



The Cardinal Rule of Successful Organization Improvement

by Mark Nyman

Clarity about what you are optimizing provides needed context for everything you do.

By definition, a cardinal rule is a rule on which all other rules hinge. It provides context and serves as a starting point. In our experience, the cardinal rule of all organization improvement work is, **be clear about what you are optimizing**. This rule is true if you are going through large scale transformation, doing process improvement, applying six sigma, designing a performance management process, clarifying roles and responsibilities, implementing agile teams, going through functional redesign, etc.

The reason it is the cardinal rule is obvious; without being clear about what needs to be optimized, it is easy to make improvements in one part of the organization that have little overall impact or even make things worse in another part of the organization. Several examples will demonstrate this issue.

A global retail company was growing quickly but periodically struggled with excess inventory. On one occasion the inventory was high enough that the company was forced to take a write off

and even dispose of inventory. The supply chain team responded by restricting supply to the global markets. They successfully dealt with the problem of excess inventory which was good news. The bad news was, products were sometimes not available and the market leaders complained about lost sales and unhappy customers. At the end of the year the supply chain folks were awarded bonuses for the way they contained cost and the markets missed out on bonuses because they lost sales and did not meet their targets.

In another example, a multi business enterprise had 3 major business lines, each of which required printed material for their products. Years ago they developed the internal capacity to do their own printing as a way to lower costs. The measures of efficiency in the printing organization are predicated upon high volume and standard product with long print runs. As the world has become increasingly digital, the business lines are requiring less printed material, shorter runs, and greater customization in what gets printed. There is continual tension between these work groups because what the business lines need is at odds with what a stand-alone printing business would want to improve and measure.

An HR organization spent several years and significant capital implementing a new “manager self-serve” program that enabled managers to access employee information

and make many simple employee updates at their desk rather than making requests of the HR organization. The intent was to implement it in a way that made life easier for both HR and the managers. As it turned out, HR passed along a significant amount of transactional work that complicated and frustrated managers.

Far too often organization improvement work is done in isolation without understanding the impact it has on the larger system. The problem is often caused by the organization not being clear about its strategy and also by functions and work groups striving to be “world class” based upon external definitions that don’t fit the business need. In each of the above examples there was confusion over what the ultimate goal was – what was being optimized? The individual goals each had merit: managing inventory cost, driving global sales, utilizing fixed cost assets, customizing to meet customer needs, and reducing transactional costs. These are the kind of topics that every organization needs to pay attention to. **However, when optimizing various parts of an organization, it guarantees that the whole will be sub-optimized.** You cannot achieve optimum performance without knowing what you are aligning with.

I often describe this as being clear about which direction requirements flow. In other words, does supply chain drive the

requirements for retail distribution or does sales demand determine what supply chain needs to do? Is the goal to make printing as efficient as possible or is the ultimate goal to get customized print in the hands of customers? Is the goal to make transactional HR work easier for HR or is it make life easier for managers? When requirements flow equally both directions, it nullifies the ability to optimize the organization and create alignment.

The key to understanding what you are optimizing is found by looking externally - what are customers demanding and what differentiates you from competitors? What are the key trends that will drive your busi-

ness in the coming years? The answer to these "outside in" questions gives you the answer to what needs to be optimized.

The benefits of being clear about what work you are optimizing is far reaching. Knowing what you are optimizing has significant impact on where you invest capital, what you measure, and what you reward. It is the starting point for your business strategy, provides guidelines for what opportunities to pursue and when to say no, and even helps determine how many business lines you are in. It drives your talent strategy and succession plan. It has huge ramifications for how you design your organization, how you create roles

and responsibilities, how to think about work processes, and what support systems matter. **In short, clarity about what you are optimizing provides needed context for everything you do.**

I was recently having a conversation with a business leader who said, "what you see depends upon where you sit." His point was that everyone is trying to optimize their own world without regard to the broader impact. While his comment is often accurate, it does not have to be. Doing organization improvement work with clarity about what you are optimizing can be done and will lead to better results.