

**Business
Strategy**

**A unique collection of
briefing papers on:**

Business Strategy

**Hot Topic
Emergent
Issues!**

**An indispensable compendium of winning ideas,
essential techniques, practical insights and
cutting-edge trends in international business
leadership, development and management**



David Norman

Essential information for all MBA students and busy executives

Surefire Methods to Boost Business Performance

Businesses today face unrelenting competitive pressure, rapid change and organisational upheaval. To meet these challenges, MBA students and busy executives need to tap into a rich vein of unique, focused, thought provoking and provocative management ideas and practice.

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Each paper has between one and three carefully considered and entirely original visual frameworks that provide additional perspective, insight and context.

References

Selected source material is referenced to allow follow-up reading.

Shaping Tomorrow's Firm Today

The topics deal with emergent issues, new ideas and important trends in management thinking, global best practice and accelerated organisational transformation. They reveal corporate secrets that can deliver high performance or challenge potentially flawed or over-hyped concepts.

David Norman is an executive coach, writer, entrepreneur, speaker, trainer and consultant. He is also the creator of Matt and Buzz. David has a background of corporate jobs, business strategy consulting and human capital development, learning and transformation. He works mainly with business executives in global blue chip companies and some of the worlds top sports personalities to help them be the best and most successful at what they do.



A unique collection of briefing papers on

Business Strategy

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A unique collection of briefing papers on

Business Strategy

*A compendium of winning ideas, essential techniques, unique insights
and cutting-edge trends in international business management*

David Norman

M&B Publishing

Business Strategy

Dedicated to the many clients, colleagues, advisors, friends and family who have contributed to this amazing journey of discovery, learning and mastery. And whose generosity of spirit, knowledge and integrity has enabled this inspirational series of books to finally come to fruition.

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For more information about David Norman and especially Matt and Buzz: books, CDs, talks, workshops and learning materials for business and organisations. Telephone: +44 (0)1932 872433. Web: www.MattAndBuzz.com

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INTRODUCTION

Introduction

This book is a compilation of executive briefing papers designed to be insightful, critical and concise reviews of topical international business issues of concern to senior executives.

Each article is around 1000 or so words with a couple of original charts and references for follow-up reading. Individual paper topics typically took between two and four weeks of dedicated completely original desk research, writing and publishing to complete. This was underpinned by a continuous on-going topical management literature scanning and reading commitment.

They were originally researched, written and published by the Author as an annual subscription service (£295/year) for the international Management Advantage Programme (iMAP between 1991 and 1994. In issuing them for the first time in book form they have been published here completely unaltered.

Despite more than a decade having passed since the original work (before the internet and emails!) it is amazing that much of what was researched and written is just as valid today as when it was written. Very little has changed on many topics. They have stood the test of time well. As you may notice a few, particularly the IT and BPR ones, are a bit dated and would benefit from updating though are still relevant. Whilst the methodologies and techniques are still largely relevant, more up to date examples of today's corporate heroes and villains would be beneficial!

In part the decision to publish these papers was influenced by the enduring popularity of the 1982 best seller "In search of excellence" by Thomas Peters and Robert Waterman, Jr. Despite two thirds of the 43 excellent companies cited, after only five years after publication, had faltered and fallen from the list, and were no longer considered excellent. Never mind their status 25 years later!

One of the books (of several) that had a strong influence on my research in that period included the Toyota philosophy of lean manufacturing, written about with compelling academic rigor in 'The machine that changed the world.' Some years after I read it, wrote some articles about it and even did some talks on the topic (to typically sceptical and incredulous corporate audiences), I met some Ford executives at a coaching conference in Amsterdam who were amazed that I knew about it and even more amazed that I bothered to read it! This was an extremely rare occurrence in their travels apparently.

It has always intrigued me that since Henry Ford and the Ford Motor Company has always been credited with being the undisputed father of mass production. Lean manufacturing could in many ways be considered perhaps the polar opposite of mass production. How would they ever face and resolve the cultural, people, organisational and change management challenges such a shift would entail. As I understand it despite many well-intentioned initiatives they haven't! Even more intriguing is their new CEO, who is reputed to be in possible merger talks with Toyota, has just mandated that board members read this book. A robust analysis of one of their most successful competitors and their global market positioning. 17 years after publication and they have only just got around to begin reading about it! Incredulous! Or is it?

