BUSINESS OPERATING SYSTEMS

THE MULTIPLIER

PROXY

Business Operating Systems

An operating system, in simple terms, is a code of principles and patterns that guides behavior. Computers have them, people have them, and businesses have them. Operating systems are most successful when consciously chosen and implemented, but it is only in the past 100 years that business leaders have begun to put names to various organizing principles. For instance, you may be familiar with Six Sigma, Agile, EOS, OKR, and MBO, among others.

Business operating systems (BOS) increase company value by shaping workflow and relationships with employees and clients. It acts as a guidepost to help teams make better-aligned decisions. Think of it as a system of checks and balances that can help keep you on track. Choosing the right business operating system is the best way to ensure continued success for a business.

The wrong BOS or the lack of one can be a death knell. It can clog up pipelines with inessential tasks, inhibiting a leader's ability to analyze and improve. Not every business operating system works for every organization, and some BOSs are better with self-organizing, cross-functional teams. Other companies might need a more linear, data-driven approach. There is a methodology right for each organization.

CHALLENGES:

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THIS WHITEPAPER WILL PROVIDE A FULL ROADMAP OF THE FOLLOWING:

- An overview of the most popular business operating systems

- The history of the development of business operating systems

- Determining the need for a business operating system

- Variables that impact your choice of business operating system

- Steps for implementing a new business operating system

- Case studies on the effective use of business operating systems

Defining a Business Operating System

Every business operating system is unique, and yet they all share a common purpose. Your business operating system should guide the management of your business, establish a vision, keep stakeholders aligned, and manage change. Each BOS has a methodology for tackling these goals, and at the end of the day, your business operating system should serve as the playbook for every single activity in your workflow.

What is common among them?

Every business operating system has some process for establishing vision, defining key objectives, determining goals, and visualizing the result or output. No matter which one, the BOS will offer a comprehensive blueprint of how the company operates. It will include a cohesive picture of the procedures, roles, and systems a team uses to achieve its goals.

How are they different?

Business operating systems address different growth stages and types of business. For instance, EOS (Entrepreneurial Operating System) claims it can address the needs of companies regardless of what growth stage they are currently experiencing. However, it tends to work best for entrepreneurs with fewer than 150 people and getting their company off the ground. Why? After a company surpasses this stage, complexities will arise that EOS will no longer cover. Some systems like ISO (International Organization for Standardization) emerged from within a specific industry, such as manufacturing, to ensure quality consistency. It all comes down to how an organization manages itself.

The first step to putting yourself in a position where you can confidently evaluate the strengths and weaknesses of each business operating system is to examine your company's stage and workflow style. Without a clear understanding of your company's processes and patterns, you cannot determine which business operating system is the best for your organization.

Each operating system works to accomplish similar goals, but each has unique strengths. The right one for your company depends on the principles you want to instill in your organization. This section will reveal the intricacies of each.

MBO - *Management by Objectives*
Aligns employees and shareholders

This system is the original business management system and it has influenced every other BOS described in this document. Promoted by Peter Drucker, MBO is a style of management that asks every employee to understand the objective of the business and their role in making it happen. MBO aligns employees and managers behind shared objectives and allows everyone to focus on key tasks. This BOS is where S.M.A.R.T. objectives originated.

OKRs - *Objectives and Key Results*
Outcome orientation

This operating system has been heavily endorsed by Google but does not have a specific originating company. It's a method of setting time-based objectives and then organizing them into measurable Key Results. This system is implemented in many different companies across a variety of industries, and via mobile applications such as Weekdone and Lattice. The OKR method allows teams to stay on track with highly specific work periods and clear deliverables. Google's guide to the OKR method notes that "challenging and specific goals can further enhance employee engagement in attaining those goals."

EOS - *Entrepreneurial Operating System*
Simplified focus for early stage growth

The EOS model is built on six fundamental elements that every business needs to manage: people, issues, data, vision, process, and traction. EOS is unique because of its focus on traction, meaning accountability, discipline, and execution. In 2012, EOS Founder Gino Wickman published a book titled Traction: Get a Grip On Your Business. This business operating system is currently used by over 80,000 companies to achieve growth while allowing executive leadership to stay balanced.

