

# A Framework for Business Performance

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This document describes one of many conceptual perspectives on business performance. This model is not intended to provide a method for quantifying performance or even identifying all specific success factors; but it should provide a framework that is useful in comparing business performance methodologies.

## Overview

Simply put, seeking excellent business performance can be usefully described as an organization collectively *doing the right things right*.

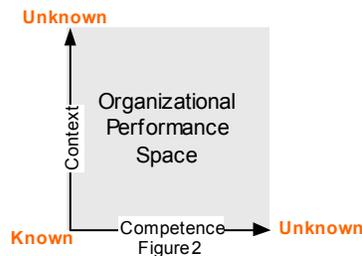
To illustrate, we have defined an organizational “performance space” along the two fundamental dimensions implied above: *Context* (doing the right things) and *Competence* (doing things right). See figure 1.<sup>1</sup> The size of this space is determined by where the organization “scores” on both of these axes.



The overall size of this space represents an organization's *potential* performance and is measured by how much of the space an organization can “see” (i.e., the “visibility” of this space). In simple terms, potential performance is the combination of how much the company knows about what are the right things to do (context), and how much the company knows about how to do them right (competence). The limits to this knowledge and awareness describe

maximum practical performance boundaries.

Separately, *actual* performance correlates with how much of this space the business is able to “occupy” by its regular daily activities (i.e., the “accessibility” of this space). In simple terms, actual performance is the combination of how well a company addresses (interprets, defines, frames, communicates and aligns) the right things to do, combined with how well it plans and executes these things right. Therefore, each axis describes a continuum of *visibility* and *accessibility* from highly known at the origin, outwardly to a boundary where nothing is known (or everything is unknown). See figure 2.

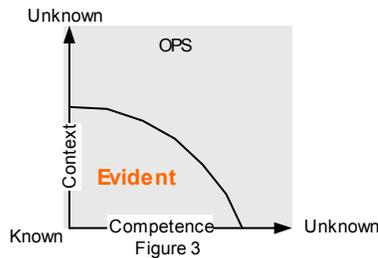


There exists an important barrier that divides this space. This barrier impacts both the visibility of the performance space (affecting potential performance), and the accessibility of the performance space (affecting actual performance).

In practical terms, this barrier exists at any point in the space where what is known about the right things to do and the doing of things right (context and competence) is far enough from the known end of each axis that it is no longer evident, “documentable” or programmable. When one connects these points from one axis to the other, one forms a line that separates the fundamental character of how an organization can effectively see and access the area of the performance space on each side of the barrier.

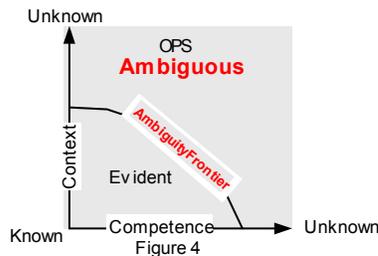
<sup>1</sup> Adapted from the author’s notes on a December 2001 presentation by Thomas Koulopoulos of The Delphi Group.

The area on the origin side of the barrier is characterized by what is *known* to the organization. This is the “Evident” area of the performance space. In this space, the right things to do are readily seen, easily recognized and consistently interpreted accurately. Doing things right is governed by defined/definable programs, practices, policies and convention. See figure 3.



The area on the far side of the barrier from the origin is characterized by what is either *not known* to the organization at all, or is known *informally* or *tacitly* in the minds of individual employees. This is the “Ambiguous” area of the performance space. Here, the right things to do are hard to see, easily mistaken or overlooked, and often interpreted inaccurately and/or inconsistently. Doing things

right is governed by individual awareness, judgment, preferences, informal interpretations and individual talents & initiative. We call this barrier separating the evident and ambiguous areas the “Ambiguity Frontier” (or AF). See figure 4.



