

Transforming Organizational Performance by Eliminating Value Leakage

Organizational Performance White Paper

By Curt J. Howes

Have you ever developed a breakthrough idea during your early morning half-awake/half-asleep hours before you started the day? As your mind runs wild with new possibilities, you design a perfect product, with a perfect delivery system, with a perfect strategy, with perfect organizational functions, and perfect employees being delivered to perfect customers. In your mind there are no flaws or issues. You wake up excited to start your day, and head to the gym for your early morning workout. On your way home you expand your thinking to how your idea will change the world, you will be highly sought after, you can buy that car you've always wanted. By the end of the week you will be able to put a deposit down on a swimming pool for your back yard.

You arrive home, clean up and head to your office. You grab a note pad and put your thinking to paper! Then it hits you! You have been down this road before. The reality of past failures leads to doubt and the challenges and obstacles start to become apparent. The glitz and glitter of your idea begins to fade, and all the value delivery begins to evaporate. Your experience exposes the holes in your system where the value begins to seep out. You go from an off the charts high to a doubt filled low.

We have all experienced this drama at some time or another in our lives. The challenge is how to keep the vision and develop a performance system that delivers on that vision. The reality is that somewhere between the dream and building the system to deliver the performance, there is leakage and lost value. Before you can lose value, you must define what value delivery is.

Leakage and Lost Value

This phenomenon of leakage and lost value happens frequently in the food supply chain. In the United States the agricultural and food distribution system is unparalleled in the world in meeting market supply with demand. Yet it is estimated that 30 – 40 % of all food ends up in the landfill. The New York Times article (December 12, 2017) "How Much Food Do We Waste -Probably More Than You Think" finds that 1.3 billion tons of food is wasted each year, 1/3 of all that we grow. The amount of food thrown away would feed 190 million adults every day. So where does all this food go? Where does all this food leak out to become waste in our food supply system.

The sources of the waste and leakage are estimated to be:

- Agriculture 33% – ruined product from the field
- Post-Harvest Processing 21% - storage losses/ fungus
- Retail 7% - past due dates/produce thrown out
- Consumption 39% - not eaten, thrown out

This problem of value loss through leakage not only has detrimental effects in the food supply chain, it is a problem that is experienced by every organization. No one plans for this to happen, but it happens. For all organizations, instead of food, it is waste in the delivery system and performance of the

organization regardless of the products and services leading to low quality, errors, wasted time, economic loss, destroyed market cap, accidents and reworks. This happens despite well intended, experienced and allegedly intelligent people. No one plans for 1/3 of the food supply to be wasted, but it happens. In organizations, “value leakage” occurs at each level which is presented in detail below.

The Top – Corporate Level I Value Leakage

Every organization sets a strategy to deliver value for their customers and shareholders. The organization defines their value delivery by their strategic goals. This usually starts with a review of the prior year’s challenges and performance along with an analysis of the external environment factors of markets, customers, economies, competitors, legal requirements, and technology breakthroughs. The strategy is then set at the top with a vision/mission, strategic goals, and budgets. At the top of the organization, this carefully thought through strategy feels perfect for the context within which it is written. Since it hasn’t been executed yet, we will assume it is 100% perfect at this stage - much like the perfect visioning that emerges from our early morning dreams. That is the good news. The bad news is this perfection begins to fade the minute it leaves the corporate office and cascades down through the organization much like a childhood game of telephone. Execution is never as simple as envisioned.

The execution of a strategy is dependent on: 1) the commitment and alignment of the leadership to drive it, 2) the organizations capabilities and operating model to deliver the strategy, 3) the alignment, skills and optimum workforce performance to do the work, 4) the values and culture that shape the right behaviors, 5) the governance and management systems to track and measure performance, and the policies that provide the operating expectations including compliance with laws and regulations, 6) the ability to transform people and organization systems to adapt in a dynamic and fast changing world, and 7) the effective communication across and up and down the organization to facilitate collaboration and quick problem solving and decision making. It all looks good on paper. All seems well until we face the complexity of execution.

As the strategy is sent down the organization from the corporate offices, the leaders wish and hope that the organization will execute as envisioned. Unfortunately, this is not the reality of how organization’s work. Organizations have a performance system, effective and ineffective, based on the seven elements identified above. They are pieces of a puzzle that come together to execute strategies and increase the probability of success. The leaders own both the strategy and the performance system to execute the strategy. Unfortunately, leaders tend to spend more time worrying about developing the strategy, and not enough time building the system that delivers the strategy. An ineffective organizational performance system is the first level cause for leakage in value delivery. This results in Top Level I value leakage from 20 – 30 %. One critical misstep in the execution of the strategy could lead to bankruptcy and 100% leakage. Look what happened to Enron, Worldcom and more recently Radio Shack while Toys R Us, and other retailers struggle to survive! How many are rearranging the chairs on the deck while the ship is sinking?

