

Organizational DNA

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INTRODUCTION

A fundamental task for any executive is to be the architect of the company strategy, answering questions such as: What markets to participate in? ... With what products and services? ... Having what competitive advantages? ... At what risk levels? ... But as important as the above is his role as the architect of the company's organization. According to the assertions of Alfred P. Chandler, the patriarch of enterprise history and whom in 1962 immortalized the sentence that "structure follows strategy", effective execution cannot exist if the underlying organization isn't effective. However, few executives embrace and deliver their role as organizational architects. This leads to having a strategy that may be well designed but poorly executed and have very low-value—solutions that are mere illusions.

In this article we are postulating the Organizational DNA, a model that helps executives to be more effective in their role as organizational architects. First we introduce the model, then the consequences of not having an organization aligned to the strategy and the causes of this happening, and lastly an example of how this model may be employed for a change process.

STRUCTURE AND ORGANIZATION

"Structure follows Strategy." This profound and powerful assertion was made by Chandler in his book, *Strategy and Structure; Chapters in the History of the Industrial Enterprise*, having studied the developments of enterprises such as E.I. du Pont de Nemours and Co., Standard Oil of New Jersey, General Motors, and Sears, Roebuck and Co.; the specific finding was that the organizational structures of these companies had evolved in accordance with their strategies.

Chandler's conclusion has two key implications for those leading the course of a company: Firstly, that the organizational structure of a company is an enabler of its strategy. Second, that there isn't a best structure per se,

or organizational structures that are more effective than others—it's all about the strategy of the company.

However, if we look at the evolution of enterprises, we would be quite shortsighted if we were to say that it is only structure that follows strategy. Companies have evolved in such a way that structure isn't the only factor enabling a company's strategy. An executive today has available a series of means that enable him to enable a company's strategy. These elements include processes, measurement and compensation schemas, organizational culture, individual and group competencies, and more. Thus, on the basis of a modern executive's experience, a valid update of Chandler's assertion would be, "Organization follows strategy." However, the things Chandler described, common-sense though they may be, are not necessarily common practice.

An organization as a company means an association of people regulated by a set of processes in which their continual interactions take place as a way to achieve certain goals. It is for this reason that the achievement of those goals makes it necessary to enable the organization, i.e., to make it capable and to supply it with the tools making it possible to achieve its shared objectives. By strategy we mean the series of business guidelines that ensure optimum decisions at all times, and whose purpose is to lead the efforts of all individuals in the organization towards one same objective. For its part, the strategy must involve projects that may belong to an area, a process, or operational change. It is crucial for the organization to be aligned with the strategy, thus ensuring that its people are able to address the required challenges and routines.

Thus, strategy and organizations are the two faces of one same coin. Without organization there is no strategy, and also, organization makes no sense in the absence of strategy. Moreover, what pervades along time is the organization, and not the strategy. Besides, an organization not only enables the strategy; rather, it shapes the strategy in the sense that it is

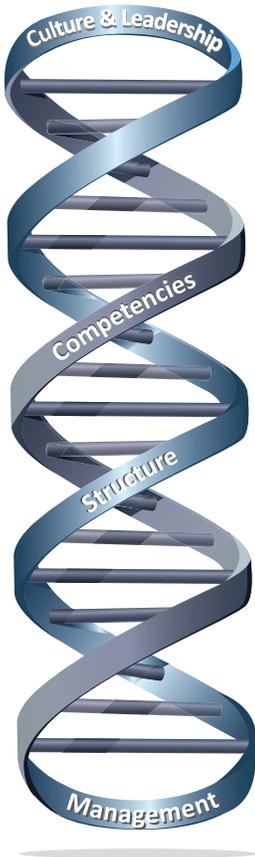


FIG.1

the organization that provides guidelines for strategic possibilities and restrictions.

ORGANIZATIONAL DNA

To build a paradigm, all living beings are comprised in their entirety of a genetic material called DNA, which makes them able to evolve and to react to their environment. In a similar manner, companies that have evolved rely on a minimal indispensable structure that enables them to be prepared for and oriented to change. At Sintec we have identified the DNA elements that companies need in order to evolve and react vis-à-vis the opportunities surrounding it, and therefore are certain that a change-oriented organization is achieved by building it from a series of orderly interlinked elements that constitute its organizational DNA: Culture and Leadership, Organizational Competencies, Organizational Structure, and Management. These four elements aren't mutually independent—rather, they depend on, and must be consistent with, each other.

