

Performance Programs: Are Your Performance Programs Prescribing Success?

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Much of my working life has been a quest for business performance. For the past twenty years or so, I have been working in a field popularized by Hammer and Champy in “Re-engineering the Corporation.” This book was based on the premise that corporations are made up of interconnected processes. “Re-engineering the Corporation” held that to maximize performance, these processes needed to be completely re-engineered and restructured. For almost a decade, many businesses took this advice and embarked on earnest initiatives to completely reconfigure their processes. As results began to be tallied, it was clear that these projects were not producing the anticipated results.

Since that time “Process Re-engineering” has evolved into Business Process Management (BPM). BPM has introduced additional concepts, but still struggles with the same central problem. How do you configure (or, as Mr. Hammer would say, “re-engineer”) corporate processes to achieve strategic objectives? This problem reminds me of one of my favorite papers; “The Second Industrial Revolution” by Dr. Russell L. Ackoff, professor at the University of Pennsylvania’s Wharton School of Finance and Commerce. Dr. Ackoff is now retired from the Wharton School faculty and is the head of INTERACT – the Institute for Interactive Management.

In “The Second Industrial Revolution”, Dr. Ackoff explains Systems Theory and how it applies to corporations as complex systems. He observes that in order to optimize a systems operation you have to de-optimize the operation of its component parts. In his paper Dr. Ackoff presents the following theorem:

“If you take a system and take it apart to identify its components, and then operate those components in such a way that every component performs as well as it possibly can, then there is one thing of which you can be almost certain – the system as a whole will not perform as well as it can.” (Ackoff, 1970)

The corollary to this theorem is:

“If you have a system that is performing as well as it can – then none of its parts will be.” (Ackoff, 1970)

At face value, these are very counterintuitive propositions. The premise behind the re-engineering concept suggests that optimizing business processes would optimize overall corporate performance. Systems theory, on the other hand, says that this is an unreasonable expectation.

When we think about how businesses are organized and incentivized, we can see the problem. Managers and directors are given responsibilities for various organizations and processes (parts of the corporation) with tacit assumptions that they are to “optimize” the way they operate. They set off to maximize and minimize various characteristics of these processes with little regard for how it affects other processes. This is the problem Dr. Ackoff is discussing. Various elements in the enterprise seek to optimize themselves and systematically inhibit overall performance.

This becomes a significant problem. If the optimization of a system’s (corporation’s) component parts do not contribute to an improved system, then how do we determine the optimum configuration to get the best business performance we want? How do we refine parts to produce an overall optimized system? If optimized part operation is not an option, then which of the many de-optimized options do we pick to apply to the parts?

This is the problem we have had with improving business processes. We have not known how to improve them individually, discretely, such that they work together to improve the enterprise. We

have implicitly operated on the principle that improving the parts will improve the whole. According to systems theory and the empirical evidence, this is not true!

About the time I was concluding that business process design was a messy affair indeed, my colleague was telling me about his latest project. He had worked out an integrated model that helped explain the relationship between Corporate Strategy and the way the business processes needed to be configured. He ultimately came to call this the Design Model (Figure 1) since it provides the architectural framework needed to “design” a corporation’s processes.

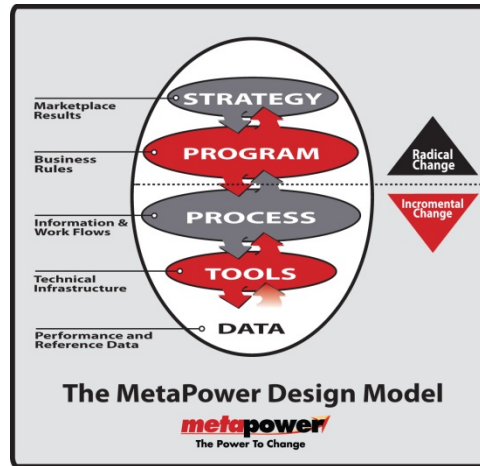


Figure 1: Process Design Model

The model seeks to show the relationship between various entities in an enterprise. Strategy is at the top of the model and basically specifies the results the corporation needs to have in order to be successful. This information is passed to the next level, the Program Level, as performance requirements that must be achieved in order to get the strategic results.

