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IMPROVING THE PRACTICE OF MANAGEMENT

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## Organizing to execute: It's in the DNA

*Thankfully, organizational DNA can be changed or modified, a distinct advantage when the behavior of certain managers, for example, throws programs or goals off the rails. Organizational DNA also has building blocks, which can be manipulated and modified. These authors explain how it can be done.*

By David G. Knott and Gary L. Neilson

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Executives continually lament the amount of time they spend wrestling with organizational problems rather than building their businesses. From the CEO on down, managers routinely express the same frustration: "We have the right strategy and a clear action plan, but we can't seem to execute."

Why is that? The answer, in our experience, too often lies within the organization itself, or, more specifically, in the way it informs, empowers and motivates individuals. Anyone who has worked in an organization of any size, whether in the public or private sector, has seen firsthand the individual counterproductive behaviours that can impede performance. We have all sat in meetings where someone advances his or her own agenda over that of the enterprise. We've collectively suffered when decision-makers -- overburdened or lacking access to the right information -- delay or cause programs and processes to

become inefficient. Everyone has experienced the struggle to get different organizational units or functions to work together toward a maddeningly elusive common goal. Individually, these behaviours are irksome; collectively, they can spell the difference between success and failure. Yet few organizations have discovered the right formula to fix these common problems. Most of us, sadly, are still living inside a Dilbert cartoon.

### The power of the individual

The first step to breaking out of these typical and debilitating patterns of behaviour is to recognize how and why the inherent traits of an organization influence, determine and even predict the actions of each individual within it. Organizations are not monolithic entities; they are collections of individuals who can usually be expected to act in their own rational self-interest. These individuals each make decisions and trade-offs every day that are bounded by their access to information and their anticipation of the incentives or consequences that will result from their actions. The challenge in motivating superior performance, then, is to design an organization that aligns individual actions with the actions of others and the interests of the firm as a whole...every day...at every level.

### Organizational DNA

Achieving organizational alignment takes different forms from company to company. There is no one right answer, as each organization is unique. What is universally true, however, is this: the four building blocks of organizational DNA -- decision rights, information, motivators and structure -- must be tightly integrated and mutually reinforcing (See Exhibits and Figures are on pages 5 & 6). They must work together rather than at cross-purposes to solve execution breakdowns and move individuals in a common direction.

We use the DNA metaphor because it is useful in understanding the idiosyncratic characteristics of an organization. Like the DNA of living organisms, the DNA of living organizations consists of four essential building blocks which combine and recombine to express distinct identities or personalities (see Sidebar on page 5). These organizational building blocks -- decision rights, information, motivators, structure -- largely determine how a firm looks and behaves, both internally and externally. The good news is that, unlike human DNA, organizational DNA can be modified.

**Decision Rights.** Who decides what? How many people are involved in the decision process? Where does one person's decision-making authority end and another's begin?

**Information.** How is performance measured? How are activities coordinated and knowledge transferred? How are expectations and progress communicated? Who knows what? Who needs to know what? How does information get from the people who have it to the people who require it?

**Motivators.** What objectives, incentives and career alternatives do people have? How are they rewarded, financially and non-financially, for what they achieve? What are they encouraged to care about, and by what means, whether explicit or implicit? Are their goals aligned with the organization's goals?

**Structure.** What does the organizational hierarchy look like? How are the lines and boxes in the organization chart connected? How many layers are in the hierarchy, and how many direct reports does each layer have?

Notice that structure is last. There are situations where it acts as the chief impediment to an organization's effectiveness and therefore must be addressed first. But structure is not the "secret sauce" of organizational success. A "restructuring," in the absence of aligned changes to the other building blocks, rarely produces sustained positive results. It is the capstone, not the cornerstone, of most effective organizational transformations.

In fact, any solution that focuses on only one of the *four* building blocks will likely fall short. Instead, organizations need to address, adjust and align all four organizational elements, to foster a complementary system that supports execution.

