(Re)(Organize) for Resilience & The Outside-In Approach to Customer Service

Ranjay Gulati
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Reviewed by Paul Harmon

(Re)(Organize) for Resilience is a book by Ranjay Gulati and "The Outside-In Approach to Customer Service" is a short interview with Gulati, written by Sarah Jane Gilbert, that was published by the Harvard Business School in a newsletter, *Working Knowledge*, which provides "a first look at faculty research." (This newsletter was the "paper" cited by those who first began to discuss "Outside-In" on the BPTrends LinkedIn Discussion site.) I decided to look at both at the same time. The book can be bought anywhere and the newsletter can be downloaded after it is found online via Google.

Outside-In has been popularized by a small group of process practitioners in the past couple of years and is being promoted as if it were a silver bullet that could radically change the way people conceptualize business process change efforts. (At least one enthusiastic writer suggested that *Outside-In* is what lies "beyond process.") In most cases the term seems to be simply marketing hype, but I thought it worthwhile to look into it in a little more detail to see if the approach offered anything really new.

Let's begin with a quote from Gulati on page 291 of his book:

"The terms *Outside-in* and *customer-centric* are used interchangeably throughout the book. The terms *inside-out* and *product-centric* are also used interchangeably throughout the book."

In 1995, Michael Treacy and Fred Wiersema published *The Discipline of Market Leaders,* which was a national best seller for several months. This book was one in a continuing series of business books that have warned business managers to pay attention to their customers.   In this case, Treacy and Wiersema argued, in essence, that their research had found that companies pursued one of three strategies: Operational Excellence, Product Leadership, or Customer Intimacy.   Throughout the book they used the terms *operations-centric*, *product-centric,* and *customer-centric* to describe these three strategies. The authors argued that any strategy could result in success, but recommended focusing on customer needs as the most likely to lead to succeess.

At the time, many process people argued that Treacy and Wiersema were unfair in suggesting that process people were somehow associated with "operations-centric" companies.   What Treacy and Wiersema were, in effect, calling *operations-centric* was a concern with efficient processes.   While process practitioners are often involved in trying to make processes more efficient, they are usually even more concerned with making processes effective. In other words, they are concerned that the products produced by the process – the outputs of the process – satisfy customers. If you don't satisfy customers, it doesn't make any difference how efficient the workflow is.

This distinction can be said to divide "little process" people from "big process" people. "Little process" people conceive of a process as a set of steps to be accomplished. In effect, they are not concerned with effectiveness, but only with efficiency. Big process people focus on achieving value for their organizations. They are equally concerned with inputs (quality of parts, getting suppliers to deliver on time), the management of the process, the value added by specific activities, the competencies of the employees, the outputs (products, returns, customer satisfaction) and the degree to which the processes satisfy other stakeholders, from senior executives and stockholders to government regulatory groups. Big process people focus on the whole range of possible causes, including customer problems when they seek to analyze and redesign a business process.

IT analysts often adopt the "little process" mindset. They don't look at the big picture, but focus instead on a specific set of activities that could be made more efficient by means of software automation. In the worst case, they develop software, automate activities and then find that the problem remains because the problem ultimately resulted from customer dissatisfaction, or a failure of employees when they interfaced with customers, or a failure of managers who didn't monitor or provide feedback when errors occurred, etc.

In a similar way, process people with a "little process" mindset are often overly impressed by ideas about how management changes can affect processes or how paying attention to customers can guide process improvement. If you think of a process as just a set of activities, then something "outside" those activities – customer concerns, for example, or employee training, are "outside" process as you understand it. For those who have always taken a broad view of what process work involves, it is very frustrating to hear someone suggest that a focus on customers is somehow "beyond process work." It is as if one were to insist on drawing a process "box" and leave off arrows to show inputs and outputs or to indicate where suppliers or customers might lie. For most of us, it is necessary to understand all of these elements in order to understand, let alone improve, a business process.

