RAFFLES LEGACY LEARNING
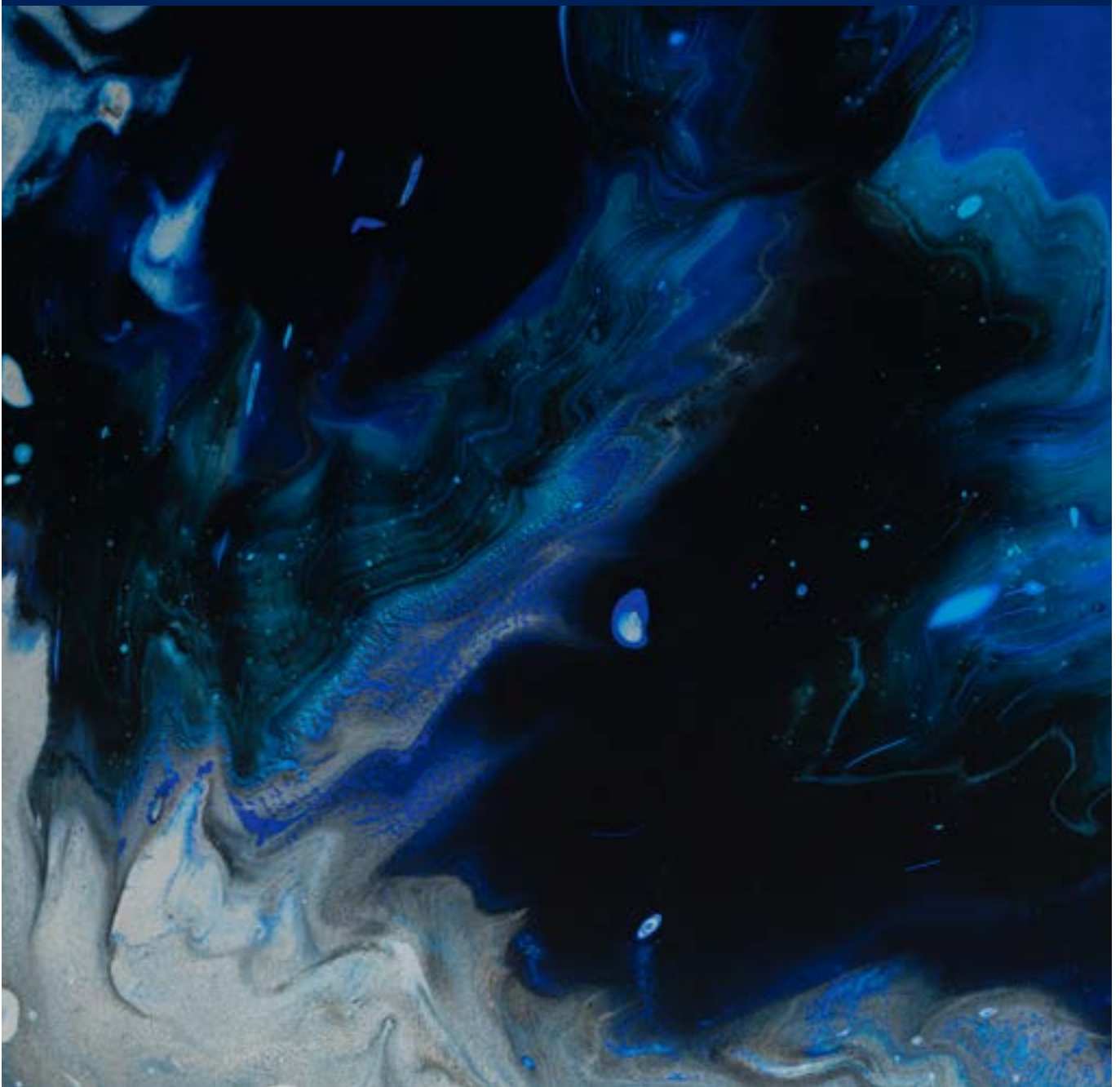
BUSINESS STRATEGY MASTERCLASS
BOOK TWO - DEVELOPING YOUR OWN STRATEGY
PHASES OF STRATEGY II

MASTERCLASS COURSEBOOK

NEW ORGANIZATIONAL APPROACH

The process of selection of the best organizational option to pursue the chosen vision is a blend of quantitative and qualitative factors. Each option will need to be valued from different perspectives - beginning with a financially driven (and risk adjusted by the discount rate) net present value calculation.

