

5 Building high-performance organizations

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Knowing is not enough, we must apply. Willing is not enough, we must do.

—Goethe

THIS BOOK IS ANCHORED IN THE FACT that trust is the product of relationships—relationships between individuals, between top management and the entry-level workforce, and between citizens and government. Consider, however, the following two situations. You are the top manager of a large Navy industrial facility that must improve performance dramatically or be closed. To accomplish this, you have to downsize the civilian workforce by half or more and set aside years of tradition to change production processes. And you must do so while dealing with multiple unions. Or you have just become city manager in a medium-sized eastern city. The city council is supportive but is pushing for the city to be more responsive to rapidly evolving public needs for services and the public's demand for more participation in decisions. At the same time, however, you have inherited a set of senior managers focused exclusively downward into their own units; the mindset of the organization is largely "stovepiped"; it's "our unit first and the heck with everyone else." These are real scenarios faced by managers in organizations we have worked with over the past thirty years. How do you build and maintain trust in situations like these? Managers will often say, "I have a technical background! No one prepared me to deal with this kind of challenge!"

Such reactions supply the departure point for this chapter, which distills lessons found in the literature and applied practice base from the fields of organizational development, change management, and process improvement

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to produce a handy roadmap leading to higher performance. Our approach—which we call the high-performance organizations (HPO) diagnostic/change model—assumes that (1) after years of observation, federal, state, and local government and nonprofit organization managers and employees are experts on their own organizations; but (2) they may not have been exposed to an extensive organizational theory background and so need a framework to effect change; and (3) they want to be part of a positive change process, continually driving their organizations toward becoming higher performing organizations.

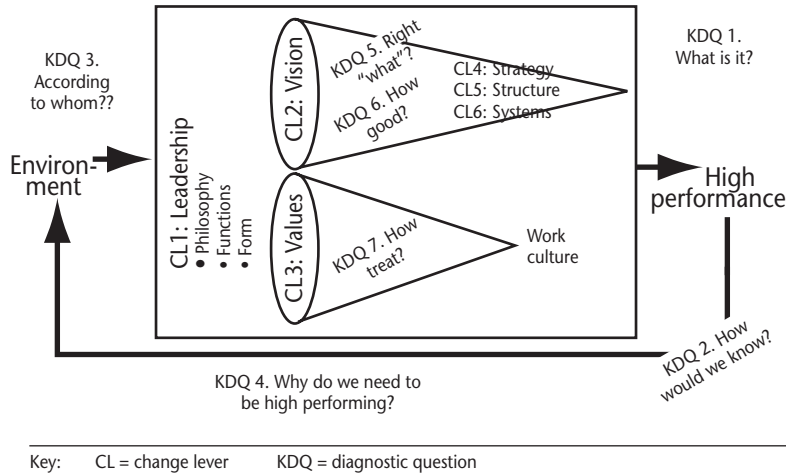
The HPO diagnostic/change model

The high-performance organization diagnostic/change model was developed in the early 1990s and has been evolving ever since, as we work with organizations. The academic theory and applied lessons from well-run organizations that underpin the model are not new. They are loosely based on the causal model of Rensis Likert, a pioneer in organizational behavior; author and researcher Marvin Weisbord's six-box model; McKinsey Company's Seven S model; and others in the management literature.¹ The model has been refined and expanded over the years, based on our work with scores of federal, state, and local government organizations, nonprofit agencies, and a few private sector entities. The HPO model (see Figure 5.1) is a classic systems model—input, throughput, output, feedback. Inside the model, it moves from the three *conceptual* change levers of leadership, vision, and values, through the three *applied* levers of strategy, structure, and systems, to impact organizational performance. There is also a feedback loop to our organization's environment, which is critical to secure the support of those outside the organization for our continued efforts to improve performance.

To make the model more “diagnostic” in nature, we later added seven key diagnostic questions (KDQs) to integrate with the model's six change levers:

1. What is high performance for us?
2. How would we know if we were high performing?
3. According to whom are we high performing?
4. Why do we need to be high performing?
5. Is what we are doing the right “what”?
6. How good are we at delivering our products and services?

Figure 5.1 The high-performance organization diagnostic/change model



7. How are we going to treat each other, our partners, our customers, and our stakeholders?

The interaction between the KDQs and the change levers produces a thought process and roadmap for improvement. One final point: the black box surrounding the model represents the organization, but when we ask managers or employees to name their organization, they are confused. Do we mean their immediate unit, their branch, division, or their larger organization? The answer, naturally, is yes. They need to apply the model and the KDQs to themselves personally, to their immediate unit, to the intermediate units above them, and to the organization as a whole. Then they need to ensure alignment or “nesting” of the answers to the KDQs at each level of the organization, one into the other.

The seven key diagnostic questions

One way to understand the model is through the seven key diagnostic questions that can help an organization evaluate its foundational assumptions and causal reasoning. These KDQs can lead an organization to define more completely the work required in each of the change levers. This chapter examines each of the KDQs in considerable detail as well as several change levers.

KDQ 1: What is high performance for us?

Members at all levels of an organization must agree on the answer to KDQ 1—for the organization as a whole, for their individual units, and for themselves. Without agreement, individual members of the organization, acting alone and in isolation, have little chance to accidentally arrive at a common understanding of what high performance is or how to achieve it. If individuals, units, and the organization as a whole are not aligned on what high performance is, then no matter how talented or committed the individual members are, the organization will be unlikely to achieve the outcomes and impacts it seeks. Yet, from the way many organizations operate, this appears to be exactly what they believe will happen. They seem to be saying: “Hire good people, let them figure out on their own what high performance is for them, and then start off in that direction.” Instead, organizations that want to begin moving toward higher performance must establish a collaborative process for articulating and sharing a common organizational vision of what high performance is, for creating nested visions indicating how each unit fits into the whole, and for aligning individual members in the organization with these nested visions.

It is, moreover, not enough for an organization to define high performance as just “wanting to be the best”—especially if it is the organization, acting alone without customer participation, that gets to define what best means. Consider the all too common mistake made in the apocryphal story about the dog food factory that wanted to make the best dog food in the world and hired the world’s foremost experts to produce excellent (in their view) dog food. There was only one problem: dogs would not eat the food. In this respect, our use of the term *high performance* appears to be similar to what leadership researcher and writer Jim Collins means by the term *great* in his book *Good to Great*.² It is possible to be merely good, maybe even the best among a mediocre lot of competitors, but it takes substantially more to be great or, in our language, high performance.

KDQ 2: How would we know if we were high performing?

