"The Inconvenient truths that are preventing even destroying business value"

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Nobody needs to be told that the world has changed and will continue to change at an increasing rate. The intensity of competition has increased, driven by technology and global trade policies. Business to Customer (B2C) markets were previously dominated by large retailers and manufacturers. Retailing practices such as listing prices created barriers for small manufacturers to access the mass markets, limiting their distribution scope and hence growth potential. Similarly small retailers did not have the buying power to be price competitive, limiting their attractiveness and growth potential. On line retailers, such as Alibaba and Amazon, changed the game. Small manufacturers now have a cost effective route to the mass markets.

Social policies are of increasing importance.

As the world population ages, health costs are rising. Consequently Governments are driving costs down through the purchase of generic drugs and lower pricing of patented drugs. Research and development costs are increasing to ensure the innovation pipelines is sufficiently populated as well as expedite the rate of innovation.

Sustainability is currently one of the key corporate agenda items. It has been well documented that numerous MNC's (Nestle, Mars, Unilever, and Burger King) stopped buying palm oil over the last 10 years from Indonesian and Malaysian suppliers due to their deforestation practices. This created major disruption in the total supply chain as the demand of palm oil remained constant!

Increasing Corporate governance standards, especially in the developing countries (e.g. China, Indonesia, and South Africa) are significantly changing the way business is conducted. Certainly for the better yet causing disruption as the new rules are accommodated.

The rate of internal change is increasing.
Restructuring the organization appears to be an annual event as businesses look for greater productivity and margin growth.
Employees have more opportunities creating resource fluidity that organisations need to manage.

The nature of the employment relationship is changing from 'long term gigs' where the emotional connection is based on the physical and security physiological states (Maslow's pyramid) to a combination of 'short term gigs' where the emotional connections is still at the physical and security levels and 'medium term gigs' where the emotional connection is at the self-actualisation level; alignment with a corporate purpose.

Optimising resource capacity (no's of people * expertise * experience*motivation) is an increasingly difficult leadership responsibility, frequently made more difficult by restructuring events that reduces headcount, often the most experienced as they are more expensive!

Technology has changed the way we work.
It has impersonalized the working environment. Remote & virtual working is a reality, redefining the mechanics of internal team working. Supplier Customer relationships are increasingly mediated on line.
Increasing amounts of instantaneous data and information is available which is difficult to understand due to the volume, availability speed and ambiguity, often causing confusion.

Ultimately top and bottom line growth is exponentially more difficult. Indeed many businesses are finding it increasingly difficult to grow margin without major restructuring efforts.

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How can businesses operate in perfect harmony with these powerful unstoppable forces to deliver the strategic ambition? An agile and adaptive operating framework and model partly provides the answer.

An operating framework defines the organization blueprint; how the organization will be structured (country, groups of countries, global, product types, product type groups, brands etc.) and what the P&L and balance sheet authorities are within each operating unit.

An operating model provides the detail; defining the what, when and how decisions are made, how people should work within and across functions and operating units, what the successful leadership behaviours and what critical capabilities are required to complete the work efficiently and effectively.

Inconvenient Truth No.1: The Investment in each component of an operating model is disproportionate

Investment in business operating models is predominantly focused on three components; Infrastructure design, P&L authorities and IT capabilities.

Restructuring is a critical activity as organisations seek to deliver their strategic ambitions. At the start of a new strategic plan, organisations typically embark on a major restructuring exercise.

> "Investment in knowledge pays the best interest." *Benjamin Franklin*

Return on the investments made in Human capital is low. Recruiting new people is more expensive than retaining current employees, yet restructuring activities generally remove the most expensive people, people with the most experience and expertise. [These actions undermine the commonly adopted 70:20:10 learning & development model.] Corporate training budgets are often discretionary; as margin pressures increase training budgets are amongst the first to be cut. The return on the training investment made with figures as low as 12% of employees actually using the learnings in the workplace.

When was the last time your team had an open conversation about the ways of working in the work place? These are very rarely discussed, the expectation is that they will just happen.

When was the last time there was a discussion on the operational governance model? Who is defining what decisions need to be made, how and when they need to be made and by whom? How many organisations measure the quality of their decision making capability? Why is decision quality important?

> *The quality of our results is related to the quality of our decisions*

Most people would agree that a good decision leads to a good result. However good decisions might deliver a bad (or unwanted) result either because the implementation was poor OR there was something we did not know (e.g. a competitor launched a new product) that impacted the result. Conversely a bad decision might yield a good result; luck was on our side. Perhaps a competitor was not able to service the market at the time the decision was being implemented. However, on average the quality of our results is determined by the quality of our decisions.

