

10 Determinants for Achieving and Sustaining Improved Organizational Performance

By Dar Schwanbeck and Murray Wade

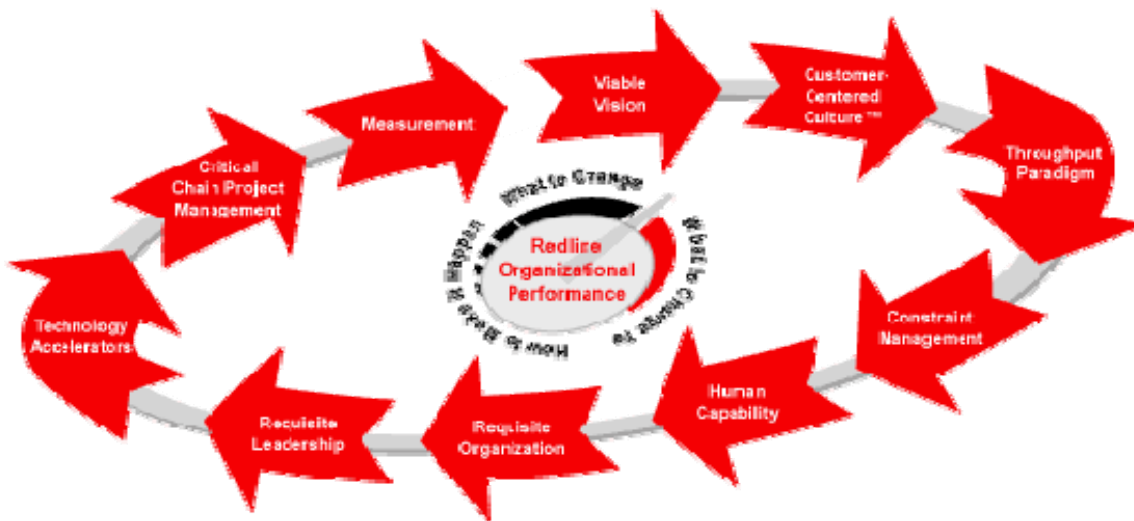
Imagine...

- Delivering products and services that customers really want
- Employees with a stronger sense of purpose, engagement, and satisfaction
- Simpler ways of doing business
- Much greater leverage of resources devoted to improvement efforts
- Significant improvements in productivity, throughput, and cycle time, and
- Overall, a viable vision that provides not only direction and inspiration, but enables people and organizations to transcend limiting paradigms and achieve sustainable performance improvements.

These results don't need to remain in the realm of business fantasy. They can be achieved by any enterprise, regardless of its level of sophistication and maturity.... but the managers and leaders of such organizations may need to change some of their thinking about their business, their customers, their leadership, and their human and business processes.

After 25 years of executive coaching and management consulting, we've identified a set of 10 determinants that, when implemented in an integrated, holistic way can drive significant performance improvement.

ACHIEVING AND SUSTAINING IMPROVED ORGANIZATIONAL PERFORMANCE: 10 DETERMINANTS



Achieving and Sustaining Improved Organizational Performance: 10 Determinants

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Redline's Organizational Performance model represents the cumulative work of four scientists who have worked independently in the field of management science over the past 50 years:

- Eli Goldratt, who developed the Theory of Constraints (TOC) and associated systems thinking, which have enabled radical improvements in business processes.
- Elliot Jaques, who contributed a large body of knowledge about requisite organizational structures, managerial leadership processes and human capability, each critical to fostering high performance organizations.
- Robin Lawton, who developed an interest in quality and productivity management systems, contributed a model for creating customer-centered cultures. This model results in significant improvements to performance and competitive advantage through leadership in quality and customer satisfaction for knowledge and service work.
- Murray Wade, a physicist who early in his career developed a passion for studying complex human and industrial production systems, has synthesized the three unique bodies of knowledge contributed by Goldratt, Jaques, and Lawton into a unified, breakthrough model that significantly leverages the performance outcomes in people and organizational systems, beyond what is possible by using any one of the contributing bodies of knowledge independently.

Redline's model, depicted above, is best thought of as a value creation chain, comprised of ten links, each of which is a determinant in elevating and sustaining human and organizational performance. The model as represented is a systems model, and it cares not to what system you apply it. This is important, because the same model can be applied to an individual, a team, a department, a business unit, a company, or a global enterprise. This means that organizations need adopt only one performance and change management model to enable:

- Leadership and managerial development
- Cross functional team work
- Organizational effectiveness
- Strategy development
- Structural design
- Business process improvement, and
- Human, fiscal and structural asset management, at any level within the enterprise.

We define a "determinant" as a necessary, but on its own not a sufficient process, that when executed, produces outcomes critical to advancing the performance of the system to which it has been applied. When these determinants are arranged in a sequential value chain and executed in succession, the set of outcomes produced represent the minimal set necessary and sufficient to create a sustainable high performance organizational system – be it a high performing individual, a high performance team, or a high performance enterprise.

Organizational leaders feel the pain of less than desired organizational performance every time they look at the variance in financial, production, customer satisfaction, or other performance indicators. The source of leadership pain ultimately originates from one of three sources – inadequacies in the design and integration of business and operational processes; people in roles for which they lack requisite capabilities to execute effectively; or, in inadequacies in the design of the human systems that enable people to engage in work to the full extent of their capability.

Removing pain means leadership must answer three strategic questions:

1. What to change?
2. What to change to?, and

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3. How to cause the change to happen and to be sustained.

These questions are answered as one executes the various determinants within the model, starting from the one most associated with the current source of pain. Only by working through the model's value chain are all three questions answered and the source of pain removed. In today's business world you are either moving ahead or you are falling behind. You are either on an improvement loop or headed to oblivion. There is no such thing as "status quo." Execution of successive loops gives rise to continuous performance improvement.

Redline Advisors recommends an integrated approach to performance improvement that is grounded within the working environment and conducted in real-time. Our consulting services are typically delivered through executive coaching and team based working sessions. We make use of advanced individual and organizational performance assessments to assist in the discovery of performance blocking constraints.

Each of Redline's 10 determinants is described in more detail in the pages that follow.

Appendix 1 provides a summary of the determinants along with a few questions you can ask yourself to assess how your organization is doing. If your improvement efforts are not delivering the results you need or you can't figure out why something is not working, maybe its time to try a different approach – one based on scientific principles and proven methods, not panaceas based on alchemy, wishes and hope.

Viabile Vision



In today's business world corporate directors and shareholders are escalating their demands for growth and profits, but fewer corporate leaders are able to meet these demands with executable roadmaps to that vision. This means that their vision for future performance is not viable for their enterprises.

Several years ago, Goldratt made a seemingly outrageous proposal that a viable vision for any company would be, in less than four years, to have net profit equal to its current total sales. As you might suspect, most executives greeted this postulate with a great deal of skepticism. But why?

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The answer is that most business people are unaware of the fact that any complex system is based on *inherent simplicity*. Capitalizing on the inherent simplicity is what enables incredible improvements within a short timeframe.

To explain the concept of inherent simplicity, one first needs to clarify what is referred to as a complex system. Quite simply, the more data one has to provide in order to fully describe the system, the more complex the system is. It is quite obvious that companies, even small ones, are extremely complex. It is also obvious that it is difficult to manage a complex system. Our tendency to reject the notion of Goldratt's viable vision has much to do with our experience in managing complex business systems. What Goldratt has demonstrated in numerous companies, is that achievement of a viable vision is often blocked by the conventional approach executives and managers take to managing complexity.

Conventional approaches to managing complex business systems encourage executives to dissect the system into subsystems where, by definition, each subsystem is less complex than the whole. But slicing and dicing a system into subsystems has its price. It leads to miss-synchronization, it leads to harmful local optima, and in many cases it leads to crippling silo mentality. In such an approach, executives focus their attention on trying to improve synchronization and to foster better collaboration between the subsystems. In such a framework, it is little wonder that executives see the notion of "net profit equal to current total sales in less than four years" as unrealistic. In fact, the conventional approach to managing complexity, by design, makes it virtually impossible to achieve any significant jump in profit within a relatively short time span.