Each option will also need to be assessed by the application of other valuation parameters as well, ranging from the soft aspects of strategy, such as organizational capability to execute, to directly imposed criteria from group headquarters or divisional centers.

Your strategy will need to specify how the individuals and teams operate to set and achieve the strategy you have defined for your business.

There are four parts to organizational design:

1. **Structure**
2. **Staffing**
3. **Operating principles**
4. **Leadership style and approach**

An appropriate approach in only one area without equal attention to the others will not provide enough guidance and focus of effort. All four elements of organizational design are essential to ensure that options can be implemented in a way that suits the culture and character of a company.

1. Structure: as discussed in the chapter on organization in Book One, requires you to design the boxes on an organization chart which will make up the job functions and reporting lines, defining the architecture of an organization.

2. Staffing: deciding who takes on which role, and even who stays and goes within the organization, is one of the most important success factors in business. The choice of individual hiring, placement in jobs and firing can determine in great part how successful your strategy will be.

CLICK HERE TO DOWNLOAD

Please download Video E-lesson

For many companies contemplating a dramatic program of change or breakthrough strategy, the existing team may not all be up to the tasks of meeting a greater set of demands.

Making the tough decisions on who stays, who goes, and which new members of the team are required from either inside or outside the organization can be some of the most painful, but eventually most rewarding, decisions a leader can make.

A simple summary template to assist in evaluation has been included in **Phase I**.

3. Operating principles, which determine how the people and jobs interact, can have a major effect on the effectiveness of an organization. Based upon the management style, internal culture, reporting and reward systems and other aspects of an organization, the principles of operation will describe how people will interact, how responsibilities are allocated, how authority is devolved, and how things get done.

4. Leadership style and approach, in addition, will need to be taken into account in setting out a new approach to organization. Strategy, structure, and style all need to be aligned so that the full potential of an enterprise can be released and focused on priority goals.

Developing the full capabilities to achieve ambitious visions and goals requires that all elements of organization be placed at the heart of strategy. Many successful strategies have even been driven off a platform of understanding accurately and creatively what the core capabilities or competences of an organization are, and how they can be improved.

Whether it is in brand development, channel expertise, mastery of a product or technology set, the ability to maximize and apply fully organizational capabilities now needs to be explicitly taken into account in each and every strategy.

Given the context of all modern businesses, the demands for performance, change, and real differentiation will not abate, ensuring that organizational excellence will be a high priority for years to come.

Explanation

Although the structure and organizational model selected are critical, it is often how people work together and what their capabilities are that really determine successful differentiation at an organizational level.

Addressing the capabilities of an organization with an eye to eliminating weaknesses and building on strengths is part of the winning strategy formula.

Resource Allocation, Acquisition

To create truly superior results, individuals and teams must be inspired to give their best. They must set and achieve new standards of excellence in their thinking, actions, and overall contribution.

That higher performance is possible only with the wholehearted support of the individual and team, which in turn is a commitment sustained only by hearts and minds captured by the vision, the strategy, the plan of action and the leadership of your business.

This commitment cannot be presumed and will require faith in the leadership, belief in the plan, and a clear understanding of the personal and economic benefits of supporting the effort.

It is a hard truth that individuals or teams at the top or in key operating roles, often need to change to provide new direction and effective leadership to an organization.

Revolution rarely begins with the reigning monarch, and significant increases in shareholder value are often associated with the arrival of new change-oriented management teams free from association with past practices and prior levels of satisfactory underperformance.

Doing things differently – and better – may require some change to include individuals and/or team compositions.

To reinforce the clarity of thought on new organizational approaches and priorities, it may help to impose the discipline of dividing a list of key activities into columns of "start" (new activities to realize the vision), "stop" (current activities no longer in line with the new direction), and "continue" (activities to be retained or accelerated which are fully in line with the new strategy).

Because strategy is as much about what not to do as what to do, this little framework can clarify what the strategy really means to an organization which would benefit from further clarification.

As businesses refocus on a limited set of priority actions, organizations must bring to bear their full capabilities in key areas, intensifying targeted efforts and operating more effectively on a coordinated global basis.

Progress on Multiple Fronts

Organizational issues can be extremely complex and multi-faceted. In designing the best model to implement your strategy and to achieve operating targets, the leadership team may well need to proceed on many fronts at the same time, selecting the best model of organization, acting to improve capability, changing people as needed, addressing needs for culture change, and perhaps even implementing a values migration program across the entire organization.