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In many cases the quality of the decision is labelled only after the result is known resulting in false perceptions about our decision making capability and hiding the need for potential improvements.

Inconvenient Truth No.2: Out with the old, in with the new (Process)

Senior leadership teams invest a significant amount of time and energy in developing well thought out strategies ensuring all functional strategies are aligned to the business strategy and with each other. They are often found heralding their 'master piece', on many occasions with much justification.

Publically quoted strategic failure rates range from 50 to 90%. Why do the vast majority of strategies fail to deliver their ambition? Many reasons are stated, however inadequate operating framework and models is rarely one. This is hardly surprising as the launch of a new strategy is often accompanied by a restructuring of the organisation. In reality a new operating framework is defined and the old operating model is adopted, automatically increasing the risk of strategic failure.

In many organisations tactical planning and decision making capabilities are fulfilled by the BUSINESS or ANNUAL PLANNING processes that have served businesses well over many years. The objectives of this process are:

a. To define the shape of the P&L and business targets for the forthcoming year;
b. To define aligned and funded functional plans that will deliver the targets;
    a. The Marketing and Sales plans for the forthcoming year;
    b. The Supply Chain capabilities required to support the demand chain plans;
    c. The enabling functions plans.

Management teams typically conduct an external scan of the business environment and an assessment of their internal capabilities to create a functionally aligned set of events that delivers an improved business result. Attempts are made to establish events that are aligned to the strategic intent. This improved business result might or might not be guided by the shape of the P&L and balance sheet defined by the senior leaders. Their overriding mind-set is 'Less with More', lower turnover growth with more resources. There is one underlying psychology driver here;

a. The result of the negotiations will become their personal target in the forthcoming year. Reputations, careers and monetary gain as are all at stake.

Organisations invest a huge amount of resource, time and energy in the business / annual planning processes.

<u>Clear decision making methodology:</u>
The annual planning process is well defined in many organisations, it has been embedded for many years. It is predominantly a financial planning process that defines the targets and budgets required to achieve the target, once a year. It seeks to involve all functions in making these decisions to establish the illusion of ownership and accountability for the delivery of the target. It simplifies the role of finance throughout the forthcoming year to performance management.

Credit has been given for having a methodology defined, it's suitability for making quality business (not simply financial) decisions is low.

<u>Precise decision definition, defined decision criteria and Aligned decision making cadence.</u>

The annual planning process combines deciding on the target with the decisions required to define the plan that will achieve the target.

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Combining, what should be two independent decisions, creates confusion. The target is constantly moving hence senior leadership cannot precisely define what decisions need to be taken and what those decisions need to deliver.

This situation is compounded by an annual tactical decision cadence. Organisations are forcing tactical decisions to be made too early. Current performance (the markets performance and the businesses performance) is based on an assessment made at the start of the annual planning process. The organisation is essentially assuming that this will not change between this point and the time the decision could have been made, which is highly unlikely in today's volatile markets. Consequently senior leadership's capability to precisely define the decision and its criteria is limited by inaccurate and incomplete information.

Establish practical options and Decisions based on trusted & factual information

The information is inaccurate and incomplete, hence is hardly factual or trusted. Indeed this places the management team at a disadvantage in the tug of war game. Senior management have, quite correctly, little confidence in the plans being presented, hence their 'More with Less' mindset prevails. Of course the management team have predicted this (hardly difficult as it occurs every year) and are presenting plans based on the 'Less with More' mindset.

Ultimately the annual planning exercise becomes a (business and personal) target negotiation, the tactical decisions resulting in the creation of 'the plan' is essentially a by-product. Indeed the events constituting the plan are often forgotten in the later stages of the negotiation, the discussions focusing on the numbers. Numbers that lack substance. However the events (plan) is eventually set in stone.

In larger organisations there are many layers at which this game is played. The senior leader of an operating unit changes perspective when speaking with the Business unit senior leaders. They adopt the 'Less with More' perspective to counter the "More with less' perspective of the Business unit. These negotiations are numbers centric with limited attention to the underlying business drivers, apart from to defend/win specific arguments. And so on as the plans progress up the corporate hierarchy. The net result; even greater disconnects between what needs to be done to deliver the strategic ambition and the ability of the event to deliver the expected result with the funding provided.

As the decision to be made and its criteria are poorly defined and the information on which tactical decisions are made is of poor quality, there is little if no effort made to establish practical options.

