

TRADE IN THAT OLD, FUNCTIONAL
MIND-SET FOR A MORE CONTEMPORARY,
BUSINESS PROCESS VIEW OF THINKING
AND ACTING.

Enabling Execution

BY ANDREW SPANYI

Our 2003 priorities are to protect margins, decrease costs, increase cash flow, and improve bottom-line results.

That line paraphrases the thrust of one major corporate CEO's company-wide communication in early 2003. I suspect it was echoed by dozens, if not hundreds, of other corporations across the country.

Given the current business environment, many companies will find that executing on such priorities will be easier said than done.

Why are there so few companies that beat the odds? Why do we continue to read about the same handful of organizations who consistently build shareholder value through improved performance? Why is it that so many others stagger when it comes to executing on company priorities?

While the present business landscape is definitely one reason, it isn't the only one. The traditional functional mind-set of many senior executives may well be the single most important obstacle to achieving sustainable performance improvement in what is the most turbulent business environment that most managers have faced in their careers.

HOW DID WE GET THIS WAY?

Functional thinking evolved in the latter stages of the industrial revolution. In a nutshell, leaders came to believe that functional excellence in the areas of sales, marketing, production, logistics, and finance were the key to exemplary performance. This line of thinking led to the development and eventual predominance of the functional organization structure in the 20th Century during a period where scale was more important than speed. Even though the functional organization has come under increasing criticism during recent years as organizations have adopted structures based on product lines and market segment, the functional paradigm remains deeply entrenched in the minds of many leaders.

The fundamental problem with functional thinking is that it promotes "turf" protection and a command-and-control mentality.

Since true customer and shareholder value is created through a series of activities that cross organizational boundaries, functional thinking can impede the leadership team's ability to focus on what really counts. The typical symptoms of functional thinking include a disproportionate preoccupation with organization structure, an undue emphasis on actual-to-budget performance, and a tendency to develop information systems based on narrow, departmental requirements.

Is your organization's progress hindered by your leaders' functional thinking? Simply answer the following questions:

1. Do your leaders focus more on reporting relationships and protecting their domain than on the flow of activities in delivering products and services to customers?
2. Is there a lack of shared understanding about the company's strategic direction, as evidenced by separate functional strategy documents that don't tie clearly to the company's overall strategic plan?
3. Does it take too long to fix workflow problems because the local culture requires that they be elevated to the V.P. level for resolution?
4. Do you find that improvement projects such as Total Quality Management (TQM), Six Sigma, and reengineering are often defined in terms of functional boundaries, leading to duplication of effort and implementation challenges?
5. Is there a greater focus on "plan vs. budget" rather than measures of the quality, timeliness, and cost of services provided to customers?
6. Are your information systems projects defined in terms of functional boundaries, and do you find that

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various IT systems don't communicate well with one another?

If your leadership team's mental model is indeed dominated by functional thinking and you have aspirations to be "best in class" in today's business climate, then you'll need to transform the way people think and where they place their loyalties.

WHERE DO WE GO NEXT?

So what to do? How can you transform the traditional functional mind-set so that your organization is passionate about making it easy for customers to do business with you and easier for employees to better serve your customers?

First, let's be clear. Changing the culture and mental model of the executive team is the task of the leader, but the senior financial executive has a critical, visible role to play in this initiative. The CEO and CFO need to work hand-in-hand to ensure that there is clarity on strategic direction, organization alignment, and operating discipline. This isn't something that might "bubble up" if you wait long enough. Your leader must be front and center in communicating that the executive team's mental model is a key enabler in the creation of sustainable competitive advantage.

The key element in transforming the traditional functional mind-set is adopting and institutionalizing business process thinking in the organization. Let's face it—in an environment where speed, quality, and customer experience are rewarded by the marketplace, it makes more sense to focus on the consistent execution of the cross functional activities that create value than on functional excellence.

