Elements of corporate strategy: Part 2 of 2

Introduction

These pages further develop the **"APA"** (**ASSESS** / **PLAN** / **ACT**) process introduced in Part 1. By following these steps you should be better placed to develop a business plan which, with the necessary supporting financial projections, should enable you to create or develop a management and operational system which reflects your ambitions for the organisation.

Basic Concepts

In 1972, Edgar Schein defined an organisation as:

> "*the rational coordination of the activities of a number of people for the achievement of some common explicit purpose or goal, through division of labour and function, and through a hierarchy of authority and responsibil*ity".

According to ISO9004:2000, the purpose of an organisation is to:

- identify and meet the needs and expectations of its customers and other interested parties (people in the organisation, suppliers, owners, society),
- achieve competitive advantage
- do this in an effective and efficient manner
- achieve, maintain, and improve overall organisational performance and capabilities.

The "Effective" Organisation

"Effective" is a useful mnemonic for some of the key factors to consider:

- Efficient - to be lean, fit, cost effective (and profitable)
- Fast - to respond quickly to changes/trends and opportunities
- Flexible - to have the structure and systems to adapt
- Entrepreneurial - to spot and exploit opportunities
- Committed - to a motivated and involved workforce
- Targeted - to be clear on organisational objectives and to focus resources to reflect priorities
- Informed - to have appropriate information to adequately predict and plan
- Value laden - to create a culture which stresses customers, suppliers and employees
- Excellent - to strive for excellence in quality of people and development of skills.

Strategic decisions to achieve this might be to:

- Develop one new product every 6 months
- Create and capture new intellectual assets / intellectual property (IA/IP)
- Develop a closer relationship with key suppliers
- Raise additional capital
- Recruit senior staff with specific new expertise
- Recruit non-executive directors
- Strengthen the capability of the HR function
- Introduce share options for staff
- Appoint external advisers
- Acquire similar businesses in new geographical areas
- Develop new applications for existing products
- Increase the value of each sale by adding new services to existing products
- Carry out market research in key targeted markets
- Participate in trade shows and missions
- Develop overseas market entry plans
- Pursue strategic alliances with complementary firms
- Develop an interactive web presence.

One well known tool developed by **Igor Ansoff** to assist the selection of an appropriate strategy is the **Ansoff Growth matrix**.

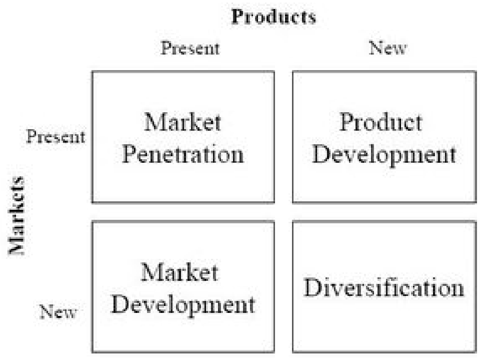

Figure 1 - Ansoff Matrix

It is based on the options of marketing **new or existing** products in **new or existing markets**. The four options are:

Market penetration (sell existing products into existing markets)

Objectives:

- Maintain or increase the market share of current products – by advertising, sales promotion and activity, competitive pricing
- Increase dominance of growth markets
- Reduce competition in a mature market via more aggressive promotion and a keen pricing strategy
- Increase usage by existing customers.

This means (more) "business as usual", focusing on existing products and markets and based on detailed knowledge of competitors and customer needs.

Market development (sell existing products into new markets)

For example:

- New geographical markets
- New product packaging
- New distribution channels
- Different pricing policies for different market sectors.

Product development (introduce new products into existing markets)
This may require the development of new skills and capabilities.

Diversification (market new products in new markets)

Requires clear objectives and assessment of the associated risks.

The Marketing Mix

The objective of a marketing strategy is to "*put the right product in the right place, at the right price, at the right time*". The so-called **4Ps** are:

- Product
- Price
- Place (Distribution)
- Promotion

Other marketing mix models have been developed, such as **Boom and Bitner's** 7Ps, sometimes called the "extended marketing mix", which include the 4Ps, plus

- People
- Processes
- Physical layout.

