

# A Framework for Organizational Alignment





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# Why is

# Organizational Alignment Important?

**Organizational alignment** creates tremendous power as the entire workforce is focused on the main direction with little dissipation of energy on areas that do not contribute to the strategy. What is needed is a framework for alignment that will enable the organization to be flexible and to respond rapidly and consistently to the changes in the environment. The primary goal of management is to create value for its customers, shareholders and employees by executing well-defined strategic objectives. In the past, with enough time, organizations could make incremental changes and adjust to the operating environment. Today we realize that this approach is wasteful as without a focus, individuals work at cross-purposes and processes are sub-optimized, resulting in the inability to achieve substantive growth and a forward momentum that yield significant bottom-line results.

# What is Organizational Alignment?

Previously, managers relied on hierarchical rules and policies to exercise control and keep the organization moving in the required direction. With constant change, this approach is a liability as there is a need to keep the company focused and, at the same time, allow it to be creative and flexible. Organizational alignment is the ability to clearly articulate what is important and then to allow this to be the main driver of all activities performed. One can consider two aspects of alignment - **vertical** and **horizontal alignment**.

## — Vertical Alignment

Vertical alignment involves communicating and deploying the strategy, in a structured form, from the top of the organization to individuals who are working in various areas. The deployment process translates the strategy into clearly defined tactics that can be monitored and influenced daily. This fosters an understanding of the overall direction of the company and enables everyone to appreciate the integration of different activities and initiatives. It is also important that

managers, who set the strategy, receive feedback from the organization on the effectiveness of their approach. This two-way process of setting strategy and receiving feedback provides information on organizational capability. Thus, the framework for alignment should address a continuous two-way process- top down and bottom up.

## — Horizontal Alignment

Horizontal alignment ensures that the organization is 'hard-wired' to the needs of the customer. The achievement of customer satisfaction has constantly been the mantra of most companies. However, internal units who do not serve the external customer directly have often experienced difficulty in understanding and interpreting the expectations of the external customer. Functional units within the company need to ensure that they are creating value by satisfying the needs of their internal customers. If this mind-set is not embraced, then units tend to generate waste. Internal units can begin to facilitate horizontal alignment by ensuring that their processes are defined starting with the needs of the external customer and deploying this throughout the organization.

## INDIVIDUALS NEED TO ADDRESS THE FOLLOWING QUESTIONS:

- ☑ What is the purpose of the unit or department?
- ☑ Who are my internal customers?
- ☑ What do I deliver to the internal customers?
- ☑ What do the customers expect?
- ☑ What measures could be used to demonstrate customer satisfaction?



Alignment must be structured, consistent and continuous. Just as a ship at sea has to continually make adjustments to compensate for the wind and the strength of the ocean, so too must the organization constantly monitor and modify its strategy and tactics in response to changes in the external environment.

The framework for organizational alignment is the methodology for achieving 'constancy of purpose' and describes a business model that integrates concepts of organizational development with basic philosophies and tools of quality. The four components of the framework are:

- ⊗ Performance measures developed by upper level management
- ⊗ The Deployment process
- ⊗ Closed-loop system, used to monitor and respond to performance
- ⊗ Review process, to ensure continual alignment

# Select Performance Measures

The famous quote “you cannot manage what you cannot measure” is often used to emphasize the need to select and use the right measurements.

Performance measures can be defined as the quantitative means for evaluating the products and services in a system. Organizations need to know their progress towards an outlined strategy. Performance measures, when clearly selected provide the means for articulating the vision in a form that everyone can understand.

## The selection of measures by senior management begins by:

- ☑ A review of the vision, mission and values of the company.
- ☑ The strategy that outlines how the vision will be achieved.
- ☑ Defining the current situation of the organization –its strengths and weaknesses.

