)
- Identify "disconnects in the organization wiring" (missing, unneeded, confusing, or misdirected inputs or outputs)
- Develop functional relationships that eliminate the disconnects
- Evaluate alternative ways to group people and establish reporting hierarchies

Our initial approach to Organization Design, therefore, is to examine and improve the input/output relationships among functions. To us, the structure depicted by the Relationship Map is most important because that's the structure through which work gets done. When the focus is placed on the internal and external customer/supplier relationships, the standard organization chart becomes less important. However, the reporting hierarchy can facilitate or impede the flow of work. We have devoted another article, *Performance-Based HR,* to a discussion of organization structure. In that article, we address the need for the vertical and horizontal systems to peacefully coexist.

In summary, these are the questions that underlie the variable of Organization Design:

1. Are all relevant functions in place?
2. Are all functions necessary?
3. Is the current flow of inputs and outputs between functions appropriate?
4. Does the formal organization structure support the strategy and enhance the efficiency of the system?

Figure 3. Relationship Map for Computec, Inc.




An examination of Computec's Relationship Map reveals a number of Organization Design disconnects that could hamper the company's ability to achieve its Organization Goals. These disconnects include:

- Marketing does not participate in sales forecasting.
- Marketing is not linked to field operations.
- Marketing does not identify needs through market research.
- No function provides customer service.
- Online orders have to go through both sales and finance before they go to production to be filled.
- Production forecasts are done by finance.

Unfortunately, identifying disconnects doesn't make them automatically disappear. Computec needs to design an organization that will eliminate the disconnects that are hampering its ability to achieve Organization Goals. Mapping, and derivative tools can be used to support a new strategy, to create a new enterprise or function, and to implement systematic improvements, such as automation and staff reduction. Our previous article, *Designing an Organization Structure that Works*, addresses the need to manage the structure that has been created.

***Organization Management*:** Once the Organization Goals and Organization Design have been established, the organization needs to be managed. Managing the organization as a system includes four dimensions:

1. *Goal Management*: Each Function needs to have subgoals, which support the achievement of the Organization Goals. An effective set of subgoals does not permit the optimization of the functional silos and the suboptimization of the system as a whole. If each Computec function is to make its maximum contribution to the company as a whole, it will need to be measured against goals that are derived from its strategy (Organization Goals) and that help other functions achieve their goals. For example, Computech's product development department should have goals that:

    - Reflect the Organization Goal of ambitious and speedy new product and service development
    - Ensure that its new products and services are driven by the needs of the marketplace, not by technical wizardry
    - Require it to design products and services that marketing can sell
    - Require it to design products and services that field operations and production can sell, make, and deliver with the quality and timeliness required by customers and the profit required by Computec

2. *Performance Management:* To achieve the goals, performance needs to be managed at the Organization Level. To continue the Computec product development example, Computec senior management needs to:

    - Obtain regular feedback on product effectiveness from Computec's customers
    - Measure the product development, marketing, and field operations departments on their contributions to the Organization Goal of product development and introduction
    - Provide feedback to product development, marketing, and field operations on their product development and product introduction performance
    - Ensure that cross-functional problem-solving teams address product development and product introduction problems
    - Reestablish product development and product introduction goals if there is a change in the market

Peeling back one layer of the organizational onion, the management of product development needs to:

- Regularly obtain feedback on product effectiveness from Computec's customers and from product development's internal customers—marketing and field operations

- Measure performance in terms of the goals it has established (product development will get performance in the areas in which it measures performance)
- Feedback performance information to the subunits within product development
- Solve problems that impede its progress toward the function's goals
- Reestablish goals to fit the current reality of its internal and external markets

3. *Resource Management:* Computec product development has two resource needs: sufficient people and dollars to meet its goals, and allocation of its resources to those areas of product development that will enable the goals to be met. As with Performance Management, this places responsibility on both the senior management of Computec and the management of product development. If the executive committee members want to reduce costs, they would be foolish to mandate a 10 percent personnel reduction in all departments. They should realize that cutting 10 percent of the product development staff may very well compromise one of Computec's key Organization Goals; perhaps headcounts should not be reduced at all in product development and should be reduced by 20 percent in another department. Since Organization Goals will be achieved only through the horizontal organization, top management must allocate resources across the entire horizontal organization. Peeling back one layer of the onion, the vice president of product development is responsible for allocating resources across the horizontal organization that exists within his or her department.