Six Sigma
Data-driven workflow efficiencies

Six Sigma is a data-driven business operating system with a heavy focus on eliminating defects throughout the company's entire workflow. This BOS relies on a process called DMAIC (define, measure, analyze, improve, control) to surface opportunities for incremental improvement in existing processes. The complementary process is DMADV (define, measure, analyze, design, verify) which is used to help develop new products and processes. Business leaders can undergo training programs to become certified Six Sigma facilitators, such as Six Sigma Black Belts. Founded in the 1980s, Six Sigma rose to popularity when Jack Welch implemented it at General Electric. Major companies such as Cisco continue to utilize Six Sigma today.

Good to Great
Corporate best practices

Popularized by Jim Collins, *Good to Great* is a book summarizing a large-scale research project. While it's not a traditional business operating system, it has become one that many businesses employ. Focusing on what businesses do best, the book has a unique element called Level 5 Leadership. Considered essential for any great business, Level 5 Leaders are quiet and deliberate. They focus on their team and put the business's success before their own, envisioning a time when the company will need to operate without their leadership. A major tenet of this study is the Hedgehog Principle. To be great, companies must determine their unique economic driver and hone in on a core competency, abandoning all others.

Lean
Maximize value while reducing waste

Whereas Agile focuses on optimizing the development process of a product, Lean methodology focuses on the production process. Lean is frequently combined with Six Sigma, as in Lean Six Sigma, or with Agile. Lean methodology emphasizes the concept of MVP or minimum viable product. In this business operating system, practitioners are encouraged to produce a version of the product with only the essential features. This helps ensure that the product maximizes value for the customer while reducing waste on the back-end.

Agile
Change as a constant

This business operating system places a heavy emphasis on transparency, collaboration, and adaptivity. Agile came out of the late 1990s and early 2000s as software development teams sought to find a better way to respond to rapidly changing project demands. An Agile business is one where employees have a flexible mindset and a responsive workflow. Agile processes are non-linear, interactive, and tend to work best with self-organizing and cross-functional teams. It is now used in a variety of industries by companies large and small, who prefer Agile's ability to help them stay nimble, adapt to change, and keep their stakeholders engaged. This model tends to become strained in larger, more formal companies where teams are less autonomous. This BOS also requires complete buy-in, because it requires teams to be allowed to execute within their "sprint" work intervals.

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Each BOS comes with unique benefits, but only if a company is positioned to take advantage of those benefits. Startup companies might find it useful to combine elements of OKR and Agile methodology in the early stages of growing their business. On the one hand, it's important that you fully commit to your business operating system. However, as a business grows and changes, its BOS may need to change, too. For instance, once a business leaves the startup stage it may need a BOS that can handle more complexity and uncertainty. It's important to stay alert for signs that a current BOS is no longer serving the business.

Modern polls corroborate Toyota's discovery. In fact, Gallup shows when their needs are met in five critical areas (career, social, physical, financial, and community well-being) employees perform far better work:

81% less likely to seek out a new employer in the next year

41% less likely to miss work due to poor health

36% more likely to recover fully after illness, injury or hardship

27% less likely to have changed jobs in the previous 12 months

Toyota is a potent example of how a business operating system can completely transform a company. In the 1950s, Toyota's leadership team realized the need to drastically change their operating model to survive. They began to look more closely at the company's operating system and researched alternatives. Rather than retaining their previous top-down management style, Toyota pivoted to a culture of employee empowerment. They gave every frontline worker and manufacturer the permission to stop production at any moment if a quality issue arose. A culture of kaizen, or continuous improvement, was born and the domination of the automobile industry followed.

Big companies like Toyota continue to thrive on a combination of lean manufacturing and employee empowerment. Small and medium-sized enterprises also have a lot to gain from embracing a formal BOS.

With 75% of employees reporting they feel overwhelmed at work, it is clear that SMBs need to work harder at defining their business operating system. A clear organizational structure will translate to more productive and engaged employees. It should help employees feel confident about saying no to the wrong tasks and focus on outcomes aligned with a company's objectives.

