Tune Up Your Organization

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Why organizational performance?

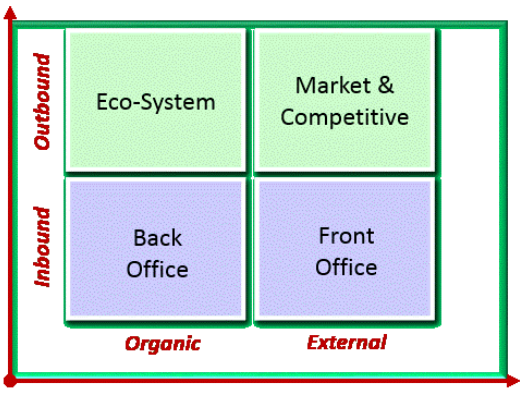
Companies and business are trying to get as effective as they can at what they do, and the market and competitive pressure add to the effort in pushing them hard to make continuous improvements to their operating or business performance. In many cases, operational process steps require human intervention, and back end (finance, administration, human resources) and front end (sales, customer management, distribution) are ripe with human intervention.

Over time, the question arises of what is the performance of the organization itself, and how to maintain or improve it.

The first response might very well be to increase the organizational performance through the reduction of headcount, as needing less people to perform the same workload creates a natural pocket of sustained savings. But is it the right amount? Does it really save anything in the long run? What is the optimal performance of an organization, and how to measure it?

The Front Office is the collection of all activities which are in touch with the customers and generate revenue. The Back Office is comprised of all activities and tasks "behind the front desk" which aim at running the company's business and supporting the front office. Both are an absolute requirement and are inter-dependent as the performance of one (low sales, financial stability) directly impacts the other (excess inventory, reduction of marketing budget).

A second dimension is the focus of this organization: who is the direct recipient of the outcome of an improvement? Back-office activities deal with the organization itself: producing and supporting the entire business. Organizations are social structures; looking at how an organization behaves implies gaining an understanding of many 'soft" dimensions such as culture and values, knowledge, skills, capacity to innovate, resiliency amongst others.



The fluidity of the flow in the process pipes is the strongest indicator of the ultimate performance, which is the most effective way to achieve the business outcome and get payment in return for fulfilling an order. The principles of fluid dynamics offer striking resemblance to the flow of goods and information into the organization, and can teach us a thing or two on how to optimize this flow and reduce process tensions for a greater performance and happier staff.

The Alignemnt and the Performance

How to measure organizational performance? Keeping it simple, two dimensions establish the fundamental performance for an organization:

- The **Organic performance** is the performance of the organization by itself, somehow independently from the business volume being managed and processed. These activities include all back-office, supply chain and management functions.

- The **Dynamic performance** is how the organization is executes its business activities such as servicing clients or manufacturing goods, including the various goals and targets set to adapt the throughput to the volume and intensity of the demand.

Enter a coffee store and ask for a coffee with a toasted bagel, and you expect that the organization in front of you (the front office) is capable of delivering your order timely and precisely, to your satisfaction. Before you walked into the store, the organization was already here, designed and calibrated to meet the needs and the volumes of the business. There is also an organization behind the doors that buys and receives the baking goods, coffee bags and raw material, store them in a dedicated location and takes care of the payroll and cash flow.

The key outcomes of the organic structure are to maintain business ready, manage all aspects that are required without distracting the front end from their revenue generating activities, and to coordinate all of the business processes and flows. Performance indicators would therefore have to be aligned with these business objectives.

The front office structure has similar drivers to measure their direct performance, beyond the first and foremost metric: the revenue. How well customer facing people are dealing with the expectations of the clientele, how preparing the coffee specific orders without mistake, day after day are equally important, as they will eventually translate into revenue predictability.

Business	drivers used to lead, run, manage and control the business
Financial	the balance of costs and revenues, and the capacity to scale without altering this equilibrium and dent profitability
Sustainability	how competencies, internal effectiveness and organization dynamics can support and sustain the business in good and bad times
Agility	including the business and strategic agility of the entire eco-system

This alignment of factors plays a role in the end to end performance, but they also interact with each other. A culture of collaboration in the back office will likely create more collaboration in the front office. When a crisis occurs, such as peak activity without additional personnel to handle it, the collaborative culture might be what makes the difference between letting down customers and having people go the extra mile to help out their colleagues in need.

Measuring the performance of an organization, whether organic (by itself) or how process transactions and requests are being performed involves establishing a multi-criteria performance grid that covers the key dynamic and static dimensions of the business to measure. Each business will have its own set, but the list below illustrates what such metrics could be (in this case a US financial services company):

- Direct Revenue from customers
- Revenue from financial and other activities
- Productivity for executing orders
- Cycle time for customer requests and for financial transactions
- Competitive Performance
- Resiliency of customer management and of financial management
- Innovation and strategic agility
- Culture & Values in line with company's charter and market demand
- Knowledge & skills to create a culture of excellence and collaboration
- Vision and guidance from leadership and line management
- Equity and financial health, risks, liabilities and Capital Management
- Financials accrual and recognition; rolling forecast predictability / variance

The flow of information, communication between people in the enterprise works at this best when the social networks are fully at play, and there is no delay or resistance sharing the information with the next people in line. The fluidity of the information across the organization, adding many small optimization steps to a process, is a key factor in process performance. An ill-designed organization, as well as a lack of effective communication (think of a freshly outsourced offshore team trying to work with an onsite skeptical team) can cause bad or insufficient exchange of information.

Organizational fluid dynamics

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Organization fluidity is characterized by goods and value flowing unhindered throughout a system or process. Obstacles, throughput funnels and entanglements or side loops create tensions and frictions, resulting in reduced performances and requiring extra effort to restore or maintain the performance.

Processes are designed to achieve an outcome in an optimal way, and organizations are created to execute processes in a predictable and effective manner; an “elegant” design would imply an interrupted flow across the process, viewed as a network of pipes and tubes. From an organization’s perspective, the process steps should run through the organization without unnecessary loop or detour. A measure of it consists in assessing what is the single process or throughput value created by each step of the process, and the expense of resources including time, money and people’s efforts required for each unit of production.

Orders and other information and goods circulate from a point to another, always in the same downward direction from origin to completion of the process. The diameter of the “process pipes” allows for a certain volume of transactions to be executed, and as the volume increases, the pressure in the system increases as well, just like the added volume of liquid in a given section would increase the pressure within the pipe. Adding a validation holding back the processing of the order until resolved, or adding new processing steps to the process would create side loops that would reduce the natural flow and cause upstream increase of pressure (orders piling up) and downstream decrease of pressure (idle time until orders are ready to process).

Higher pressure will reveal process entanglement points, while low pressure, especially when happening suddenly and unpredictably generate bubbles of idleness followed with bursts of excessive effort; this cavitation effect can cause the overall performance of people to dwindle as a result of the stop-start impact

The representation of the process using a “plumbing” model is therefore more than just a graphic representation, and can be used to model process constraints and organizational dynamics. Extending the concept of process flows as fluid mechanics can also help define natural key performance indicators: they are the metrics capturing the flow and outcome of a process, as opposed to synthetic performance indicators, which calculate specific metrics such as financial performance derived from the organic performance measurement.

Using fluid mechanics concepts to understand the forces at work in the movement of goods and information into the enterprise processes can show valuable insights on what makes a process run smoothly, overheat or what creates process flow entanglements.

Now, start tuning your business engines!