12 PIVOT-POINTS ©

GET ANY OF THESE WRONG AND YOU WILL FAIL

When talking with the shareholders and directors of major corporations, it is **increasingly common to hear them talk of the difficulty they experience in maintaining control over their corporations** and, more importantly, ensuring that the corporation delivers that which is expected of it by its owners. The 1980s and the crash of 2000s commercial and economic debacle has certainly heightened this level of cynicism and scepticism throughout business circles and has reinforced the urgency that owners and investors have for establishing a more reliable mechanism for better assuring the wellbeing of their interests.

Throughout the 20th Century, business has experienced much change in the style, content and emphases of the day, most of which have professed to help business become more effective.

For a range of logical reasons, the **focus over the years** has been on management, in that it is **management who have been perceived as the controllers of corporate destinies**. When most business was small and operated with the daily involvement of its owners, this was both a relevant and reasonable perspective to adopt as the distinction between owners and managers was negligible.

However, as the face of industry and the corporate environment changed and matured and the average corporation grew and became more complex, the corporation has seen a significantly changed relationship between owner and manager. **No longer are the owners of an organisation, particularly of the larger corporations, the same individuals who make the daily management decisions** which impact on the performance and destiny of those corporations and its owners.

Equally as important, has been the emergence of the manager as leader and visionary of the corporation, when historically it was the owner of the organisation who filled this role.

Although this trend is somewhat inevitable with increased commercial sophistication, complexity and as the world economy emerges into its current globalised environment, the distinction in roles, expectations and responsibilities between owners and managers has blurred.

However, **it is not uncommon for company directors of medium to large corporations to complain that management has "hijacked" the company into a direction that is not wholly agreed by the Board**, even though the Board is seen as the final arbiter of corporate policy and direction. Often Boards of corporations, it is claimed, are seen only as "rubber stamps" to legitimise the corporate aspirations and commercial interpretations of management.

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There are many reasons for this rift and perception. Management is becoming more skilled in what it does and is wholly committed in time and mind to the management of the corporation. Directors on the other hand, largely as representatives of the owners of the corporation are generally part-time, and do not have available to them the same depth of information available to management. **Strictly speaking, the information is available to Directors through management, but is rarely easily accessible**.

Management also has at its disposal a range of specialist skills that it draws upon to reach conclusions and formulate recommendations, policies and strategies that it presents to the Board for ratification. It is difficult, although not impossible, for the Board to verify in minute detail the assumptions, calculations and the conclusions made by management. This is largely because the same resources available to management are not generally available to the Directors. **A Director's call for a second opinion or detailed questioning on the assumptions and figures presented, is perceived by management as a show of no-faith in,** or **distrust of management**, even though management will concede that it is the Directors' responsibility to question and probe. The provision of necessary resources to undertake such assessments as recommended by the Cadbury Commission and elsewhere is a legitimate attempt to redress this anomaly.

The dilemma facing directors is real and difficult. Directors are there to protect and further the interest of the stakeholders and are seen in law as having such a responsibility. And yet they are not always fully in control of the information flows and/or the deliberation process, thereby making their responsibilities not only difficult to execute but also, in certain circumstances, high risk.

What then is the appropriate relationship between the owners of a corporation and the managers they appoint to operate it? Is it possible to identify a rock-solid relationship between the two entities that will enable each to fulfil their respective roles and optimise their performances but one that will endure over time and withstand managerial emphases of the moment? How do we delineate the responsibilities between the two entities and how does such delineation work in an operational context? **To whom do we invest the role of "leadership of the organisation" and what does that mean in a practical and operational context?**

Why is the planning process the starting point in delineating the relationships between owners and managers? Principally because it is within the planning process that the structure, orientation and commitment to a corporation's future is made. It is against this corporate definition and expectation that the corporation's performance is managed and measured. And it is against the skill sets identified within the plan that personnel are retained, recruited, rewarded and ultimately fired. And arguably most importantly, it is the expected and actual performance of the corporation that attracts or repels investors and financiers.

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A corporation is ultimately assessed by what it has achieved and what and how it is still striving to achieve. The Business/Corporate/Strategic Plan, therefore, is the document that encapsulates organisational striving - the source which tells employees, owners and interested parties how past and current difficulties will be over-come and how future goals will be achieved. Properly written, it should be the definitive reference document for assessing a corporation's performance against its promises, and for assessing its acumen in pre-empting (and determining) its future.