Creating the capability to implement strategies today and in the future is essential. By building the capabilities of an organization today, you will automatically be creating more degrees of strategic freedom and opportunities to enhance future value and strengthen the team for challenges – known and unknown – yet to come.

In designing and implementing the best model to implement your strategy and to achieve operating target, the leadership will need to:

- select the best model of organization
- act to improve capability
- change people as needed
- address needs for culture change via management / motivational matrix and values migration program
- review and adopt its own style of leadership
- refresh its approach through a specific list of 'stop', 'start' and 'continuous' practices

Structure - Selected Network Model

Operating principles:

- Close to customer
- More people in market, fewer people at HQ
- Greater global presence
- High sharing of information
- Less hierarchical
- Access expertise and data on single database available 24/7
- Support competitive superiority in key levers of performance and value

Overview of key areas of change to address in organizational design
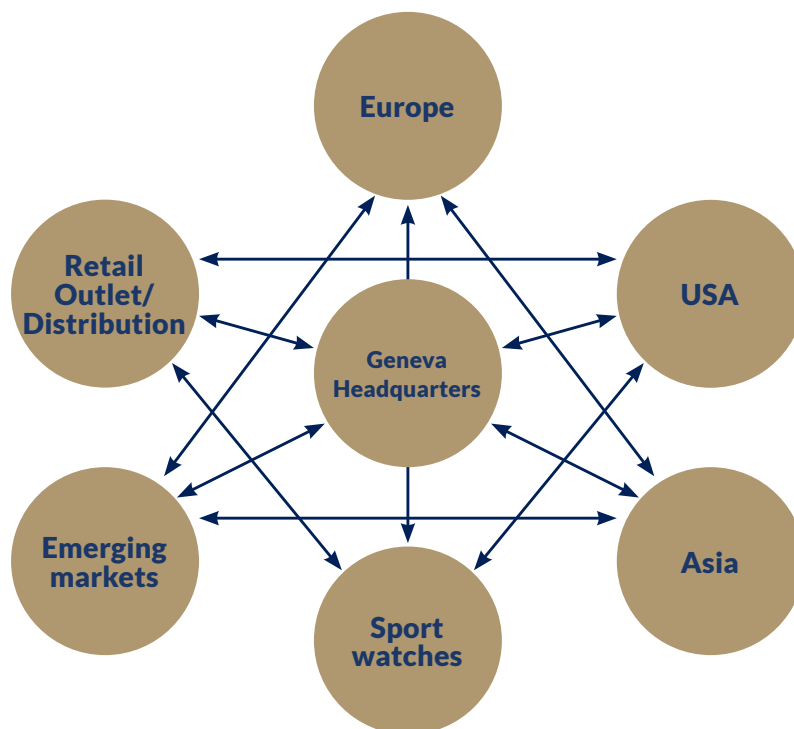
CLICK HERE TO DOWNLOAD TEMPLATE
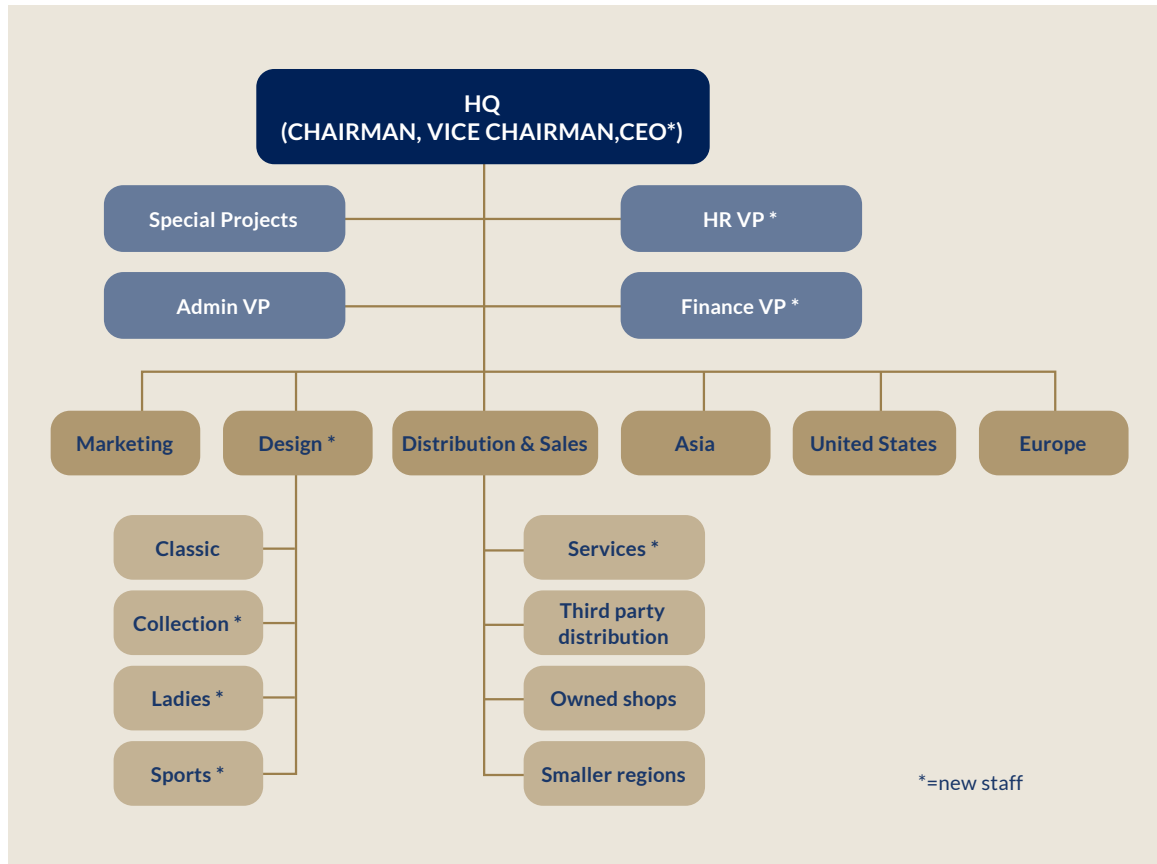
Operating Principles - Actions to Improve Capabilities

