PART ONE

INTRODUCTION TO THE BUSINESS LOGICS MODEL

WHY AND HOW TO USE THE MODEL

This chapter, which introduces the book and Model, is divided into four sections:

- What organizational intelligence is and the objectives of the book as they relate to it
- Why organizational intelligence is important
- An overview of the Business Logics Model we use to develop organizational intelligence
- Suggestions on how to use the Model

What Organizational Intelligence Is and How This Book Will Present It to You

Organizational intelligence is the ability to think effectively about an organization from a business point of view. This subject is taught in business schools or, in the case of many line managers, learned in the trenches as they work up to higher levels of responsibility for the organization's profit and loss. Line managers who don't acquire this way of thinking don't rise very high.

When we talk about *business* in this book, we certainly include the corporate sector, the usual context in which people use the word *business*. But a business is *any* organization that offers a product or service to customers and receives income. It is any organization that has expenses it must meet in order to create its product or service and that tries to ensure at least enough income to meets its expenses.

Finally, it has a strategy, processes, and people to make all this happen. Therefore, when we speak of a business in this book, we include government, not-for-profits, educational systems, financial organizations, hospitals, and the like.

What we are calling organizational intelligence, the business way of thinking, becomes second nature to the people who use it. When those who engage in the business way of thinking encounter those who do not, line managers and executives tend to disregard those who do not as naive, inconvenient, and sometimes even dangerous to the business. They become a disturbance to be managed.

Staff specialists like you, from human resources (HR) and organization development (OD) to facilities, public relations, and information technology (IT), have deep expertise in their own fields, but they often lack much background or experience in the general business and financial concepts that go into business intelligence. These business and financial concepts drive high-level decision making in most organizations. Thus, while many of you think very intelligently about specific problems in your area of responsibility, you often fail to frame your ideas and recommendations in the context of your organization's business model, its strategies, and its objectives.

Of course, you care about the organization as a whole, and you are certainly smart enough to appreciate organizational intelligence. You just never got the business background that leadership in the line organization takes for granted. This lack handicaps you, making it difficult for you to influence business decisions or to gain the time and attention of the people who make those decisions—that is, "getting a seat at the table."

The purpose of this book is to address this need by providing you with a clear, simple method for understanding the business of the organization in which you work. The book provides you with a set of business ideas and vocabulary so that you can talk with your clients in terms they understand and about the things they care about. It provides you with the tools for understanding the problems your clients are struggling with and for understanding them from their own perspective. It can help you build credibility and at the same time identify the business issues that are driving your client's decisions. It will help you discover what metrics your client is using to measure success so that you can make better decisions about which projects to tackle and know how to ask for the data that you want. It will also alert you to all parts of the business that your clients must take into consideration and give you some idea of how changes you propose in one area might affect initiatives in another area.

To accomplish all this, the book provides a model—a high-level structure—for assembling an overview of the organization. It also provides a menu of

measures that organizations use to determine how they are doing in the different areas of the enterprise.

By the end of this book you will be able to understand and converse intelligently about your performance improvement interventions in terms of:

- The language of business.
- How the organization works.
- What issues your clients (internal or external) are really concerned about.
- How to communicate your ideas in terms your clients care about.

In addition, you will be able to:

- Gather information about your organization.
- Identify the key issues facing your organization.
- Identify what key measures your organization is concerned about.
- Determine the current and desired states of those measures.
- Determine the gaps in organization performance.
- Create performance improvement interventions that are aligned with the business and culture of the organization.
- Communicate those gaps and your proposed solutions for closing them to management in language that management understands and accepts.

Why Organizational Intelligence Is Important

As explained in the Preface, since the mid-1970s, many experts in the human resources and human performance technology (HPT) fields have been pointing out that success in HR or HPT practice depends on your ability to act as a business partner with your client (Bratton et al., 1981; Choayun and Schwen, 1997; Deden-Parker, 1981; Deden-Parker, Bratton and Silber, 1980; Hartt and Rossett, 2000; Hedberg, 1980, IBSTPI, 1999; ISPI, 2002; Katz, 1978; Price, 1978; Silber, 1975, 1978a, 1978b, 1980a, 1980b, 1982a, 1982b, 1998; Silber and Bratton, 1984; Silber and Kearny, 2000, 2001, 2003; Summers, Lohr, and O'Neil, 2002). This means understanding the client's business and being able to discuss it in the client's language.

