

Organizational Aging and the Role of Value Methodology



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Abstract

All organizations age over time and, like humans, they display varying levels of impairment that manifest as specific, discernible symptoms. While organizational aging is irreversible, it can be proactively managed in ways that can reduce the impact of these progressive disabilities and delay their onset. This paper will explore the concept of organizational aging; frame it within the context of the Value Methodology (VM) technique of function analysis; and demonstrate how the technique can be applied to address it.

Introduction

At the 2013 Asia Value Engineering Conference hosted by the Society of Japanese Value Engineers (SJVE) and SAVE International, the keynote speaker, Isao Hosoya, presented on the topic “How to Deal with Organizational Deterioration.”ⁱ In this presentation, Mr. Hosoya explored the concept of how organizations deteriorate over time in an irreversible way much like humans do. He detailed the symptoms, mechanisms and potential treatments to slow the aging process.ⁱⁱ This paper will further consider these factors while framing them within the context of function analysis as a vehicle for thinking more deeply about how VM techniques can be brought to bear to help organizations proactively deal with this important phenomenon.

The human aging process is well understood and does not require much explanation. Generally speaking, as the body ages, cellular degeneration occurs. The nervous system become less responsive; cognitive faculties diminish; arteries experience blockages. Organizations encounter a similar process as they grow and age. They suffer from memory loss and institutional inertia stifles innovation; communications lose their efficacy due ever increasing layers of bureaucracy; and productivity becomes less efficient as an organization’s processes become more complex and compartmentalized. All of this leads to diminishing self-awareness and increasing irrelevance from the perspective of its customers. Eventually, like people, all organizations must die.

Aging is a gradual process and if only one pays close attention the symptoms are both evident and numerous. This requires an honest self-assessment – a hard look in the mirror. Just like many people do, organizations often continue on in denial in the face of tell tale signs such as sagging revenues; customer complaints; and high employee turnover. Indeed, there are both psychological and physical symptoms. An organization must attune itself to these symptoms; assess their potential impacts; and prioritize its responses in a manner that will minimize the effects for as long as possible.

Behind every symptom of human aging there is a biological mechanism. Sagging skin is the result of cellular deterioration and loss of elasticity of the skin while high blood pressure is often related to the

accumulation of plaque within the arteries. Similarly, the symptoms of organizational aging have underlying mechanisms related to systemic internal dysfunction. It is essential that the root causes that underlie the symptoms of aging be correctly identified in order to devise an effective treatment.

The advances in medical research and technology have led to an improved understanding of human aging. Unfortunately, little serious research exists related to understanding of how organizations grow and age. As a result, symptoms often go undiagnosed for too long, resulting in accelerated decrepitude and sudden death. Much like the services of a skilled physician, the technique of function analysis is one method that can be applied to provide focus on appropriate treatments once the symptoms and underlying aging mechanisms have been recognized. Symptoms often go unnoticed due to the unprecedented complexity of most large organizations today. Function analysis can cut through this complexity; bring clarity to what is happening; and help an organization identify and pursue appropriate treatments.

Organizations can be treated for aging on a number of different levels. Within a temporal context, there are short, medium, and long term treatments that can be pursued based on the severity of an organization's age related dysfunction.

Symptoms

What are the symptoms of organizational aging? The three biggest indicators of systemic aging include distraction, sedentary behavior, and forgetfulness.

Distraction refers to the tendency of an organization to lose sight of its core mission and its relationship with its customers. An organization that is distracted from these fundamentals is at a much greater risk of deteriorating more rapidly than one that remains in alignment with its mission and customers.

One of the strongest indications of organizational distraction is ever growing complexity. Increasing complexity can have multiple aspects – it could be linked to the products and services it delivers or its own internal operations. Hosoya referred to this phenomenon as “complication.” One example of product complication is the proliferation of buttons on television remote controls (figure 1). The first televisions were extremely simple and consisted of just a few buttons to turn the unit on or off; change the channel; and perhaps adjust the volume. As the technology improved, the number of buttons steadily increased. In the illustration provided, the remote on the right has no less than 50 buttons, some of which have multiple functions.