To see the true potential inherent in our companies we need to look more closely at the issue of complexity. When we examine the data that typifies an organizational system, we invariably notice that such data does not relate to just one component of the system, but to relationships between two or more components. In other words, the thing that makes our system difficult to manage is that what is done in one place, has ramifications in other places – these cause-and-effect relationships turn an organizational system into a maze of interrelationships and interdependencies. But, this is precisely the fact that provides the key for the solution.

Think about the problem in the following way. Examine a given system and ask "what is the minimum number of points one has to impact in order to impact the whole system"? Suppose the answer is ten points. This would represent a difficult system to manage since it has many degrees of freedom – much like herding cats. But, on the other hand, if the answer is one point, then this system has only one degree of freedom and it is an easy system to manage. The conclusion to be drawn is that the more interdependencies existing between the various components of the system, the less degrees of freedom the system has. Considering the enormous complexity of business systems it follows that there must be only a very few elements that govern the entire system. In other words, the more complex the system is, the more profound is its inherent simplicity.

To capitalize on the inherent simplicity in complex business systems we must be able to identify those very few elements that govern the system. Additionally, if we are also fully aware of the cause and effect relationships between these elements and all other elements of the system, then we can manage the system to achieve a much higher level of performance.

These few elements, the ones dictating the level of performance in the system, are the constraints of the system. These system constraints are also the leverage points of the system. The process to capitalize on the inherent simplicity becomes straightforward:

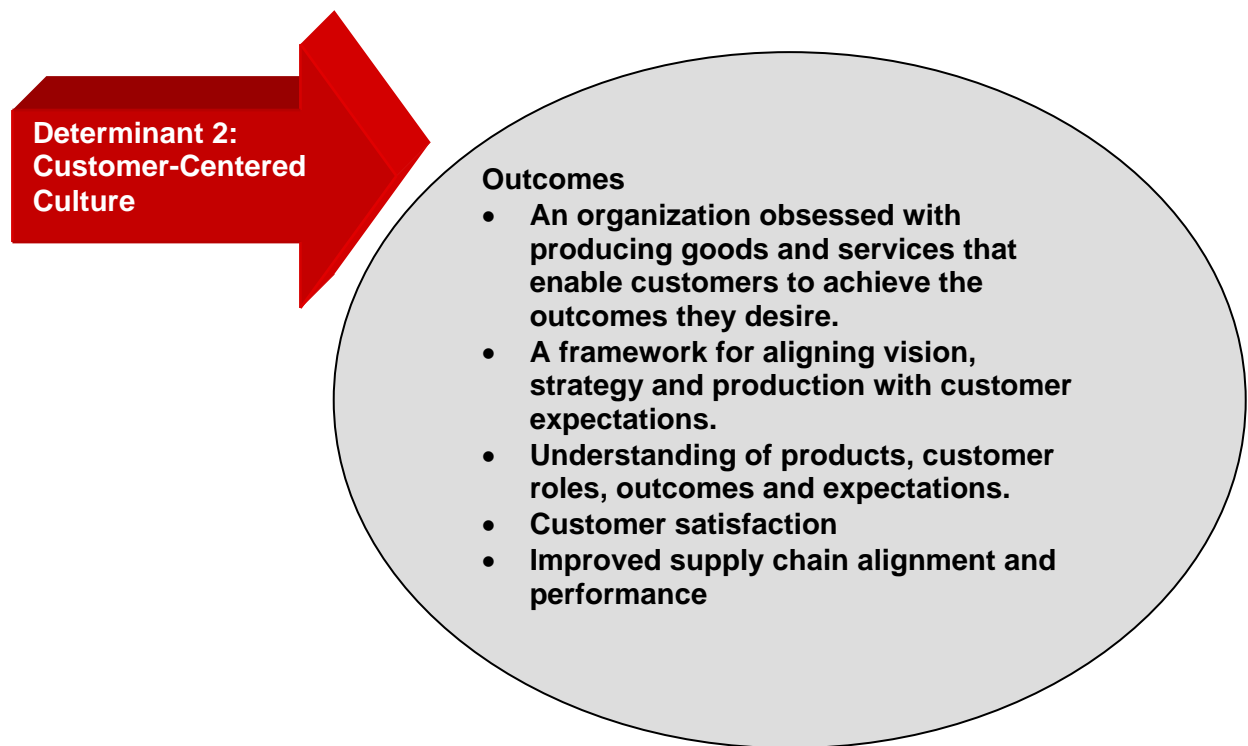
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1. Identify the systems constraint(s).
2. Decide how to exploit the system's constraint(s).
3. Subordinate everything else to the above decision.
4. Elevate the system's constraint(s).
5. If in the previous steps a constraint has been broken, go back to step 1.

An early step in the first determinant of performance improvement, therefore, is to create a shared understanding of the concept of *inherent simplicity* in organizational systems. Most executives and managers are oblivious to this concept. As a result, they rely on conventional problem solving which leads to overly sophisticated and complex solutions that actually limit the magnitude of performance gains. In any system, from an individual to a global enterprise, when you approach complex performance issues through its inherent simplicity, the results are always the same – a remarkable jump in performance. Shifting the paradigm for understanding and managing complexity is the starting point toward a viable vision.... and, order of magnitude improvements in performance are possible.

Customer-Centered Culture (C3™¹)



A common assumption about organizational improvement is that the use of new tools will achieve a competitive advantage. That has often lead to programs such as reengineering, TQM, benchmarking, cycle time reduction, customer relationship management, process improvement, and, most recently, Six Sigma. While each of these initiatives has offered value, the following are some of their most common weaknesses:

¹ C3 is a registered trademark of International Management Technologies, Inc. and was developed by Robin Lawton. See *Creating a Customer-Centered Culture*, ASQ, 1993. www.imtc3.com

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- Application is most relevant for manufacturing and production operations, difficult to apply to knowledge, service and creative work
- Little or nothing is done to help the alignment between organization strategy and customer priorities
- Significant implementation costs are incurred with no guarantee or limited evidence of ROCE or ROI
- Process improvement may occur without any measured impact on customer-desired outcomes, satisfaction or sustainable innovation
- New skills are acquired but no fundamental change in thinking, behavior or culture occurs.

Our second determinant, **Customer-Centered Culture (C3)**, is a framework for ensuring that the organization's vision and desired outcomes are highly aligned with both internal and external customer outcomes and priorities. It also supports the rethinking/re-design of an organization's policies, processes and products. Developed by Robin Lawton of International Management Technologies, C3 is a unique approach for delivering sustainable customer satisfaction. The C3 model helps organizations:

- Connect strategic vision to customer values.
- Determine what customers really want (not just what they expect).
- Measure the seemingly immeasurable (not just conduct surveys).
- Anticipate customer expectations, not just react and recover.
- Create what customers and employees never thought possible, and
- Align performance measures with customer priorities.

The C3 model is as relevant to a mining operation or refinery as it is to a consumer goods manufacturer, financial service or government agency.

How C3 Works

The starting assumption is that rapid cultural transformation becomes possible only when a new set of beliefs is adopted. The transformation is then sustained by using new measures of excellence. C3 tools help deploy and support the new culture.