For example, let's look at the Military Precision organization. Here you have a highly disciplined and tightly controlled operating model, in which decision rights are centralized at corporate headquarters and delegated, on a limited basis, to field operations. The reason the Military Precision model is healthy and so effective for certain types of organizations (e.g., those that handle large volumes of similar transactions) is that its information and motivators are aligned with these decision rights; they reinforce this crisp, tightly delegated operating model. Mission-critical information is centralized, so it's available to decision-makers at the top, who provide it to front-line managers as needed. Motivators reinforce efficient and disciplined behaviours.

Fits-and-Starts organizations, on the other hand, are unhealthy because their building blocks are fundamentally misaligned. The organization is highly decentralized in terms of decision rights, and yet relevant information is hoarded at headquarters. As a result, regional managers fly blind in making decisions that will affect the entire company. When some of these decisions inevitably prove to be wrong, it is not because the decision-makers were ill-intentioned, but rather because they were poorly informed.

In general, when building blocks fit together well (i.e., they are aligned and complementary), organizations produce results. They deliver on their commitments to customers, shareholders and employees. However, if any of the four building blocks is misshapen or misplaced in the organizational puzzle, the company will not achieve its full potential. The challenge for managers charged with delivering results is to then determine what changes to the existing organizational DNA are necessary to align the building blocks and create the conditions for optimal performance.

In the case of the Fits-and-Starts organization, the object is to decentralize information or centralize decision rights to create a mutually reinforcing organizational system. The 7-Eleven organization is an excellent case study of this sort of transformation.

It's hard to believe that less than 15 years ago, **7-Eleven**, then known as Southland Corporation, filed for bankruptcy. A classic Fits-and-Starts company, it had lost focus as entrepreneurial store owners and unfocused corporate executives took the brand in different directions. The company diversified into unrelated businesses such

as oil refining, auto parts and real estate development. Meanwhile, the core business -- convenience stores -- was squandering its purchasing leverage as each owner stocked his or her own shop. The highly decentralized structure that had worked in the early years of high growth started to sputter as gas stations and 24-hour drug stores began copying 7-Eleven's competitive formula. Indeed, they quickly commoditized many of 7-Eleven's core products.

Recently retired CEO Jim Keyes describes the old Southland as a boa constrictor who had swallowed a pig. "The irony was that we were not only decentralized, but we had built up a tremendous amount of corporate staff...which was inconsistent with the idea of being decentralized. So I depicted us as a boa constrictor, in which all of the authority was bunched somewhere in the middle at the division level...which made us neither nimble at the street level, nor effective in leveraging our corporate purchasing power.

"And what I was trying to build was more of a rattlesnake. One end is pretty important with the rattle. And the other end is pretty important, too, with the fangs. And that's how we've restructured in this new environment. We've pushed more authority and decision-making into the store, because, with information technology, we now have decision-making tools that allow us to truly empower that store operator.

"We're also pushing more authority than ever before to corporate decision-makers so that we can truly leverage our buying power because we're a bigger customer of many products than Wal-Mart. And it was time we enjoyed the kind of buying power and leverage that Wal-Mart does. So, today we're trying to accomplish just that." <sup>1</sup>

Central to that mission is communication, and that's why 7-Eleven has collapsed its management layers from 11 to seven, including the CEO and store manager (see Exhibit 2). And that's why it communicates, then communicates again, and then communicates again every week.

Bright and early each Monday morning, the eight members of 7-Eleven's executive committee and invited guests convene to discuss strategic issues and survey the week that was and the week that will be. Armed with the "book" issued the Friday before, they know -- for each of the 2,500 products in the 7-Eleven inventory -- what is moving and what is not in their 5,800 stores across the

United States and Canada. They have exhaustive intelligence on new products and promotions. They are ready to solve high-level issues and plot the tactical course for the week ahead.