Clearly, this requires understanding the industry the business operates in, the organization's strategic goals, its financial picture, the competitive landscape, and other related factors. Yet people come to workshops asking how to get clients to

understand what we do. They are missing a basic point: They do not add value when they require the client to do extra work to understand them.

For example, how would you react if you wanted to buy a car, and the salesperson at the dealership insisted you learn the principles of materials stress testing so that you could really understand the advantages of the car you're considering? Or how would you react to a doctor who required you to learn the basics of anatomy and biochemistry so that she could explain exactly what was wrong with you and help you prevent the illness from happening again? Acquiring such knowledge would no doubt be useful, but few of us have the time (even if we have the interest) to go deeply into the other person's area of expertise. We just have a problem that's bothering us, and we want it remedied so that we can get on with our real work.

The same is true for our clients. We are actually asking them to learn our language and concepts (which took us weeks to years to learn) before we will even talk to them about their problem. And we imply that, unless they understand us, our language, and our processes (for example, the difference between an organization scan, a performance analysis, and a training needs assessment), they are just not all that smart—despite their MBAs and 6-Sigma black belts. We can come across as arrogant, snooty, and uninterested in clients' problems when we demand they understand us on our own terms.

Instead, we can add value by understanding the client's business and language and by framing our recommendations using their concepts and vocabulary. When we propose ideas to clients (internal or external), they must consider our recommendations in the context of many other aspects of the business. Clients must consider how those ideas align with the strategic direction of the organization, what resources their implementation will require, how their management peers will react to the ideas proposed, and what other changes in the organization will have to be made to accommodate the recommended changes. They must think of all the elements of the organization that will be impacted. The conversations that clients have about these issues, both among themselves and with others, are carried out using business concepts and business language.

If we don't understand the business concepts and the business language our clients use, how can we understand their most pressing problems? If we make recommendations that do not take the big business issues that clients face into account, how can they trust our recommendations? It would be like trusting your boat to a person who was technically proficient at managing a sailboat, but who knew nothing about currents, tides, and ship traffic. The risk is simply too great.

Clients expect us to make recommendations that address their key goals and objectives, in language that they understand. They expect us to recommend actions that won't derail other key business initiatives in their areas. They also

expect us to find out about these issues as part of our research and to take them into consideration when making recommendations. They expect us to state both the cost and the payoff of any recommendation we make in business terms so they can evaluate it and make an informed decision and so that they can defend their action if challenged by their bosses or peers.

This is the same level of service you would expect from your attorney or financial adviser: You expect them to know their own territory, to understand your situation, and to advise you of both the risks and rewards of any course of action they recommend to you. A competent (and ethical) attorney will not encourage you to file a lawsuit without informing you if she thinks the opposition will make mincemeat of you in court. As HR-related advisors, we owe the same level of professional service to our clients.

This book provides a set of business ideas and vocabulary that will let you talk with your clients in terms they understand and about the issues they care about. It offers tools for understanding the problems most clients are struggling with from their own point of view. Use it to build credibility and to identify the business issues that drive your client's decisions. Use it to make better decisions about what projects to take on and to decide what data you need to ask for. It will make you aware of the other parts of the business that your client must take into consideration before agreeing to act, and it will give you an idea of how changes you propose in your client's area of responsibility might affect initiatives in other parts of the organization.

The Business Logics Model

Being able to do all this does not require an MBA, an education in marketing and accounting, or a one-day "finance for non-financial managers" workshop. With a useful model and your existing analytical abilities, you can get enough of an overview of the organization to ask intelligent questions and determine where to find the answers you need. That's what the Business Logics Model does for you. It is offered in this book at two levels: the one-day, quick overview level, and a more detailed level that you would use to build a much deeper understanding of the business over time.

Overview of the Model

One of this book's authors set out to find a business model that would work at the overview level. The search was initially for a model that business managers

commonly used, but it turned out there wasn't any widely used and recognized business model that looked at the whole organization. There were financial models, strategy models, marketing models, HR models, and models for almost every subcomponent of an enterprise, but nothing that pulled it all together. What was needed was a 360-degree model that would give the user a CEO's or a general manager's view of the business as a whole. Clearly, a new model had to be created.