It's not clear that Treacy and Wiersema understand this distinction, and it's even less clear that Gulati understands it. Whether they do or not, they both use "process" rather casually, so it's a bit hard to be sure. Consider the following:

"Virtually all organizations have traditionally been built around stand-alone "silos" that revolve around a set of functions, products, services, or geographies, guarded by fortified boundaries that resist the intellectual, structural, and emotional changes that cooperation and coordination around a customer axis require."(p10)

It turns out the "customer axis" is a major "technical" term in Gulati. It's a key concept that needs to be defined, focused on, and improved. Let's look at this a bit closer: The customer axis is the line that crosses silos and connects activities to customers. I would suggest that this is exactly what most of us have called "processes" for the last several years. Figure 1 is a variation of the figure Geary Rummler and Allan Brache used in their 1990 book, *Improving Performance.* The gray area on Figure 1 is, surprise, a customer axis!
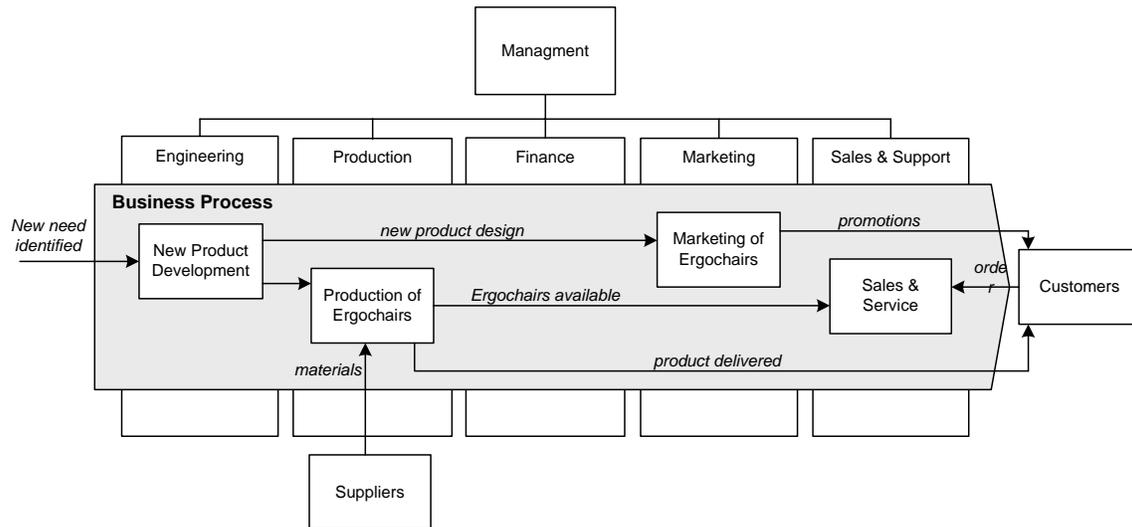
Figure 1. A business processes cuts across traditional departments to combine activities from different departmental silos into a single process flow. (After Rummler & Brache, 1990.)

This pretty much sets the tone for Gulati's book. He is going to put old wine in a new bottle. A process is going to be redefined to be a "customer axis," the "little process view" is going to be termed "inside-out" and the "customer-centric" approach is going to be termed "Outside-In."

OK, so we are not talking about anything new here; we are talking about the importance of a customer-focus and on aligning processes so they deliver value to customers. That has been a key principle of process analysis for decades. On the other hand, we all know that marketing people can't resist transitioning to new terms every few years – it gives them a fresh way to hype their products (or their methodologies if they are selling "axis analysis" and O-I). Ultimately, the real key to Outside-In isn't whether it's simply a new word for an old concept (it is) but whether it can offer us any new, practical ways of achieving a customer focus or any actionable advice about how we might leverage a customer-focus to achieve better performance at our organizations.

There are two things that Gulati focuses on. First, he proposes a stair step model that suggests where customers are along the road to "customer-focused" maturity. This seems to be a required feature of any business book these days, and Gulati's maturity model runs:

- Level 1. Companies are product focused.
- Level 2. Companies have some understanding of their customers, derived from market research
- Level 3. Companies have shifted from focusing on selling products to solving customer problems
- Level 4. Companies are not focused on producing products, as such – they are focused on solving their customer's problems, using whatever inputs they need.

When I first encountered this distinction, in 1968, I was working at Xerox Learning Systems, which was rolling out its consultative selling program for training sales people. We had a similar model, but didn't refer to *levels* or *maturity*.   We did, however, stress the difference between selling products and focusing on helping customers solve problems.

Gulati's second focus, which occupies most of the book, describes five levers that managers can use to jack their companies up from Level 1 to Level 4. The levers are:

- **Lever 1: Coordination**: Align activities and information around the customer axis (e.g. use the process approach and think of a process as crossing business silos).

