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Letter from the Editor

Welcome to the Journal of Management Excellence. If you have had the opportunity to read previous issues, then welcome back! We appreciate you taking the time to read our thought-provoking content, and we value any feedback that you would like to share with us.

Creating Options

In this issue, we tackle many aspects surrounding the theme of “creating options.” In a down economy, organizations often busy themselves doing the same day-to-day activities just trying to survive. “Cut costs and sell more” is the main directive, and, chances are, competitors are doing exactly the same thing. Now—more than ever—is the right time to create new and different business options to ensure that you thrive, and not just survive, now and in the future. With scarce resources at hand, creating options may sound daunting, but, as you will read in this issue, there are many ways to create them.

In our first article, Frank Buytendijk provides background on why flexibility is so important to the future, and he illustrates the differences between having choices and having options. In his second article, Frank talks about how a modern IT strategy (being complete, open, and integrated) is the foundation for IT to support creating options. Mike Retrum of Activity Solutions Inc. provides his view on how performing daily activities differently is important to free up precious resources, which can then be put to work creating options.

Thomas Oestreich shares his insights on how a SOA-based IT architecture can help create options, with a special focus on the necessity of MDM support. Claire Carradice of Siemens looks at how encouraging and empowering employees to use innovative and flexible thinking to create options goes a long way to uncovering options that might otherwise be missed.

Thank you to all contributors of the Journal of Management Excellence for your thoughtful insights in this issue. If you are interested in contributing, please contact me at toby.hatch@oracle.com.

Toby


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What is Strategy?

Strategic must be one of the most abused words in business. When you ask people what strategy actually is, they usually say something about the things that we concentrate on and the things that we don’t do. A strategy is based on our position in the market and how we respond to competition. In short, strategy is about making choices. This way of strategic thinking is influenced most by Michael Porter, one of the world’s leading strategy gurus. Companies that avoid choices and lack trade-offs become “stuck in the middle”: They do not differentiate and they cannot sustain.

Let’s argue with Porter a bit. Strategy should ensure a company’s future success, plotting the steps toward the goal. If we know one thing about the future, it is that it will be different from today. How can we make choices today that impact tomorrow’s performance? And is it wise to make choices that will limit our flexibility to respond to tomorrow’s needs? Do we really believe that with analytical rigor we can foresee the future? That if we have all the data and are smart enough, we can crack the code? Of course not. That is not the question. The real issue is how to deal with the unknown future, with strategic uncertainty.

In highly unpredictable environments—and which industry is predictable?—strategy today must align with the fluidity of the external environment. It must be flexible enough to change constantly and adapt to external and internal conditions. What if we do not think of strategy as making choices, but as creating a portfolio of options? Options, as opposed to choices, do not limit our flexibility in the future; instead, they create strategic flexibility. Strategy as a portfolio of options behaves the same as a portfolio of financial options. They give you the opportunity to exercise these options in the future—but you don’t have to—and they allow you to wait until the moment is right. Obviously, these options shouldn’t be random; they should be structured around strategic themes, such as: growth based on acquisitions, organic growth, creating a greener way of working, entering or retreating from certain markets, or specific go-to-market strategies.

The idea of options in the real world, like options as a financial instrument, is called—not surprisingly—real options. In the traditional view, risk and uncertainty depress an investment’s value. If you don’t focus on making “bet-the-farm” choices, but instead on creating managerial flexibility, risk becomes an instrument of value creation. Uncertainty, seen this way, does not depress the value of investments; rather, it may amplify their value. Strategy, with its focus on the future, is characterized by uncertainty. The more uncertain a future, the more you can benefit from it if flexibility and adaptivity are your core strategic competencies. Defining strategy as creating options for the future enables you to undertake riskier investments that have a potential higher upside for the same risk appetite that an organization may have.
Let's use a puzzle metaphor. Traditionally, strategy is seen as a puzzle, in which each piece is a part of the strategy. External factors, such as competition, market conditions, regulations, and value-chain constraints, are the puzzle pieces, as are internal factors such as resources, capabilities, culture, and expectations. The idea is to combine the pieces to make a “big picture.”