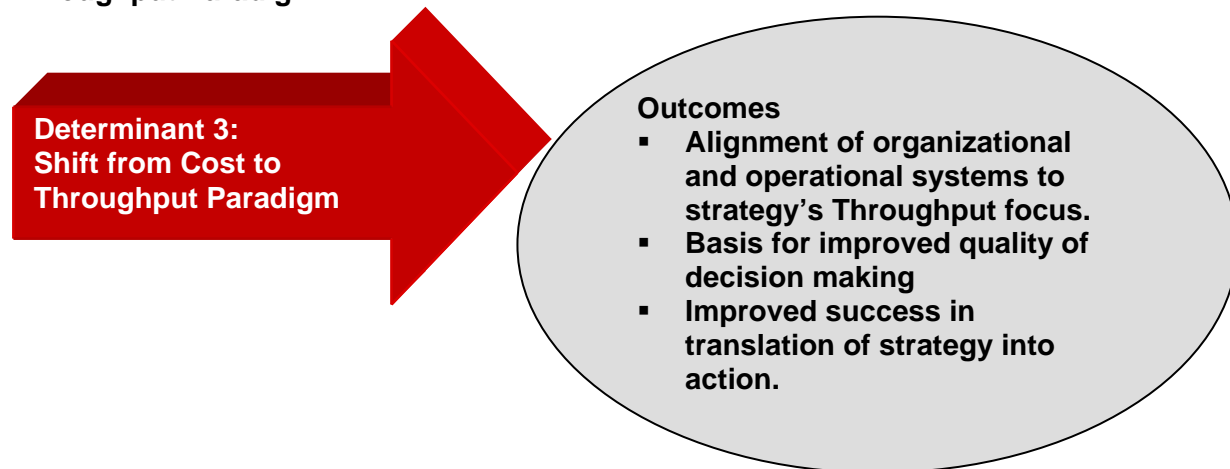
C3 works first to change beliefs fast. Not many are eager to begin questioning or challenging closely held beliefs. These beliefs often include "vital lies" (i.e. assumptions that constrain change). So C3 uses a series of grounded workshops to examine the real, but often absurd, array of current organizational behavior.

The second step is to replace internally focused, *producer-centered thinking* with an alternative: *customer-centered thinking*. This is accomplished using a process of experiential discovery. It results in insights into the degree to which:

- customer priorities are really known (or unknown)
- performance measures address what customers care about most (or least)
- we understand who "the customer" really is
- strategic objectives are consistent with customer values
- the voice of the customer is anticipated, captured, understood and acted upon
- continuous improvement is mistaken for innovation (better candles vs. light bulbs)
- high leverage opportunities have been identified (vs. just low hanging fruit).

The above elements set the stage for product and process redesign – and for moving toward a customer centered culture.

Throughput Paradigm



One of the most difficult challenges facing companies in the business world today is the need to quickly and effectively translate their strategy into action. Most leaders recognize this imperative and have put increasing emphasis on strategy development and efforts to accelerate change in response to competitive challenges.

What has received less attention is the issue of how to make these strategic initiatives a reality in our companies. As two recent Towers Perrin studies indicate, employers tend to do a better job of communicating the macro view of their organizations than the micro view. In other words, at the strategic level what is needed is generally well understood and articulated, but when it comes to converting that strategy into action at the local levels of the company, things are much more muddled. Obviously, if it is not clear to local levels how their actions contribute and impact corporate strategy, global objectives will not be achieved. According to Towers Perrin, the critical step to business alignment is translating strategy into well defined responsibilities and objectives for every individual in the organization; and keeping those connections alive day-to-day.

Developing strategy is all about finding new ways to increase the Throughput of an enterprise – about increasing the rate at which the company generates money through sales. In organizations where Throughput is not easily expressed in terms of money, it can be defined in terms of a rate at which some other goal unit is generated (e.g. units of service delivered to a customer). For centuries, we have based managerial decision making on the financial measures provided by cost based accounting. But most cost based accounting approaches fail to provide any meaningful feedback on Throughput. Nearly all financial tools focus on costs, placing expense at the center of the decision-making and performance measurement process. Although cost control is important, no top executive will tell you that it is the most important factor in achieving corporate sales and earnings growth.

Shifting to a Throughput paradigm allows companies to align all of their systems, particularly their financial systems, with the Throughput focus of their strategy. Also, because of its relative simplicity, the Throughput model is effective in communicating strategy throughout the organization, thereby engaging managers and employees in strategy implementation.

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The Throughput thinking model creates a very simple relationship for determining the effect that any local action has on the progress towards the system's goal. Every action is assessed by its affect on three system level dimensions:

- **Throughput**, which is the rate at which the entire system generates money through sales (or for the not-for-profit organization, some other rate of goal unit generation).
- **Investment**, which is all the money the system invests in things it intends to sell plus all the money tied up in raw materials, unfinished goods, purchased parts and structural capital.
- **Operating Expenses**, is all the money the system spends turning Investment into Throughput – all the money going out of the system by paying for things like direct labor, utilities, consumables, supplies and the like. Also included is depreciation of assets because it constitutes the value of a fixed asset expended in turning Investment into Throughput.

These three dimensions are interdependent in the sense that a change in one will automatically result in a change in one or more of the other two. If you increase Throughput by increasing sales, Investment and Operating Expense will also likely increase because you need more investment to support sales and you're likely to spend more, in variable costs, to produce more. You can also make more money without increasing sales if you can produce the same sales revenues with less Investment and spend less on Operating Expense. It is here that we have the key to relating local decisions to the performance of the entire system. As you decide what action to take, ask these questions:

- Will it increase Throughput? If so, how?
- Will it decrease Investment? If so, how?
- Will it decrease Operating Expense? If so, how?

If the answer to these questions is yes, go ahead with your decision, confident that the overall system will benefit from it. The bottom line to decision making is that if it doesn't result in increased Throughput you're wasting the valuable resources of time, money and energy.

Throughput Accounting uses three global measures to assess the impact of any decision:

- Impact on Throughput (T)
- Impact on operating expense (OE)
- Impact on investment (I)

These three variables are combined into a return on investment (ROI) calculation where, $ROI = (\Delta T - \Delta OE) / \Delta I$. This formula can be applied to make better decisions in five areas:

1. System as a whole
2. Any investment
3. Profit centers
4. Make or buy decisions
5. Product cost / profit calculations.

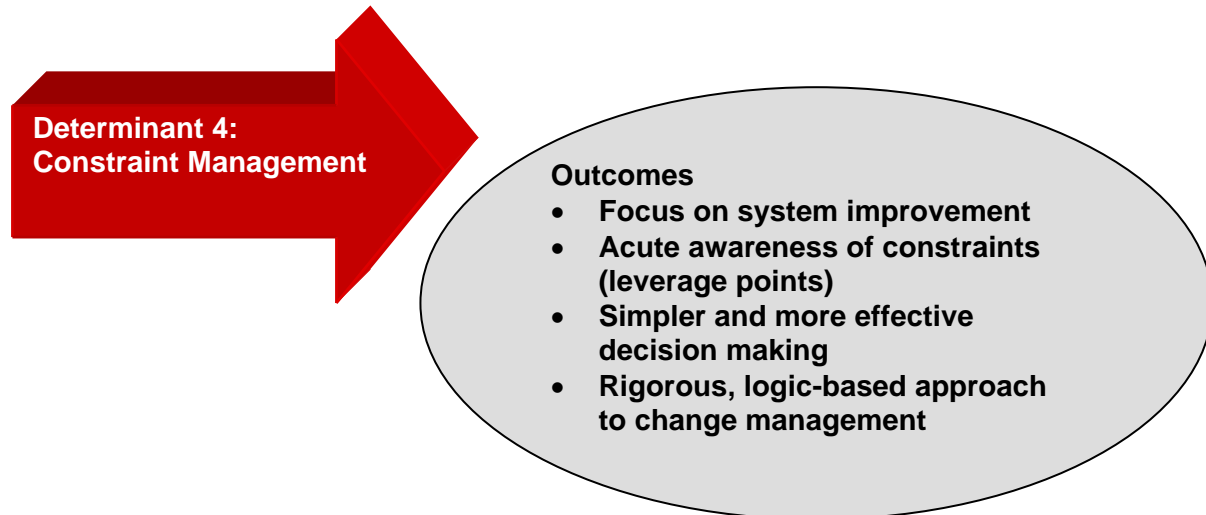
Throughput centered thinking offers a way to understand, analyze and focus performance improvement efforts based on their impact on both cost and Throughput. Companies seeking to drive Throughput based improvement should see the logic of using a similarly capable accounting/decision model to accomplish their aims. Without such an approach, efforts will continue to be scattered, misaligned and ineffective. Recognizing this need is not sufficient in itself. Changing accounting models means altering the fundamental mechanism driving behavior in organizations. It requires people to understand and adopt a new mindset, with new tools, and ways of making decisions – no small task for an individual, much less an organization. But, the gain is well worth the pain.