- **Lever 2: Cooperation:** Ensure attitudes and behaviors are customer focused.

- **Lever 3: Clout:** Empower customer champions (e.g. Empower process champions).

- **Lever 4: Capabilities:** Developing the skills to cope with changing customer needs. (e.g. Understand your process well enough that you can modify it as customer needs change.)

- **Lever 5: Connections:** Forging external links to stay focused and agile. (e.g. Focus on your core processes, especially those that interface with the customer, and outsource things that others can do better.)

Gulati puts quite a bit of effort into explaining and selling each of these levers – just as Rummler, Hammer, Womack and many others have over the course of the last two decades. I didn't see anything new or exciting in all this, although it is a fresh spin on these well-established concepts, and some of the case studies were nice enough. But, in the end, all of the information provided about "Levers" is generic advice to managers. It's the kind of advice that managers get every day and, having heard it, sit down and think: "OK, I should do that – now how would I actually go about doing it?" A business manager, who was unacquainted with process modeling, having read Gulati, would be very hard pressed to figure out how to describe a customer axis in anything more than a vague sentence or two.

Please don't think my criticism of Gulati and Outside-In is meant to disparage the idea that a customer-focus is very important. I strongly believe in the importance of maintaining a focus on customers. I still remember the time when I was making a presentation to a major corporate client and they mentioned IBM's new Business Components approach and asked why I wasn't advocating it. The Business Components approach begins by examining all mid-level processes in a company, each in isolation from each other. It took me awhile to grasp the idea that anyone would begin an analysis of an organization's process architecture in that way. Once I did, I could only stammer "But how do you know if any one of these processes is needed or useful?" To my way of thinking, processes (or "customer axes" if you prefer) generate value for customers. A value chain is worth doing only if it generates value that customers want. Processes within that value chain are only valuable if they contribute to producing that ultimate value. Similarly, activities within subprocesses are only valuable if they contribute to a subprocess that contributes value to a customer (or are Muda1 and necessary to support other stakeholders, like agencies of the government, of course). In other words, the customer, customer satisfaction, customer retention, and the growth of market share are the ultimate ways you judge process work. There is no sense in which you should focus in improving the internal workings of a process that is ultimately not going to produce value for customers or for other key stakeholders. Considering processes independent of the effect that a process has on the customer is a recipe for disaster.

This is not a new idea, or one that originated with me. The essence of Lean's focus on eliminating Muda (waste) so that every activity in the process stream contributes to customer value is based on this idea. Michael Porter's concept of the unity of processes within a value chain that delivers value to customers is based on this. Six Sigma's focus on the Voice of the Customer (VoC) is based on this. Rummler's insistence that process diagrams always show the customer on the top line is based on always keeping the customer in focus. Every serious process practitioner should already be well aware of the importance of a customer focus.

Renaming "customer-focus" "outside-in" is a cute bit of marketing fluff, but it should not effect our overall commitment to providing value to the customer, one way or the other.

Beyond the concept that the customer is the key to judging the effectiveness of a process, and generic advice to managers, however, lies the practical problems that process practitioners face when they try to support the customer in their process work. Here, for those of us who actively seek to improve processes, is where things get concrete.

What are some of the major process contributions to the concept of the importance of customer focus? Here's my short list of the most important:

- Michael Porter's 1985 book, *Competitive Advantage* where he first introduced the idea of a value chain.

- Rummler and Brache's book *Performance Improvement* (Jossey-Bass, 1990) in which they introduce the idea of a swimlane diagram which always places the customer in the top swimlane.   An IBM researcher was so impressed with this approach that he created an IBM methodology, LOVEM (Line of Vision Engineering Method) based on the key importance of the customer-process interface. In essence, the Line of Vision referred to the interactions between the customer swimlane and the process – it was the "customer axis" of the early 90's. Rummler-Brache swimlane diagrams were later adopted by the developers of the BPMI-OMG's new process notation, BPMN.