The alternative view, strategy as a portfolio of options, resembles a Chinese tangram. With the same puzzle pieces, you can form many different figures. Translated to business terms, with the same resources, processes, systems, partners, and so forth, you can put together many different strategies and courses of action, based on any changes and growing insight. Strategies should not be evaluated as right or wrong, but as adaptable or not adaptable. This sounds nice from a conceptual point of view, but how do you do that in practice? Here are three considerations to start with.

**Scenario Planning**

Strategic exercises often are based on creating a better understanding of the most desirable future state of the company. However, the environment continuously changes. A better way to create a more future-proof strategy is to base it on scenario planning. Scenarios are stories about the future, each describing a different potential reality. The key to a scenario planning exercise is to formulate the assumptions in the business and challenge them. What if the greenhouse effect turns out to be worse than expected? What if mobile-phone signals are discovered to have negative health effects? What if the economy completely breaks down because the financial system doesn’t work anymore? The least important goal of scenario planning is to be right about the future. It helps to think of future performance not as one plan to stick to, but as a number of options. If we open our eyes for change, which is the most important goal of scenario planning, we would recognize these different directions—whatever they may be—a bit better. Training

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1 No, wait; that unthinkable thing happened already. Was anyone ready to respond?
yourself to think in terms of scenarios and options broadens your horizon and creates a prepared mind.²

**Tight Integration Between Operations and the Strategic Level**

The best way to improve business performance is to exploit some change in your environment—in technology, consumer tastes, laws, resource prices, or competitive behavior—and ride that change with quickness and skill. Unfortunately, traditional strategic thinking stops companies from adopting this integration. In the traditional sense, strategy formulation is a separate process from strategy execution. You can also see strategy as evolutionary. Proponents of this school believe that the environment of an organization is too complex to fully understand, and it changes too often to control. The best you can do is pick up signals that indicate change. Those signals usually arise from daily operations and must be elevated as quickly as possible. Likewise, new ideas need to be implemented as soon as possible. Rapid implementation is possible only by closely integrating operations and strategy.

**Continuous Planning**

Although the strategy may be flexible, the goals should be well understood, in one clear picture that is easy to convey and instantly remembered, such as “Beat Competitor X,” “Grow to a 50 billion dollars,” or “Do whatever what is realistically needed to create a happy customer.” Understanding the goal provides a direction, and the strategic framework provides the guardrails to ensure that emerging strategies don’t go astray. How? The answers unfold while we’re on the road. There might be roadblocks, weather conditions may change, and we may deal with fatigue while driving. We can deal with these conditions as they arise, but we never take our eyes off of the goal.

**Conclusion**

Does this strategy mean that we don’t have to make choices anymore? I don’t think so. Life is full of choices. However, the choices we make should not be based on picking a direction that we believe is right, or on picking the best ones. Rather, the choices that we make should be the ones that keep our options open for the future.³

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² More on scenario planning in “Creating Options: The Framework For The Fundamental Job of Management.”
³ This article is based on the forthcoming book Dealing with Dilemmas: Where Business Analytics Fall Short.
Don’t Complain About Options—Create Some

An uncertain economy demands that companies innovate to create business options to thrive and in some cases just to survive. In many cases, management is so stuck in its ways and mired in panic that getting creative is difficult. The job of an independent consultant is to view client situations objectively and make suggestions to help clients create options—especially in troubled times. Suggestions are not always met with enthusiasm. Conversations often go like this…

Client: “Our workforce has been slashed. If I can’t meet daily demands, how can I focus on the future?”

Consultant: “Let’s find ways to meet daily business demands differently so we can work on options for the future.”

Client: “Our revenues are down. We need more salespeople if we want to increase revenue.”

Consultant: “Selling more of the same product is only one way to generate revenue. Let’s create other options.”

Client: “Our margins are down and our revenues are declining. There is no other way—we have to cut overhead.”

Consultant: “Rather than arbitrarily eliminating overhead (like you), let’s look for excess cost in less traditional areas. There are other options.”

Change can be difficult and uncomfortable. Most companies wait too long, hoping that following the same old practices somehow will generate new or different results.

Many companies, experiencing decreased profits, are trying to cut costs and are possibly cutting their workforce even though their workload has not changed. Some companies, despite being on the verge of bankruptcy, are still reluctant to change. These troubling situations make companies see their options as limited at a time when they are most needed.