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Fortunately, most people possess an inherent intuition for how to operate in a Throughput paradigm. With most organizations misaligned due to faulty, cost-based information, any steps towards engaging this third determinant – the shift from Cost to Throughput Paradigm - will produce dramatic results in the quality of decision making and the organizations ability to engage its strategy at all levels of the organization.

Constraint Management



Goldratt maintains that ongoing improvement requires efforts to increase Throughput, decrease Investment, and decrease Operating Expense. Management traditionally emphasizes reduction of Operating Expense first, followed by increasing Throughput and, finally, Investment reduction. But according to Goldratt the biggest gains are to be realized by first increasing Throughput, then by reducing Investment. Operating Expense reduction should be the third priority. Goldratt's rationale for this order of priorities involves the law of diminishing returns: both Operating Expense and Investment have a theoretical lower limit of zero (and a practical limit considerably higher), but theoretically there is no upper limit to the increase of Throughput.

The Theory of Constraints likens each system (company) to a chain, or a network of chains. In any chain there is one weakest link which limits the performance of the entire chain. This weakest link is the system's constraint. Improving the performance (Throughput) of the chain requires strengthening that weakest link; improving any other link will cost money (increase Operating Expense) but will not contribute to the increased strength of the entire chain as long as the weakest one is ignored. However, as soon as that weakest link is strengthened to the degree that it is no longer the weakest link, (i.e., the constraint is broken), the next weakest link becomes the constraint.

The primary benefit of the TOC approach is its orientation toward the output of the entire system, rather than a compartmentalized look at components which may have little or no positive effect on overall performance. In every system there is typically an "elephant in the parlor" that overshadows all other deficiencies. With a TOC focus, a system's constraint can be precisely located, whether it resides within the company or outside (e.g., the market place). If

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the constraint is internal, it can be readily ascertained whether the constraint is physical (i.e., a machine, person, or facility) or a policy which inadvertently discourages improved performance. Efforts to break the constraint can then be applied without delay or distraction, for the least possible expenditure of time, money and energy.

The fourth determinant is a set of powerful tools that Goldratt created for dealing with system constraints. Foremost among them is a five-step process which ensures that improvement efforts remain on track toward system level improvement, rather than digressing into non-productive sub-optimization of system components. These five steps include:

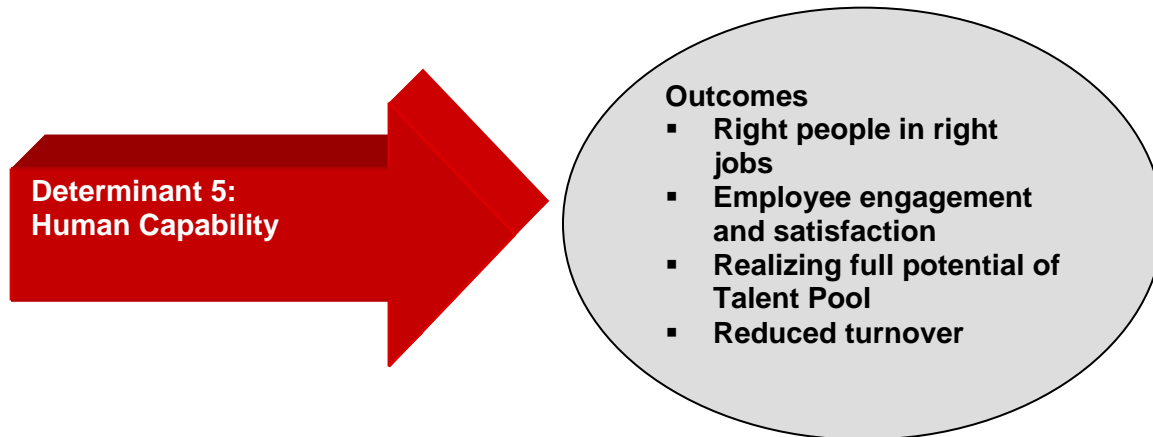
1. Identify the system's constraints. Determine precisely what limits the system's performance.
2. Decide how to exploit the system's constraint. Eliminate inefficiency from the constraint.
3. Subordinate everything else to the above decision (step #2). Make effective management of the existing constraint the top priority.
4. Elevate the system's constraint. Break the constraint by increasing its capacity above the level of demand.
5. If, in the previous steps, a constraint has been broken, go back to step 1, but do not allow INERTIA to cause a new constraint. Go back and find the next weakest link which limits system performance.

With the ongoing improvement process now defined, Goldratt introduces a rigorous five-stage logical thinking process which zeroes in on what to change, what to change to, and how to effect the change with a minimum of errors and false starts. These processes include the current reality tree, the evaporating cloud, the future reality tree, the prerequisite tree, and the transition tree. In concert with the five focusing steps mentioned above, these logical thinking processes provide a contextual basis from which to apply more commonly known quality tools, such as statistical process control, design of experiments, quality function deployment, and other structured problem solving methods.

Is cost reduction passé? Of course not. But it should be viewed in its proper context as part of a larger strategy to realize the company's goal, but not necessarily the most important part.

By now it's probably obvious that there is considerably more to the Theory of Constraints than is possible to address here. If you're interested in learning more about it, try Goldratt's book, *The Goal*, available in the business section of most bookstores.

Human Capability



Human capability, the fifth determinant, is about people, their strengths, weaknesses, values and how they are likely to best work together to achieve the organization's vision.

The ability to work is one of the most important human endeavors and ideally, every individual should have the opportunity to work to his or her maximum level of capability. Thanks to Elliot Jaques², our potential capability can be measured. It's possible for realistic and meaningful job roles, careers and career plans to be put together using science, not guesswork.

The four major elements of human capability include:

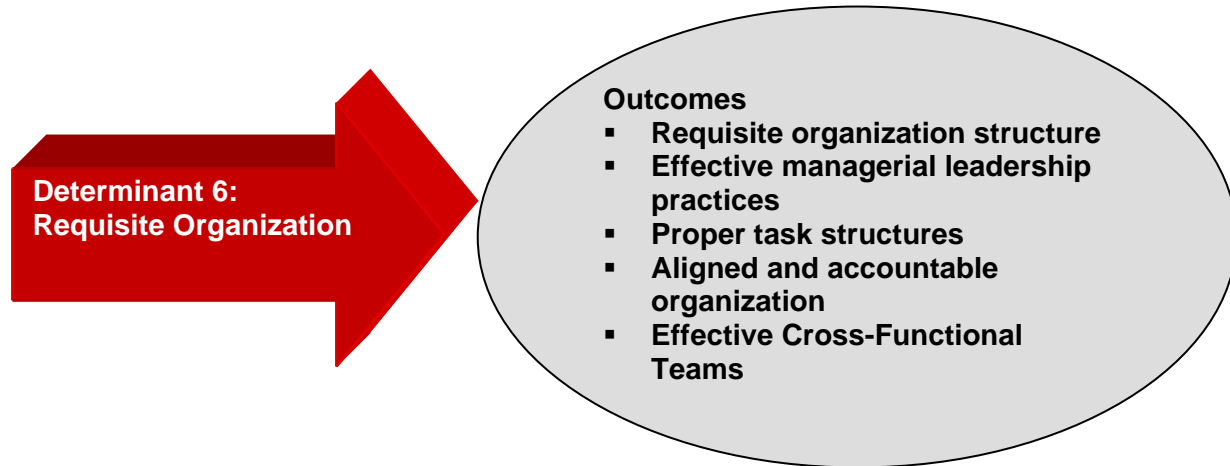
- The level of complexity of mental processing (CMP) which we are capable of,
- Our value (interest in) or commitment to particular work (V),
- The extent to which we possess the knowledge and skills for particular work (K/S), and
- Our expression of requisite behaviors which enable us to function effectively and harmoniously within the culture of the organization.