Appropriate thinking styles

Undoubtedly management teams initially adopt critical, analytical, creative and logical thinking styles in creating the initial plans though these are soon replaced with the simpler linear and sequential styles as the negotiations prevail. Ultimately this prevents the organization from gaining a deep understanding of the business environment and their capability to operate within.

Appropriate time and resource

The annual planning process typical takes 3 – 5 months, though the longest exercise observed by these authors is 10 months; the targets and budgets were not agreed until Q2 of the due year! A huge amount of time and resource is invested in the annual planning process, time resource and energy that is distracted from the main objectives of serving the customer and delivering value to the shareholders.

Total commitment to implement

There is total commitment to implement the event that has been agreed and spend the funds that have been secured. However total commitment to deliver the anticipated result is limited. In fact,

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budget negotiations often occur at an aggregate level with the funds being appropriated across the various events. The assumption is that the portfolio of events will deliver the targeted revenue.

Does the annual planning process deliver on its objectives? If so what is the quality of the results?

Five elements of a planning capability are not covered by the annual planning process. These are:

a. Performance management;
b. Analysis and prediction;
c. Risk and opportunity management
d. Gap management;
e. Uncertainty and noise management.

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Inconvenient Truth No.3: Financial and operational performance management systems are separate activities that deliver compliance rather than performance

Operational and financial performance management capabilities are typically achieved through separate processes.
Financial performance management is rigorously applied monthly. It involves reviewing the numbers of last month. There are two predominant time horizons in play:

a. Will the results be delivered for the quarter? A lot of public listed companies actively manage the quarterly results as this is what the financial markets will hold the CEO to account for and potentially, on having defined a trend, determine the ability and associated cost of borrowing money to fund the strategic agenda.
b. Will the results for the year be delivered? Clearly as the year progresses the time horizons merge.

The review focusses on the numbers. Of course, there are some high-level explanations of why the numbers did not meet expectations. For example; the innovation was not as successful as anticipated. Or the supply chain failed to supply enough stock due to supplier related issues. Understanding the deep root causes of not achieving the commitment made is rare.

The operational performance management processes tend to be applied in an ad hoc manner. They are adopted on an as required basis to ensure individuals deliver their personal targets and hence receive their bonus. Typically, due to the available time as well as overall skills and capabilities, the corrective actions taken:

a. Optimise one KPI but sub-optimises another KPI Essentially passing the problem elsewhere and to another person;
b. Involve renegotiating the definition of a KPI to get a bigger number;
c. Manipulate the numbers that contribute mathematically to the KPI. For example, in delivering a forecast bias result, someone would 'correct' the forecast number in the system just before the baseline numbers were extracted into the forecast bias KPI calculations. Once the background job was completed the forecast numbers would be restored to prevent any noise in the factories and distribution networks.

Operational performance management systems rarely identify and address the structural loss drivers that impact overall performance, creating the foundation to drive improvements. Rather, financial and operational performance management systems generally exist to monitor progression to the target.

As the financial and operational performance management processes are disconnected, deeply understanding the drivers of the financial performance is not available. The BALANCE SCORECARD PRINCIPLES ARE NOT UPHELD. Indeed Goodharts law, that states once a KPI becomes a target it ceases being a KPI, prevails.

Inconvenient Truth No.4: Gap Management, requiring tactical decision making, is limited

Gap management is the process whereby the current business plan is compared against the target and the business decides on additional events to ensure the targets are delivered. Currently the

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prevailing belief is that 'we have agreed what the events, their funding and impact, will be during the annual planning process. People have made commitments, it is all about delivering on those commitments. Hence there should be no gap to the target therefore a gap management process is not required.
In reality it is highly unlikely that an event will deliver the desired result. The nature of the event, it’s funding and impact was decided too early on incomplete and inaccurate information. The event may not be the best choice given the market conditions, the funds may not be sufficient, or maybe too much, to deliver the desired result. Frequently events fail to meet expectations. The net result is that numerous unofficial gap management processes exist.

The financial performance management system focusses on delivering the quarter and the year. In anticipation that the quarterly target will not be achieved, senior leaders are often found 'tasking' operating units to deliver more in a very short time frame. This often results in margin diluting activities being expedited through the business.