So, how can you free up resources and create options?

• Understand what drives your business to free available resources and/or effectively cut costs.

• Look inside the four walls of your organization for new revenue opportunities and operational efficiencies/cost savings.

• Look outside the four walls of your organization; examine the entire supply chain for new revenue opportunities and possible cost savings.
Understand What Drives Your Business

Understanding what drives your business can help you to not only find opportunities to cut costs without reducing headcount, but also to uncover new business options. Finding and eliminating unnecessary drivers of work or waste can free money, labor, or materials—resources that you can reinvest in better or alternative business practices.

Traditionally, companies cut costs by identifying the largest expense on the income statement, which is typically labor (after material in the case of manufacturers), and then telling managers to cut it by x percent. Without changing the process or eliminating wasteful activity, this exercise could be disastrous. Without changing the process, the same workload often is spread among fewer people, driving up overtime and worsening the problem. Especially during difficult economic times, companies urgently need to understand which activities drive time and effort consuming valuable resources in the organization. With this understanding and the elimination of waste, the organization can seize opportunities as they arise and effectively cut costs.

The following are examples of drivers that do not go away if you eliminate people. These are examples of what causes the same workload to be spread among fewer people:

- Customers are placing just as many orders, but the orders are smaller.
  Possible fix—Use online ordering or third-party order-taking companies.

- Purchasing is placing just as many orders, but the orders are smaller.
  Possible fix—Utilize blanket orders with supplier; examine carrying more inventory.

- The warehouse is picking just as many orders, but the orders are smaller.
  Possible fix—Change warehouse layout and better utilization of bar-coding.

- Manufacturing setups/changeovers are occurring more frequently, and productivity is decreasing.
  Possible fix—Upgrade equipment for more rapid changeovers, carry inventory of frequently ordered items to allow economical lot sizes.

Finding creative options to deal with smaller orders and frequent setup/changeover could radically change the game. Companies must streamline and simplify current activity to free resources to take advantage of new opportunities. Cost reductions cannot overburden the remaining people in your organization, or production will suffer, and you will not meet the demands of your customers.

Creating Options for a Telecommunications Company

A telecommunications company set out to free resources, eliminate waste, and allow order-takers to spend more time on the telephone with customers to increase revenue. The company proceeded to process-map every major activity in the order-taking department. More than 50 maps were drawn, and the project team tried to eliminate waste by examining and simplifying the most complicated activities. The company just didn’t understand why their efforts were not generating results. They then identified drivers and attached effort to each process map. In doing so, it discovered that the simplest activity, “Receive miscellaneous call; answer call; transfer to correct department” drove the most effort. By simplifying their
automated attendant so people were able to find the correct area of the company, resources were freed and the order-takers could double their time taking orders and up-selling features and options.

Look Inside the Four Walls

Traditionally, to increase revenue, salespeople are pushed to make more calls to new customers. But not all sales are good sales. If a customer requires too much special handling of the product, special packaging, or has special distribution requirements, profit may not be realized. This principle is the most difficult to teach a salesperson. Another way to increase revenue is to identify new options within existing processes. Identifying or creating idle capacity can create options to increase revenue while decreasing costs. To identify or create idle capacity, your organization first must understand the key drivers. Only then can opportunities be found.

Creating Options at a Rubber Processor

A rubber processing plant with state-of-the-art mixing facilities sells their product directly to rubber parts manufacturers. The plant created options by gathering critical process information. They identified excess capacity, the type of material that fit their customer base, and determined the process-based cost to mix rubber materials. Armed with this knowledge, they created the option of selling their excess capacity to a competing rubber-mixing company. Doing so enabled them to fill excess capacity, increasing their revenue. The other mixing company was able to eliminate their underutilized second shift.

Look Outside the Four Walls

Opportunities to create options also exist outside of the four walls of the organization. Focusing on your supply chain and your existing distribution channels can help you create options for cost savings and revenue gains.

- Supply chain—Understanding where and why you are spending money can create options for saving money. Identifying cost drivers in the supply chain outside the four walls of the organization can help identify opportunities to cut costs or to improve the process to gain back capacity.