Those who control the planning process, (that is those who control the reason for planning, the scope of the plan and approve the outcomes of the plan,) are inevitably those who control the destiny of the organisation. Owners want a plan that enables their needs to be brought to fruition while managers want a plan which enables them to manage the elements and control the resources.

A PLANNING PARADIGM: CAUSALITY AND DEPENDENCE

In seeking to identify the enduring rock-solid elements of a corporation that remain intact after the rigours and pressures of the dynamic commercial environment have impacted upon it, one is led down many false paths.

It is not uncommon to naively hear from those involved in the running of companies that corporations are only after profit, asset growth or dividends. Nor is it uncommon to be overwhelmed by testimony and allegiance to one of the many managerial "themes of the moment", whether they are TQM, Process Re-engineering, Team Building, Quality Circles, Sustained Competitive Advantage, World's Best Practice, Benchmarking, or the many others.

Often embedded within the mission statements of many of the world's major corporations, one finds these "themes". "We will become the biggest", or the "best", or have the "largest market share", or "we adopt TQM principles", “we are here to maximise customer satisfaction”, and so on. These may all be admirable pursuits, but only when they are in context, and then only when they are seen as enablers to achievement rather than the purpose for striving.

It is a truism that not all organisations are alike, and therefore have different needs and aspirations. More importantly, the expectations that their owners have, differ from the owners of other corporations. Therefore, the adoption of a management "theme" is not equally appropriate for every organisation.

An organisation that strives for quality, for example, should do so because it is quality that is the critical decision criterion of its customers - and not because management thinks it would be "nice" to provide quality product or service. Many fortunes have been built on other than the best quality product and service. These fortunes have generally been accumulated by giving the customer what he/she wants, rather than what the supplier wants to give them - i.e. having a "marketing" rather than "selling" focus.

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Similarly, with "competitive advantage": it sounds like a corporate truism - one of those fundamental managerial 'laws' passed down over the generations, but in practice it is not equally applicable for all. For example, in the appropriate context, it is a legitimate commercial strategy to enter a market in the growth phase of a product's lifecycle, particularly when demand strongly exceeds supply, in order to take the profit from an up market. It is equally legitimate to quit the market at any time revenues fall below the internal hurdle rate. For certain companies who are flexible and quick to respond to market dynamics, "sustaining" advantage is not their objective. Short-term profit gain may be the objective, and this is realised through opportunistic demand forecasting and management. The cost of "sustaining" advantage may detract from the short-term objective of profit gain.

Other companies may adopt a "Sustained Competitive Advantage" strategy when they intend remaining in the market for a longer term; have invested considerable capital in establishing their market presence; or are using the perceived advantage gained in one market or product segment to leverage other products or markets. Such a strategy enables them to achieve their longer-term objectives - not because it's a "nice" thing to do but because, in context, it is the appropriate strategy.

If the argument of "context-specificity" can be levelled against all such "themes", then what, if anything, remains constant?

The key dilemma facing owners and managers is when strategies chosen by management conflict directly with the objectives of owners. When management chooses to adopt TQM, for example, it usually does so at some considerable cost to the corporation. If owners have specific short-term optimal dividend objectives, then the investment in TQM (as legitimate as it may be to the longer-term benefit of the company) is clearly to the short-term disadvantage of the owners. What is the correct path? Satisfy the owners at the expense of the longer-term health of the corporation, or satisfy the corporation's needs at the expense of owner objectives? This is a classic dilemma.

Is there a durable "truth" that exists between the way an organisation sees itself, the way the owners of the organisation see it and what they expect from it, and the way the organisation interprets its objectives? Is it possible to identify a universal relationship between these elements that will accommodate the strategic choices made by corporations or the operational, structural and cultural differences which exist in a heterogeneous, pragmatic and commercial environment?

To attempt to answer these questions, one must first deal with the issues of causality within an organisation. If an action or strategy within an organisation is undertaken, then what are the consequences? What within an organisation causes other things to happen and where does this chain of events start?

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If, for example, a decision is made to re-engineer a major process in an organisation, what was the principal stimulus for the decision? Was it the desire or need to establish or maintain competitive advantage? Was it a need to lower costs? Was it a need to simplify the approval process? Or was it any of a multiplicity of seemingly legitimate reasons? Where does the organisation get its principal bearing from?