Ultimately, a model was developed based on business logic, as expounded by Karl Albrecht in his 1994 management text, *The Northbound Train*. This information was supplemented by concepts from other respected business writers, like Michael Porter. To make the concepts easier to grasp and remember, the information was chunked into logical elements and provided with icons to aid both understanding and visual memory. The first version of this model was created in 1994.

The other author undertook to find a model that would allow HR practitioners to identify commonly used business measures, so that they could anchor their analytical and evaluative efforts with measures that were important to the business and that were already being collected. The measurement model selected and adapted is the balanced scorecard (Kaplan and Norton, 1996).
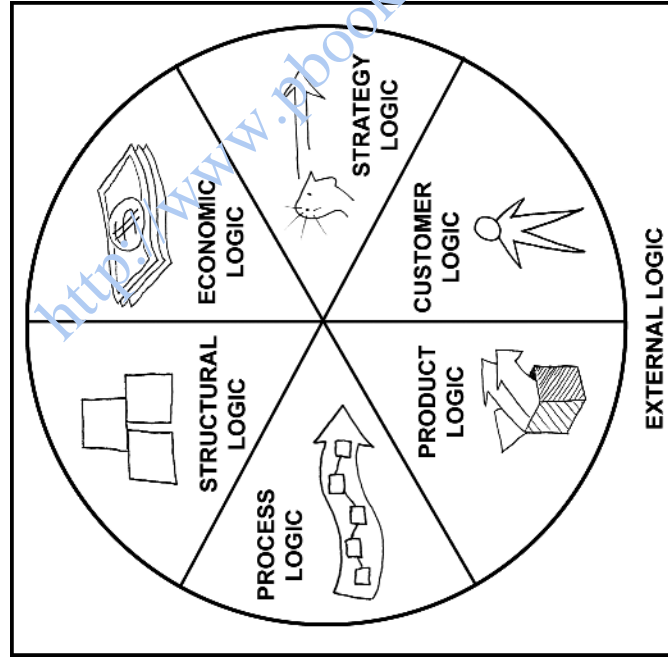
Since the late 1990s, we have been field-testing, successfully using, and continually improving the model with input from clients and colleagues. The result is the Business Logics Model, which contributes a new, unique, and easy to understand way to frame and organize information about an organization.

The Model is summarized several ways. First, in the left column of Table 1.1 is a graphic representation of all the Business Logics; the six in the circle are what we call Internal Logic, and the box around the circle is what we call External Logic. In the right column of Table 1.1 are the definitions of the Logics. Second, the measurement aspects of the Model are presented in Table 1.2. It contains the seven logics, the subelements of each logic, and a number of measures an organization can use to determine its performance in each.

External Logic

External Logic looks at both the general business environment and the industry the business belongs to. An external scan has become a basic part of how organizations think about their business, especially when developing, reviewing, and updating their strategic plans. A scan looks first at the Business Environment, considering general trends in five areas: economic, demographic, political/legal, technological, and sociocultural. Then it looks at Industry Structure; for example,

TABLE 1.1. THE BUSINESS LOGICS MODEL

External Logic: Opportunities and threats the organization faces due to forces in its own industry and general trends in the world around it

Economic Logic: How the organization makes a profit and achieves growth

Strategy Logic: The purpose of the organization, the direction it is moving in, and its plans for getting there; includes the organization's culture

Customer Logic: How the organization locates, acquires, and keeps customers

Product Logic: How the organization's products or services appeal to the customer; how they are differentiated; and the company's image with its customers

Process Logic: How the organization creates, produces, and delivers its product/service

Structural Logic: The organization's infrastructure; how it organizes itself to accomplish its work

TABLE 1.2. SAMPLE MEASURES FOR BUSINESS LOGICS

Logic	Subelements	Sample Measures
External	Substitutes; New Entrants; Technological Trends	Number identified by organization; number addressed by plan
Economic	Cost Structure; Financial Focus; Profit Source	Selling, general, and administrative expenses (SG&A); cost of goods sold (COGS); earnings before interest, taxes, depreciation, and amortization (EBITDA); profit per source
Strategy	Mission; Culture; Core Competencies; Growth	Identified? Accuracy and alignment? Measurability?
Customer	Market Strategy; Customer Relations Strategy	Size of market share; new customers; complaints
Product	Niche/Broad; Differentiation; Image	Quality; price; knowledgeability; novelty
Process	R&D; Production; Logistics; Postsale	Cycle time; waste; cost; coordination
Structural	Structure; Information Technology; Learning/Innovation	Alignment; percentage of knowledge captured; rewards