Creating Options at a Railcar Leasing Company

At a Railcar Leasing Company, a significant portion of the maintenance on the leased cars is performed by contracted maintenance facilities, allowing the leasing company better cost control. To help create options, the leasing company identified and tracked commodity being hauled, time between repairs, types of maintenance required, and related downtime for leased equipment. From this analysis, they created an option to save money by identifying the causes/drivers of the most costly repairs and focused on reducing and eliminating these costly repairs primarily through preventative maintenance.

Additionally, some maintenance is performed by the railroad. The railroad will inspect cars to ensure safety on their tracks. If a wheel is out of compliance, the railroad would replace the wheel with a new one. The leasing company identified a multimillion dollar option to save money by negotiating with the railroad to use a remanufactured wheel.

- Distribution Channel—Understanding how and where profits are generated within distribution channels can help identify areas, products, and customer types on which to focus your sales
force. If your organization understands profitability by distribution channel, customer, and product/service, focusing the sales efforts will be easier.

Creating Options for a Food Manufacturer

A food manufacturer successfully focused on creating revenue first by identifying profitability by distribution channels and then by identifying excess capacity in their packaging lines, allowing the company to look at options to best use the capacity. They identified similar products as well as products requiring similar equipment. They examined their distribution channel and talked to their customers to identify products that would mutually increase sales. Armed with the process-based cost of manufacturing, they increased sales and profitability by selling complementary products while using excess capacity. By creating the required information and adopting this option for increasing sales, they focused the sales force on more profitable channels.

To Recap:

Complaining about the current business situation may feel therapeutic, but being armed with information and being creative are necessary to create the options required to thrive. Remember, the best ways to create options are to:

- Understand what drives your business and gather the necessary information.
- Work on freeing resources from daily activities by doing things differently. Those freed resources can be used to create options.
- Look inside and outside the four walls of your organization for new revenue options and cost-saving options.

Now, more than ever, creating options should be your top priority.
A Modern IT Strategy Is Based on Creating Options

An important measure of the success of an IT strategy and architecture is the ability to adapt to changing circumstances.

- CIOs are faced with long investment cycles, while technology lifecycles are only getting shorter. IT must be ready for trends and requirements that are unknown when investments are made.

- A good part of IT innovation that drives new business opportunities comes from consumer IT, and CIOs must be ready to link in. Today, this innovation comprises the 2.0 world: Trends on the horizon include augmented reality and sensor technology, for example. Analyst Company IDC predicts that unstructured data will grow at twice the rate of conventional data. Already, by 2010, unstructured data will make up the majority of all enterprise data.4

- Many businesses invest in value-chain integration, requiring processes and systems to link to a wide variety of processes and systems owned by customers, partners, suppliers, and other stakeholders.

IT offers an infinite range of alternatives and unlimited choice in how to tackle these challenges. Winnowing a wide range of technology choices requires discipline. CIOs can demonstrate leadership by turning unlimited choices into a set of directed options.

With business operations and information technology inextricably linked, the ability to make effective changes to business processes depends on the ability of an organization's IT to enable this change. With most enterprises employing thousands of individual hardware and software components, there is an ever-increasing need to develop and adopt an architecture that can deliver predictability and responsiveness to change. A solid architecture is key to creating options for the future. Agility comes from being able to expedite, delay, expand, or contract IT initiatives, as internal or external conditions change.

I believe a modern IT architecture should possess three characteristics in order to create options: IT should be complete, open, and integrated.5

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4 Infoworld, August 24, 2009, “Dealing with the Data Explosion”
KEY CHARACTERISTICS | A MODERN IT STRATEGY...
--- | ---
Complete | ... leverages all areas of technology to create new business opportunities
Open | ... caters to future, currently unknown, requirements
Integrated | ... is effective in a heterogeneous landscape of processes and systems

Table 2: Key characteristics of a modern IT strategy

Complete
The more comprehensive an IT strategy and architecture is, encompassing all aspects of the business, the more it is able to leverage opportunities as they arise. Partial IT strategies—for instance, focusing on only current business applications and legacy systems—do not address areas in which current business innovation typically take place. Many business innovations are driven by IT. New technologies keep pushing the envelope and unlocking new ways of working. As a result, the IT strategy not only should include infrastructure and business applications but also should support decision-making, risk management, collaboration, mobile needs, and value-chain integration. CIOs should also look into disruptive technologies to drive business innovation, instead of being bypassed by the business. IT research firm Gartner, for example, mentions augmented reality as an emerging trend. Or consider sensor technology, and even “serious gaming.” An IT strategy should strive to be complete to create business options.