If I were to write new articles today on business strategy they would certainly include summaries of the outstanding work of Professors Kim and Mauborgne on Blue Ocean Strategy, Jim Collins Good to Great, as well as topics like: globalisation, balanced scorecard, outsourcing, offshoring, confusion marketing, and much else.

Much of the early work in the field I now work in was written 30 years ago and is still published and widely available today. The content is just as relevant then as now. This work is around human capital development, especially rapid effective and measured behaviour change. This is in the fields of communications, leadership, team-building, learning, relationships and change management as applied mostly to business performance, but also to self development and sporting excellence. The material I am now writing about as Matt and Buzz I would expect to equally have a very long life. At least 10 years, and I fully expect much more! But we will have to wait and see. Will we not?

David Norman 2007

1. STRATEGIC MANAGEMENT

1.1 The Changing Focus of Management

Four decades of management fads and fashions - from MBO to empowerment. Find out the winners for the future?

International Management Advantage Briefing Paper

The Changing Focus of Management

Firms are in a quandary. Caught in a vortex of relentless change triggered by escalating globalization, soaring customer expectations and blistering competition they seek respite from commercial obscurity through liberal doses of managerial elixir.

From a mere trickle a few decades ago packaged management ideas have turned into a torrent, see Fig 1. Promises of corporate salvation or

enduring prosperity through the use of conceptually appealing management techniques, panaceas or quick fixes is an important management issue. Whilst most have sound theoretical or empirical underpinnings, ‘applied common sense’ will help distinguish rhetoric from reality.

The 1950’s
Managing a business successfully in the 1950’s was a relatively simple affair. The fashionable management tools of the day included the evergreen **MBO** - management by objectives mooted by Peter Drucker and popularised by John Humble. Douglas McGregor made assumptions about employees in **Theory X & Y** where theory X

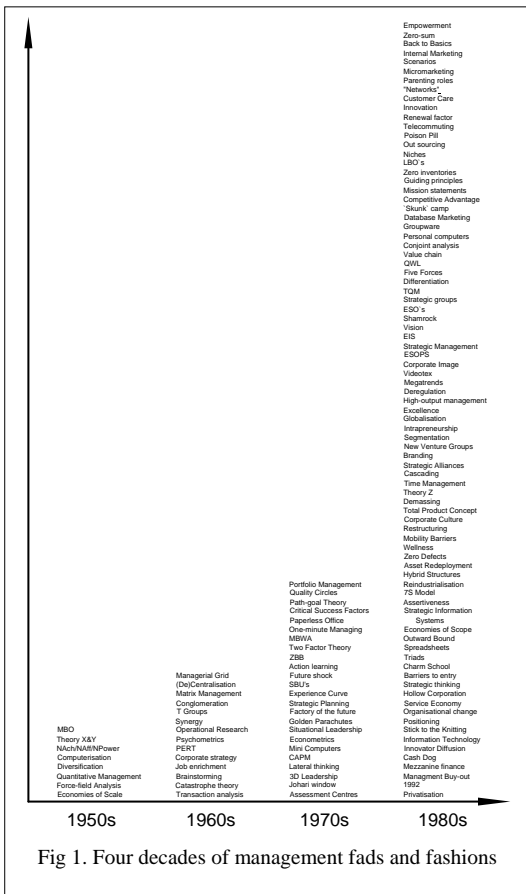


Fig 1. Four decades of management fads and fashions

individuals are basically lazy, self-interested and need tight control and theory Y people are responsible and value both autonomy and independence.

• The 1960's

This decade saw the emergence of **Synergy** or $2 + 2 = 5$ and the product-mission matrix, after Igor Ansoff, the grandfather of strategy, who in 1965 wrote 'Corporate Strategy.' **PERT**- project evaluation and review technique, although much older, now adopted in management spheres. **Job Enrichment** increased the scope of jobs by extending responsibility, increasing skill variety and adding tasks. The **Managerial Grid** of Blake and Mouton pigeonholed managers according to their concern for people and concern for production. Everybody hoped they would be diagnosed as 9,9 role models of excellence, though more likely disappointingly categorized as a less than excellent 5,5; 1,9 or 9,1 manager.

