High Performance Organizations Today:

A three-part series of articles reviewing the current state of the art

Part II: How do they work?

HIGH PERFORMANCE ORGANIZATIONS TODAY

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Leaders want to know what it is that makes a difference between high performers and those who fall short.

THE JOURNEY TO BECOME AN HPO

In Part I we reviewed the global research conducted by Dr. André de Waal on HPOs that validated the five success factors that separate HPOs from their peers. Companies like Ritz-Carlton and Toyota illustrate in real life why HPOs are so special to all their stakeholders.

But to truly understand how HPOs differentiate themselves from more traditional organizations, we must begin by understanding the big picture – the path they have traveled to land where they are today. HPOs take a true systems approach to organizing themselves. They start by defining their key customers/stakeholders and identifying what they really expect from them. Then they move forward by shaping many different elements into a confluence of principles, people, and systems that enables them to reach heights unexcelled in their industries. This mountain graphic is a metaphor of their journey:

The goal of the HPO is to ascend to the mountain's summit, to be at the top of its industry. Here are the milestones in this journey to the top:

- **Leadership:** business leaders must truly commit to overcoming the challenges and marking the path for all associates to reach the top. This means they are passionate about learning from the market, competition, and all associates what they have to do in order to reach the mountain's summit. It means they must earn and maintain the trust of all associates. Leaders must be open to change and have the courage to change what they are doing as environmental conditions (i.e., economic downturns, new competition), new opportunities, or improvement ideas come to them.

- **Value-Driven Purpose:** leaders define a clear pathway to the top. A distinctive business strategy, core operating values, and clear expectations all serve to help associates know what they need to do at each milestone of the journey.

- **People:** HPOs are produced by High Performing People. These associates must possess the critical competencies to deliver the promises made by a value-driven purpose. They must be committed to that purpose and (like their leaders) also be open to change what they are doing

based on external changes, new opportunities, and continuous improvement ideas.

- **Processes:** Peter Drucker once said, *"Plans are only good intentions unless they immediately degenerate into hard work."* HPOs do the hard work, starting by carefully defining their work processes and continuously improving them à la *The Toyota Way*. But it is not just the core assembly line at Toyota or the front desk registration process at Ritz-Carlton that is carefully designed. All work tasks are part of a process and all processes are designed to fulfill the core needs of the customers. HPOs design and continuously improve their processes for closer customer connections, for working with each supplier, for innovation, for safety, for product development, and for everything they do.

- **Systems:** just as all work tasks are part of a process, so are all processes part of larger systems or networks of organizational units, resources, and information. The governing principle of a system is that each of its elements must fit into the overall order of things. A system that maintains order will survive all manner of disturbances or change. When the order breaks down, the system falls apart and dies.

The bottom line of this mountain journey metaphor: the elements must all be in place and functioning in alignment with each other in order to reach the top. It is a journey, not a quick stopover. Start from scratch and this journey may easily take three to five years to reach the top. The more elements you have in place today, the faster you can reach your goal.

SPECIFIC DESIGN PRINCIPLES OF HPOs: "the devil is in the details"

Let's examine nine specific principles that are the foundation of the HPO framework. These principles have been distilled from discussions with Jeff Liker, André de Waal, and The HPO Global Alliance's David Hanna. We have found in our own unique experiences that these commonalities show up time and again in the true HPOs. Resist the temptation to apply these in isolation. Melding them together creates a whole that is significantly greater than the sum of their parts.

1. Systems Thinking: an organization is a system and is sustained by how well its parts are aligned to the same value-driven purpose. Systems thinking means you view all tasks as parts of a larger process and all individuals/departments as part of a larger team effort. Here is an illustration of a supply chain system:

The system is comprised of multiple stakeholders, diverse geographical locations, different tasks and services, and a myriad of issues to be addressed each day. Remember the principle of synergy: the whole
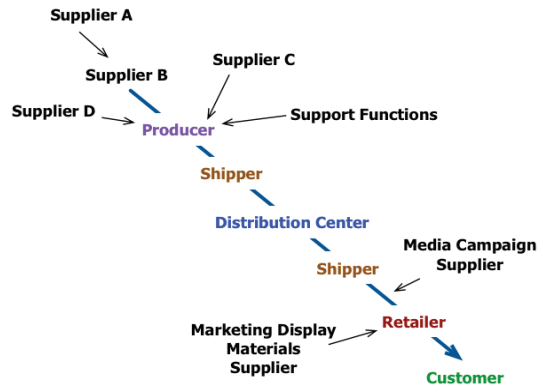
is greater (and different) than the sum of its parts. Attempts to optimize any one part of the system may sub-optimize the whole. Thinking systemically is a complex skill. Managing to meet the needs of the whole system runs counter to the traditional bureaucratic model of focusing on the smallest possible part.