The annual target is often divided by twelve (equally or proportionately) and given to the sales teams to execute. The sales team will then drive sales in order to deliver the monthly target and hence achieve their commission. On many occasions these sales drives are done in isolation of the business. In our previous example, where an organisation was launching a new category and product to the market, one of the reasons for the low performance was that the sales team was not specifically targeted to deliver that event. Their target was to achieve a total value of sales; it was easier to sell the established ‘good seller’ products than the new product, hence deliver a key foundation of the strategic ambition.
Often the supply chain capabilities are not considered. Sales push product to deliver a value target in access of what the supply chain has been asked to produce.

Demand and supply chains are desynchronised as a result of senior management and sales teams creating unplanned market activations that do not drive consumption, all within the true decision making and implementation lead time. Market investment ROI is reduced, the supply chain is asked to expedite creating unnecessary bullwhips, additional cost, excess inventory and low customer service. It also increases the risk, with implementation often being less than perfect further minimising the return of these reactive events and creating a culture of blame and mistrust within and between functions. Ultimately the bottom line suffers.

An alternative way of working is to decouple the target setting and business planning (the process where tactical decisions are made) processes. Events can then be agreed based on the most accurate and complete information available at the time the decision needs to be made; the combined demand and supply chain lead time. Budgets (funds and returns) are not agreed until this decision point, increasing the ability of an organisation to allocated funds to the strategic priorities. The agreed events are aligned to the market dynamics and resourced appropriately, increasing the chances of meeting the realistic expectations. Increasing delivery effectiveness will negate the short term activities, driven by the current gap management processes, reducing the work load enabling the workforce to focus on value creation activities.

Furthermore the annual planning process, performance management and gap management processes establish a framework that defines a culture where:

a) *The focus is on the short term*
b) *The focus is internal, not external*
c) *Functional silo’s prevail*
d) *The business is run on numbers, not numbers with understanding*
e) *The focus is on doing not thinking and doing*
f) *Risks, Opportunities and uncertainty is ignored*

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g) *Simplicity is replaced by simplistic thinking*
h) *Genuine commitment to the strategic ambition is lacking*
i) *Ignorance leading to blame prevails*
j) *Belief that everyone is motivated by monetary gains*

Inconvenient Truth No.5: Organisations do not value analysis and prediction. There is no genuine desire to look forward and externally to deeply understand the business environment.

There are numerous reasons why organisations do not look forward and externally to gain a deep understanding. Firstly it is hard work. It takes time and energy that is not available. As people are constantly chasing short term (unofficial) and misaligned targets, their capacity is often exceeded. Whilst they may want to look forward it is not possible!

Secondly it is complicated.
Predicting the performance drivers of the future requires teams of people who excel in critical, analytical, creative and logical thinking, allowing their understanding to evolve, conclusions and solutions to emerge over time.
Understanding the complex relationships of the demand chain performance drivers is particularly challenging due to the number of drivers that are frequently expressed with unstructured and ambiguous data. Many organisations have invested in a demand planning capability. Yet demand planners are rarely valued as business partners to Marketing and Sales whose primary responsibilities should be the detailed analysis, prediction and optimisation of the complex price, product, place, promotion trade off' s within and between each route to market and macroeconomics. Consequently businesses lack the routine creation of a demand plan and forecast that identifies and quantifies the future demand drivers, the uncertainties, risks and opportunities. They lack a constantly updated picture of their future competitive market capabilities, hence lack the ability to build internal capabilities that respond.
Marketing and Sales tolerate the demand planning capability that is focussed on forecasting, producing numbers acceptable to management upon which the supply chain can replenish securing the required inventory. Demand planners are managing the forecast, the numbers that drive the supply chain operational decisions.
Supply planners are often found managing the supply chain operational decisions; the decisions that could be managed by a system. The constantly changing forecast and low quality planning data, partly driven by the senior management and sales team gap management activities prevents the efficient and effective use of the system. Consequently supply planners do not have time to deeply understand the complexities of the supply chain capabilities and match them with the future demand signals. As such supply chain capabilities are not built in time and forward looking policies that optimise the customer service, inventory, costs and capacity utilisation in are not established.

An organisation once asked what asked what value a supply planner adds. This question was raised at the same time that the business was forming a team to identify cost saving activities to recover a declining bottom line. The answer was simple. A supply planner should understand the current and future (based on the demand plan and forecast) supply chain cost drivers such that special cost saving project teams are not necessary. Supply planners already know the answers or even better supply planners has ensured that there is an active pool of cost saving projects occurring and in the pipeline.