Open
An IT strategy also should focus on an architecture that is open, anticipating applications, technologies, and devices that might not be in use, but which users bring to the table, or which do not exist today. Instead of measuring IT success based on return on investment on a project-by-project basis, another—innovative—measurement is to look to the real options IT creates. This practice is no different from other types of asset management, in which assets are fixed or liquid. The more open and standards-based the IT strategy, the more business options it potentially generates. IT strategy in this sense should be seen as a portfolio of investment opportunities that can be delayed, expanded, switched, contracted, or abandoned when necessary.

Integrated
IT landscapes are becoming more heterogeneous. No organization stands alone in a value chain. Processes and systems often span multiple organizations, including suppliers, service providers, customers, and other parties in the extended value chain. According to a 2009 PricewaterhouseCoopers survey, leading outsourcing customers and service providers are shifting from traditional to collaborative business models, with 35 percent of respondents indicating

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increased interest in this approach.\textsuperscript{7} Outsourcing is only intensifying, particularly in less traditional areas such as innovation, research, and development. Sharing information among stakeholders creates alignment on the operational and strategic level. However, it is unlikely stakeholders will all use the same software from the same vendor. Moreover, the portfolio of stakeholders whom you work with constantly changes. A modern IT strategy that focuses on an architecture with the ability to integrate with a wide range of other processes and systems—many outside the firewall—enables that collaboration and alignment. IT strategies require an enterprise-wide approach.

\textbf{In Conclusion}

Oracle’s core strategy of Complete, Open, and Integrated (COI) is derived from an appreciation of creating options. Specifically having an open architecture that makes Oracle technology hot-pluggable across a range of other technology is designed to preserve flexibility for the customer. The opposite approach of “locking in” to a proprietary system is anathema to a creating option framework. While a proprietary system can give you some efficiencies, many CIOs certainly have felt the pain of not having created options and so have been locked in to a proprietary system.

\textsuperscript{7} PricewaterhouseCoopers, “Outsourcing Coming of Age: The Rise of Collaborative Partnering,” 2009
MDM Needed to Create Options with SOA

Service-oriented architecture (SOA) has been around for many years and has gained a lot of traction recently. For this reason, many companies have started to implement middleware platforms. But to fully leverage the options available through a SOA-based design, transaction data, master data, and metadata must be separate from services and managed centrally. Because I cannot discuss all three data types adequately in this short article, I will focus on the often overlooked master data.

SOA-Based IT

One key benefit of moving to a SOA-based IT landscape, replacing legacy application architectures, is to increase the speed of implementation for new requirements while decreasing the necessary effort. For many years, evaluation, installation, and implementation were barriers to aligning business and IT strategies in a timely manner. The cycle time of identifying a need, evaluating applications, and finally implementing them, often took one or two years—sometimes longer. Change management also proved to be a real issue. Often, even meaningful changes were neglected or postponed. Because of the flexibility and agility in composing services from a repository—without the application-specific dependency on predefined transaction flows—with SOA-based IT systems, the long-standing issue of lengthy implementation times finally can be removed. An application or a module takes much longer to implement, because it must be implemented completely, often requiring the adaptation of the existing processes to the application-specific flow of processes.

A second key benefit goes beyond this. IT creates options through SOA design. A set of reusable, self-contained, independent services can be “composed” or “orchestrated” on a nearly ongoing basis. IT can choose how to support the business processes, rather than depending on a specific application. To successfully perform this step, it is necessary to “disassemble” the applications.

- Web Services take care of the communication between the services.
- The Business Process Management (BPM) layer orchestrates services from the repository to support all transactions of a business process.

The services themselves can be seen as the isolated, functional modules or building blocks of an application. Unlike applications, however, services should not contain master data. In a SOA design, master data should be managed centrally and independent of the service repository.
I want to highlight the importance of master data management (MDM). Though MDM in itself does not create options, it is the key enabler to leverage the number of options in a service oriented-architecture; that is, the number of possible service combinations.

