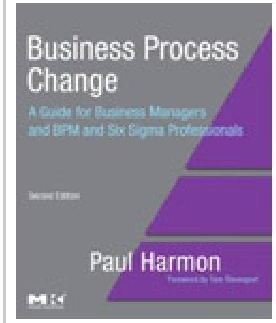
BPTrends
BUSINESS PROCESS TRENDS

EMAIL ADVISOR

Volume 5, Number 21 December 11, 2007



Organization Analysis vs. Organization Transformation

A significant portion of the business process market is interested in enterprise issues. The interest ranges from aligning strategy and process and building a business process architecture or a BPM Center of Excellence, to culture change and enterprise transformation.

In this Advisor we want to focus on the distinction between organization analysis and organization transformation. Both are very important and both have a major role to play - but they should not be confused. One focuses on defining and analyzing, and generating tools that managers can use. The other is fuzzier, deals in values and feelings, and touches on the motivation of everyone in an organization.

Organization Analysis

Organization Analysis, as we are using it here, refers to any effort that seeks to capture, more or less, objective information and then use it to help decision makers. A good example involves the development of a business model, as, for example, the Organization Map that most processes architects first learned about from Geary Rummler and Alan Brache's book, *Improving Performance*, Jossy-Bass, 1990. In essence, an Organization Map conceptualizes an organization as a system and defines the elements and the flows that characterize the organization. (See Figure 1.)

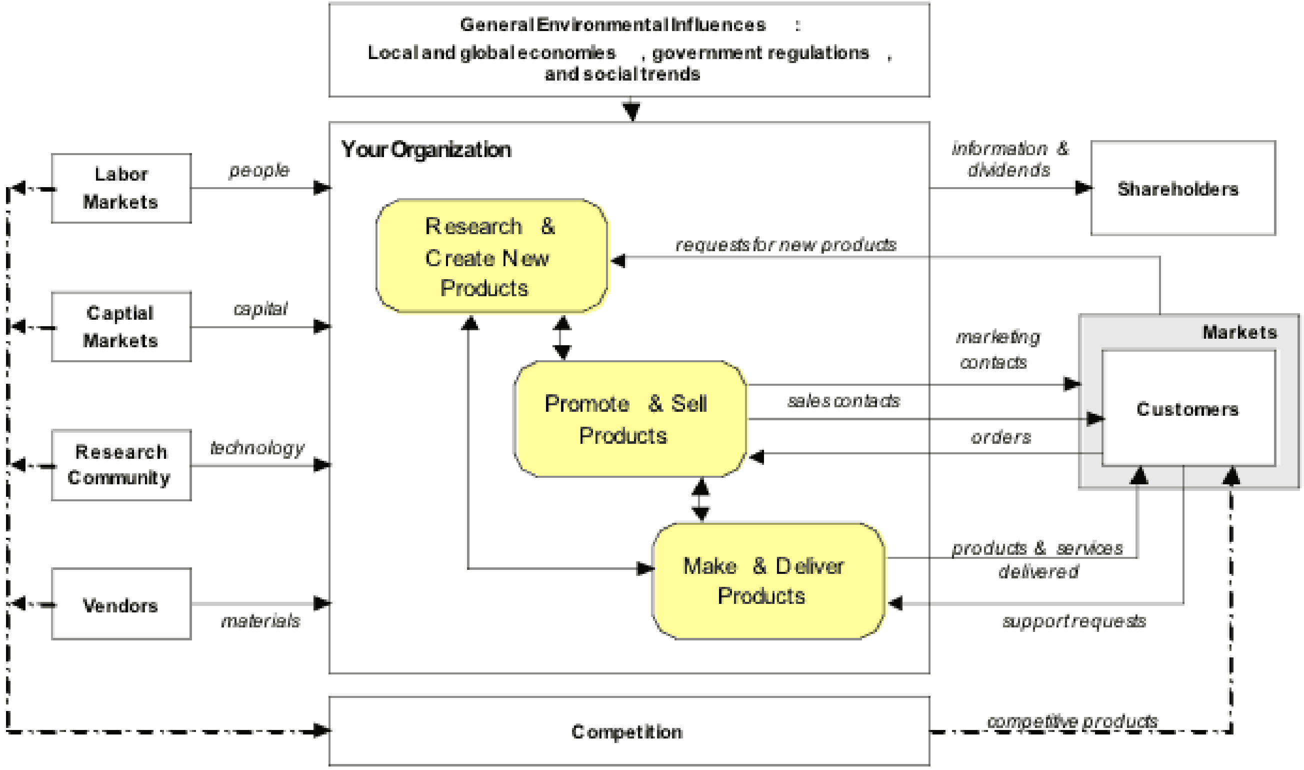


Figure 1. An Organization Map (Originally developed by Rummler-Brache.)