Demand and Supply planners should be arming the business with insights and deep understanding of the past and anticipated future commercial and operational performance. The fact that

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organisations do not value planning as a core capability means:
They lack understanding of the drivers of their past performance

They lack understanding of the anticipated future

Failing to understand the drivers and assumptions of past and the future performance limits an organisation to create innovative yet doable alternatives and make rational decisions, both critical components of a quality tactical decision making capability. It exposes the business to the unstoppable market forces, creating a reactive culture where margins are gradually eroded.
It also allows people the freedom to play games with the numbers; changing the KPI definitions to give a bigger number, temporarily falsify data to hit the target. Individual value is generated at the expense of business value.

Thirdly people like certainty.
A frequent response that is given when the subject of looking forward and externally is broached is 'how can I predict what is going to happen to the market in the future when I do not even know what is happening today?'
Critically senior management's behaviour is emphasising the importance of the numbers rather than numbers with understanding. This is compounded by the monthly performance management processes where the focus is once again on the delivery of the financial numbers, embedding a number centric culture. This partly explains why the financial and operational performance management systems are disconnected.

Failing to look externally and validating the information exposes the business to a high level of disruption and risk. Disruption and risk that would, to a certain degree, be controllable

Building a capability that routinely looks forward and externally will enable organisations to build a RESPOND and REACT capability.
Respond is a proactive capability that leverages the planning capability to identify market risks and opportunities early.
React is an opportunistic capability that reacts to short term external market situations (e.g. Competitor out of stocks). It is not used to fill gaps to short term targets.

Routinely looking forward and externally is a question of leadership. Later on we shall introduce three leadership styles; transformational, emergent and transactional. Developing the emergent and subjugating the transactional leadership style will enable the organisation to routinely look forward and externally. Soon if not already this capability will not give a competitive edge it will be a prerequisite to do business!

Inconvenient Truth No.6: Simplistic thinking prevails; businesses are becoming simpletons!

Time is the most valuable commodity anybody has got. The more senior you are the less time you have to digest and understand the business issues. Your scope of responsibilities is too large. Hence leaders rely upon their teams to make the complex issues simple such that they can easily digest, understand and respond accordingly.
Previously business norms were clearly defined. Large FMGC multi-national corporations (MNC's) gained asses to the mass consumer markets via the major retailers. Competitors and their ways of doing business were known. Supply chain networks, route to markets, shopper and consumers engagement avenues were clearly defined and operated within known parameters. Product portfolios and the brand positions of each supplier and retailer were well established. The rate of

change within these business dimensions was predictable and therefore manageable. Product portfolio churn was increasing but this was within a framework of low change and therefore stability.

This stability historically provided the context for the current operating model construct; the annual planning process made the tactical decisions allowing the business to focus on implementation during the ‘in year’. Consequently the predominant thinking style was linear or sequential (simple thinking). This style defines the steps required to complete an action. Each step needs to be completed prior to the next one beginning, the variability incurred is the time it takes to complete each step. The focus is on what is required (machines, men, process, system and time) to complete each step and then DOING (a person(s) following the process, using the machine and system within a defined time frame).

Performance management systems support simple thinking. Teams and individuals are set targets that predominantly reflect performance in implementation. Variability and uncertainty, which require a different thinking style to manage, are largely ignored, ultimately leading to the manipulation of the measure definitions to achieve a bigger number.

People, who have been successful at delivering the targets, who are good at linear and sequential thinking, have become senior managers or even the leaders of the business. Inevitably they value people who think in the same way, resulting in the predominance of simple thinking. Different thinking styles are often not encouraged; values such as bias for action or statements such as ‘no intellectual debate’ are frequently heard.

Simple thinking is ideally suited for operational decisions, when it is applied to complex tactical and strategic decisions it becomes SIMPLISTIC thinking.

Strategic and tactical decisions require a complex thinking style that includes critical, logical, lateral and creative thinking skills. A complex thinking style is certainly employed as the strategic plans are created, a key reason for the quality of these plans. Complex thinking may initially be employed during the annual planning process, though simple thinking soon dictates as the exercise turns to negotiating the targets. Large MNC’s have survived partly due to their product and / or country portfolios (the performance of one (or several) product(s) or country (ies) outweighs the below average performance of others) and the fact that the business norms as described above are stable and predictable.

However, in the introduction to this book, it was noted that world has changed; complexity and volatility are increasing. The number of business variables (e.g. customers, channels, competitors, product customisation etc.) and the rate at which these variables are changing are increasing exponentially. The business norms have changed (there are more competitors, route to markets and shopper and consumer engagement avenues) to such an extent that the old norms are no longer applicable. The evidence is there: The annual planning process is taking longer and consuming more resource for the same if not lower quality and many businesses successfully grow their top line but struggle with bottom line growth.