Organizations seeking high performance must, as a part of understanding what high performance is, address a second question: And how would we know if we were high performing? This question implies a system of measurements that will let us know if we are moving in our intended direction. I want to emphasize, however, that this is the *second* question, not the first. We

have seen some organizations trying to implement a performance measurement process without first agreeing on what high performance is.

We often run an in-class exercise to illustrate that most people have a pretty good intuitive notion of what high performance looks like, in other words, a generic definition of high performance. We point out that they have experienced organizations all their lives and that each of these encounters—whether a good experience or a bad one—adds to their notion of what high performance in organizations means. To help them uncover these sometimes unconscious attitudes and beliefs, we select a type of organization, for example, a laundry/dry cleaners, and ask participants what they think high performance means in this example.

Immediately, participants begin yelling out things like: “I want my clothes back; I want them clean; on hangers with light starch; no broken buttons or crushed lapels. . . .” Others say: “I want them to treat me in a friendly and respectful way; I want the laundry close to where I work or live; I don’t want to take vacation time to go to the laundry—they need to be open when I’m not at work; they need to handle problems well; I don’t want to have to go to the manager to get satisfaction; the first person I deal with should be able to handle the issue.” Eventually, someone says: “And I want it at a competitive price; I don’t want to have to pay the price of the shirt to get it back!”

At this point, we ask: “So who were you in this exercise?” They answer: “The customer.” So then we ask: “What if you are a residential neighbor of the laundry? Would your ideas of what high performance means change?” The answer: “Absolutely: I want it quiet, and ‘green,’ and good at handling traffic, and clean, and well-designed. . . .” Finally, we ask: “What if you were a long-term investor in the laundry; would your definition of high performance change again?” Again, the answer is: “Sure. Now I want profit!” When we explore what produces profit, we find that the laundry needs to be good at generating revenue and minimizing costs. Few of our participants would agree that generating profit is the primary objective of the public/nonprofit sectors; rather, most would say that accomplishing the mission is the primary objective. On the other hand, if we look at the causal sequence involved in achieving these objectives, we see that things are not so different as they seem in these two different worlds: the business world would say they need to focus on serving customers to generate revenues and on minimizing costs to generate a profit, and the public/nonprofit sectors would say they need to generate revenues and minimize costs to accomplish the mission. As a result, we can use many private sector approaches, thought processes, and tools in

the public sector; we just have to recognize that the ultimate objectives are different in the two worlds.

Out of the laundry exercise, the class generates a generic definition of high performance, which includes the following factors:

Factor 1: Quality of products and services (meeting the wants, needs, and expectations of the customers)

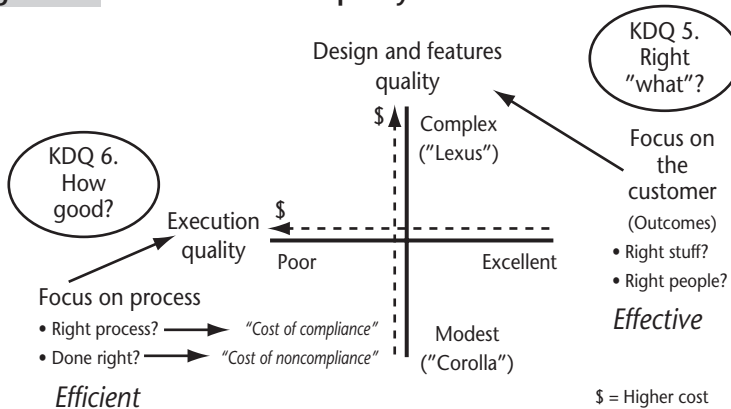
Factor 2: Outstanding customer value (satisfaction, responsiveness, service, timeliness, convenience, courtesy, competence of staff, problem resolution)

Factor 3: Sound financial performance (generating revenue, minimizing costs, good business model, efficient systems)

These generic factors are common in almost every organization we work with and can produce a lively discussion of whether a unit/department/organization can define and measure these factors as they relate to the specifics of their situation. The three factors are not mutually exclusive—that is, when we are talking about one of them, it almost always overlaps one or both of the other two factors. Let's explore each of these in more detail.

Factor 1. Quality of products and services requires a focus on the customer's wants/needs/expectations and on the organization's support systems/work processes—two very different perspectives that result in two different dimensions of quality. The first dimension is a focus on the customer and requires that we produce products and provide services that meet the customer's wants, needs, and expectations. Moreover, it demands that enough interaction take place between the supplier and the customer to ensure that a clearly defined agreement exists about what will be delivered. We call this dimension design and features quality. Visualize it as a vertical scale with the bottom labeled “modest design and features quality” and the top labeled “complex design and features quality.” Using a car analogy, think Corolla-level features—outstanding fit-and-finish, repairability, and reliability, but modest design and features, compared to Lexus-level features—all the same features as Corolla, but offering more complex design and features. This does not mean the Corolla is a poor choice. It simply has fewer features and therefore costs less. What is appropriate—Lexus, Camry (the mid-point on the scale), or Corolla—is a decision for purchasers based on their needs, preferences, and budget (see the vertical scale in Figure 5.2).

If we deliver too low on the design and features quality dimension, we will have dissatisfied customers, who are likely to complain that we are delivering poor quality. On the other hand, if we deliver too high and try to

Figure 5.2 The definition of quality

charge the customer for the additional features, we will again have dissatisfied customers, who could say we are forcing them to accept excess features they do not want to pay for and accuse us of trying to bait and switch, running up the bill, or gold-plating. If we exceed their wants/needs/expectations and do it for free (that is, at no additional cost to the customer), we may have delighted customers, but we also run the risk of inflating our customers' expectations beyond our ability to deliver in the future. And we may be providing more complexity than our customer wants, needs, and/or expects, leading them to describe our products or services as cumbersome, not intuitive, or too hard to use.

We may want to make the business decision to add features we know a customer wants and not charge them as a way of cementing a relationship or seizing market share, but we need to clearly understand the implications of doing so. It is critical to reach agreement on the level of design and features quality the business is going to deliver (or, if multiple levels are required for varying customer needs, then the agreement is around when to deliver each level). To leave it up to each individual is to invite the delivery of a full spectrum of products and services varying from poor design and features quality through gold-plating, most not pleasing the customer and potentially wasting resources. One way to do more with less is to stop gold-plating and apply the saved resources to increased production. We will revisit this dimension of quality when we discuss KDQ 5: Are we delivering the right "what"?

The second dimension of quality is execution quality. It reminds us of the work of W. Edwards Deming, Joseph M. Juran, and others in the world of

“quality” programs (for example, Quality Circles, Total Quality Management, and today’s LEAN/Six Sigma in manufacturing).³ This dimension requires us to have excellent execution quality, defined as the ability of the organization to perform flawlessly a best-practice process. We must also be as near flawless as possible in our planning, design, engineering, and production processes and in our people training and development, procurement, contracting, facilities, and other support systems.