The 1970's

The list grows. Business **Portfolio Management** and the ubiquitous Boston Consulting Group growth-share matrix together with assorted variants of the GE/Shell/McKinsey matrix and others. **ZBB** Zero Base-Budgeting from Texas Instruments requires each manager to justify why he should spend any money at all, and the consequences if he doesn't. **3D Leadership** from William Reddin, added the effectiveness dimension and benevolent autocrats, missionaries and deserters to the vocabulary. **Future Shock**, by Alvin Toffler, published over 20 years ago prophetically announced: "change is the process by which the future invades our lives." Dr. Edward de Bono is synonymous with **Lateral Thinking** (and vertical thinking) where the practical creativity process helps to generate new ideas and escape from old ones.

The 1980's

The explosive surge in managerial remedies, shown in Fig. 1 includes the passion for **Excellence** movement of Tom Peters and its many imitators. **Intrapreneurship** or support for entrepreneurs inside the business popularized by Gifford Pinchot III. The world of **TQM** shaped by Deming, Juran and Feigenbaum has its own buzzwords of zero defects, P-charts and Shewart cycles, Parato, fishbone and Ishikawa diagrams. **Stick to the Knitting** - doing what you know best, in the 1982 best seller "In search of excellence" by Thomas Peters and Robert Waterman, Jr. **Theory Z**

contends William Ouchi, is that productivity and trust go hand in hand. Ed. Schein, Stanley Davis and others coined **Corporate Culture** to describe the pattern of basic assumptions about the historical norms of thinking and behaviour in firms, or “the way we do things around here.”

Future perfect: The 1990's

This decade promises to be even more prolific than the 1980's. At this moment nearly 50% of the 80's total have already been posited. The following comments cover just a few of the more important emerging management trends straddling the change frontier today, see Fig.2.

Time-based Competition. Also known as time-based strategy or economies of speed, it is the new gospel according to BCG and a powerful new source of global competitive advantage. Time-based competitors are rewarded with faster sales and profit growth by giving customers greater choice and faster deliveries at lower costs and reduced risk. Converts include Federal Express, Toyota and Sun Microsystems.

Powershift. Knowledge is the raw power of the new system of wealth creation set to transform work, capital and money itself. Alvin Toffler asserts it will tear us all apart as the growing disjuncture between finance and the 'real' economy takes hold in a world of 'info-wars,' 'flex-firms' and 'pulsating organisations.' It will create a radically different society as it pervades banks, hospitals and supermarkets and transforms the media, finance and politics.

Breakthrough strategies, service and teams. Cuts through complexity and inertia to harness the hidden reserves of energy generally only tapped during a crisis. With sustainable productivity gains of up to 400% its no wonder that American Airlines, McDonald's and BP have already bought in.

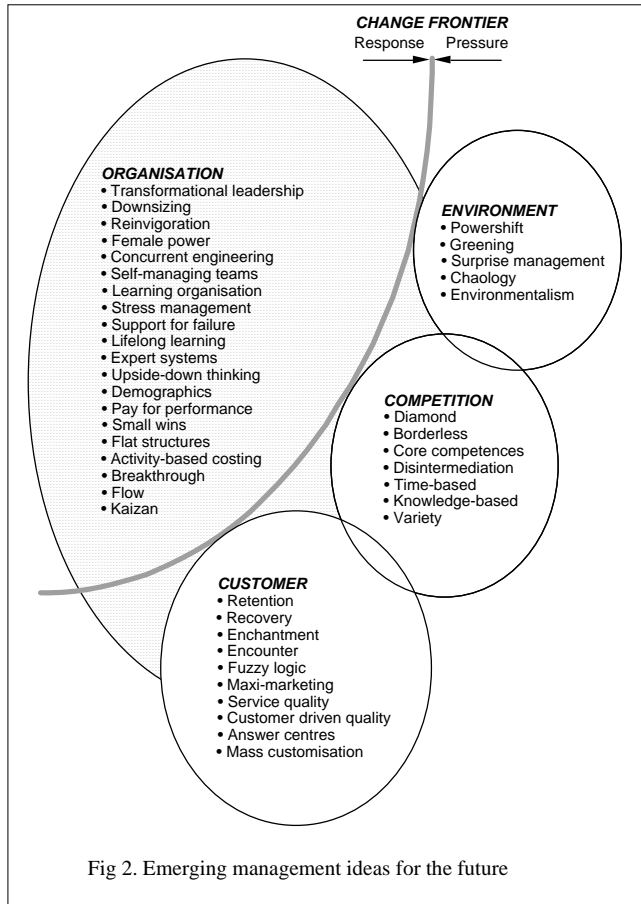
Fuzzy Logic is incorporated into new washing machines to automatically sense the weight of the clothes and the type and amount of dirt, and the 'palmcorder' to remove the effects of camera shake. Future as business judgement support?