Achieving superior performance is fundamentally the combination of 1) *seeing* more of the performance space than one’s competitors (and seeing it more clearly), followed by 2) *occupying* more of the performance space than one’s competitors (and occupying it more effectively). In general, achieving this involves the orchestration of methods for **evaluating, approaching, bridging**

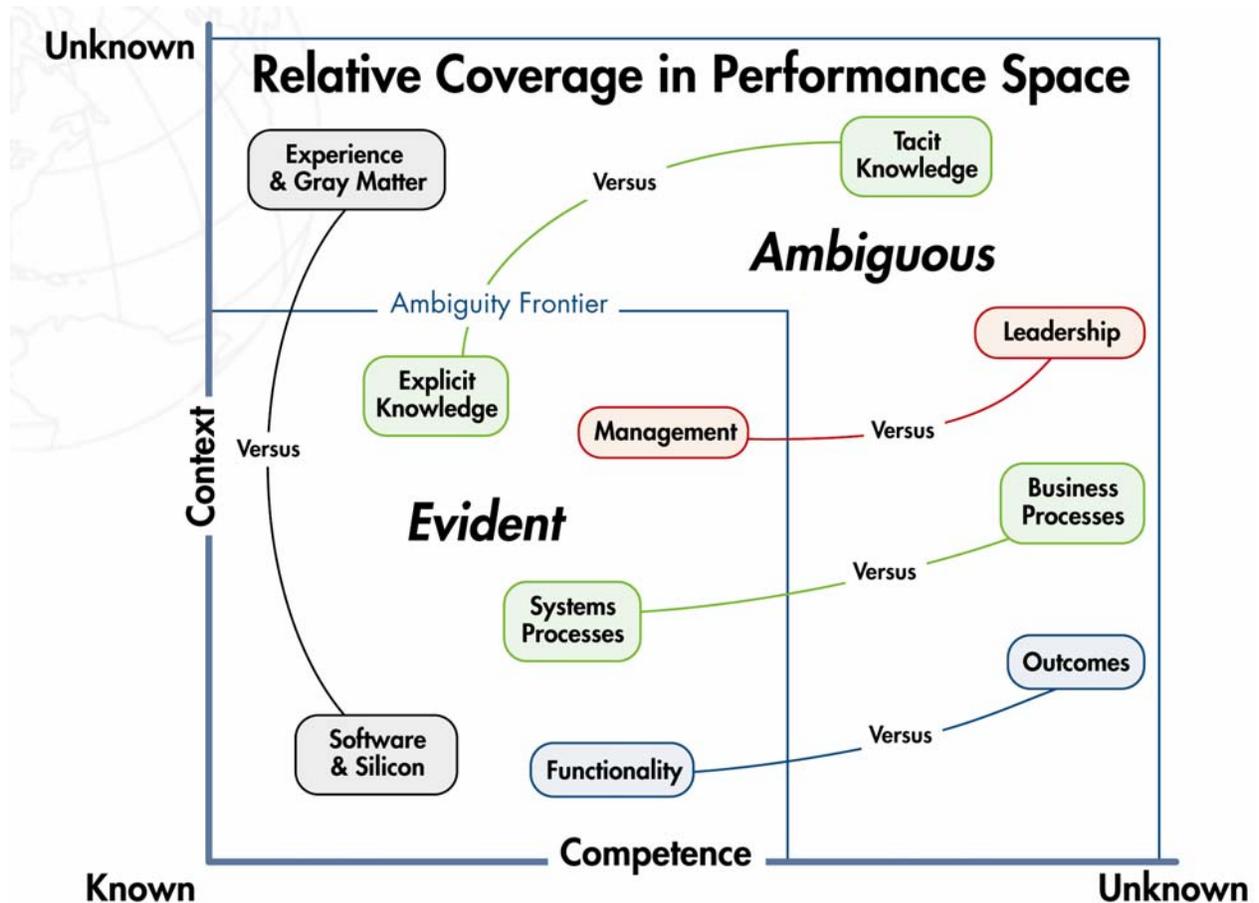
and **shifting** the Ambiguity Frontier.

## Evaluating the Ambiguity Frontier

Often, organizations focus disproportionately on the evident area because it is much easier to see, evaluate and manage – and because most popular methods and technologies for improving business performance can only address what is known. For example, software and systems processes exist only in the evident area because the required instructions (software), objects and data must be known precisely. In technology-intensive organizations, the AF is often an abrupt and opaque barrier in this space.

Management practices are similarly affected given that benchmarks for management performance are often based on historical results. Therefore, managers seek to improve on what they already do (looking primarily at the evident history) instead of what they need to do to be strategically unified with the organization’s current mission (looking primarily at the ambiguous future). For example, Six Sigma is a highly regarded program for continuous improvement that is proven to leverage highly trained people and the technology of an organization into substantial continuous improvement. But the concept of *continuous* improvement requires not only that what is being improved already exist (for one cannot improve what does not already exist), but be highly defined and measured as well. Managing change, however, necessarily means actively

leaving a portion of that system. Therefore, addressing ambiguity as an integrated standard practice will often contaminate continuous improvement initiatives causing variances that these systems aggressively attack and seek to purge. Consequently, not only will the performance space of such organizations contain this significant barrier, but the same business performance systems that they embrace can cultivate and institutionalize a resistance to covering the ambiguous space at all. This is why *evaluating* the Ambiguity Frontier is a crucial first step in paving the way to apply the other techniques for covering the entire performance space. Figure 5 depicts a number of other significant dichotomies that characterize this division and account for difficulties in achieving integrated business performance.