We can visualize execution quality as a horizontal scale, running from left to right, with the left end of the scale labeled “poor execution quality” and the right end as “excellent execution quality” (Figure 5.2). The two questions to ask ourselves about our organization on this scale are: Do we have the right process (best-practice processes for delivering the design and features required) and are the processes being done right? (is there excessive rework, scrap, warranty?). If our processes are not best-practice, we would have a high cost of compliance; in other words, doing an inefficient process perfectly is still inefficient. If, however, we have a best-practice process but execute it poorly, we would incur the high cost of *non*compliance because doing a best-practice process poorly is also inefficient. If we were delivering excellent execution quality, we would be running the appropriate best-practice processes in a near flawless way. Another way to do more with less is to move to the excellent (right) side of this dimension. We will revisit this discussion of “How good are we?” briefly under KDQ 6.

Factor 2. Customer value in the HPO model has to do with the relationship side of our interaction with customers, citizens, and others. Recall in the laundry example that seminar participants said, “I want them to treat me well; I want the laundry located close to where I live or work; I don’t want to take vacation time to go there.” What if the laundry owner was to give us back perfect clothes and then insult us as we walked out the door? The quality was perfect, but the relationship was not, and it is the relationship part that constitutes customer value. Customers will use terms such as *dependable, reliable, convenient, responsive, satisfying, fast, and pleasant* to describe their desires on this factor. The problem here is that one size does not fit all; instead, each customer selects from this market basket of items those she desires, and the supplier needs to figure out what items they are and deliver them.

Before we can do this analysis, we need to identify our current and future customers, understanding that they come in lots of different flavors (especially in the government world) and that they often have conflicting wants,

needs, and expectations. We address how to do this analysis when we get to KDQ 3: According to whom?

Factor 3. Financial performance relates to our ability to generate revenue, minimize our costs, evaluate profitability, generate accurate contract estimates and winning bids, and justify our investments. Doing this analysis in the public sector can be difficult. Historically, government organizations have focused primarily on design and features quality and not on execution quality, customer value, or financial performance. Indeed, in many cases, the government's financial management systems (budgeting, procurement, contracting, and so forth) have not been designed to provide units with the information they need to make sound financial decisions. Think of the messages these systems send to us: "Here's your allowance to run your program—we really don't care what you need; this is all you get. It's based on what you got last year plus or minus a little, depending on economic conditions and administration priorities. Don't overspend your allowance (but the numbers are always late to you, so you won't really know how you're doing). Don't underspend your allowance, or you'll lose it and get less next time. And don't steal a nickel of it." But, by implication, you could waste a billion of it! Rarely do we see a demand that a unit demonstrates that it is best-practice, that it has a sound business model, that its causal model has been tested, and that it can show that it produces the mission's desired outcomes. To be fair, at the federal level the Government Performance Results Act (GPRA), OMB's Program Assessment Rating Tool (PART), and the President's Management Agenda are efforts to improve the system, but much more needs to be done—especially at the unit level of organizations.

In the HPO model, high performance is defined as the simultaneous delivery of all three of these elements—quality products and services, outstanding customer value, and sound financial performance. We call the simultaneous delivery and continuous improvement of these factors "Pick 3," and because we want these three factors to be delivered over time, the expectation is really Pick 3+, where the plus is consistent and sustainable performance over time. It is a rare organization that performs at the Pick 3+ level.

Over the years, we have worked with many organizations that have performance metrics, but often they are not capable of answering the most fundamental questions: What are we trying to achieve (our desired outcomes and impacts) and how would we know if we were? Organizations tend to measure what is measurable, which can translate, especially in the public

sector, into a focus on activities and tasks, intended to demonstrate compliance with legislation or regulations—to show to Congress, the city council, or the public that work is being performed (a focus on activity). We would argue that high performance in the public/nonprofit sectors translates into mission accomplishment at a level defined by the organization's vision (a focus on outcome).

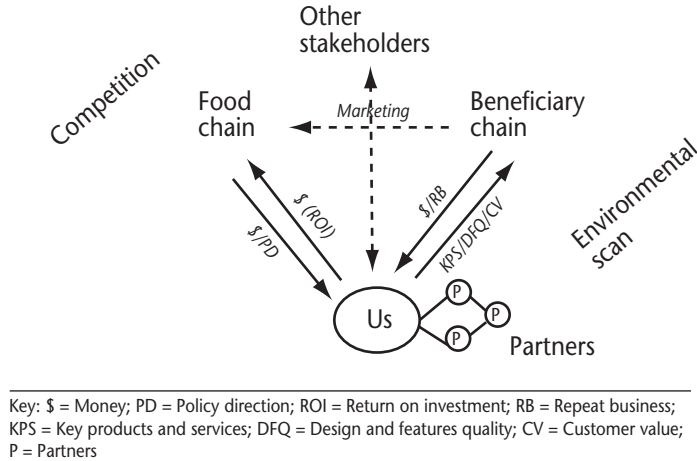
KDQ 3: According to whom are we high performing?

The third KDQ requires us to do a thorough analysis of the environment outside the black box from Figure 5.1. The box represents us: our unit/department/organization. The environment includes customers and other stakeholders who can affect us as an organization. In the public and nonprofit sectors, the concept of customer appears to be more complex than in the private sector. Customers certainly include those who use the products and services we produce (our beneficiary chain customers), but they also include our food chain customers (those who provide us with funding and/or policy direction), our partners (people and entities inside and outside our unit/organization with whom we must work to produce value for our beneficiaries), and our competitors (those with whom we can or do compete). In addition, customers include stakeholders who do not belong in the preceding categories, but who can influence us in sometimes positive, but more often, potentially negative ways. They include the press, regulatory agencies, investigative entities such as inspectors general, and the Government Accountability Office. The power of this analysis, referred to as strategic customer value analysis (SCVA), is that we are now able to see where overlaps and conflicts exist between what one beneficiary customer or funding source wants/needs/expects and the desires of others. Figure 5.3 places these actors into a graphic display, showing the interactions between *us* and the various flavors of *them*.

In addition to understanding where we are today relative to customer expectations, KDQ 3 often leads us to develop a more collaborative relationship with our customers, for it is not only important that we understand their wants, needs, and expectations today, but that we understand what their requirements are likely to be in the future. If we are to remain high performing, we will need to build strategies that increase our value to our customers over time and that will deliver the outcomes required by our vision and mission.

Figure 5.3 Strategic customer value analysis (SCVA)

KDQ 3. According to whom are we high performing?