Diamond. The foundation of industry competitive success. Michael Porter's seminal paradigm is based on detailed studies of over 100

industries in ten countries including the German chemical, American software, Swedish mining equipment and British insurance industries. Invention and entrepreneurship are at the heart of national competitive advantage whilst industry and company success derive from demanding buyers, factor endowments of resources and infrastructure, related and supporting industries and intense local rivalry.

Reinvigoration.

Nothing fails like success, says Stanford's Richard Pascale about some of the world's largest firms. The CEO of a large USA Corp. uses a 4-point plan for reinvigoration: flatten the hierarchy, empower the workers, train more and get closer to the customer. Other designer labels are self-renewal, transformation, creative tension, culture or strategic change - it's about keeping a successful company healthy.



Spiralling uncertainty is hurtling businesses towards the most profound organisational changes ever witnessed. Shifting environmental, competitor and customer discontinuities challenge the responsive capability of even the most commercially resilient organisations. Astute firms have already

realised enormous competitive advantages from the exploitation of these ideas. Have you?

1. Details of known published material on the ideas listed in Fig. 1., Fig.2. and the text are available on request from the editor.

2. CUSTOMERS

2.1 The 'Customer Satisfaction' Blunder

Why merely satisfying customers is not enough. How to 'enchant' them to increase loyalty that doubles profits.

International Management Advantage Briefing Paper

The ‘Customer Satisfaction’ Blunder

‘Customer satisfaction’ will soon become the corporate epitaph. Firms who merely aim to ‘satisfy’ their customers will lose the intensifying competitive battle for ‘the customer’ in the 1990’s since satisfaction implies a barely adequate or satisficing goal.

Market leaders like Federal Express, Mars and Toyota deliberately change the rules of the game; delivering outstanding customer value so that the total purchasing experience delights, excites and ‘enchants’ the customer. The changing hierarchy of customer value satisfaction is portrayed in Fig. 1:

- Enchanted customers** - where expectations are regularly exceeded. Successful firms set new and higher levels of expectation by surpassing normal trade practices: providing great, rather than good value. Increased loyalty also attracts new buyers and redefines the rules of competition. The hallmarks of pacesetters like Marks & Spencer and Honda include exceptional guarantees, outstanding attention to individual service and over-response to complaints. Empowering the front-line, ongoing training and genuine top management commitment are essential cultural characteristics. Best-selling author Tom Peters emphasises the importance of word-of-mouth, maintaining that one ‘delighted’ customer will tell between 3 and 5 others.

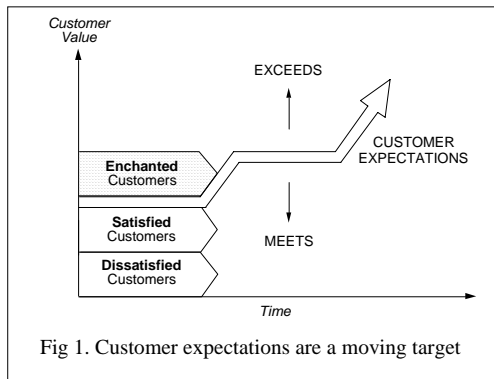


Fig 1. Customer expectations are a moving target

- Satisfied customers** - where the product or service conforms to actual or perceived requirements. The buyer is indifferent, neither happy nor unhappy. Unlikely to voluntarily praise the benefits, attributes or features of

the purchase experience. It does the job and is good enough. Consumer psychologists call this state of mind cognitive consonance.