In short, Jacques framework³ makes it possible to remove some of the guesswork in finding and placing the right people in the right jobs. This is the critical step to enabling people to express their full capability, a prerequisite to gaining full engagement and productivity within a workforce.

² Jacques & Cason, Human Capability

³ See Elliot Jaques, Requisite Organization, 2nd Edition, Cason & Hall

Requisite Organization



Many organizations, not understanding that a scientific standard of effective design exists, leave organization design to default. This leads to serious dysfunction that is easy to spot and completely avoidable. The root causes of most organizational pain can be found in three areas:

- How organizational levels (strata) and job roles are defined (i.e. role to role mismatch)
- Person to role mismatch (person under or over qualified for role), and
- Person to manager mismatch.

Examples of these issues are presented in Table 1. ⁴

Table 1: Sources of Organizational Pain

Visible Performance and "Personality" Issues	Type of Mismatch	Natural Law (Detailed in Requisite Organization Model)
<ul style="list-style-type: none"> ▪ Micro-management ▪ Lack of leadership-too much or too little guidance ▪ Poor communication between employee and manager – too much or too little information ▪ Defensive manager ▪ Arrogant or pushy employee ▪ Employee viewing his manager’s manager as the "real" boss 	<p>Role to Role Mismatch</p>	<p>Each role should report to a role one complexity level higher than it.</p> <p>Ways to violate this law:</p> <ul style="list-style-type: none"> ▪ Having more than one role within a layer. ▪ Having a complexity layer without a role in it. ▪ Missing both layer and role.

⁴ Thanks to Michelle Malay Carter, a management consultant with Peoplefit, for the use of this framework and table. Please visit www.Peoplefit.com for further details.

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Table 1: Sources of Organizational Pain ... Continued

Visible Performance and "Personality" Issues	Type of Mismatch	Natural Law (Detailed in Requisite Organization Model)
<ul style="list-style-type: none"> ▪ Inability to do the work assigned ▪ Constant approaching of manager for more detailed instruction ▪ Manager having to do some of the work himself ▪ Manager having to break the work into smaller "chunks" ▪ Boredom ▪ Six months of excellent performance followed by change in motivation level or attitude. 	<p>Person to Role Mismatch</p>	<p>A person's ability to deal with complexity should match the complexity level of his job.</p> <p>Ways to violate this law:</p> <ul style="list-style-type: none"> ▪ A person has more capacity than the job calls for. ▪ A person has less capacity than the job calls for.
<ul style="list-style-type: none"> ▪ The employee does not feel his manager adds any value to his work. ▪ The employee thinks the manager talks too abstractly without enough details and specifics. ▪ Micromanagement ▪ Lack of leadership-too much or too little guidance ▪ Poor communication between employee and manager – too much or too little information ▪ Defensive manager ▪ Arrogant or pushy employee ▪ Employee viewing his manager's manager as the "real" boss 	<p>Person to Manager Mismatch</p>	<p>Each employee should report to a manager who's ability to deal with complexity is one level above his or hers.</p> <p>Ways to violate this law:</p> <ul style="list-style-type: none"> ▪ The manager has the same or less capability than the employee ▪ The manager has capability two or more levels above the employee.

When roles are placed requisitely (in an organization structure), the organization stands the greatest chance for functioning effectively. When they are too close or too far, dysfunction is inevitable. Much of this dysfunction masquerades as "personality issues". Fixing the structure can make many of these supposed personality clashes disappear.

When roles are too close, both the manager and direct report are likely operating at the same level of comfort with complexity and both process information the same way. When this is the case, the manager cannot build a context for the subordinate that goes beyond the thinking of the subordinate. Therefore, the manager does not add value to the subordinate's work, which is frustrating for the subordinate. The subordinate will invariably make inquiries to which the manager cannot satisfactorily respond. In response, the subordinate may look to his manager's manager for leadership.

This can lead the manager to view the subordinate as a threat. In extreme situations, the manager may seek to remove the threat, resulting in the loss of an effective person to the organization.

When roles are too far and a layer is missing, communication will suffer. The subordinate will experience the situation as insufficient direction or detail in directions given by the manager. The manager, on the other hand, will feel that the subordinate is slow and wanting too much hand-holding. Because the direct report will be incapable of handling the work in the stratum

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above him, the manager will be forced to cover the work that falls in the layer separating them. This will leave the manager with less time to do the work appropriate to his or her stratum level and some form of coping method will need to be applied by the manager, i.e. not doing the higher level work, ignoring the lower level work, or working 80 hours a week to cover both.

The aims of the requisite organization are simple: develop organization structures and processes that can provide for high levels of performance and business effectiveness. In a requisite organization people trust each other and work together in an honest and straightforward manner. They use their capabilities to the fullest, both to their own satisfaction and to the functioning of the organization.

Redline Advisors can help assess the integrity of your organizational design, independent of the strength or placement of your talent pool, by comparing it to a proven standard model of effectiveness and efficiency for a Requisite Organization. The objective is to design a target organization that best suits the organization's mission.

Building a requisite organization requires:

- Understanding the current organization in terms of a "Managerial Accountability Hierarchy (MAH)"⁵
- Functional alignment with the MAH
- Proper structuring of tasks and task delegation
- Engaging requisite managerial leadership practices and inter-role relationships
- Assessment of role complexity and assignment of appropriate resources who's ability to make meaning of complexity matches the complexity inherent in the work of the role.
- Review of compensation practices and levels.

When the above steps are completed, a fully requisite organization emerges. The target organization always reflects 100% "requisiteness." Any deviation from 100% will decrease effectiveness, as employees directly affected by the design flaw, divert energy from their work at hand to compensating for the structural default. Due to a cascading affect, the higher up the organization chart the defect is, the greater the dysfunctional impact.

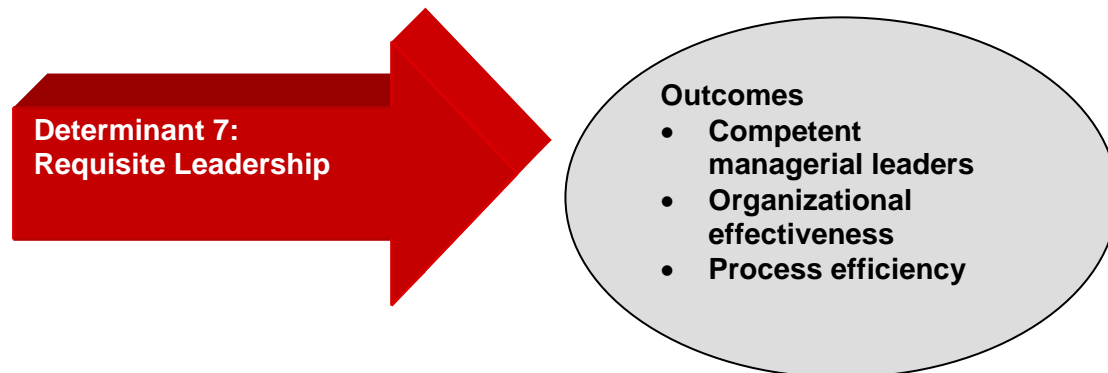
A Requisite Organization offers a number of benefits. You can:

- Determine how well the existing or proposed role structure provides for effective managerial leadership
- Determine whether the existing or proposed role structure is sufficient to carry out your organization's mission
- Determine if there are extra layers present
- Determine if there are layers missing
- Determine if there are "holes" in the organization where work has the potential to "fall through the cracks," and
- Determine if you are expecting some roles to "cover" several layers of work.

Redline can help you design an organization that fosters efficiency and effectiveness.

⁵ Ibid #3.

Requisite Leadership



As advocates of the Elliot Jaques model for Managerial Leadership, we define *leadership* to be the accountability to influence one or more followers to *willingly* accept the leader's purpose and goals and all to move in the direction set by the leader. This is accomplished by suffusing authority with leadership practices appropriate for that role.

