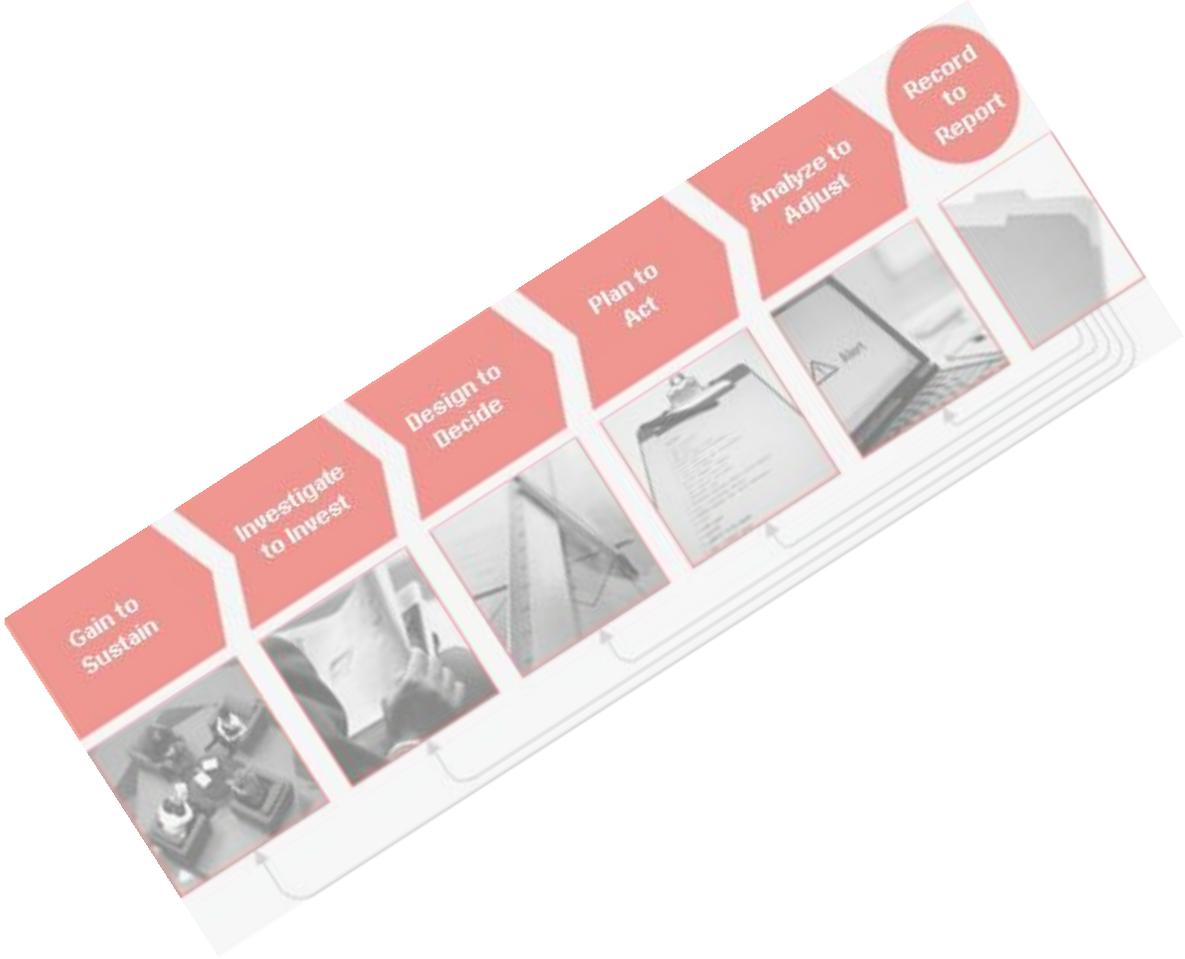


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Journal of Management Excellence: Business Transformation



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Letter from the Editor



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Slowly but surely we are expanding the scope of the Journal of Management Excellence. In this issue, we discuss “business transformation”. Business transformation has many different facets, and we discuss a number of them. Thomas Oestreich looks at the perspective of the CIO, and how IT needs to grow from a supporting function in the value chain to a force that drives innovation at the core of the business. Kevin Narain, managing partner at European consulting firm INEUM, discusses finance transformation in an excellent article called "Learning the Ropes". If there is one thing we (should have) learned from the current economic situation, it is that risk and performance management should be transformed to be more integrated, and Brian Gregory describes how to do that. Kathy Horton describes cultural transformation, using two case studies. Dr. Bill Stratton, of Dixie State College of Utah, and the Business Research and Analysis Group take a wider approach and expand the idea of business transformation using the value chain. Jim Gurowka, of the Institute of Management Accountants, introduces the idea of a Performance Architecture. Sandeep Banerjee describes the relationship between eliminating IT complexity and business transformation. And as always, Mark Conway provides some interesting points for further reading.

It seems to me, looking at all the articles, that business transformation itself has transformed over the years; gone are the days of reengineering the complete business in a big bang project style. Business transformation today is more often a series of smaller steps, gradually and in a controlled way leading to a new desired state. Most transformations are driven by the external world; by political, economical, social, technological, environmental and legal change. These external forces change, and it is not always possible to drive them yourself. Agility is the key to successful and continuous business transformation. The goal may be clear, the grand vision may still stand, but the path must be continuously reevaluated.

Thank you to all contributors of the Journal of Management Excellence for your thoughtful insights in this issue. If you are interested in contributing, please contact me at toby.hatch@oracle.com.

Toby

P.S. You can download the Journal of Management Excellence archives at <http://www.oracle.com/us/solutions/ent-performance-bi/resource-library-wp-063992.html>.

