What Humpty Dumpty Can Teach Big Companies about Maximizing Profits

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"All the king's horses and all the king's men,
couldn't put Humpty together again."

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Beware of the Humpty Dumpty Effect

At Salient Corporation, we have a theory about why big companies slow down - and it has to do with a children's rhyme. We also think that we have a solution for this problem. First, let's examine the problem.

There is a fundamental difference between small and big companies. Small companies are more agile, quicker to adapt, faster to market, and faster to respond to customer needs. Big companies are sluggish, ruled by inertia and don't handle change very well -- think big car companies. Why?

Successful small company executives are much closer to transactions. They have an immediate and coherent view of the sources and destinations of revenue, cost and profit. They can quickly see how individual people, places and things contribute to their bottom line. They see how their own work affects customers, suppliers, markets and consumers. Their feedback loop is tight and actionable. They instantly adjust to bad results and repeat behavior that translates to good results and higher profit.

Big companies have economies of scale but they suffer diseconomies of intelligence. They lose informational coherency as they functionalize and divide authority. Data are housed in functional silos and details are aggregated from bottom to top. One department doesn't easily see the effect it has on others and executives see less relevant data than middle-level managers. It's hard to see who and what is driving profit and growth. Turning sensory data into business intelligence is like putting the little oval "Humpty" back together again… tough…slow…imprecise… maybe impossible.

The effect of lost coherency is lost agility and lowered morale. It takes longer for hard intelligence to form from dispersed data and longer for strategic decision makers to interpret the tactical information of the street. Executives lose capability to respond effectively. Bad habits continue unchecked for many cycles and good ones go long unrewarded. In the end, big companies become vulnerable to smaller companies who can still see very quickly how to add value, control cost, price optimally and reward productive behavior.

The good news for high volume businesses is that with the help of Salient's Performance Management solutions, the Humpty Dumpty phenomenon is no longer inevitable. Salient's solutions are designed, in essence, to enable all the King's horses and men to make Humpty Dumpty whole (and profitable) again. It is now practical for big companies to become as quick and responsive as their smaller competitors, using the enormous gains in computing power, networking and BI technology that Salient has developed in recent years.

But, like all advances in management capability, making use of this new power requires a new kind of thinking about how today's powerful BI systems can change management itself. At Salient Corporation, our goal is to help with that transition. Here's how:

Create Alignment by Connecting Strategy to People

Strategy is a company's organizing vision for profit and growth. It is usually expressed in mission statements, job descriptions, investments rationale and policy documents for product, vendor and customer retention. Careful analysis of these documents enables management to measure the strategic efficiency of individual roles, customer, products, suppliers, assets and events. Salient calls these measures individual value indicators (IVI).

IVI is the micro economy around every individual, activity, product, vendor, asset and event in the organization. Key Productivity Indicators (KPIs) have been a corporate stable for management consultants for years. But Salient believes that by merely identifying the KPIs of a company, the detail underneath those group-level value indicators is lost - and when the detail is lost, well, you're back to old Humpty.

Strategic efficiency, is the measure of how well any one person, place or thing contributes to corporate objectives. If corporate strategy is to grow and profit too, then a sales rep's IVI is profitable growth, not growth or profit alone.

Developing and quantifying IVIs is a disciplined, bottom-up exercise designed to align everyday decision making with strategy. IVIs are the quantifiable expectations of performance that are drawn from job descriptions and various rationales for customer / supplier retention and asset acquisition (such as ROI documents). They also differ from key productivity indicators (KPI) in that they are specific and updated on operational - as opposed to financial - cycles. For example:

> The strategy is to grow through deployment of certain capital assets at customer sites. Specific funding decisions are based on local managers' assessments of customer growth potential. KPI might be the incremental corporate return on capital. IVI would be the local manager's net change in profitability and growth of the customer sites under his or her care.

Once the IVI measures are identified and quantified, tracking them is a matter of bringing data together from several discrete processes and information sources. A statement of one customer's net value may draw data from sales (orders), various services (work orders), distribution (invoices and delivery records) and marketing (survey or syndicated data). The concept is to draw data from different silos and knit them together to present a clear, multi-dimensional picture of value-add for each customer, product, associate, asset and event.

For users to experience the maximum value of BI, the answers must be multidimensional, obvious and immediate. The organization and investigation of transactional and causal data comes from many sources and functions. This provides coherent, real time illustrations of business processes and creates a very powerful weapon within a corporation.

