Transform Your Organization with a New Way of Thinking about Strategy; The Ever-Flourishing Company

> *"Value is created by removing a significant limitation for the customer, in a way that was not possible before, and to the extent that no significant competitor can deliver."*
> Eliyahu Goldratt

The average lifespan of a company listed in the S&P 500 index of leading US companies has decreased by more than 50 years in the last century, from 67 years in the 1920s to just 15 years today.

This shows that are significant obstacles to overcome in building a sustained organization. However, some organizations have overcome them and have become ever-flourishing. These organizations continuously and significantly increase value to their stakeholders. They continuously achieve their goal and satisfy employees and customers.

These are the goals of the Ever-Flourishing Company (EFC). The principles and goals of the EFC informs all strategic thought and action that make a ToC strategy. The principles of the EFC provide leaders with a baseline theory of the organization that leaders can build on to create successful strategies and tactics.

The Ever-Flourishing Company has 4 principles (necessary conditions):

1. The organization has a process of ongoing improvement (the organization is always driving towards the goal)
2. The organization has at least one Decisive Competitive Edge (It creates significant and sustainable results for customers, which in turn provides them for the company)
3. Strategic plans avoid operational risk (It provides security of its employees)
4. Breaking the Engines of Disharmony is a prerequisite to operational success (It provides job satisfaction for its employees)

Moving the Organization Closer to Its Goal – A Process of Ongoing Improvement

ToC strategy is built with the objective of constantly and significantly rising performance; what Goldratt called a Process of Ongoing Improvement (POOGI). POOGI is often thought of as an operational activity, but the ToC views it as a necessary strategic activity.

The Strategic Objective of Improving Performance

An Ever-Flourishing Company must have a solid foundation in its strategic objectives. The EFC's strategic objectives reflects the intent to continuously improve performance.

POOGI is not focused on the performance of one area of the organization, it is holistic. For example, an organization may be focused on cost-cutting as a major part of their strategy without realizing that this is actually reducing overall productivity and thus decreasing financial value! Improvement is defined by its achievement of its purpose, typically its financial value (in for-profit entities).

The implication for POOGI is that improvement is a constant; a way of life for the organization, not bursts of change, but constant change, constant adaptation to achieve the objective of the Ever-Flourishing Organization, a process of ongoing improvement. It implies the creation of systematic process in which leaders develop, implement, and measure strategic initiatives to create exceptional results.

Exceptional Results versus Operational Success

Exceptional results are events that generate a significant impact on people's lives. For example, solving the battery storage capacity problem would be a result that has an incredible impact on future generations.

An organization can be successful without being an EFC. It can have operational effectiveness, but not exceptional results tracking to its purpose. In other words, this organization's strategy does not aim to improve performance at all! It just aims for business as usual.

An Ever-Flourishing company understands that exceptional results are necessary to become and remain an ever-flourishing organization. An Ever-Flourishing company's Throughput (gross contribution revenue) grows (and continues to grow) much faster than its operating expenses (costs). Not just increasing top-line revenue, but profit.

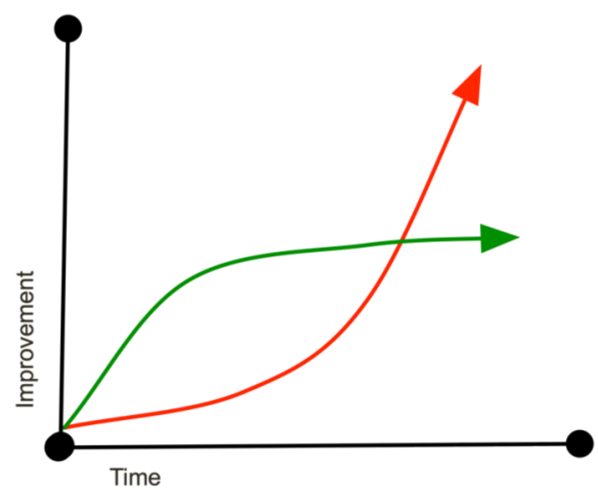
As a result of that mindset, an Ever-Flourishing company will not be run to maximize its short-term wealth. Instead, it ensures the continuity of its existence and seeks exceptional performance to maximize sustainable, long-term results.