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Business Innovation: The CIO Perspective



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There are many different ways for businesses to innovate, such as developing new products or services, creating new and ground-breaking business processes, or adopting market-changing business models. By definition, business innovation changes the way business is performed and, once introduced, becomes a license to play and the basis for the next innovative step – transformation.

One interesting question is, “How does the Chief Information Officer (CIO) and his IT systems contribute to transforming the business in innovative ways?”.

Enterprises have to change the way they operate in order to either gain or retain competitiveness.

Three of the driving factors that are most important to understanding the innovation introduced by IT systems are:

- Business Process Management, i.e., the systematic definition, automation, and standardization of business processes or transactions
- The technology that is applied, i.e., software and hardware components
- Information, i.e., the transformation of data into relevant and timely information.

At the beginning of last century, Taylor¹ introduced the idea of systematically studying “work processes” to optimize them. Taylor demonstrated that significant improvements could be achieved by systematically optimizing the way processes are performed.

A second important factor was the introduction of technology. Machinery and tools were used to either ease the work process for the workers, or to ultimately replace manual work with machinery. As technology was introduced, quality improved significantly as the failure rate of the machinery used was much lower than the manual processes.

The third important factor was the systematic collection of “scientific management information” that was used to understand and improve the business activities, leading to more profound and fact-based decisions. Today, this information is a crucial asset for any organization.

¹ Taylor, F.W. (1911) “*Principles of Scientific Management.*” Harper and Row, New York, NY.

The first stage of IT enabled business transformation

With the advent of information technology (IT), the concept of business innovation reached the management and administration of enterprises. All activities and functions across and along the business processes were integrated into a single process value chain. Management gained continuous insight into the operational performance of the business processes and the financial performance of the enterprise. Business processes were reengineered to reflect the changes needed to move from being manual and fragmented processes and transactions, to being automated, standardized, and integrated; ultimately creating a “lean” organization.

The second stage of IT enabled business transformation

The innovative idea in the second stage of IT driven Business transformation, is to transform a “lean” organization into an “agile” organization.

Developing an agile organization means creating an agile value chain. An agile value chain enables the organization to increase the speed at which they are able to change their business model, the organizational structure, or business processes. It is no longer acceptable to take twelve months to change a management process to adapt the IT systems to new requirements. With an agile value chain, IT systems must be set up such that they offer multiple options to new requirements rather than just supporting the old, well defined process. Agile organizations also need pervasive access to information that is shared with the stakeholders and all other constituents in the value chain.

	PROCESS MANAGEMENT	TECHNOLOGY	INFORMATION
The advent of the three factors	Systematic analysis and optimization of processes replace process execution by rules of thumb and personal experience	Machinery and tools automate process steps, and replace manual work	Systematic gathering and analysis of data. Mainly manual, fragmented, and rather project-based approach
First stage of IT driven business transformation	IT driven business process reengineering enables building complete and integrated business process value chains	Information Technology (IT) enables fully automated, standardized and integrated business processes and transactions	Systematic and more complete collection of information on all process steps. Automated and continuous data reporting. Much relevant data still stored in spreadsheets and documents
Second stage of IT driven business transformation	Business processes are orchestrated. Process change and adoption is the norm rather than the exception	Business process platform holds multiple options in readiness. Systems can be integrated despite internal and external heterogeneity	Information is largely captured in systems. Changing information needs can be implemented easily. Access is pervasive and almost ubiquitous.

Table 1: Aspects of Transformation

Table 1 summarizes the aspects of transformation.

Management, at all levels of the organization, needs access to relevant and timely information to support decision-making. Crucial management processes, such as planning, budgeting, or scenario analysis, should be supported by systems that enable fast and continuous evaluation and adoption of strategic options in order to cope with the increased speed of changes and the volatility of the markets.

The extended role of the CIO in business innovation

So far, we have looked at ways that the CIO contributes to business innovation with respect to the business processes and transactions. But, IT can support innovation in many other areas as well.

For instance, the internet has created a whole new play ground; the way information is exchanged, how collaboration is enabled to the extended enterprise, retail and distribution is organized differently with unprecedented reach, and transactions are performed automatically across business partners in almost no time.

New services have been created by the way customers communicate and even contribute, leading to a new form of customer-vendor relationship. Whether it is a car, a coffee machine, or a cell phone, many products today introduce new features through embedded software and hardware.

This expands the CIO's strategic role significantly moving from leading a shared service function to being an important contributor to all aspects of innovation in an enterprise. For example:

- Improved security and safety with IT systems – e.g., in a car, airbags, brake assistants, or navigation systems need IT capabilities
- Electronic business (e-business) dramatically improved the performance of transactions within and between business partners:
 - New business models evolved, such as online auctioning between consumers
 - Web 2.0-like capabilities change the way business partners and customers communicate
 - Customers' experience, good or bad, published on the internet can be as powerful as the whole marketing budget. Mouth to mouth promotion has global reach today.

IT is part of most innovations and transformations today. The CIO needs to understand the business strategy and scenarios, and align them with his IT strategy. At the same time, the CIO must now be an advisor to the business; outlining the opportunities IT systems provide to innovate the business.

The CIO's perspective of Business Innovation is this: The office of the CIO should be part of all aspects of innovation in an enterprise, as it is almost guaranteed that software and hardware will play a role – in some shape or form.

Re-Learning the ROPES



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Read any article or survey on the Finance Function over the last decade or so and the tenet and conclusion will invariably be “the spotlight is on the CFO”; “the Finance function is the focus of attention”; “the Finance function needs to be changed”. Every year it is some major event that occurs (be it Y2K, fraud, the Euro, regulation, globalization etc). So let’s just agree that the Finance function is in constant change.

