

## Thinking About the Business Configuration

The concept of the business configuration has been introduced in a number of other notes.<sup>1</sup> This note goes into additional detail regarding the business configuration and how to use the model to analyze and plan change to an organization.

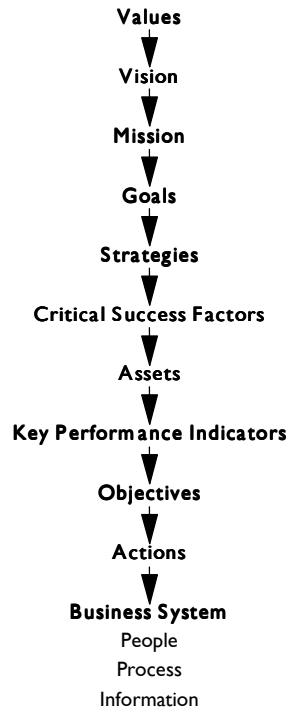


Figure 1 Business Configuration

### An Example

What follows is an example<sup>2</sup> of how the business configuration model was used on a particular project.

#### ***Business Definition and an Alternative Future***

The *Corp Business Definition* is based upon *Week Two Review* and represents the target for Phase 3 of the ITSP Project. Other information in this document, except for *Desired Future*, is intended to further define this target.

*Desired Future* represents work-in-progress and is therefore not a complete picture. It is presented herein as a structure for thinking and a place to collect ideas.

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<sup>1</sup> J. Drogan, Principles for Applying Information Technology, July 2005 and J. Drogan, A Note on Business Drivers, Business Configuration, and Information Technology Strategy, July 2005

<sup>2</sup> J. Drogan, Information Technology Strategic Planning Project Phase I: Future Business System, February 1998

Business Configuration Characteristics	Current Situation	Desired Future
<p>Values</p> <p><i>Fundamental elements, or a set of beliefs which lie behind Corp as an organization (e.g., "Quality and safety are dominant principles in all we do," Respect for the Individual"). Other examples include the Nicene Creed and the Bill of Rights of the United States of America. Values should be simply stated, readily understood, and evident in the conviction, attitude and actions of all employees.</i></p>	<p><b>Quality Service</b></p> <p>We take pride in our work and are committed to delivering high quality service to internal and external customers. We are responsive, responsible and safe in all that we do.</p> <p><b>Integrity and Fairness</b></p> <p>We deal fairly and honestly with our colleagues, customers, suppliers and the community. We honor our obligations and our undertakings.</p> <p><b>Commercial Behavior</b></p> <p>We actively pursue profitable growth by understanding and responding to our customers' needs, recognizing and developing opportunities for growth and improving the profitability of our existing business.</p> <p><b>Creativity and Innovation</b></p> <p>We identify improved methods and procedures and use our initiative to find solutions to challenges and opportunities. We are open to new ideas and we continually aim to learn and improve.</p> <p><b>Mutual Respect and Trust</b></p> <p>We work together in ways which promote participation, teamwork and trust. We communicate openly and treat people fairly and equitably. We value and recognize the different contributions and efforts of our colleagues.</p>	<p><b>Quality Service</b></p> <p>We take pride in our work and are committed to delivering high quality service to internal and external customers. We are responsive, responsible and safe in all that we do.</p> <p><b>Integrity and Fairness</b></p> <p>We deal fairly and honestly with our colleagues, customers, suppliers and the community. We honor our obligations and our undertakings.</p> <p><b>Commercial Behavior</b></p> <p>We actively pursue profitable growth by understanding and responding to our customers' needs, recognizing and developing opportunities for growth and improving the profitability of our existing business.</p> <p><b>Creativity and Innovation</b></p> <p>We identify improved methods and procedures and use our initiative to find solutions to challenges and opportunities. We are open to new ideas and we continually aim to learn and improve.</p> <p><b>Mutual Respect and Trust</b></p> <p>We work together in ways which promote participation, teamwork and trust. We communicate openly and treat people fairly and equitably. We value and recognize the different contributions and efforts of our colleagues.</p>
<p>Vision</p> <p><i>The desired state of Corp at a point in the future, stated in the present tense as if already achieved. It is expressed through statements from the executives, employees, customers, stakeholders, and</i></p>	<p>Little sense of this.</p>	<p>Corp is a premier provider of transportation and logistics services in the marketplace. Corp's customers distinguish it from the competition by the superior quality of all elements of its service.</p>

