NAVIGATING THE BERMUDA TRIANGLE OF GROWTH

CLARKSTON CONSULTING

A wise man once said that the things that make you great can also become your biggest weaknesses. Nothing is more true of the cultures of many successful growth companies. They are filled with the stories of the herculean efforts of top sales people, the genius creations of their greatest innovators, or perhaps the simple and humble ways of their founding families. These are at the very fabric of a company – what made them great and what gives them confidence that they will endure into the future.

The challenge with culture is that it needs to mature. When the people who used to “do the work” are put into positions where they need to “manage others to do the work,” a subtle but fundamental shift occurs. For the company to grow, activities can no longer be single-threaded through the heroes of old. Accountability, authority, and responsibility need to be delegated. Those in charge need to be sure that the decisions being made when they’re not in the room are just as good as those that were being made when they were.

This is a very difficult shift to achieve but it’s necessary for growth. Companies get caught in the Bermuda Triangle when they are unable to put the processes and systems in place to scale beyond the established networks of individuals – individuals in some cases that may have been great with previous responsibilities but struggle transitioning into global strategic leadership and execution.

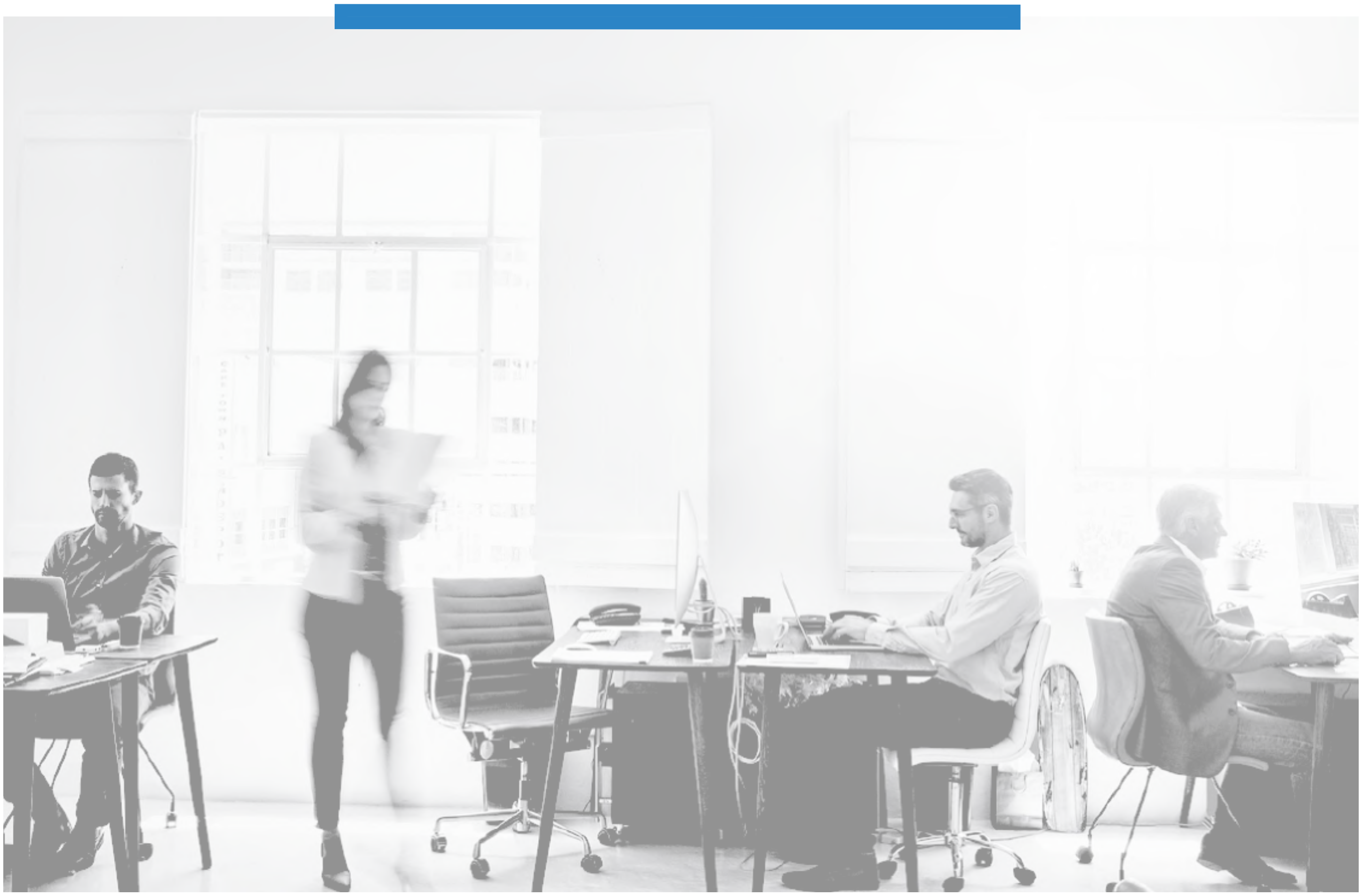
If you are going to grow as a global company, the answer lies in strong leadership with a clear mission and vision, respecting the organization’s unique history, and the courage to mature the culture by introducing process as a discipline. Process discipline that allows work to be delegated with confidence, that allows good decisions to be made quickly, that minimizes layers of bureaucracy, that has clear accountability, and most importantly, that optimizes the whole, not one division or business unit.

