Integrated Framework for Optimal Business Performance

1. Introduction

Organisations that operate at optimal performance levels do develop great strategy, engage and align the organisation behind strategy, execute with precision and manage performance on a daily basis to ensure things actually happen. However, many organisations still fail in the execution of strategy through operational processes and workflow due to lack of internal cooperation and performance management.

This framework has been designed to assist organisations in the effective execution of strategy, monitoring and performance management. It influences all levels in a business by uniting the whole organisation behind its business purpose, identifying correct measures for monitoring, designing a strategic plan, developing action plans to deploy the strategic plan, and executing and monitoring that plan to ensure success. It brings together proven, well-known business methodologies to ensure all activities from strategy formulation, linking strategy to operations, effective execution and performance management are carried out to produce benchmark outcomes in every stage of the operation.

The well-known methodologies incorporated within the framework include:

- Operating Models (M Treacy and F Wiersema)
- Balanced Scorecard performance management system (Kaplan and Norton)
- Business Performance Excellence (Dr J Luftig)
- Plan-Do-Check-Act discipline from Total Quality Management (Edward Deming)
- Activity Based Costing

This framework also embeds effective risk management in strategic planning and develops a proactive risk management program, which focuses on managing the traditional risks such as capital, credit and physical security as well as earnings-driver risks and cultural risks, to protect and enhance shareholder value while eliminating unwanted earnings surprises.

2. Strategic Direction

Begin with the strategy. The company has to summarise its direction and strategy for the benefit of everyone in the company:

- Mission – why we exist or the guiding light
- Values – what we believe in and how we will behave
- Vision – what we want to be
- Strategy - clear and simple statement describing Objectives, Scope and Value Proposition

Top executives of the company understand what their business purpose, characteristics of the organisation and how they do business. They must articulate the company’s strategy in a simple statement with 30 to 40 words. A clear Strategy Statement describing Objectives, Scope and Value Proposition:

- Indicates executives and managers know what they are trying to create; and
- Makes implementation simpler as the strategy’s essence can be readily communicated and easily internalised by everyone in the company

Example Strategic Statement:

“To grow the Australian business to $500m by 2012 by offering high-quality, standard products and support services at the lowest total cost of ownership to organisations through direct and indirect sales channels and a national service organisation.”
With a concise strategic statement articulating all the elements of strategy, the executive team can effectively communicate the company’s direction to everyone in the company:

- **Objective** - grow the business to $500m by 2012
- **Scope** – defined in 3 dimensions:
  - **Customer and/or Offering:** standard products and support services to businesses
  - **Geographic location:** Australia wide
  - **Vertical integration:** Managed service solutions outsourcing
- **Value proposition** – high-quality products at the lowest total cost of ownership

### 3. Operating Model

The company’s Operating Model must ensure that its “Value Proposition” is aligned with the company’s “Core Competency,” which is what the company does better than any one else. The clear articulation of the “Core Competency” and selection of the relevant “Operating Model” creates the required strategic differentiation. There are three ways to differentiate a company from its competition:

- **Operational Excellence:** Company differentiates itself by providing high-quality, standard products very quickly with the lowest of total cost to customers for buying and using or consuming the product.

  Examples would be:
  - Woolworths, whose value proposition can be summed up as every day low prices for a broad range of goods, in convenient geographic locations and an enjoyable shopping experience each and every time.
  - Fuji Xerox Australia, whose value proposition can be summed up as providing high-quality digital multifunction devices with hassle-free after sale service at the lowest total cost of ownership.

- **Product Leadership:** Company differentiates itself by rapidly researching, developing, and moving to production new products, services and features.

  An example would be Canon’s digital camera business.

- **Customer Intimacy** or **Best Total Solution:** Company differentiates itself by working closely with its customers to determine and provide them with the optimal product and service for their particular needs.

  An example would be IBM Outsourcing.

