

Three Dimensions of an Organization

In the Introduction we alluded to the rise of the “process movement” in the 1980s and 1990s and its effect on organizational performance—the promise versus the reality. Where did all of the past efforts really miss the mark? It was not a failure of an idea; it was a failure to implement it properly. The fundamental notion that value is delivered to customers only through the cross-functional work system is still the correct and relevant notion. Implied in that notion is the need to manage the delivery of value across those functions—that is an essential but often missing or deficient act of management. Failure to address this remains the biggest failure of the whole movement. Now with ever-more dynamic markets and business environments, the need to get a handle on defining and managing value is more challenging than ever. But it remains the critical priority for success.

In this chapter we try to answer the question of what the act of management is supposed to be. We look at the three dimensions of an organization as constituting what managers must design and continually keep in proper balance.

SOME BASIC ASSUMPTIONS ABOUT ORGANIZATIONS

Despite a vast broadening of the language, concepts, and tools of “process,” there has been insufficient progress in transforming organizations into well-designed and well-managed institutions. Much of the momentum of the initial work in

the 1980s that established process as a legitimate business concept has been followed with a trail of misfires and misapplications of potentially powerful techniques and tools.

The root cause of this lack of progress is that most people still do not really recognize and understand that organizations are systems; consequently they don't realize the implications for how organizations should be planned, designed, and managed. Many managers and employees are familiar enough with notions of process to talk about "their process" but don't see the connections of that process to a larger architecture of processes that must be deliberately designed and managed. Despite lip service to "systems thinking," many don't get—in a practical, applied sense—that work processes and resources are part of a larger organizational system and therefore cannot be tinkered with in isolation.

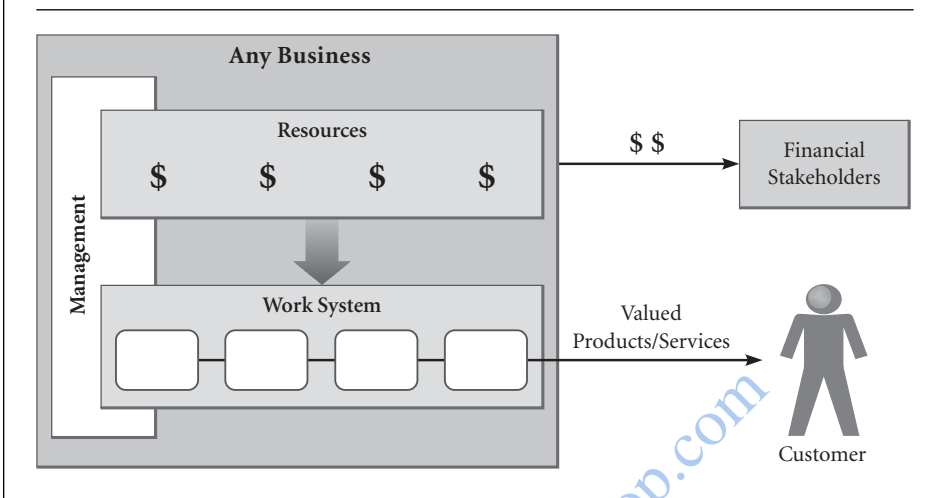
As a natural course of being in a particular part of a given organization and possessed of a particular set of skills, managers and employees are still fundamentally grounded in their own discipline or functional area (Engineering, Sales, Manufacturing, Customer Service, Product Development, Finance, HR, etc.) and tend not to look beyond their departmental boundaries, nor are they encouraged and enabled to do so. And, if anything, technology has abetted their functional myopia.

The correction to this myopia is to return to the underlying assumptions about organizations as systems. Our starting point for understanding and characterizing any organization is to try to understand it as a system. But a system to do what? Answering that question is a very helpful way of diagnosing what is happening in an organization and evaluating what needs to change in order for it to improve.