2. Value-Driven Purpose (customers, quality, safety): an organization's survival depends on the support of key stakeholders such as customers, suppliers, associates, and society at large. HPOs frame their very purpose to deliver high quality solutions and a safer lifestyle to their customers and other stakeholders. Those who truly deliver this will have as much business as they want.
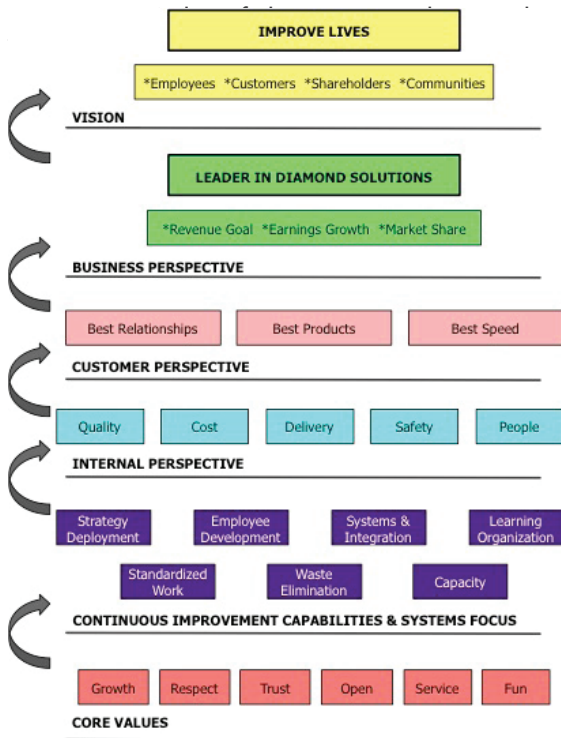
Deriving such a purpose calls for a review of all critical stakeholder needs and focusing the organization on the critical few that will make or break success. This review must include looking at the broader needs of society and the environment, not merely those associated with the producing of your product or the delivering of your services.

A key point to remember with purpose is that value is in the eyes of the receiver. Your results in the marketplace depend on how your products and services are valued by your customers and other stakeholders.

The company's purpose is most powerful when it links the values of the external stakeholders with those of the associates inside the company. Many companies have strategies and mission statements. Far fewer have value-driven purposes that truly link critical external needs with those of their own associates.

This graphic is a good example of a value-driven purpose from Shingo prize winner US Synthetic (USS), the world's leading producer of polycarbonate diamond cutters used in oil and geological drilling industries.
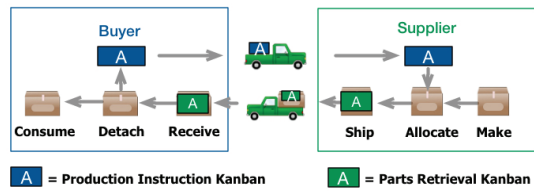
USS's "Strategy Tree" occupies a prominent place in the heart of its operational center, serving as a

VISION
IMPROVE LIVES
*Employees *Customers *Shareholders *Communities

LEADER IN DIAMOND SOLUTIONS
*Revenue Goal *Earnings Growth *Market Share

BUSINESS PERSPECTIVE

Best Relationships | Best Products | Best Speed

CUSTOMER PERSPECTIVE

Quality | Cost | Delivery | Safety | People

INTERNAL PERSPECTIVE

Strategy Deployment | Employee Development | Systems & Integration | Learning Organization
Standardized Work | Waste Elimination | Capacity

CONTINUOUS IMPROVEMENT CAPABILITIES & SYSTEMS FOCUS

Growth | Respect | Trust | Open | Service | Fun

CORE VALUES

Founder Louis Pope built USS on the foundation of core values: growth, respect, trust, (be) open, service, and fun. These core values have made it natural for the company to link up with principles of lean production that they have labeled continuous improvement capabilities and systems focus. This focus is translated into a hoped-for internal perspective for each USS associate: quality, cost, delivery, safety, and people. If the associates deliver these things, this will build a customer perspective that USS delivers the best relationships, the best products, at the best speed in the industry. When customers believe this, it leads naturally to the business perspective of USS being the leader in providing diamond solutions with strong financial returns. Industry leadership is a major factor in USS being able to fulfill its ultimate vision: to improve lives of employees, customers, shareholders, and communities.