In his book "*Purple Cow: Transform Your Business by Being Remarkable"*, **Seth Godin** adds yet another "P". He says that the key to success is to find a way to stand out by creating the:

- Purple Cow

in a field of brown cows. "*The essence of the Purple Cow - the reason it would shine among a crowd of perfectly competent, even undeniably excellent cows -- is that it would be* remarkable. *Something remarkable is worth talking about, worth paying attention to. Boring stuff quickly becomes invisible*."

The same elements of the marketing mix are presented from the buyer's perspective in **Lauterborn's** 4Cs. They are:

- Customer needs and wants (the equivalent of product)
- Cost (price)
- Convenience (place)
- Communication (promotion).

ASSESS

As a starting point, you need to appreciate the underlying context of "what the business is" (rather than what it does). This is a crucial preparation for future decision making, as is an understanding of the "values" that drive the business (which are in many cases neither understood nor articulated clearly).

The DTI's well-respected series of guidance booklets "Managing in the 90s" was complemented in Scotland by the "Managing for Success" initiative. Stratagem Limited of Stirling produced a self-assessment booklet which asked you to score your organisation against the following questions on strategic management:

Management

The need to maintain competitiveness involves a strategic approach to the management of operations

We regard an effective service or manufacturing operation as one which sees its most important function as serving the needs of it's company's customers

It is not just companies who export who have to consider aiming for world-class standards in all operating areas

(The right strategy is the best mix of organisation, people and technology to meet business needs)

Organisation

We have simplified our management structures and introduced a flatter hierarchical structure

We have invested significant responsibility and autonomy in our company operatives because they can see the most productive solutions to our operational requirements

We have organised our production operations around the products that we manufacture rather than the processes and the service that we provide

(Decentralise your decision-making and control)

People and Skills

We view our people as a resource rather than a cost

We encourage teamworking by encouraging company operatives to collectively contribute to our strategy for operations

We invest in training to increase the skills of our company operatives and encourage multiskilling

(Motivate your people by involving them in the decisions that affect their working environment)

Technology

The harnessing of people's skills is just as important as employing appropriate technologies

Technology should be used to support the skills of people not to offer a prescriptive solution to a problem

Our investment in operations technology is based on the strategic needs of the business and its application involves an inter-disciplinary approach

(Good returns on technology investment arises when a business is changing and it applies the technology to the new direction. Using technology to replace the existing way of doing things only adds to the cost base)

PLAN

Corporate Structures

Even the term “organisation” itself implies a (rational) structure. How you are organised can make it easier or more difficult to implement your corporate strategy or to respond to change. Many organisations still have a traditional departmental and line management structure, which often results in an inward-looking working environment. This emphasises the control of procedures (and staff), demarcation of roles and a “blame” culture, in which customer needs are sometimes obscured and forgotten.

In relation to the corporate structure, there are a number of options. At the start-up level, one of the first choices to be made is whether to operate as a sole trader, partnership or limited company. Leaving aside tax and regulatory implications, larger organisations have further structural options:

- Functional: the “traditional” division by marketing / sales / accounts / operations etc
- Divisional: by “business unit”
- Product: by product line, each with its own functional areas
- Matrix: typical for a project based organisation, whereby (for example) engineers report to the Engineering Manager as the “discipline” head, and perhaps for appraisal and disciplinary reasons, but to one or more Project Managers for operational duties.

Some organisations define a manager’s responsibilities in vast detail, while others leave them (purposely) vague. As an example, one organisation has a system of “retained authority” where the CEO identifies four or five key areas for which he is accountable, and by implication all other issues are delegated to the next level of management. They in turn identify their four or five, and so on - rather like “IDEF by role”. (“IDEF”: see later)

The Changing Business Environment

There is a growing trend towards operating on a project basis, with teams forming only for the duration of a project. The traditional (functional / departmental) structure, with associated budget allocation and performance measurement, remains one of the main hurdles for those who seek to take a “process” view of business life.