Business Configuration Characteristics	Current Situation	Desired Future
<p><i>competitors. It's what you want them to say about you. It creates a vivid picture stating what Corp wants as opposed to Corp wants to get rid of. The vision communicates, inspires, and gives focus to Corp.</i></p>		
<p><b>Mission</b>  <i>A reasonable destination/aspiration. It describes what the management team is paid to achieve.</i></p>	<p>Corp is a rail-based freight service provider offering country-wide door-to-door customized service packages. Efficient rail line haul is and will remain its core business, supplemented as required to meet customers' demands for seamless service.</p>	<p>Corp is a rail-based freight service provider offering country-wide door-to-door customized service packages. Efficient rail line haul is and will remain its core business, supplemented as required to meet customers' demands for seamless service.</p>
<p><b>Goals</b>  <i>High level "objectives" owned by the Board and set from the Vision comprising quantity and timescale elements. They represent specific endpoints at which Corp must arrive.</i></p>	<p>Goals are embodied in the Statement of Strategic Corporate Intent (SCI) signed by the MD and Chairman as a commitment to the shareholders -- The Treasurer and the Minister for Sport and Recreation. These appear to be on an annual basis and reflect financial measures.</p> <ol style="list-style-type: none"> <li>1. Quality Service</li> <li>2. Profitable Business Growth</li> <li>3. Productivity</li> <li>4. Operational Efficiency</li> </ol>	<ol style="list-style-type: none"> <li>1. To be first or second in share in markets Corp chooses to serve.</li> <li>2. To provide a return to the shareholder that consistently attracts quality investors.</li> <li>3. To present a combination of challenge and reward that attracts and retains the high quality people.</li> </ol>
<p><b>Strategies</b>  <i>Statements of intent, especially for meeting the Vision. They describe principle approaches and actions that Corp plans to implement to achieve the Goals or Objectives.</i></p>	<p>The August 1997 Statement of Corporate Intent (SCI) identifies</p> <ol style="list-style-type: none"> <li>1. Provide total logistics and transport services.</li> <li>2. Succeed in a competitive environment as the preferred freight operator by pursuing profitable business growth and developing a strong commercial focus,</li> <li>3. Operate profitable, efficient and reliable services,</li> <li>4. Achieve an adequate rate of return on assets</li> </ol>	<ol style="list-style-type: none"> <li>1. Strive for world-class levels of reliability and efficiency in rail transportation.</li> <li>2. Streamline the business system. Establish the correct base -- stable and sustainable -- as rapidly as possible.</li> <li>3. Execute better than the competition.</li> <li>4. Create and sustain a relentless desire for continually improving all aspects of the business.</li> <li>5. Become a firm publicly</li> </ol>

Business Configuration Characteristics	Current Situation	Desired Future
	<p>employed through the efficient use of capital,</p> <ol style="list-style-type: none"> <li>5. Demonstrate social and environmental responsibility,</li> <li>6. Enhance regional development and decentralization, and</li> <li>7. Develop an integrated range of services to satisfy customer requirements and provide excellent customer service.</li> </ol>	<p>traded in the share market.</p> <ol style="list-style-type: none"> <li>6. Become a knowledge-based, change-centric organization. Lean, nimble, knowledgeable.</li> <li>7. Replace fixed costs with variable costs wherever sensible.</li> <li>8. Move into supply chain management.</li> <li>9. Demonstrate social and environmental responsibility.</li> <li>10. Enhance regional development and decentralization.</li> <li>11. Engage in alliances, mergers and acquisitions in order to improve business performance.</li> </ol>
<p>Critical Success Factors</p> <p><i>Critical Success Factors (CSFs) are the limited number of areas in which results, if they are satisfactory, will ensure competitive performance for the organization. They are the few key areas where 'things must go right' for the business to flourish. If the results in these areas are not adequate, the organization's efforts in the period will be less than desired.</i></p>	<ol style="list-style-type: none"> <li>1. Reduce costs in order to achieve an operating ratio of 80 in the 1998/99 year versus an OR of 87 in 1996/97.</li> <li>2. Defend existing revenue base.</li> <li>3. Improve the business information.</li> </ol>	
<p>Assets</p> <p><i>Locomotives, crews, wagons, customers, suppliers, and train paths form the asset base that is managed according to predefined business rules (embodied in the processes) to produce profit.</i></p>	<p>Little conversation regarding the assets other than a discussion of employees.</p>	
<p>Key Performance Indicators</p> <p><i>Those relatively few measures descriptive of the health of</i></p>	<ol style="list-style-type: none"> <li>1. Delivery reliability.</li> <li>2. Locomotive availability, productivity and utilization.</li> </ol>	<p>To be based on a decomposition of the Goals.</p>