An Ever-Flourishing company does not aspire for operational excellence at the expense of other aspects of the organization – it is not a strategy. An EFC balances these two aspects perfectly since exceptional results are built on excellent operations! In other words, without outstanding execution capabilities, there can be no significant impact on society, which is what makes extraordinary results possible.

Thus, the first strategic objective is to “build a decisive competitive edge along with the capabilities to capitalize on it, in big enough markets, without exhausting the company's resources and without taking real risks”.

Green Curve & Red Curve Improvement Paths

The ToC definition of ongoing improvement originally noted that ever-flourishing organizations operate on the growing "red curve" and non-growing, stagnant organizations operate on the "green curve". However, in 2011, Goldratt realized that o be a successful organization, we need both: the green line is our baseline security and harmony; the red line is continuous improvement.



We need both. The green line is the baseline performance. Eliminating some of the Engines of Disharmony will get an organization on the green line and it will be the foundation for the POOGI. The ToC strategy aims for red curve growth while maintaining green curve stability.

That led to a phased approach to strategy: (1) build, (2) capitalize, and (3) sustain. A typical ToC strategic plan has first a build phase, where new capabilities are developed, then a capitalize phase, where the organization seeks to fully take advantage of the new capabilities it has built, and the sustain phase, where processes are put in place to maintain the improvement and anchor the new processes into the life of the organization.

A Decisive Competitive Edge

To achieve the red curve growth, the organization must have and maintain a Decisive Competitive Edge (DCE); the organization must deliver more value in dimensions that others will find difficult to duplicate. The DCE is built on the organization's capabilities to deliver a certain value proposition to the market. Therefore, changes/improvements in capabilities must translate into significant value for customers. A DCE exists when a company has a *significant*, sustainable advantage over competitors.

Decisive, not just better than others. Only by sustaining a clear advantage in differentiating capabilities does an organization perpetuate its success. Your competitors can copy "better" too, so being better only offers a temporary advantage[1]. It takes more than being the best in some dimension to keep your DCE decisive and sustainable. You must offer something difficult for others to match. It could be changing the product (its physical characteristics and/or performance), how customers engage with the product, how and when payment is made, or how the customer receives the benefits of the product. The difference must be built so competitors will find it costly to match in terms of investment or organizational change.

Significant in the sense that taking advantage of the capability is an easy choice for customers. The DCE should be of high value to customers, difficult for competitors, and sustainable over time. Little changes are not significant enough. Doing something better or having a lower price than others is good but may not be sufficient. The market will learn about it soon, then everyone will do just that thing. Again, big things are hard to imitate because doing them well requires serious investment and commitment. A small differentiating capability can't keep up with competitive pressures over time either since the market has no memory; today's small difference becomes tomorrow's parity or yesterday's commonality at best.

Sustainable in the sense that your new capability does not stretch the organization. It can deliver these benefits over and over without sacrificing its performance in other aspects. For example, cutting costs cannot be sustained, because the best you can do is reduce them to zero. When you reduce costs to zero, you have no fuel for your engine! You will have no throughput.

If an organization doesn't keep its DCE relevant, someone else will take away their business as well because it is far easier for others to imitate the same capabilities than develop new ones (that would require significant investment). For example, Amazon has a big fulfillment network that produces quick deliveries, but Walmart is using their stores to copy this capability. In that regard, Walmart has a larger network and could remove Amazon's edge in that capability.

Finally, to sustain ever-flourishing growth requires that all four levers of execution be in place: operational excellence, talent management, change management, and knowledge management. Operational excellence is achieved when processes efficiently and consistently deliver high-quality products or services at a low cost. Processes should be documented and monitored for adherence so deviations can be identified early, and corrective actions are taken to prevent a recurrence. Talent Management ensures organizational readiness through effective staffing strategies; identifying critical positions requiring top competencies; developing staff to meet these requirements; providing succession planning for key roles where needed; ensuring employees receive ongoing performance feedback. Knowledge management ensures the enterprise gathers, organizes, shares and analyzes its knowledge in a way that is easily accessible to employees.

[1] It's interesting that some companies that built their DCE on operational excellence (i.e., reliable delivery or quick response) and years later, their competitors are nowhere close.