- ☑ The relationships with the customers
- ☑ Internal technical capabilities and constraints

Performance measures should relate both to the current situation and to the overall direction of the company. This will give managers the ability to chart a course and monitor the company's progress. The measures selected should also be broad enough to provide information on the overall health of the company. Data should be collected in a form that allows the evaluation of performance in small time increments. If this is not done, the measures will all be lagging indicators, which can only provide a historic perspective on organizational performance.

# Develop

## A Structured Deployment Process

Once measures are defined by the senior management, a process is needed to translate those measures into something meaningful for everyone. The interest at the top of the company is usually quite broad where as further into the organization the measurements become increasingly specific. The measurements should also be relevant to the work performed by the people or the act of measuring will add no value. The deployment process should be well structured and carefully managed to allow for the selection of measurements that contribute to the direction of the company.

In some companies, a structured process is used to translate metrics from one level to another. This is called the Hoshin Kanri or Policy Deployment.

It is important not to dictate the measurements to the people in the company. Instead, care should be taken to communicate the measures that are important to

the organization and why. Then teams, units or functional groups, should be allowed to select the measures that they believe will be relevant to enhancing the progress of the company. Encouraging teams to select the measures in their area allows them to own the process of monitoring and responding to the measures in the right way.

Measures at the top of the company are broader in definition. However, as measures move down they become more specific and are more narrowly defined. The corporate financial measure, Return on Net Assets (RONA) identified at the top by senior management is linked to the next level by measuring Inventory turns and output/equipment. At the Plant Management level, these inventory measures lead to the consideration of manufacturing cycle time, inventory days on hand and vendor lead-time. At the department level, the measures that are connected to those above are machine downtime, First Run Yield and the number of unplanned product changes. The process drivers which impact downtime are the time it takes to changeover equipment after a production run, the number of equipment failures, and the number and condition of the parts available for a production run. The ability to link measures enables managers at each level to control his or her team's performance to the measures identified. Linking the measures in this way provides the structure for ensuring constancy of purpose. All individuals will be familiar with what is important and how they support the overall direction of the company.

This structure is useful in departments that have not traditionally tracked and responded to performance measures. For example, in considering safety, the corporation might be interested in the accident rate, while the plant manager will evaluate the number and types of accidents in each plant. Each department might be concerned with and keep track of the number of unsafe acts. This measurement is focused and may be considered as a leading indicator of accidents.

### Guidelines for deploying measures:

- 1** The measures selected should relate to the previous level. The use of a Deployment matrix will help groups to link measures to those of previous levels.
- 2** Measures selected should also be related to the ability of the unit to satisfy internal customers. For example, the preventative maintenance department should be concerned with their response time to a request to fix equipment, the number of times the same equipment needs to be repaired, and the ability to accurately predict and execute the maintenance program before the equipment goes down.
- 3** The measures should reflect the activities that are under the control of the respective individuals. Individuals should not be collecting and monitoring data of other areas.

- 4 Measures selected should drive action. This means that they should be leading indicators rather than lagging indicators.
- 5 The team should have the ability to monitor and review the measures selected on a regular basis.

Organizational alignment ensures that all individuals understand the overall direction of the company, and is focused on their contribution to the strategy on a day-to-day basis.

# Use

## A Closed-loop System

Once measures have been identified at each level, then steps need to be taken to impact or change performance if it is moving in an unfavorable direction. This is done in the following ways:

1. **Measures selected should be displayed using a trend chart**

The use of the chart is to show performance of the process over time. In fact, the trend chart reflects what the system is able to produce. It is important to review the performance by analyzing the trend charts. For example, if the operations department is concerned about effective equipment utilization, then a trend chart could be used to evaluate downtime of the equipment in the facility in weekly increments.

2. **Pareto charts should be developed.**

This will identify the magnitude of the components that drive or impact the trend. In many cases, the performance identified on the trend chart may be too broad in scope. The Pareto chart is developed cumulatively and shows the

biggest systemic contributor to the performance indicator. If the Pareto chart is developed on a weekly basis, then the response to the largest item might drive short-term thinking and a fire-fighting approach to problem resolution. The Pareto chart associated with the trend chart for equipment downtime may have categories such as change over time, number of equipment failures, and material availability as the basic drivers of equipment downtime.