Deploy a new BI paradigm

Motivation is a key factor in changing behavior. People will achieve great feats if they can measure their progress. Salient believes that it's really simple: people want knowledge, the power to act on it and a stake in the results.

Any successful BI implementation must take this into account. Most don't. Just like the old Soviet economy, most big BI systems work on a "command" paradigm, where information producers - analysts and IT developers - determine the form, substance and timetable of information deployment. In this paradigm, information consumers - performers, line level managers and executives - must adapt to the information provided by the system. They can't assess their situation, measure their progress or anticipate their reward. BI piles up on a "virtual credenza" inside their desktop PC.

Salient's solutions turn this paradigm upside down. Instead, of the command paradigm, deployment is built on a "demand" paradigm, where information consumers can draw data together at will, organize it however it makes the most sense for the moment, and penetrate instantly through time and dimension to short, actionable lists of anomalies, bad or good actors and opportunities. This kind of architecture enables information consumers to seize transient opportunities, measure their progress and clearly see their contribution. Building this kind of demand-oriented solution is unique to Salient's solutions, which requires the appropriate technology: super high speed computer engines and comprehensible user interfaces that let business users bypass information access process.

We live in a fast-paced world. Business decisions are made quickly by necessity. Only when detailed information is available at-will can decisions be made on facts, with the goals of the organization in the forefront. Gut-based decisions made in the absence of accurate information are a luxury of a very different business environment.

With the combination of a powerful source of information and a responsive repository for understanding detailed information about each element of a business, Salient's solution provides a powerful motivational tool. Departments and users become keenly tuned to how everyday activities are affecting bottom-line results. Activities can then be fine-tuned and adjusted in the current business cycle to ensure that goals are met and exceeded. No more need to wait for the end of the week, month, quarter or year. This continuous, relevant feedback loop is critical to success.

Salient's approach to improving business performance works for big companies as well as small because of the double phenomena of integration and decentralization. Our integrative BI data engines can re-glue the odd pieces of silo data back together again to form a complete picture of one entity's value contribution, while allowing "on demand" users to fashion together the view of information that is most valuable to themselves "right now".

Make Everyone a "Virtual CEO"

After an organization has used Salient's solutions to create a reliable source of organizational performance information, that clear multi-dimensional picture of value add-can be communicated through every element of the value chain.

Productivity is about people. People will perform best when they have appropriate knowledge about the value (results) of their work. They will perform best when they have the ability to act on information to create greater value and have a clear and measurable stake in the result. This is the ultimate expression of making a big company function like a small one: giving the information and power to each contributor to act as a virtual-CEO and work in the best interests of both themselves and the company.

Some say it is problematic to empower local decision makers or to compensate employees for actual contribution. Even the word "empowerment" conjures up images of wearisome "rah-rah" meetings.

But Salient's industry-leading solution delivers the critical element missing in the empowerment meetings of 20 years ago: comprehensive, visual audit of every individual's value contribution.

Now, even the largest enterprise can have an entirely objective "pay for performance" arrangement with everybody who adds value. Trust in the numbers has been the biggest barrier. With the full specificity, simplicity and speed of access available in Salient's solutions, every piece of information is clear and unimpeachable - it creates common ground and common terms from which everyone can operate.

Conclusion: BI Drives Knowledge. Power. Stake.

Profit comes from people doing things better. Many organizations have used this performance optimization approach to enhance their compensation model. When individuals have trusted information, and they have a complete understanding of the organizational goals and the ability to use it to make more profit, they can be paid and measured on their overall contribution to the organization. Every individual in the organization becomes keenly vested in the enterprise and can be fairly compensated according to contribution.

Process improvement is not a program -- it's a way of operating. Even in today's volatile marketplace, expectations continually skyrocket. Success demands that processes be constantly challenged and pushed to a higher level of performance. But tomorrow's challenges cannot be conquered with yesterday's best efforts. It is little more than wishful thinking to expect better results when doing the same thing, over and over, without the ability to change.

This discussion has been about developing the knowledge necessary to maximize efficiency through change. As Deming proved, however, knowledge only becomes productive when it is driven into the process, when people are empowered to act on it and when they have a vested interest in results. The good news is that, with Salient's advances in multi-dimensional information technology, you can have it both ways: you can vest your people with knowledge, power and stake and, at the same time, fully govern your business.

Humpty Dumpty can be put back together again.