The first step any organization must take on their journey to navigate the Bermuda Triangle of Growth is to focus on its people with real leadership training and organizational change management. Then, once they are able to see how their behavior is inhibiting their ability to grow, they can begin to work on the organizational structure and process discipline necessary to fix it.

ORGANIZATIONAL STRUCTURE IN THE BERMUDA TRIANGLE

Knowing how to manage organizational structure and the growing pains companies suffer as your business travels through the Bermuda Triangle of Growth will optimize sustainable success and growth. To help you identify whether you are traveling through this complex zone, here are a few signs that can help you detect it:

- Functional kingdoms grow to new heights. The strength of silos increases, vertical layers multiply, and separation among them becomes apparent. Leaders continue to foster and nurture their "kingdoms" within the organization, protecting their own. As a result, key steps fall through the cracks, resting between the gray areas that are unattended by the newly created divisions.
- Great divides and rivalries begin to emerge. Animosity between sales and supply chain, sales and marketing, supply chain and manufacturing, "the business" and IT, or corporate and regions, to name a few, become topics of everyday conversation, rivalry, and agitated discussions. Even worse, passive aggressive behavioral patterns begin to emerge where individuals show support in public but take subversive action – or no action at all – in private.
- Complex matrix organizational structures are implemented unsuccessfully. Most include unenforceable reporting dotted lines. In addition, there is a proliferation of marginally differentiating titles, coupled with an abundance of vice-presidents managing other vice-presidents.



- Misalignment and unnecessary red tape slow down business as usual. Approvals begin to take longer than ever before. When things fail, there is usually finger-pointing without true root cause analysis. Bureaucracy ends up significantly slowing down the decision-making process.

- The voice of the customer becomes harder to hear, which makes it harder to respond. With all of the signs above occurring, focus is taken away from the ever-important customer. When feedback comes in it is often shrouded, then filtered by layers of communication, after which it's difficult to ensure that corrective actions are taken.

An inadequate organizational structure forces companies to drift away, deep into the swells of the Bermuda Triangle. Without swift changes, the structure continues to gain complexity, even though its strength is diminishing. Over time it becomes so fragile, stagnating its growth, and rendering the company irrelevant. What is imperative is to conduct a thorough evaluation of the appropriate organizational structure needs, based on the current and expected conditions of the company. It is strongly recommended to challenge long-standing, siloed power structures and to ensure that the new structure provides the right foundation for organizational growth.

First, define the roles, responsibilities, and skills that will propel the organization forward, and then look to fill these roles with the right people, not just those available. Usually this exercise results in enterprise-wide restructuring.

Great companies – those who get it right – do it quickly and transparently, without ambiguity; for this to happen, difficult conversations must be handled tactfully and tough decisions must be made swiftly. Always keep in mind that the right organizational structure can deliver a competitive advantage as you implement growth strategies.

Setting the right foundation will foster innovation, collaboration, and agility, ultimately enabling growth. Done properly, organizational structures will allow process to scale as the company reaches new dimensions. Clearly defined ownership and accountability of budgets, goals, and decisions allows for faster adjustments to market conditions.

In my experience, although simple is good, transparent is better. A full understanding of the organization's transition, from both an individual perspective and a leadership view, will lead to faster adoption and execution. A new organization, built with flexibility and evolution in mind – built for the future – will lead you out of the Bermuda Triangle triumphantly. Don't miss the next blogs in our Bermuda Triangle series on process discipline and technology.

PROCESS DISCIPLINE IN THE BERMUDA TRIANGLE

Following an understanding of the necessary organizational structure, businesses should focus on process discipline, which can be best described as converting predictable, high-quality inputs into high-quality, on-time outputs using a repeatable set of controlled activities.

Over the past few years, a growing number of our clients have requested process maturity assessments that cover the operational side of the business (e.g., order-to-cash and supply chain). In a surprising number of these assessments, we've discovered an all too familiar set of symptoms:

- The organization had become dependent on a relatively small number of knowledge holders (i.e., the only individuals in the company who actually knew how the processes worked).
- Employees complained about too many "information only" meetings.
- Information exchanges between departments was fragmented (i.e., email and Excel had become the system of record even when the ERP system was operational).
- New employees were frustrated by the lack of clearly defined roles and responsibilities, and overall process discipline.
- Every day was like "Groundhog Day" – unplanned, with new priorities taking precedence over those previously on the docket.