CLEAR STRATEGIC DIRECTION

The first step in the journey of transforming the leadership team's mental model is to achieve clarity on strategic direction or strategic focus. The CFO's voice is critical in stressing that strategy must begin with the customer and not with the numbers.

Business process thinking offers a valuable tool—the process relationship map—in depicting an organization's capability to satisfy customer requirements. It documents the company's core business processes and the cross-group or department dependencies in business process execution. It can provide a framework on which to attach data on desired levels of performance, to depict current performance, and to assess the size of the gap and which group or department will need to cooperate to close the

gap. Further, it's a useful illustration to frame key choices. After all, clarity around strategic direction is all about making difficult choices.

Strategic focus is essential to execution. In a nutshell, it requires a succinct statement of strategic direction that can lead to action, with clarity on the critical business issues that need to be addressed for success. The business process mind-set fits well with the thrust of Michael Porter's landmark article, "What Is Strategy?" (*Harvard Business Review*, November/December 1996, pp. 61-80), where Porter argues that "activities are the basis of competitive advantage," and competitive strategy means "deliberately choosing a different set of activities to deliver a unique mix of value."

This approach facilitates the leadership team's ability to look at the business from the outside-in as well as the inside-out and develop a jargon-free core strategy that inspires from the boardroom to the lunchroom.

It enables the leader to ask and answer the following critical questions:

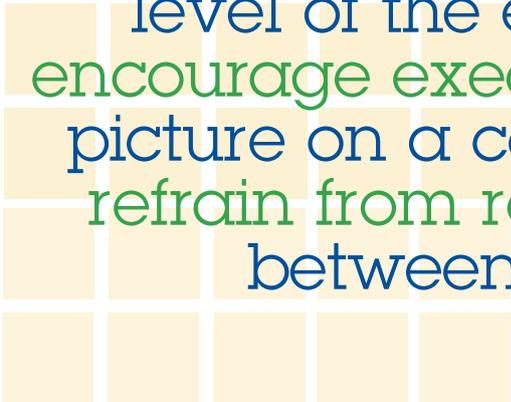
1. Does the leadership team have a shared understanding of the key business processes that deliver value to customers?
2. Is there clarity around the activities where the organization will excel and those it won't engage in?
3. Is strategic direction expressed in jargon-free language?
4. Is the strategic direction clear enough so it will be possible to communicate to employees the goals of the business process within which they work and their potential individual contribution?

If you can answer "yes" to these questions, the way is paved for keeping strategy front and center in people's minds and hearts throughout the year.

CLEAR ORGANIZATIONAL ALIGNMENT

The next step in the journey of transforming the leadership team's mental model is to achieve clarity on organizational alignment. This isn't simply a matter of structure; alignment is also required with respect to corporate policies, performance measurement, and performance management and reward systems. In this regard, it's crucial to keep in mind that organizations are complex business systems within which a change in any one component is likely to have an impact on other components. Accordingly, an understanding of the critical linkages is essential.

Again, the senior financial officer has a crucial role to play. The key mental model change here is that measures



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around the timeliness, cost, and quality of service and product delivery are just as important as the traditional financial metrics such as revenues, net income, and cash flow. Further, planned performance around the execution of key business processes should be the principal driver of discretionary bonuses for the executive team members. After all, the CFO is the official keeper of financial data, so his/her opinion matters.

The key factors to consider on the road to organizational alignment are:

1. Ensure that the organization's core business processes are designed to deliver on its strategic goals.
2. Ensure that the organization structure enables effective business process execution.
3. Install a multifaceted measurement system.
4. Align rewards with desired outcomes.

In some cases, discussing these issues will stimulate questions around the viability of the organization's structure. That's to be expected. Establishing and empowering cross-group or cross-department teams can often compensate for structural flaws that threaten to impede efficient and effective cross functional business process execution.

But in the case of companies where turf protection is deeply entrenched, restructuring along business process lines may be in order. Stated simply, if turf is an intrinsic part of the culture, doesn't it make sense to define "turf" in the context of those related activities that create value for customers? Business is indeed a team sport, and the

teams that matter are those that create value for customers and shareholders.