In this environment, many CFOs have reacted either by making adjustments to the finance function to take account of these changes, or have embarked on transformation programs to bring their functions up to speed with a series of past changes. Whatever approach has been adopted, the outcome is similar – the changed finance function has been altered to catch up with the changes that have occurred. A few years from now as change continues, more

adjustments will be required and the cycle will begin again. This model, which consists of incremental adjustments followed by major transformation, is neither efficient nor effective – it is a policy of reaction rather than responsiveness.

The alternative premise is the creation of a responsive function that anticipates change and is flexible and agile enough to deal with it. One way to do this is for CFO’s and their Finance functions to re-learn the ROPES – an acronym for:

Roles and responsibilities: What should the role of finance be in an organization? Neither bookkeeper nor business partner but both of these and a range of other responsibilities in-between

Organization: How should the function be organized? For example, centralization versus decentralization; the potential of shared services and/or outsourcing

Processes: Introducing common and consistent processes and standardization of policies to compete effectively in a global economy; the importance of management information

Employees: How many? What skill sets? How to develop and retain them in an environment of talent shortages

Systems and technology: Harnessing technology as an influencer of change (not just an enabler); the importance of information management

Roles and responsibilities: It is imperative to get this right as all other aspects of the finance function flow from its role in the organization – both actual and perceived. All organizations have many stakeholders ranging from customers, investors, management, non-executive directors, employees, and lenders to regulators. The CFO needs to understand (and influence) whether their finance function exists to support the business in meeting the requirements of these stakeholders, or does it also include the role of representing the interests of these stakeholders in the overall running and management of the business. In the former case, the finance function acts as a conduit for the business, speaking with a voice that represents the business' viewpoint – this is a passive role. In the latter case, the finance function is active, challenging and contributing to the assumptions that underlie the business strategy. These are two very different roles, and knowing which one is required, expected, and recognized inside and outside of the organization, will influence and affect the finance function responsibilities and other elements of the ROPES. It is self-evident that an active function is more likely to be responsive and agile since the CFO has direct influence over it.

Organization: Once the role of finance is established and its responsibilities defined, it becomes clearer how the function should be organized to carry out its mandate effectively. In a passive function, there will be a tendency for finance to report through the business organization (“hard line” reporting to business managers and “dotted” line to the CFO) – in an active function the reverse should be considered so that the CFO has direct management of finance resources. It is not infeasible that in an active model, business unit finance also reports “hard-line” through business managers preparing, analyzing and reporting information on behalf of their direct managers – in this case, a strong central finance function is likely to be required to conduct the role of challenge. In either case, business unit or divisional finance are still acting as “business partners” but the definition of their role and responsibilities will vary as will the level of decentralization versus centralization of the finance function. However, a more decentralized function is likely to impair the responsiveness and agility of the finance function.

Organizational issues also influence the efficiency of the finance function. Cost management often falls within the remit of the CFO, and it is important, therefore, for the finance function to lead by example. This will lead to considerations of shared services and outsourcing as one means of implementing a managed cost base, and optimizing the service that finance offers the business. In addition, a shared services environment (if supported by a business case, naturally) facilitates the agility of the finance function providing more predictability, flexibility and scalability of performance.

Processes: Different or inconsistent processes impair flexibility of change. A common suite of processes, based on consistent process principles, make it easier for process change – the recent experience of implementing Sarbanes-Oxley regulation is testament to that. As demands on the finance function increase, for example in relation to more management information requirements or compliance with regulation or reporting against corporate sustainability or the advent of carbon emission trading and reporting, a common process environment allows change to be

made more quickly and consistently across the organization. This is not a novel concept, but it is surprising how many organizations continue to let inconsistent and uncommon processes pervade. As the range of responsibilities of the finance function continue to mount, processes should be reviewed to instill a culture of simplicity, stripping out practices that may have become embedded but that are no longer necessary, and making use of technology to achieve a greater degree of flexibility. This is not to advocate a mad rush to introduce processes that may be deemed to be “world class”, but it is clear that a finance function which comprises simplified, common, fit-for-purpose processes will be more adaptable and capable of amendment and change to those processes than a function which consists of a wide variety of practices.

Employees: Responsiveness and agility cannot be achieved easily without an employee culture that embraces a willingness and readiness for change. A never-ending succession of projects, undertaken to bring finance functions up-to-speed and abreast of current requirements, will lead to change fatigue. Employees need to be engaged and communicated with so that change itself becomes business-as-usual. Clarity on the role of and responsibilities of finance, logic, and rationale in the way the function is organized, and a common process environment will help employees to understand their potential for career development, and will facilitate the mobility of the finance workforce across the organization. Elements such as a formal, well-thought through performance appraisal system, training, regular get-togethers, and effective communication will foster a finance community that responds effectively and efficiently, as opposed to one that reacts because it has to and does so reluctantly.

Systems: It has long been conventional wisdom, when contemplating system amendments, that technology should be an “enabler” of change rather than a “driver” of change. Perhaps there is another consideration – that technology should be an “influencer” of change. With this in mind, the use of technology can push the boundary of acceptable change within an organization. Finance functions are invariably comprised of a workforce that is hard-working and conscientious - one that does what needs to be done in order to carry out its activities (e.g., month-end close procedures or the budgeting process). Given the right tools and the training to use them, the finance function workforce can become more effective and efficient in achieving its responsibilities and conducting its role. This is not the implementation of technology for its own sake but using technology to facilitate the adoption of more consistent and common processes and, hence, creating a more adaptable finance function.

Re-learning the ROPES helps to establish the finance function as a responsive organization that is agile and adaptable where change becomes evolutionary and the accepted norm, rather than a series of revolutionary-type upheavals in reaction to increasing demands.