By 11 a.m., the senior executive team has determined the week's priorities and is ready to relay them to the leadership of the company -- all vice-presidents and above. During the first half of a weekly two-hour national video conference, division VPs go over the updated forecast for the month and the quarter, and discuss strategic topics. While the give and take is spirited, participants always reach agreement, in keeping with one of 7-Eleven's core operating principles, "Together when we leave." At noon, department heads, product directors, category managers, and sales and marketing managers join in for what is called the "Obstacles Meeting," to discuss issues at the store level that need to be escalated for corporate resolution. Topics cover the gamut from replenishing the stock of Gatorade during a heat wave in San Diego to fixing systems bugs in a new program rollout. Issues are identified and accountability clearly assigned. In fact, issue "owners" can expect to see their names on the following week's agenda for a resolution/progress report.

The communications cascade does not end there. In truth, it is just beginning. As people emerge from the 11 a.m. meeting, many head to staff meetings and divisional communications meetings.

Then, on Tuesdays at 11:15 a.m., 7-Eleven's nearly 800 field consultants -- each of whom oversees a group of stores and ensures compliance with corporate standards -- are debriefed. The hour-long video teleconference starts with a message of the week from the company's chief operating officer, Gary Rose. Then, the call quickly covers case studies, new merchandising issues, featured products, learnings from test markets, everything the field consultants need to know to educate store owners and associates about that week's priorities. Finally, the CEO wraps up with a closing message. Often he'll reference a visit he made to a 7-Eleven store that week or an upcoming special promotion or tie-in. When these consultants are out in the field Wednesday through Friday, they know exactly what news to deliver to the stores because they've heard it directly from the top.

While time-consuming and repetitive, this weekly drill has been integral to 7-Eleven's resurgence and sustained success over the past nine years. In fact, as of October,

2005, the company has reported 36 consecutive quarters of U.S. same-store merchandise sales growth, an unprecedented feat in the grocery/convenience store sector.

The four building blocks: Integration is everything

No building block stands alone; it's how they combine to create an organization that really matters. That's one of the features that distinguish this approach to organizational design: it considers all the factors that determine and predict an organization's ability to execute, and how effectively they are integrated. Only in combination do the four building blocks become the key to unlocking superior performance. And that combination must be cohesive and coordinated.

Considering structure or any other element in isolation misses most of what drives an organization to execute well or poorly. Still, when an organization fails to produce desired results, the usual solution is a "restructuring"; the company alters who is in charge, who reports to whom, which names go into which boxes, and so on. This is, at best, only a partial answer; structural fixes by themselves have only limited effect, as do stand-alone information systems solutions or incentive pay programs.

Improving or fixing the DNA of a business means weaving intelligence, decision-making capabilities and a collective focus on common goals widely and deeply into the fabric of the organization so that each person and unit is working smartly and working together. It's one thing to get senior executives on the same page; it's another thing entirely to influence every level of an organization all the way down to the loading dock. What every employee does every day, aggregated across the company, determines results.

Yet in our experience, most management teams do not fully appreciate the role that the *combination* of building blocks plays in improving performance. Nor do managers often grasp the difficulty of their organizational challenges. Many leaders inherit organizational models, and lack the time or resources to develop a detailed perspective on how they really work. They may be frustrated by an inability to realize their objectives, but rarely do they identify the inherent assumptions, trade-offs and motivations at work in their organizations as root causes.

Instead, they look outside for both blame and deliverance. They curse their own strategy and then try to

mimic that of successful competitors or celebrated companies. But what works for GE or Dell cannot work for every organization. The DNA of each organization is unique and different.