KDQ 4: Why do we need to be high performing?

The fourth KDQ gets at a critical factor in successful change efforts: the issue of organizational energy to sustain our improvement efforts over time. What if we cannot answer this question to the satisfaction of our workforce? Employees will not support the change effort for the time required for our performance to improve. If the literature on large-scale organization change is correct in saying that sustained effort is required for five to seven to ten or more years to achieve lasting organizational change, then we will need to tap a variety of energy sources. University of Michigan professor Noel Tichy, former GE organization development adviser, argues that all of us need to develop a “teachable point of view”—a succinct, personal, and compelling set of arguments capable of being delivered with passion to ourselves, our coworkers, our subordinates, and others reminding us of the importance of improving our performance.⁴

When we ask participants why their organizations need to be high performing, nine times out of ten the first answer will be some version of “threat to our survival”; in other words, we’ll lose to our competitors; our citizens will be dissatisfied and elect a micromanaging council; we’ll be outsourced. So when we ask, “A threat to your survival is an energy source?” the response

is a resounding “of course!” But what kind of energy source is it? It is negative energy. And if an organization is under threat to survival for a long period of time, those employees who can leave do so to escape the stress, while others hunker down and seem to say “kill me, already.” This drop in morale leads to lower, rather than higher, performance over time. We have described threat to survival as a “short-term, nonrenewable energy source.” So what else is available as an energy source?

The second reason for needing to be high performance is self-pride: “I need to be part of something high performing just because I need it for me.” When asked if this one is a renewable energy source, the answer is yes. But when asked if self-pride can be injured by the organization, the answer is again yes. The good news, based on our experience, is that even when self-pride has been injured, most people will come back to us when allowed to experience self-pride again.

These two sources can be used in almost any kind of organization, but pressing our participants, I often ask: “So you’re telling me there’s no difference between the mission of your organization and that of a tobacco company?” Now, many private sector firms have moral purposes equivalent to public/nonprofit sector organizations: Johnson & Johnson is a good example. But the one energy source that the public/nonprofit sectors generally have in abundance is higher moral purpose. It matters whether we are high performing or not because the missions we have are critical to society. When I ask why I had to work so hard to discover this energy source, many participants will respond that they don’t talk about it out loud, but it’s what keeps them doing what they’re doing. When I ask participants if their organizations use this energy source effectively, some say yes and can explain how, but most generally say no, we could do better.

KDQ 5: Is what we are doing the right “what”?

The fifth KDQ begins to integrate the thinking and analysis done to this point into a more concrete set of specifications. We saw this question earlier when we were discussing design and features quality (see the vertical scale in Figure 5.2). To be able to answer this question effectively we must engage the following more specific questions:

- What are/should be our key products and services (KPS) to meet the wants/needs/expectations of our customers—now and in the future?

- Are we providing our products and services to the right customers? If we have the right products and services, but the wrong customers, maybe we should fire some customers and get some new ones? On the other hand, if we have the right customers and wrong KPS, then we need to change the products and services. Are we *effective* in serving our customers?
- Do we produce excellent customer value, according to the beneficiary chain, food chain, partners, and other stakeholders?
- What is or should be our organization's unique niche? (To answer this one it is helpful to ask: Who would miss us if we were gone?)
- What should we take responsibility for accomplishing in the near term (next three to five years) and the longer term (ten to thirty years)? What is/should be our major impact or outcome goal?
- How do these efforts contribute to achieving our larger vision—our definition of high performance?

The product of this particular effort is clarification and revision of our core purpose and reason for being—essentially we must confirm, revise, or construct our mission and unique niche. An example comes from the U.S. Environmental Protection Agency's Office of the Inspector General. Historically, the purpose of the IG had been to ensure that the agency complied with law and regulation and that efforts were undertaken to prevent fraud, waste, and abuse. While important, the inspector general and her staff realized that these activities were insufficient. Greater emphasis was needed on the intention of Congress in establishing these laws. Results (outcomes/impacts) mattered. Effectiveness mattered, and to that extent the IG's office refocused its efforts on making a contribution to the improvement of the environment and human health. Compliance to law and regulation was necessary, but mindless compliance that produced no outcome/impact benefits was also wasteful. To address this new emphasis area, the IG established the Office of Program Evaluation to determine whether EPA's programs would result in the impacts and outcomes intended, even if all the statutory and regulatory directives were executed perfectly.

KDQ 6: How good are we at delivering our products and services?

We looked at the sixth KDQ when we were discussing execution quality (see the horizontal scale in Figure 5.2). Are we as *efficient* as we can be in delivering

our main products and services? Do we have the right business strategy (business model) and organizational structure? Are our systems and processes best-practice and executed flawlessly? Note that the last three items mentioned here (strategy, structure, and systems) are the three applied change levers in the HPO model (see Figure 5.1).

Let's begin by looking at our overall business strategy/business model. If we were a small business making a pitch to the bank to secure a loan, we would need to lay out a convincing argument that we really know our business, that our business model is robust—that it will work no matter what economic or other conditions we encounter—and that we have considered whether we should do all the work ourselves versus outsourcing or partnering. Do you recall People Express Airlines, the first of the low-cost airlines? It had great values, was a fun place to work, and *Harvard Business Review* couldn't write enough case studies about it. But here was their business strategy, their niche: low cost vacation travel. Not a robust enough strategy, as it turns out. Let me add one main word and a connector word to that strategy statement: low cost *business* and vacation travel. So, now what airline are we talking about? Southwest. How are they doing? They modified the strategy of People Express into a robust business strategy and then delivered flawlessly. In the business strategy/business model area, we might want to ask ourselves the following more specific diagnostic questions:

- If our strategy/business model is the very same one that got us here, is it capable of getting us to the next level as well? Will it allow us to effectively and efficiently accomplish our vision, mission, and strategic goals?
- What is our competitive advantage based on?
- Do we know our key business functions? Do we need to close out some business lines to better align with our future direction and to generate resources to fund new initiatives?
- Do we have a sound approach to strategic outsourcing decisions? How do we handle “surge” demand and/or surplus production capacity?
- Can we explain our key business assumptions and our causal model for getting results?

The next factor for examination is organizational structure. We need to evaluate our current structure and change it if we believe a different organizing principle would allow us to fulfill our vision and strategy. Most organizations we work with have inherited a stovepiped structure from their industrial model past, so examining structure might be threatening to the

established order. Specific diagnostic questions we may want to ask in the structure area are:

- Is our structure sophisticated enough to perform our work? Or should we explore more complex structure models, including matrix, business centers, process/product focused structures, and so forth?
- Have we broken our work down correctly so as to most efficiently deliver our products and services? Are cross-cutting projects and processes under control; in other words, do we have a clearly accountable project/process owner? This is particularly critical when multiple organizational stovepipes are involved.
- Have we provided for the integration of the parts of the organization to produce a seamless higher-level whole?