Based on performance requirements, the Program Level specifies the features and transactions that processes must implement in order get the integrated performance needed to obtain the strategic results. These features and transactions are passed to the Process Level as business rules that are to be implemented by the various processes in the corporation.

The Process Level consists of Business Processes, labeled in Figure 1 as Information and Work Flows. While it is beyond the scope of this Article to discuss this Level in detail, it is worth noting that Process “designs” specify the corporate tooling requirements (information systems, procedures, and such) necessary to implement the processes. Figure 2 is a better illustration of the relationship between Strategy, Program and Process. The interesting element for this discussion is the Program Level of the Model. Programs sit between Strategy and Process. They translate the strategy into a language the processes can understand and execute. Corporate Strategy articulates how the organization wants to position itself in the market place. It identifies the strategic performance needed to achieve that positioning. Each performance requirement is assigned to a Program in the next level down. Here the performance requirement is analyzed to determine what specific features and transactions are needed to achieve the required performance. These features and transactions will, affect other processes. That is to say, some features and transactions will be required of one process and some will be required of others.

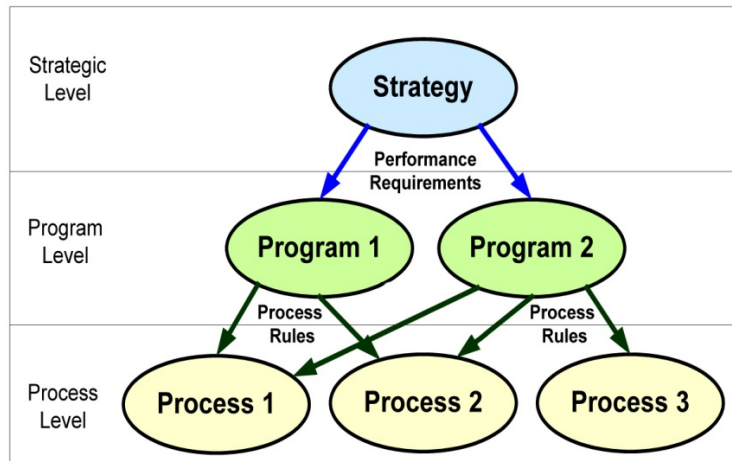


Figure 2: Process Design Model Relationships

Figure 2 illustrates these relationships. In this graphic, strategy has two performance requirements that each pass to a program. Each Program then develops the process rules that processes must use in executing the business of the organization. The Programs develop the process rules without consideration of the other programs and their performance requirements. If there are conflicts in these rules, they must be identified at the process level and resolved to the mutual satisfaction by each Program. As illustrated in the figure, all process may not be affected by each Program. But each program will affect at least one process.

The Program concept helps resolve the optimization issue Dr. Ackoff is discussing. It resolves the dilemma presented by systems theory and provides the rational way to optimize a company's performance. The answer to the question about how to configure component parts to get the best performance for the whole, is developed in the in the corporation's Programs.

Let's think in terms of something we know. To become more environmentally responsible many organizations are adopting a "green" or "sustainable" business model. In order to do this, they must translate a business strategy (Sustainable Operations) into the details of daily operations. The Green Building Council has emerged as an industry forum and has developed a Leadership in Environmental and Energy Development (LEED) certification for buildings. The LEED Program specifies rules that require certain characteristics and functions for buildings to qualify as "sustainable". These rules specify how the design, construction, maintenance and operating processes need to function in order for the building to achieve its sustainable performance targets.

Here is another illustration from my experience in the nuclear power industry. In the 1970s a regulation was passed that required every company owning a nuclear power plant to develop and implement a "Quality Assurance Program". Basically, the Quality Assurance Program was intended to ensure that nuclear plants were built and operated with sufficient quality so that they were not a threat to the public health and safety. The industry proceeded with several initiatives to translate the strategic objectives of quality into specific rules for nuclear plant owners and operators.

These rules required specific features and steps of a company's engineering, construction and operating processes. For instance, there is a requirement that all nuclear-related engineering calculations be independently verified by an individual qualified to perform the original calculations. There is a requirement that suppliers of nuclear safety equipment must have a Quality Assurance Program of their own and it must be audited by representatives of the plant owner. There is a requirement that individuals must be licensed by the Nuclear Regulatory Commission to operate a reactor. As in the LEED Sustainability Program, these rules specify how

the processes in organizations that own nuclear plants must function to assure quality performance.