The Middle - Functional Groups and Level 2 Value Leakage

The strategy needs to translate down through the leaders to each of the functional units. This results in functional objectives with measures that are the basis for defining functional value delivery. All the functions need to be organized for the effective flow of activities and resources (technical system/value chain) within the overall business model for the delivery of value through the operating model. For example, a research center focused on world class discoveries and patents might be achieving what they define as success among their global peers, but if they fail to deliver the research to achieve their

company's strategic goals and operational innovation requirements, then the results will be lost value and leakage to the enterprise. This value leakage would be further exacerbated by ineffective technology transfer from research to operations. All the functions across the value chain including the support functions need to align their contributions to deliver optimum value.

The operative word is contributions to the strategic goals. By translating their strategic contributions into functional objectives and KPI's, they have defined what value creation is for them. Until that alignment is achieved, value leakage will occur. Functional groups, however, often take on a life of their own and define value delivery from their own perspective and not that of their customers. Any work that doesn't contribute to the strategic goals and does not create value for customers is "fake work." On one project I found that only 30% of the strategic objectives set on the performance contracts of senior functional leaders were fully aligned to the strategic goals of the company. Many leaders complain of the silos among functions as each group focuses on their own priorities and lose sight of horizontal interdependencies and linkages, let alone value delivery needs. These issues have surfaced in every company and government agency that I have consulted. So, between the lack of defined aligned contributions, ineffective linkages in the value chain, fake work and silo's, the level 2 value leakage can range from 20 – 60 %.

The Bottom and Human Performance – Level 3 Value Leakage

People function within the performance system operating in their organization. At the individual level, their value is defined by how they contribute to their functional objectives. The late W. Edwards Deming, famous for helping turn the Japanese quality performance system around after World War II and then in the United States in the 80's/90's, exclaimed that the problem is not the people, they want to do quality work, it is the system within which they operate (paraphrased from *Out of the Crisis* – Deming).

Much of the renewed focus on Human Resources is Talent Management-the system of getting the right people (recruiting), in the right job (staffing), at the right time (succession planning), with the right skills (growth and development). However, the more important question is, "what are they doing to deliver value once they get into their job?" The Bureau of Labor Statistics indicates the average American works 8.8 hours every day. However, another study indicates workers are only productive for about 3 of those hours. The most frequent time wasters identified were: reading news websites--1 hour, 5 minutes, checking social media--44 minutes, discussing non-work-related things with co-workers--40 minutes, searching for new jobs--26 minutes, taking smoke breaks--23 minutes, making calls to partners or friends--18 minutes, making hot drinks--17 minutes, texting or instant messaging--14 minutes. (Research taken from a study conducted by www.vouchercloud who polled 1,989 UK office workers all aged over 18 as part of research into the online habits and productivity of workers across the nation). This is not the industrial era where we expect people to work as robots, and knowledge work does require breaks from rigid schedules for creative thinking, nevertheless, this is an enormous loss in performance opportunity.