3. Deep Technical Mastery: individual associates develop deep technical mastery, beginning in one area of the work process. Those who become highly skilled and self-sufficient in their area are designated "area owners." In time an area owner may rotate to other areas of the work process and develop area ownership competencies in those areas as well.

4. Balanced Workflow: work is organized as a continuous process aiming to eliminate waste, maintain level workloads, and give customers what they need, when they need it, and in the right quantity. Toyota, with its Kanban system, has pioneered the methodologies of a balanced workflow.

Buyer: Consume | Detach | Receive
Supplier: Ship | Allocate | Make
A = Production Instruction Kanban   A = Parts Retrieval Kanban

These are a few of the Toyota principles that have shaped the Kanban system:

- Create continuous process flow to bring problems to the surface.
- Use "pull" systems to avoid overproduction. (Production Instruction Kanban above)
- Level out the workload. (Parts Retrieval Kanban above)
- Use only reliable, thoroughly tested technology that serves your people and processes.

5. Run To Target: process standards are established as current best practices. Associates aim to meet these standards today and to find ways to raise the bar for tomorrow.

A True Control Chart
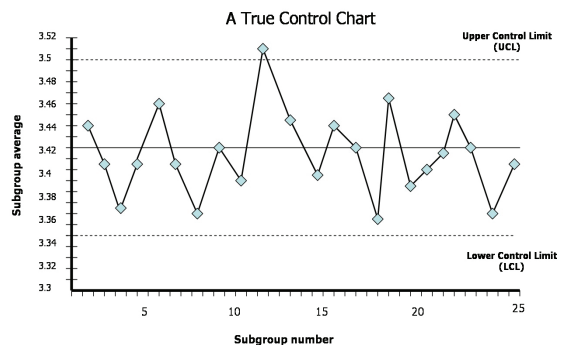
HPOs understand they are high performers only as long as they meet their customers' needs much better than competitors' offerings. Therefore, they are disciplined and passionate at gathering customers' feedback and using their needs and expectations to set performance standards for the organization.

Once the standards have been established, HPOs are passionate to deliver what they promise to their customers. In doing so, however, they do not fall into the trap of delivering ONLY what the customers ask for today. HPOs meet their committed standards, but they do not confuse these standards with bureaucracy's target of doing work the "one best way."

6. Teams and Collaboration: balanced work processes are the HPO's technical systems; teams are its basic organizational systems for accomplishing the work. Teams are organized to best align those individuals who work in the various areas of the work process. Teams also make it

easier for individuals to collaborate and level out each other's workload. Those who are connected in a daily delivery process are organized into work teams. Those who need to collaborate in strategic or project support of the work teams are organized into functional or multifunctional teams.

The teams obliterate the bureaucratic models of "one person-one job" and "supervisor-worker," replacing them with flexible roles and proximity to collaborate as needed.

7. Leaders add value: managers add the most value to a system by ensuring accountability and technical mastery by those who work together in the core processes and by coaching these associates in the processes of continuous improvement.

A Coaching Kata process, developed by Mike Rother based on Toyota's system, aligns the manager's role with the core team's operation, accountability, target setting, and continuous improvement. The Kata process requires first-level managers to thoroughly know the work processes they are accountable for, to interact daily with their team members in their workplace, and to receive updates on the progress being made.

As the organization matures and each associate has achieved technical mastery in multiple areas in the core process, then some associates may assume leadership roles that initially have been fulfilled by

managers. Coordinating the team's performance in safety, quality, administration, technical projects, and cost control are some examples of these leadership roles.

The ideal state of a core team is to become self sufficient. This is not to be confused with the labels of "self-directed" or self-managed." A self-sufficient team is one that can operate and manage its core process on a daily basis with very little, if any, external supervision. Team members deliver outstanding business results, align their efforts with the needs of those upstream and downstream from their team, and adapt as necessary to changing targets and requirements.

