The Key to Performance: Understanding Value Creation

Webinar for the Bay Area and Boise State Chapter of ISPI

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Prior...
70’s: Praxis Corporation – Training materials administration
80’s: The Rummler Group – Operations manager
90’s: The Rummler-Brache Group and RBG Asia – Consultant
‘01-’16: Performance Design Lab – Partner
A HYPER-SPECIALIZED CARE DELIVERY MODEL

• Total Hip Arthroplasty and Total Knee Arthroplasty procedures
• JV partnership with surgeons
• “Micro ASC” and surgical recovery facility
• Adults aged 45-64 (non-Medicare)
• Prospective, bundled fee revenue model
• Clinically and financially integrated
• Highly specialized, highly engineered and protocol driven

The Key to Performance: Understanding Value Creation

Outline: Value Creation

❖ Significance
❖ Applicability
❖ Approaches and Models
The Key to Performance: Understanding Value Creation

Significance

❖ The “true north” of performance
❖ Motivator of change
  • Individual contributor
  • Management

Significance

❖ Value creation is changing from a “command and control” model to a “connect and collaborate” model.
❖ Companies have to create value by:
  ✓ tailoring to customer’s needs (or enable them to tailor),
  ✓ collaborating across organizations and departments,
  ✓ regularly analyzing and optimizing the value we deliver.

The World is Flat: A Brief History of the 21st Century by Thomas L. Friedman
The Key to Performance: Understanding Value Creation

Applicability

- All Organization and Industry Types
- All Levels of Performance
  - Function: Enterprise, Division, Department, Team
  - Process & Technology
  - Human: Class/Category & Individual

The Value Context
What is a Value Creation System?

“The Value Creation System”: the business’s end-to-end chain of work processes that convert inputs into the valued outputs delivered to its customer.

- The Value Creation System is the portion of the larger Value Chain the organization controls.
- The Value Chain includes the customer’s customers and the supplier’s suppliers.
- Most organizations have multiple Value Creation Systems.

Understanding Value Creation

**Two Fundamental Approaches:**

I. Outside In

II. Macro to Micro
The Key to Performance: Understanding Value Creation

“Visual” Models

- Purpose: to illuminate the system of value creation and related performance variables for the purpose of:
  - Testing and clarifying
  - Building shared understanding
  - Aligning stakeholders on performance reality, gaps, trends and direction.

You have been criticized for your abundant use of complex diagrams in your books. Given the chance, would you do them differently now?

“Definitely not. I might make better diagrams but certainly wouldn’t stop making them.”

“You can list variables that affect organizational results, but words can’t show the relationships between things—a diagram can. I have a saying that if I can’t draw a picture of a problem, I don’t understand it.”

*Interview with Geary Rummler for ASTD Magazine, 2007*
Understanding Value Creation

Outside In Model

- Super System Map

Super System Map

[Diagram showing the Super System Map with the following elements:
- BUSINESS ENVIRONMENT: Geo-Political, Regulatory/Legal, Economy, Natural Environmental, Culture
- SUPPLIERS: Capital Market, Labor Market, Suppliers, Technology Providers
- ANY BUSINESS: Value Creation Systems
- MARKET: Financial Stakeholders, Customers
- COMPETITION:]

[Diagram visuals showing flow between these elements and the context of value creation systems within a business environment.]
Annotated Super System Map

Understanding Value Creation

Outside In Model: Super System Map

- For more on Super System Maps:
  - Serious Performance Consulting According to Rummier; G.A. Rummier
STAKEHOLDER VALUE MODEL

<table>
<thead>
<tr>
<th>Patients</th>
<th>Payers</th>
<th>Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior Outcomes</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Reduced Risk</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Extra-ordinary Experience</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