	ASSESSMENT	PROPOSED ACTION
Strengths	Good people Team approach Quality in design	• Retention rates monitored and set to keep star performers • Recognise teams and team behavior as well as individuals • Maintain leadership through increased use of CAD/CAM equipment and training
Weaknesses	Hiring targets high Risk to qualify	• Increase resources to source and screen applicants • Introduce and double training budget • Program to reinforce company values on regular basis for all employees- new and old
	Too many ideas, too few implemented	• Application of prioritization 2X2 • Link implementation to reviews and compensation
	Insufficient understanding of impact of profit/segmentation on company	• Analyze and calculate profitability figures by product, by channel and by customer • Set sales team targets for profit, not just sale volume

CLICK HERE TO DOWNLOAD TEMPLATE

Staffing - New Staff Requirement

```
                    HQ
        (CHAIRMAN, VICE CHAIRMAN, CEO*)

   Special Projects              HR VP *

      Admin VP                 Finance VP *
```

| Marketing | Design * | Distribution & Sales | Asia | United States | Europe |

Design *
- Classic
- Collection *
- Ladies *
- Sports *

Distribution & Sales
- Services *
- Third party distribution
- Owned shops
- Smaller regions

*=new staff

CLICK HERE TO DOWNLOAD TEMPLATE

Testing Organizational Design

Good strategy is not just about respecting principles and directives. Asking the right questions is an equally important part of the process.

By responding to seven standard questions which can be used to test the quality and effectiveness of all types of organization, fresh and creative thinking can also be well anchored in the traditional disciplines of human capital management.

At each stage of proposed organizational change these basic questions need to be asked to ensure that the organization is prepared and structured to ensure that your strategies are fully and properly implemented:
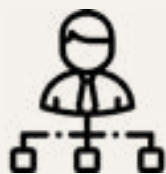
1 Minimal Layers between Management and Customers?

2 Reasonable Spans of Control?

3 Right Quality of People in Place?

4 Job Descriptions Clear?

5 Potential Conflicts Eliminated?

6 Rewards Fully in Line?

7 Likely Problems Surfaced and Addressed?

1. Minimal Layers between Management and Customers?

Many CEO's, even of some of the world's largest corporations, develop their organizational plans to minimize the number of layers between senior management and customers.

Past models, with ten or more layers between senior management and customers, have proven to stifle constructive interactions and result in poor quality decision-making.

2. Reasonable Spans of Control?

At the same time that excessive layers can reduce the quality of decision-making and inhibit the value of mandated action, excessively wide spans of control can be equally inappropriate. Too many direct reports can also dilute the value of information flow upward and reduce the quality of input from managers to their subordinates.