### **3. A structured problem solving activity**

This is essential as it focuses on the primary issues identified on the Pareto chart and tries to determine the root cause –the main reason why the problem is occurring. The intent at this point is to evaluate the system and identify any systemic issues that could be causing the problem to occur. The problem solving activity is, therefore, aimed at not only identifying the constraint, but determining appropriate systemic solutions and instituting them so the problem would not recur. For example, if equipment changeover is the primary cause for equipment downtime, then the problem solving activity may need to be focused around reducing the time required to change tools.

### **4. Monitor Effectiveness**

In many cases, it is often easy to think that problems have been 'fixed' however, what actually happens is that short term actions are put in place which may have long term unintended consequences. This occurs because the system

issues have not been addressed. The importance of monitoring the effectiveness of corrective actions is to ensure that initiatives are sustained and do not cause problems in other areas.

## 5. Performance measures

Performance measures should be reviewed on a continuous basis to identify opportunities for continuous improvement.

The closed-loop system needs to be used at every level of the company, and encourages the process of problem identification as well as effective problem resolution.



# Establish A Review System

An important component of maintaining organizational alignment is the ability to develop and use a structured and consistent review system at each level. The frequency of the reviews will vary depending on the level of the organization doing the review, and whether there are critical issues that need primary focus. For example, if a plant has a high reject rate, or may have a poor on time delivery performance, it may be necessary to review performance weekly.

In general, the review process at the management level should take place every two weeks or once per month. At the department level, reviews should be done once per week, while on the frontline it should take place daily or hourly depending on the process.

The strategy for review on the frontline may be slightly different from those at higher levels of the company. At the frontline, the review process is identifying anomalies, i.e. special causes of variation. For example, a dimension on a part might be out of the required specification because of tool-wear. The individuals on the frontline may have the ability to immediately respond to tool wear. At

other levels of the company, one might more easily identify basic causes of tool wear such as types of tools selected, and the method of using the tools. This might require the need to perform tool studies to identify how long the tool should last and to use this information to change tools before they become a serious problem.

Through the review system, individuals or departments are continually held accountable for performance and the actions that are being taken to make the necessary changes. In addition, the review system provides the vehicle where the organization can continuously evaluate its performance and make changes towards continuous improvement. Periodically the company should question the need to track certain measures and add or delete measures in response to changing needs of the environment.

Using the review system, the company is able to understand activities at all levels of the company and to evaluate the extent to which they are aligned. It also prevents several groups working on the same problem because there is now a process through which the organization is kept informed on the projects that are in progress. The structure of the review system therefore provides the format for top down and bottom up communication.

# | Summary

Organizational alignment is both vertical and horizontal. Individuals need to be both aligned to the strategy and the needs of the customer. Creating a framework that provides a means for linking the entire company provides the mind-set where everyone knows how decisions are made, and how they add to the corporate value. Also, effective communication begins to occur throughout the organization.

Communication from the boardroom to the frontline starts with a well thought-out strategy which is used to guide the selection of leading indicators, for the whole organization, which will be measured. These measures will, in turn, be used to guide the selection of leading indicators, for a department or unit, which are then measured. Finally, the department or unit measures are used to guide the selection of frontline measures. Through this linked selection process, the frontline personnel know what is required, on a daily or hourly basis, to meet the goals established by top management. Changes in direction by top management are communicated throughout the organization merely by selecting new measurements and deploying them all the way to the frontline.

# Author



## Norma Simons | President Performance Innovation LLC

This white paper was written based on work performed with several companies to implement a Business Operating System – a process for management that is aimed at executing the strategic plan.

### Contact information:

Visit: [www.performance-innovation.com](http://www.performance-innovation.com)

Email: [norma@performance-innovation.com](mailto:norma@performance-innovation.com)

Contact Number: 248 529 6701