Many would argue, quite legitimately, that such decisions are based on being able to better fulfil the corporation's objectives. In fact, most of corporate behaviour should be rationalised by a desire to fulfil corporate objectives. Real life, however, illustrates many examples where corporate decisions are made despite corporate objectives, and which may, and often do, impede such objectives.

It is common to see corporations that base their corporate planning on existing structural and organisational "structure" issues for reasons of history, culture or internal political expediency. It is when the structure pre-empts all else that objectives are distorted, and optimal results are missed.

The point of initial stimulus is often regarded as a corporation's objectives, vision or mission statement. And yet, "the point of initial stimulus" is generally taken for granted and receives relatively little attention: despite it being the *raison d'etre* against which a corporation exists and should be ultimately measured. If a corporation's mission or corporate objectives are recognised as the principal corporate stimulus, then what affects them, and what gives them "life"? How effectively are a corporation's planning and operational practices supportive of that company's initial stimulus?

Experience strongly indicates that a corporation's Initial Stimulus extends outside the corporation itself, and that it rests with the owners of the corporation and their reasons for establishing the business. Owner motivation ultimately is/should be the force which moulds and shapes an organisation's Initial Stimulus, and it is this Initial Stimulus which is the shaper of all that an organisation should do *and against which its performance should be measured.*

THE PARADIGM OF INITIAL STIMULUS & FUNCTIONAL INTERDEPENDENCY

Following close observation and involvement with scores of corporations, and in-depth familiarity with their operations, cultures, planning systems, performance, internal structures and operating styles; it is possible to formulate a set of succinct corporate "laws" which dictate, in a rational organisation, the relationships and dependencies that exist within them.

Each step of the Paradigm is dependent on the preceding step, and as such, the successful completion of the entire process relies on the logical progression through the thought and deduction process defined by the Paradigm.

1. The organisation exists to **fulfil** its owners' objectives. [The Initial Stimulus of all organisations]

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2. The organisation **chooses** to exist within specific economic, social, cultural, regulatory and economic environments within which it must be active in order to fulfil its owners' objectives. These environments can be effectively termed the organisation's market.
3. Within this market, the organisation must **choose** what specifically it will do (products and services) and how this will be done so that the owners' specific objectives can be realised.
4. Once an organisation's products and services have been identified, it will need to **choose** the methods by which the market will become aware of the offerings and how these offerings will reach their market.
5. Once the market and product mix strategies have been determined, it is then necessary to assess the impact that these strategies will have on the organisation's "support and facilitation" capability, particularly in the areas of human resources, informational technology, management, processes, organisation structure and finance.
6. Only when these tasks have been effectively completed, can an organisation pull together these divergent (and often conflicting) elements and call it a business, corporate or strategic plan.

This paradigm is critical to an understanding of the internal mechanics of organisational and inter-functional dependence. It establishes the relationships between precedent and antecedent events in the decision-making cycle and thereby allows planners to ensure appropriate and logical flow of managerial decision making.

The planning paradigm therefore stipulates the relationship between the different elements within all organisations. The fundamental characteristic of the paradigm is the recognition that the initial stimulus of all corporations is the satisfaction of owner needs. On analysis, this has been equally true of public and private, large and small corporations. Even for not for profit organisations where their Constitution acts as the “shareholder”; similarly, for government where the Act of Parliament forming them represents the organisation’s purpose. Corporate objective therefore must support owner objectives.

From there, the owners (or the proxied corporation) choose the broad environment (market) in which to participate in order to extract the benefit sought by owners. This doesn’t imply that these choices are always correct. Sometimes decisions to embark into new markets or industries are disastrous. The fact remains however, that a choice is made as to how and where owner benefits will be harvested.

Once the market environment has been resolved, a choice is made as to the tools needed to extract the benefit from the chosen operating environment - i.e. the products and services to be offered. How often do we experience companies developing new products then looking for a market to sell them into? The market and product/service decisions will then create several dissemination options. That is, how do we get the products and services into the market while still satisfying our core objectives?