Adapted from a 12/01 presentation by Delphi Group CEO Tom Koulopoulos and the white papers of The Market Leadership Company, Inc.

Figure 5

### Anatomy

If the best contemporary models for quality and business performance are so profoundly linked to the nature of the evident space, then how do organizations cover the ambiguous? In general, the primary methods currently focus on people

and the application of the human mind. The human brain is still the only mechanism capable of any practical performance in processing ambiguity (even so, performance can still vary greatly by specific environment, culture and orchestration).

Obviously, the supply of this resource (the human mind) is delivered to organizations packaged primarily in the form of their employees. Given the nature of this resource, employee satisfaction, teamwork, organizational symbolism, compensation, strong vision and interpersonal leadership will all impact the success factors of handling ambiguity. Organizations currently apply this resource to their ambiguous space in the form of training, professional and organizational development projects, smart organizational and political structuring, team building and knowledge management to name a few.

The primary consideration for these as methods for managing ambiguity is that they are almost completely disconnected from those methods used in managing activity in the evident space. For example, the use of automation is ultimately modeled by, if not completely driven by, IT; whereas operational training is commonly managed by HR or other non-IT group. Furthermore, whether conducted by internal personnel or a specialized training vendor, such training is often oriented toward individual employees and functional job execution over process-participant groups and work-process execution.

Even if training and other current approaches to managing ambiguity are directly connected to related technology processes, the current pace of business often overtakes training cycle time. This can prevent such application of training from being optimally (or sometimes minimally) effective. For example, employee turnover in a company may be faster than the rate at which a person can be adequately trained for a specific position. Even when there is time, training content often lags behind the current state of the business. Furthermore, training is iterative, only partially retained in each cycle and varies greatly between individuals. Finally, the training itself is generally focused on job mechanics and formal/official corporate self-perception and not on the focused skills for evaluating and handling evolving ambiguity and related work-process designs.

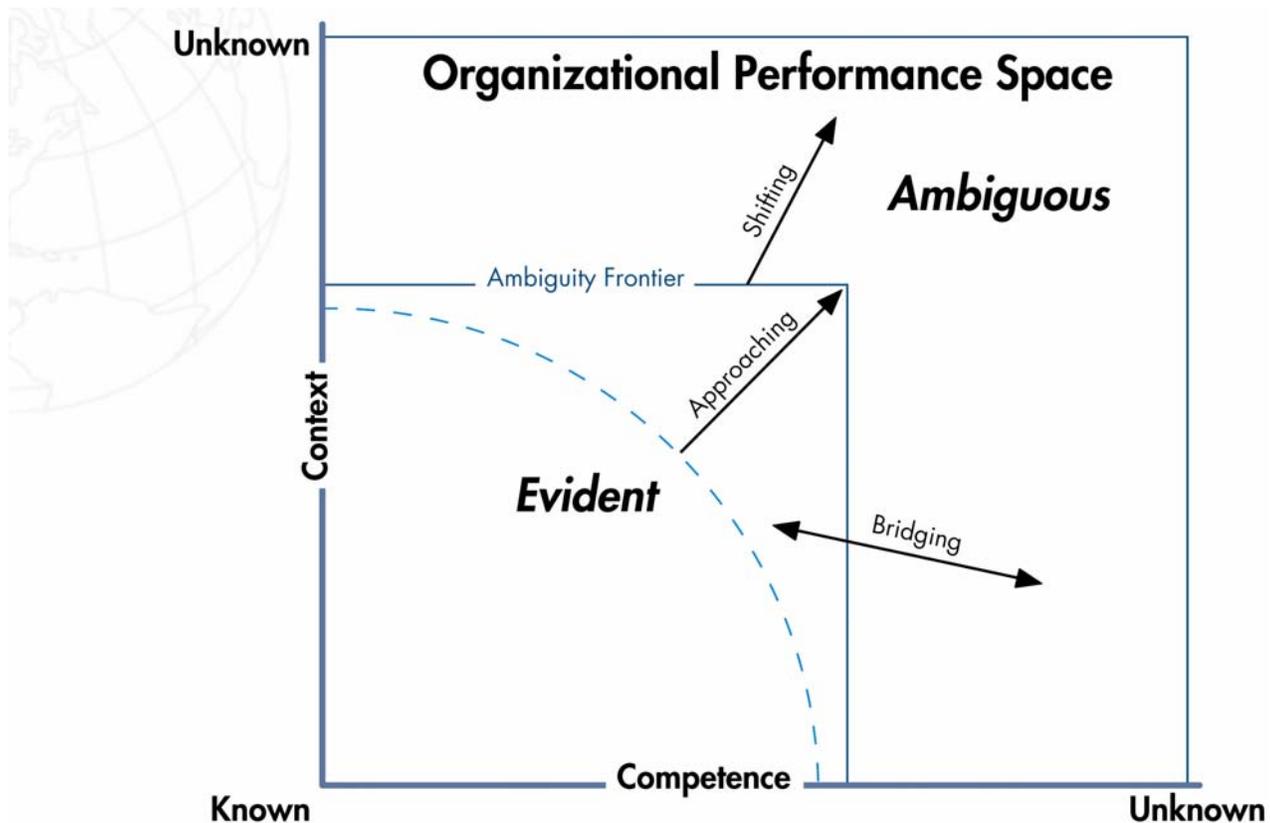
Example: Training conducted to improve relations with specific customers will cover the general issues surrounding the setting and managing of customer expectations. However, without some connection mechanism (across the Ambiguity Frontier), the separation between the training and the business-process design initiatives effectively prevents a reliable transfer of those new skills and/or policies to the face-to-face customer interactions themselves.