Finally, we must review each of our support systems and work processes. What we are looking for here is an assessment of the extent to which the systems and processes aid us in improving our performance. Too often, we assume that these systems and processes are givens and that we can do little to improve them. This assumption may sometimes be true, but before accepting that, we would want to seriously test our ability to affect them. In some organizations I have contracted with, it takes two hours to secure the contract, while in others it takes two *years!* Why the difference? The answer is that some organizations have found ways of complying with the Federal Acquisition Regulations while making the acquisition system serve their end values—they have improved performance dramatically by aligning the support systems and work processes with their vision. The systems and processes we would want to assess are our:

Support systems. These include human resources, financial management, procurement, contracting, information technology, facilities and equipment, communication, legal services, vehicle maintenance, and research and development laboratories. If these groups are not at their peak form, people in the organization will not believe that improvement is being taken seriously. We find that improvements in support systems speak louder than any other action an organization can take in making employees believe that management means what it says.

Work processes. Do we have best-practice work processes tailored to the appropriate design and features quality level delivered flawlessly? Are we continuously improving? If necessary, can we reengineer a process from the ground up?

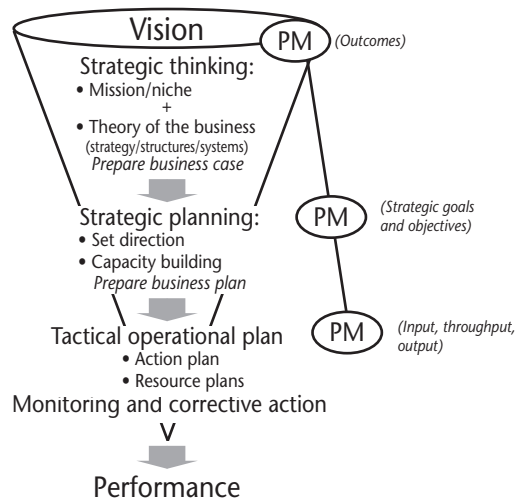
Work management and control processes. Does every member at every level of the organization have the systems and skills to monitor and take appropriate corrective actions on our key success factors?

In the Navy's industrial facility mentioned at the beginning of this chapter, they had to work all seven Key Diagnostic Questions, but the two that drove most of the improvement were KDQ 6: How good are we? and KDQ 7: How do we treat each other and our customers? We will address the second of these below, but in the "how good are we" area, they had to reinvent how naval shipyards performed ship modernization projects. They introduced the discipline of project management and established a project-management college to prepare the workforce; installed matrix management and built an integrated top leadership team (see more in the "Tips" section below); and renegotiated an international labor contract to allow the use of cross-trained work teams to complete most of the work on the ships. The shipyard turned a \$20 million "profit" on the first ship modernization completed under the improvement process, and, over a three-year period, this yard became the Navy's number one performer.

KDQs 1–6: Addressing the first six key diagnostic questions using the HPO model's visioning change lever

An organization's vision work is, perhaps, the most time consuming of all the change levers. During it, the organization has to deal with six of the seven KDQs. It is important to understand that vision work is *not* just about developing another vision statement. Let's face it: most units and organizations have enough vision statements. What they often do not have is a shared vision—that is, when members of the organization are asked where the organization is headed, they all point in the same direction and know their part in getting there.

In the HPO model, visioning moves from a more abstract, broad, and long-term focus, through a more focused set of activities, including strategic thinking, strategic planning, tactical/operational planning and execution, and monitoring and recovery. We refer to this process as the vision to performance spiral (see Figure 5.4). As Figure 5.4 indicates, the process resembles moving down a funnel or spiral from broad and general to near-term and specific. Near the point of the spiral, individuals should know what they are doing each day, with whom, and what resources they will use to move them and the organization toward the accomplishment of their vision. Each level of the

Figure 5.4 The vision to performance spiral

Key: PM = Performance measures

organization—from unit through the whole—needs a vision that is nested into the next higher level. Creating the vision does not come only from the top; it needs to come up from the units as well. A docking process then meshes these ideas into an integrated, aligned vision for the organization.

At the top of the vision spiral, units/organizations need to address KDQ 1: What is high performance for us? and KDQ 4: Why do we need to be high performing? This discussion focuses on what our *end values* are and what they should be. What is the higher moral purpose we are seeking; what is our desired future state; what outcomes/impacts are we seeking; who would miss us if we were gone? As an organization begins to settle on its desired future, we will begin the process of asking KDQ 2: How would we know? We ask this question at every level of this spiral. At the top of the vision spiral, we are future-focused, so the measures will also be future-focused. Because we cannot measure *now* whether we are *there*, the indicators are trailing or lagging indicators. Because they are trying to measure the end values we are seeking, they may also be called outcome or impact measures.

The following is an example from an Army laboratory of a vision statement being turned into a set of measurable statements. In other words, we would seek specific outcome/impact measures for each of the ten numbered parts:

[This laboratory] is (1) recognized as a (2) premier Research and Development organization that is (3) sought out by customers and partners. We (4) develop and maintain a relevant and vibrant research program that includes a (5) robust reimbursable portfolio. We are a (6) highly skilled, adaptable team with (7) unique facilities that enable us to (8) perform cutting-edge research. We operate in an (9) efficient and effective manner. We (10) provide comprehensive solutions to the nation's and the warfighter's toughest challenges.

As we drop down a level in the spiral, we call the next level strategic thinking, which has two parts: mission/niche thinking and theory of the business thinking. Strategic thinking is an “opening up” activity. We prefer that organizations think before they plan. We also warn organizations not to let “perfect” get in the way of “good enough.” Because visioning is a cyclical process and will come around again in a year or so, we do not have to be perfect in our execution of these steps—we just need to be better this year than before. Strategic thinking includes:

Mission/niche thinking, which looks at KDQ 5. Are we doing the right “what”?—where we look at our key products and services, design and features quality, and customer value—and KDQ 3: According to whom are we high performing?

Theory of the business thinking, which looks at KDQ 6. How good are our processes at delivering our mission/niche?

We are now ready for the next level down in the spiral: strategic planning, which is a “closing” activity. The two parts of strategic planning are set direction and capacity building:

Set direction. It sounds simple. We decide where we’re going and let everyone know. Yet it often becomes more complex. What if stovepiping is widespread in the organization, with many of the units going in whatever directions they want? If we want the organization to be going true north, and three-quarters of the organization is not, what must we do to redirect those units? We have found that many organizations are good at *adding* new strategic initiatives during the strategic planning process, but rarely found an organization very good at *shutting down* programs, units, and/or business areas when they are not going true north. In addition, the field of “change management” (sometimes defined as managing the “people-side” of change) is often overlooked when major changes are planned in an organization’s direction, systems, or processes. People in organizations must be prepared for such change if it is to succeed.

