



# Briefings

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## The 3rd Millennium Organization

### Introduction

The 90's were a time of unprecedented organizational thrashing. Holding companies were divesting. Focused companies were merging. Waves of layoffs were followed within months by hiring as sales turned around. Management was restructured, and then the reorganization was reorganized.

Executive leadership was looking for the "silver bullet." It began with the "search for excellence." Next were programs such as TQM or reengineering that have been adopted with zeal, then left to fizzle with a "this too shall pass" attitude from staff.

Yet organizations are improving their operational efficiency, increasing their focus on customers, and becoming more lean and targeted on business results. Management has done this by experimenting with a variety of tactics, using a combination of the latest buzzword tools: right-sizing, outsourcing, continuous quality improvement, process reengineering, and human resources development.

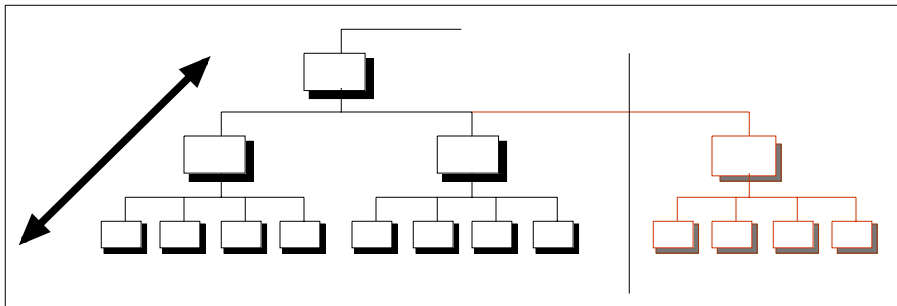
These mid-morph organizations are in the midst of dramatic changes, but moving towards what target? The structure required for the new millenium requires an unprecedented flexibility, demands retention of critical core talent, and must provide unparalleled competitive efficiencies.

The organization of today and tomorrow must be structured based upon a new definition of "core competencies." It will be able to "accordion" up and down as business volumes demand. It will employ different categories of workers with vastly different needs, and with very different management requirements. It will be a "3rd Millennium Organization."

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## The Classic Hierarchy Structure

No matter how much advanced structural thinking has taken place, most organizations are little different in design than the Roman army or a 19th century railroad. Many of the old leaders who designed today's businesses came out of the military hierarchy of World War II. The result is a readily-drawn organizational chart showing the reporting hierarchy with well-defined responsibilities at each level.



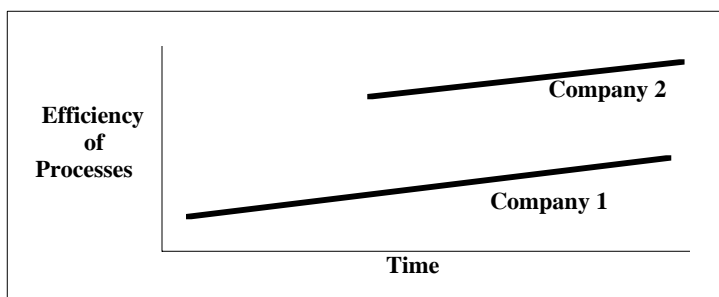
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In this organization, it is easy to expand or contract. Need another sales region? Add an office, a regional V.P., duplicate the staff, and populate the territories as needed. Communications is not so convenient, traveling slowly up and down the hierarchy and moving laterally only when paths join at higher levels. Customer service also suffers, since often no one “owns” an entire process.

## Continuous Quality Improvement

Foreign competitors have shown how powerful decades of continuous quality improvement can be. The TQM philosophy of “do it right the first time, every time” makes certain that processes work the way they were designed. Leading U.S. companies took this to new heights with a Six Sigma and Second-Generation Six Sigma approaches focusing on increasing customer satisfaction, reducing cycle time and minimizing error rates.

A limitation of the quality movement is the dependence upon existing processes. For example, ISO 9000 audits certify that essential processes are in place and working, not that the processes are particularly efficient.



Consequently, programs such as Baldrige have increased the emphasis on improving business results. Still, start with a poor structure and outdated processes like Company 1 above, and the continuous improvement approach will have difficulty catching up with a Company 2 that started later and with vastly better processes.

## Downsizing

Many companies have given up trying to radically improve processes from the top down. Instead of changing processes and then adjusting staff to fit, management simply lays off a percentage of the workforce and figures that processes will have to change by fiat. The unimportant will quit getting done because there is no time or no one to do it.

There is a price for this “easy way out.” Many non-essential tasks are eliminated, but so are many important tasks. Plus, the incentive approach to downsizing is a classic *Dilbert* joke, “Let’s actually pay our most experienced people to leave.”

These organizations have suffered through a reverse selection process where many of their most talented employees take the money and run to a new career ... or to a competitor. The XX% of people downsized contains far too many employees that organization didn’t want to lose. And many of those remaining are the ones that wouldn’t be competitive on the open job market, the non-risk takers.

## Reengineering

For awhile it appeared that the solution was to change the way processes were redesigned. Management took a lesson from startups and late competitive entries that had no historical structural baggage to undo, who could organize themselves properly from the beginning. Organizations could produce dramatic, radical, major changes in efficiencies and services with reengineering. Unfortunately, these radical process changes were also catastrophic.

Reengineering has proven very difficult to accomplish. Personnel, especially middle management, is an impediment. Organizations have to redesign critical processes and systems from the ground up, then transition from the old system to the reengineered one. The sheer weight and complexity of this effort generates mixed results. Some organizations have achieved enormous gains. Others have spent millions of dollars and failed.

## What’s Needed

All of the above approaches to organizational structure and process improvement have value. Each is being used today to drive business results. Yet none alone provides organizations with a *complete* solution for successfully driving change.