**Master Data Management Really Matters**

I am certain that everybody agrees that MDM is important for consistency and accuracy. Nevertheless, my experience is that MDM is underestimated with respect to a true SOA design. MDM is often viewed from a purely transactional perspective, to cleanse, de-duplicate, and synchronize the master data objects’ sets of records; for example, the customer master, the product, or material masters. In my view of a SOA design, this covers only the first of three levels of MDM: the master data record level, or level one.

At level one, accuracy, completeness, and correctness of the master data records is the key to enable the processing of transactions. At this level, the addresses of the customers must be correct; the product masters need all relevant attributes and properties. But what often is missing from this level is the relevance of the master data records.

Business rules should also be set to permanently identify business relevancy. Is the customer active? Is the product is still sold? Is the material still needed? Many legacy applications today carry a huge portion of “dead” records simply because the transactions can be processed despite them. Only at the data warehouse and analysis level does this deadweight become a burden, such as when sales reports contain hundreds of customers or products with no sales activities.

**Level two**, or the hierarchy level, deals with the relationships of master data objects within a certain class. Customers, for instance, might be structured and clustered by industry segments or geographic regions; product masters are organized by classification schemas or the companies’ own product cluster. In “traditional” designs, the information of a specific hierarchy is usually an attribute of the master data object itself. This design, however, makes it difficult to manage and maintain multiple structures or hierarchies.

Structures, or hierarchies, are “digital” descriptions of an enterprise. Almost by definition, there is usually more than one perspective, each requiring a certain structure. An organization, for example, can be structured by cost centers, by legal entities, by business units, or geographically. At the very least, when analysis or planning activities are performed, these data relationships are crucial. In the heterogeneous IT landscapes of today, these different structures are often maintained in different applications. The master data is “bound” to the application, which is not useful in a SOA design and significantly reduces the number of options.

**Level three** of MDM deals with the relationships of master data objects across different classes. Ideally, the relationships between master data across the complete value chain can be identified. A prerequisite, of course, is that level two exists. At level three, the point is to connect the objects; for instance, identify each supplier that delivers each material which is used in each product, based upon each contract. Or, on the demand side, how each customer relates to each product from each business unit or channel.
This third level is truly a difficult one, but the strategy must include this layer as well. If it is not included, then the communication between applications and services is reduced to a simple transactional information exchange. Applications, which typically hold this information, cannot be replaced by services without the third level in place. Reasons to not bring in this layer might include the constraint that the number of customers, relative to their contribution, does not make it worthwhile to maintain that level of granularity. Customer clusters created in level two might be sufficient, as this is often the case for commodities in consumer markets. Such an exercise is also often too costly for C-material. These materials, such as office supplies, are usually kept in an electronic catalog, which can be seen as a service.

The decision that must be made is to identify the core of the business where these relations are crucial, and the different classes and master data objects where it is worthwhile to centrally manage their relations.

<table>
<thead>
<tr>
<th>Level one: master data records completeness and accuracy</th>
<th>Level two: master data object across alternative structures</th>
<th>Level three: master data object relations across different classes</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC 123 Phv 5565</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CDE 34 Drv 5567</td>
<td></td>
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</tr>
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</tr>
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<td>FGH 87 Phv 5568</td>
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<td></td>
</tr>
<tr>
<td>GHI 124 Drv 5568</td>
<td></td>
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</tr>
</tbody>
</table>

Figure 1: Three Levels of Master Data Management

Together, all three MDM levels create a digital representation of the enterprise, its business partners, and customers—and now the flexibility exists to apply all this information to any specific application, module, or set of composed services. Having all three levels is an important step to reduce the dependency on specific applications, where this information usually is maintained.

Conclusion

SOA design truly creates options for IT to support the business strategy and to align with it in an agile, flexible way. Having a set of reusable, self-contained, independent services that can be combined and recombined infinitely and quickly can do that for you. To move from an application-based architecture to a service-oriented architecture means that organizations must move to “decouple” master data from the applications on all three levels. I would even state that, to fully leverage the options available through a SOA design, it is a prerequisite.
Flexibility is Vital to Delivering Exceptional Customer Service Experiences

“I can’t do that.” “That’s the way we do things.” When something has gone wrong in a business transaction in which you are the customer, how many times have you heard these two statements? And if you were sitting on Freud’s couch at the time, he would ask, “How does that make you feel?” Management may smirk at the “touchy feely,” but people and how they feel is at the foundation of any business.