Capacity building. As we exited the strategic thinking level in the spiral, we asked ourselves a series of fill-in-the-blank questions: Do we have the right ____ to achieve our vision? The missing part of the question could be key products and services, business strategy/model, partners, structure, systems and process, facilities, equipment, information technology, data, and people with the right competencies. What if the answer to any of these questions is no, and it is a serious, vision-blocking no? Now what? We have to address the issue. This is where capacity building comes in. For us, hope is not a strategy; rather, these issues must be dealt with seriously in the strategic plan, or it will not be taken seriously by employees and first-level managers.

Time for more measurement work: at the strategic planning level, we are still looking for trailing or lagging indicators, because we are dealing with strategic goals and objectives that will be measuring events three to five years or more in the future. These measures are closer-in than the outcome and impact measures at the top of the spiral, but they are still in the future.

As we reach the lower levels of the spiral and engage the tactical/operational/project planning level, the work shifts from leadership work to no-fooling, near-term, task/management implementation, grind-it-out work. At this point many organizations fail. Too often, when the strategic plan (the one with the glossy cover) shows up at the unit level, it is viewed with suspicion. Lack of participation in the strategic planning process by units at all levels often results in either direct opposition or passive-aggressive behavior at the unit level. This is precisely why we argue that units need to “run the spiral” at their level and to participate in a top down/bottom up, docking process to align the plans at each level. The two parts of tactical/operational/project planning are action planning and resource planning:

Action planning. If we are dealing with an actual project at this level, then this step creates the project plan. Usually, the plan includes a work breakdown structure and uses other techniques from the project management body of knowledge such as schedule and resource estimation, earned value, and variance analysis.⁵

Resource planning. In addition to detailing the actions/events/activities that need to occur, the unit/organization must create a matching resource plan. What if we have a brilliant causal sequence, but it will cost \$1 million to execute it, and we have only a quarter of that available to pay for it? The resource plan must cover personnel, facilities, training, and other costs. Once the resource plan matches the action plan, we will be able to track the accomplishment of the scheduled activities against the estimated expenditures.

In the measurement area, we are now ready to establish some leading indicators: measures that will predict whether we will achieve our outputs and, thereby, our goals, objectives, and outcomes/impacts. The two most common are *input* measures (did we get the personnel we estimated as required for each activity in the causal sequence; did we get the required facilities, equipment, training, data, information technology?) and *throughput* measures (were the milestones accomplished when we said they would be with the resources we estimated?).

The concluding step in the vision to performance spiral is called monitoring/recovery. After the near-term, detailed, applied planning process, we turn to the actual implementation and execution. Ask the following questions: Are we on-budget and on-schedule (with the required design and features quality, execution quality, and customer value also being delivered)? If an emergency occurs or we are not on budget and on schedule, what are we going to do to recover as much of the plan as possible? What corrective actions are necessary? Did we learn anything from missing our estimates that should be factored into the planning/estimating process next time?

KDQ 7: How are we going to treat each other, our partners, our customers, and our stakeholders?

KDQ 7 is far too often overlooked in organizations. Described by some as soft or touchy-feely, it does not get the serious consideration it deserves to sustain a culture of customer satisfaction, continuous improvement, and accountability. If an organization is expected to sustain the kind of effort needed to become and remain high performing, it must, as part of that effort, consider and sustain the appropriate *means values*. These are the values that guide how we get to our desired ends values (higher moral purpose). The three types of means values we work with are:

1. Leadership philosophy is a statement of beliefs explaining the assumptions upon which management actions are based and judged. It answers the questions: What do we believe about the nature of people and their attitudes toward work? What motivates most people, once their basic needs have been met? What is the distribution of knowledge and creativity and, as a result, how will decisions be made? What is the nature of the work? Leadership philosophy imposes boundaries on the behavior of managers and team leaders with hierarchical authority over others and, as a result, will be a major determinant of work culture.

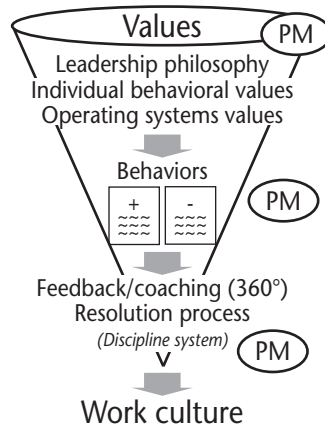
2. Individual behavioral values are a larger, overarching set of values describing how members of the community treat each other, their partners, customers, and stakeholders. They provide a standard for judging interpersonal behavior and answer the questions: “How are we going to treat each other and, by extension, our customers?” These values help define the human side of the organization’s work culture.

3. Operating systems values state how we want the organization’s systems and processes, such as the support systems—HR, purchasing, IT, and technical work processes—to treat the people in the organization. These values define the technical side of the organization’s work culture. How organizational systems/processes *treat* employees often speaks louder than anything managers say. What if a manager says to the employee, “You’re empowered, but don’t forget the thirty-seven signatures to buy the pencil.” Does the employee hear “We think you’re responsible” or “We don’t trust you”?

These means values must be translated into well-understood criteria in order for them to guide and even limit our decisions, actions, and behaviors. The work culture they create is a leading indicator of future results. What if we have a wonderful strategic plan and a perfect performance measurement system, but a really rotten work culture? Can we get to sustained high performance?

Addressing KDQ 7 using the change lever of the high performing organization model’s values

In the HPO model, we take organizations through a thought process, the values to work culture spiral, designed to produce a statement of values and a plan to implement and enforce them. Although the values spiral looks only at KDQ 7—How do we treat each other, our partners, our customers, and our stakeholders?—we find that many technically oriented organizations are challenged by this work. The work contained in the values spiral is critical to a central thesis of this book: The need to build relationships and trust among the players within an organization and between the organization and the external world is critical. The values spiral is all about building trust. Like the vision spiral, the values spiral proceeds from high-level, conceptual work down the spiral, with each lower level becoming more near-term and more specific. We begin the values work by addressing the three means values that are the building blocks of our organization’s work culture: leadership philosophy, individual behavioral values, and operating systems values (see Figure 5.5 on page 148).