8. Problems are solved at their source: because problems are solved most quickly and efficiently at their source, the roles, responsibilities, competencies, and accountability for solving problems are given to those closest to them.

This element translates into the principle of self-sufficiency at all levels of the organization:

- Individual mastery results in self-sufficiency for daily tasks in an area.

- A team that is made up of self-sufficient individuals and develops additional mastery in team leadership functions is self-sufficient in daily operations.
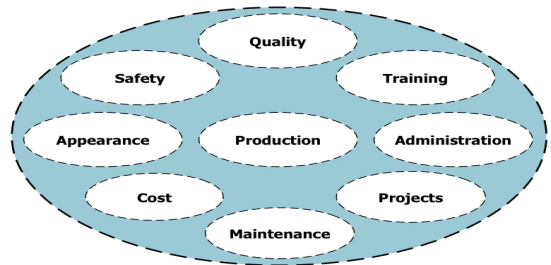
- A self-sufficient department or function is made up of individuals and teams who can accomplish their routine work without relying on others' expertise.

- A self-sufficient plant or business unit has the collective skills and resources to manage its business with minimal external support and supervision.Solving problems at their source reduces cycle time, cuts waste, trims costs, and accelerates continuous improvement, associate flexibility, and engagement.

9. Continuous Improvement/Innovation: this element prevents "Run To Target" from becoming a bureaucratic straitjacket. The passion for this element starts at the top of the organization, and cascades downward until all associates are committed, passionate, and equipped with tools for continuously innovating and improving how they work and the results they deliver to their internal

and external customers.

Associates in HPOs use a vast array of tools such as Strategy Deployment, The Plan-Do-Check-Act Cycle, Visual Management Systems, Stakeholder Feedback Systems, and Organizational Diagnosis processes to analyze their work processes and to identify points of waste, rework, or faulty outputs.

Just as important as the individual tools are managers who encourage innovative thinking and who coach improvement every day. Another strong factor is peer pressure in which associates hold each other accountable for delivering excellent results, contributing continuous improvement ideas, and implementing these ideas.

HPOS ARE ALIGNED SYSTEMS

The previous nine principles are essential so that the organization is aligned to deliver the five key high performance factors found in André de Waal's research.

This diagram illustrates the power of aligned principles to shape the HPO. Notice how some of the principles drive more than one factor. This is an example of synergy; the collective force of the nine principles is far greater than their singular force.
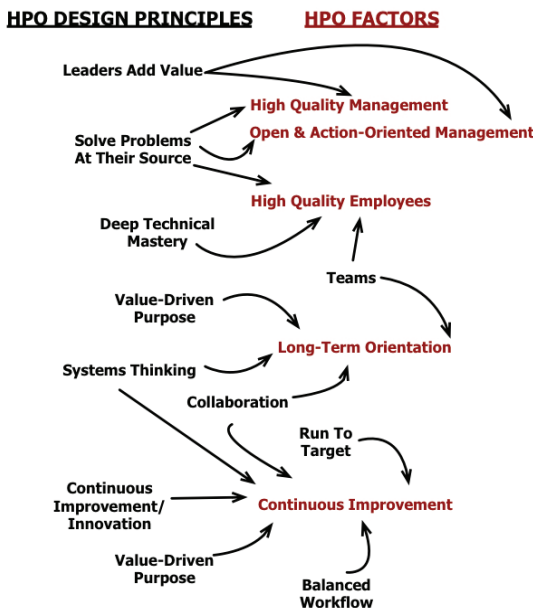
Systems dynamics research has shown that the more factors that impact a system (like organizational culture), the greater the likelihood of changing that system.

One final note on the alignment of HPO design principles and HPO factors: their collective strength not only enables the organization to reach the summit of today's target peak, but also to be successful in scaling the next higher peak and the one after that as the marketplace evolves further.

CONCLUSION

HPOs are perfectly designed to get the results they get. This design is an alignment of the nine design principles leading to the research-validated HPO factors that deliver superior business results.

As if the journey to become an HPO and the aligning of the nine design principles weren't enough of a challenge, there is one final ingredient that too often is missing in developing HPOs.

This "missing ingredient" will be examined in Part III.