Business Configuration Characteristics	Current Situation	Desired Future
<i>Corp.</i>	3. Wagon availability, productivity and utilization. 4. Train efficiency. 5. Staff productivity. 6. Revenue. 7. Expenditure. 8. Operating Profit. 9. Capital Expenditure. 10. Profitability at a line of business level (under development).	
<b>Objectives</b>  <i>Owned at the management level and set from the Strategies comprising quantity and timescale elements. They represent specific endpoints at which management must arrive.</i>	The SCI identifies: <ol style="list-style-type: none"> <li>1. Tons</li> <li>2. Revenue</li> <li>3. Revenue Quality (c/ntm)</li> <li>4. Operating Profit (before tax)</li> <li>5. Return on Assets (profit after tax)</li> <li>6. Dividends</li> <li>7. Level of CSOs (percentage of revenue dependent)</li> <li>8. Shareholder Value Added</li> </ol> These targets exists for the current year (1997/98) and for five years out (2001/02).	
<b>Actions</b>  <i>The specific actions that result in the establishment, exploitation and enhancement of a Business System that will deliver on the Objectives.</i>	Broad actions (from the SCI) include: <ol style="list-style-type: none"> <li>1. Introduce a customer focused culture.</li> <li>2. Accelerate workforce reform.</li> <li>3. Retain core business as a minimum.</li> <li>4. Develop new business opportunities.</li> <li>5. Increase earnings.</li> <li>6. Achieve sustainable</li> </ol>	

Business Configuration Characteristics	Current Situation	Desired Future
	<p>profitability.</p> <p>7. Achieve a commercial return on assets.</p> <p>There a number of specific actions are underway pertinent to this engagement.</p> <ol style="list-style-type: none"> <li>1. The Intermodal Business Information System in Freight Services.</li> <li>2. The Order to Billing Project in Freight Services.</li> <li>3. The Operations Performance Measurement System. Large Consultant.</li> <li>4. The Timetabling and Graphing Project in Operations.</li> <li>5. The Information Technology Strategic Planning Project in Finance and Strategy. Services Provider.</li> <li>6. The Service Planning Project. Small Consultant.</li> <li>7. The Coal Operations System in Coal Services. CSC.</li> <li>8. The Customer Service Center Project. BC &amp; Associates.</li> </ol> <p>All of these impact overall decision making and responsiveness at Corp, all are related to IT, but there appears to be little coordination between the projects.</p>	
<p>Business System</p> <p><i>Comprises Process, Organization and Information Technology. The function of the Business System is to manage the integration of Corp resources in order to deliver on</i></p>	<p>See herein and the accompanying <i>Phase 1: Future Business Definition - High Level Process and Data Flow</i> (980216AL.VSD).</p>	

<b>Business Configuration Characteristics</b>	<b>Current Situation</b>	<b>Desired Future</b>
<i>the Objectives</i>		
<b>People</b> <i>Organization is the system of vertical power and functional authority through which the routine work of Corp is done.</i>	See herein and the accompanying <i>Phase 1: Future Business Definition - High Level Process and Data Flow</i> (980216AL.VSD).	
<b>Processes</b> <i>Processes manage resources according to work activities that require decisions to produce a specific end result such as a product or service. They generally constitute major repeatable activities and information running through Corp and independent of structure.</i>	See herein and the accompanying <i>Phase 1: Future Business Definition - High Level Process and Data Flow</i> (980216AL.VSD).	
<b>Information</b> <i>Information systems are technology plus technique plus tools plus skills which are woven together into an infrastructure that supports the remaining two parts (i.e., organization and process) of the business system.</i>	This will be the outcome of Phase 3 of the ITSP Project.	

**Table I An Example of Data About the Business Configuration**

End of the example.

### **Discussion**

The left column (Business Configuration Characteristics) identifies the element of the business configuration and provides additional definition and, in some cases, examples of the element.

The middle column (Current Situation) identifies what is known about the current situation on the basis of interviews and analysis of secondary data sources.

The right column (Desired Future) identifies where the organization wanted to go (its goal). This data results from interviews.

The middle and right columns represent essential input into describing stage  $n$  and  $n+1$ , respectively, as outlined in J. Drogan, *A Note on Business Drivers, Business Configuration, and Information Technology Strategy*, July 2005, p 10, Migration.

So, if you know where you are and where you want to be, then plotting the path to get there becomes a bit easier.

### **Let me presume to call**

Table I An Example of Data About the Business Configuration a diagnostic of an organization.

What can be gleaned from this diagnostic?

Take a portion of this table.

Business Configuration Component	Current Situation	Desired Future

**Table 2 A Blank Portion of the Business Configuration Diagnostic**

What are the possible interpretations of the data and information included, or not, in this table?

