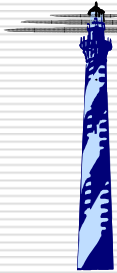


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..... **Making a  $\Delta$ ifference!**



## **Independent Services for Directors of SME's**

Personalised Support for MD and CEO

Embrace CHANGE in challenging times  
&  
Position your Enterprise for maximum value

Brian Wadsworth; ISDS

February 2009

**IS $\Delta$ AS**

# SME Challenges 1 ... (e.g.)

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- Managing cashflow; salaries, debtors & creditors & .....
- Fighting to survive ..... through the day ..... week ..... month .....
- Balancing financial budgets and satisfying bank covenants
- Down-sizing, cost-cutting, restructuring
- Keeping the bank manager 'on-side'; gaining his support!
- Coping with panic created by media and 'expert' economic speculation
- Coping with the stress of the 'unknown'
- Satisfying client, staff and supplier demands; all at once!
- Staying focused, balanced and objective!!

..... what keeps you awake at night?!

## SME Challenges 2 ... (e.g.)

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- Adequate financing in place and planned ie Cashflow Management
- Aligning all resource and key skills to key value drivers
- Maintaining enterprise flexibility for vital change
- Balanced management of financial & non-financial value drivers
- Achieving sustainable value for shareholders & other stakeholders
- Establishing market position and achieving performance breakthrough
- Coping with rapid growth and associated change & risk management
- Properly aligned implementation of strategy for maximum gain
- Achieving business transformation in a changing market

**The leaders role is crucial for success in all of these core business aspects**

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# BUT .....

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But; traditional management methods and culture are no longer good enough to survive

Annualised budgeting and associated management forces short term thinking

Traditional organisations are ineffective, inefficient and inflexible

- They inhibit pro-active change

- They impair enterprise ability to engage with new technologies & techniques

- They encourage 'silo' mentality

- They waste your cash and impair cash generation

- Ultimately they can open your markets up to attack

Financially dominated performance management misses the key drivers of value

- It misses the critical importance of stakeholder value management

- It encourages 'knee-jerk' reaction to cost-cutting for short term gain

So, to really survive requires change ..... doesn't it?! But; ....

**"No one has to change; survival is optional"**

W Edwards Deming

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# MMmmm ....

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No matter the current state of your business; whether you are severely challenged by the current recession or are strong enough to see it through or are even set upon this journey of change; the nature of the current credit crunch means that business will never return to the 'way it was'. **This means change for us all.**

Every enterprise is challenged to seek new ways of becoming better at what they do, maximising benefit from all resources, adding more value to their customers and generating more cash from the process.

Deming showed us the way forward decades ago and more recently in the mid 90's, the Balanced Scorecard provided us with the tools to develop an integrated process.

The following slides explain why 'tradition' is dead; and has been for some-while and then goes on to introduce a process I have specifically developed for applying to SME's that enables them to engage fully with necessary change and breakthrough to establish sustainability

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# Why is 'Tradition' not good enough?

Business & Business Management have changed!! .....

From the  
Industrial Age

To the  
Knowledge Era

- |                      |   |                           |
|----------------------|---|---------------------------|
| ➤ Production driven  | ➔ | ➤ Customer Driven         |
| ➤ Functional (silo)  | ➔ | ➤ Process (integrated)    |
| ➤ Tangible assets    | ➔ | ➤ Intangible assets       |
| ➤ Top down           | ➔ | ➤ Bottom up               |
| ➤ INCREMENTAL CHANGE | ➔ | ➤ TRANSFORMATIONAL CHANGE |
| ➤ MANAGEMENT         | ➔ | ➤ LEADERSHIP              |