While a company may succeed in having all the ingredients in place for strategic focus and organizational alignment, the focus and alignment need to be sustained once they're established. This requires operating discipline.

OPERATING DISCIPLINE

Often it will take a company some time to put the components in place for organizational alignment. As the alignment work proceeds, the leader needs to deploy the key strategic themes within a business process framework as a powerful tool that can be used to communicate with each employee and help them see their potential contribution to the company's evolution.

To sustain focus and alignment, the leader needs to communicate and educate on multiple fronts. The initial emphasis needs to be on establishing systemic thinking at the level of the executive team to encourage executives to see the big picture on a continuing basis and refrain from reconstructing walls between work groups. Once that's in place, then the leader needs to partner with members of

the executive team to cascade the message to middle management and throughout the company.

The role of the CFO is crucial here in terms of clearly linking budget reviews to monthly meetings on the company's progress toward the financial and nonfinancial goals in business process performance. Remember the old adage, "What gets measured gets done"? Unless the organization develops this routine, whereby business process performance is perceived to have as much weight as the traditional financial measures, managers may simply pay lip service to business process.

Beyond creating the means to sustain focus and alignment, it's important to work tirelessly such that change and innovation are accepted. This calls for business process thinking and business process management mental models that ask, "Why are we doing this at all?" as well as "How can we improve performance?"

The key point is this: Even those organizations that may have learned to think systematically about one or two business processes often don't know how to think about their entire business *systemically* in business process terms.

What are the benefits of transforming an executive team's functional mind-set to one based on business process principles?

One: It facilitates a more succinct expression of purpose and strategic direction. The relatively simple language of business processes enables leaders to avoid the excessive use of jargon and frame their purpose and strategic direction in terms that can be understood from the boardroom to the lunchroom. Doesn't it make more sense to say, "We are dedicated to improving our performance in delivering 'perfect' orders (on time, complete, no defects) from 'x' to 'y' percent" than to talk in terms of jargon such as "operational excellence" or "customer intimacy"?

Two: It places cross-group linkages and interdependencies under a microscope as clarity is achieved in defining the cross functional and cross-group business processes that create value for customers and shareholders. For example, it heightens awareness of why and how it's necessary for the sales department, the marketing department, and call centers to collaborate with respect to offering exemplary service to customers.

Three: It promotes more of a balanced view on performance measurement, with a greater focus on the timeliness and quality of key business process outputs, such as on-time product or service delivery performance, and cycle time to develop new products or services to balance the traditional financial metrics such as actual to budget,

EBIT (earnings before interest and taxes), and cash flow.

Four: It assists in framing management reward systems so as to create a more objective view on group interdependence in delivering on key customer requirements. This means modifying executive bonus compensation to have at least some component of their bonus be determined by the degree of progress achieved in business process performance improvement.

Five: It places the deployment of information technology in the proper perspective, which is to enable the organization's performance in executing key business processes.

Six: It can help decide the role of teams in the organization. Historically, organizations have struggled with questions relating to when a team approach should be taken, who should be on the team, if it should be a standing team or an ad hoc team, etc. When organization design factors are considered within the context of enterprise business process performance, the decisions on team structures sometimes become clearer as teams are established to bridge structural gaps. For example, companies that have adopted a product by geography matrix structure may see the benefits of establishing cross-geography teams by product line to enhance organization learning.

TAKING THE LEAP

Making this mental model shift isn't easy. It requires significant leadership energy.

Is it worth the effort? You be the judge.

What do most companies want? In a word—results. This means increased revenues, higher earnings. You can target improved results, but you can't manage results. You can only manage the cross functional activities that produce the desired results.

Maybe Yogi Berra's famous quote, "Baseball is 90% mental, and the other half is physical," applies just as much to business as it does to baseball. ■

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