In these two examples we see industry organizations specifying programs to be implemented by individual companies. In reality, each company must re-interpret these rules to be specific to their business and these rules must be woven into their operating procedures and business systems. These re-interpreted rules must be integrated into the administrative structure of the organization.

Consider a third example. I was working for a management consulting company where we did relatively large projects for industrial organizations. We were growing and needed to recruit staff for projects, but did not want to carry excessive staff on overhead. We established this strategic objective: Staff a position within two weeks from identifying the need and do it without carrying additional individuals on the payroll.

This required us to change the way we recruited staff and we began to recruit continuously. We were in discussions with prospects all the time. This continuous recruiting positioned us to make an offer within 24 hours of identifying the need to add staff to a project. Financially, this was a very inefficient recruiting process, since we spent excessive dollars and energy soliciting recruits. However, financially de-optimizing the recruiting process, allowed us to achieve our business strategy of rapidly staffing projects while keeping our overall costs very competitive. In accordance with systems theory, we loaded additional effort and cost on the recruiting process in order to meet overall strategic performance objectives.

I tend to think of a Performance Program as a “formulated” specification for how a company’s processes have to operate in order to achieve specific performance objectives. I have colleagues, however, that argue that the Program Concept is inherent in any modern corporation. They argue that we have to have some level of programmatic thinking or we would never figure out a component process configuration in the beginning.

I agree with this assertion. When a business is initially established, the founders must engage in some “programmatic thinking” in order to determine how it should operate. They certainly have decided to operate a portion of the business in a de-optimized way in order to achieve a strategic result. Here again, the issue is to organize and coordinate these de-optimized areas to achieve specific results.

A Performance Program formalizes and documents the programmatic concept of de-optimizing parts of the enterprise in order to optimize the whole. In developing Performance Program Designs, we systematically work through the process transactions needed to meet the specific performance requirement. This effort is recorded and documented as a specification that defines how the Business Processes need to be shaped to meet the Program’s performance requirement.

The Performance Program Specification provides objective rules for the configuration and operation of one or more Business Processes. At the Process Level, each Process must reconcile and implement all the rules it receives from the various Programs. This is typically done in a Business Process Design that specifies the specific transactions the process will use to execute the business. The Process Design must recognize and accommodate all the process rules it has received from all the programs. The Process Design is then implemented in information systems or procedurally controlled manual processes.

Much like the design and engineering documentation for a facility or machinery, the Performance Program Designs and the Process Designs provide the documentation that records the connection between individual process transactions and the strategic objectives of the enterprise. When the enterprise does not get the results we planned, we no longer need to guess as to the nature of the problem. We can consult the organization’s engineering and design documents to find the answers.

References

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Dr. Ackoff, Russell. "The Second Industrial Revolution." *InThinking Network*. 2005. Copyright, Russel Ackoff c.1970. 2012 <<http://www.in2in.org/od/thought/Ackoff-SecondIndustrialRevolution.pdf>>.

Author

Ed Gibson is an engineer and Co-Founder of MetaPower, Inc., a management consulting and technology firm dedicated to harnessing the power of Business Process, Technology and Culture Reform. In the field of business processes and BPM for over thirty years, his focus has been on exploring the relationship between enterprise processes, information systems, organizational culture, and business performance. Many of Mr. Gibson's clients have been in the "heavy industries" and include nuclear power plants, commuter and passenger railroads, chemical and petro chemical plants, chemical weapons disposal facilities, and steel mills. Additional information about Mr. Gibson, MetaPower, and Business Programs can be found in his paper "Work Process Integration and System Planning." In addition, he has authored numerous papers about Business Process, Organizational Culture and the Heavy Industries. Some of these are available on MetaPower's website under References. Ed is a frequent contributor to MetaPower's Blog on the subjects of Business Processes and Organization Culture. After receiving his Mechanical Engineering Degree from Texas A&M University, he became the Engineering Officer onboard a U.S. Navy nuclear submarine. Mr. Gibson can be contacted at EdG@metapower.com.

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