**A management culture shift**

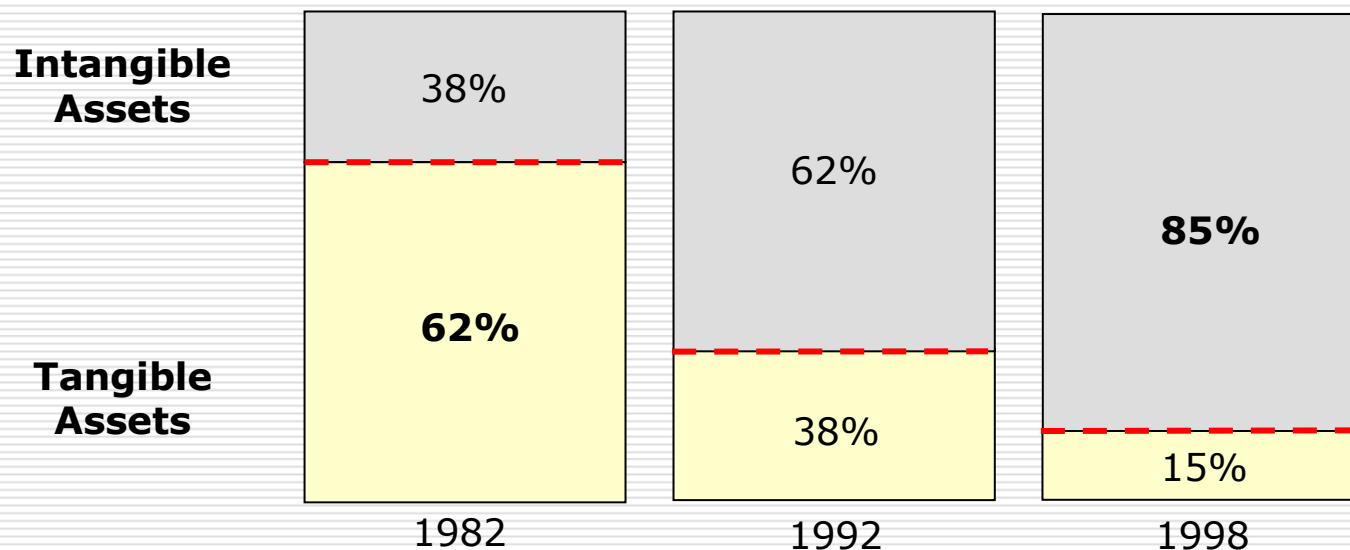
Source: Balanced Scorecard Collaborative

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# What does this change mean?

The source of Value has shifted from Tangible to Intangible Assets.  
Traditional management techniques are no longer good enough

Percentage of **market value** related to \*.....