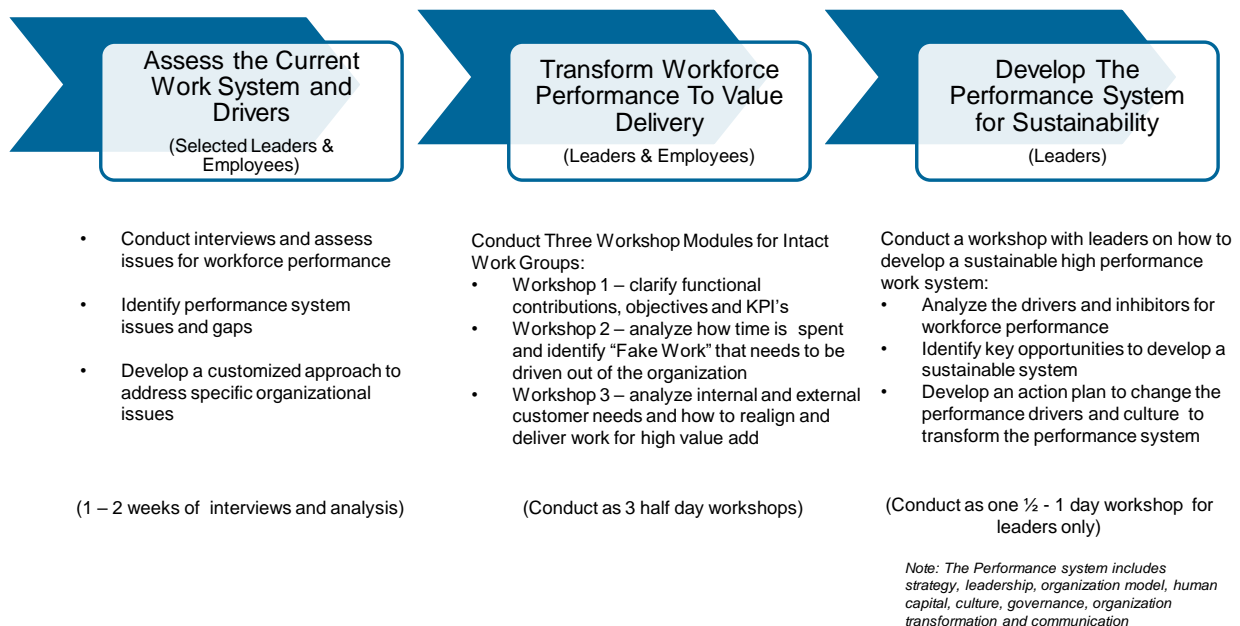
Brent Peterson and Gaylan Nielson found in their research (**Fake Work**) that 73% of employees can't make a connection between the work that they do and the strategies of their organization. Work that does not contribute to the strategy of the organization they call "fake work." A Harvard study found that 95% of workers couldn't make that connection. The motivation of employees and trust in organizational systems continues to deteriorate. Several organizations I've worked with complain that their functions are not aligned to their corporate goals and are doing nonproductive work that wastes

time and eats up valuable resources. Driving out “fake work” is only half the equation. Individuals and teams need to define, through their customers, how to deliver high value-added work, and where possible, extraordinary value. The creation of value delivery needs to be both vertical to the strategic goals and horizontal across the value chain to internal and eventually external customers. One client had a library staff that had not defined their strategic role and contribution to the company - they spent less than 15% of their time delivering real value-added work. The other problem is when unaligned internal customers require input from other internal functions, they double the drain of value leakage. Value leakage at the workforce level ranges from 20 – 85%.

The overall leakage at these three levels is not additive since leakage at one level cascades down to affect leakage at the next level. However, collectively, the leakage can range from 20 – 85%. If people are doing the wrong work, they may feel busy, may be rewarded for what they do, but if it doesn’t create value and deliver the strategies of the organization, it is unaligned, non-value-added work. Their organization’s performance system has failed to deliver the strategy of the organization.

What to Do About It

There is a Three Step process to rectify this problem of Value Leakage from miss-alignment, fake work, low value delivery, and an ineffective performance system as illustrated below:



Step 1: Conduct an overall assessment of the current performance system to frame the extent and nature of the gaps. This can be done through a sampling approach of interviews. Depending on the size of the organization, that can range from 1 - 2 weeks.

Step 2: Conduct a series of three half day workshops for functional groups or leaders of functional groups.

Workshop 1: Developing Strategic Alignment - clarifying contributions to strategic goals, aligned functional objectives and KPI’s

Workshop 2: Driving Out Fake Work - Tracking how work time is spent, identifying “Fake Work” and developing plans to eliminate fake work

Workshop 3: Building in High Value Work – Defining what is valued from the perspective of your customer and developing plans for delivering high value work

Step 3: Develop the Performance System for Sustainability – this is a ½ - full day workshop of leaders to help ensure they have the system in place for sustainable success and address issues that are inhibiting the performance system.

This approach is designed as an efficient high impact approach. The power is doing it with intact functional groups that address their own performance issues as a team while committing to improvements that they collectively control. They hold each other accountable in implementing change plans while monitoring for sustainable results. This process is highly empowering for teams. They move from a focus on completing often routine tasks to delivering value to the company and to their customers. Some issues require a cross organizational focus from corporate to address enterprise wide systemic issues such as an innovation culture, performance management, or customer relationship management.

In Summary

Leaders and employees have good intentions to create great value. However, if the system the leaders create and their employees operate in is not built for sustainable performance, the result will be misaligned with high performance leakage and low value delivery. The recommended approach is very entrepreneurial as work groups take responsibility and ownership for transforming the way they work and how they make a difference. By developing your organization’s performance system, high value delivery will be increased, performance leakage will be diminished, and the strategy will be achieved. Teams will be empowered through a system that keeps the perfect dream alive. What is the value linkage in your function and organization?

Note: The value leakage and fake work estimates are a combination of research and findings from numerous consulting projects.

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