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Transforming Your Risk and Performance Management



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In Oracle's whitepaper "Uncertainty Management: Risk and Performance, Two Sides of the Same Coin"², the role of management was described as: "to manage organizational performance, take care of risk and, ultimately, to create value for the stakeholders." It describes how Enterprise Risk Management [ERM] and Enterprise Performance Management [EPM] are "two sides of the same coin", called "uncertainty management." Yet, few organizations have a complete view of all the risks facing their business. In their recent report³ Standard & Poors commented, "We haven't seen many companies provide clear examples of definitions for risk tolerance or risk appetite. While that's not surprising (since ERM is relatively new), a preliminary conclusion could be that many companies find it difficult to ensure uniform behavior across the enterprise." So, how should an organization ensure that they understand the magnitude and nature of the risks and performance they need to manage?

Let's start with the question "Why are ERM and EPM so important to organizations today?" I believe the starting point was the collapse of Enron in 2001. Fortune Magazine named Enron as "America's Most Innovative Company" for six consecutive years⁴. Yet, due to management fraud it failed, leaving customers, suppliers, employees and other stakeholders to suffer the loss. The failure of Enron broke the rule that some companies are just "too big to fail". The failure of Enron, and others, changed the stakeholders' (e.g., customers, suppliers, employees, investors, bankers, regulators etc.) tolerance of management failures. Other examples include the Royal Bank of Scotland and General Motors.

Business is about taking risks. The challenge for management is to understand and evaluate risks against their own "risk appetite". PWC said about bank failures "... the concept of risk appetite remains sound. It's just a formalization of very basic business principles – making risk-taking explicit, taking conscious decisions based on risk-reward trade-offs, outlining and understanding the potential for different outcomes of business decisions, and deciding whether the risk to the bank's earnings, solvency, liquidity and other factors like reputation fall within tolerances which management, shareholders, and other stakeholders are comfortable."⁵

² http://www.oracle.com/solutions/business_intelligence/resource-library-whitepapers.html#jou

³ Progress Report: Integrating Enterprise Risk Management Analysis Into Corporate Credit Ratings

⁴ <http://en.wikipedia.org/wiki/Enron>

⁵ PricewaterhouseCoopers The Journal Risk: Getting appetite right – May 2009

To transform to EPM and ERM, a complete view of all risks that could affect the business is needed. Without this view, management is unable to understand whether the risks exceed, or fall short of, their risk appetite. But, too little risk could fail to meet stakeholders' expectations.

An enterprise view of risk and performance involves 4 components: (1) Understanding the underlying risks for each major aspect of the business, including the adequacy of the policies/procedures to mitigate them; (2) Understanding the inter-relationship of risk components; (3) Management's assessment of the likely impact of the risk; (4) Monitoring actual performance against the defined risk appetite.

Start managing risks by completely understanding which risks need to be managed. Some of the classes of risk are obvious. Regulatory or Legal compliance is well known; but what are the key regulations, legal, and other requirements that the company needs to manage?

- For listed companies it includes stock exchange and companies acts requirements.
- Fiscal and tax filing requirements.
- Comply with specific industry regulations or industry regulator guidelines.
- Comply with regulations for how you trade with overseas companies.
- Data Protection and Privacy requirements.
- Comply with specific requirements imposed on them by their customers. For example, sustainability/ "Green" [see WalMart⁶] or ethical behavior.

Then we have Health and Safety, Race/Gender, and Sex Discrimination – and the effect of failure can be significant. For example, in the explosion at BP's Texas City refinery⁷ in 2005, fifteen people were killed; BP was fined \$50m for air pollution and \$21m for safety and health violations⁸, in excess of \$2b in compensation was paid out and over \$1b in repairs⁹.

After understanding the risks, next look at the policies and procedures management has to mitigate the risks. Too often, management applies policies and procedures to only the transactional aspects of their business but, the type, nature, and extent of controls management wishes to introduce to mitigate the risk will be linked to their assessment of cost versus benefit.

Cost and benefit need to be viewed in a holistic manner. Risk components and the consequences of failure rarely exist in isolation. Take the simple example of the need to manage the risk of failing to achieve a financial performance target, e.g., not meeting earnings guidance and/or

⁶ <http://walmartstores.com/FactsNews/NewsRoom/9277.aspx>

⁷ [http://en.wikipedia.org/wiki/Texas_City_Refinery_\(BP\)](http://en.wikipedia.org/wiki/Texas_City_Refinery_(BP))

⁸ http://www.osha.gov/pls/oshaweb/owadis.show_document?p_table=NEWS_RELEASES&p_id=11589

⁹ http://www.reuters.com/article/reutersComService_3_MOLT/idUSL0490088220080304

falling behind the market norm. Clearly there is a wide variety of factors that need to be considered. Again, for simplicity, consider just a few as they relate to the 3 key components:

REVENUE RISK	SERVICES OR GOODS	REPUTATIONAL RISK
Market Demand	Supplier/production failure	Data privacy failure with customer data
Channel execution	Exchange rate	Poor service record
New entrants	Logistics	Internal control failure
Exchange rate movement	Commodity prices	Ethical behavior
		Loss of shareholder trust resulting in possibly depressed stock value

Modeling is clearly required to assess risk, but to transform your risk management you must ask questions to understand whether the modeled results make sense, and if Management understands the underpinning processes of the model[s]. The breadth of items to be considered shows that managing a financial performance target is more than just a set of calculations. An adequacy assessment of the processes and their inter-relationship is also crucial.

IT systems availability clearly has a financial impact if it means the business cannot record sales, receive cash, make payments etc. But, if the failure took place during the annual reporting cycle, it could result in fines from late filing, or have a serious impact on investor confidence.

Performance and risk are ultimately measured in financial terms. You will need to model, for the whole enterprise, what impact the risk[s] could have on the business if they should occur. To achieve this you need: (1) to choose a robust, scalable EPM solution that provides control and (2) to ensure your EPM solution can model “uncertainty”.