The traditional company structure and operating model has changed drastically in recent years. In the North Sea oil & gas sector, for example, non-core functions such as IT and finance have been outsourced, and the management of projects has been transferred to contractors, who in turn take responsibility for sub-contractors. The work content remains largely the same, but the core processes now involve not only the employer’s staff but also a whole range of other bodies; so much so that it can be difficult to identify whether an individual is a member of staff or a contractor.

"Flat" organisations have evolved as cost savings have been sought, and as the advantages of the project team approach have been recognised and implemented. At the micro level, networks of small organisations (and of individuals) have developed to maximise the skills available in the group, to pursue joint marketing initiatives and to avoid the overheads of employing staff and running offices. The work still gets done, but it is not always "your" staff who do it.

"Flat" organisations largely overcome the problems of "tall" organisations such as:

- Heavy administrative overheads
- Communication problems
- Diluted top management control
- Encourage by-passing the "proper" chain of command
- Blurred responsibility and demarcation lines
- Reduced scope for exercising responsibility
- Impaired motivation and initiative.

Many companies have treated "quality" as something different from normal "operations", with a separate quality department and an individual given responsibility for quality matters. This has been replaced by "building in" quality into the way that products and services are designed and produced.

Although external factors can be a major influence, the capability of the organisation to perform is also dependent on various internal factors, such as the way you are organised, what you believe or what your people know. Whether you undertake a self assessment exercise or seek an external view on the business, an honest assessment of your strengths and weaknesses (the "SW" of a SWOT analysis) is important so that you can recognise and manage the various factors which influence how your processes work.

Who Does What?

Rummler and Brache talk of "managing the white space in organisation charts". Organisation charts are departmental, with a line manager "in charge" of those below. An organisation chart can also look like a pyramid, and those at the base can sometimes feel the weight of the pyramid above them.

It is, however, important that an individual knows to whom they report and to whom they can go for advice and support (it should be specified on their job description). This is essential for staff development, feedback and overall direction – but does it need to be the same manager throughout the year?

A programmer or an engineer may work on a number of projects in a year, perhaps with different project managers – and even as a project manager. It is important to recognise that an individual may wear different "hats", and that the responsibilities and reporting structure must reflect this.

Alongside the trend towards project working and "virtual" organisations, there is a growing recognition of the need to identify and manage business processes. The needs of all the stakeholders in an organisation are now being recognised as are the potential problem areas of inter-departmental and now inter-agency operations. Despite this increasing emphasis on process and business improvement, many people still find it difficult to convert narrative procedures to process descriptions, or to define a process from scratch.

Many traditional quality systems have a section for each procedure which lists the "responsibilities" of those involved. The "deployment", or "swimlane", style of process mapping allows you to turn this on its head by first specifying the steps in the process and then identifying the roles involved in each task, so that the responsibilities are an automatic by-product.

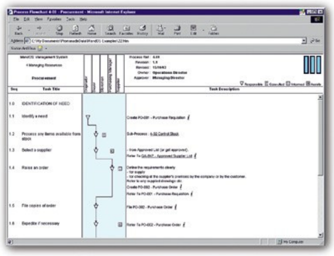

Figure 2 Deployment (Matrix) Flowchart

Why Change?

Symptoms of organisational / structural problems include:

- Low motivation and morale
- Late and inappropriate decisions
- Conflict and lack of coordination
- Rising costs
- Inadequate response to changing circumstances.

Some reasons for changes in structure include:

General external pressures

- internationalisation of business
- rate of change (information)
- technology advance
- government influence.

Increase (decrease) in business

- product range
- volume of business/order book
- competition in market
- profitability

Changed corporate scope

- merger/acquisition
- privatisation
- strategic re-orientation

Internal pressures

- efficiency drive
- personal crusade (power player)
- excuse / dissatisfaction (continuous).

As long ago as 1982, **D Miller** opined that "*organisations behave like sluggish thermostats. They delay changing their structure until an important crisis develops. By then, quantum or revolutionary change may be required to re-establish harmony among many aspects of structure and harmony*". Although this may not be true today, there can be an intrinsic resistance to change amongst staff, and any change must be introduced with care.