Figure 1 - Increasing complexity of television remote controls

Despite the many benefits of technology, the related complexity often surpasses the wants and needs of the customer (figure 2). Similarly, as an organization grows and ages, operational complexity also tends

to increase. As problems and challenges arise, both internal and external, organizations typically respond by adding new processes, procedures and policies. Oftentimes, incongruities and contradictions arise between these, resulting in new inefficiencies and reduced responsiveness. One need only look at the 73,954 pages of the U.S. tax code to understand how complexity and proliferation can contribute to staggering inefficiency and lost tax revenue due to loopholes.

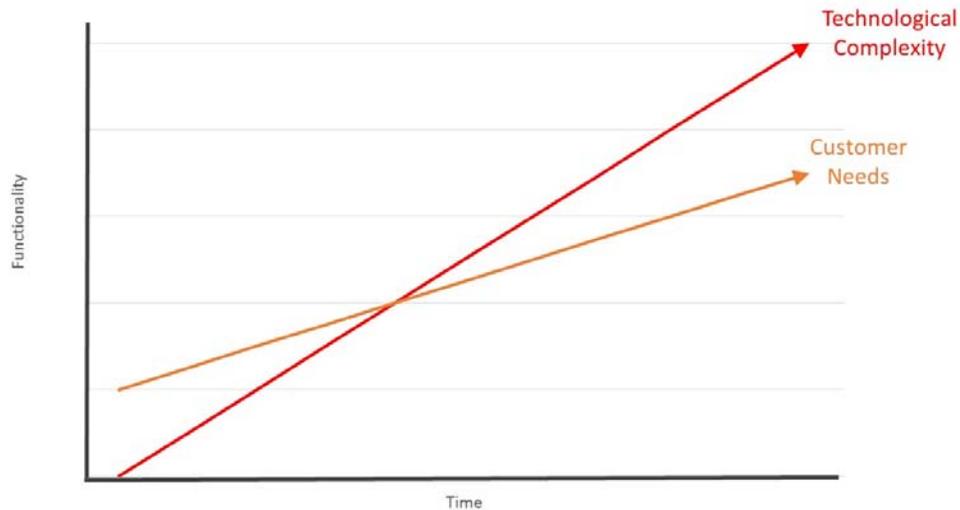


Figure 2 - Technological Complexity vs. Customer Needs

As people age, they tend to become more sedentary in nature. Organizations behave in a similar manner and suffer from two aspects of sedentary behavior. This is the second symptom of organizational aging. The first aspect is that the members of the organization tend to be more uniform and homogenous not unlike stones that are worn smooth by a swift moving stream. What once was a large population of rocks, each with its own unique character, is gradually reduce to a bed of rounded stones – each one looking much like the next (figure 3). The larger and older an organization is, the more this phenomenon is likely to occur as policies, procedures, and cultural inertia sap the creative strength from its people.



Figure 3 - The unique qualities of people are worn away like rocks in a river within an aging organization

A growing resistance to change usually accompanies this homogenization. Sedentary organizations tend also to create a culture that loathes change much like an old man who is firmly planted in his rocking chair, daydreaming of a bygone era. Resistance to change tends to grow through an organization like a

cancer until it finally predominates, snuffing out what little fresh and innovative thinking that remains – dooming it to obsolescence.

The third symptom of organizational aging is forgetfulness. Just as older people are prone to cognitive deterioration such as dementia and Alzheimer's disease, organizations also begin to suffer similar symptoms. As organizations age, the continuity of its institutional knowledge tends to consolidate into an ever shrinking pool of individuals. As the pool diminishes and key individuals are lost due to attrition, the organization becomes increasingly vulnerable of completely losing itself until nothing remains but a set of rules in which nobody understands what purpose they serve.