> You should always be on the lookout for signs of your business being out of alignment. If you're experiencing any of the following triggers detailed in this section then a business operating system may be the right next step.

☐ *Inability to Forecast*
The future feels cloudy, and your team struggles to anticipate challenges. You can't put your finger on the data you need, which is resulting in low morale and an inability to forecast.

☐ *Poor Employee Engagement and Culture*
Your team is unmotivated, even though you hired the best of the best. Your employees may not show up energized, and they don't exhibit the confidence to tackle problems head-on. Only 12% of companies say that their employees understand their role in achieving company goals. Without a clear vision or deliverables, your company is sliding into a culture of apathy.

☐ *Stakeholder Misalignment*
Between the board meetings and the client-facing pitches, you feel like you're running two entirely separate companies. Key stakeholders aren't aligned on the boundaries or value of what you offer, so your team is stretched out of shape trying to please everyone but pleasing no one.

☐ *Inefficient Sales Pipeline*
The leads are flowing in but you aren't closing any sales. Your people in the field don't have the right tools, like a mobile-friendly CRM, to access up-to-date insights. Instead of working like a seamless machine, your sales pipeline is slow, siloed, and inefficient. You're collecting relevant information, but it's not easily interpretable.

☐ *Missed Deadlines and Over Budget*
A lack of discipline is resulting in missed deadlines and lazy mistakes. Your team consistently goes over budget, and neither managers nor employees are stepping up to correct the errors. Scope creep is threatening to overwhelm your business with tasks you can't execute and deadlines you can't meet.

☐ *Scaling Up*
As you grow your business, you find yourself making rapid decisions without a clear framework to guide you. Your quick growth is exciting, and you have an eye on scaling up soon. But the fear of spiraling out of control is making it difficult to take the next step. Without a guiding framework, neither you nor your funders are convinced that you can handle leveling up.

☐ *Management Succession*
Your business doesn't have an easy way to track successes and lessons learned. There's no common language among team leaders that makes it easy to lead as they move up, or when a management transition occurs. Without a clear record of what previous leaders achieved, you wonder how successfully the company will be able to grow and meet challenges.

Return on Investment

With these points in mind, how can we ensure that your choice of business operating system offers a substantial ROI?

A classic calculation of ROI simply compares the original investment with the return on investment. Equations vary by industry. Six Sigma's formula for determining ROI is based on the dollar-to-value rate of efficiency increases. It is calculated as follows:

ROI = [(Financial value - Project cost) / Project cost] x 100

But we must take into consideration that every business operating system will affect more than just the bottom line. Your ROI calculation should also take into account the BOS's influence upon the following factors:

- Stakeholder buy-in
- Referrals
- Lead generation
- Productivity
- Employee retention

When a company is functioning smoothly with the correct BOS, they experience more success in all of the above areas. As you evaluate which operating system makes the most sense for your company, calculate the ROI you can achieve for each area above.

Your BOS should deliver substantial ROI with regard to time savings, cost savings, waste reduction, value to customer, and efficiency. Ultimately, your choice of BOS should align with your goals for the company.

For instance, if you are focused on an ROI related to project success rate then you should explore if Agile could work at your company, as Agile projects are 28% more likely to succeed. If cost-savings are a priority in your ROI calculations, then take a Six Sigma lens, as this BOS tends to deliver 65% higher project savings.

So, if a company implements the right business operating system, it can expect to see:

- Time savings
- Cost savings
- Waste reduction
- Increased value for customer
- Increased efficiency
- Higher stakeholder alignment and retention

Investment

Implementing a business operating system is an investment. This process requires time, money, and involvement from key individuals during the assessment and implementation phases.

In terms of required personnel, executive leadership should plan to participate in the implementation process alongside department heads and team leaders. It can be useful to occasionally involve staff from all levels of the organization to get feedback during onboarding and testing. Third parties are sometimes required to be present, especially if there are security or vertical integration ramifications.

The assessment and implementation phases also require a time investment. Of course, companies cannot and should not stop doing business because they are researching a new business operating system. But key members will need to carve out time in their schedules to invest purely in the implementation process. An inactive time of year is a great time to assess a business's BOS. It could also be useful to hire additional temporary staff to cover daily needs so that key team members can be present for the assessment and implementation processes.