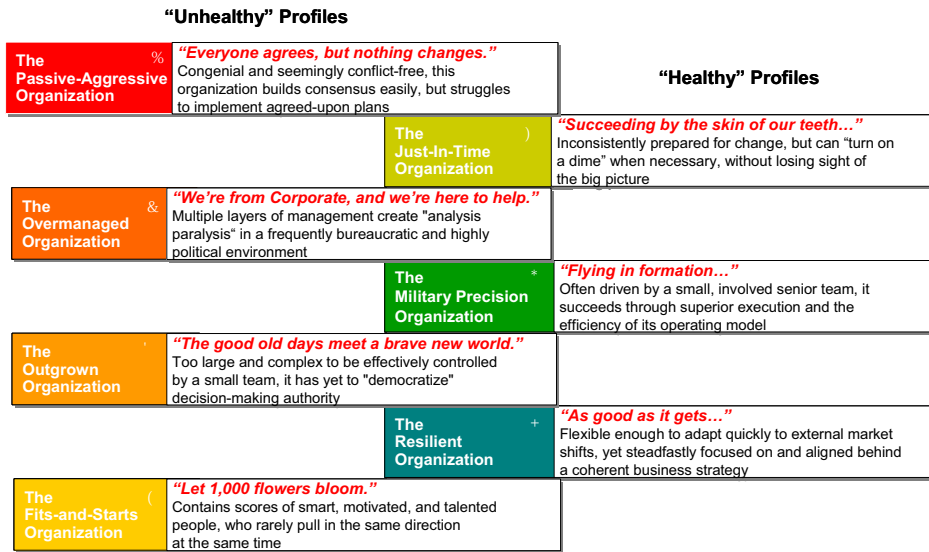
Any attempt to address a business weakness or strategic opportunity must explicitly address the underlying organizational reasons the current strategy is not working. The attempt cannot begin, as many traditional approaches do, with the conclusion that the problem lies in the strategy itself or the culture of the company. While culture plays an important role in organizational performance, it is an outcome of the organizational system, not an input. Adjust the building blocks, and you change the system. Change the system, and you change the culture. Change the culture and you unlock strategy by enabling execution. We sometimes refer to it as "culture change for engineers," because it is predicated on specific, actionable adjustments to each of the building blocks. That difference in starting point and perspective, coupled with the recognition that the task is difficult, represents an opportunity to create an enduring competitive advantage over rivals -- and leads to a fundamentally different way of thinking, not just about organizational issues, but about strategy. The most resilient and consistently successful companies have discovered that the devil is in the details of organization. For them, organizing for results has truly become a competitive edge. **I**

**SIDEBAR**

**The Seven Organizational Types**

Based on our experience working with organizations and 30,000 *Org DNA Profiler™* survey responses we've received from individuals around the world,\* we have identified seven principal types of organizations—four unhealthy, and three healthy (see Figure 1):

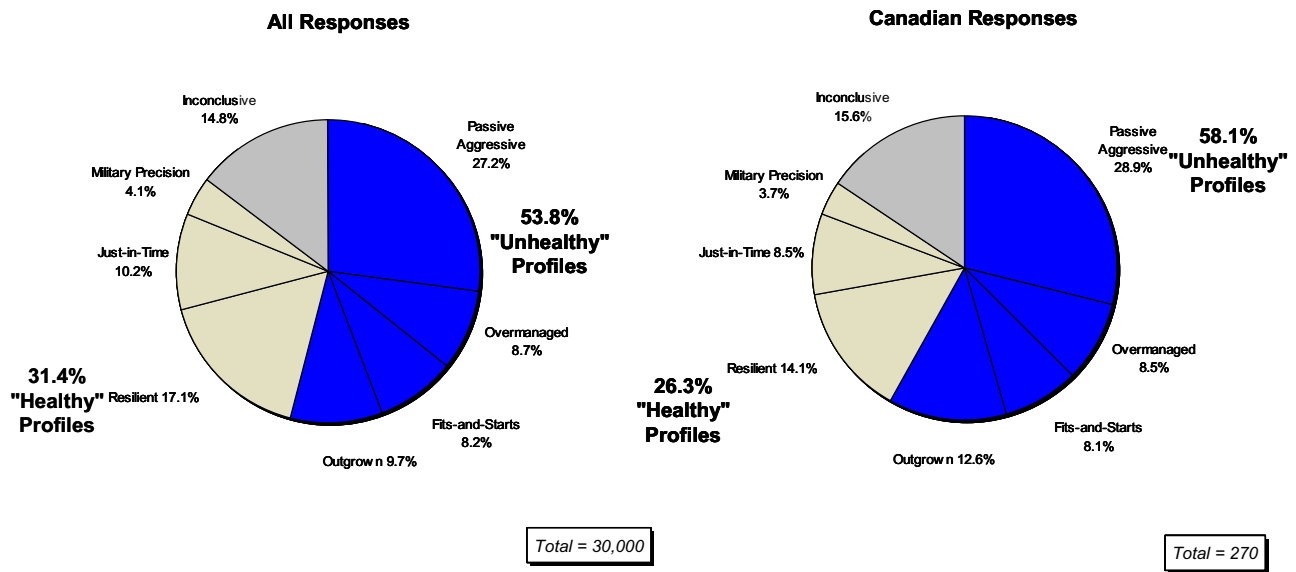
**Figure 1: The Spectrum of Organizational Health**