Critically, the relationships that enable different parts of an organisation to work together require clarity of roles, interfaces and processes, from board level downwards. Decentralising decision making works best where values are clearly understood and are the framework from which the organisation creates, develops and manages its relationships with staff, suppliers and customers.

ACT

Operational Processes and Systems

Why should you be interested in your business processes? Have you been forced by the changing focus of external standards to "discover" your own processes? Or did you know that they were there all along? Do you have separate management systems which do not give significant benefit or which require undue effort to maintain? Do you want to improve your efficiency, set the foundations for change or expansion (or contraction / downsizing)?

In the same way as managers' knowledge of the subject can be classed as:

- blissfully unaware
- aware that they are unaware
- consciously competent
- unconsciously competent

so can their objectives be classified as:

- avoid calamities
- keep the show on the road
- make a conscious effort to become more effective and efficient
- learn - so that the organisation understands the implications of what it does and constantly refines how it does it.

James Champy, chairman of Perot Systems Corp.'s consulting practice and head of strategy, believes that:

"*companies often have implicit strategies -- ones that you understand only by studying the repeated actions of the CEO. When companies are launched and are struggling to grow, they often pursue any opportunity that might match their competency. This is truer of service companies than product companies. It takes a while for a company to realize that an actual strategy requires focus and making hard choices. But some companies never grow out of being opportunistic: they go after anything that moves*".

Although some might not agree (!), he also suggests that:

"*if after trying and intellectualizing you still can't find a company strategy, don't despair. You can still follow and implement the company's business processes. … From a day-to-day perspective, it is arguably more important to know these processes than to be able to articulate the company's strategy.*"

All organisations need to train new staff. If you know the processes in which they will work, you should also be aware of the skills and knowledge required so that you can fill any gaps before an employee is let loose on the job. You must also ensure that they understand the process in which they will be working, how they interact with others, what information and documentation is involved and how the success of the process is measured.

All systems will be subject to a degree of variation. This fact seems to be very difficult for some people (including politicians and the media) to grasp. It should be self-evident that the performance of half of any group will be on or below the average for the group, however it is evaluated.

So it is hardly surprising that there will always be one police force in the country with a lower crime clear-up rate than all the rest, or that one local council spends more on street cleaning than the rest. It cannot be any other way. Why does it make the headlines?

What is important is that the cause of any extreme variation ("***special causes***" in the language of control charts) are investigated. Defining your processes and ensuring that they are followed will give you a degree of consistency of operation – improvement can only come from improving the system (and therefore the processes within it).

It is important to any business that it looks after the key information and records on which it relies, that it can retain staff and that it can keep customers happy (it is important to be seen to know what you are doing). Maintaining the quality of your product or service can best be achieved by ensuring that your processes are clear and understood, and that they are followed.

Ensure "Business Continuity"

Once you have defined how you (intend to) operate on a day-to-day basis, you should then consider what can go wrong. How many resources can you do without? What would be the effect of a key person leaving, a key supplier going out of business or the loss of a major customer? This type of risk assessment can be applied at the system level, but it can also be applied to key processes at a lower level.

Health and safety risk assessments are now well defined and the typical hazards are well documented. Risks to the business rather than to the person may require a degree of lateral thinking to ensure that potential major hazards are identified – the effect of these must then be assessed and the appropriate controls put in place. This approach is in some ways similar to the definition of processes, whereby you decide how little you need to define and what value is added or created at each step.

Use Resources Better

Once you have clarified your current processes, the next step should be to consider how resources are allocated. Local government and other public sector organisations are more obviously accountable in this area, but it is important for all organisations to ensure that they make best use of resources, whether physical, human or other.

So what comes next? By adopting a process-based approach to defining management and operational systems, you will be in a far better position to apply ISO9001:2000, other international standards, manage the competence requirements of the business and identify and manage business risks. You will also have taken the first (and major) step towards improving your processes – and thus your business!