Notwithstanding this separation, we still see little evidence in the market of significant direct investment in approaches aimed at orchestrating methods across the entire performance space. We believe that this is so primarily because of a common and seemingly automatic concession that ambiguity is, has always been, and should always be the exclusive domain of the “soft” side of business (i.e., training, experience, intuition, team building, organizational development, etc.). Therefore, there are few natural drivers for the practice of integrating ambiguity into the same formal initiatives (such as BPM) that address

performance in the evident space. Second, we observe that for many organizations the overriding perception is that the evident area *is* the performance space and ambiguity is simply a constraint to be managed, and not an operational feature about which to develop formal systems and competencies.

However, when managers include ambiguity in the domain of their performance space, their mindset-shift alone increases the visibility of the performance space which positively impacts *potential* performance (this is an important benefit of evaluating the Ambiguity Frontier). Furthermore, this will open doors to accepting methods that will increase the accessibility of the performance space which positively impacts *actual* performance.

Toward these ends, we have spent the last seven years cultivating several strategies for maximizing both what an organization can see and what it can occupy in its performance space. These involve the orchestration of methods for *approaching*, *bridging* and *shifting* the Ambiguity Frontier (see Figure 6).



Adapted from a 12/01 presentation by Delphi Group CEO Tom Koulopoulos and the white papers of The Market Leadership Company, Inc.

