LIEBOWITZ & ASSOCIATES, LLC

THE TRANS OCEANIC BRIDGE

The Effectiveness of Your Business

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The first of a series of articles dealing with organizational structure and design.

- How Strategy Affects Organizational Structure
- Customer Intimacy
- Product Leadership
- Operational Excellence

There are many reasons for how and why businesses succeed or fail. Most of the reasons usually offered are rooted in economic fields: strategy, marketing, sales, pricing, distribution systems, manufacturing capabilities and the like. If a company succeeded in outpacing its competition, it was because they were first to market, their pricing was right, they gave their customer what they wanted, they could fill their distribution channels. A failure, on the other hand, was due to not reading the market right, not investing in updated equipment, providing poor customer service and follow-up, not caring about quality, and similar such explanations.

All of these rationales at one time or another, in one place or other, are correct. They clearly merit the attention of all business people.

I would like to suggest another factor contributing to success (or otherwise), a factor that in many ways is more basic than many of these others simply because it undergirds most of them, i.e. either supports, allows, encourages, structures and/or promotes them. In fact, its influence is most clearly visible when rapidly and apparently successful growing firms (that have read the market right, that have a clear vision of the future, etc.) falter or fail. I call this factor the firm's "organizational design", comprising at least four overlapping elements:

- The influence of a vision and strategy on a firm's operations
- Its people: their selection, qualification, compensation, promotion, career pathing
- Its system structures and work processes

- Its organizational culture

Organizational design is rarely considered when a firm's failure or success is under the microscope. The usual view is that high flyers are soaring because of being in the right place at the right time with the right product or service, thereby catching the wind that lifts them above competitors. The dying swan couldn't anticipate, much less catch up with, the leaders, thus being left behind to starve.

But, given the right time, place and product or service, how is the firm organized and structured so that it can be lifted by the wind? What goes on in successful firms that allows them to soar? What keeps unsuccessful firms on the ground, unable to take off?

This series of newsletters is devoted to answering these questions and is intended to aid business owners and entrepreneurs as they consider how and whether their firm is organized and structured to support their growth!!

HOW STRATEGY AFFECTS ORGANIZATIONAL STRUCTURE

There are innumerable ways at looking at strategy and its components. Our focus here is not on strategy per se, but rather on how strategy is translated into a supporting and supportive organizational structure. A very useful way of viewing business strategy is to outline how businesses deliver customer value, which, after all, is the goal of every business. A recent Harvard Business Review article (January/February, 1993) by Michael Treacy and Fred Wiersma suggests three ways:

- Being "customer intimate", i.e. being able to anticipate customer needs and reacting accordingly.
- Providing product leadership, i.e. creating products and services that satisfy customer needs.
- Exhibiting operational excellence, i.e. continually improving how product and services are provided to customers.

Each strategic aim requires a different structural focus. The strategies themselves overlap and, in fact, no one strategy is or can be pursued entirely in isolation from the other. To be successful requires a firm to actively seek excellence in at least one of the three strategies and to be good in the other two. The strategy that becomes prime for a company, however, has implications for its organizational structure.

CUSTOMER INTIMACY

"Customer intimacy" entails precisely segmenting and targeting markets, acquiring detailed customer knowledge, developing an operational flexibility that allows for immediate response to customer need, and securing tremendous customer loyalty. The value added component of this strategy is knowing the customer so well that what he/she needs is immediately provided.

For a business to pursue this strategy, what is demanded is a very responsive customer service department and a very active marketing and sales department geared to relationship selling. In fact, these departments drive the company. They are the firm's primary interface with the customer base. Customer information is continually solicited, sorted, ordered, and immediately distributed throughout the company so that it can be acted upon immediately. Information systems are state of the art. The recipients of this information have to be able to act quickly to stay on top. Thus, they have to be very team centered (to analyze the information and to translate it into new products and services), and they have to have a great deal of leeway with respect to decision making and authority (to respond promptly to customer needs).

A growing and successful construction company prided itself on building expensive homes geared to client needs and adaptable to client wants. However, client requirements were initially not addressed in depth, methods to solicit this information were not developed (e.g., the use of software that would enable clients to imagine "being inside the house" as it was being built), contact was initiated only when another payment was due, and only the owner could fix the final price of the house. The net result was that the owner, in effect, convinced buyers what they should want, thereby dramatically increasing the number of client-initiated changes as the clients along the way became clearer about what they wanted.

Information about customer-initiated changes was frequently communicated incorrectly or late to the field, even more increasing construction costs due to the need to undo work that had been already completed. Sales people were pre-empted at closing regarding sales price, making for rapid turnover of sales people and suspicious buyers, and many client complaints throughout the construction period. Needless to say, the cost of building the homes (which was, of course, passed onto the customer) also increased.

The firm's relative success was due to the fact that it was small enough to eventually determine what a customer wanted, as well as the fact that its competition in its geographical area was no better. However, this firm's growth is hampered by a mismatch of its strategy and its organizational structure.

In contrast, a truck parts firm divided its customers into three groups, from their "best" through to their "infrequent customer". They devoted a considerable amount of attention to what their "best customer" wanted and needed, and when what they wanted would be needed. Frequent personal interviews with their "best" customers were conducted by sales personnel (both at the in-house counter and on the road) and other senior managers to anticipate needs and concerns. The "infrequent customer" group was not neglected, but the information sought from and about them was minimal. Information, however, that was closely monitored were those transition points where a customer graduated to a higher "class" with the company and, also, where customer's business growth profile was changing.