Intel belongs to the semiconductor industry and Genentech is part of the biotech industry. Industry Structure looks at six factors impacting the industry:

1. The threat of new entrants
2. The bargaining power of suppliers
3. The bargaining power of buyers
4. The threat of substitutes
5. The intensity of the rivalry
6. Whether the industry is growing or shrinking

For example, when banks were still regulated, competition among them was restrained and gentlemanly, but the banking industry is now a shark tank. The six Business Environment trends are part of most standard business planning models (ISPI, 2005; Jain, Trehan, and Trehan, 2006; Kotler, 1991; Rummler and Brache, 1990. Industry Structure is based on Michael Porter's *Competitive Strategy* (Porter, 1980).

We will look at these in detail in Chapter 3. Just as you wouldn't analyze an individual job holder in isolation from her environment, you can't understand what's happening in an organization without understanding the business environment it's operating in.

Internal Logic

Internal Logic provides a high-level structure, allowing you to build an overview of how the business works from the inside. It is divided into six business perspectives, which we call logics because they represent a coherent way of thinking about a related set of issues. Each Internal Logic is accompanied by a set of measures commonly used by businesses. The six Internal Logics are as follows:

1. *Economic Logic:* How the organization makes a profit and achieves growth
2. *Strategy Logic:* The organization's purpose, the direction it is moving in, and its plans for getting there, including the organization's culture
3. *Customer Logic:* How the organization acquires and keeps customers
4. *Product Logic:* How the organization's products or services appeal to the customer, how they are differentiated, and the organization's image with its customers or its brand
5. *Process Logic:* How the organization creates, produces, and delivers its products and services
6. *Structural Logic:* The organization's infrastructure and its knowledge management, learning and innovation, and human relations functions.

Each of these logics is further broken down into several elements that are further defined and described in the book. A chapter is devoted to each logic with its elements and its possible measures. You will find a fairly detailed explanation of each, along with examples. At the end of each chapter you will find a quick reference job aid that summarizes the key elements, along with more examples and a menu of measures.

How to Use the Model

This Model is scalable. That means you can use it at different levels in the organization: the whole company, a suborganization within the company, and even your own department.

- First, it can be used to understand the whole organization, whether it is a company in which you work or one for which you might consult.
- Second, it can be used to understand a subunit in the company, such as the client's department.
- Third, it can be used to develop a scorecard for the business: a set of measures that the business uses to assess how well it is doing. These are the uses we will focus on in this book.

- Fourth, it can be used as a framework for both understanding your own department, and doing comprehensive strategic planning for your department.

1. Using the Model to Understand an Organization

The Model will help you get an overview of an organization as a business (as opposed to as a social system, a performance system, a branding exercise, etc.). It provides a framework for organizing relevant information about what the organization is trying to accomplish and for assessing whether the big pieces hang together logically or are at war with each other.

We believe that, even if you work in an organization and think you know it, it is a good idea to have a complete, high-level overview of the entire company using the Business Logics Model. We would be surprised if it turned out that, when you were done with the analysis, you had not learned several important things that you did not know before.

To use the Model this way, collect all the information in each of the external and six Internal Logics. (Don't panic; you can do this in one day even if you start out knowing nothing at all about the company; just do the information collection as we explain in Chapter 2 and as the Case Study in Chapter 10 shows.) Then put it all into the worksheets we provide. Finally, look at the big picture of the organization and see if there any issues of disconnects or misalignments.

2. Using the Model to Build a Scorecard for the Business

Numbers are used to keep score. Organizations use measures to determine how well they are doing: Sales and costs are two of the most obvious measures. Kaplan and Norton (1996) pointed out in *The Balanced Scorecard* that businesses need to track and report more than financial data, which are trailing edge indicators. Organizations need leading edge indicators of health, measures that provide early warning if things are going off track, that give a clearer picture of what is going wrong and where, and that furnish that information in time to adjust, before bad financials start showing up. Since many businesses already had measures to keep track of most of the important parts of the business, the balanced scorecard approach was logical for organizations to adopt. Because its use has become widespread, we adapted the Business Logic Model and the balanced scorecard measures into one integrated model.

