



Capital Markets Consulting

Creating Stability for Dynamic Organizations

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A short history of Organizational Stability

During the first half of the 20th century the structure of companies would remain more or less stable for extended periods. Successive generations would work in the same way for the same company, and even in the same job; children usually followed their parents into the company. There was one way to do the work, developed over the years, and this was usually enforced through a system of strict control and fear. New arrivals at the company would receive their instruction verbally from experienced hands and very little would change until they retired.

Progressive change during the second half of the century saw this trend gradually eroded. With the focus shifting toward short term shareholder return, long term stability became of secondary importance, and relentless attention was given to process efficiency. This inevitably led to staff attrition, forcing workforce mobility across Organizations, and the consequential loss of knowledge. As literacy skills improved then written procedures were created to fill the gap, but really only addressed a small element of what the Organizations were losing, and failed to address the loss of culture, heritage and overall 'reason for being' that used to connect the aims of the company with the individual employee.

Fast forward to the present day, and we find ourselves in period which is seeing an even more accelerated pace of business change. Influenced by falling margins due to greater competition, the constant push for increased shareholder value, and the ready availability of globalization opportunities, Organizations are constantly looking for ways to improve their business model. Organizational change, an activity that was previously avoided, has become as regular event, processes are repeatedly 'leaned', just in case there is fat left, and in a twist of irony when simplicity is the aim, governance is layered upon governance, sometimes with unfathomable complexity.

Creating an Organizational Vacuum

There is no indication that this pace of change will reduce, indeed the opposite is true. With Organizational behaviour driven by their financial strategy, coupled with the ease of access to workforce globalisation, companies who once took years to outsource to lower cost base economies can now move production within months to whoever is cheapest at that time.

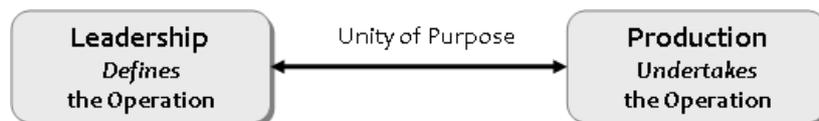
The problem, in many cases, is that whilst their strategy is 'pulling' them strongly in one direction, they do not have a robust Organizational foundation, to provide the corresponding 'push' to achieve that strategy. The result can best be described as an *Organizational vacuum*

There are striking similarities to financial management in this situation. In the same way that a strong financial base is necessary when a company embarks on extensive trading, or risk overtrading due to insufficient liquidity, so it is just as important to establish a scalable operating structure. *Organizational over-trading* occurs where the supporting structures are inadequate to handle the vacuum caused by the volume or complexity of change. Unlike financial overtrading though, where the impact is usually self-evident from unpaid tax or escalating borrowings, the effects can be well hidden, usually masked by employees' individual efforts to hold the company together and fill the void.

So the question for progressive, ambitious, Organizations is clear; how can their leaders create a dynamic environment; one which can adapt quickly to new challenges and opportunities, but that will also provide the stability vital for the long term health of their Organization?

Identifying the Organizational Elements

Throughout history, the common feature of all Organizations is the interaction between those who define what needs to be done, and those who actually do it. Understanding the interaction between these two elements is fundamental to the creation of a dynamic environment.



1/ Leadership

In all Organizations, there is a Leadership element. This is not to be confused with 'management' for the following reasons. Leadership as is about setting the direction of the Organization, monitoring the progress, and changing direction based on external and internal influences. Leadership has to be far-sighted as without a clear strategy the Organization quickly becomes confused, bloated and prone to failure.

Leadership is an element not a role, and so can be satisfied in a number of ways. Many small companies are led quite adequately by an individual, but once it expands past the size where 'ad hoc' is acceptable, leadership also needs to expand to maintain its reach into the Organization.

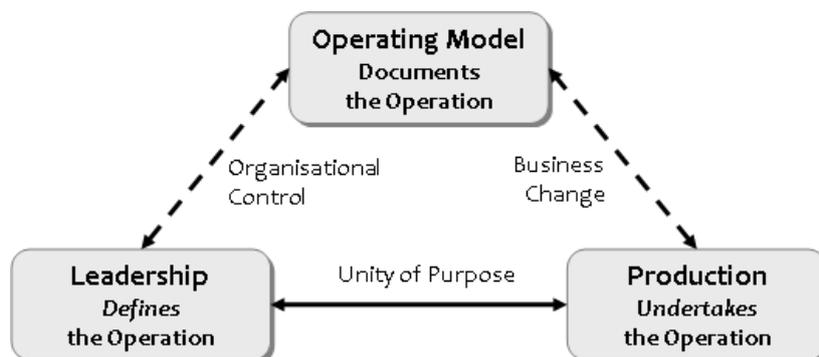
2/ Production

The Production element does the work of the Organization. This may appear to be just the 'shop floor' tasks, but in reality it will include any activity that contributes to the delivery of the Operation. So to highlight a point mentioned earlier, it includes all managerial tasks. Production is responsible for the day to day delivery of the operation. It is the engine room, and failure of Production to deliver results in the failure of the Organization as a whole.

Bridging the Leadership and Production Interface

As you can see, it is quite reasonable in a small organization for there to be a direct link between the leadership roles and the production elements; it could even be the same person. The unity of purpose is easy to maintain. When there is a change in direction or conversely when production issues signal a strategic change, then the short span between leadership and production allows dynamic change to occur without any formal frameworks. But what happens when the Organization has developed its own critical mass, where the inertia of growth has taken it past the point where the unity of purpose can be maintained informally, and where change cannot continue without a framework. The direct interface between Leadership and Production becomes the restricting factor within the Organization and puts both parties under strain.

The vital framework that links together the Organization is the Operating Model.



The **Operating Model** maintains Unity of Purpose between the Leadership and Production elements by creating an effective reference point for both. It collects and tightly holds everything that defines how the Organization lives and breaths. It can evolve, but at that exact point in time, it is the one version for how things are done! If the Operating Model does not exist, or is not controlled, then the Organization descends into chaos.

The **Operating Model** is a tool of **Leadership** and for that it serves two purposes:

- to play out new ideas and test strategic decisions before deploying as business change
- to articulate how **Production** should operate, facilitate assessments against actual activity, and manage changes to that activity

Without the **Operating Model**, **Leadership** have no effective Organizational control over **Production**.

The **Operating Model** is also a tool of **Production**, used to achieve the following:

- a reference base; a defined way of working, with a clear articulation of what to do, when, and by who
- a mechanism to relay their experience back to *leadership*, and enabling them to make suggestions to improve. The Operating Model gives **Production** the means to have their voice heard!

By fulfilling these four interlocking purposes the **Operating Model** becomes the bridge between **Leadership** and **Production**, giving **Leadership** the confidence that **Production** are working as intended, and giving **Production** the certainty that how they operate is correct.

Summary

This paper set out to show that for an Organization to be dynamic in its ability to change and develop; it must have core stability, or risk failure. We've seen how Leadership, Production, and the Operating Model are the 'Organizational Triad', each having their part to play in maintaining the stability of the operation, and ensuring that there isn't an Organizational vacuum created during periods of change.

We have seen how, by creating a stable reference point, the Unity of Purpose necessary between Leadership and Production can be maintained in even the most complex of situations, and how that will provide ongoing assurance to both sides.

The next paper in the CMC series will investigate the components of the Operating Model, how they interlock to deliver a complete picture of the Organization, and how it is possible to develop a staged approach to Organizational maturity.



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