Once you understand your current position and the likelihood and impact of risks, you can iteratively evaluate whether your current strategy is in line with your risk appetite. Investing in additional controls, procedures, or training may help to reduce the impact of risk events.

Finally, monitor actual performance against your targets/goals and have alerts for exceeding, or falling short of, your targets. Undertake periodic “audits” of policies/procedures to ensure that they are functioning as expected with mechanisms that alert management to changes in underlying assumptions. A single view of risk assessments and performance allows you to respond quickly to risk events, and also “audit” your assessments and make changes if appropriate. Risk Management, Performance Management, and Compliance are not one-off activities. Continually monitor actual performance, challenge your assessments, and respond to change.

The first wave of business transformation is focused on the benefits derived from standardizing business systems and processes. Apply the same approach to transform your risk and performance management with the same rigor as ERP data. After all, if the goal is to measure risk and performance by comparing planned results with actual, shouldn't you have the same degree of confidence in the adequacy of both sets of processes?

Transforming the Business for Success



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Success for a company often comes from the ability to drive the proper transformation at critical points. “Business as usual” is an expression that can mean certain death over the long run. Being able to grow and reinvent offerings is critical to addressing economic volatility, staying on top of the market, and remaining competitive.

The ability to transform the business to address changing market conditions is key to long-term success. Business transformation requires change which can take many forms: for example, changes to management style, culture, organization structure and/or product. Transformation can be quite radical and fast – involving a departure from the established and comfortable current state – or it can involve a series of substantial changes that, when strung together, transform the organization.

The following examples involve two very different companies with the need to transform their businesses. Both needed to rethink their business strategy to stay in the game and remain competitive, yet each solution was unique.

True Auto Parts (Pseudonym)

True Auto Parts is a medium sized manufacturer competing for work through their high quality, low cost, auto parts. The automotive business, in general, was negatively impacted by the economy over the past few years. Rising gas prices, and reduced demand for automobiles (and therefore auto parts) significantly impacted volume, but also product preference (smaller and greener is better). An economic slump further reduced demand as customer discretionary spending and credit was highly affected. True Auto, and other auto parts companies, had to trim and manage their costs closely and, unfortunately, reduce their workforce. These changes were essential for survival because sales, demand, and profit were all down.

But, True Auto Parts was not satisfied with just weathering the economic storm, they wanted to establish a strong stance to withstand the current turbulence and, when the economy recovers, they want to be in position to take full advantage of their market-leading position.

Solution: With this in mind, True Auto established a business unit for producing windmills to drive diversification in its product offering and fill the volume void. Although windmills were a small part of the overall business, this radical move generated excitement with employees.

But, the reduction in workforce strained morale. Management realized that even though they ventured into this new market for windmills, remaining employees were nervous about the

workload, staff reductions, and their prospects for being long-term employees. Management, therefore, introduced two actions to boost morale and productivity.

First, daily meetings were established to:

- Provide clear goal communication and production levels needed for profitability
- Reinforce the need for teamwork to drive company success
- Communicate and drive confidence in the long-term plan
- Educate staff on the analysis being done to drive success
- Provide a forum for questions and concerns

Second, a video was produced (low budget) that captured employee sound bites. These bites were edited into a video that delivered the new company mission statement. The project created a feeling of unity and success.

By introducing a new business model, and focusing on employees, True Auto enjoyed success that could not have been possible without rapid business transformation.

GreenCook Software (Pseudonym)

To try to achieve rapid growth, two software companies (Green Software and Cook Software), which had mostly complementary product offerings, merged. As the companies began to merge, the culture and management styles of the organizations clashed. Green had an empowered approach to managing the business, blurring the lines of job descriptions to ensure the work was done in a timely manner. Cook had an established management structure with clearly delineated jobs. At Green, the management team members were also individual contributors (a player/coach style). But, at Cook, this was not the case (strictly coaches). Bringing these two organizations together required change across the merged organization to maximize revenue, efficiency, and product offering.

In an attempt to better restructure and reorganize, GreenCook tried these actions:

- Establishing a management team representing the best leadership from both Green and Cook
- Integrating the Development org. by creating business units to represent *each* major product
- Establishing a Sales org. that sells the entire product portfolio
- Creating new sales territories to retain top sales talent from both organizations
- Creating and delivering field training for the total product portfolio for a smooth transition

But, even with the new organizational structure, sales meetings and training sessions often turned into hostile jousting matches including jabs of deals won or lost by the “other” company. Prior to the merger, Green and Cook often competed for business. Instead of uniting, a competitive

environment was cultivated. Even within Development, the newly created, separate business units instilled competitiveness.

Management was unable to transform the two smaller organizations into one cohesive, stronger unit; consequently, company growth and the ability to attract and retain top talent declined.

Solution: Business transformation was needed in many areas including: management style, culture, organization structure, and product offerings. A key catalyst for transformation was hiring CEO Harry Smyth (Not his real name). Initially, Smyth drove business transformation throughout the executive management team. He put a great deal of energy into finding and fixing notable problems; for example, customer escalations. Smyth realized that he needed Sales, Development, and Support to work together to focus on fixing customer issues. His leadership, to improve cross-functional progress, drove better and timelier solutions for the customers.

Bob George (Not his real name), also joined the executive management team as the leader of the Development organization and was instrumental in transforming the merged company. George was promoted internally and went to great lengths, and was very patient in creating and fostering trust across the Development business units. He consistently pushed the message out that he supported driving revenue growth across the entire product portfolio, and not just his former business unit. With better synergy in Development, George was able to achieve superior productivity. This enabled GreenCook to develop a solid, front-end tool set that worked seamlessly across all of the products, while creating unity in Development. This integration, and interoperability of the products, led to greater success in winning larger scale deals. The new, integrated system truly exceeded all competitive offerings in the market.