At the end of each Business Logic section, you will find a menu of possible measures. You can partner with your client (or other experts in the organization) to identify which of the measures listed are used by the business you are working with. To build a scorecard, find which measures are targeted by this year's goals

and which are currently being used to track the organization's performance. For measures that are targeted in the organization's goals, provide both the should-be numbers (the goals) and the current numbers (how the organization is doing today). This information is already being tracked and stored somewhere in the organization.

This scorecard can be used as a gap analysis. Use it to help you find opportunities to do projects that will move the numbers that are important to the organization toward the goal. This is key to the business's survival and should be a priority for us.

3. Choose a Target Suborganization Within the Total Company

If your client comes to you with a problem in specific part of the organization (for example, manufacturing), then you might want to focus your business logics and measures analysis at that suborganization level. As we have explained, we recommend doing the whole company first, but if you are doing most of your work with a single division or even a single department, you may save your really detailed research for analyzing and understanding chiefly that suborganization. However, keep in mind that every subunit of the organization has to serve the purposes and goals of the next level up. The department that is completely divorced from the goals and welfare of the division above it will be substantially interfered with from above, especially in a downturn. Always have at least a broad overview of the layers above the suborganization you are working with and understand how your client group fits in.

4. Use the Model on Your Own Department

We assume that if you are reading this book, you are in some type of HR and/or performance improvement department in your organization. You can use the Model to ensure that your department knows, and is aligned with, the organization as a whole.

To use it this way, first you have to apply the Model to the organization as a whole. Then you apply it again to your department, but you define the department (e.g., all of HR, just Training, and the like). Then compare the two analyses, checking for alignment and disconnects. Check measures: Are you measuring the same things that the organization as a whole cares about? (In our experience, this is a big gap for most departments in our area.)

Finally, the next time your department is putting together the plan for next year, use the organization-level model as your baseline and develop your own department's plan to be in alignment with that.

5. Pick a Level of Detail

You can do a basic overview, aim for a detailed understanding, or shoot for a level somewhere between the two.

- *Basic overview:* Decide whether you are going to build just a high-level overview or a detailed understanding of your target organization. If you are an independent consultant or a job interviewee going to see the client organization for the first time, the high-level overview is a practical choice. You can do an adequate job in a few hours spent over a few days. This high-level overview will help you establish credibility and allow you to discuss the business intelligently with business managers and decision makers in the organization. It will also let you identify some opportunities for improving the organization's performance, and it will suggest ways to approach the topic with your clients.
- *Detailed understanding:* On the other hand, if you want to be a player in the organization, you need to build a detailed understanding of the business and how it works. This will take time, and you will most likely build it over a period of weeks. If you go to this level of detail, you will know more about the organization than most of the people in it. You will be able to identify business issues and risks and discuss them intelligently with senior managers. This understanding puts you in a position to become a trusted advisor, a business partner (although it does not guarantee you will become one). You will have a much broader understanding of the organization's challenges and opportunities, and you will be better positioned to make a difference. *Caveat:* Many internal people, including line managers, know little outside their own areas of responsibility. Be aware of this shortcoming, and don't assume that all senior-level managers have an understanding of the business as a whole or have the larger organization's goals and interests at heart. Many do, but some do not.
- *Something in between:* You may choose a combination of an overview of the entire enterprise and a detailed understanding of a particular segment. Or you may decide on an in-between level, getting more detailed information than the overview but less than all the categories of information addressed in this book. You can customize the worksheets and job aids in this book to suit your own objectives.

6. Using the Book to Get a High-Level Overview

At the end of each chapter are:

- A summary job aid that covers in brief what was discussed in the chapter.
- A worksheet showing an example of notes for a high-level overview.
- A blank worksheet.

You will also find a downloadable worksheet in Microsoft Word format on the Web site. Use the job aid to trigger your investigation and gather information only at the level of topics listed there. The example shows the least detail you should obtain; you will probably get a little more. Do your first pass based on your Web research, any phone networking you can do, and your best guesses. Fill out the worksheet to the best of your ability, then take it to a meeting with your client. Ask for a few minutes to confirm or correct what you learned and to fill in any blanks. Most clients respond very positively to this. Don't be surprised when some ask for a copy of the completed document themselves.