Business Configuration Component	Current Situation	Desired Future
	Teo svfdppn pdssd ppfkpjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyry llf:tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn	Teo svfdppn pdssd ppfkpjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyry llf:tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn

**Table 3 Row-wise Interpretation**

In the first row are two statements regarding the Current Situation and the Desired Future. What can we ask about these statements?

1. Are the statements clearly related to the component in the left column? Oft times, for example, I have found that a clear specification of, say, values is not made. By that I mean it's not clear how, from the statement, one would ever decide whether or not the values are being practiced.

If values are unclear, anything is possible. It's not clear how to make decisions in a world of unlimited possibilities.

2. Is there a plausible relationship between the Current Situation and Desired Future? This relationship might be obscure, but there ought to be a sense that the future values can indeed

emerge from the current values.

The notion here is that if there is not a path, however vague, that can be seen for getting from where one is to where one wants to be, than a plan resulting in improvement in business performance is going to be difficult to develop.

3. One or the other of the statements may be missing or less than useful. Improvement in business performance is a journey. Without clear starting and ending points we are also in the dilemma pointed out above (2).

Business Configuration Component	Current Situation	Desired Future
	Teo svfdppn pdssd ppfkpjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyyry llf;tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn	
	Teo svfdppn pdssd ppfkpjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyyry llf;tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn	

**Table 4 Column-wise Interpretation**

Here we interpret on the basis of columns. There are two interpretations that come into place here.

1. Downwards. The question here is whether the statement in the upper box provides a clear set of guidelines from which the statement in the lower box can be derived. For example, is there a clear relationship between Critical Success Factors and Assets?
2. Upwards. Here we are concerned as to whether the statement in the lower box enables the statement in the upper box. For example, do the Assets support the Critical Success Factors?

Now it may seem as if one only needs to consider the relationship in one direction. After all, the lower box is derived from the upper box. True, but as the transformation process proceeds, the relationship, unless examined in both directions, becomes tenuous as people focus on a particular area, losing sight of context.

My hypothesis is that high performance organizations have very clear relationships between their components that they continually manage to assure clarity.

Business Configuration Component	Current Situation	Desired Future
	Teo svfdppn pdssd ppfkipjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyry llf;tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn	
		Teo svfdppn pdssd ppfkipjiti sinj;tnds uglsfls snfs-s-s ncmppzteh eyyyajyry llf;tsniyt tnonsnd, prr totos; s pmj'lnmln sf dnn

**Table 5 The Second Worst Situation**

The worst situation, of course, is where the diagnostic is completely empty (see Table 2 A Blank Portion of the Business Configuration Diagnostic on page 8). One, of course, always starts in this position when applying the diagnostic, but one does not want to end with emptiness. And you can see in Table 1 An Example of Data About the Business Configuration there is a fair amount of white space.

White space is part of the power of this diagnostic.<sup>3</sup> If one trusts that the business configuration structure is a good structure, a good diagnostic, then white space is informative.

This, of course, leads to the question of whether the business configuration structure is a good structure, a good diagnostic. It is a tool that emerged from some 30 years<sup>4</sup> of personal experience in thinking about the application of information technology to the improvement of business performance. It is almost certainly not the only diagnostic of this nature. Nor would I claim it to be the best. It is simply something that worked for me. Whether it works for anyone else is a decision that will be made by others.

Suppose, in spite of all efforts, white space and disconnects between boxes remain. This does not necessarily suggest that a transformation project should be stopped. Rather, it suggests that one has a much better grasp of the risk and uncertainty associated with the project.

If, in

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<sup>3</sup> I'm reminded here of "The Adventure of Silver Blaze" by Arthur Conan Doyle. We need to realize the absence can be every bit as important as presence.

<sup>4</sup> The diagnostic emerged in close to its current form in early 1998.

## Principles for Applying Information Technology

- The only legitimate uses of information systems are to improve the performance of the enterprise.
- Information systems are inextricably intertwined with the mission, objectives and structure of the enterprise.
- Disciplined approaches to applying information systems are critical to success.
- Information systems are technology plus process plus tools plus skills plus culture.

### Figure 2 Principles for Applying Information Technology<sup>5</sup>

the first two principles are true, then the diagnostic described herein is surely a manifestation of the third principle and required in order to apply the first two principles.

If one cannot properly describe the business and cannot understand the relationships between its various critical components, then it is highly unlikely the proper investment decisions can be made.

James Drogan  
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<sup>5</sup> James Drogan, Principles for Applying Information Technology, 2005, Available:  
<http://jmsdrgn.squarespace.com/storage/Principles%20for%20Applying%20Information%20Technology.pdf>, January 29, 2007.