With new success, growth, and improved profit margins, GreenCook continued their business transformation by acquiring other companies that further complemented the product offering, rather than depending on pure, organic growth. With the lessons learned from the original merger, folding in new acquisitions was done much more quickly, efficiently, and comfortably.

Summary

The most innovative companies are continually looking to transform and improve their business. They do not wait for sales to drop or an economic crisis to force changes in their business. When faced with difficult situations, innovative companies are not looking to just patch the short-term problem, but to transform the business for future success.

For True Auto Parts, a radical departure (manufacturing windmills) from their core business, and a focus on employee morale and communication, enabled them to transform their business.

For GreenCook, merging two successful companies, plus changes to management, culture, and product, plus a new business model (growth by acquisition), enabled them to transform the merged company into something that the individual organizations could not have achieved alone.

Both companies continue to enjoy improved performance and financial success today.

Can Value Chain Analysis Lead to Business Transformation?



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“The Sky is falling.” - Chicken Little

In response to recent economic conditions, organizations are looking to transform themselves in order to stay competitive and solvent. However, just as Chicken Little didn't fully understand his environment, so some companies are desperately adopting business transformation – simply because they feel they have to.

In this article, we suggest that Value Chain Analysis can be used as part of a process for deciding candidates for Business Transformation. We will present a brief overview of Business Transformation and Value Chain Analysis, and describe a couple of hypothetical business transformation cases.

As you read this article, ask yourself, “Is my organization agile enough to transform by changing rapidly, or are we running scared like Chicken Little?”

Business Transformation

Managers are attempting to adopt a philosophy of Business Transformation to deal with changing economic and market pressures. But what is Business Transformation? According to Mike Morrison, *“Business Transformation is a change management strategy which has the aim to align People, Process, and Technology initiatives of a company more closely with its business strategy and vision. In turn, this helps to support and innovate new business strategies.”*¹⁰

Minor business transformations could include efficiency improvements to an organization's processes, while larger business transformations might involve changes to the organization's strategic direction – redefining its business objectives, adopting new organizational structures, and/or changing its resources (e.g., new technology, outsourcing). Larger business transformations impact many areas of an organization. *“At a basic minimum, such transformation should result in better customer operations, better product operations, and better corporate operations that produce better profits, better return on assets, and better positioning for the future for sustainable competitive advantage”*¹¹

So, obviously, to successfully execute a business transformation, the organization must consider the impact on its culture – its people, its customers and its processes. Before making changes that will impact the culture, the organization must be diligent in choosing the right things to

¹⁰ <http://rapidbi.com/created/businessstransformation.html>, September 17, 2009

¹¹ http://www.infosysconsulting.com/our_services.htm

transform. But how does the organization decide how to transform itself? It makes sense to revisit the business strategy to ensure it still makes sense, but then might the analysis of the internal and external value chains help in determining transformation goals?

Value Chain Analysis and Business Transformation

Introduced by Michael Porter ¹², value chain analysis reviews all the activities that an organization performs to deliver its products (or services) to determine the value that each adds to the ultimate product (or service). It considers primary activities, such as inbound and outbound logistics, operations, marketing, sales and services; and support activities like facilities management, human resources, technology, and procurement.

Applying value chain analysis will enable the organization to understand which activities are core to its business (i.e., those value-added activities that provide a unique advantage over its competitors). It will likely want to protect these and minimize risks against them. They may want to consider incremental changes to these activities, but they are not likely candidates for large business transformation.

In times of uncertain economic conditions, there is value in building financial and operational flexibility to the remaining, non-core activities. If an organization understands which of its value chain activities is non-core, it may attempt to reduce the committed, fixed costs that are associated with them. Striving to apply variable costs to these value chain activities results in an agile organization being able to transfer the costs to other resources quickly.

A Successful Example: Let's consider a multi-national company that manufactures, markets, sells, and distributes shoes. Upon reviewing its value chain, it concluded that its distribution process, although good, was really a non-core activity. It divested its distribution assets and hired them back to provide its logistic services. The divested distribution company was also able to broaden its core activity by offering logistics services to a broader client base.

Understanding its core competencies generated improved results for the shoe company and for the distribution company. But, for the shoe company, it recognized that the value chain analysis was not a one-time event, but an on-going process. It had created a culture in which change was to be embraced and not feared. The shoe company followed its initial success by reviewing its value chain once again. This time, to the surprise of many, it determined that manufacturing was no longer a core value chain activity. Further rounds of divestiture and outsourcing followed, and the result was a successful transformation to a marketing and sales organization, which outsourced to efficient logistics and manufacturing organizations.

¹² Competitive Advantage: Creating and Sustaining Superior Performance, Michael E. Porter, The Free Press, New York, 1985.

A Cautionary Tale: True core activities should not be needlessly exposed to risk. A manufacturer of specialty business electronic devices had a strong, long-standing client base. The selling cycle was heavily influenced by large discounts offered to customers at the end of each quarter to boost sales. Product, therefore, had to be delivered the last month of every quarter putting pressure on manufacturing. As the industry requirements changed, it became apparent that the company needed to redesign its products so that they would easily configure to suit the individual client's needs. The options were to retool their existing manufacturing or to outsource. It was decided to close its manufacturing and to adopt an outsourcing strategy. However, the outsource manufacturers were never able to match the timeliness of product customization required by the end customer (driven by the sales cycle) resulting in a large loss of clients.

The manufacturer exposed this important value chain activity (manufacturing) to too much risk. For this transformation, it might have been better to adopt a parallel manufacturing strategy until it could be certain that the outsource manufacturer was capable of producing in a timely manner, or the company could change the selling cycle.