Figure 2 illustrates a Rummler-Brache (or BPMN) diagram. This is the classic description of a "big process" view of the process world. It shows the customer's activities at the top, the interfaces between the process and the customers, the activities in the process, the functional units and ultimately the managers who are responsible for the processes on the left, and, below, the support or external processes that support the process that interfaces with the customer.
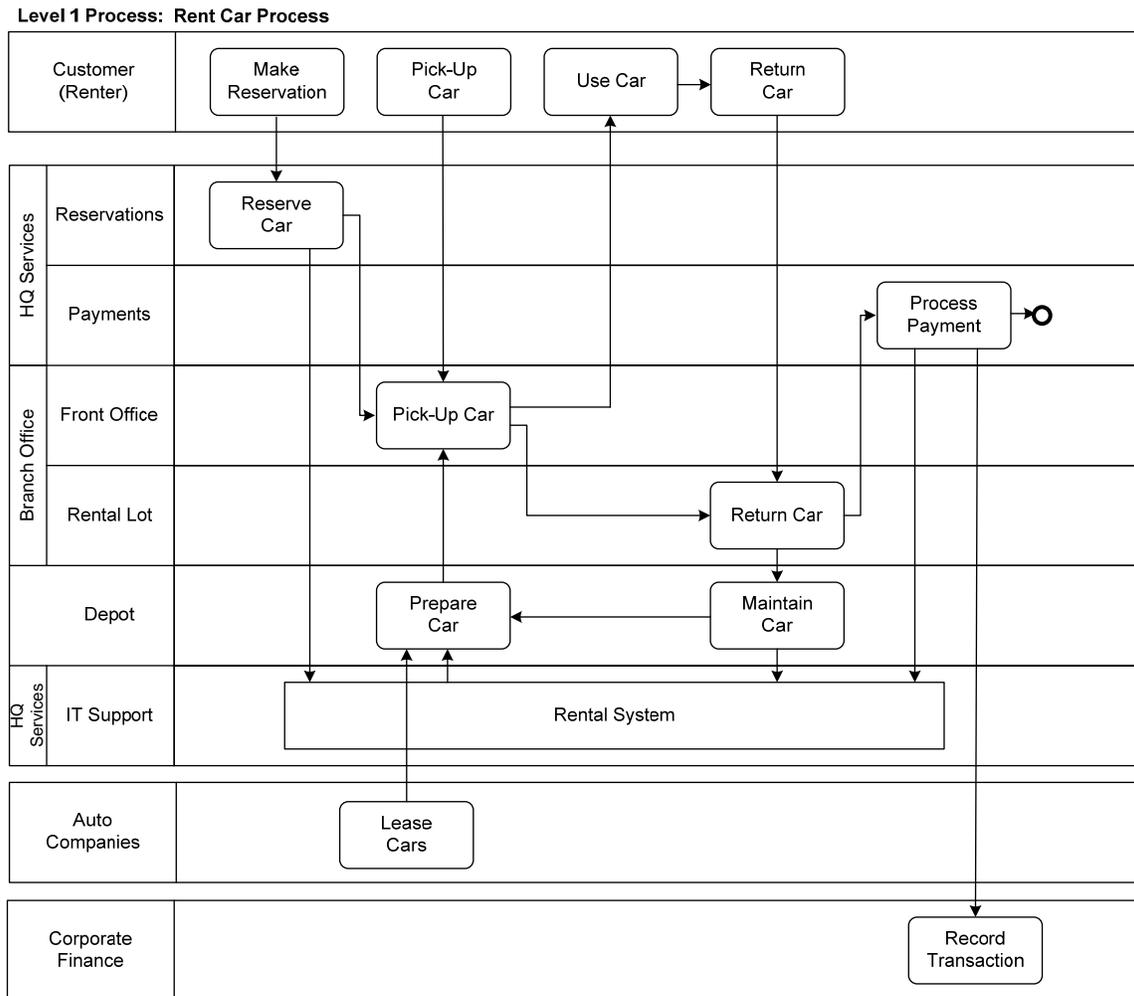
Level 1 Process: Rent Car Process

Figure 2. A Rummler-Brache diagram showing how the customer's activities are always placed in the top swimlane to emphasize and clarify the interfaces between the customer and the internal process.

- Treacy and Wiersema's book, *The Discipline of Market Leaders*, (1995) where they introduce the idea that companies tend to build strategies around operational efficiency, product design, or customer-intimacy.

- Six Sigma's insistence that a project team should develop a consensus on the Voice of the Customer (VoC) which is advocated in all major Six Sigma books. (There is actually a website devoted to VoC benchmarking -- vocba.com -- and I recommend a paper by Glenn Mazur, originally published by the AQC in 1997, "Voice of Customer Analysis: A Modern System of Front-End QFD Tools, With Case Studies," which provides a nice review of techniques and the VoC literature, and can be found by searching online.)