We begin by analyzing the organization from the perspective of each of those elements. This affords us a thorough picture of the

current situation of the company, and enables us to articulate where it wants to go, understand what needs to be changed, design how change will be achieved, and establish management methods to make it all sustainable along time.

Every element of the DNA contributes to an organization's process of change, from our first contact to its full internalization. These elements are executed by means of an action plan that enables the organization to cohere, making every area of the organization participate in the things that its leadership understands and desires (Communication), integrating and committing people around common issues (Involvement), developing skills to build capabilities (Training), and building everything into a whole (Inclusion).

Structure is nothing more than the functional and hierarchical division of tasks into roles and responsibilities, plus authorities related to job positions which also lead to horizontal and vertical interactions. This is normally what executives normally focus on when, for instance, they make organizational changes which turn out to be a modification associated to those three elements, and, consequently, to authority and to interactions.

Management refers to the decision-making of a company, who makes which decisions in order to achieve what results. This is what would be known as rights to decide. However, those rights to decide aren't necessarily explicit, in the sense that they are properly documented, or constitute "rights" in the sense that the decisions are made and executed for the best interests of the company. The decisions also are subject to strategic, tactical, and operational hierarchies. Basically, the variable that sets them apart from each other is time: a strategic decision involves a

longer time (years) than an operational decision, which impacts the results of a given day.

Competencies are the knowledge and abilities of the staff relating to the various roles they play within the company; namely, the roles of colleagues, supervisors, and reports.

Culture and Leadership are the behaviors of people within a company: the do's and the don'ts.

These four elements are there, regardless of how there designed. Simply put, they are part of the company.

THE PROBLEM

Our contention is that, as wisely pointed out by Chandler, whereas structure follows strategy, we often run into something similar to Fig. 2 below, where organization is separated from the strategy.

As a consequence of the misalignment between strategy and organization, there's confusion, failed goals due to lack of commitment, duplication of efforts among the areas, gray areas in decision-making, assignments or responsibility or incentives that don't exist or are related to nothing in particular, staffs that lack the required competencies, conflicts among the areas, and even finger-pointing among executives. In a nutshell, there is, to a larger or smaller degree, a lack of orderliness in the achievement of objectives, and thus the strategy is quite ineffective when it comes to translating it into results.

What causes that misalignment? On the one hand, it's easier to create a strategy than an organization, and thus many executives overlook the latter task of organizing, which would require them to invest time. On the other, it is a task that lacks glamour or visibility—it is sexier to present a strategy to the Board of governors or a group of analysts, than to work hard and every day on organizational issues. Additionally, organization is a task that requires passion, knowledge, and skills.



FIG.2

One fact remains clear: we cannot assume that an organization is ready and able to execute strategic (or even tactical) changes within itself.

Any change in this regard should first be subject to an analysis of its organizational impact; only then can the relevant changes be made. This is when organizations require the model we are proposing. Let's look at an example.

CASE: SALES AND OPERATIONS PLANNING (S&OP)

The Sales and Operations Planning (S&OP) process involves two key components. The first is a technical and analytical element the objective of which is to find the best solution to balance the requirements of demand and the resources, restrictions, and available resources needed to address such demand. The second, equally important but very often overlooked by organizations, is the element of coordination among the various areas and levels of a company. The process of intensive S&OP with people and organizations is a process that's both horizontal (among commercial and operational areas) and vertical (as relates to validation by senior leadership and by finance), and its objective is to reach consensus and work together in the construction of a collaborative and unique plan (to address demand).

For this process, we can typically identify the opportunities that organizations are facing, as this requires intense interaction among associates, strong group discipline, and a multi-area approach.

Although this process isn't officially conducted at all companies, the types of opportunities that appear are the same ones when it comes to the making of joint operational decisions involving all elements and links within a company, with critically important involvement by senior leaders.