Communication systems were broken, and management often experienced frustration over delivery errors and overhead costs; however, they didn't try to identify and understand the root cause of

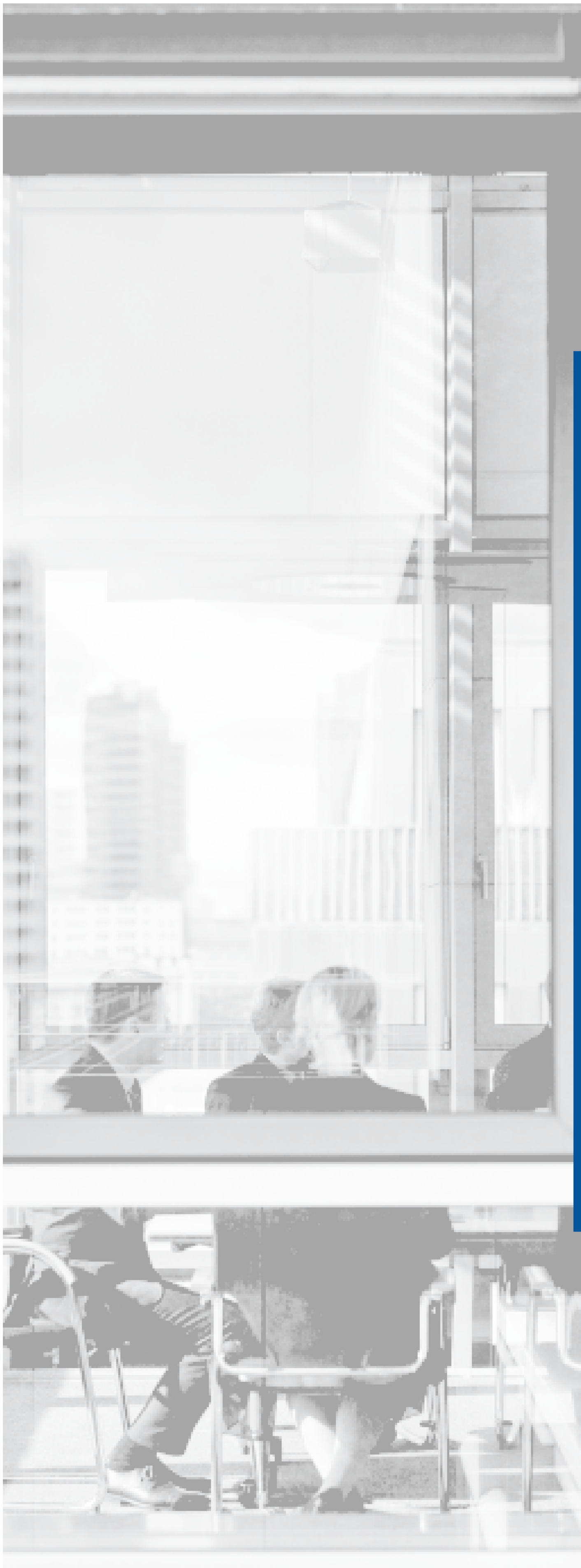
the breakdown.

The increase in process maturity assessments is a relatively recent trend, and it begs the question: Why now? One hypothesis is that now, more than ever, there is a need for innovation-fueled growth. Whether an early stage biotech with only a handful of commercial products, a new to market food or beverage start-up, or a smaller medical device company trying to gain a foothold in a saturated market, innovation is at the core of their success.

Unfortunately, at some point, the push for innovation and speed-to-market can overwhelm the process capabilities of the organization. This often results in unplanned breakdowns in communication, roles & responsibilities, and ultimately product and service quality. Even worse, this innovation-driven mindset has led some organizations to believe that project management disciplines, which are necessary for new product innovation, are the optimal way to run the entire organization.

Unfortunately, the competencies that contribute to effective project management are inherently opposed to the process disciplines necessary for delivering consistent products and services. That is, in a "project" organization, critical success factors include: speed (driven by level of effort), agility, and employees' abilities to stretch beyond their assigned roles. In a "process" organization, we find just the opposite. Speed is achieved by removing waste and being lean, not by increasing the level of effort. Taking responsibility for one department's outputs, or fixing the quality problems of another, creates unplanned bottlenecks and rework delays.