7. Using the Book to Get a Detailed Overview

To get a detailed overview, use the book as your guide. As you look at the chapter for each logic, you will see that it is broken into more detail than the summarizing job aid offers. After providing definitions and examples, the chapter lists common issues for each element within that logic. Next is a section titled What You Should Do, which lists three to seven pieces of information for you to obtain. Use the What You Should Do section as your guide when you are building a detailed overview. We suggest you create your own detailed worksheet using Excel, which will let you expand where you need to and record as much information as you think will be useful in the future. We suggest you create an additional column for each element, where you can list issues discovered in your research.

Set a time frame for completing your initial overview: Try to get high-level information first, then fill in as many details as you can. Ask around about any blanks, and seek out experts who can provide the missing information. Try to finish all or most of your analysis within the timeframe that you set; the sooner you have the big picture, the more effective you can be in your work.

8. Uses for the Information You Have Gathered

Caveat: Let's begin with something you should definitely **not** do with your analyses. It is likely, whether you apply the Model to the organization as a whole or to just some part of it, you will find many performance problems. That is not surprising: All organizations have them, and that is what keeps us employed.

Armed with this new, systematically derived, systemic view of the organization, do *not* march into the office of the CEO, your VP, or the VP of your client organization, report what you have found out, and say how messed up things are. This is called a career limiting move.

We are not suggesting that you ignore the information you have gathered, but there are better ways to apply it, ones that help the organization improve without getting you fired.

8a. High-Level Overview

If you are interviewing for a job or you are in a consulting sales situation, use the high-level overview you have created to plan your first visit. Identify questions to ask and strategic issues to inquire about during your first conversation with a decision maker. Use the questions to establish your credibility as someone who has done the homework, who understands the organization and its business environment, and who is ready to add value. Use the opportunity to simply ask some intelligent questions, not to pontificate. This is still more of an opportunity for learning than for action, and questions are always more effective than pronouncements.

You may be analyzing a department or division in detail and are doing just the high-level overview for the business as a whole. Use the high-level overview as a map and compass during your work with the division, to keep you from acquiring an overly division-centric outlook. We have all run into so-called silo organizations, in which each division (or sometimes each department) leads an insular existence, without considering how their actions impact the other parts of the organization. In this situation, the high-level overview can help you help your client keep the big picture in view, and it can focus your talks on contributing to the organization as a whole.

When you are working on a problem (such as resolving interdepartmental conflict or trying to improve a cross-functional process), look at the high-level overview you created for misaligned areas of business logic that may be contributing to the problem. For example, one of the authors worked for a bank whose Customer Logic targeted high-net-worth individuals. Although their advertising and products were directed at that target market, their Structural Logic did not support it. Information systems were fragmented, communication between different product lines and operations were poor, and customer-facing employees were given low wages, no career ladders, and little beyond basic training. As a result, the service expectations of high-net-worth individuals were rarely met.

8b. Detailed Overview

Use a detailed overview as you work with specific clients on performance improvement projects to win respect and influence with decision makers. When clients come to you with a problem that they are sure can be solved by the proverbial three-day training class, begin your preparation by reading the high-level

assessment you have done for the whole organization. Then do a detailed analysis using the model of the suborganization in which the problem is occurring (for example, if the problem is the retention of sales personnel, then look at the sales, or sales and marketing, department).

Look at the detailed model, both logics and measures, you have completed. Use this to identify the real gaps or discrepancies between logics that you believe are the real causes of current problems. List the benefits of fixing them, the risks of failing to do so, and list alternative solutions.

Then as you meet with your client, begin to present the ideas about the real problems that you have identified. Use the model to show where the real disconnects and misalignments lie. Use your consulting skills along with the model to help move the client from seeing this as a training problem to seeing the real organizational issues involved.

And if you get any static about your ideas, feel free to both blame us and give them a copy of the book to read.

Summary

In this chapter, we have introduced organizational intelligence and the Business Logic Model. You now have an overview of what the Model is, where it came from, and how you can use it. The next chapter will address how to gather data as you are using the Model to build an overview, whether high level or detailed, of a business you are working with.