Summary

Value Chain Analysis provides a mechanism by which organizations can evaluate core and non-core activities, and help to expose and prioritize transformation possibilities. Often, Business Transformation is only on the executive agenda during bad times – either during global recessions, or when competition gets fierce. But, Business Transformation should be ongoing.

Organizations that are doing well in today's economy have probably had transformation as part of their strategy all along. According to Beth Ellyn Rosenthal *"It is time for organizations to recognize the need to transform continuously, and becoming more agile is a great way to achieve that ongoing."*¹³

Continuously revisiting the business strategy and analyzing the value chain exposes transformation possibilities and creates an agile organization. Agile organizations are not reactionary to market conditions; they understand their core competencies and are able transform quickly to take advantage of economic and market circumstance.

If your organization is not agile, ask yourself how you might incorporate value chain analysis to support a business transformation philosophy.

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¹³ Business Transformation Outsourcing Circa 2009, Beth Ellyn Rosenthal, Outsourcing Journal, <http://www.outsourcing-journal.com/nov2008-business.html>

Transforming Business Success Through the Implementation of A Performance Architecture



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Without a fully integrated strategy, measures system, budget, and process optimization process, the success of all major business initiatives, turnarounds, and transformations are left to chance. There must be a clearly thought out and articulated link between all these pieces to give organizations the greatest chance of success. Despite recent negative opinions, budgets remain the ultimate control tool.

Managing is difficult. Managing in these challenging economic times is very difficult. Managing a turnaround situation is extremely difficult. Fortunately there are tools and techniques available to help. Call it the performance architecture or a performance management system; it is the linkage of strategy – process – activities – people though the use of goals, measures, and budget that can and will drive performance towards carefully articulated goals. (See exhibit 1).

The first step is to clearly define the strategy and goals of the organization. Once these are clarified, the organization has a clear idea of what needs to be accomplished in order to achieve their definition of success. It is important for senior leadership of an organization to be able to clearly define the strategic and measurable goals of the organization, their internal managers, and staff. Without the clear definition of where the organization wants to go over the short and long term, managers are left to make up their own goals or to continue on the same path as the previous year. The formation of high level goals and strategy is a key component to any success.

Once the strategy has been set, process goals and measures must be set at some level of detail. I would suggest that not all processes need to be detailed and mapped out in order to work a business transformation, but the major processes must be understood and measured. All work is accomplished through processes and it is the outcomes and outputs of processes which determine how well the organization is run. This does not mean that the organization needs to be reorganized by processes and budgeted by processes because in most organizations, work is still structured by departments – even if it is carried out through processes. Managers do, however, need to understand that their work is accomplished through processes, and measures should reflect the outputs of the processes and not the outputs of a department. This may encourage a more process mindset within the organization and ensure that the outputs of the organization are aligned to the strategy.

Once process measures are set, departmental and activity measures must then be created to align the outputs of the departments with the work of the processes. Since all work is done through activities and all activities are connected to processes, which drive the organization towards specific goals, setting specific goals and measures around key activities in a department is necessary to ensure congruence with the rest of the system. Like processes, not all activities need to be measured and actively managed, but the key activities, which should relate to the outputs of the department, must be determined, measured, and actively managed. All activities not related to these key activities should be looked at for possible elimination. A full activity-based costing analysis is not required at this point in time, but should be undertaken at some point in time to understand the scope of any process improvement opportunities, as well as to understand the product, customer, and channel profitability of the organization's final outputs.

Departments cannot be managed as standalone units without regard to how the output of one department affects the outputs of other departments. It is only through the activity and process analysis, at a high level at least, that the organization can truly be understood. To manage without this link is to not manage the performance of the organization but only to manage within the organization.

Putting measures on the organization is not enough to ensure success. Measures are like diets. It is great to set weight goals, but for most people, missing your target does not have any real consequence. In order for measures to truly mean something to managers, they must be tied to budgets. All budgets must specifically address how the resources requested will assist the department in meeting the goals of the processes they serve and ultimately the organization. If a department manager cannot explain how every dollar they intend to spend is related to one of the goals of the organization, then the expenses must be carefully analyzed to ensure they are necessary. There will always be some expenses which do not easily fit with the organizations goals, but they should be the exception – not the rule. Even shared services, which can often be difficult to tie to the outputs of the organization, should support those customer-facing processes which do contribute to the outputs of the organization.

People may say that budgets are yesterday's tools, or complain about the long process many organizations go through to set an annual budget, but the fact remains that the budget remains the best control tool available to manage departments and the manager. Yes, budgets should be able to flex based on the increased or decreased outputs relative to the initial assumptions, and yes, budgets do need to change as circumstances change; but these are relatively easy modifications to a budget process. Tying budgets to performance measures is the way to incent managers to make the right decisions in a cost effective way.

Technology can play a great role here. Not only are there tools available to help manage the performance architecture, but just as important, there are now tools available to do proper budget analysis. When managers can understand budget versus actual costs, look at budget variances due to price, volume mix issues, and then run scenarios to show realistic budget

changes based on different operating conditions, the entire process becomes one which inspires managers to achieve organization goals, and not try to “game” the system.

For most organizations, this is a new way of managing the organizations budgeting and performance processes. It is not easy to change the culture and mindset of an organization, but these steps will help transform an organization, and the way it is run.