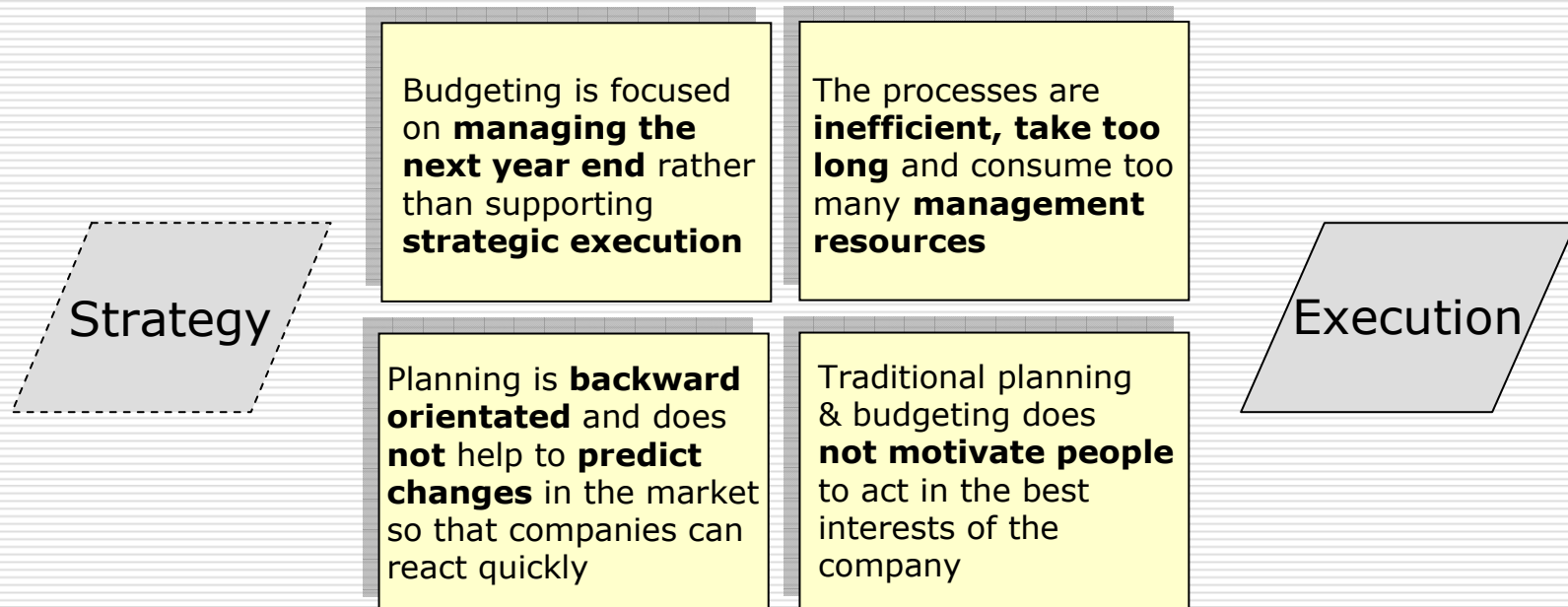


Also, in 2008 the Internet overtook traditional marketing methodologies

\* Source: US research & analysis by Brookings Inst. and Baruch Lev

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# The 'Budget' Distraction



"The budget ..... never should have existed. A budget is this: if you make it, you generally get a pat on the back and a few bucks. If you miss it, you get a stick in the eye – or worse ....."

Jack Welch, CEO, GE; *Fortune Magazine* 1995.

Source: Balanced Scorecard Collaborative

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# Motivating the wrong behaviour

In a traditional budgeting process  
Managers are motivated to .....

- Lowball targets
- Make 'the numbers' whatever it takes
- Over estimate required resources (they will be cut back!)
- Use your budget ... or lose it!

## Resulting in:

- Negotiations on superficial budget targets; out of date as soon as they are set
- "Cooking the books"
- Push to "book orders" at month/year end despite customers true needs
- Budget wasting
- Encouraging 'silo' mentality

Management decision making becomes short term tactical  
with a usually negative impact on intangible assets

Source: Adapted from the Balanced Scorecard Collaborative

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# BUT...IF ... SO ...

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But, never mind about tomorrow; I have to get through today ..... !!

But, IF you have to change, then surely there is an Opportunity?!

When change is enforced, even though survival is high on the agenda, you might as well take the opportunity to fully embrace that change?

Particularly when such change is appropriately balanced and aligned to enable survival as well as the building of a sustainable enterprise that can take advantage of the current situation to position your business for maximum benefit after turn-around.

The worst you can do is 'dabble' with change or 'knee-jerk' for short-term gain and long-term pain.

So .....

"IF you can keep you're head while all around are losing theirs ..."

Rudyard Kipling

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# The problem

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- 95% of the typical workforce does not understand what the business is about or where its going
- 70% of organisations do not link incentives to non-financial (real) value management
- 60% do not link budgets to real value creation
- 85% of executive teams spend <1hr/mth discussing strategy

Delivering 'Stakeholder Value' IS, or **SHOULD BE** your priority .....  
**IF** your objective is to create shareholder (enterprise) value

**IT SEEMS THE VAST MAJORITY DON'T PROPERLY MANAGE VALUE!**

Source: Developed from information provided by BSC

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# Survival & Sustainability

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To survive an Enterprise MUST be:

Innovative and creative  
&  
Efficient and effective  
&  
Flexible to change

i.e. all 3!