Finally, any new business operating system will introduce ongoing management requirements that the company must prepare to address. This can include learning new software, managing stakeholders differently, reporting to a board, analyzing data dashboards, and potentially overseeing new departments.

The business operating system has evolved over the past hundred years, pioneered by Peter Drucker, the father of modern management. Who brought the role of management into the foreground of American business operating systems with the belief that management should encourage innovation and keep teams aligned in a common mission. Since then business operating systems have continued to evolve as organizations have improved employer-employee relationships, and become more comfortable with transparency and efficiency.

Decentralizing Power in Business

Peter Drucker, the father of modern management, was born in Austria in the early 1900s. Drucker pioneered early innovations in American business operating systems, including bringing the role of management into the foreground. He conceived of management as a way to encourage innovation and keep teams focused on a shared goal, rather than top-down bureaucratic control. For Drucker, managers must also be leaders. The decentralizing of management's power is Drucker's lasting contribution to the industry. As a well-recognized visionary in the world of business, Drucker's theories have been put into practice in companies around the world.

Employer-Employee Relationship

In the mid-20th century, the socio-political context of business revolved primarily around factories and big industry. It was rare for managers to assume a position of allyship with their employees. Influenced by his experience living in Nazi Germany, Drucker published his book titled The End of Economic Man which encouraged a federalist model of business. In this model, business operating systems should include strong and healthy relationships between employer and employee. In the 1950s and 1960s, Toyota's leadership worked alongside Ford to completely redesign their BOS to the same tune. For the first time, frontline workers in manufacturing and inventory management were asked, "What do you think?" The result was Kaizen, a process of continuous improvement that was made possible by the trusting relationship between managers and employees. This concept revolutionized the business world and continues to influence contemporary business operating systems like Six Sigma and Agile.

Moral and Philosophical Foundations

As companies grew more comfortable with transparency and efficiency, the role of the manager evolved into a position of philosophical and moral leadership. The MBO method, or Management By Objectives, is a principle of organization that allows a team to rally behind a clear objective. A moral leader and a skilled manager should not only be able to motivate employees but unify them behind a common goal.

Knowledge Workers

In the post-war economy of the late 1940s, knowledge workers arrived. Coined by Peter Drucker, the phrase refers to people who think for a living. Knowledge workers presented entirely new challenges for managers. Suddenly, managers needed to learn new skills on top of managing people and production lines. Business theorists at this time grappled with innovation versus maintenance, and how to create dynamic and responsive organizations. Jack Welch, famed leader of General Electric, embodied many of Drucker's business practices while leading GE's knowledge workers successfully through the 1970s and into today. Welch is also associated with Six Sigma.

Data-Driven

With the arrival of computer technology in the 1980s, companies became obsessed with data. Those who could collect it and analyze it were able to beat out their competition. The determining factor of a company's success in this decade, however, was not only the company's ability to interpret its data. Successful companies understood that they needed to build the entire company culture around the central role of data. They committed themselves to accountability based on data-driven insights.

Software-Driven

When every person owns a device with a powerful computer inside, software is king. In the 1990s and 2000s, developers discovered they could appeal to companies and individuals with application software based on classic business operating systems. For instance, Kanban is a project management modality that originated in Japan in the 1940s. Modern software developers created mobile applications inspired by these practices such as Lattice, Khorus, Trello, and ClickUp. Now, cross-functional teams could easily collaborate across devices in a digital Agile environment powered by behind-the-scenes computational benefits like cloud data and artificial intelligence.

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Business Operating Systems Today

Today, business operating systems are frequently utilized in custom combinations. For instance, Agile methodology might be applied on a project basis to manage pieces within a larger contract, which is comprehensively managed in the more linear Waterfall methodology. Today's innovators often incorporate the Lean methodology's MVP principle, launching and iterating products based on a minimum viable product. Every BOS in practice today maintains a strong focus on measurability, adaptability, and good employer-employee relations. Each of the business operating systems described above retains popularity across key industries.