3. Right Quality of People in Place?

All critical views of strategy, and of strategic successes, confirm that changing or moving people is an essential part of strategy.

The first two questions above address the structure of an organization. This question requires managers to assess the quality and appropriateness of individuals in relation to their position within the organization - and change or move them if necessary.

4. Job Descriptions Clear?

Once the right people are in place, it is essential that their responsibilities are fully understood by all. A full and accurate job description, against which carefully structured performance reviews can be made, can ensure each member of an organization is both efficient and effective.

5. Potential Conflicts Eliminated?

Even allowing for the production of full and accurate job descriptions, shared responsibilities and some blurring of borders is both inevitable and healthy.

Participation on task forces, joint deliverables and team effort can lead to better results, or to dysfunctional conflict, if not properly managed.

Therefore, all sources of potential conflict need to be addressed and eliminated to ensure the smooth functioning of an organization.

6. Rewards Fully in Line?

The systems of reward, recognition, promotion, hiring, firing and job allocation all need to be fully supportive of the new directions of your strategy.

Just as one misaligned element in the content of strategy or setting of organizational goals can reverberate negatively across many aspects of a business system, a reward system which does not align fully with the strategic goals set for a business can create disharmony and inefficiency on a significant scale.

7. Likely Problems Surfaced and Addressed?

In addition to the potential for conflict at the structural level identified above, it is often useful to ask the question: Are there any other aspect of the organization - role of directors, intervention by owners, missing functions, overburdened departments, changes in IT, or other - which could have a negative impact on the successful implementation of strategy now and in the future?

All relevant issues which surface as a result of this question should be addressed as early as possible, balancing 'Hard' and 'Soft' Issues as needed.
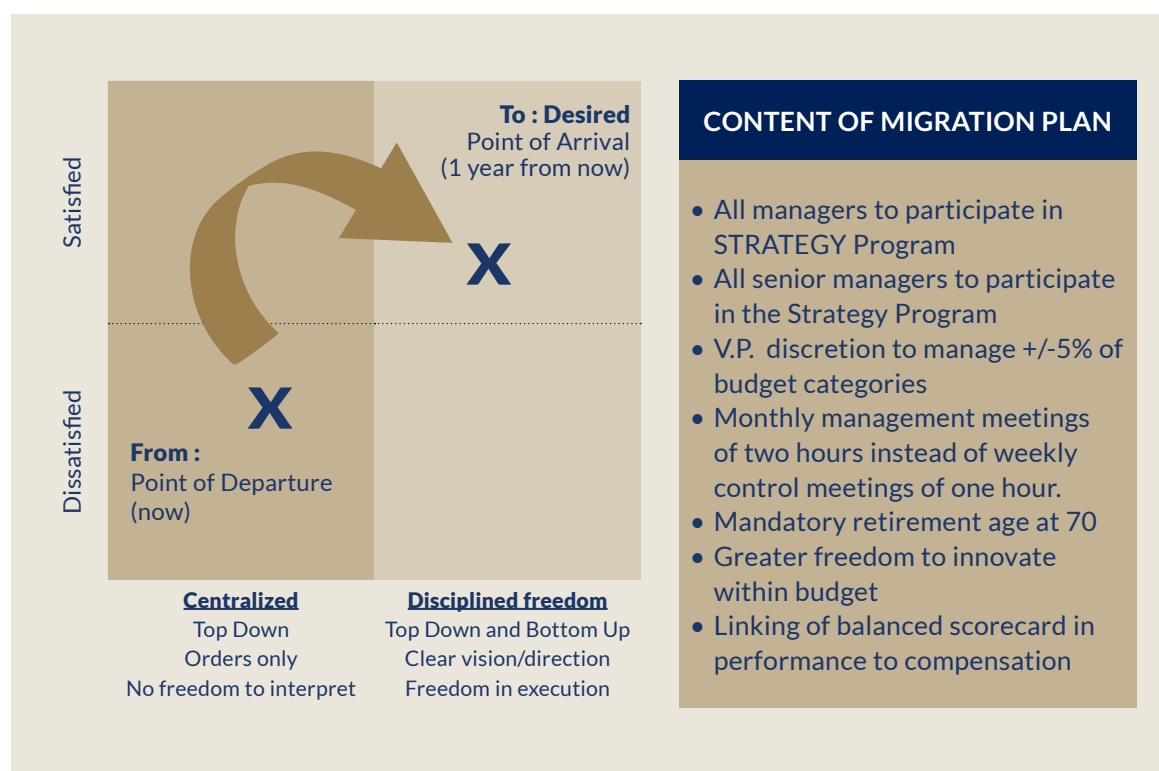
Culture Trumps Strategy

Many strategies fail in the implementation phase because the strategies as designed are incompatible with an existing corporate culture and values (the real ones, not just the virtues listed in most cases).