Another aspect forgetfulness is the tendency for the organization to get messy. This symptom tends to occur hand in hand with an increase in complexity. Organizations become enamored with the complexity, whether it is new layers of internal protocols or the latest technological innovation, in and of its newness as opposed to focusing on the needs and wants of the customers they are trying to serve. This clutter, or warrantless complexity, tends to accumulate over time. Occasionally an organization will recognize this and go through a focused “house cleaning,” which is helpful in reducing clutter but is usually short lived. Figure 4 illustrates this phenomenon.

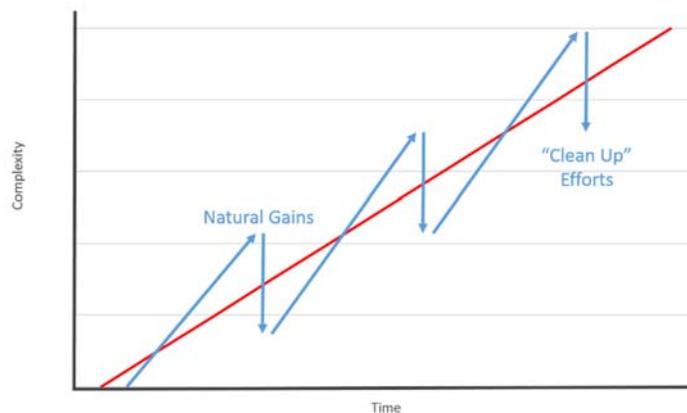


Figure 4 - Increasing organizational complexity

Mechanisms

There are a number of aging mechanisms that lie beneath the symptoms described above that reveal themselves upon closer examination. There are four in particular that should be expanded on. The first mechanism is that assets always become liabilities over time. For example, most established organizations are identified by their “brand.” Whether it is a government agency like the Internal Revenue Service (IRS) or a private entity like General Motors, each of these organizations have a recognizable image that defines them for good or for bad. As an organization’s brand develops over time, business usually comes easier for it as customers relate their expectations with the reputation of the brand. For example, customers generally know what to expect when they deal with the IRS. Within the organization itself, the people within it come to identify with the brand as well. Over time, this is detrimental to the health of the organization as it creates a dependency upon the brand image which tends to serve as an inadequate substitute for innovation.

The second mechanism is institutionalization. This is the tendency for an organization to develop a dangerous dependency upon key individuals. The danger is related to the eventual departure of these

people. Probably the best, most recent and public example of this mechanism is the passing of Steve Jobs from Apple. Jobs was the heart and soul of Apple and lauded as its greatest innovator and marketer which is probably an understatement. In many ways, Steve Jobs personified the Apple brand and is irreplaceable.ⁱⁱⁱ

The third mechanism is what Hosoya refers to as “bottom-up orientation.” By this, he means that an organization that places internal processes over customer needs will never cultivate best value outcomes because it has lost its way. This is in contrast to organizations that focus first on the customer and then allow the processes and systems that guide its work flow from that basic principle. Bottom-up organizations stifle innovation and are prone to lose touch with and become misaligned with the very thing that them to come into existence.

The fourth mechanism of organizational aging is segmentation (figure 5). As an organization grows, it normally experiences a commensurate growth in both hierarchy and specialization.

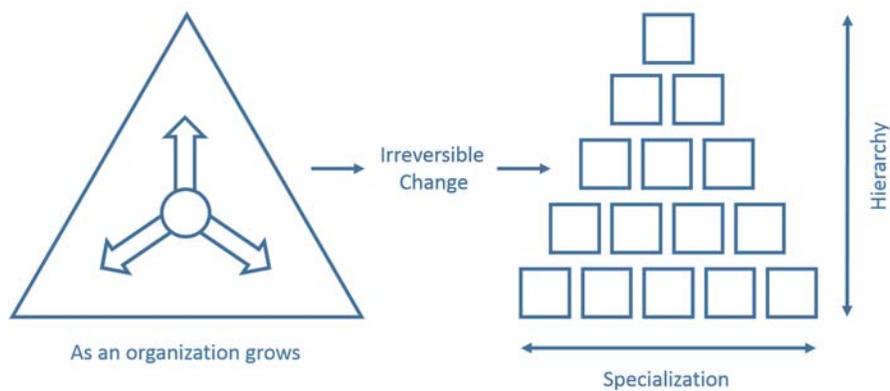


Figure 5 - Process of Organizational Segmentation

Over time, additional layers of management are added while new departments and specialized divisions are created to deal with ever growing organizational complexity, inefficiency and redundancy.