Figure 6

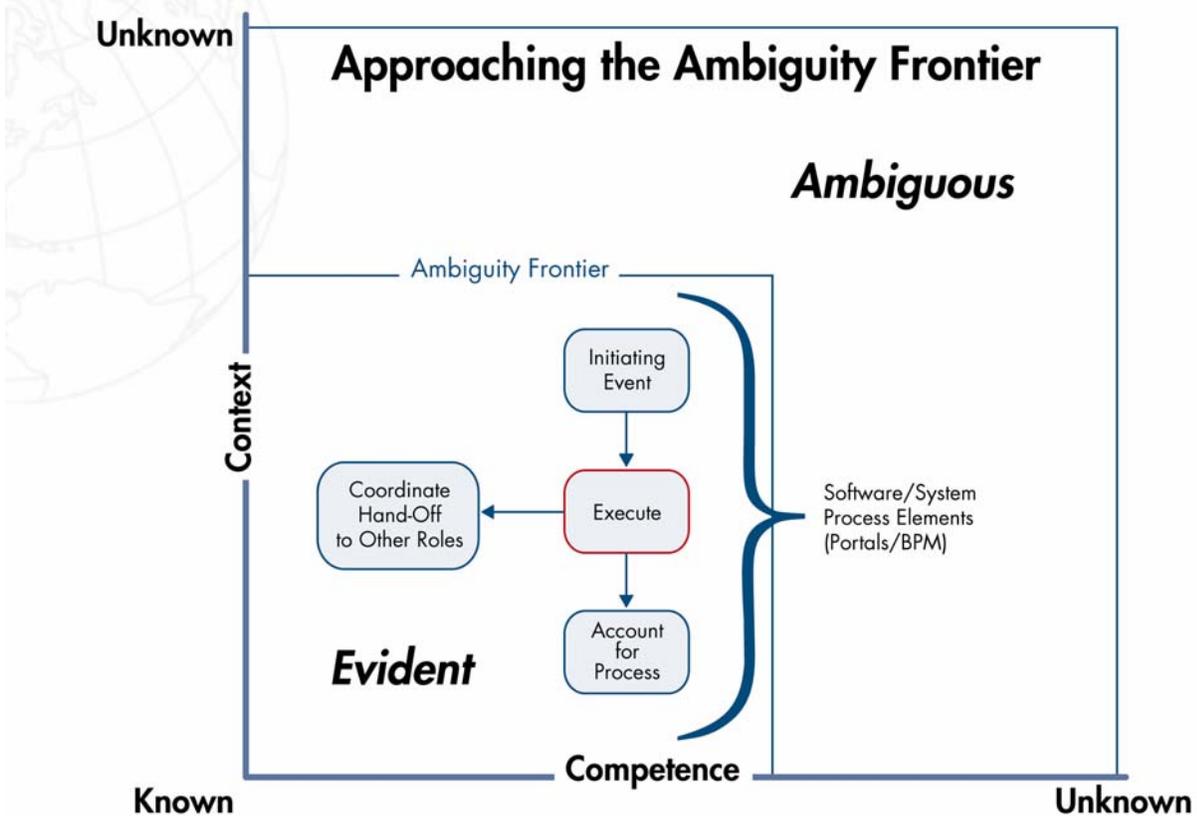
## Approaching the Ambiguity Frontier

Approaching the ambiguity frontier involves addressing the portion of the existing evident space that the organization does not currently occupy. For example, Wal-Mart has made it clear that to compete with it, product and information flow

must be highly automated and tightly integrated with suppliers. The extent to which a Wal-Mart competitor has not accomplished this is an example of evident space that lies between the subject's own current performance and its own ambiguity frontier. When such a company achieves a competitive level of automation and supplier integration, then it has approached (but not crossed or shifted) its ambiguity frontier. This is an important focus of current information technology practices.

Approaching the Ambiguity Frontier is a necessary next priority (after evaluating it) primarily because it currently has the lowest relative cost and risk for its potential value. This is not to say that this is easy to do. The inherent difficulties account for much of why so many IT initiatives over the last 30 years never reached a stage of implementation sufficient to yield any net value at all. Recent advances in technology and global standards have made substantial coverage of the evident space a practical achievement.

For example, BPM offers this in abundance by providing a system-independent method for linking the digital processes and transactions of a business to any other business, even if neither business has any knowledge of the other's



Adapted from a 12/01 presentation by Delphi Group CEO Tom Koulopoulos and the white papers of The Market Leadership Company, Inc.

Figure 7

specific technology infrastructure, data or processes. BPM is, as one industry expert put it, "EAI done right" giving an organization everything necessary to model and execute an "end-to-end" systems process. This makes BPM a

capable method for approaching the ambiguity frontier to effectively cover the evident space (see Figure 7).

As illustrated in Figure 7, BPM and related technologies model not only the actual execution of evident processes, but also the events that lead to and initiate execution; the coordination between systems and participants; and the tracking and accounting for system performance and outputs (allowing insight and improvement). These techniques require that the processes, their triggering events, the required coordination and the performance criteria are all known in advance. Furthermore, they must be known to the level of detail sufficient to execute them and definitively verify their integrity. But for any complete (“end-to-end”) process, there are always many significant and critical process steps that are not well known or anticipated, are not known to the required level of detail, will not remain reliably static enough to be modeled, or are known but not commonly understood well enough to be modeled. Consequently, BPM processes are necessarily incomplete from a holistic view of a business process. One method of extending this approach around all process steps in the performance space is to employ methods that *bridge* the ambiguity frontier.