This information was distributed throughout the firm, so that Inventory knew in advance what would be needed when, shipping knew what was to go out to whom when and with what priority, and Accounting knew the appropriate pricing schedules. Information transmission was instantaneous, decision making was local and immediate, and problems (in inventory, shipping, unusual demands, etc.) were anticipated or handled on site.

This firm's information system, personnel and departments were an exquisitely networked organizational structure. The phrase, "customer intimacy", would be an understated description of their organization's structure.

PRODUCT LEADERSHIP

To pursue a strategy of "product" leadership entails delivering value through offering leading edge products and services, providing a stream of new products and services, and creatively adapting to new and changing marketing conditions while constantly pursuing new solutions on behalf of its clients and customers.

This strategy depends on an organizational structure that, among other things, is very research and development centered (if a manufacturing company) or extremely knowledgeable about the products and services currently being developed and considered in the market place. In addition, the firm's Sales & Marketing Departments must be part and parcel of their customer's business planning process so as to be able to anticipate future needs, to supply that need, to teach their customers new approaches and solutions to their problems, and particularly to be able to direct their customers into avenues they hadn't entertained on their own as being profitable directions.

In contrast to (but overlapping in certain respects with) the organizational structure demanded by a "customer intimacy" strategy, "product leadership" requires an organization that is not bureaucratic but rather quick to action and opportunistic in intent. Personnel tend to be organized into matrix teams that cross departmental lines since this type of structure provides the fastest response time. At the same time, since decision making authority is spread throughout the firm, risk management is carefully monitored.

In addition, in order to stay current with clients' long range plans to which their input could be invaluable, "relation selling" is de rigeur. These firms have not only the sales force, but also as many other departments as they can, in their clients' planning meetings. The firm's personnel take on an advisory and consultative role, putting them in the position of informing their clients' strategic thinking and anticipating their needs.

An advertising and PR firm continually scans the marketing environment for new approaches to offer their clients and for creative talent with whom to partner either temporarily or long term. They are continually meeting with their clients to review these new approaches and the opportunities their newly discovered talent opens up.

In order to achieve this level of "service leadership", personnel are teamed into matrices, with each team having the responsibility to bring fresh ideas and directions to their clients. They joke about almost having offices at their clients because they are rarely seen in their home offices. Communication between team members is so crucial that each team has a designated person whose primary responsibility is to ensure that everyone knows what everyone else on the team is doing and to serve as a liaison to senior management. In addition, the teams convene regularly to review not only the latest presentations and their impact, but also what is out there in the market place, who is doing what, etc., and how can they partner with or ally themselves with the talent that is out there.

Because the cost of this kind of process is high (e.g., voluntarily preparing project ideas with accompanying support material clients hadn't even initiated or requested), Finance is regularly consulted about each team's ROIs.

OPERATIONAL EXCELLENCE

"Operational excellence" as a strategy emphasizes reliable and high quality products and services, competitive pricing, and minimal difficulty and inconvenience. This strategy entails a continual search for ways to minimize overhead costs, to eliminate intermediate non-value added steps, to reduce transactions costs, and, in general, to optimize business processes and work flow.

The organizational structural dynamics supporting "operational excellence" is in-ward looking: how to get quality product and service to the customer at the best most, competitive price by changing, tinkering, re-engineering, eliminating etc., what is done internally. Most of today's popular focus (the Baldridge Award, Total Quality Management, Continuous Improvement, Achieving Manufacturing Excellence, etc.) is devoted to this strategy.

This inward looking stance is reflected in an organization willing to look at itself, warts, scars, and all; training people to do so; continually measuring itself against specific goals and objectives; and revising and revamping itself accordingly. Clearly, then, this is an organization where employee empowerment is preached and practiced, team work is a sine qua non, training programs are the norm. All departments become equal partners in the quest for success. No one department dominates.

A large manufacturing company, in pursuing "operational excellence", was highly invested in continuous learning principles and re-engineering. Their first step was for senior management to develop a first draft vision of "The Company of the Future" utilizing scenario planning as a means of optimizing their ability to compete in the future. They then developed tentative goals (financial, productivity, etc.) and specific action programs that spanned the next several years. This plan was cascaded down through the firm. Its various departments were encouraged to give feedback about and to question the attainability of the goals and the feasibility of the action plans, as well as to consider the future vision. After another iteration sharpened these future maps, the departments then developed their goals and action plans that would contribute to the achievement of the corporate objectives.

A specific focus was on those activities that added value to their product, i.e., on work processes that could be "seen" and "experienced" as valuable by the customer, minimizing those activities (e.g., unnecessary lifting and moving of materials around the shop, duplication of steps in the order taking, etc.) that did not. Further, each work process was documented and reviewed on a regular basis to ensure efficiency and effectiveness. People were trained in skill areas that upgraded their skills and prepared them for advancement, working new machinery, supervising, etc. People were gradually transitioned from departments to matrix teams, with each team working on a different product line. Their task was to not only stay in touch with customers and what they needed, but to also anticipate future products and needs and to translate these into new products and services.

"Operational excellence" requires an organizational design that is fluid, with people and roles changing in response to the winds of the market. Only a company where employees are fully trusted and entrusted, trained and loyal, can successfully undertake this strategy. One reason most TQM and re-engineering projects fail is because the hosts lack this flexibility and are not willing to look in the mirror to see why.

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