Business leaders today have more freedom to pick and choose what works for their company. New systems are developing as new needs arise, especially in the face of climate change and rapidly evolving technology.

Companies must balance being nimble in the short-term but strategic and committed in the long-term. As a new generation of business leaders comes of age, trends indicate a growing focus on the humanity and agency of the worker. To succeed in the future, business operating systems must be able to deliver what Gen Z wants: work-life balance, transparency, feedback, and opportunities to learn by failure.

Determining which business operating system is right for your organization can be difficult considering the scope and reach. There are a few key variables that can simplify the process.

☐ *Size of Company*

Lean and EOS are two methodologies that are designed for startups and early-stage businesses. EOS can be used by a company at any stage of development, but it works best for young companies. Both business operating systems emphasize a minimum viable product without bells and whistles. This helps small companies minimize waste while making the best use of limited resources and maximizing value for their customers. Once your company grows and establishes product-market fit, these methodologies may no longer be the best business operating system for your company. Additionally, Six Sigma can be implemented at small businesses with great success.

☐ *Formality of Organization*

Depending on how closely your team adheres to their job descriptions, your company can either be described as having a formal or informal working environment. If your company culture is built around adherence to rules and linear processes, then you should consider a Waterfall or Six Sigma business operating system. On the other hand, if your team is frequently shifting tasks and collaborating organically on projects, then Agile could be a better business operating system for you.

☐ *Industry Business Environment*

In a chaotic industry business environment, your company is subject to frequent changes. This might look like disruptions in your supply chain or a demand for rapid pivots based on new data from clients. In these environments, the right business operating system will include the Agile methodology. This BOS can enable your team to respond confidently to changing demands while acting cohesively and staying within scope. In a staid business environment, you are less exposed to these kinds of frequent changes. As a result, your company should implement a business operating system that facilitates a more linear project management process.

☐ *Long-term vs. Short-term ROI*

If a company chooses to implement a more complex business operating system like ISO 9000 or Agile, then it will require a much heavier commitment from everyone in the organization. This makes sense if the company is seeking a specific long-term ROI related to quality assurance or efficiency. On the other hand, a short-term ROI can be achieved by introducing something more basic like MBO. The time frame and desired outcomes should align with a BOS that can deliver it.

How to Determine the Right Business Operating System

At Proxxy, we use a three-phase process to determine the right business operating system for our clients. Our methodology revolves around gaining a comprehensive understanding of your organization through assessment, goal setting, BOS selection, and implementation.

Quick Overview:

Phase 1: Assessment
Assess stakeholder alignment, surface inefficiencies and underutilized resources

Phase 2: Goal Setting and BOS Selection
Determine measurables, assess investment requirements, test implementation, and select your BOS

Phase 3: Implementation
Put it into practice!

Complete Phase 1:

☐ Assess Stakeholder Alignment

☐ Surface Inefficient Processes

☐ Identify Underutilized Resources

Assess Stakeholder Alignment
We begin by assessing current levels of stakeholder alignment across the company. This assessment provides critical information about the employer-employee relationship and company-wide understanding of mission, objectives, and core competencies.

Surface Inefficient Processes
During this step, we uncover any processes in your current workflow that are inefficient or vague. In interviews with team members and through analyzing data, we bring to the surface any business processes that aren't working. Understanding the root cause of the inefficient processes and insights we gather are an essential piece of unlocking the right BOS for your company.

Identify Underutilized Resources
Whether or not waste reduction is a top priority for you, it is crucial to gain a clear picture of how resources are flowing in and out of your organization. This is the final step in the assessment phase. Now we are ready to act upon what we have uncovered.

Complete Phase 2:

- ☐ Determine Target Measurables
- ☐ Assess Investment Requirements
- ☐ Choose the First Line of Implementation
- ☐ Select Your New BOS

Determine Target Measurables

Now is the time to determine in which areas you wish to see the most robust ROI. Begin with broad strokes. What are your company's specific goals? They might be time savings, cost savings, waste reduction, value to customers, efficiency, or something else. What tangible, measurable outcomes are you looking for your business operating system to deliver? What will it look like on paper? Peter Drucker's S.M.A.R.T. goals are a tool frequently employed in this step to understand both employer and employee perspectives on KPIs (key performance indicators). Will you be scaling? Remember to consider what your company may need 2 to 5 years from now. This step is about identifying what success looks like and what it will return.