Finally, repeatable, scalable processes generally aren't agile unless there are dedicated sub-teams or technology-based solutions that are focused on that particular need. So, in order to continuously innovate – and to sustain the growth that often accompanies it – process discipline and project management competencies are both essential. Failure to maintain an appropriate balance between the two will only end



in one result: a journey into "The Bermuda Triangle of Growth." Once you're there, there are few options short of taking remedial action. Invariably, this implies making investments in people, processes, and technology in order to bring process capabilities back into focus. That's our experience. What's your take? Do you have another point of view as to why process discipline is waning in many organizations today? We welcome your thoughts, and encourage you to read our next post on technology.

THE TECHNOLOGY LIFE BOAT: ARE YOU IN OR OUT?

Information technology (IT) and the challenges faced by IT executives as they try to lead their companies out of the Bermuda Triangle is a critical component with implications impacting the entire organization.

It's very academic to say that once you have your people, organization, and processes aligned, you can then implement systems to support your business. But unfortunately, as anyone with IT experience will tell you, reality doesn't work that way. Business is a moving target, and for IT to be valuable, it needs to provide a stable platform that enables the business to evolve and react better, and more quickly, than the competition.

Because of where they are in their organizational evolution, Bermuda Triangle companies often exhibit the following IT traits:

- Silos proliferate across the organization, each division, region, and business function comprising its own. This has created redundancy, but no one wants to be the one to change. Also, non-IT personnel in these silos start building "edge systems" when their requests are not met by an overwhelmed IT group.

- Disjointed and inconsistent master data leads to an inability to recognize the basics of the business, causing inaccuracies and poor planning among divisions, and across the organization.

- IT governance is stifling or non-existent and implementing changes seems to take too long.
- Decisions regarding platforms and applications are made based on political power and opinions, rather than facts and expected return on investment.
- Leadership challenges the value of IT investment, even though IT investment is well below benchmarks.

Companies in the Bermuda Triangle have many issues they need to address and technology is generally one of them. If you are in an IT leadership position, here are a few items to consider as you aim to propel your organization to the next level.

IT leads the way when breaking down silos. If you are trying to provide a common platform for growth across divisions, regions, or business units that have operated autonomously in the past, be prepared for a fight. If you are at the Bermuda Triangle stage, it is very likely that no other organization-wide “harmonization” initiative has ever been attempted. The key to success will be to get sponsorship – not just from the “top” of your company, but also from the division, region, and business unit heads with whom you’re working. They need to see and understand the value of creating a common platform to support growth. Yes, there needs to be a business case, but there should also be a shared vision and established goals to achieve it. In this regard, IT leadership needs to be knowledgeable about business issues and should make every effort to solve the most important ones directly. Skip the talk of features and functions and stay focused on solving problems, and on hitting the top and bottom lines. Such support will be critical as you try to pave the way for change.

Don’t leave choices about platforms and applications solely in the hands of your legacy personnel. Empower outsiders, either through hiring or engaging with third parties, to bring in unbiased perspectives. Also, don’t make decisions solely within IT. Interview key business customers to get input about what they like and don’t like about current systems. And finally, definitely don’t take it at face value if your due diligence team says you can extend current applications for little cost; this is always an attractive answer. We see this often when certain stakeholders are trying to hold on to a legacy or tier two ERP system. Our experience is that this is usually recommended when someone wants to make an alternative look more attractive than it may truly be.

If you are at the Bermuda Triangle stage, it is likely that your approach to IT governance will not scale up to take you to the next level. Until this point, it is also likely that you have everyone in the room, each needing to approve changes, with one or two people from IT that truly understand the implications of the change, and that can help guide "approvers" in the right direction. This is yet another example of relying on people rather than process. And for companies trying to get out of the Bermuda Triangle, this is no longer going to work.

Making the IT group too senior or too junior has specific ramifications for the soundness of decision making, and also for the speed at which changes can be implemented. Leading companies are actually turning the IT governance model on its head, using rapid decision making processes and technologies (yes, IT to govern IT) which gather input from across the organization to make faster, better decisions. Consider looking into these new, leading practices rather than just trying to make a larger version of what you do today.

Fix your data first. This is going to sound odd to say, but before you embark on any kind of system design, consolidation, platform extension, etc., build your company an enterprise-wide data model. Sound too tactical? Well it's not, particularly when you realize the implications of skipping this often overlooked step. Addressing data (i.e., what people call things) is just as important as addressing processes (i.e., how people do things).

Oftentimes, companies begin implementing corporate applications and realize that they need to improvise (sometimes crudely) to support common reporting and decision making across the organization. And nothing will disenfranchise sponsors like impairing their reporting capabilities. To ensure that this doesn't happen, start with an enterprise-wide data model – it really is a small price to pay in the scheme of things.

If you have any questions, want to continue the discussion, or would like to learn about Clarkston's experience guiding companies out of this complex phase, please contact us.

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