To be sustainable an Enterprise MUST:

Have resources and actions properly **ALIGNED**  
to delivering stakeholder value

**AND**

Ensure their performance management process properly considers  
analytics and metrics **BALANCED** for financial and non-financial factors

**AND**

Make better informed decisions with cause-effect and risk  
in mind over an appropriately **BALANCED** short and long term timescale.

# Survival

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## Innovative and creative:

SME's must be innovative and/or creative to establish themselves  
This ingenuity must be focused on product and/or service delivery  
The focus must therefore be on the value created for your customer

## Efficient and effective:

Efficiency is how much effort goes into producing the result  
Effectiveness is how good the result is  
These determine your quality, customer delight and stakeholder value balance  
Get this balance wrong and you put your ingenuity at serious risk of attack  
If that happens, competitors can steal your products/services/markets

## Flexible to change:

Change is a constant  
At present change must be transformational  
To compete on the global stage, organisations **MUST** be flexible  
Organisations must be aligned to their business model  
Management style has to move towards leadership  
A commitment to continuous improvement at every level is required  
Working practice needs to be process orientated (not functional)

# Sustainability

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Once the elements of Survival are in place, Sustainability depends upon:

## Strategic Market Positioning

- Competitively differentiated
- Appropriate balance of segments
- Appropriate balance of client 'types'
- Focused on customer value delivery

## Performance Management

- Better informed decision making
- Focused on key value drivers
- Management of risk and change
- Balanced metrics and timescales

## Stakeholder Value Management

- Balanced on a 'win for all' basis
- Balanced on financial and non-financial factors

## Growing & sustainable enterprise value

- Brand, image, IPR, position, cash, balance sheet, etc.

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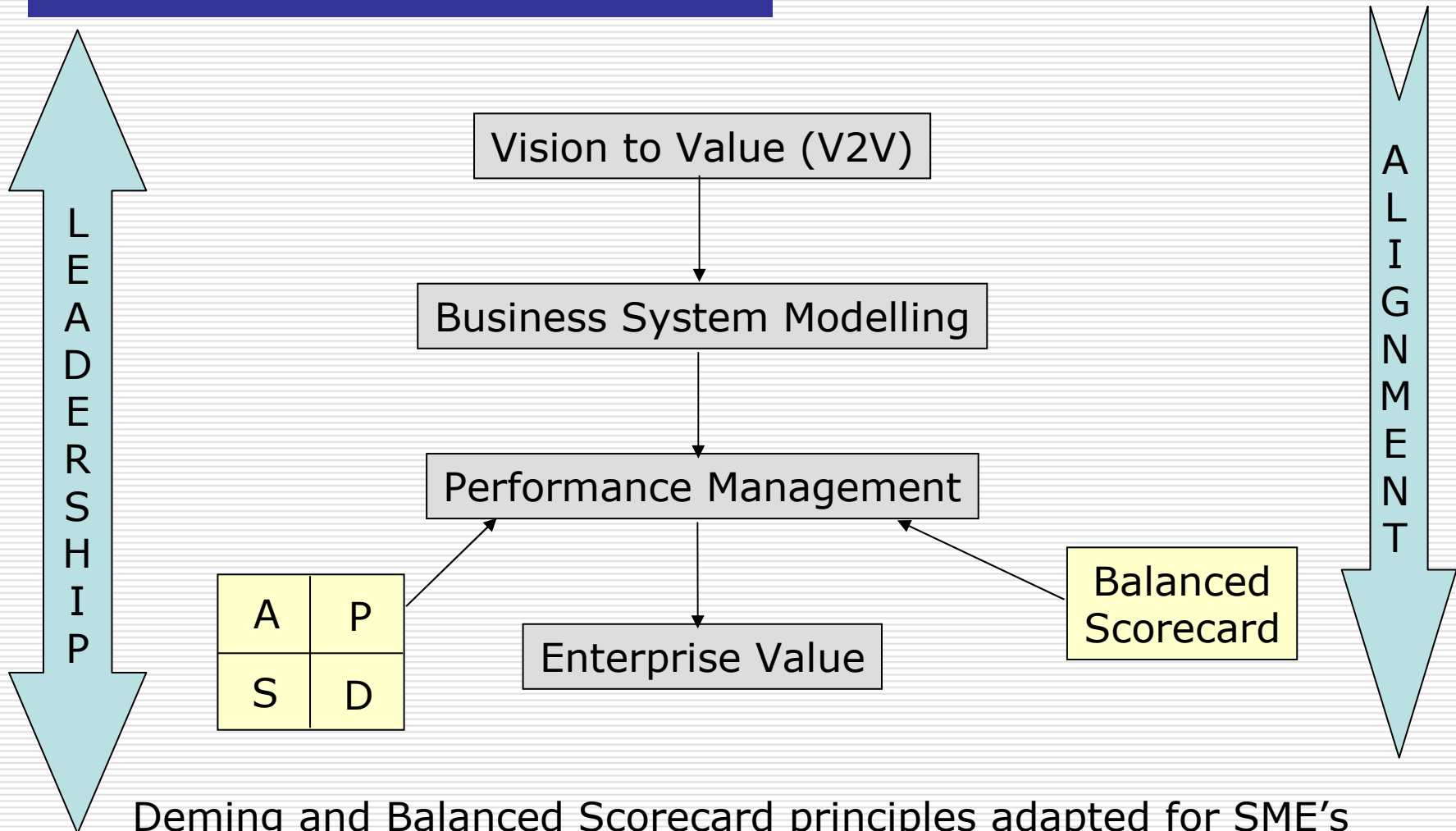
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# Process Method