While a manager can get work done by simply using (or abusing) authority, in the absence of good managerial leadership practices, this often produces indifference in subordinates and indifferent work. So all managers must be accountable for carrying out requisite leadership practices in relation to their subordinates, as an integral accompaniment of their authority.

Requisite managerial leadership refers to the set of principles necessary to support and guide a requisite organization. Every manager should be expected to apply and live by these criteria. These practices include:

- Managerial team-work, context setting and planning: Is every manager regularly meeting with immediate subordinates to plan and shape work – and to do this in a team work environment? Is the current context for work up-to-date?
- Just-in-time and just-within quality task assignment. The idea is to deliver products that meet customer expectations, no more, no less. Anything else is either poor quality or high cost.
- Personal effectiveness appraisal, coaching and merit review. Does this occur on a routine basis?
- Mentoring, individual career development, selection and deselection. Do subordinate and manager judgments about capabilities line up?
- Talent pool planning and development. Is there evidence of good selection and induction?
- Cross-functional control and integration. Are collateral relations strong? Do people pitch in to overcome problems?

Developing a requisite organization and the necessary leadership typically takes 6 to 24 months, depending on the size of the organization. Steps in development include:

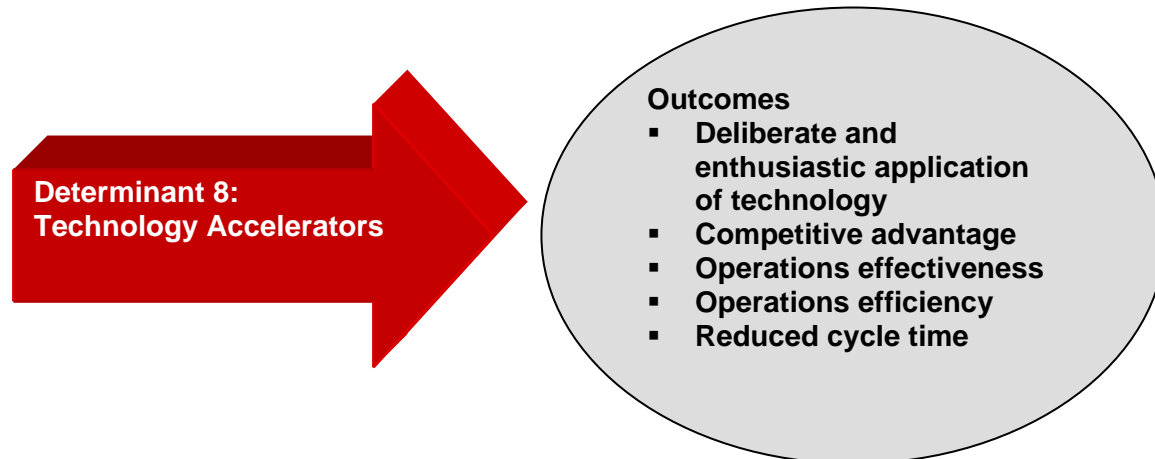
- Establishment of a task force
- Organization value and mission analysis
- Functional analysis and alignment
- Organization restructuring
- Planning information and control sub-systems
- Re-designing human capability sub-systems
- Teaching and training in requisite organization.

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The above tasks typically occur concurrently throughout the life of a program to move to a requisite organization.

Technology Accelerators

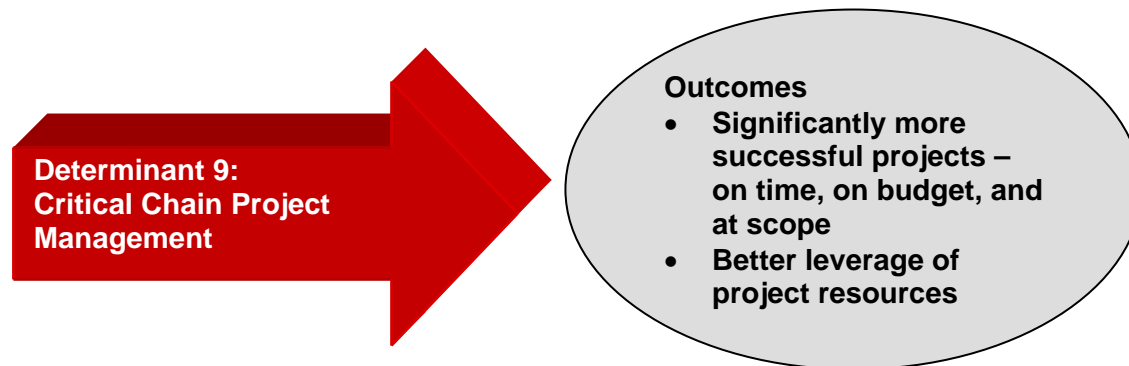


According to Jim Collins⁶ in *Good to Great*, “great” organizations all employ technologies that enhance their competitiveness. He calls them technology accelerators. Circuit City, for example, pioneered the use of sophisticated point of sale technology for big-ticket retailing. Collin’s work also confirms the role that technology can play if you don’t keep up. You can’t remain a (technology) “laggard” and hope to continue to be great.

Making or buying and deploying the right technologies is really about making customer and producer outcomes easier to achieve. This latter statement might serve as a simple definition of innovation. Note that we are using the term “technology” in its broadest sense. On the one hand it might be about web-based communications and computer tools to support on-line shopping; in another case, it could be about using noise abatement materials to help hotel guests get a good night’s sleep. This all begins with a thorough understanding of customer expectations. Easy to say, but rarely accomplished.

⁶ See Jim Collins, *Good to Great*, Harper Business, 2001.

Critical Chain Project Management



Organizations don't work in vacuums. They operate in all kinds of changing environmental and competitive circumstances. To sustain a position as a high performing organization, continuous improvement has to be a way of life, and successful projects are fundamental – yet, on average, only about 30% of all projects are on scope, time and budget.

In addition, organizations have encountered a strong resistance internally to make a change. Rigorous project plans quickly degenerate into a series of artificial milestones. Project participants stubbornly refuse to provide timely updates on project progress and executives often ignore resource availability during project selection and prioritization.

The simultaneous presence of few results and strong internal resistance leads many observers to, most incorrectly, conclude that there is a causal relationship: improvements do not materialize because there is a strong resistance to change. Therefore, they stress that the answer lies in educating the organization on benefits of discipline, grounding project managers in the discipline, and getting executives to enforce such discipline.

There is a contrary opinion. Lack of improvements and resistance to change, some say, arise from the same root cause: traditional project management is useless for its 'customers'. Since the product does not serve their needs, failure and resistance are natural.

Traditional project management assumes a perfect world, one that does not exist. The theory is that you create a good plan, follow it, and projects will get done. In reality, many uncertainties strike you in execution:

- Requirements change
- Technology fails
- Vendors do not deliver
- Work materializes slower than expected
- Approvals do not come on time
- Priorities change.

The extent of these uncertainties is what makes projects unique. "Unplanned" uncertainties account for more than 30% of a project's work. As uncertainties strike, plans go haywire, especially in multi-project situations. People are constantly pulled from one project to fix other project's problems. Priorities become unclear and people start multitasking; delays compound. Managers are continually surprised by schedule slips. Focus shifts from delivering projects to

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explaining delays.

The next time, people are forced to create a more meticulous plan. Of course, that only means they now have even more details to track and explain. Managers at every level, wary of all uncertainties and delays from their previous experience, begin hiding “safeties” in their commitments before sending the plan upwards. Finally, everyone gives up on project planning. Dictating commitments and “managing on the fly” looks more attractive.

Is it really rational to expect people to embrace traditional project management, knowing that it will bring no benefits and, possibly, make their life worse? Why force them to create project plans that will become obsolete before execution begins or issue a report status that is misleading?