A failure to take culture into account, or a failure to make a concerted and successful effort to change the culture (and its real values, which drive behavior) can lead to great difficulties in getting where you want to go.

One such change program is highlighted below:

Management / Motivational Matrix

| | **Centralized**
Top Down
Orders only
No freedom to interpret | **Disciplined freedom**
Top Down and Bottom Up
Clear vision/direction
Freedom in execution |

CONTENT OF MIGRATION PLAN

- All managers to participate in STRATEGY Program
- All senior managers to participate in the Strategy Program
- V.P. discretion to manage +/-5% of budget categories
- Monthly management meetings of two hours instead of weekly control meetings of one hour.
- Mandatory retirement age at 70
- Greater freedom to innovate within budget
- Linking of balanced scorecard in performance to compensation

⬇ CLICK HERE TO DOWNLOAD TEMPLATE

Values migration program

Value Weakness*	RECOMMENDED ACTION		
	Start	**Stop**	**Continue**
Complacency	• Hiring from outside • Performance-based compensation	• Lock step compensation	X
Bureaucratic	• Reducing paperwork • Increasing verbal communication • Increase regional spend authority (within budget)	• Current weekly reporting forms • Quadruple signoffs	X
Geneva-centric approach	• 'Active listening' program • New organizational model	• Top-down strategy and budget process	• Swiss tradition
Poor service	• Separate service division • Express service standards	• Delegation of service to weak distributors	• Design for lifetime excellence
Symbol of uncaring elistism	• Program for engagement and responsibility	• Arrogant advertising	• Family foundation

* From 1.6.b, 1.6.c and 1.6.d

⤓ CLICK HERE TO DOWNLOAD TEMPLATE

Optimizing the Business Ecosystem

Not all resources for the company come from within the company itself. In today's interconnected and dynamic world, no business is an island.

Surrounding the business, and interacting with it constantly in countless ways, is a supporting ecosystem, a network of customers, suppliers, accountants, lawyers, advisors, regulators and other firms and individuals with direct or indirect impact on the success or failure of a business.

The totality of the external direct resources and indirect influences combine to form an important element of business success. This creates a kind of living and ever-changing 'ecosystem' essential to the business's operation, interconnected with the business and its members and inextricably intertwined with the business's current existence and future development.

The new world has been described by more than one insightful observer as an interconnected network of networks, all developing on their own, but all connected in a whole, and sometimes seemingly chaotic, new world order. In technology terms, this is also a world of overlapping 'social networks', new forms of communities which grow, develop, interact and evolve together and separately.

The Key Constituencies

Every business ecosystem has within its key stakeholders – owners, lenders, regulators, customers, partners, suppliers, distributors and other agents who play important roles in the short- and long-term success of the business.

Understanding, and managing these individual roles and overall system, is a key part of any business leader's life.

BUSINESS STRATEGY MASTERCLASS

PART IV: Three Phases of Strategy | PHASE II: DESIGN | New Organizational Approach (CONTINUED)

The Inner Circle of Trusted Advisors

Just as every President has a 'kitchen cabinet' of trusted friends and advisors outside the formal structures of power, every CEO and senior executive has a set of close business advisors and trusted friends, and often benefits from the input from that Inner Circle of trusted advisors.

This informal set of powerful advisors operates best as a group of peers for the leader with whom he or she can discuss the most sensitive issues regarding the business, its strategy, teams and individual managers and issues of central importance to the management of the business, with full confidence and without inhibition or fear of disclosure.

The Network of Selected Professionals

At a less intimate level of contact than the Inner Circle, in the next level of the ecosystem, is found the network of selected professionals.

This is a world populated by bankers, brokers, lawyers, fund managers, trust and administrative service companies, insurance purveyors, risk management service providers, pr consultants, psychologists, strategic consultants, executive and personal coaches, accountants, tax experts and other professionals with whom the business may have an extended or one-off transactional relationship.