## Bridging the Ambiguity Frontier

Covering the ambiguous portion of an organization’s performance space by bridging the ambiguity frontier means that an organization “reaches across” and “pulls” ambiguity into its processes. This differs from shifting the ambiguity frontier in that this strategy does not seek to make these constructs evident, only to assure that the processes *somehow* address them effectively and reliably. Firms that actively address bridging employ this strategy both at design time and during execution. One of the most potent methods is to identify and model, at design time, the actions that produce the desired outcomes that incorporating ambiguity would yield.

### Design-Time Methods

We have written a case that illustrates many of our performance principles on a company called Fictitious Natural Gas Company (or FNGC). This case provides the basis for illustrating this method. In this case, executives are concerned with how their recent strategic changes will affect customer satisfaction. In short, they modeled their business process for providing pipeline taps to optimize landowner relations with profitability (important to other aspects of their business).

As with many companies, a critical conduit for FNGC to deliver strategic value to its customers is its customer relationships. The FNGC executives who are modeling the Tap process understand that an important aspect of customer satisfaction relies on both meeting *and setting* customer expectations. Therefore, at the strategic level of process design, they split the information-gathering tasks into separate sections – each corresponding to a different customer-contact initiative that feeds a different process decision. For example, since the objective of the first phase of the process is to determine only if the tap request is bonafide, the FNGC employee who handles the request will ask the

customer for only the basic information necessary to make this single determination (such as his location, what pipeline he wants to tap and whether he currently has a contract with FNGC). This information is adequate to take FNGC to the next part of the process, but it is not sufficient to go any farther. This leaves FNGC with the additional overhead of contacting the customer again if their initial contact yields an approval to continue (i.e., they have not rejected the request on basic grounds such as proximity to the pipeline).

Wouldn't it be more efficient and less disruptive to the customer if FNGC gathered all of the information required for a final decision during the initial contact? From a purely evident-process perspective, the answer is *yes*. However, FNGC planners understand that the mere amount and detail of information requested from the customer will impact that customer's perceptions of progress and, consequently, his forming expectations and ultimate satisfaction (ambiguous elements). For example, when FNGC asks the customer about his total gas volume needs at peak demand, or about whether he wants FNGC to guarantee that the gas supply will be non-interruptible, the customer may naturally perceive that this information is relevant to the decision at hand. Because the decision about guaranteeing peak supply to the customer is very different from the actual current decision about verifying the basic request validity, this may cause the customer to develop an expectation that his request is already much farther along (i.e., FNGC is finalizing terms). The danger lies in setting this expectation and then disappointing it by declining the request on more basic grounds (such as the customer being too far from the pipeline) that the customer could assume to have already been resolved.

The complexities associated with managing customer satisfaction lie in the ambiguous space because they are known tacitly by relatively few people (e.g., the business experts) who design but who do not usually execute this process (nor are they the designers of the subsequent systems-transaction level of the process). Because these executives drive the initial process design and align it with broader strategic considerations, their important interests and tacit knowledge about their customers become part of the fabric of this process. Therefore, this choice alone (to drive initial process design from a mission outcomes orientation) is one method of bridging the ambiguity frontier. Organizations may also use methods for bridging the frontier at work time (AKA "run-time").

### **Work-Time Methods**

Design-time methods are the most cost-effective and potent methods of bridging the ambiguity frontier because they institutionalize, directly into the formal process structures, a "smarter" way of working. However, the nature of the ambiguous space means that at design time some of the required process work will not be known, well understood or known by the right people. Therefore, it is important to model structures that are aimed at capturing emergent ambiguity in real time.

The best tool for processing ambiguity is the human mind. At work time, one of the strongest ways to call a mind to action is through one or more timely “context interventions.” These are activities or instructions designed to bring the relevant

ambiguity to full and proper attention at the point (and only that point) where it is timely and relevant. An example of such an intervention is to use one or more context-centric questions (see *What is a Capital Expenditure?*). Practically, this means placing such an intervention (e.g., a question) in a process at each place where related ambiguity is likely; or, if probability is indefinite, where ambiguity would be costly if not handled properly. There are various forms of questions, and there are other types of context interventions as well (see figure 8).

Depending on the process and its circumstances, one may employ a combination of presentation constructs to frame, guide, prompt, call, confirm and ask the process participants within the context of their work.