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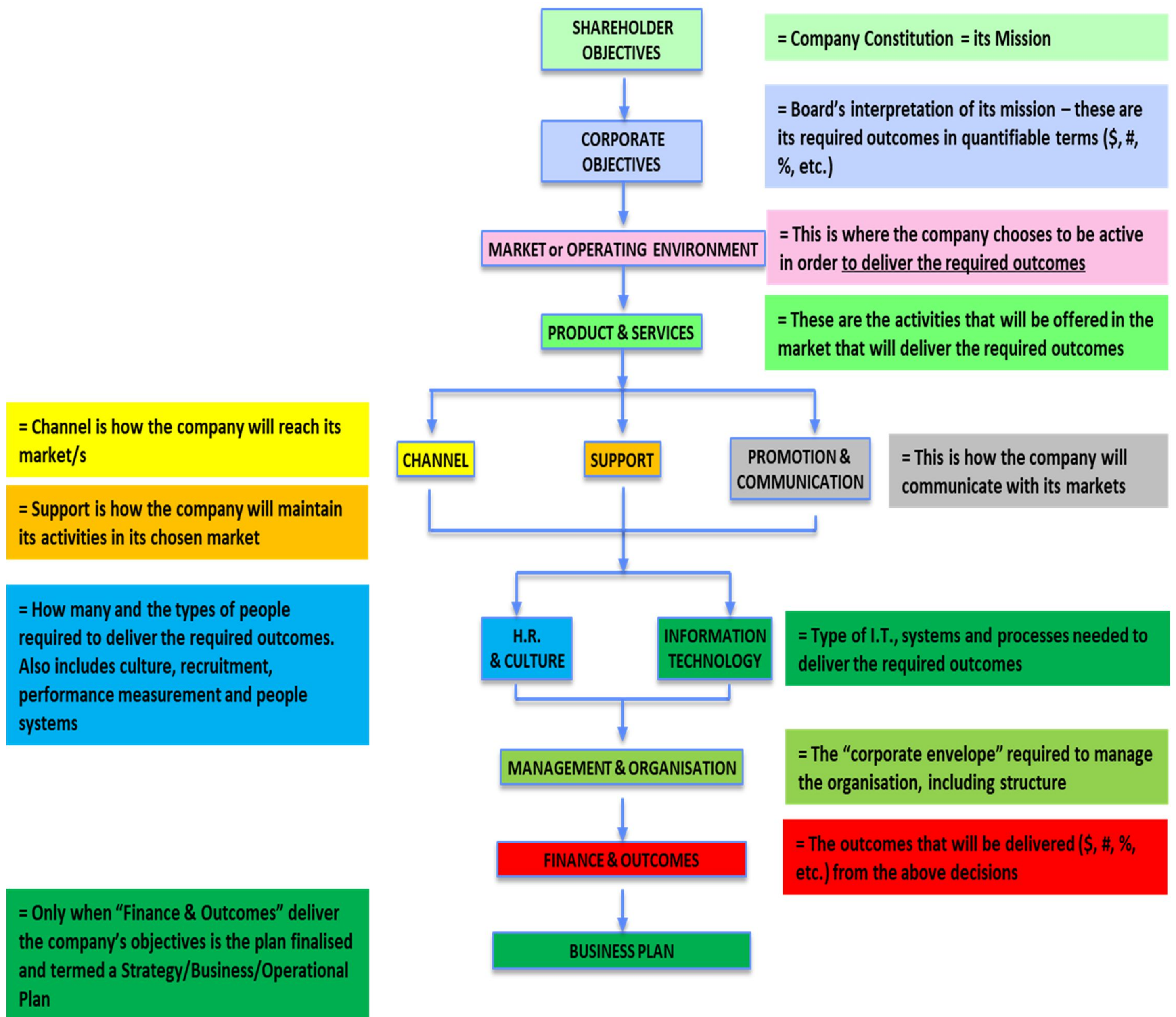
Take notes in relation to your business as you analyse each of the 12 pivot-points framework.



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What channels of distribution, support levels and communications and promotional strategies are available to us in order to extract from the chosen market place the benefit from the products and services we have nominated to satisfy core objectives?

The "higher level" decisions will significantly determine decisions on human resources, information technology and processes required "to make it happen". A decision to manufacture versus a decision to retail will cause fundamental changes to H.R., I.T., organisational structure and process strategies. Therefore, the "higher-level" decisions determine the mechanistic needs of the organisation. How many of our organisations are structure led? Do these structures in fact enhance owner objectives or hinder them?