Assess Investment Requirements

Each business operating system requires investment, and it's important to assess the investment requirements associated with each BOS. Examine the required training, including how long it takes. How long will key members of the team need to spend on learning new skills? Investment also includes pricing. What will it cost to implement the new BOS across the organization?

Choose the First Line of Implementation

Who should be the first to test the new business operating system? Will your marketing team be the first to implement and test it? Should the IT team lead and provide feedback? In this step, we work with your first line of implementation to understand how a new BOS could affect their workflow.

Select Your New BOS

Working in concert across teams, choose a business operating system that best meets the needs of your team. Keep an open mind as we conclude Phase 2. We have done our best to assess and set a course toward our goals, but the real test of our BOS choice is in implementation, Phase 3.

Complete Phase 3:

☐ Professional Development

☐ Bringing in an Outside Trainer

☐ Keep Lines of Communication Open

☐ Data Analysis and ROI checks

Put it into Practice

The process does not finish when the new business operating system is selected. Phase 3 is about getting support as you transition your systems into your new BOS. Support can look like:

- Professional development opportunities
- Bringing in an outside trainer
- Keep lines of communication open between employer and employee
- Data analysis and ROI checks

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Companies that have implemented the right business operating systems have experienced higher profits, increased productivity, survived challenging economic times, and management succession. This is true across industries, from food & beverage manufacturers to software companies, and more.

Let's take a look at a few real-world examples of companies that found success by implementing the right business operating systems!

Case Study 1:

4it is a small services provider company that creates IT strategies for international clients. But in the face of cloud computing and too many competing competencies, the 4it team needed a new path forward. Things weren't working, and they needed a new business operating system that could help them:

- Reduce friction
- Compete in the marketplace
- Increase efficiency
- Improve adaptability

The 4it team realized that their industry, security technology, would frequently be subjected to disruption and innovation. As a result, they knew that a startup mindset would serve their company now and in the future. So, the 4it leaders brought in an EOS facilitator to lead the team through the transition. Their facilitator led them through creating the essential building blocks in the EOS business operating system, including:

- Quarterly Rocks (EOS-specific report-back mechanisms)
- A clear vision and aligned mission
- Accountability reviews of every employee and their responsibilities
- Setting measurable KPIs and a custom data dashboard for easy analysis

Findings

After one year, 4it was able to achieve its goals.

After the company implemented the new EOS business operating system, 4it successfully evolved to meet market demands, gaining a new kind of customer and raising its percentage of the bottom line by 75% compared to the previous year.

Case Study 2:

Kahiki Foods is an Asian foods manufacturer in Ohio with less than 200 employees. They produce around 70 different products and were experiencing trouble with WIP tasks, or Work in Progress. This refers to work that has entered the process but not been completed yet.

The company was struggling to get a clear picture of the costs associated with WIP, which included labor, transportation and storage. WIP was vague enough that it was hiding data related to productivity. As a small to medium-sized business, Kahiki Foods determined that they could benefit from the error reduction methods of Six Sigma.

The financial value of WIP needed to be clearly quantified, so the Kahiki Foods team employed a Six Sigma technique to better solve the problem:

- Quantification of capacity for each production line
- Identification of bottlenecks

Findings

Once they had created a more accurate metric for WIP, based on multiple sources of data, they could make changes to the production process confidently. As a result of Six Sigma's defect reduction process, the Kahiki Foods team uncovered additional opportunities to reduce waste and tackle efficiency in their WIP food production process:

- Cost savings related to pallet wrapping
- Energy loss from freezers due to constant opening
- Production harmony between processing and packaging departments

Kahiki Foods saved tens of thousands of dollars by implementing Six Sigma principles. Not only did the company achieve cost savings, but they were able to implement more efficient manufacturing practices like just-in-time processing. Kahiki Foods' utilization of Six Sigma has been ongoing, and their use of this business operating system has resulted in increased value for its shareholders.

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