In order to survive and thrive in today’s business environment quality tactical decisions will need to be made routinely, hence organisations will need to develop a core complex thinking capability. Developing critical, logical, lateral and creative thinking skills creates the ability to understand the relationships and make the connections within large amounts of diverse data, generating new insights, whilst challenging the old. Complex thinking seeks to find and interpret patterns in the data establishing hypotheses from which experiments are performed to validate and rapidly scale if successful. It embraces probability, seeking to identify the most likely result for the decision that is made. As these decisions are made ahead of the execution of the event, it cannot give an absolute guarantee that a positive outcome will occur.

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As organisations get leaner, people have got less time.

> *'Thinking is the hardest work there is, which is probably the reason why so few engage in it.'*
> ***Henry Ford.***
>
> *'I have made this letter longer than usual, only because I have not had the time to make it shorter.'*
> ***Blasie Pascal***

Less time means they have less time to learn.

Less time to learn means they are of lower capability

Lower capability means they need more time to understand.

Time, they do not have hence they interpret complex issue simplistically in order to get the task done.

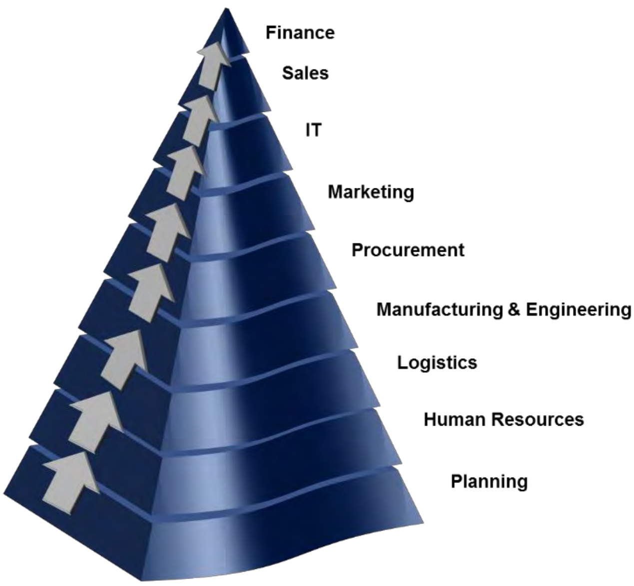
Poor decisions are made resulting in more fires to put out consuming more time.

And so the vicious circle goes round and round.

Ensuring the organisation has the correct capabilities and level of capability is critical. This subject will be discussed further in a later (or earlier) chapter. However, a failure to sufficiently invest in the human capital will ultimately lead to greater performance gaps further adding fuel to the vicious circle. Building capability, a combination of skills and experience, takes time. Therefore, the trade-off leadership face is invest in capabilities (possibly impacting margin delivery) now for greater performance later or strive for short term target delivery (and probably fail) for continued performance gaps.

Inconvenient Truth No.7: Embedded Functional Silo's limited the true potential of the organisational

Functional excellence is often stated as a key organisation capability resulting in functionally structured organisations; Finance, Sales, IT, Marketing, Procurement, Manufacturing & Engineering, Logistics, Human Resources and Planning (recognised as a role within some functions). Business processes have an important role in connecting and defining the hand overs between and within each function. Frequently these processes are either poorly designed or poorly implemented and often undermined by a 'non-spoken' hierarchy of importance.



Finance is at the top of the pyramid. Therefore it is hardly surprising that the financial annual planning, performance management and gap management processes dominant. These processes fulfil the 'dynamic' requirements (but perhaps not the accuracy needs) of the financial function but not necessarily of all other functions. As the supply chain is lower down the hierarchy, efforts by many organisations, led by the supply chain, to implement an S&OP and/ or IBP capability that directly competes with the financial processes are often discounted as a supply chain process, hence not important!

The Sales function have probably assumed second position as a result of the fact that they are the only function that can make a difference in the short term as reality is accepted.

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IT rise up the hierarchy as they provide core capabilities that make information transparent as well as ride on the underlying belief that IT capabilities can significantly change the performance of a business, despite much evidence that shows a low ROI on IT investments mainly due to the fact that people do not use the system, defaulting to excel!

Marketing, who arguably could also swap with IT into third position, have an important role in engaging the consumers and brining innovations to market.

The supply chain functions form the lower levels of the hierarchy. Indeed in some organisations the supply chain elements of the organisation are not even formally recognised at the executive board level, the pyramid essentially stops after Marketing!