Source: Booz Allen Hamilton Org DNA Profiler®

\*Since we launched the [www.orgdna.com](http://www.orgdna.com) website in December, 2003, more than 30,000 individuals have completed the Org DNA Profiler® survey. Respondents come from companies of all sizes in 24 different industries, and represent every function and level in the corporate hierarchy. Since adding a field to collect country data in April, 2004, we've received profiles from more than 100 countries, including Canada (see Figure 2).

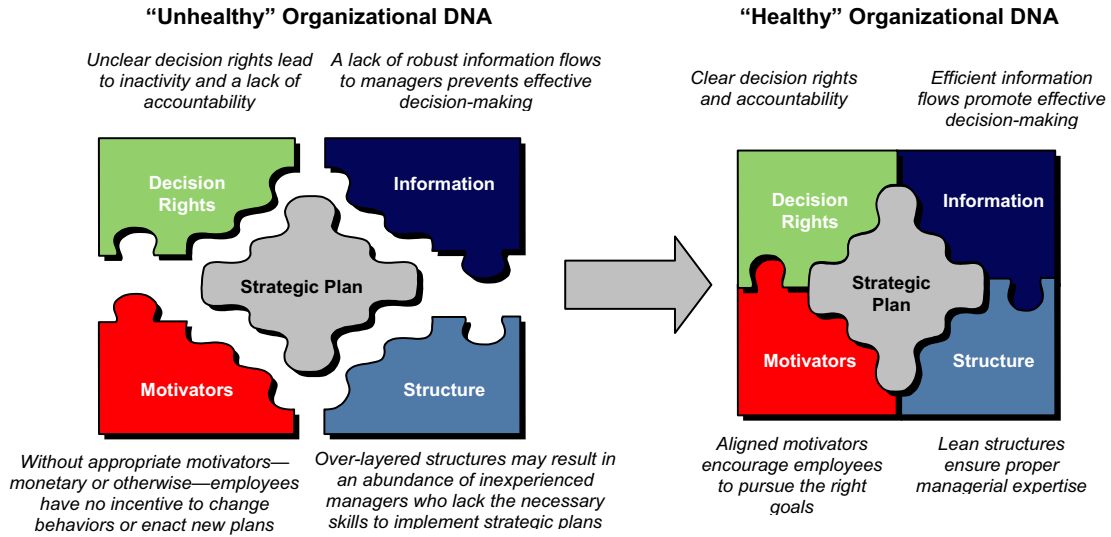
**Figure 2: Nearly 3 of 5 Canadians Report an Unhealthy Organization**



Source: Booz Allen Hamilton, Org DNA Profiler® based on 30,000 responses

## EXHIBITS

### Exhibit 1—The Four Building Blocks of Organizational DNA



### Exhibit 2—7-Eleven’s Efficient Organization Structure