Only when these "high-level" and mechanistic decisions have been considered, can a reasonable financial picture be developed of the corporation, and only then can an organisation determine whether it will satisfy owner objectives. If after progressing through the process one gets to the financial analysis only to find that the probable benefits/outcomes do not match desired benefits, then the process needs to question the validity of some of the assumptions and decisions made during the process and the plan needs to be reworked.

A decision to manufacture versus a decision to subcontract for example may have significant "bottom-line" implications. It is common that decisions on the extent and character of organisational elements within most companies need to be "fine-tuned" in order to realise desired benefit. But unless the owner's desired benefit is recognised as the ultimate justification for the corporation, then how difficult is it to find the appropriate path?

This leads to the question of performance measurement - particularly of corporations and CEOs. Let us assume identical characteristics for two organisations in the same industry. One with twice the ROI of the other. It is reasonable to suggest that most people would rate the company with the higher ROI as the better corporation and its CEO as the better CEO. But what if the company with the higher ROI was owned by those who were risk averse and were seeking minimal debt, and the CEO achieved his superior ROI performance as a result of several high-risk ventures requiring considerable additional gearing? Which then is the superior corporation and the superior CEO? One might refine the definition of quality corporate steerage as being the ability to satisfy owner objectives, rather than the use of non-context specific generic measures commonly used to compare many players in a given market or industry.

Diagram 1 above illustrates the logical flow of most of the key elements within a planning process and supports the decision-making dependencies implicit within the paradigm. One can therefore recognise the inappropriateness, using the earlier examples, of organisational or I.T. structures being the principal determinants of a corporation's style and method of operations. Structure and I.T. are determined by what needs to be done and how it is to be done - i.e., they are corporate enablers.

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Structure should not be the reason for doing nor a long-term constraint on doing, but rather the way one organises one's resources around what needs to be done. Unfortunately, many corporations refine their objectives by the constraints of the resources, technology or structures they have available.

Entrepreneurial organisations, on the other hand, have driving ambitions which are realised with the aid of a range of enablers - of which human resources, structure and technology are but a few. If resources are unavailable, the entrepreneur finds them through flexible strategies such as franchising, licensing, out-sourcing, sub-contracting, virtual corporations, etc. and is rarely limited by only that which he/she has at the outset.

It is not intended to imply that an organisational structure, an I.T. capability or other existing corporate attributes are irrelevant to planning. The degree that an organisation's character, attributes and structure will support initiatives and activities often determine (quite legitimately) whether an initiative can or should be adopted. However, these corporate characteristics should never be a "given" within the planning process nor be the reason for doing, but rather should be the definer of how the activity should be done.

Joel Barker, in his *Discovering the Future: The Business of Paradigms*, wisely asked "what is impossible today to do in your business, but if it was possible, would radically change what you do tomorrow?" Organisations that adopt "planning givens" are, by doing so, helping to set the agenda for those competitors who are prepared to question those same "givens" and change them to their advantage. Organisations must always be prepared to question the fundamentals of what they do and the way they do it in order to provide on-going compatibility between what the owners of the corporation want and what the organisation is doing.

As an example, mainframe manufacturers had for many years accepted that their organisational structure, size, skill base and culture provided them with "the competitive advantage" they needed to remain aloof (in a competitive sense) and profitable. For many years the paradigm of computer selling remained ostensibly unchanged. What had changed however was the ability of the shareholders of those mainframe corporations to continue receiving the benefits that they had grown accustomed. Owner dissatisfaction forced a paradigm shift where the "givens" of the corporation (structure, culture, size, skill base) become "un-givens". In other words - the paradigm for operations had changed. Those companies who were/are unprepared to accept the inviolate nature of corporate structure, culture, etc. are those who have adapted to the changing market and economic environment most successfully.

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Conclusion

Those companies that recognise that they exist solely as an enabler of their owners' aspirations are the companies who will remain the most flexible, dynamic and able to cope with the challenges of the time. The moment an organisation has an "internal" legitimacy and structure that is not aligned directly to owner needs, then the more difficult it will be to question the prevailing operational paradigm, and the more likely that that organisation's culture, structure, skill mix and size will dictate its strategies and managerial decisions.

The model outlined enables the Company to ensure that the total of effort undertaken by it results in optimisation of its corporate mission that is based on the Company's shareholder objectives.

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If you wish to discuss how this can be applied to your organisation, please contact Dr Jack Jacoby at Advisory & Mentoring

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