However Planning falls firmly at the foot of the hierarchy. Indeed there is no formal function called planning. It is often fragmented across all the functions. Scheduling is fragmented further, often being a part of someone’s job and or not even being formally recognised.

Many organisation structures do not possess an operating model were planning and scheduling activities can add real value. Consequently they miss out on the value that each capability delivers, the ability to:

Regularly restating your anticipated future; your competitiveness, the risks, opportunities and uncertainties;

Allocate the appropriate resource, time and effort to the decisions that need to be made, improving their quality;

Identifies capabilities that need to be built or improved to meet that anticipated future;

INTEGRATES the organisation behind ONE BUSINESS PLAN;

Provides senior management the ability to constantly communicate their strategic ambition as well as providing them the levers to adjust and adapt based on timely market information. All are aware of the longer term future and are focussing on the challenges faced.

It builds confidence in an organisations ability to constantly deliver competitive profitable growth by being able to read, within certain ranges, the market trends ensuring the business operations are well placed to exploit.

An operational scheduling and decision making capability will ensure continued alignment across the value chain, co-ordinating operations to avoid wasteful additional costs that typically result from expediting or activities that fail to meet expectations due to poor implementation.

Furthermore, operating in hierarchical functional silo’s, organisations are limiting their decision making capability. It has been proven scientifically that better tactical decisions are made by crowds than individuals. Individuals have biases that impact the quality of a decision. Crowds (or teams) will have many biases that normally balance each other out. The experiences and expertise of crowds is far greater than an individual. Leveraging this richness results in more creativity and feasible solutions being generated for the decision to be made. It also creates greater levels of ownership and commitment in implementation.

Existing operating models limit, in particularly, tactical decision making capabilities. As the operational decisions are bound by the tactical decisions, this results is low quality operational decisions being made. Essentially tactical and operational decisions are being made concurrently.

Business teams making difficult decisions exist and are common. For example Innovation project teams, S&OP/IBP meetings have representatives from all functions, however, a distinction needs to be made between MULTI-FUNCTIONAL and CROSS-FUNCTIONAL teams.

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Multi-functional teams will have a common goal or purpose, however team members do not report directly to the team leader. Consequently team members might have conflicting goals and hence motivations. Their performance is judged by the function, hence that will take priority. This can undermine a multi-functional team in many ways such as;

Members prioritize functional work over team work

Members take a functional perspective first and not business perspective in a team environment

Members ignore the decisions of the team, hence do not implement the agreement

Typically one function generally dominates the team (functional hierarchy) or a function who owns the primary goal (e.g. marketing for innovations). Other functions are often pressurised to compromise their real capabilities, building unrecognised risk into the execution of the plans. In other words there is not a foundation of mutual respect.

On the other hand Cross functional teams are teams were all members report to the team leader, who is accountable for their performance review.

Inconvenient Truth No.8 Businesses turn a blind eye to risks opportunities and uncertainties.

Firstly the desire for certainty is human nature. Humans like to be in control, they like to know what the future holds for them, it is comfortable and certainly less stressful as lives can be planned with confidence.

Secondly the operating models does not require risks, opportunities, uncertainty and variability to be effectively managed.
The annual planning process has defined the events. They are certain. The focus is now on implementation, hence looking ahead and externally to gain a deep understanding of the business environment is not encouraged. Therefore there is no mechanism to identify risks, opportunities and uncertainties, exposing the business to surprises. The competitor gaining market share essentially overnight is a good example. Uber, Air BnB are other highly disruptive examples.
It has defined the numbers that represent the targets. They are certain. It is easy to judge the performance of a person based on the delivery of the numbers. We did not achieve the number! No bonus! Career black mark! The fact that a price war was started by a competitor is immaterial. These targets also do not recognize variability. They are often expressed as single data points (5% sales growth from last year). In reality the actual sales will fall into a range (to be technical the statistical distribution). If the target numbers are over delivered congratulations are offered all around (despite the fact it may just be down to normal variation beyond.

A simple thinking style ignores uncertainty and variability. The mental focus is on the implementation of the event which is very structured, therefore certain. Risks, opportunities, uncertainty and variability are a distraction away from the main task – implement the event! Risks, opportunities, uncertainty and variability all require a complex thinking style to manage their unstructured nature. Complex thinking styles are not predominant.

Thirdly, it is hard working proactively managing risks, opportunities, uncertainties and variability.