- James Womack and Daniel Jones book, *Lean Solutions: How Companies and Customers Can Create Value and Wealth Together* (2005). This is a breakout book where Womack and Jones show how to apply lean concepts to understanding how value is created for customers.

Figure 3 shows an illustration of their approach and how they analyze the customer process, show where value is received, and then, later align it with the internal business process. In a sense, the Womack-Jones diagram is just an elaboration on a Rummler-Brache diagram and can be easily represented in BPMN format. The key, however, is the advice that Womack and Jones give on analyzing customer activities and determining if the process is delivering value to the customers – and doing that before you consider how the business is responding to the customer's needs and desires.

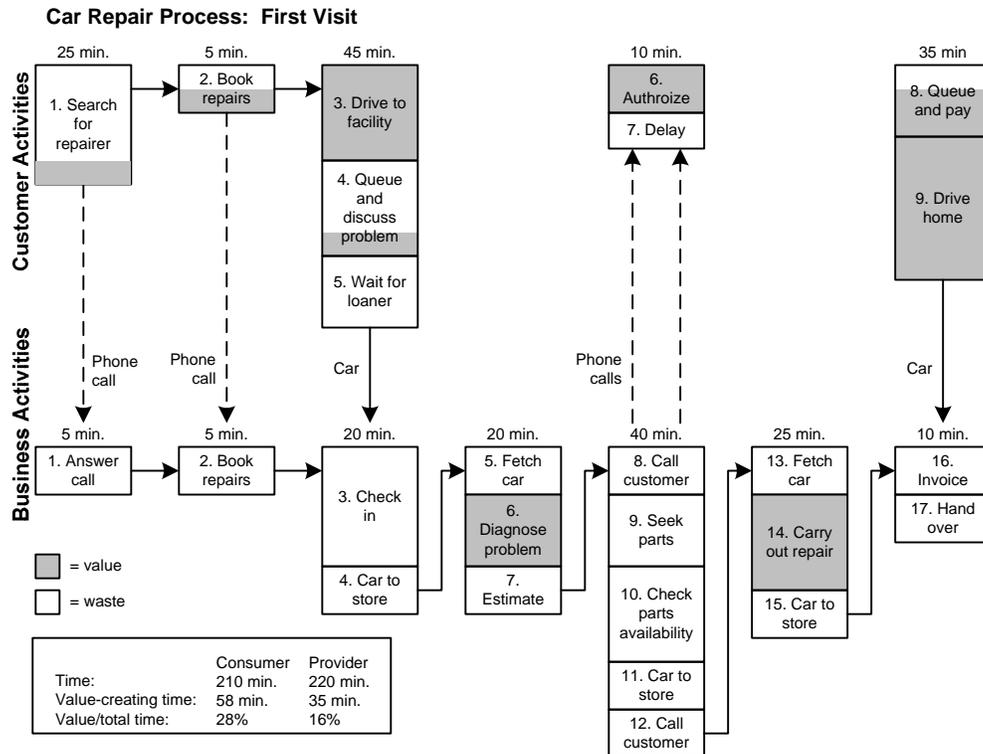**Car Repair Process: First Visit**

Figure3. A diagram from Womack and Jones illustrating how they map how a business process adds value to what a customer has to go through to get a product or service.

If you are a process practitioner, I urge you to read any of these books to gain some practical ideas of how to think of the importance of the customer to your process work. If you can only read one, read Womack and Jones. This is a major contribution to how one can effectively improve a businesses practice by showing how you analyze and improve the customer's process before beginning to focus on changing your internal business process.

Gulati's Outside-In approach is not a major new contribution to this tradition. It offers no specific advice to compare with the concrete advice given in any of the books I just listed. At best it gives the marketing types a new way of promoting the idea that organizations should be customer focused. The book offers business managers some advice about how important it is to stay focused on the customer, and there's nothing wrong with that, but, frankly, it isn't worth reading. Any of the books listed above will provide a lot more meat.

Gilbert's short article in *Working Knowledge* is a nice summary of the book and probably includes all the information you would remember if you read the entire book. If you want to know about "Outside-In," skip the book and read the article and you'll have what's important.

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Paul Harmon is the executive editor of www.bptrends.com

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