Figure 5.5 The values to work culture spiral

Key: PM = Performance measures

Leadership philosophy is perhaps the major determinant of the trust level that will exist between the workforce and management. In the roughly left-to-right flowing causal sequence defined by the HPO diagnostic/change model in Figure 5.1, leadership philosophy is in the number one position. If an organization does not get leadership philosophy right, almost nothing downstream in the model works. We use the work of three organizational behavior research pioneers—Douglas McGregor, Rensis Likert, and Peter Block—as the theoretical base from which to view, discuss, diagnose, and finally initiate change in an organization’s leadership philosophy.⁶

How organizations behave toward employees, customers, suppliers, and other stakeholders determines their leadership philosophy. At one extreme, for example, are organizations that see people as not liking to work; as not being ambitious or wanting responsibility; as not doing a good job unless directly and closely supervised or motivated by coercion, threats, and punishment; and as lacking in knowledge, talent, and creativity. Such organizations are likely to design control-oriented, multilayered hierarchies that tell workers exactly what to do at all times. Workers are not to be consulted or involved in designing work processes because they will be seen as having nothing to say. Work is reduced to discrete tasks, and workers are directed to perform the tasks exactly as directed by the supervisor or by a work rule set in a rigid, highly regulated, management-defined process. Workers are asked to check

their brains at the door and are discouraged from making suggestions for improvement. “It’s my way,” says the boss, “or the highway.” This belief set loosely corresponds to what McGregor called Theory X, Likert called Systems 1 and 2, and Block called the bureaucratic cycle.

At the other extreme are organizations that see people, generally, as wanting to do a good job because it is a core human need; as wanting to be part of something meaningful; as being motivated (once basic needs are satisfied) by challenge, responsibility, achievement, recognition, personal growth, and advancement to more challenging work; and as being knowledgeable and creative or capable of being made so by development. Such organizations view good problem-solving, continuous study and improvement of work processes, and innovation as requiring consultation with and involvement of a wide range of knowledgeable employees. Under these beliefs, work is seen as integrated processes needing knowledgeable, broadly skilled, and talented workers who collaborate to ensure that jointly held objectives are accomplished. This belief set represents the essence of Theory Y in McGregor’s approach, Systems 3 and 4 in Likert’s work, and Block’s entrepreneurial cycle.

The following is an example of a leadership philosophy statement developed by the senior management team of a municipal government and modified by the workforce through a consultative process:

We, the employees of [a medium-sized] City Government, want to do a good job. We will excel if we are part of something important, are consulted and involved in all aspects of our work, are provided the tools to do our jobs, and are recognized for our efforts. Knowledge, experience, creativity, and cultural diversity abound in this organization. We will use these resources to achieve [our] vision.

Each of us has an important role in the “work of leadership” and the “work of management.” Our work will be characterized by shared information, continuous learning, and personal responsibility. We will provide an atmosphere of competence, teamwork, trust, confidence, and respect. Our organization will succeed with clear goals and purposes. We will be mission-centered. We will make our policies and actions clear, purposeful, and consistent with our values at every level of the organization.

Addressing the individual behavioral values and operating systems values is less theory-driven and more experiential. In these areas, we normally use a

brainstorming process to generate the values that the organization wants to embrace. After defining them, organizations generally synthesize these three means values—leadership philosophy, individual behavioral values, and operating systems values—into an integrated statement of their values.

Once we have described the values of our unit or organization in conceptual terms, we are ready to move to the next level of the values spiral: behaviors. To illustrate the need for becoming more specific, we often pose this question: What if we have successfully developed the best set of values known to humankind, we've posted them on the wall all over our organization, and then we watch them get violated every day? Most participants will agree that this result is worse than not having developed them in the first place, because now people can see clearly that their values are being violated instead of simply suspecting it. To stop the values work after developing the values statement, then, is to increase cynicism in the organization.

The behaviors level of the values spiral asks participants to become more specific about what behaviors they want to see from each other that support the values and what behaviors they do not want to see anymore that violate the values. A federal regulatory agency that went through this process produced the example below. It looks at one of the eight values they articulated, open communication and credibility or being believable and honest, and lists some of the behaviors that were desired and not desired:

A. Productive behaviors

- Share information up, down, and across (information should be shared with necessary individuals/teams, especially with people whose performance will be affected; inform people of the reliability of the information).
- Tell the truth. Use qualifiers, for example, "As far as I know. . ." when information is uncertain since things may change; say when you can't say; inform people if the situation changes and why.
- Actively listen (eye contact, no interrupting, undivided attention) even when you don't want to.
- Acknowledge/admit lack of information/knowledge (say when you don't know or don't understand).
- Avoid use of offensive language; important that one knows the audience/individual (no racial slurs, off-color jokes, religious/ethnic jokes, or religious profanity).
- Give and solicit frequent, polite, and constructive feedback (be specific; suggest how to improve; give positive feedback).

B. Counterproductive behaviors

- Vindictive or malicious comments.
- Being overly critical.
- Condescending tone or attitude/belittlement of employees.
- Aggressive/threatening voice tone and/or body language.
- Hidden agendas.
- Manipulation for personal or professional gain.

The final steps in the values spiral are feedback and coaching and resolution. In these steps, units need to find mechanisms for holding team members accountable for living the values. A number of organizations we've worked with have turned their behaviors-level work into 360 degree feedback instruments, which are generally used initially in a developmental way to help the person being assessed improve her performance and behavior. Eventually, these instruments feed into the appraisal process. Coaching is frequently offered as a way for individuals to see how others see them and to explore how they might improve. Resolution requires us to deal with those who choose to violate our shared values. Without this step, we don't really have values, no matter how many places they hang on the wall. We may have to ask managers to relinquish their hierarchical authority and become a nonmanager or ask that violators—whether managers or employees—“make a contribution to some other organization.” This step is the ultimate test of whether we want to have a high-performance work culture or not.

Finally, just as we ask KDQ 2—How would we know?—at every level of the vision spiral, we must also ask the same question at every level of the values spiral. At the top of the spiral, for example, we might use Likert's *Profile of Organizational Characteristics* or a similar survey to assess our unit's or organization's leadership philosophy.⁷ At the behaviors level, we can design customized instruments to deliver 360 degree feedback or we can develop less formal methods of feedback where individuals deliver the feedback face-to-face. Methods also are available to assess organizational/unit work culture, such as the KEYS instrument from the Center for Creative Leadership and the Organizational Assessment Survey (OAS) from the U.S. Office of Personnel Management.⁸

In our example of the Navy industrial facility, KDQ 7—How do we treat each other?—was a foundational part of the change process. The new commander of the shipyard when we began the improvement process there (he was also responsible for bringing us in to help) had been at the shipyard earlier

in his career. Unfortunately, in that incarnation, he was seen as a “take-no-prisoners” kind of manager (System 1 in Likert’s typology). Before we could make progress in the change effort, we needed to help him alter his leadership philosophy. Between the time he left the shipyard after his first tour of duty and his return as shipyard commander, he had participated in a number of executive development programs, including Harvard’s Kennedy School, the University of Virginia’s Darden School, and a program conducted by the Naval Sea Systems Command. These programs had convinced him that his leadership philosophy was not going to serve him well in the future, and, based on this insight, he engaged us to help with his personal transition. After the commander began to change his style, one of his more difficult tasks was to get the others in the yard to see him as different, rather than the person he had been.