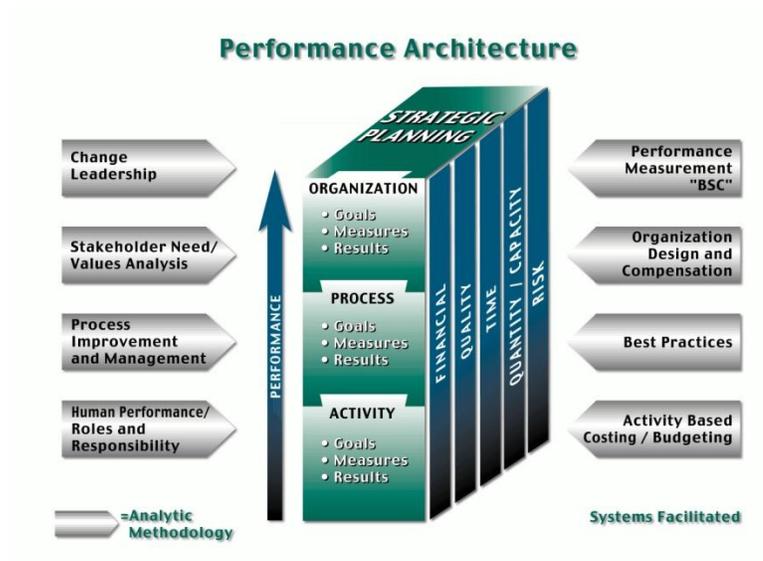


Exhibit 1

IT Complexity and Business Transformation: Turning Ideas Into Innovation



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In our fast-paced business environment, customer preferences, business models, enabling technologies, and regulations change quickly. Organizations must anticipate change – even embrace it – if they are to remain leaders in their industries, improve operational excellence, increase customer focus, and expand profitable relationships.

Though these business needs are not new, the means of attaining them have changed dramatically over the last few years. There is also a significant shift in the way IT departments are being held responsible and accountable for attaining these business results.

Just like lines of business do not have the luxury of starting from a clean slate every time when they need to innovate, CIOs are constantly challenged to deliver results while having to deal with complexities – both existing and new.

Within IT, complexities include outsourcing management, the adoption of web and consumer technologies, developing and managing technology architectures and governance, ensuring security in a distributed environment, and support for various profiles of workforces. Outside of IT's direct control, complexity is increased by the requirements of compliance, the need to support global business, and the speed and depth of access to information demanded by customers and partners.

The challenge of complexity is exacerbated by the fact that many organizations have technology systems that have been built up over time, or inherited through mergers & acquisitions, or complicated by many waves of vendor consolidation. For these companies, moving forward requires an almost archaeological effort to unearth, understand, and work with all these layers of sedimentary technology; especially when change or progress is needed, frustrating business executives and CIOs alike. Worse, fundamental changes in business, such as the radical effects of an economic downturn, make the complexity challenges harder than ever. All this means that CIOs, who are good at managing complexity, can never, ever rest, and those who are not good at it are at risk of allowing their organizations to fall behind.

Although CIOs can – with difficulty – handle these challenges individually, one at a time, in the real world, they face many – if not all – of these challenges all at once, over and over. Typically knee-jerk responses are short-lived and don't work.

Some CIOs have figured out ways to escape this complexity trap. They reduce complexity where possible; they live with what remains; they still invest in new technologies that can lead to business success – but there’s no silver bullet. You neither buy simplicity, nor hand off the problem to a service provider. No one lives in the complexity space; no one has a packaged solution to the complexity problem. The truth is that you need a strategy that reduces complexity, and you need the tactical ability to implement that strategy up and down your organization.

Although there’s no single formula that will work for everyone, practitioners have identified four broad principles for reducing complexity:

First, make process central to your organization’s approach to technology

Second, establish a practical governance model for both business – IT relationship and technology

Third, have simplicity as the default expectation for everything you do, and

Fourth, keep the efforts ongoing. Complexity is not something you get rid of once and for all, it’s a battle you wage every day.

More than 90,000 Oracle customers are in the process of applying these principles to their IT landscape in order to reduce complexity and realize a combination of the following:

- Shift IT spending from maintenance to strategic innovation by consolidating hardware and software infrastructure, turning application functionality and point-to-point integration into reusable modular services, and automating mundane tasks such as system administration, provisioning, etc.
- Empower employees, partners, and customers with access to timely, consistent data and tools for real-time collaboration across organizational boundaries
- Constantly improve business processes that span organizations, functions, channels, and companies by managing business logic and workflow independently of data and application functionality.

Tools and techniques have evolved wherein realizing these benefits are no longer multi-year, elaborate initiatives. Our analysis of customer projects, across a wide variety of industries and process areas, indicate that these projects, on average, last less than five months and involve four to five resources, but drive significant business results like:

- 75% improvement in process efficiencies,
- >50% reduction in overhead costs and
- nearly 60% annual cost savings in related process areas

While these nearer term benefits are note-worthy, it is most fascinating to learn how our customers are leveraging these investments for their longer term, continuous improvement plans. For example,

- A fortune 50 telco consolidating their shared services environment from 1000+ servers and 800+ applications to 100 servers and <200 applications
- IT departments, within Utilities, spearheading efforts to launch innovative solutions like intelligent distribution and outage management systems, smart metering systems, real-time response, and optimization of field communications for competitive advantage
- A world-leading financial services group reducing their IT OpEx by ~20% year-over-year for the last five years.

We are seeing rapid growth in the adoption of concepts like Service Oriented Architecture (SOA), Business Process Management (BPM), Web 2.0, and the more recent phenomenon of Cloud Computing by many IT departments to reduce complexity and to evolve to the next generation of IT capabilities and services. In a recent survey of IT Executives, conducted by Oracle, 85% of respondents said that they were either already using SOA/BPM concepts or were planning to use them within the next 12 months.

The next generation of IT being built using these principles, tools, and techniques will work the way business users perform tasks, with inherent collaboration and information access, in components that can be reused, shared, and aggregated. Dynamic business applications will enable new levels of agility, competitive advantage, process optimization, and productivity. They will be adaptable in real time to situational changes, will be highly interactive and collaborative by design, and can quickly be assembled with data sources from inside and outside the business. With these capabilities, the people who define the business will have the freedom and the real-time power to turn business ideas into business innovation.



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