All organizations—public or private, large or small—exist to provide value. For all the myriad activities and complexities of any organization, what it must fundamentally produce is something of value to someone other than itself, or it will not be in business long. In short, a business is a system that exists to provide value to customers and financial stakeholders. Per the diagram in Figure 1.1, there are four key requirements for a business to provide value to its constituents:

1. Understanding the value to be delivered to its dual constituency.
2. Designing and maintaining a value-adding work system that has been engineered and optimized to produce the valued product/service.

Figure 1.1
The Four Key Requirements of a Business



3. Resources to perform that work, which starts with capital and expense dollars that are converted into people, technology, equipment, facilities, and materials.
4. Management of the integration of resources and the work system to produce the desired value.

The diagram in Figure 1.1 represents the ideal relationship among these four elements. What actually happens in many, if not most, businesses today is woefully out of balance. Following is a summary of what happens to the four elements in many organizations.

Imbalance of Value Delivery and Stakeholder Value

Many companies are failing to manage a balance between the value delivered to customers and that delivered to financial stakeholders. Increasingly, there is a short-term emphasis on delivering value to financial stakeholders (return on investment). What seems to be lost is the inescapable fact that the return to financial stakeholders is ultimately totally dependent on the value (in the form of valued products/services) delivered to the customer. This shift in priorities regarding delivery of value drives a corresponding shift in priorities within the organization: To satisfy the continual demand for short-term financial results, control of resources has become the primary internal priority.

Lack of Visibility of the Value-Adding Work System

A major reason the resource element is prominent in business is because, by contrast, the work and work system are virtually invisible to the human eye. With the exception of a few engineering drawings in a manufacturing or process operation, there is no agreed-upon end-to-end articulation of the value-adding work required to produce a valued product or service, from product/service inception, through marketing and selling, to delivery and support. Even when such a drawing may exist, it tends not to be a tool used by management to understand and guide the organization. Process understanding may reside at lower levels of the organization but not at the top.

Further, what little definition of the work and work system has been done tends to be confined to individual functional resource buckets. The work specification is under the control of each function or department, constrained by their given resources and their particular parochial view of the business. These costly work activities quickly evolve within the siloed functional areas into what many organizational observers then call “culture,” which is really many little individual, self-absorbed, rigidified cultures whose goal becomes self-preservation. In many cases these insular functional resource buckets are further reinforced by legacy technology systems and applications provided by an often obliging IT organization. The IT organization reinforces a silo view of work when it organizes itself to mirror the resource buckets on the organization chart.

Single-Minded Attention to the Resource Dimension

The most dominant element in most organizations today has become resources, for several reasons:

One major reason we have already stated: the priority given the return to financial stakeholders. Resources are where the money is. This emphasis on resources exacerbates a fundamental misunderstanding of cause and effect among our four requirements of a business. Many organizations behave as if there is a direct connection between resource management and returns to financial stakeholders. In the short term, there often is. But the longer-term reality is this: When things are working as they should inside an organization, resources make their contributions within value-creating work systems that provide products and services to customers, which in turn results in earnings to be distributed to financial stakeholders. There is no viable long-term shortcut to results.

A second reason for the fixation on resources is their daily visibility in any organization. Resources—people, facilities, equipment, technology—are visible and are represented in the form of the ubiquitous organization chart. The organization chart of a business is in most cases a high-level view of the allocation of critical resources across the organization. Each function shown on the organization chart is a “resource bucket,” backed by a corresponding capital and expense budget. The visibility of the budget structure is understandable, given that dollars are the lifeblood of a business, and in any well-run enterprise every nickel must be accounted for. The dollars are distributed at the beginning of the year and their utilization tracked and accounted for very publicly every month. Heads roll if resource utilization doesn’t tally with resource allocation at the end of the year.

One-Dimensional Management

The third and final reason why there is such an imbalance between resources and value-adding work systems in business today is the relentless emphasis on resource management. Resource ownership represents status and power for executives and managers at every level of the organization. The bigger the resource bucket controlled, the greater the presumed value of the executive. Yes, there have been many experiments with virtual teams, lateral promotions, managers without staffs, and the like, but clear away the rhetoric, and it’s clear that power games regarding headcount have not changed in corporations.