Tips for leadership success

Although this chapter has not been a full treatment of the HPO diagnostic/change model, it has tried to lay out a good deal of the diagnostic thinking required to drive organizational improvement. As we work with organizations, several additional lessons we have learned and tips for success may be useful to keep in mind:

- **Get organized for change:** We have yet to encounter a successful organizational improvement effort that happened “accidentally.” It seems that many organizations believe that sending their employees to training will, by itself, somehow result in performance improvement. Our experience is that *training does not equal change*. Instead, improvement requires a concerted effort by management to make it happen. It is necessary to build “change mechanisms” at every appropriate level of the organization in which individuals agree that a portion of their “real jobs” involves working on improving unit/microbusiness/organizational performance. The “roadmap” presented in the HPO Diagnostic/Change Model will not, by itself, cause anything to happen. We need “leadership teams” at every level of the organization who will seize the roadmap and “make it happen.” It is critical that top management be involved in driving this process—a “demand function” is needed (the demand is NOT “do what I tell you,” but rather is “you can’t tell me you won’t get organized and skilled to help improve the organization”).

Further, members of such leadership teams (especially top teams) must adopt a “stewardship” mindset, in which their focus is on the success of the whole, rather than just their units. We believe stewardship can be treated as a leadership competency and can be assessed (have the individuals worked to support cross-unit projects or organization-wide process improvements; do the individuals contribute to the success and improvement of other members of the leadership team; do the individuals identify this leadership team as their “primary team,” as opposed to the units that they head?). In the example that started this chapter in which a city manager inherited a group of department heads who were definitely not stewardship-minded, our first order of business in their improvement process was to begin building an integrated top leadership team. Indeed, we have rarely seen an organization achieve sustained improved performance without a successfully integrated top leadership team (remember, however, that “top” in our material is relative; top can mean a project, division, department, or organization leadership team).

- **You may need some help:** We frequently find that senior managers (especially those with technical backgrounds) need some help with the change process. Our experience is that at about the 300-person level, an organization begins needing one or more part- or full-time change professionals on staff—people with organizational development, change management, business analytic thinking, project management, and team-development skills. Experienced change agents can “staff” the senior leadership team’s efforts and can deliver “just-in-time” training, change-team facilitation, and encouragement/reinforcement/coordination. These change agents also can build a network of part-time change agents dispersed throughout the organization. In addition, they can play a “sensing function,” pulling information together from all the different parts of the organization that touch a microbusiness (e.g., support staff from HR, IT, finance/budget/procurement, facilities, legal, EEO, etc.). Based on this information, a picture of the microbusiness begins to emerge that can suggest (in consultation with the managers and members of the microbusiness) what specific interventions may be useful to significantly improve the unit’s performance. Finally, they can integrate with any outside contract support secured to help with the change process; this will continue to increase the in-house staff’s skills and may raise an alert to problems with the contractors.

- **Consider “recontracting” everyone’s job to also include leadership, management, and team/networking skills and responsibilities:** Many organizations we deal with are using human resources systems from the early 1900s in which work is seen as a discrete set of tasks that an individual employee is to complete (implicitly without regard to the whole). This “task-only” focus often is called the “industrial model” of work. It does not require the workforce to focus on the whole, on “owning” unit or organizational outcomes or impacts, or on the networks that must work smoothly to yield performance. The future will require a workforce that sees work differently and possesses a wider range of skills: leadership skills, management skills, technical skills, and team skills. These individuals will need to integrate themselves into, and care about the results of, the networks of which they are a part. For organizations to de-layer, broaden spans of control, be more flexible and responsive, and reduce the cost of overhead, they will need “high-performing” employees at every level of their organizations. We’ve called this concept the “networked talent model.”

Resources for further learning

On building high-performance organizations: James Collins, *Good to Great: Why Some Companies Make the Leap—and Others Don’t* (2001). One of the best recent books on moving organizations toward high performance. His excellent monograph, *Good to Great and the Social Sectors* (2005), to accompany the book, adapts his concepts to the public and nonprofit sectors.

On project and change management: Many public sector managers, especially those with a technical background, seem to lack exposure to the concepts of project management and to the people-side of project management, often called change management. The body of knowledge surrounding project management is well established and relatively ubiquitous, and the widely acknowledged keeper of this body of knowledge is the Project Management Institute (www.pmi.org). In the change management area, we have been impressed with material available from Prosci (www.change-mangement.com). See especially Jeffery M. Hiatt’s book *ADKAR: A Model for Change in Business, Government, and Our Community* (2006), which proposes a personal and organizational change management approach called ADKAR, an acronym for awareness, desire, knowledge, ability, and reinforcement.

On measurement and performance management: For public/nonprofit managers who have not been exposed to measurement theory, the following resources are useful: Mark Graham Brown, *Keeping Score: Using the Right Metrics to Drive World-Class Performance* (1996); and Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action* (1996).

We also like the work of the Balanced Scorecard Institute at www.balancedscorecard.com.

Notes

1. Likert (1961); Weisbord (1976); and Peters and Waterman (1983). Note: We prefer to use the “older” seminal works in the organizational development, change management, and other literature in our HPO Diagnostic/Change Model, and then, if the client is interested, show how more modern material builds on the base laid by the giants in the fields we cover.

2. Collins (2001).

3. See Deming (1986); Juran (1988). LEAN Manufacturing is Toyota’s approach to quality and process improvement, and Six Sigma is Motorola’s. The Capability Maturity Model (CMM) and CMM Integrated (CMMI) were developed by the Software Engineering Institute at Carnegie Mellon University.

4. Tichy (1999).

5. For an overview of the project management body of knowledge, see the Project Management Institute Web site at www.pmi.org.

6. See McGregor (1960); Likert (1961); Likert (1967); and Block (1991).

7. Adapted from Appendix 11 in Likert (1967).

8. The KEYS instrument is available from the Center for Creative Leadership in Greensboro, N.C., at www.ccl.org; the Organizational Assessment Survey is available from the U.S. Office of Personnel Management at www.opm.gov/employ/html/org_asse.asp.