Because of its unique ability to accommodate and manage uncertainties, Critical Chain Project Management (CCPM) is a “silver bullet” alternative that delivers results and lowers resistance to change. For the first time, managers can make project plans and execute them knowing they reflect the reality of their uncertain world. Of course, they still need basics like creating project plans, getting timely updates, and paying attention to resource availability. The difference is that by providing a means to accommodate and manage uncertainties, CCPM makes doing these activities practical and purposeful. For example:

- No detailed planning upfront: Only high-level requirements and activities are needed during planning. Detailed project specifications are added as they become available in execution.
- No more re-planning cycles: Even as uncertainties strike, project plans and due-dates remain valid. The burden of constant re-planning is removed.
- No need to hide local safeties: Because explicit buffers are available to absorb and lessen the shocks of uncertainties, project participants are no longer measured regarding on-time completions of individual activities. Furthermore, CCPM even provides measurements that encourage people to give up local safeties.
- Simple, meaningful updates: Project participants only report the time they need to finish what they are working on.
- Utility for project participants: For the first time, project plans and progress updates can be used to dynamically synchronize priorities within and across projects.
- Early warning signals: Managers do not have to manage on the fly.
- Resource balancing: As resource estimates become more real, executives become eager to properly balance projects and resources instead of dictating commitments.

One might ask, “Where is the catch?” Properly done, CCPM implementations rely on very few, but powerful, changes, brought about in a systematic manner. Five changes that drive success include:

1. Task Manager responsibility and measurement: Task managers are located closest to where projects are executed. Making them responsible for execution (define task details, ensure priorities are followed, and provide progress updates), and rewarding them accordingly gets you maximum bang for the buck.
2. Master Scheduler role (only in multi-project environments): A senior person is made responsible for ensuring that project due-dates are capacity tested.
3. Buffering Policy guidelines: Executives specify the minimum buffers that projects should have to be considered for execution.
4. Project templates: A set of templates that anyone can customize/ fine-tune for their projects, without having to master the art of defining networks, are created. There are usually about half a dozen types of projects in organizations.

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5. Aggressive estimates at the task level to accommodate buffer: Explicit buffers in projects also means that safeties should be reduced from individual task estimates. There are three ways to accomplish this:

Option A – Just do it: Start with the due-date, put in the buffer and then shrink task durations to fit the available time. Half of all practitioners use this approach.

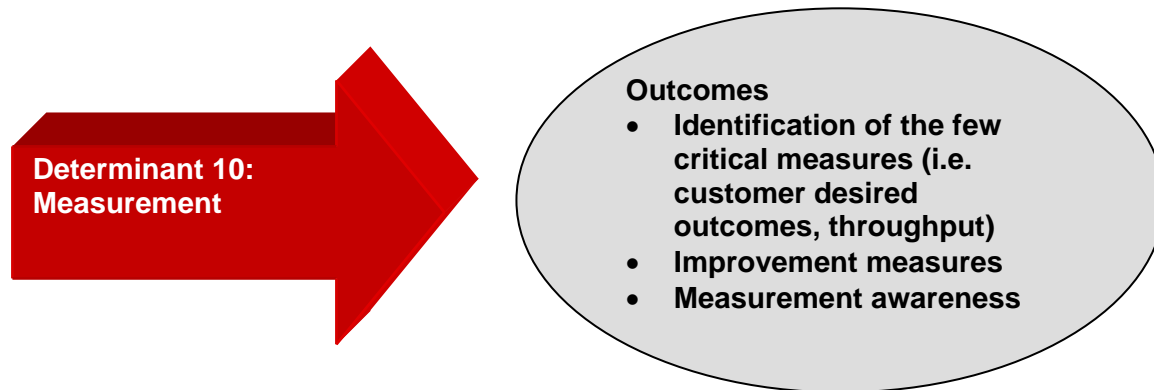
Option B – Take estimates from management: Experienced managers usually know how long it takes to finish a task. Around one third of practitioners use this approach.

Option C – Ask rank and file: They can provide estimates, assuming they will be working on only one task and they will not be penalized for exceeding the estimates.

With these five changes in place, a good scheduling and information system takes care of the rest. It automates data collection, does the calculations, and provides appropriate reports to all managers so that they can measure performance and make decisions.

Fifty years after the advent of project management, it is finally possible to make projects finish on time, on budget and at scope. Successful operations know this and harness CCPM.

Measurement



W. Edwards Deming, the grandfather of the quality movement, believed that you cannot improve what you cannot (or choose not to) measure. When we add Goldratt's thinking about the importance of the Goal⁷, we have two necessary conditions for improvement: our goal(s) and a few key measures. Our major goal for the future is established based on a clear picture of where we are now. This becomes an important component of a *viable vision* for the organization.

In the area of measurement, between Kendall⁸, who suggests that "measures may be dangerous to organizational health," Neely⁹, who proposes that "the perfect measurement

⁷ Eli Goldratt is the author of author of The Goal, Critical Chain, The Haystack Syndrome, The Theory of Constraints and several others.

⁸ Kendall, p.61, Securing the Future

⁹ Neely, Andy, Business Performance Measurement, Chapter 4.

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system may not exist,” and Lawton¹⁰, who addresses the issue of “customer satisfaction,” a summary of measurement problems emerges:

- There are often far too many measures – beyond human capability to track, respond to and act upon – and this problem is getting worse.
- Measures are frequently outdated.
- We seldom track whether we are satisfying customer *desired* and *undesired* outcomes.
- Measures are often of a historical financial (lagging indicator) nature; typically there are too few non-financial measures that predict financial performance and pervade the organization.
- There are no measures properly focused on improvement initiatives (i.e. connected to root cause problems).
- Measures are implemented without input and understanding of the people being measured and/or impacted.
- Measures are too often focused on cost accounting and individual silo/department performance and seldom on total throughput.

In our experience, there are a few rules of thumb that can help deal with the challenge and necessity of measures and measurement:

- Customer satisfaction is an indicator of financial performance and we need to measure the extent to which customer expectations, and especially outcomes, are met.
- We need relatively few measures to keep track of. Lawton, for example, proposes 8 areas of focus¹¹. Neely offers the idea of possibly 3 financial and 3 non-financial; and the non-financial measures are leading indicators of financial performance¹².
- Progress toward the organization’s big goal (throughput) is measured. We adopt a throughput accounting methodology and move away from cost accounting.
- Measures are known, understood and communicated throughout the organization.
- We measure progress on our efforts to overcome constraints.

About the Authors

Dar Schwanbeck is a Certified Management Consultant and Partner with Redline Advisors Inc. in Edmonton, Alberta, Canada. Dar’s passion for creating customer-centered cultures spans 20 years and covers North America. His mission is to help organizations create friendly, easy to use, timely products and processes that generate customer smiles.

Murray Wade is the President of Redline Advisors and a management scientist and performance consultant with over 25 years of experience. Murray advises executives on how to identify and remove constraints that limit the achievement of operational excellence. He is an expert on issues related to strategy development, operational performance, human capital management, leadership and managerial development, and requisite organizational design.

¹⁰ Lawton, Robin, *Creating a Customer-centered Culture*.

¹¹ See “8 Dimensions of Excellence” at www.imtc3.com.

¹² See Neely, Andy, *Business Performance Measurement*, Chapter 4.

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Appendix 1: Summary of Performance Determinants, Questions for Further Discovery & Redline’s Services

Redline Advisors uses a holistic approach to dealing with complex business strategy, technology, human and organizational issues. Our consulting services are typically delivered through assessments, retreats, planning sessions, focus groups and executive coaching sessions. Because each organization’s needs are unique, we offer a range of approaches and deliverables to support improvement initiatives.