Avoiding Operational Risk

Operational risk is the risk of loss resulting from ineffective or failed internal processes, people, systems, or external events that can disrupt the flow of business operations.

Demand waxes and wanes, and the capacity of the organization may become under and over-utilized. In these cases, managers often cut expenses to bring resource utilization in line with demand. The largest expense is typically labor, so under-utilization leads to involuntary reductions in staff. When demand returns, the organization must regain that talent, at a high cost. The Ever-Flourishing company avoids workforce reductions and losing its skills.

Before a company enters the growth phase of the red curve, it must be operationally stable.

Thus, the Ever-Flourishing company avoids the trap of over-commitment of resources, which causes the value delivery process to move from stable to unstable. The organization that is operating at nearly 100% utilization will find that operational performance declines precipitously, its outcomes becoming unstable. Unstable processes have uncertain outcomes, which affects one of the most important customer requirements: reliability. Unreliable suppliers force customers to find alternate sources. Switching costs prevent many of them from returning. Even a short-term decline in operational performance has a long-term effect on future sales.

Financial leverage (i.e., debt) is another example of operational risk. Financial leverage allows for increased return on investments by increasing asset turnover (reinvesting gains), but it also increases risk: (1) the principal and interest on debt must be paid, and (2) developing new capabilities is not free (3) there is uncertainty in the market's response to a new capability. If we say that operational risk is anything that exposes an organization to loss of profits, then financial leverage would certainly qualify as such.

Use debt cautiously to build or acquire capabilities. Instead, consider other ways to build capabilities that do not require capital. Small changes to the offering can make a significant difference in the market's perception of value. I'll explore this more later.

Engines of Disharmony

Early in Dr. Goldratt's (and my) career, he realized that there was a problem in organization – that of conflicting incentives - measurements. At that time, he stated, "*The goal of a plant is to make money, and the measurements we are seeking should measure progress towards that goal. We have seen that cost accounting measurements not only don't measure real progress towards that goal but actually provide a disincentive*."

From nearly the beginning of articulating the seeds of the ToC, Goldratt saw the problem with conflicting behavior. Running the OPT (Optimized Production Technology) schedules contradicted the commonly held beliefs about lot sizing and setup costs. This was the reason he wrote The Goal: A Process of Ongoing Improvement, to overcome these commonly held beliefs. *"They flew in the face of accepted policies and procedures, but they were obviously correct...at least to me.",* he later wrote.

In the late mid to late 2000s, Yuji Kishira, a leader in the teaching ToC in Japan, framed the results of ToC as improvements in the workplace culture, rather than profit. Every action Japanese firms were taking to achieve these results was in the context of improving relationships and creating harmony (in Japanese, Wa). Goldratt then realized that the critical element of creating the ever-flourishing company was to improve human relationships. And the obstacles to improving them were the "Engines of Disharmony". These engines lead to opposing behaviors between individuals and organizational units (departments). They also lead to disharmony between individuals outside an organization as well as within organizations. He stated that "*You cannot have an ever-flourishing company with broken relationships…The most important thing in the success of the company is human relationships*."

This led to the realization that the reason that the true power of the ToC is not the results of its procedures, but its ability to remove the Engines of Disharmony. The ToC eliminates (or reduces) significant sources of friction (the thing that drains most managers' time) to get things done. Most managers are fighting 'fires' caused by friction. The friction *created* by management.

The causes of friction were explored, and it was found that they are compromises between necessary conditions, Core Conflicts. A deeper problem – beyond policies and methods was discovered. What Goldratt did was identify and name the engines of disharmony. He verbalized them this way:

1. **What is my contribution?** Many times, an employee's effort and its effects on the organization are not specifically connected. Where there is no vision, the people perish. People need to know that their work has value and purpose. If my work doesn't matter, then why should I make any effort?
2. **What is my peer's contribution?** Most people don't know how many of their colleagues' activities are essential or at least contributing to the organization. Would you be collaborative if you were in that position?
3. **Conflicts.** People are operating under conflicts, which may be the results of 1 and/or 2, "making the right decision for my company vs. the right decision for my measures"
4. **Inertia.** Many people are required to also do tasks for which the reason no longer exists. People's intuition is always strong enough to feel it, but not always is it strong enough to convincingly explain it to their superiors.
5. **Gaps between responsibility and authority.** You, like any other manager, know firsthand how frustrating it is to have something you are responsible for accomplishing, but you do not have the authority for some of the actions that must be taken to get it done.