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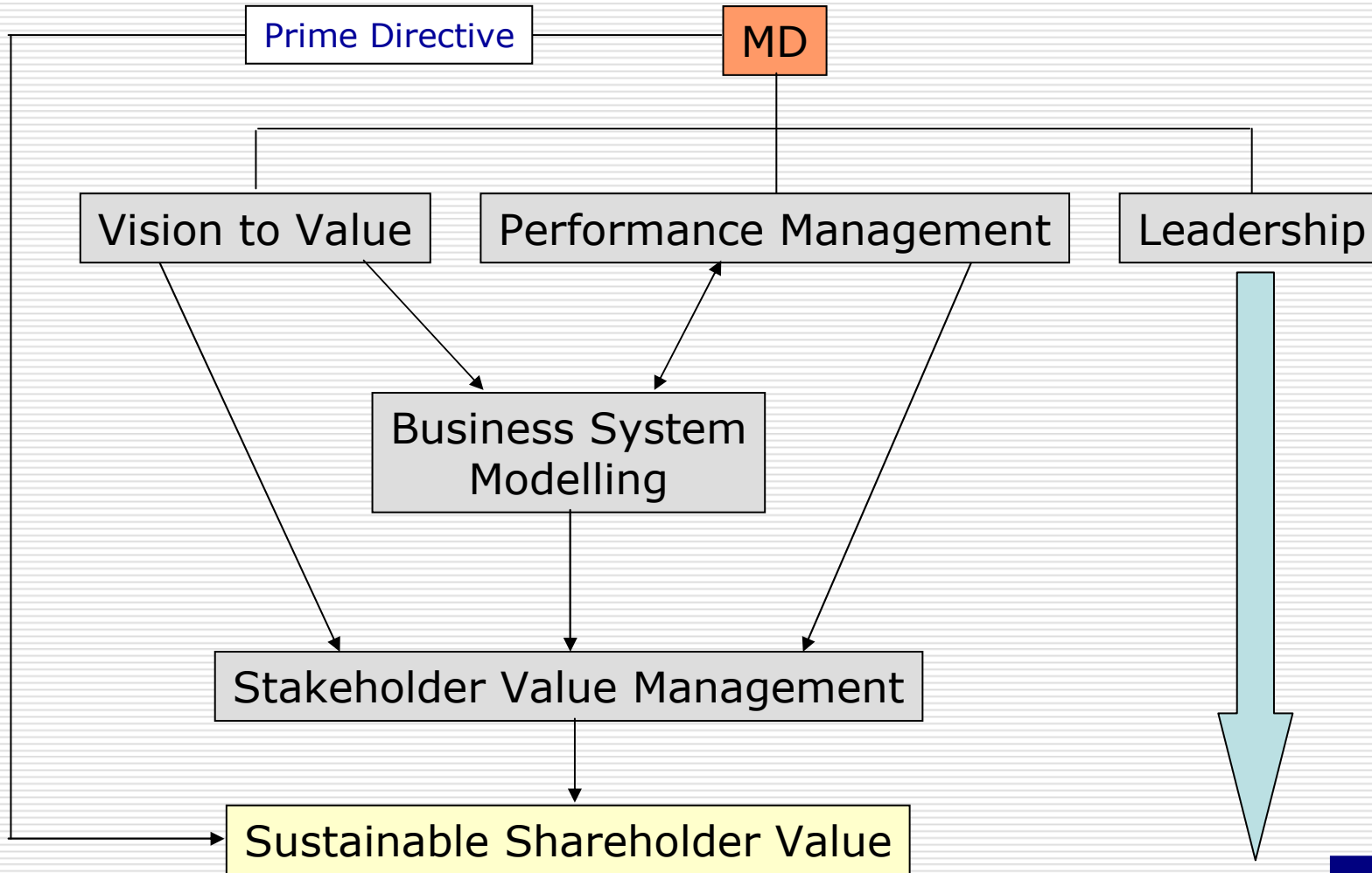
1. Think of your business as a system; which it is.
2. A system must be modelled (simply)
3. The model enables the definition of:
  - Structure & Organisational alignment (who & what)
  - Key Business Processes (how)
4. The system requires the following elements to function properly:
  - What it is you DO to create value
    - For your enterprise
    - For your stakeholders
  - What stimulus your system needs to operate
  - What output you require from the system
5. The system is also the means to an end and not the end in itself.
6. System performance must be managed for maximum efficiency and effectiveness and within the bounds of acceptable risk
7. As the 'vehicle' that transports the enterprise to its destination, the system requires a route map of the journey from where it is starting to where it is going
8. The system must have the flexibility to adapt to change along the way