An Organization Map lists the organization inputs on the left, outputs on the right, and external controls at the top. Depending on the purpose, you can include value chains or high-level business processes inside, and then show how those processes interact with the environment outside the organization.

There are many other analytic enterprise level diagrams. A hierarchy diagram showing how a value chain is decomposed into levels of subprocesses is another example. Similarly, a model of how scorecards can be cascaded from an organization scorecard down to specific departmental, or even workgroup scorecards, is still another. The key thing about all these diagrams, however, is that they don't evoke too much emotion. (Anyone who has actually created one and gotten into an argument about naming the processes in a hierarchy or which department is responsible for which subprocess might dispute this - but everything is relative.) In most cases, a process group can generate diagrams like the ones we have described without too much difficulty and can use them to help inform management decisions.

Organization Transformation

Now, let's consider a more subjective approach to something that's much harder to pin down. Everyone recognizes that organizations have cultures. We commonly speak of companies dominated by engineers or companies dominated by financial or marketing people. One approach to modeling this was developed in the mid-Nineties by Michael Treacy and Fred Wiersema and published first as a *Harvard Business Review* article and then as a book, *The Discipline of Market Leaders*, Addison-

Wesley, 1995. Treacy and Wiersema suggested that companies tended to emphasize one of three ways of positioning themselves. Some emphasized operational excellence, some emphasized strong and close relationships with customers, and a third group emphasized product leadership. One might be tempted to say that one group emphasized process, one emphasized customers and a third group emphasized technology or innovation.

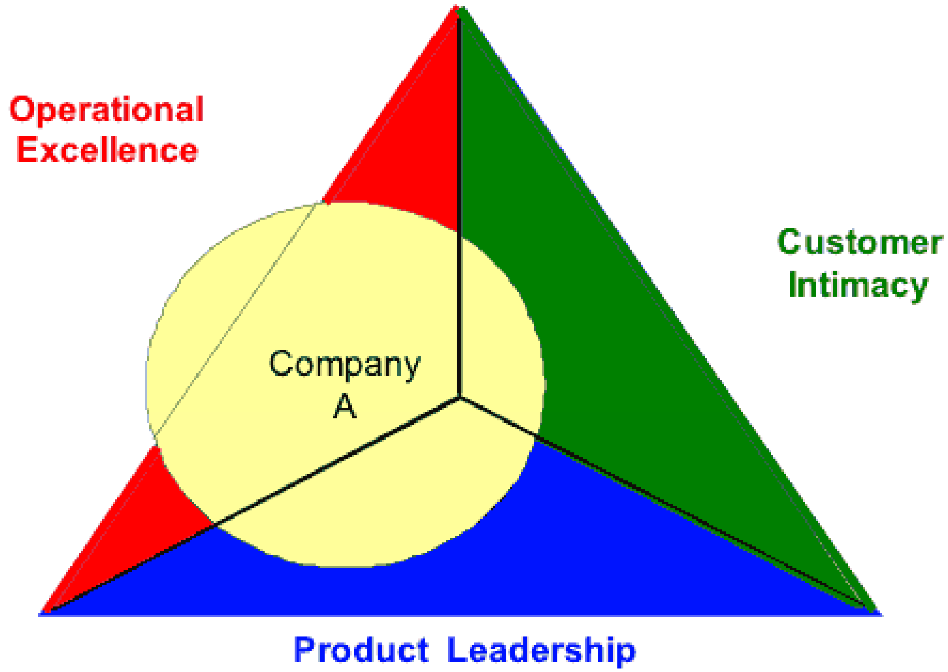


Figure 2. A Company Positioning Model (Originally developed by Treacy and Wiersema.)

The main point, however, is that Treacy and Wiersema described three different cultures and provided data to suggest that individuals within a company that tried to emphasize a positioning that ran counter to the one that most people in that company supported found it uncomfortable and tended to move on to another company. Moreover, although a company could, in theory, be strong in more than one area, most tended to have a strong preference for one emphasis over the others.