Improving relationships as a path to improved results may seem obvious, but for those who seek *measurable* causes and effects, collaboration and teamwork are somewhat ephemeral. How do you directly measure collaboration or better workplace cooperation? As management scientists, if you can't measure it, you can't influence it. That idea went into the trash. It also marked a turn in how ToC experts did their work, changing the emphasis from process to people (or viewing process through the lens of improving relationships).

It was also here that realizing the architects of the system, management (inadvertently) places engines of disharmony and allow conflicts to exist in their organizations. The biggest obstacle to the EFC is the system that has been created and the mindset that it's acceptable to continue to struggle with conflicts.

Summary

Leaders invest in many aspects of the organization to create constant improvement of results: innovation, talent management, etc., but the lifecycle of firms continues to shorten. The principles of the EFC help leaders understand significant drivers of organizational behavior and can provide guidance in developing effective strategies for a sustainable framework in which to innovate and grow. They strive to eliminate cross functional conflicts and silos of decision making. It makes the alignment of rewards in the organization as s foundational element that must be undertaken before any other strategy. It includes evaluating operational risk in the development of any strategy.

There are the four conditions to be fulfilled.

1. A POOGI is central to the organization's activities
2. The organization has (at least) one Decisive Competitive Edge

3. The organization avoids (significant) operational risk
4. The Engines of Disharmony are systematically identified and broken

The idea that you can become an ever-flourishing organization is central to ToC strategic thinking and is the primary strategic initiative an organization should undertake. It provides a framework in which to integrate other change initiatives, providing a theory of operation for the organization. The principles provide a solid foundation to align tactics with strategic objectives. Before you sail across the ocean, make sure you've got a boat and a knowledgeable crew that will get you there.

Bibliography

Goldratt, Eliyahu, (1983), *Cost Accounting: The Number One Enemy of Productivity*, APICS International Conference Proceedings,

Goldratt, Eliyahu, (1996), *My Saga to Improve Production*, APICS - The Performance Advantage (USA) Vol. 6, No. 8, pp34-37

Goldratt, Eliyahu, (2002), *TOC on Strategy and Tactics*, Theory of Constraints a self-learning Program, Goldratt's Marketing Group

Goldratt, Eliyahu, (2008), *The Ever-Flourishing Company - Part One*, https://www.youtube.com/watch?v=fv7SCRNZggk

Goldratt, Eliyahu, (2008), *The Ever-Flourishing Company - Part Two*, https://www.youtube.com/watch?v=ij71X6cxv-I&t=158s

Kishira, Yuji (2009), *WA Transformation Management by Harmony*, North River Press

Barnard, Alan, (2010), *Continuous Improvement and Auditing*, in Cox and Schleier (eds), Theory of Constraints Handbook (pp 403-454), McGraw Hill

Holt, James R. and Boyd, Lynn H., (2010), *Theory of Constraints in Complex Organizations*, in Cox and Schleier (eds), Theory of Constraints Handbook (pp 983-1013), McGraw Hill

Goldratt, Eliyahu, (2011), *Above and Beyond the Competition: A Conversation with Eli Goldratt*, Goldratt Consulting, https://vimeo.com/169617632

Cox III, James F., Lynn H. Boyd, Timothy T. Sullivan, Richard A. Reid, and Brad Cartier, (2012), *The Theory of Constraints International Certification Organization Dictionary*, Second Edition, https://www.tocico.org/resource/resmgr/dictionary/tocico_dictionary_2nd_editio.pdf

S. Patrick Viguerie, Ned Calder, and Brian Hindo, (2021), *2021 Corporate Longevity Forecast*, Innosight, https://www.innosight.com/wp-content/uploads/2021/05/Innosight_2021-Corporate-Longevity-Forecast.pdf

Goldratt, Eliyahu, (2011), *Never Say I Know, the Tangibility of the Green Curve*, The Theory of Constraints International Certification Organization 2011 Conference Proceedings Presented by Lisa Scheinkopf