#### What is a Capital Expenditure?

One simple but troublesome ambiguity faced by one of IPG's capital-intensive clients was the accurate identification of requested expenditures as "Capital" versus "Expense." Their request form presented a check-box and a printed explanation for identifying capital. They maintained a handbook on line and they encouraged project managers to call Property Accounting with questions. Yet, in spite of their well-designed request form, their expensive ERP system, sophisticated workflow and their openness, significant time was consistently wasted in both requesting and processing capital requests that did not qualify.

Instead of passively allowing the requester to characterize the expenditure, the work-time process simply intervened with two questions that project managers always know how to answer. Based on their answers, the process either continued the capital-expenditure request or transparently switched to expense-approval. The Project Manager was no longer obligated to maintain an understanding of the current policies defining capital thresholds, and Property Accounting no longer handled invalid requests.

However, adding these process elements

potentially is neither a function of the process implementation nor its support technologies. The ability to assert human judgment at any point in a process requires that the process be designed and executed from an orientation, and at the pace, of human interaction. Therefore, system activities (modeled in BPM for example) must be tied to the human steps of the actual business process that are, in turn, delivered to people in the context of their real-time work. This requires an execution environment that is capable of delivering these, in context, at any point in the process and to any participant.

### Method Integration

Both the design- and work-time methods, as integrated with those used in the evident space, address three primary considerations of this approach:

1. Current Context
2. Current Competence
3. Future Process Improvement

We have identified several recurring process-design patterns (figure 9) in the constructs presented in figure 8 below. These patterns specifically reflect the process needs for integrating human activity in handling ambiguity. This leads to specific process implementation methods for institutionalizing ambiguity and *eventually* drawing it into the evident space.

While Bridging orchestrates the management of ambiguity, performance grows dramatically when an organization can manage some of the ambiguous space with evident-space methods by *shifting* the ambiguity frontier.