Remedies

What can be done to then to better manage organization aging? As is the current state with human aging, organizational aging is incurable, however, it is treatable. There are some key differences between the actors in this analogy (figure 6). The first is that unlike people, organizations can keep growing as they age. The second is that most people accept aging and realize their own mortality while organizations do not generally possess this self-awareness. The third is that the larger an organization is, the more likely it is that it will clearly demonstrate the symptoms of aging previously discussed. Therefore, the first step in considering remedies is to first develop organizational awareness that effects of aging are impeding the operation of the organization which is no small feat.

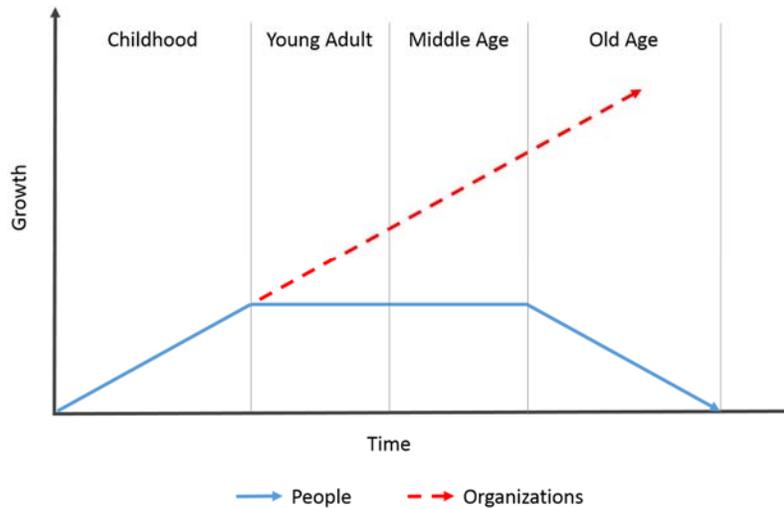


Figure 6 - Differences in aging between people and organizations

The remedies themselves may be organized into three categories that relate to the stages of organizational decrepitude. These include short-term, medium-term and long-term treatments. For the following examples, we will consider a company that makes products for the function of brewing and serving coffee (figure 7). In these examples, we will apply the core VE techniques of function analysis.

Let us assume that this company has been around for over a generation and is a well-known consumer brand. Assuming the symptoms of aging are first recognized, the organization makes a conscious effort to address the symptoms of short-term aging. Looking at the FAST diagram (short for Function Analysis System Technique) of one of its key product lines, one can visualize the related function logic of a French press at every relevant level of the user’s experience. Functions represent the rationale for why things exist and speak to their underlying purpose. Focusing on functions separates us from fixating on known, objective, technological solutions and allows the unfettered mind to consider a variety of innovative approaches.

Examining the FAST diagram of the French press, if we begin at the right hand side of the diagram and ask the question “Why?” that the function to the left answers this question in a logical way. Why do we supply liquid and solids? So we can contain them. Why do we contain liquids and solids? So we can infuse the solids into the liquid. And why do we infuse the solids? So we can brew coffee. At the far left side of the diagram, we have the two functions “Brew Coffee” and “Serve Coffee” as the “higher-order functions” which speak to the direct need that the customer seeks to fulfill with the product. The next level, “Infuse Solids” and “Convey Flow,” are considered to be “basic functions,” and describe the purpose of the product – the manner in which the product brews and serves coffee. The subsequent levels of functions are referred to as “secondary functions” which merely exist to support the basic functions and reflect the nature of the technological solution.