Inconvenient Truth No.9: Current operating models creates a culture of low commitment & motivation and a lack of trust and mutual respect

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The same misaligned senior leadership team are then agreeing the functional plans and targets for the forthcoming year (through the annual planning process). As a result of this lack of awareness the hard conversations regarding what events are required to deliver the strategic ambition are not conducted, preventing the organization from accepting that the information is incomplete and inaccurate. Instead the conversations turn to what is an acceptable 'number'. **Strategy deployment is compromised.**

An underlying belief of corporate management systems is that people will be motivated by targets for which they are rewarded (monetary gains). Leaders, the people who have gone up the corporate ladder, are ('quality') motivated by these rewards (monetary, status or power gains), hence apply a lot of energy to this purpose. This is not necessarily true of everyone yet the predominant management motivation lever is to establishing personal targets. Furthermore the importance of these targets and how they contribute to the success of the organization is rarely explained and they are often outside the sphere of influence of the owner; they are powerless to make a difference

Ultimately individuals are not energized; they do not have individual targets within their sphere of influence NOR do they understand how they relate to the delivery of the strategic ambition or corporate purpose and they are not necessarily equipped with the resources required to achieve them. There is increasing evidence that target and reward mechanism destroy more value than they create.

Inconvenient Truth No.10: Leadership are failing to provide the necessary operating conditions for sustained success.

As noted at the beginning of this book, the world has changed hence the way businesses work needs to fundamentally change to survive and thrive. Leadership teams spend time and money on establishing strategic ambitions that chart the way to sustainable success yet the majority fail to deliver. In embarking on a new strategy many businesses reorganise, aligning the strategy to a new operating framework but fail to establish a new operating model. They fail to precisely define how decisions should be made to secure this success. This is no easy task in a small business never mind the hugely complex multi-national corporations that exist today.

Five performance pillars need to be established to create an efficient and effective operating model.

- Current ERP systems
- Process
- People
- Ways of working
- Tactical decisions

Leadership styles & behaviours:

Strategic, tactical and operational decisions all require different leadership styles.

Strategic decisions require a transformational leadership style. These leaders are highly visionary with the ability to see the world holistically and forge their own and their business roles in it. They have the ability to absorb and digest multiple perspectives, respect different opinions and value systems no matter how divergent they are. Embracing high levels of uncertainty and ambiguity they apply critical analytical, creative and logical thought processes to create a vision of the future and a set of unifying strategic priorities aimed to deliver that vision. These leaders are charismatic, apt at inspiring and motivating the workforce behind this vision. Whilst totally committed to the vision, they tend not to concern themselves with the implementation of the strategic priorities.

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Operational decision require a transactional leadership style. These leaders (or rather managers!) allocate resources with defined roles to a specified work plan for a particular function. They are good at linear, sequential thinking and are totally focused on delivering the numbers and rarely seek a deeper understanding of the performance drivers. They are accountable for the delivery of this work planned monitoring the results through generic KPI's that are not necessarily aligned to the strategic priorities. Team members often have KPI's as personal targets that is outside their sphere of influence.
At the extreme of the spectrum, they tend to be status conscious and seek to 'fit in', frequently confusing the delivery of corporate value with personal value (or gain). Consequently they often (unknowingly) speak in simple, general terms, all be it very confidently, allowing the actual results to be aligned with the ambiguity of their messages, preserving their reputation. Through this mind-set they are instrumental in continually embedding the inconvenient truths.

Transactional leaders are suited for operational decisions, the responsibility of front line managers. As current business operating models are focused in implementation, the operational decision making zone, the vast majority of leaders adopt the transactional leadership style. Consequently leaders and managers 'compete' in the same time horizon, reducing productivity and slowing decision making, hence the responsiveness of the organization.

As tactical decisions are made once a year, there is no real leadership style defined. As previously noted if organisations are to survive and thrive, their operating models need to be synchronised to the dynamics of the market and a substantial increase in the quality of tactical decision making is required. This will require a new type of leader, the **EMERGENT** leader.

Emergent leaders are the bridge between transformational and transactional leaders. They are accountable for the translation of the strategic priorities into actionable work plans supported by exact measures that underpin the desired KPI's. They are the custodians of strategy deployment

They blend and guide the experience and expertise from all functions creating cross functional teams that constantly seek greater understanding of the business environment and internal capabilities. Emergent leaders create a culture of high trust and mutual respect were people can speak freely and listen seriously without fear of reprisals, releasing the synergy of (all) functions working towards a common goal or purpose.

SPEAKER/S PROFILE/S + PHOTOGRAPH

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References

Footnotes

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