Value Creation View of an Organization
Value Creation Sub Systems

<table>
<thead>
<tr>
<th>“Product/Service” Launched</th>
<th>“Product/Service” Sold</th>
<th>“Product/Service” Delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Finding or inventing a Product/Service/Offering that will satisfy a customer need.</td>
<td>1. “Demand Developed”. Creating demand for the P/S, usually done by Marketing. Output is usually a “lead”.</td>
<td>1. Processing the Order, from “Order entered” to “payment received” and “warranty administered”.</td>
</tr>
<tr>
<td>2. Enhancing existing product through redesign, re-pricing or repositioning.</td>
<td>2. “Customer Committed”. Frequently requires a sales organization to convert “interest” into a commitment to purchase.</td>
<td>If a Product – Making, Delivering and Supporting.</td>
</tr>
<tr>
<td>3. “Sunsetting” or discontinuing products that are no longer viable.</td>
<td>3. “Relationship Maintained.” Enhancement and maintenance of the customer relationship.</td>
<td>If a Service – Customizing, Delivering and Supporting.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. May also include installation and servicing.</td>
</tr>
</tbody>
</table>

Understanding Value Creation

Macro to Micro Models

- Business Process Framework
- Macro Process Map
Business Process Framework Example

Business Process Framework Example – R&D
Business Process Framework with Value Milestones

Yellow Boxes are milestones

White boxes are processes

Business Process Framework Example – R&D

Well formed understanding of disease science and treatment dynamics

Plan & Manage

Disease Area Management

Discovery and Target Program Managed

Lead Molecule Identification

External Assets Available

Differentiated approved asset and indication(s) and access to markets

Differentiated approved safe and effective assets and available to patients

Safe effective and profitable assets in place

Value Creation

Assets Acquired

Biomarkers Acquired

 Pharma- Effective and indication(s) approved asset

Pharmacogenomics

Pharmaco-rightful access to patients

Pharmaco- effective assets and differentiated indication(s)

Compson & Companion Diagnostics Developed

Effective Pharamcogenomics in Place

Effective Diagnostics in Place

Effective Diagnostics Launched

Asset Lifecycle Managed

Partners and Alliances

Effective and reliable

partner/alliance

performance aligned
to BMS objectives
Understanding Value Creation

Macro to Micro Model: Business Process Framework

• For more on Business Process Frameworks:
  ✓ Rediscovering Value: Leading the 3-D Enterprise to Sustainable Success; G.A. Rummler, A.J. Ramias, C.L. Wilkins

Processes are constructs for organizing value-adding work to achieve a business valued milestone so they:
  ✓ can be performed effectively and efficiently
  ✓ can be managed effectively
  ✓ offers the potential for a competitive advantage

Value milestones are points at which the nature of what is moving through a process transforms and creates value

A process is complete when it fully enables subsequent process(es)

Defining processes in terms of the value they create allows an organization to truly optimize the way they do business.
Value Milestone Example

<table>
<thead>
<tr>
<th>Activity</th>
<th>Functional Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Acquisition</td>
<td>Sales</td>
</tr>
<tr>
<td>Pricing Parameters Definition</td>
<td>Underwriting</td>
</tr>
<tr>
<td>RFP/RFI Response</td>
<td>Sales</td>
</tr>
<tr>
<td>Contracts Review</td>
<td>Legal</td>
</tr>
<tr>
<td>Pricing Review</td>
<td>Underwriting</td>
</tr>
<tr>
<td>Set-up Sale</td>
<td>Client Services</td>
</tr>
<tr>
<td>Finalize Sale</td>
<td>Sales</td>
</tr>
</tbody>
</table>

Process = all of the work to get to the milestone

Understanding Value Creation

Macro to Micro Models

- Business Process Framework
- Macro Process Map
Macro Process Map

Macro Process Map Example

Pricing and Booking Process
Macro Process Map Example

Understanding Value Creation

Macro to Micro Model: Macro Process Map

- For more on Macro Process Maps:
  
  - White Space Revisited: Creating Value Through Process;
    
  G.A. Rummler, A.J. Ramias, R.A. Rummler
Summary

• Value Creation is the “true north” of performance and is increasingly important to surviving in fast changing business environments.

• Value creation modeling is best accomplished working outside in and macro to micro.

• The concepts and models associated with value creation are applicable to all organization types and sizes.

• Understanding value facilitates prioritization and trade-off decision making and is a strong motivator of change.