# HOW ... A Process for SME's

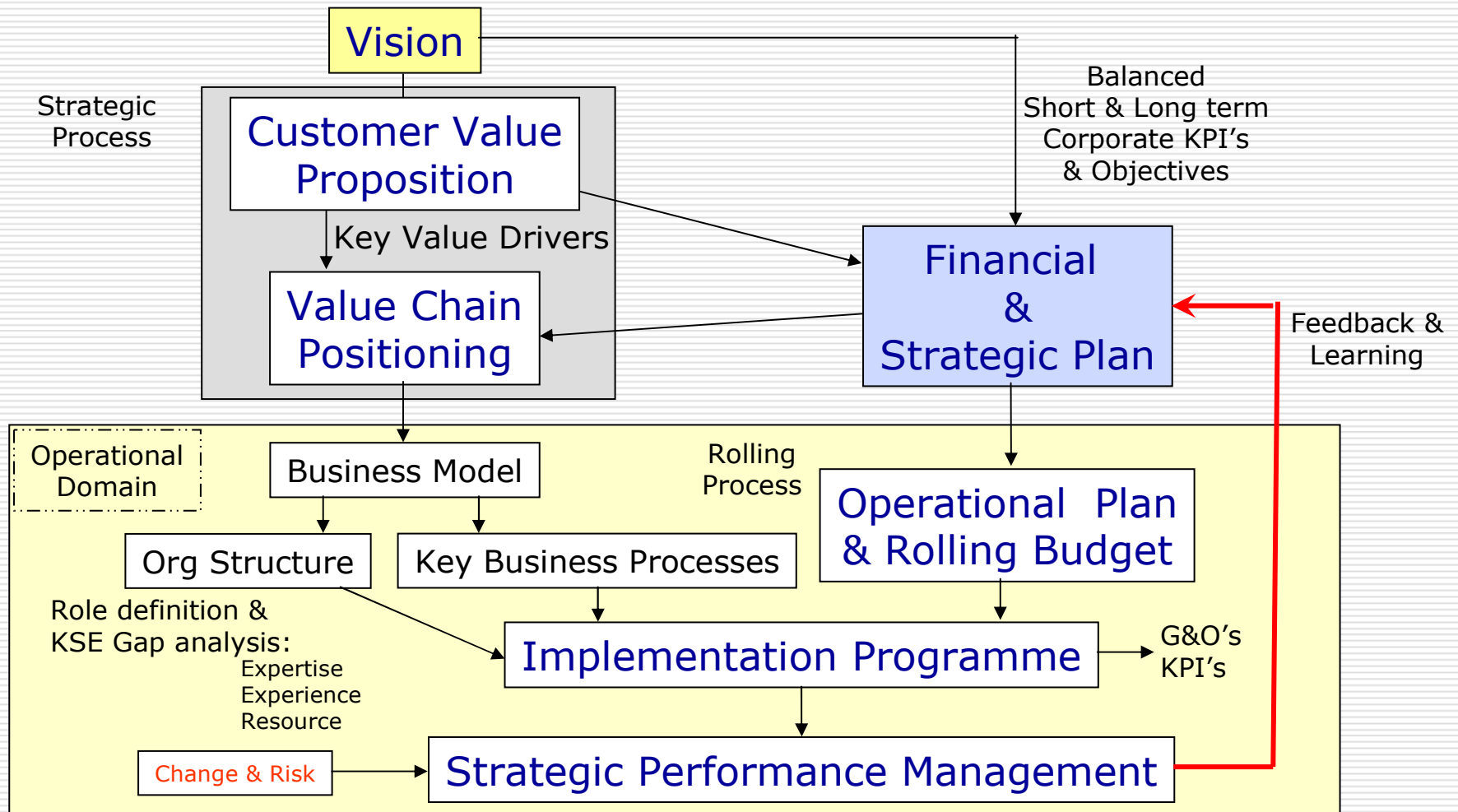




# HOW ... The Leader's Role



# 'Vision to Value' (V2V) Process



# Benefits

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- Provides all round balance from every contextual aspect
- Creates natural alignment and focuses limited resource for maximum benefit
- Enables organisational flexibility and responsiveness
- Facilitates consensus at every level
- Enables better informed decision making and change & risk management
- Creates a bottom-up quality & continuous improvement culture
- Disables blame culture and departmental silos
- Enables cross-functional and multi-disciplinary teamwork
- Simplifies leadership challenges and makes the leaders role more enjoyable
- Maximises efficiency and effectiveness to reward ingenuity
- Process driven to enable ongoing future management
- Flexible in term of the breadth, depth and phasing of the change programme as all elements are integrated and self aligning

# ISDS Contact Details

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These slides provide an introduction to the change process only.

Whether you are simply interested to know more about how to start out on this journey of change or wishing to complete your journey or even interested to know more about how the journey can be phased please see the link below to find details of how to contact me.

The web site also includes much more information on my background, services, approach and client testimonials plus some interesting downloads and links to related sites.

NB: There is an opinion paper, in pdf format with the same title, that complements these slides

**But, remember; No one has to change; survival is optional**

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