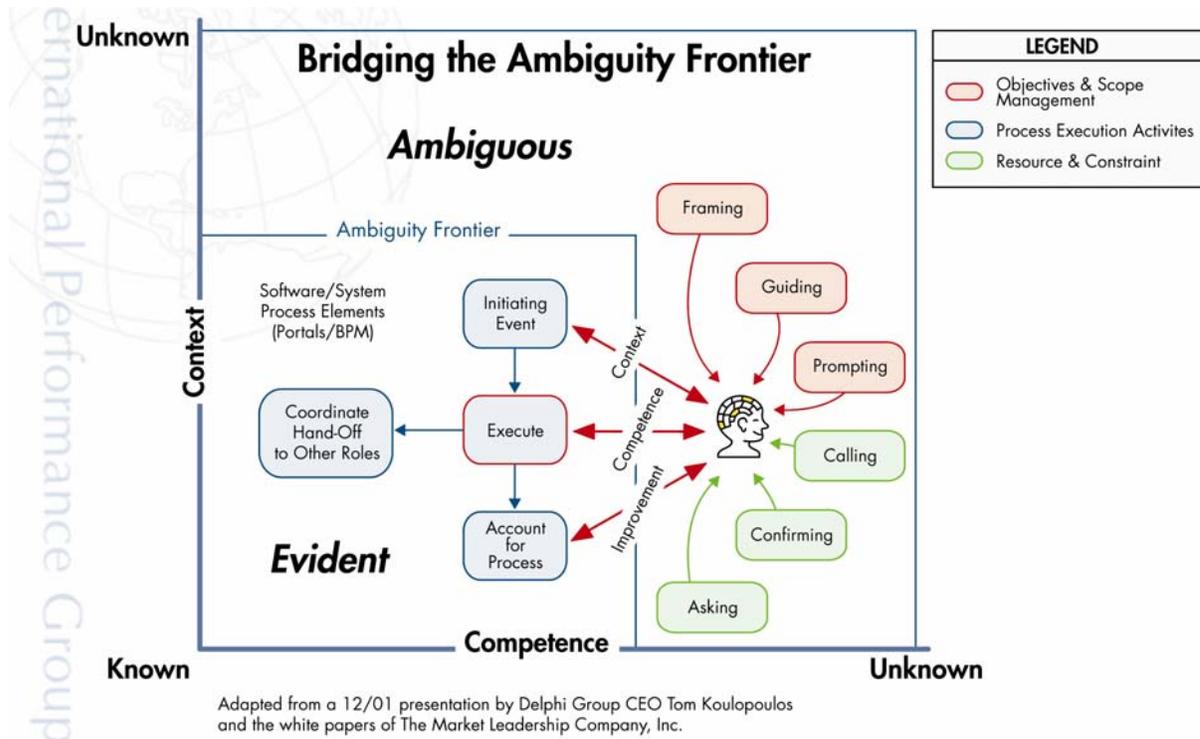


Figure 8

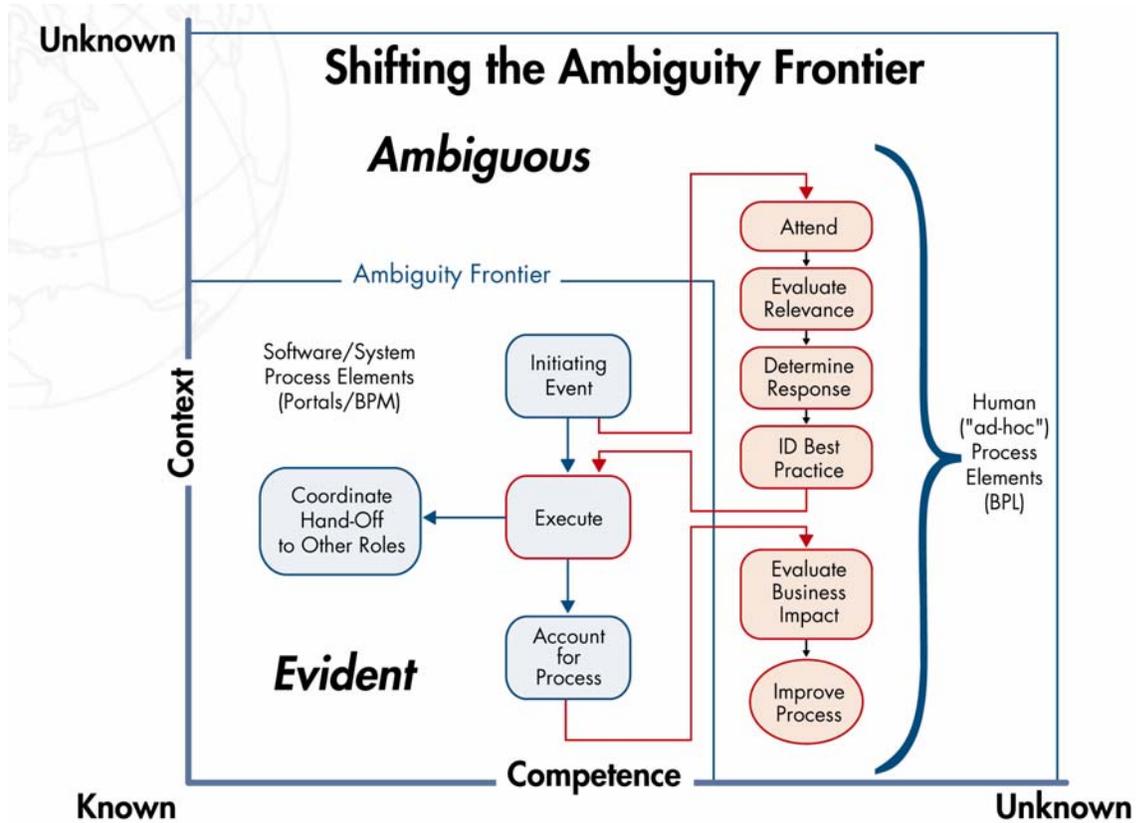
## Shifting the Ambiguity Frontier

Although shifting the ambiguity frontier can be a separate objective of its own using methods designed to expose, define and communicate ambiguity throughout the organization, it occurs most practically as an evolutionary result of consistent application of methods for bridging it. Specifically, this happens when the tools, methods and mind-sets of bridging the frontier become institutionalized. The shift of the frontier represents a fundamental cultural willingness to move beyond organizing work around functional specializations and automation, to organizing work around process-unified business outcomes.

Figure 9 formalizes the human affects in the ambiguous space shown in figure 8 into some fundamental elements. Taken as a whole, the elements in figure 9 represent a process design and support structure can actively address ambiguity.

## Conclusions

This document presented four strategies for an organization to understand and maximize its awareness and coverage of its own Organizational Performance Space: Evaluating; approaching; bridging and shifting the Ambiguity Frontier.



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Figure 9

In our opinion, any product bundle aimed at enhancing business performance should contain methods, tools and strategies that enable and facilitate a credible occupation and expanding visibility of some portion of this space.

This particular formation of an Organizational Performance Space is the conceptual framework within which we refine our product bundle, and against which we measure the value that we offer to our clients.