This network has these levels within it, in decreasing level of access and relationship strength as:

- A trusted community of advisors and firm relationships
- Selected advisors and external regulars
- Members of a Broader Business Network

Understanding, creating and actively managing this ecosystem is a key aspect of strategic design and long-term success.

Review the System Objectively

In pursuing the development and efficient functioning of the best possible network of advisors, an arm's length review of the system and its constituent elements is essential.

Objective selection, assessment of performance and high-quality performance reporting against the relevant benchmarks is critical.

The Business Organizational 'Ecosystem'
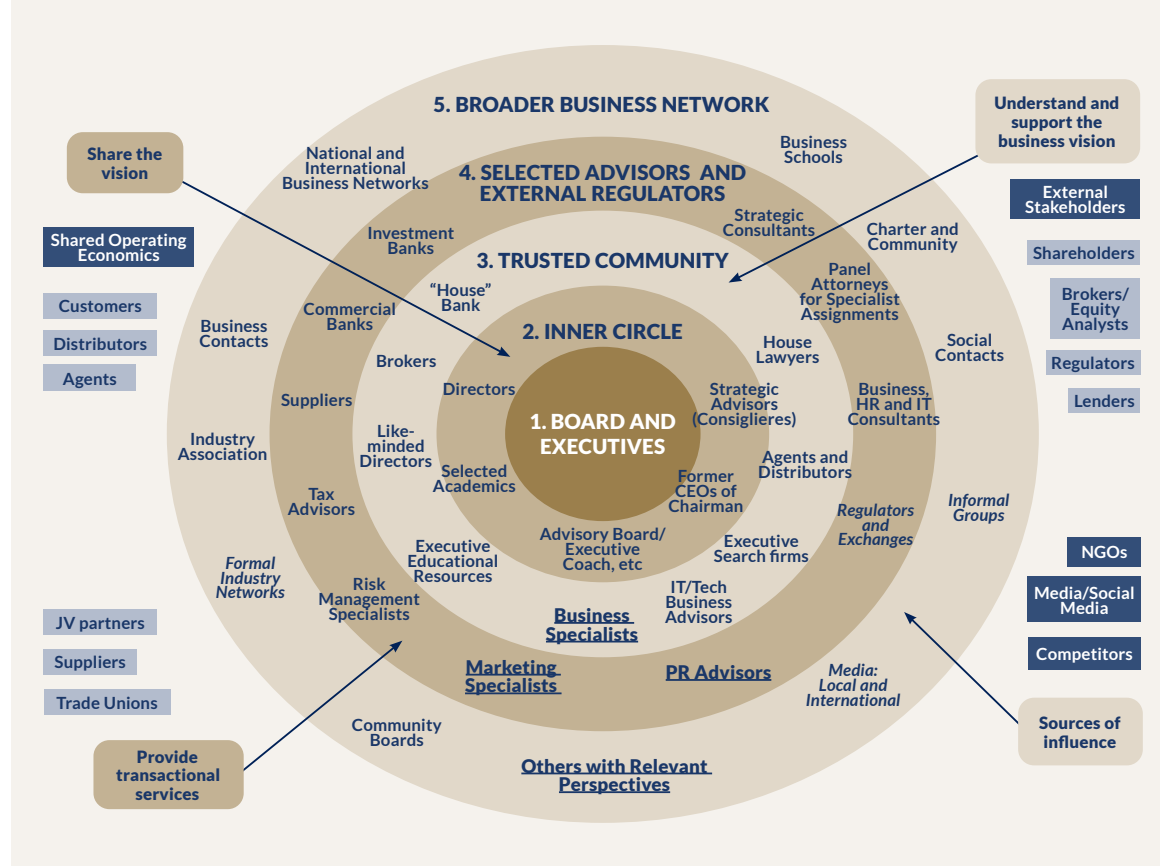
CLICK HERE TO DOWNLOAD TEMPLATE

The process to get to an effective and efficient advisor network:

- Decide upon business and individual vision and goals
- Define the 'ideally constituted' advisory team needs to achieve that goal
- Decide on responsibilities and authorities of the group, and how they will interact with the business and investment staff
- Decide on the various roles and outline the appropriate selection criteria
- List, interview and evaluate the candidates for inclusion in each category of the network by area of expertise
- Test and evaluate the selected new members of the group
- Manage and refresh the system, maybe even with formal 3 year cycles, gradually rotating advisors

Manage and Refresh the System

As with the hiring and integration of an employee into a business, selection and introduction of a professional firm into the network is just the beginning of a much longer journey.