Short-term treatments are cosmetic in nature and are most effective applied at the earliest stages of organizational aging. In terms of thinking about short-term treatments, we would focus on the secondary functions of the product in order to optimize the value of the current approach. In other words, the focus would be on finding ways to innovate functions such as “Contain Liquid” or “Separate Solids.” Perhaps the carafe can be made out of a different material or can use a different manufacturing process. Any alternation to a secondary function, however, would still preserve the essence of the basic function – a French press would continue to function by infusing solids. Using our established analogy, this remedy is

akin to a facelift – it may freshen the appearance of the organizations and its products or services, but does not fundamentally change its biology.

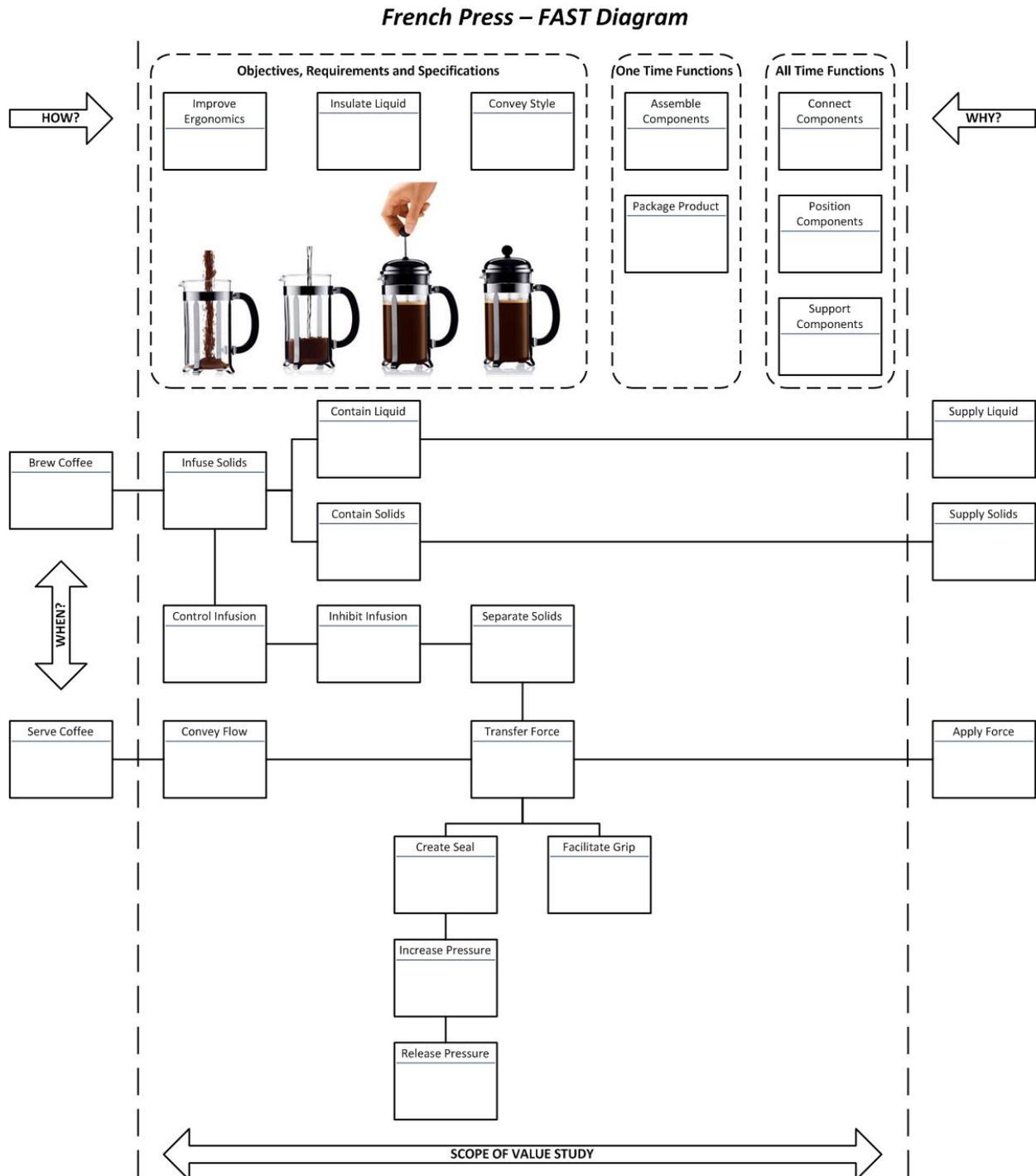


Figure 7 - FAST Diagram of a French Press

Medium-term remedies require a more drastic approach and in effect result in a complete reset. This would be analogous to a middle aged man beginning a regimen of diet and exercise to lose weight, develop muscle tone and greatly improve his overall health and appearance at a fundamental, biological

level. Within the framework of function analysis, the focus for an analogous organizational remedy would be at the level of the basic functions. In the French press example, the focus would be to find ways to innovate “Infuse Solids” and “Convey Flow.” At this level, the organization may be forced to radically change its products and services. Perhaps this means that the familiar screen and plunger system is abandoned and a completely different and new technological solution that still infuses solids is adopted. Such commitment to change requires a profound change in the culture of an organization not unlike the personal commitment one must make to radically alter one’s lifestyle.

Unfortunately, long-term aging remedies have remained elusive for people. Perhaps the best metaphor for this is the mythical Fountain of Youth. Another would be the phoenix that rises from its own ashes. From an organizational perspective, however, such radical transformations are possible. To do so requires the focus to shift from the basic functions to the higher-order functions. Perhaps in a generation’s