As ready evidence of this bias, note the annual planning and budgeting ritual—easily extending over four to six months of a year and consuming a quarter or more of management time annually. Add to this the time spent monthly, quarterly, and annually, at every level of the organization, examining “budget actual versus plan” and pursuing endless initiatives to close any gaps between the two, and you easily come up with 85 percent of management time being focused on resource management. Add to that the untold hours of effort by numerous staff organizations assigned to crank out mountains of analyses and PowerPoint charts designed to protect the backsides of various and sundry managers, and you have organizations that expend enormous energy to manage only half the equation.

Meanwhile, the little attention paid to work and work systems is carried out down within the functions and usually is focused on how to get more work with fewer resources. And all the while, the truth is that resources can be wisely

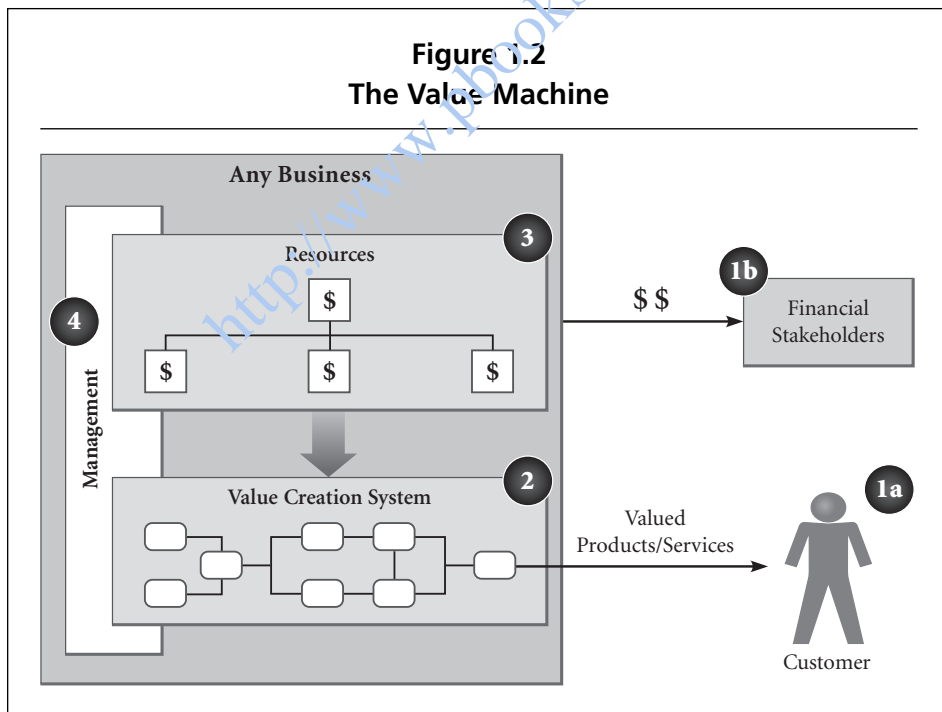
managed *only* in the context of the value-adding work required to deliver products and services.

But how do we make this happen? How do we get “resources” back in balance with “work”? Resource management is “front of mind” for every executive or manager in any business sweating how they will stay within budget. (“Who’s paying for that? It sure as hell is not coming out of *my* budget!”) In contrast, the value-adding work required to keep the enterprise in business is invisible—buried in virtually independent functional resource buckets. Like Rodney Dangerfield, “work” gets no respect!

A starting point for rebalancing the management of work and resources is to *think differently about the contribution of work.*

THE VALUE MACHINE

Let’s reorient ourselves to our picture of the ideal components of a business, shown in Figure 1.2. In that depiction, we start with the assertion that a business is



fundamentally a value-producing machine (a Value Machine, for short) that exists to produce valued products and services for customers (1a) and a return to financial stakeholders (1b). When we look inside the machine, we see two fundamental components that must be managed in concert to produce the desired results:

- The end-to-end Value Creation System (VCS) (2), which effectively and efficiently converts customer needs and desires into products and services that those customers value and will pay for. In this context, we are no longer viewing work as resource-consuming activities but rather as a carefully designed set of value-adding outputs leading to products and services. This system of *value-adding* work is the backbone of the business. The business is only as good as this Value Creation System.
- The resources (3) necessary to fuel the VCS.