Since no company has resources to excel in more than one area, the company must focus on excelling in one of these three areas to differentiate itself from its competitors while maintaining at least market parity in the other two areas. The selection of the right Operating Model enables management to make right resource allocation decisions when different efforts are competing for the same resource.

The characteristics of these three Operating Models as described by *Michael Treacy and Fred Wierseman in the “The Discipline of Market Leaders”* are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Operational excellence</th>
<th>Product leadership</th>
<th>Customer intimacy</th>
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<tbody>
<tr>
<td><strong>Processes</strong></td>
<td>Optimised, streamlined for minimum cost through supply chain management.</td>
<td>Focus on invention, product development &amp; market exploitation.</td>
<td>Focus on solutions implementation and relationships.</td>
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<td></td>
<td>Maximum customer convenience through TQM and IT.</td>
<td>Turn ideas into targets. Prepare and educate markets.</td>
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<tr>
<td></td>
<td>Operational excellence</td>
<td>Product leadership</td>
<td>Customer intimacy</td>
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<tr>
<td></td>
<td>Tightly controlled.</td>
<td>Ever changing.</td>
<td>Wide product base for tailoring to customer requirements.</td>
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<td></td>
<td>Centrally planned.</td>
<td></td>
<td>Delegate to those close to the customer.</td>
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<td>Management systems</td>
<td>Integrate.</td>
<td>Manage the development portfolio.</td>
<td>Control customer selection.</td>
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<td></td>
<td>Build reliability and speed of response.</td>
<td>Use interim milestones.</td>
<td>Measure share of customer spend.</td>
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<td></td>
<td>Measure compliance to norms.</td>
<td>Proceduralise the latter stages of development.</td>
<td>Measure clients’ success as well as own.</td>
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<td></td>
<td>Sweat the details.</td>
<td>Measure and reward new product success.</td>
<td>Build systems for sharing ideas.</td>
</tr>
<tr>
<td>Culture</td>
<td>Teams working to achieve excellence.</td>
<td>Minimal bureaucracy.</td>
<td>Help clients to embrace change by careful implementation.</td>
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<tr>
<td></td>
<td></td>
<td>Achieving.</td>
<td>Embraces specific rather than general solutions and thrives on deep and lasting relationships.</td>
</tr>
<tr>
<td>Exploiting the Value Proposition</td>
<td>Growth through volume business, exploiting assets and replicating formula geographically.</td>
<td>Expert product launches, pricing to secure highest initial margin followed by careful management of the product life cycle.</td>
<td>Growth within accounts and by new customers.</td>
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<td></td>
<td></td>
<td></td>
<td>Avoid continuing with activities as they become commoditised.</td>
</tr>
<tr>
<td>Distinguishing characteristic</td>
<td>Formula</td>
<td>Talent</td>
<td>Solution</td>
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</table>

The alignment of mission, vision, value proposition and operating model establishes the coordination required at the executive level of the company. However, a visionary strategy that is not linked to excellent operational and governance processes cannot be implemented. The company needs to develop a governance system for translating, clearly communicating and measuring the deployment of its strategies.

4. Measurement (Management) System

A company that can translate its strategy into its measurement system is far better able to execute the strategy. Such a measurement system turns data into knowledge that can be acted upon and links measures all the way from the CEO down to the front line.

The company can use Kaplan and Norton’s Strategy maps and Balanced Scorecard methodology to create an enterprise-level strategy map and a Balanced Scorecard (measurement system) comprising financial and non-
financial metrics. The Balanced Scorecard retains a strong emphasis on outcomes, especially financial measures, and links programs such as cycle time reduction, process re-engineering, training & development and employee empowerment to measurable outcomes that directly affects customer satisfaction and financial performance. The three principles that enable a company’s Balanced Scorecard to be linked to its strategy are:

- Cause-and-effect relationships
- Performance drivers (non-financial)
- Linkage to financials

Once the metrics are identified, targets are determined based partly on the basis of mission and vision and deployed for the highest level of management. These high-level metrics (Key Performance Indicators or KPIs) are used to measure the progress towards achieving the mission and vision of the company.