time, the demand for French presses will wane for a variety of reasons. Perhaps coffee will be so expensive that it is no longer available in its current form and a synthetic variant is created. Under such a scenario, the basic function of “Infuse Solids” becomes irrelevant and the focus must now shift toward finding ways to “Brew Coffee” or maybe even a level or two beyond that by asking the questions, “Why do people brew coffee?” Perhaps it’s to “Deliver Stimulus” or “Satisfy Taste.” In either case, the focus is certainly no longer “Infuse Solids” and possible not even “Brew Coffee.” Some organizations have successfully transformed themselves using this approach. One such example is IBM which originally made commercial scales and punch card tabulators, and later, massive mainframe computers and calculators. Today it is one of the largest providers of software, consulting, and IT services. Another is the Finnish company Nokia, which originally made rubber and paper. It is now one of the world’s largest manufacturers of mobile phones.

Conclusion

Organizations age in a manner similar to people but generally lack the self-awareness to recognize the symptoms and proactively do something about it. The first step then is to diagnose the symptoms of organizational aging in a timely manner. Once the symptoms are identified, then the underlying mechanisms can be understood. Finally, appropriate remedies may be applied depending on how advanced an organization’s age related disability is.

Value Methodology can play a pivotal role in addressing organizational aging. Function analysis provides a powerful technique to help isolate the root functions that need to serve as the focus for delivering the appropriate remedy. Organizations that are unable to deliver the right treatment at the right time will be unsuccessful and the correct application of function analysis can greatly increase the likelihood of a successful outcome.

ⁱ Hosoya, Isao – Keynote Speech, Society of Japanese Value Engineers, Asia 2013 VE Conference

ⁱⁱ Hosoya, Isao – “We Can’t Stop Companies From Aging – An Irreversible organization theory to take us into the future -” (Akishobo Inc.) 2013

ⁱⁱⁱ Oracle CEO Larry Ellison talks Google, Apple and the NSA, CBS News Interview, August 13, 2013, <http://www.cbsnews.com/videos/oracle-ceo-larry-ellison-talks-google-apple-and-the-nsa/>