Learning From Success and Failure

Attitudes to business failure in the USA are different from the UK. In the US, there is no "shame" in failing, and indeed you are regarded as a more aware business person if you have suffered bankruptcy or business problems. At a less extreme level, the "study" or "check" stage of the "Deming cycle" (PDSA) will enable lessons to be learned from what you have done, or failed to do, in the period in question. Unfortunately, there often seems to be real problem in converting "lessons learned" into practical changes and improvements.

What do you understand by the term "quality", and what is your attitude to it? Do you believe that you need to be certified against an external standard such as ISO9001? Why – is it just to get on a tender list, or do you believe that the quality of your "product" can differentiate you from your competition?

Or do you have a more cynical view of how organisations use their certification, whereby some end users would claim that they a get better service from suppliers who do not have a "badge on the wall"?

Post-implementation reviews, project close-outs, formal management reviews and even staff appraisals should all give the opportunity for feedback. And the lessons learned then need to be turned into practical steps to improve processes, train staff, invest in plant and equipment, and to amend the overall strategy if appropriate.

You should take the opportunity to learn from incoming staff, and from competitor activity. Even look at other companies' web sites – the chances are that you will learn what (not) to do with your own(!)

Managing Introduction of New Technology

"**Business Process Management (BPM)**" is a concept introduced by the IT industry which (as is often the case) has used the terminology in a restrictive and confusing way - the term is often applied purely to the automation of elements of business processes.

But to do this you need to start by understanding the processes as they exist now, and they will still need to be managed, even if some of the control is done by software. Understanding the current process should also highlight steps where technology can be applied to production operations, and where data can be captured to give useful feedback on performance.

Information security is an issue of increasing importance. It recognises that information is an asset, just like raw materials and cash. The processes which create or use information must reflect the need to keep it secure, and there need to be specific processes to ensure that information is managed and protected. The management of electronic data can be more of a challenge than traditional paper-based filing, which nevertheless remains a major issue for most organisations.

One of the key factors in a successful merger or acquisition, and one which is often underestimated, can be the compatibility of business processes between the two parties, and the information systems and technology which support them. Due diligence is common in terms of finance and products, but not in these other areas which can consume an unexpected level of resource to achieve successful integration.

Software packages and communications technology now make it easier to define and to communicate your processes and the associated information which is an intrinsic part of your operations. Making this available to staff should be done in a clear and concise way, whether on paper or over an Intranet.

Process metrics and "what if" scenarios may be useful for the more enlightened managers, but many will have made good progress if they can understand the basic concepts, apply them to their own business and share the resultant information with their staff.

Starting from a different angle, there is now technology available which can transform how things are done, and can enable activities which just were not possible using traditional methods. Being aware of what technology can now do, and how others are using it, can be a key factor in enabling an organisation to gain competitive advantage through innovation. Existing processes can be radically improved and new processes introduced if you keep an eye on what is happening outwith the organisation.

Assessment and Management of Risk

The **Turnbull report** requires that all UK public limited companies identify the risks to their business and describe how they control them. Ensuring business continuity is a growing focus for many. "Preventive action" as defined in ISO 9000:2000 is very much to do with the assessment and management of risk – the decisions made when recruiting a member of staff, taking on a new contract or even defining a new process should all recognise potential risks and work to mitigate them.

What are your business objectives? Probably "to make money" is one. How do you do that? Probably by "increasing sales / cutting costs". And how would you do each of these? By "finding more customers / increasing margins / retaining customers / selling complementary services to existing customers". It is a bit like controlled and channelled brainstorming in an IDEF format (see below).

The resultant "Goal tree" can be used to identify specific goals to the appropriate level of detail so that people can understand them and apply them to the processes in which they work.

These goals can then become measures of the relevant processes, so that success in meeting the goals can be quantified. Beware, however, of meeting all the goals at the bottom level but failing to meet the overall goal – this means that your lower level goals are not the right ones - you may be measuring, but you are not measuring the right things.