Anyone who wants a trivial example of this need only look at the HP-Compaq merger. HP was well known as an engineering oriented company that tended to emphasize operational excellence and wasn't very good at marketing. Compaq was very much a marketing company. In the heady early days of the merger, executives speculated that the new HP would be able to combine the best of both. When the merger initially took place, the executive team was balanced between Compaq and HP executives. Two years later, only one or two Compaq executives remained on the executive team. To those who observed the merger at close range, it was obvious that the old HP engineering culture had rejected the marketing positioning represented by Compaq.

Imagine that you use your Treacy and Wiersema diagram and decide that your company is, in essence, a company oriented primarily toward product leadership - a company like 3M that prides itself on constantly developing new and innovative products. Further, assume that you want to become more process-centric. You want to refocus the company on processes. In essence, you want to change the culture of your company. You are engaged in nothing less than Organization

Transformation.

We aren't talking about analyzing processes used at the company, or creating a process architecture - we are talking about how you might get a majority of the managers in the company to start talking as if efficient, effective processes are the most important part of their job. Or, a real test - the same executives realize that they can't really get the results they want by just focusing on activities within their functional unit and they begin to reorganize to create project managers who are responsible for coordinating processes that cross functional and departmental boundaries.

Many of the popular books on Organization Transformation tend to spout platitudes. Undoubtedly, it is important to effectively communicate with everyone, to have frequent meetings, and maybe even share a rock climbing experience. Beyond that, however, anyone who has really tried to transform a company knows that it requires a major top-down effort and a very forceful senior executive to drive the change.

We've worked with many companies and are often told by executives that they intend to reorient their company, to make it more process centric. If what they mean is that they intend to analyze their processes more effectively and begin to gather data on their processes to support better decisions, then I'm usually reasonably confident they can succeed.

If, on the other hand, they are really talking about Organization Transformation and they want to create a company, like Toyota's automotive business, in which every manager and employee obsesses about process and quality, then I'm less sanguine about their prospects for success. Put a little differently, Organization Transformation is very difficult to accomplish.

The best Organization Transformation stories we know of come from the Six Sigma community. Six Sigma has often been introduced and strongly supported by the CEO of the company. One thinks of Jack Welsh, at GE, who made a significant portion of every senior executive's bonus dependent on getting results with Six Sigma. Under those circumstances, Organization Transformation is much more likely to succeed. Consider, however, the situation discussed in the June 11, 2007 issue of *BusinessWeek*. The cover story was on 3M and described how 3M hired James McNerney as CEO in 2000. Their stock was down - it had stayed nearly flat during the go-go late Nineties - and everyone seemed to agree that they were overstaffed. McNerney introduced Six Sigma after laying off 11% of the workforce (8000 people). Thousands of 3M staffers were trained as Black Belts and many more received Green Belt training. The company embraced both DMAIC and Design for Six Sigma and began to improve its processes with a vengeance.

McNerney slashed capital expenditures by 22% in his first year - down from $980 million to $763 million, and by 2003, down to $677. Operating margins went from 17% in 2001 to 23% in 2005. As a percentage of sales, capital expenditures dropped from 6.1% in 2001 to 3.7% in 2003. Profits under McNerney grew by 22% a year.

After four and a half years, McNerney left 3M to become the new CEO of Boeing. Given this experience, one might have thought that 3M, a company famous for its product innovation focus, might have transitioned to being more process or operationally oriented. In fact, according to *BusinessWeek*, McNerney's successor at 3M, George Buckley, immediately began to dial back the Six Sigma effort. The major complaint among the 3M people, cited in the *BusinessWeek* article, was that "innovation" was down. 3M has always been a company that promoted innovation. It's where Thinsulate and Post-Its were invented. The company had historically prided itself on the fact that, at any one time, at least 33% of its products sales came from products released within the previous five years. By the time McNerney left, the percentage of sales from the previous five years was down to 25%. Those who are now complaining, suggest that Six Sigma is somehow incompatible with innovation. Given growth of 22% a year and operating margins that grew from 17% to 23%, one might have thought that 3M had made a reasonable transition to becoming a better balanced culture. At this point, however, it seems likely that 3M will reject the effort at Organization Transformation and shift back to the norms of its earlier Product/Innovation culture.

As we said, Organization Transformation is hard. It takes a massive, sustained effort, and even then it often fails.

When I hear an executive say that he or she wants to make his or her organization into a process-centric organization, I try to be encouraging, but I'm also practical enough to be cautious.

Till next time,

Paul Harmon