The primary acts of management (4) are to properly allocate and manage those scarce resources across the Value Creation System so as to effectively and efficiently produce the desired products and services.

So this means there are really three critical dimensions to business performance, two of which must be managed in concert by the third:

- The value dimension (the system of value-adding work that delivers products and services to customers)
- The resource dimension (the scarce resources required to perform the value-adding work of the enterprise)
- The management dimension (the processes, practices, and policies in place to design and manage the other two dimensions and to make the inevitable tradeoffs between them)

Up to this point, the world over, management has been skewed in the direction of the resource dimension, with inconsistent results. There is ample evidence of this imbalance between resources versus value creation, including:

- Endless cycles of reorganization that fail to work because the only thing being reorganized is the names on the functional resource buckets. There is seldom any change in the end-to-end value-adding work required to deliver the end product or service. In most cases, functional sub-optimization of the end-to-end work system continues unabated.

- Failed product/service launches because key functions can't or don't participate in the design, development, and proper preparation of the organization for the launch, because of their functional resource constraints and inward focus on their own activities.
- Customer outrage at companies that try to keep costs in line by skimping on resources (think of help desks and outsourced technical support) instead of properly delivering value.
- Slow and expensive attempts to adapt to changes in the market and business environment. It takes a crisis or imminent failure to align the internally focused functions and redirect their priorities.
- Downsizing death-spirals as companies try to resource-manage themselves back to profitability. The resulting chaos in the value dimension is ignored by everyone but the customer.

And what is life like for the manager inside an organization where the fixation is on resources? The manager who must get work done, define objectives and carry out plans, develop employees, and meet budget goals? Here is a description from one middle manager:

You know, they do this survey every year of manager performance, and there's this one item in the survey, "How well does this manager MTB [manage to budget]?" And it's always the lowest-ranked item in the survey, for all of us. And how can we do any better? We don't control the work we are asked to do; it's just piled on us without rhyme or reason. We should be sitting down and asking, "What work should we be doing?" And then schedule the work so it is, one, achievable, and two, can be done with a minimum of personal pain and waste. But instead we just pile it on.

And so who gets the rewards and the promotions? It's those managers who pull rabbits out of hats, who figure out some way to work the system to get out a reasonable amount of work, or at least look like they did it. But you know, you can only do that for so long—you can't always work a miracle, and after a while you get so cynical you just stop trying anyway.

It is time to begin managing both the value dimension and the resource dimension. It most definitely should not be a case of resource *versus* value.

The only way a business is going to survive in the future is the wise allocation of critical, scarce resources *in the context* of its unique Value Creation System. However, we are quick to acknowledge that this task is easier said than done. Forces driving an emphasis on resources are many, including:

- The functional structure of organizations
- The formal accounting, budgeting, and planning systems
- The desire for some accountability, which is easier to approximate with a focus on functional silos and their resources

Add to these reinforcers the fact that we are asking for a fundamental rethinking of the act of management, and you can see the challenge is significant.

OUTLINE OF THIS BOOK

This book, then, is about the three dimensions of organization, and, more important, about changing the act of management for a balanced focus on both value and resources. Management can only succeed when based upon a clear and complete understanding of what has to be managed. Our contention is that management of the Value Machine has been insufficiently understood and addressed, to the detriment of organizational results and value to the customer.

In the next several chapters, we will explain in more detail the value and resource dimensions and then further address management, providing a model and explanation of the roles of management vis-à-vis the other two dimensions.

Then we provide a case study of an organization and its handling of multiple crises, first when it takes a resource-fixated approach and then when it applies a balanced-management approach.

In the final section of this book, we provide a full set of documents related to the case study for those who want to see the details of this management approach.

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