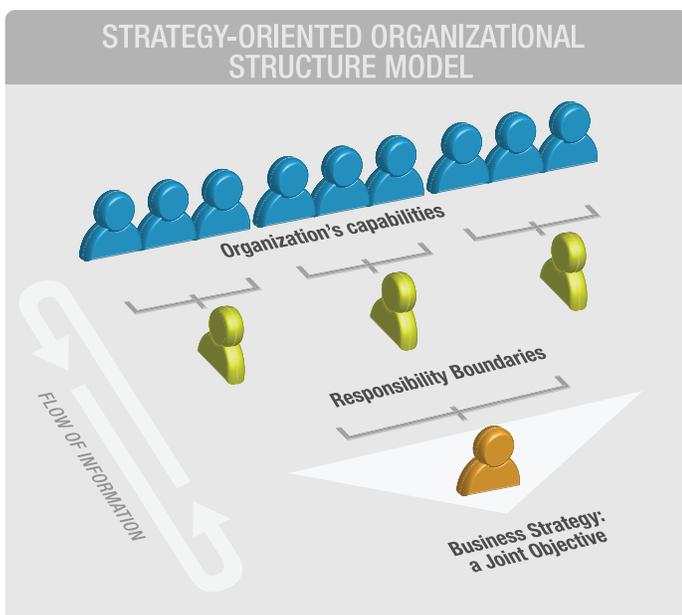


FIG.3

In view of the above, the successful deployment of an S&OP requires a series of basic elements that we have identified in our past experience of designing and implementing this process:

a. Culture and Leadership

- For a team to make joint decisions, it requires transparent and available information, but usually there are lags in the sharing of information throughout the various areas of a company.
- Schedules have been created for the delivery of information, the analysis of processes and the validation of commitments (deliveries, completion of production, etc.), but con-compliance is tolerated.
- The S&OP involves a collaborative quest of the hows and ifs of business results, but company dynamics are conducted separately, seeking to serve internal interests rather than shared goals.

b. Organizational Competencies

- Another significant challenge appears when the belief prevails that the organization is capable of delivering what is asked to do, assuming that it possesses the competencies required to achieve its objectives.
- Frequently there's a general perception of what needs to be done, but such perception isn't exhaustive in terms of the expertise, procedures, and skills required by the job/position in order for all individuals involved in the S&OP process to do and deliver what's expected of them.
- In seeking sustainability over time, there's a need to ensure the roles to follow up on the deployment of the project, through the definition of job profiles, roles, and functions
- There is a need to train, and evaluate as groups, the areas of Sales, Marketing, New Products, Supply Chain, and Finance.

c. Organizational Structure

- The absence of somebody directly responsible for the achievement of the process brings with it the risk of losing sustainability over time because responsibilities and commitment are diluted throughout the organization. For this reason, it's necessary to define the structure that underlies such role, on the basis of an updated S&OP process.

d. Comprehensive Management System

- Management is generally done by links or by area, rather than in a comprehensive manner. It's reactive and retrospective, instead of managing for the future, and for this reason the leaders fail to understand that their involvement and follow-up are crucial.
- A symptom of misalignment to the proposed strategy is the lack of order in the management of objectives, which renders the strategy inoperative when it comes to designating individuals responsible for it.

THE SOLUTION IN A SUCCESS STORY

The situation: The client, a manufacturing company distributing its products nationwide, was undergoing a critical moment in its organization: the implementation of the sales and operations planning (S&OP) process.

The issue: Results weren't being achieved, and it wasn't the first time this happened, because in the past they had run across projects that were initiated but not completed.

Vis-à-vis such a situation, it was extremely important for us to adhere to a methodology that would help us resolve the issues, and to enable that the implementation of the new process would be successfully embraced by the persons that would be impacted by the change.

I first understand, then I exist... An error that organizations make is to design change management strategies without first understanding the following: What is going to be changed? Who will be impacted by the change and to what extent? What's the degree of willingness/resistance to change? And above all, what has triggered such refusal to change (if applicable)? These are elementary questions to be solved before one begins to take action.

We started by diagnosing **the company's Organizational Culture** by means of surveys, focus groups, and one-on-one interviews. Our findings revealed interesting issues...