[IDEF is a methodology of US origin developed for the manufacturing sector. It is a structured methodology used to model an enterprise and to map its processes. Strict rules need to be learned and understood before it can be applied and used successfully. Using the principles behind the approach gives the following basic "rules" for structuring a management system:

- *decide on the extent of the eventual system you wish to define*
- *start at the top*
- *build a hierarchy of processes, with no more than 3-6 elements at each higher level.]*

Business Risks

Exactly the same approach can be applied to identifying business risks. At the top level, identify the 4 or 5 key areas (such as loss of key customers / new competitor in the market / loss of key personnel). For each of these, the impact in different areas are then identified and assessed. Risk management consultants will then be able to perform all sorts of analysis on what can be a very detailed and low level set of potential risks (events and likelihood of them occurring), and steps can then be taken to address those risks which are deemed worthy of attention.

Managing Corporate Business Change

Many organisations now face dramatic changes in their markets and technologies. These often require regular if not continual change to their business processes, organisational structures and competencies to maintain competitive position or meet agreed service levels.

Business change may be driven by your own plans for future development, by the realisation that things could be done better, or by the recognition that the external operating environment has changed (or is changing).

This may best be addressed by (for example) restructuring the organisation, developing new products, employing new people or (re-)training your existing staff. It may involve getting out of an existing market or planning to enter a new one, or considering merging with or taking over another company. It may require a change in your relationship with your suppliers, and may involve outsourcing some operations. It may require a partnership approach with others.

Often, creating value requires significant change. **John Kotter** concluded in his book "**A force for Change: How Leadership Differs from Management**" (1990) that there are <u>eight reasons why many change processes fail</u>:

- Allowing too much complexity
- Failing to build a substantial coalition
- Understanding the need for a clear vision
- Failing to clearly communicate the vision
- Permitting roadblocks against the vision
- Not planning and getting short-term wins
- Declaring victory too soon
- Not anchoring changes in corporate culture

To prevent making these mistakes, Kotter created the following **eight change phases model**:

- Establish a sense of urgency
- Create a coalition
- Develop a clear vision
- Share the vision
- Empower people to clear obstacles
- Secure short-term wins
- Consolidate and keep moving
- Anchor the change.

According to Kotter, it is <u>crucial to follow the eight phases of change in the above exact sequence</u>.

But the other side of the coin can be the plethora of initiatives and methodologies which regularly appear in consultants' briefcases and in the business press. It can be a major challenge to select the one(s) which may work for your organisation, and even more so to give the commitment to follow an initiative through to a successful conclusion.

It needs top management to get involved and to demonstrate their commitment, and to make adequate resources available. Some initiatives can radically improve performance, culture and the direction of the business. Many others founder and have a depressing effect on staff and on the "bottom line".

Despite this apparently incessant need for change, there is also a need to "maintain the status quo", or at least to ensure the ongoing capacity of the organisation to survive. The development of existing staff, career planning, contractor and supplier relationships, and succession planning all need attention to avoid the need to make more drastic changes in the future.

Sources

Rummler – Brache (Improving Performance – How to Manage the White Space on the Organisation Chart) (Jossey Bass 1995) (a practical guide to management systems and business process development)

Seth Godin (The Purple Cow) (www.sethgodin.com/purple)

Michael Hammer & James Champy, (Reengineering the Corporation) (Harper Collins)

Professor John Kotter (www.johnkotter.com)

This is one of four modules written in 2007-2008 by Peter Fraser of MandOS for the Chartered Quality Institute (CQI)'s Body of Quality Knowledge (BoQK). The BoQK (see www.thecqi.org/knowledge) is the framework that defines the current boundaries of knowledge of the quality profession in the UK. It acts as one of the foundations that defines the quality profession and provides the basis for regulation.

The categories of the BoQK are:

- Concepts of quality, its history and development
- Customers, suppliers, other stakeholders and markets
- Interactions of organisations and people
- Technologies and techniques
- Laws, standards, models, associations and professional bodies
- Corporate strategy.

The four modules are:

- **Specifying, Designing and Developing Processes, Products and Services**
- **Management Systems**
- **Elements of Corporate Strategy**
- **Evolution of Quality Thinking Post 1970**