Determinant & Description	Questions for Further Discovery	Redline’s Services
<p>Viable Vision - Goldratt and Kendall suggest that most organizations “do <u>not</u> have a correct roadmap to their vision.” A viable vision includes senior executive buy-in to goals, a consensus about the major constraint and underlying problems blocking achievement of goals, and, solid marketing, operations and distribution strategies.</p>	<ol style="list-style-type: none"> 1. What persistent challenge or problem is blocking your organization from achieving significant performance improvements? 2. What approach(es) have you tried toward performance improvement? 3. Is the concept of inherent simplicity familiar to your organization? 4. Is there consensus / buy-in among senior executive as to the company’s goal and constraints? Do you have a business strategy and deployment plan designed to focus attention on breaking the constraint? 5. Is the focus on outcomes and enterprise-wide <i>throughput</i> or is each division doing its own thing – operating more in a silo and focusing improvements and measures on its own performance? 6. How many goals or objectives does each division or department have? How do people decide what the priorities are? 7. How sustainable are your strategies for achieving your vision? 	<p>“Cold eyes” strategy, managerial leadership practices, and organizational performance diagnostics</p> <p>Corporate needs assessments</p> <p>Strategy maps</p> <p>Strategy deployment plans</p> <p>Strategic scenarios</p> <p>Retreat management</p>

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Determinant & Description	Questions for Further Discovery	Redline's Services
<p>Customer-Centered Culture (C3) - C3 is a unique approach for delivering sustainable customer satisfaction. The C3 model helps organizations connect strategic vision to customer values, determine what customers really want and align performance measures with customer priorities.</p>	<ol style="list-style-type: none"> 1. What are the key results or outcomes your organization is trying to achieve? How do you measure these? 2. Which of these outcomes seem most difficult to achieve or to get consistent results? 3. Why is that? What approaches have you taken? What has worked? 4. Effectiveness requires that organization <i>outcomes, products and processes</i> be addressed in an integrated way. But often there is a lack of consensus about what each of these concepts mean. The best place to start is to get clarity about outcomes, and often, there are too many, going in too many directions and usually a few obvious ones are missed. So, what are the critical few enablers or constraints to the achievement of your outcomes? 5. Do they need to change in any way? 	<p>Transformation deployment plans (becoming customer-centered) Team training Surveys Focus groups Persona definition studies Improvement project facilitation Product design / innovation tools Product attribute definition tools Process design, process maps Yield, cycle time, resource effectiveness and efficiency studies</p>
<p>Throughput Paradigm - An organization-wide focus on throughput that leads to the identification of the “weakest link” and an ability to concentrate resources to fix it.</p>	<ol style="list-style-type: none"> 1. What would you say is the vision or major goal for your organization? And how do you measure performance toward that goal? Have you considered Throughput Accounting? 2. What is the biggest leverage point, organization wide, for improvement (e.g. increase throughput, improve ROI, or reduce operating expenses)? 3. Would, or does, the senior executive buy this and support it? 4. Do you have an early warning system that will alert you to problems? 5. Does each department drive its own improvement efforts (silo approach)? 	<p>Throughput definition Throughput accounting Throughput decision-making</p>

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Determinant & Description	Questions for Further Discovery	Redline's Services
<p>Constraint Management - Deals with an organization's efforts to identify those factors that constrain or limit its growth and operations. Once a constraint is identified, effectively "breaking" and/or managing it is a key to improved performance.</p>	<ol style="list-style-type: none"> 1. What are the key results you are trying to achieve? 2. What persistent problems seem to be hamstringing achievement of those results? 3. What would you say is the main constraint? What impact is it having on the organization? 4. How long have you had this / these problems? 5. What solutions have you tried? 6. Why have they worked / not worked? 7. Does the organization operate in silos? 8. How is performance measured (by department or overall)? 9. How are capital or improvement expenditures justified (within departments or overall)? 	<p>Current reality trees Conflict resolution trees Future reality trees Prerequisite trees Transition trees</p>
<p>Human Capability - The ability to work is one of the most important human endeavors and ideally, every individual should have the opportunity to work toward his or her maximum capability. Thanks to Elliott Jaques, our potential capability can be measured and it's possible for meaningful job roles, careers and career plans to be put together.</p>	<ol style="list-style-type: none"> 1. How many employees are performing in roles below their capability (underutilized)? 2. Are there some employees in jobs that they shouldn't be? 3. Is there equal pay for equal work? 4. How would you describe morale? 	<p>Executive advisory Competency and role assessments Recruitment Employee retention plans Compensation strategies Succession plans Management of organizational relationships Conflict management and resolution Individual and 360 assessments Individual performance coaching Team performance appraisals Birkman Reports Online performance evaluations Building trust based cultures Leadership development</p>

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Determinant & Description	Questions for Further Discovery	Redline's Services
<p>Requisite Organization - The aims of the requisite organization are simple: develop organization structures and processes that can provide for high levels of performance and business effectiveness.</p>	<ol style="list-style-type: none"> 1. Does your organization structure work the way you want it to? 2. Where might the “negative” value added be (e.g. work passed vertically in same stratum, too many levels, inadequate subordinates)? 3. How would you define the level of trust in your organization? 4. Is accountability clear and in line with authority – or is it a mish mash? How much “micro-management” is going on? 5. To what extent is there real mentoring, career development and a real awareness of employees’ potential? 	<p>Enterprise culture and climate assessments Coaching to re-align values and principles of governance Requisite organizational stratification and functional alignment strategies to gain:</p> <ul style="list-style-type: none"> ▪ Role accountability ▪ Efficient work flow ▪ Effective task delegation ▪ Effective Cross-Functional Team structures
<p>Requisite Leadership - The managerial leadership necessary to guide a requisite organization. Leadership practices include:</p> <ul style="list-style-type: none"> ▪ Managerial team-work, context setting and planning ▪ Just-in-time and just-within quality task assignment ▪ Personal effectiveness appraisal, coaching and merit review ▪ Mentoring, individual career development, selection ▪ Talent pool planning and development ▪ Cross functional control and integration 	<ol style="list-style-type: none"> 1. Is important work delegated too far down the organization (delegation sickness)? 2. Have you turned your best salespersons or creative staff into managers (loss of creativity)? 3. Is the Peter Principle at work in your organization (i.e., people are placed in positions above their current capabilities)? 4. Currently, are each and every senior executive capable, or is this a taboo subject? 5. Are there signs of good morale? Is there good quality, consistent customer feedback? 6. Do managers work well together in collateral relationships? 	<p>Define / re-design processes to:</p> <ul style="list-style-type: none"> ▪ Minimize performance variance ▪ Maximize performance outcomes <p>Executive & managerial coaching / mentoring</p>

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<p>Technology Accelerators - According to Jim Collins in <u>Good to Great</u>, "great companies" all leverage technology to improve their performance. The opposite is also true – those that don't keep up loose competitive advantage.</p>	<ol style="list-style-type: none"> 1. What or how does technology help to give you competitive advantage today? 2. What (technology) would make your customer and/or producer outcomes easier, faster or cheaper to attain? 	<p>Product and process innovation tools Technology surveys Enterprise technology plans E-business strategies</p>
<p>Critical Chain Project Management (CCPM) – An effective alternative to <i>critical path</i> project management that focuses on minimizing overall project timelines.</p>	<ol style="list-style-type: none"> 1. What percent of your projects finish on time and budget? 2. Is accountability for projects "local" or "shared" across divisions? 3. Do you suffer from "student syndrome (leave it till the last minute) and "Parkinson's Law" (work expands to fill time available)? 4. What approach do you take toward estimates - are they really estimates or cast in stone? 	<p>Change management tools Critical chain project management / facilitation</p>

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Determinant & Description	Questions for Further Discovery	Redline's Services
<p>Measurement - While there are many problems with measurement systems today, in our experience, there are a few rules of thumb that can help deal with the challenge:</p> <ul style="list-style-type: none"> ▪ Customer satisfaction is an indicator of financial performance and we need to measure the extent to which customer expectations, and especially outcomes, are met. ▪ We need relatively few measures: possibly 3 financial and 3 non-financial. ▪ Progress toward the organization's big goal (throughput) must be measured. ▪ Measures are known, understood and communicated throughout the organization. ▪ We measure progress on our efforts to overcome constraints. 	<ol style="list-style-type: none"> 1. Does your organization measure the drivers for satisfaction and whether customer expectations are met? 2. Do you measure throughput (progress toward the organization's primary goal)? 3. What is the organization's main constraint? Do you measure progress toward overcoming this constraint? 4. How many measures does your organization have in total? 5. Are measures communicated throughout the organization? 	<p>Outcome maps / trees Performance measure / indicator development Performance evaluations / reports</p>

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