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A 3rd Millennium structure must do the following:

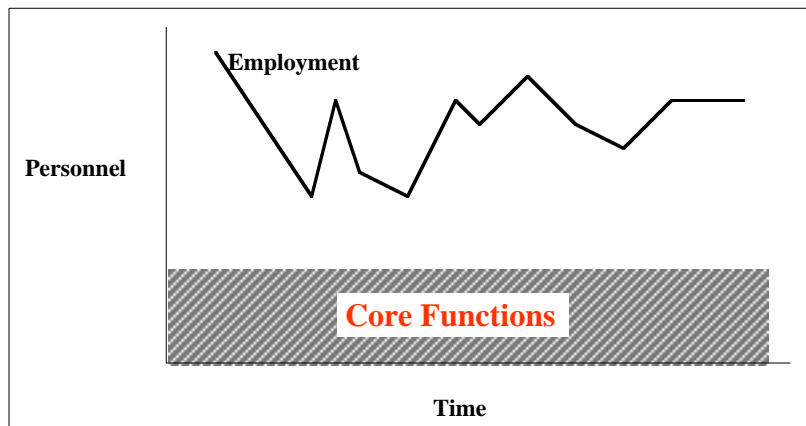
- Allow organizations to rightsize up and down quickly
- Retain critical employees
- Focus on core business issues
- Reengineer processes by replacing them completely
- Leverage efficiencies of the competencies of others

It begins by identifying “core functions.”

### Solution: Identifying Core Functions

Organizations must identify those activities that are core functions vs. those that have potential for handling with something other than permanent, full-time employees. For example, a large consumer beverage firm laid off 10 percent of its workforce across the board—about 1,000 people. It lost a large number of talented people, employees who were critical to the success of the firm, who took the buyout and moved on to the next career.

The key question is: “Which departments (or employees) really need to understand our business?” In the example above, non-core departments might include: shipping/receiving, security, the mail room, auditing, printing/graphics, building maintenance, much of MIS, human resources, purchasing, engineering, legal and more.



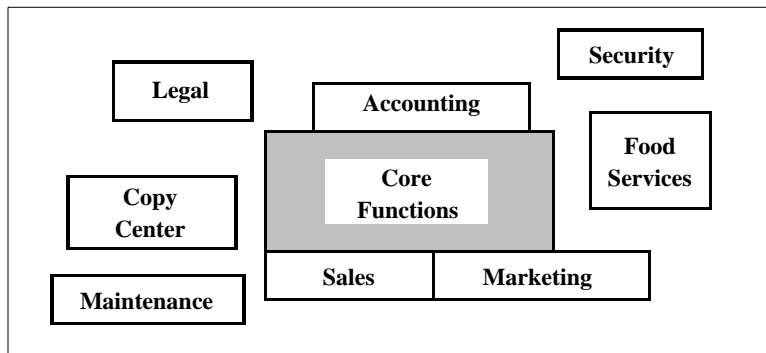
Core departments might be: sales, product marketing, wholesaler operations, strategic planning, advertising, public relations, etc. Assuming the right people are in place, these are *essential* workgroups that have the specialized, hard to develop or duplicate knowledge and skills *critical* to the success of the organization. *These are a permanent part of the organization separate from the ebb and flow of business requirements.*

### Solution: A New Structure for the 3rd Millennium

Many organizations are implementing elements of this strategy, but few have taken it to its ultimate conclusion. This is far more than selective

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outsourcing or temporary employees in ones and twos. It is a complete fundamental shift in looking at an organization's permanent components.



The easiest and least expensive way to reengineer processes is to have someone else do them – preferable someone with economies of scale and additional expertise in the non-core area. The fastest and least expensive way to rightsize is to make it a vendor responsibility, where the partner can readily redeploy excess workers to other contracts.

In the consumer beverage firm example above, about 2,000 headquarters employees were estimated to work in core departments. The remaining 8,000 employees are all potential candidates for an alternative form of employment.

The single characteristic for this alternative employment is *flexibility*. The organization must be able to easily rightsize itself and quickly take advantage of new processes or the efficiencies of specialists. It is likely a combination of many alternative employment strategies ... employee leasing, temporary employees, part-time employees, contractors, job sharing and so on.

These new employee types create a host of challenges to management. There are now several classes of employees working in an organization, all having effects on internal and external customers. How are they acquired and released? Where are their loyalties? How will they be indoctrinated into the culture and procedures of the organization? What is the orientation process? How are they assigned work, managed and reviewed? What is the performance remediation process? All this requires very different procedures relative to permanent, core employees.

### Solution: A New Management Function

Managing this new structure of a 3rd Millennium organization is a full-time job. Researchers are now talking about a new executive level position, the Chief Resource Officer (CRO). The CRO's role is to consolidate the management of the new employee and vendor relationships that are distributed throughout the organization.

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The Office of the CRO (or its functional equivalent in an existing department) contains the specialized skills and knowledge required to avoid the cost and performance problems organizations have encountered from improperly managed relationships. It centralizes and professionalizes the management of alternative resources.

For example, one organization found it was utilizing over 50 printing firms across all its headquarters departments. Significant service and cost savings were obtained by consolidating to several printers. Another firm realized it had made a mistake by letting the MIS department manage an outsourcing contract. The technology professionals were not skilled in contract negotiating and fulfillment.

The CRO function handles unique issues such as core/non-core determinations, vendor research and selection, alternative employee orientation, and vendor partner performance measurement and management. It makes these decisions as part of a coherent strategy for utilizing the best possible processes with the right number of people.

This is how the 3rd Millennium organization will remain nimble and cost effective in Y2K and beyond.

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