The next step is to make sure all others in the company are measuring only those things that are aligned or linked with these measures. This is achieved by cascading the highest level of metrics down to the lowest levels of the organisation using cause-and-effect relationships. The objective of this exercise is to ensure everybody in the company understands the company’s strategy through personal measures, which are linked to that of the CEO’s, and contributes to its execution.

5. Gap Analysis

The completion of translating the company’s strategy into its Measurement System ensures:

- Identification of right metrics to measure performance at each level of the organisation; and
- Required targets for these measures to achieve the company’s vision.

The company can now perform an objective gap analysis to assess where its current process is falling short of its targets, which are derived from the goals of the business. In general, the companies will frequently find that gaps exist between what they actually need as a business and what they are actually achieving. The objective of Gap Analysis is to identify these performance shortfalls and prioritise them. The gaps usually fall into three categories:

- Local issues that can be dealt with day-to-day management focus; or
- Issues that cross traditional management lines requiring advanced problem-solving skills and a Cross-Functional Management approach
- Difficult, high visibility, high return projects that could rise to the level of a company wide effort

Companies usually handle gaps of the latter two types via Strategic Planning and Policy Deployment because of their severity, pervasiveness or scope.

6. Feedback Systems Development

In order to operate at optimal performance level, the company requires systems to ensure that its:

- Suppliers are capable of providing input materials and services on an ongoing basis
- Products and services will meet customer’s needs
- Assets utilisation is optimal
- Products and service delivery processes are rationalised with a full understanding of the cost of manufacture, sale, post sale services and trade-offs

The company must at least have the following feedback systems in place to meet above requirements.
Supplier Quality Assurance

The purpose of Supplier Quality Assurance system is to ensure the company:

- Gains a sound understanding of its supplier capabilities before establishing contracts
- Establishes Key Performance Indicators for monitoring supplier performance
- Continuously monitor and review actual performance on an ongoing basis to ensure quality of input materials and other outsourced services meet the agreed standards

As part of the Quality Assurance System, the company must establish a process though which suppliers are evaluated, selected, developed and monitored. The company can also reduce its supplier monitoring costs while improving the quality of supplies through a rationalisation of suppliers and maintenance of an Approved Supplier List based on suppliers’ ability to:

- Consistently deliver defect free products and/or services;
- Meet the company’s delivery requirements;
- Be cost-competitive; and
- Be responsive to the company’s needs.

Customer Feedback Systems

The purpose of Customer Feedback Systems, which is usually a collection of systems and processes, is to ensure its products and services are designed, manufactured and delivered to meet customer needs.

The company can ensure its Products and Services are designed to meet customer needs through market research and focus groups.

The company also needs to have the ability to manage the improvement of Customer Satisfaction on an ongoing basis. This is normally achieved by gathering information from customers through proactive periodic surveys and reactive systems:

- Periodic customer surveys where specific feedback is solicited to assess customers’ perception of the level of satisfaction with key product/service attributes, which make up the value proposition
- Customer compliant system – can be an automated system to provide the best possible access and convenience
- Customer suggestion system – can be an automated system

The company also has to have a process in place to ensure the gathered information is analysed and immediate actions are implemented where necessary. Successful companies also ensure the process is owned by an executive manager and Pareto Principle (80/20 Rule) with ABC Classification is applied to identify important customers and products; and determine and prioritise the attributes that are important to them. The 80/20 Rule and ABC Classification frameworks for the analysis of data can be described as follows:

<table>
<thead>
<tr>
<th>20% of customers, products or parts</th>
<th>80% of the company’s revenue and inventory investment</th>
<th>These are called:</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>“A” customers</td>
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<tr>
<td></td>
<td></td>
<td>“A” products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“A” parts</td>
</tr>
<tr>
<td>30% of customers, products or parts</td>
<td>15% of the company’s revenue and inventory investment</td>
<td>These are called:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“B” customers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“B” products</td>
</tr>
<tr>
<td></td>
<td></td>
<td>“B” parts</td>
</tr>
</tbody>
</table>
50% of customers, products or parts = 5% of the company’s revenue and inventory investment

These are called:
“C” customers
“C” products
“C” parts

The process of collection and analysis of data can be significantly automated as most ERP systems support the implementation of ABC classification to manage customer relationships and inventory.