1. In the commercial area there was a high degree of resistance to change, because in the past they had failed in the implementation of an S&OP process. On another hand, in the Supply Chain area the resistance to change was triggered by their lack of preparedness for change (in terms of training and technical expertise).
2. The commercial and logistics area didn't feel integrated, because they tended to mutually blame each other for product shortages and high inventory levels.
3. The lack of involvement and follow-up by senior leadership demotivated both groups from undergoing the implementation of the process, as they perceived that the even the senior levels hadn't "put their hats on" to try and implement the S&OP process.
4. Generally speaking, the company was used to do things in a certain way, and people were uncomfortable with having to change their routines and ways to work.

Having this information, a change management strategy was generated, which included elements of communication, training, and change activities (such as team-building) in order to punctually address each of the detected areas of opportunity.

The ability of an organization to change depends strongly on its ability to execute the processes that trigger change.

In other words, the success of implementing the new process depends on the "fit" between the description of the new roles **and the competencies (abilities and knowledge)** of the persons responsible for executing new functions.

For this scenario, Sintec possesses the definitions of critical, important, and basic competencies for each of the positions relevant to a S&OP process, and we evaluate the individuals that will be executing the roles in order to establish a transition plan, which involves 4 types of decision-making:

1. **Transform:** The individual has the potential to execute the role, but requires training, coaching, or time learning the process in order to acquire command of the function within a short time period.
2. **Transfer:** The individual does NOT have the required abilities and knowledge, BUT his profile is consistent with other existing roles within his area or elsewhere in the company.
3. **Tolerate:** The individual does NOT have the profile for a role in the S&OP process, but due to external factors beyond our scope of control he or she must be retained in the position, albeit with the clear knowledge that this isn't a long-term solution and that the people responsible and involved in the process will need to make some adjustments to prevent the fact from impacting on the overall success of the process.
4. **Terminate:** The individual does NOT have the profile for a role in the S&OP process, or for any other existing function within the company.

These types of decisions are made on the basis of behavioral studies, knowledge quizzes and recent performance evaluations (provided by the company).

The results helped us to arrive at a clear decision map at the individual level, and the gaps to be addressed along with the transition plan were stated.

At the same time, a tailored **organizational structure was designed** to enable the S&OP strategy/process.

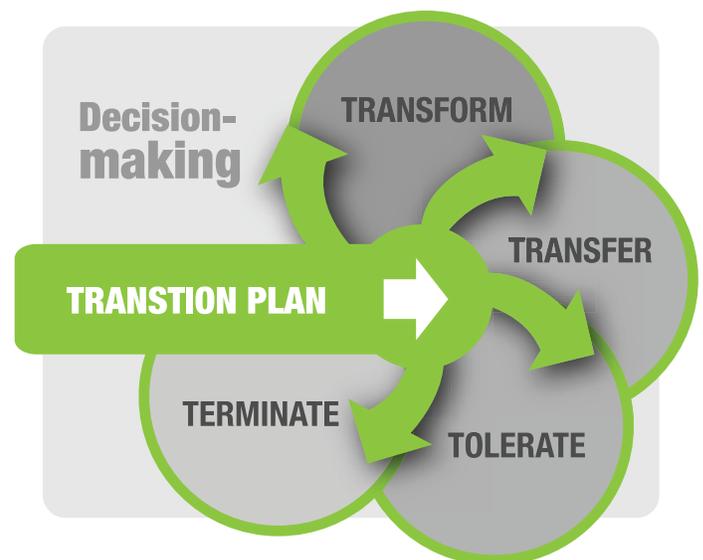


FIG.4

The design included the following components:

1. Definition of Roles and Functions
2. Organizational Chart
3. Control Stage
4. Interactions (within the area and with the rest of the organization)

We did this on the basis of 2 factors:

1. The critical needs of the process: Detection of functions for which there were no existing roles to execute them (such as a demand-planning manager).
2. Industry Benchmark: On the basis of our past experience and organizational design proposals for similar projects.

Lastly, we developed a management system based on routines, indicators, and rules, as well as a schema of meetings, participants and the information that each of them must contribute, the level of detail of the meeting, standard forms, and specific actions in the event of deviations from established rules.

Part of the management system stressed the importance of involving executives in the S&OP meetings. To this end, a calendar was provided that indicated which sessions they must attend, issues to be watched, and items to execute in the event deviations were detected.

Currently the process is flowing in a systematic matter, and although learning curves were required (as it usually happens in similar situations), it is now implemented successfully and sustainably.

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