4. *Interface Management:* If the senior managers of Computec take the systems view of performance, they will realize that key barriers to and opportunities for Organization Goal achievement reside in the "white space" between functions. They will realize that the product introduction goal will be achieved only if the product development and product introduction system (which includes the functions of marketing, product development, and field operations) works well. The top team (ideally, aided by a Relationship Map) should be clear on the inputs and outputs that flow among these three functions and should spend a significant amount of time ensuring that this flow—this set of interfaces—is smooth.

The vice president of product development has the same responsibility: to ensure that the various subcomponents within that department are effectively and efficiently working together.

In summary, these are the questions for Organization Management:

| | |
|---|---|
| 1 | Have appropriate functional goals been set? |
| 2 | Is relevant performance measured? |
| 3 | Are resources appropriately allocated? |
| 4 | Are the interfaces between functions being managed? |

## Summary

If the Organization Level of Performance is not being defined, designed, and managed, there is no context for or driver of human and system performance. In this environment, well-intentioned activities are carried out in a vacuum and are frequently off the mark. Considerations related to the Organization Level are important to any organizational unit, from an entire company or agency to the smallest subdepartment. Variables and tools concerned with the Organization Level can be used by:

- *Executives*, to understand how the business operates, to refine the organization strategy and measures, to establish appropriate departmental relationships, to create a workable organization structure, and to manage the interfaces among departments
- *Managers*, to understand how their businesses operate and how they fit into the big picture, to establish department goals, to strengthen relationships with other departments, to create a workable organization structure, and to manage the interfaces among subunits within their departments
- *Analysts*, to understand how their client organizations currently operate and how they measure results, to identify areas where their efforts will have the greatest payoffs, to determine the impact of system changes and other proposed improvements on the organization as a whole, and to recommend enhancements that will have a positive effect on organization-wide performance

By answering questions such as those listed for each of the three Performance Variables at the Organization Level, and by using tools such as the Relationship Map, one can guide organization performance and bring it under control. This article began with a bleak scenario involving customers, suppliers, employees, and shareholders. Effective management of the Organization Level can go a long way toward converting those viewpoints.

### The Customer's View of the Organization

- These people are highly responsive to our needs.
- They frequently know what we want and need before we do.
- While their product is good, what keeps us coming back is the after-sale service.
- They don't promise what they can't deliver.
- We have established a solid, long-term relationship with our account executive.
- We're proud to have them as a vendor.

### The Supplier's View of the Organization

- These people appear to know where they're going.
- They give us plenty of lead time when they need parts for a new or modified product.
- They enforce especially tight specifications on those dimensions of our parts that contribute to their competitive edges.
- They include us in the process of developing their competitive edges.
- Because they treat us as a business partner, we'll go the extra mile for them.
- We're proud to be their vendor.

### The Employee's View of the Organization

- Everyone takes responsibility for doing the job right the first time.
- We can't afford any mistakes.
- Before they promise a modified product or a nonstandard delivery schedule to a customer, sales talks to product development, manufacturing, and distribution.
- I can reach fairly quick agreement with other departments because we all understand the many interdependencies and the priorities necessary to keep our customers coming back.
- Products are developed by a team composed of marketing, manufacturing, and product development.
- Meetings are frequently attended by customers and prospects.
- Every employee knows the strategy of the company and how his or her goals contribute to that strategy.
- I understand my priorities. When they change, I know why.
- People realize that their role is to serve the needs of internal or external customers.
- Section managers know that they will not achieve their goals if they don't cooperate with the sections that serve as their suppliers and customers.
- I am motivated by the challenge provided by my job and by the support I am given.

### The Shareholders’ View of the Organization.

“This company is making me money.**”**

Utopia? Not in our experience. These prevailing views are the natural result of an organization that “has its act together” at each of the Three Levels of Performance, and it all starts at the Organization Level. The Performance Variables and Tools at the Organization Level help identify what needs to get done (goals), the relationships necessary to get it done (design), and the practices that remove the impediments to getting it done (management). With an effective Organization Level as a foundation, we can begin to understand, analyze, and manage performance at the Process and Job/Performer Levels.