**Activity Based Costing System**

The company requires an Activity Based Costing (ABC) system to effectively manage costs and profitability as their:

- Product and/or service diversity has increased;
- Cost structures have become more overhead-intensive; and
- Higher proportion of the overhead costs is fixed costs.

It is relatively easy to implement an ABC system as almost all companies utilise IT enablers to organise, track and manage their business activities from manufacturing to inventory management to customer service delivery. A well designed ABC system not only helps managing costs at activity level but also provide accurate data for performing periodic strategy cost analysis that support strategic management decisions such as:

- Pricing
- Customer and transaction level profitability
- Product mix decisions to maximise profitability
- Optimisation of asset utilisation

**7. Development of the Strategic Plan**

Strategic planning refers to translating of the company’s strategy into an integrated set of actions to realise its vision and sustain that competitive advantage. This can only be achieved when the company knows its:

- Strategic objectives
- Measures, which are aligned with the strategic objectives, to monitor progress towards those objectives
- Prioritised performance shortfalls through the Gap Analysis
- Complete picture of the current status of the business: level of performance and what the market demands from feedback systems

Since our framework has already covered the above aspects, the company is so ready to develop the strategic plan. The steps involved in developing the strategic plan are:

- Identify the broad areas that the company wish to improve (Strategic Intents)
- Narrow down those areas to the most important two or three efforts necessary to achieve the company’s mission and vision

Therefore, a strategic plan can be written in a few lines:

- Strategic intent 1 – Significantly increase profitability
Strategic intent 2 – Grow market share in profitable markets

Once the strategic intents appropriate for realising the company’s vision are established, the executive team is ready to develop the company-wide business plan for action by business and functional managers.

8. Development and Deployment of the Business Plan

Business planning begins with a quick review of the current status of the company (gained through Gap Analysis and Feedback Systems) to determine the things that the company need to do to accomplish its Strategic Intents. They will be “Objectives” of the company’s Business Plan and fall into 3 categories:

- Tactical Objectives – involving closing small gaps or maintaining current performance levels
- Strategic Objectives - involving larger changes that will require specific resources and cross-functional coordination
- Enablers – new systems required for closing certain gaps or supporting a Strategic Intent

Once the Objectives and Enablers are determined, the company knows what they are trying to accomplish to move towards its vision. The next step is to describe the specific actions and how to organise these actions to enable business and functional managers translate these objectives and enablers into executable projects. It is critical that top executives agree on how to organise chosen activities and clearly communicate to business managers through the business plan to eliminate sub-optimisation.

Tactical Objectives are achieved by maintaining or improving relevant “Performance Measures” with a specific target and an achievement date. These measures are generally identified during the Balanced Scorecard development phase and business and functional managers need to achieve required improvements via Daily Management.

Strategic Objectives and Enablers are achieved by accomplishing a set of “Projects” formulated with very specific objectives and milestone dates. Since the accomplishment of these projects is critical for achieving the company’s vision, they will have an executive-level sponsor to provide leadership and effective coordination of resources. The executive manager will:

- Bring together all those next level managers that will be involved in achieving the strategic objective or enabler
- Explain the business case for the improvement and his or her vision of how the company can achieve it.
- Ask to come back by a specific date with a proposal describing what they have to achieve in the area they are responsible for to support the Strategic Objective

As required, the second level managers will involve the next level of managers to develop and validate their proposals. The executive sponsor then reviews all proposals and negotiates with each next level manager until they are sure the accomplishment of proposed sub-projects will accomplish the Strategic Objective. At this point, each manager has a list of sub-projects and activities that his or her area is responsible for achieving the company’s Strategic Objectives. With this knowledge, the company can complete the detailed Business Plan for deployment and each manager is responsible for securing resources, communicating the plan and training for his or her effort and following the team’s progress to deliver results by specific milestone dates.