But if you want your strategy to evolve through collaboration and communication instead of through command and control, and if we want to be a learning organization that seizes opportunities and creates options for the future, we have to break from the conventional approach. Change is usually first detected at the front lines first. It’s people, running everyday processes, who find out that all of a sudden the old “best practice” no longer works. It’s people who must be empowered to make a change.

We tend to forget that business is about people. It revolves around humanity. Even if we don’t want to admit it, repeat business really does depend on the way we make our customers feel when they do business with us. Jack Welch, author of the book Winning, states that “Companies are not buildings, machines or technologies. They are people.” People buy from other people, and that is what comprises a business.

The other day, I called a company who specializes in Internet solutions. I spoke to a salesperson because I wanted to install ADSL to use the Internet in a personal capacity at home. Through no fault of the salesperson, a problem arose when I was told that they needed to fax or e-mail me installation forms. At the time, I was on leave and had no access to a fax machine or to e-mail. Because the salesperson had not been empowered to make an on-the-spot alternative decision, I spoke to a more senior person to explain that I wanted to use the Internet during my leave, but I did not want to make it my problem to run around trying to get access to a fax machine or to e-mail. Despite my suggestion of getting someone to deliver the paperwork to me, the senior lady I spoke to kept insisting that this was the way “they did things”.

In the end, I became so frustrated that I told her I would use a provider who was more service-oriented. This company lost a deal because of inflexibility of their internal procedures. What should have happened? The salesperson should have solved the problem without making me do the work or inconveniencing me. They could have used a courier for the paperwork at a minimal cost to themselves. They would have made up the minimal courier charge on the monthly fee that I would have paid them. Instead, they lost my business to a competitor, all because their
procedures were inflexible and their staff was not empowered to think like a customer and make decisions that would keep a customer.

To create options or flexibility in terms of customer service, you must understand the link from when an operational procedure is created, then implemented, to how it is maintained, and finally to how it is conveyed to frontline staff. Consider the insurance industry’s general claim procedure: you may have submitted different claims to the same insurance broker more than once. The one time you may have received exceptional service, and another time you may have experienced shockingly bad service. The inconsistency of service delivery was due to being served by two staff members; one who was empowered to provide exceptional service, and the other who had not been empowered. Flexibility in terms of service is closely linked to empowerment of front-line staff.

It reminds me of Commerce Bank, who makes more money than any other bank in the world and has a 29% average annual growth rate. They do things very differently from any other bank in the world. Their prices are more expensive than other banks, but they believe that customers pay for convenience and that service, not rate (unlike other banks) drives growth. Their hours are different; they are open seven days a week. Their call center is open 24 hours a day. They open 10 minutes earlier than the scheduled time and close 10 minutes later than their scheduled time. They remain relationship-oriented, while other banks are transaction-oriented. They are fanatically focused on delivering a unique customer experience. What makes me mention them specifically is that Commerce Bank has a policy in place called, “Kill Stupid Rules,” in which staff are financially rewarded when they bring to management’s attention any rule that hinders exceptional service delivery.

Because service delivery is made up largely of the human element, all companies, no matter how brilliant, will dissatisfy a customer at some stage. But it’s at this crucial point that a customer can be made into a raving fan instead of someone who will tell 10 other people about the bad experience he or she just experienced. And it’s at this point that the frontline staff member must be empowered to make an on-the-spot decision that may require flexibility from the company. If the company’s policies and procedures are too stringent and don’t give staff options, they might fear the consequences of satisfying a customer by making an on-the-spot decision. The staff might choose self-protection and let the customer walk away frustrated. However, if the employee is empowered to be flexible when necessary, the customer can potentially be “saved,” perhaps becoming a walking advertisement for the company who just messed up and made up.

Any company can deliver a service. The difference between a mediocre service provider and a talked-about, noticeably phenomenal one is the degree of innovative, flexible thinking, which starts at the top and works its way down to customers and essentially to the bottom line.