Not all hires will rise to the top; nor will they all even stay for an extended time period. The same is true for advisors in the broader network.

Managing the team will require constant attention to performance and occasional changes and additions to the group. By changing or adding advisors from time to time, the remaining players in the system will stay fresh and eager to provide the level of service a wealthy business deserves.

In most cases, regular and objective reporting on performance against benchmarks, on an after-fees and costs basis, will be an important part of the management of financial advisors and investment professionals in the network.

The Advisors Matrix

One proven tool for the management of a network of advisors is the Advisors Matrix, a simple display which allows business members to see their advisors and evaluate their performance in a single display.

A 2 x 2 matrix approach as seen below, can simplify this management task.

The matrix simply divides advisors into quadrants based upon two factors. The first factor is the advisor's performance, objectively assessed. This will range from positive to negative. The second factor is whether the nature of the relationship with that advisor is short term or long term in nature.
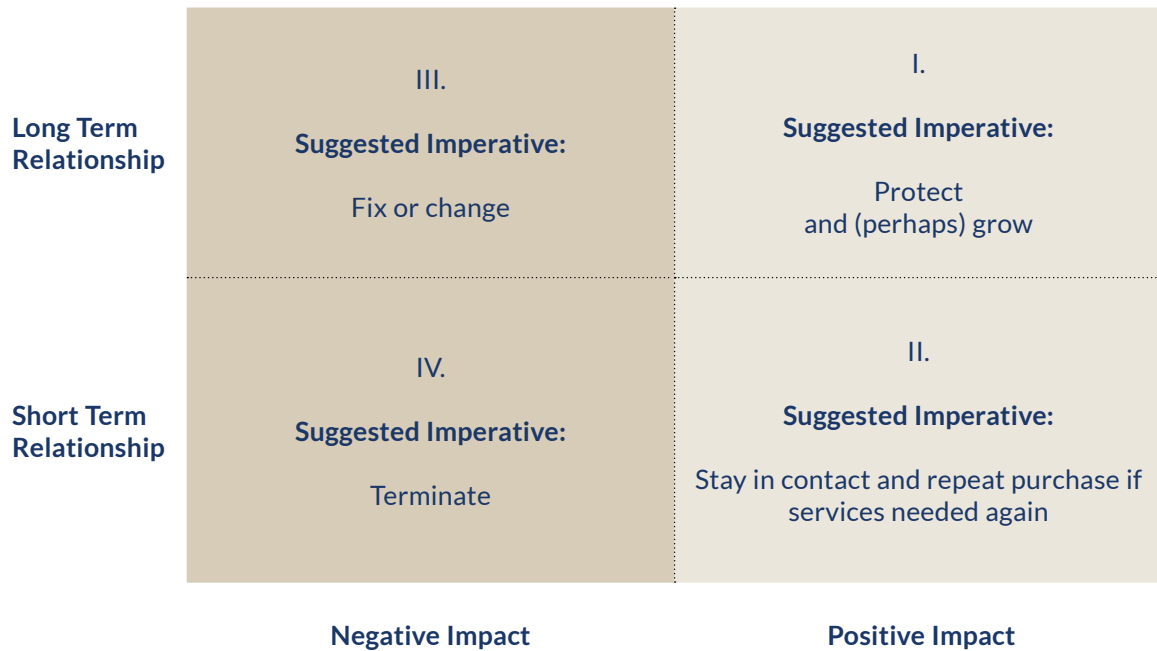
Given the costs to develop or to change a longer-term relationship, the response to an unsatisfactory performance may vary from that in a less involved situation.

For each quadrant there is an implied imperative:

- Negative performance in a short-term relationship would usually lead to swift termination of the relationship.
- Negative performance in a longer-term relationship may initiate a discussion and program to attempt to fix the relationship before termination is considered
- Positive long-term relationships are to be protected, invested in and, perhaps, grown
- Positive short-term relationships may lead to continuing contact, recommendation and, at a later date, repeat purchase.

There are thus four quadrants into which advisory firms can be placed as illustrated below:

	Negative Impact	Positive Impact
Long Term Relationship	III. **Suggested Imperative:** Fix or change	I. **Suggested Imperative:** Protect and (perhaps) grow
Short Term Relationship	IV. **Suggested Imperative:** Terminate	II. **Suggested Imperative:** Stay in contact and repeat purchase if services needed again

⬇ CLICK HERE TO DOWNLOAD TEMPLATE