9. Business Plan Execution

The completion of the detailed Business Plan for the next 12 months ensures:

- Identification, development and communication of an integrated set of actions linked to the company’s vision, mission, value proposition and operating model for differentiation
- Each action has an owner, an agreed plan and resources to achieve the outcome
- Everyone in the company knows what they need to do to achieve the company’s vision
Example detailed Business Plan for one Strategic Intent may look like:

**Strategic Intent 1 – Significantly increase profitability**

<table>
<thead>
<tr>
<th>Strategic Objective 1</th>
<th>Obtain breakthrough reduction in inventory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action 1.1</td>
<td>Reduce Days of Stock of equipment from 70 days to 40 days</td>
</tr>
<tr>
<td>Action 1.2</td>
<td>Reduce Days of Stock of parts from 180 days to 120 days</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Objective 2</th>
<th>Grow revenue by a minimum of 10%</th>
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<tbody>
<tr>
<td>Action 2.1</td>
<td>Increase sales revenue from indirect channels by 20%</td>
</tr>
<tr>
<td>Action 2.2</td>
<td>Increase sales revenue from Tier 1 customers by 20%</td>
</tr>
<tr>
<td>Action 2.3</td>
<td>Increase average profit margin by 3% through rationalisation of customers and utilising the most cost effective distribution channel</td>
</tr>
<tr>
<td>Action 2.4</td>
<td>Increase service revenue by 15% through service contract rationalisation and new service pricing scheme</td>
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</table>

<table>
<thead>
<tr>
<th>Tactical Objective 1</th>
<th>Reduce Sales, Admin and General costs by 2% to 20% of sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action 1.1</td>
<td>Increase individual sales budgets by 10% on average</td>
</tr>
<tr>
<td>Action 1.2</td>
<td>All sales and distribution locations to monitor their costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Tactical Objective 2</th>
<th>Reduce “Debtor Days” to 30 from current level of 35</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action 1.1</td>
<td>Accept payments for service invoices through credit cards</td>
</tr>
<tr>
<td>Action 1.2</td>
<td>Offer “Direct Debit” as the only payment option for customers with estimated monthly service bills of less than $200</td>
</tr>
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</table>

**Enabler**  Implement “Salesforce.com” to support the required improvements in sales productivity, collaboration of sales and marketing, demand planning and equipment inventory management

The business managers will implement the business plan through Daily Management and the execution of Strategic Projects with the full support of executive sponsors.

**10. Monitoring and Planning for Next Cycle**

Business managers must manage performance of their activities via daily management focusing on performance drivers and outcomes against targets.

The leadership team of the company should formerly review the progress of the business plan while executive sponsors should review the progress of their projects continuously to ensure the specific milestones are met. At the end of the planning cycle, the leadership team should review the execution of the plan and assess the level of success. Any incomplete items and the lessons learned from the experience must be used to improve the company’s “Planning and Deployment” process.

**References:**


Dr Jeffrey Luftig, *What is Business Performance Excellence*, Centre for Business Performance Improvement, University of Colorado, 1998


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**SJ Consulting Services** has high-level of strategic planning, commercial finance and operations expertise as well as extensive experience in the application of specific business methodologies incorporated within the Integrated Framework for Optimal Business Performance. It takes its consultants’ experience, knowledge and talent and combines them to assist its clients in the effective adoption of the framework to operate their business at optimal level of performance.