- **Dissatisfied customers** - where the promise of expected benefits have failed to materialize. Their state of mind is known as cognitive or post-purchase dissonance. An unhappy customer, according to the Technical Assistance Research Programmes Institute¹ in the USA tells an average of 12 other people. Only 4% of them would bother to complain anyway. 81% say they would never buy from you again, whilst 54% would remain loyal if you solved their problems. According to research by the Forum Corporation they are 5 times more likely to switch to a competitor because of poor service than an inferior product or high price.

...improved loyalty directly boosts the bottom line

“Enchanted” customers are loyal, and raise profits

Contributions to profitability are systematically added at each stage of the circle illustrated in Fig 2. Each of the 5 ‘loyalty driver’ stages are described here. ‘Enchanted’ customers raise loyalty, customer value, expectations and sales; and lower costs. The circle is actually an upward-driven spiral that integrates rising customer expectations set by the market leader noted in Fig. 1.

Focusing on customer loyalty is the key

High levels of repeat business are vital to the commercial success of most businesses. Remarkably, improved loyalty directly boosts the bottom line. According to a USA study², a 5% improvement in the customer retention rate boosted profits for a credit card company by 125%, for an insurance broker by 50% and a software firm by 35%. If you had 100 customers in January and by December you had 110 but only 85 were original customers then your customer retention rate would be 85%. Existing clients cost less to serve and marketing costs are lower. The Technical Assistance Research Programmes Institute has shown that it costs 5 times more to win a new customer than keep an existing one.

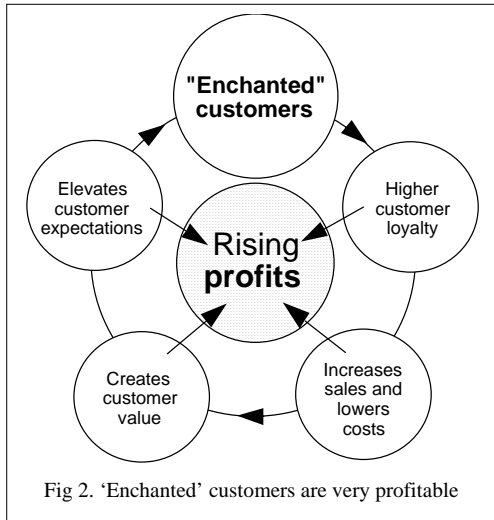
Increased sales and lowered costs

Loyal customers lead directly to higher sales. For an industrial distribution firm, regular customers of 2 years standing spent 4 times more and those with a 15 year relationship spent 8 times more than new customers³.

The lifetime value of a customer is an important concept in customer retention economics. The focus of most firms sales activities evolve around winning a single sale whilst largely ignoring adverse effects on repeat business opportunities. A transatlantic airline business traveller at £500 a trip represents £20, 000 of potential future sales (10 bookings a year for 4 years). Conversely, the lost sales consequences of a disgruntled airline passenger, who tells 12 colleagues, are devastating. The aggrieved customer could potentially balloon a single £500 sales loss into a massive £240, 000 of irretrievable business!

Creating customer value

Creating products and services which customers value above that of competitors, whilst enhancing shareholder value should be held with deep corporate conviction. The ability to consistently deliver superior quality in innovative ways within shortened timeframes will enthrall customers and shareholders alike.



Firms with superior quality and strong market differentiation are reported by the Profit Impact of Market Strategy (PIMS) programme of the Strategic Planning Institute⁴ to have typical ROI's of 40%, against 10% for firms with inferior quality and weak differentiation. Quality is relative perceived quality: 'relative' to competitors and as 'perceived' by customers. Furthermore, where a company enjoys high relative market share and superior quality they typically have ROI's of 50% against 10% for inferior quality and low share.

Persuasive evidence gathered by the Boston Consulting Group⁵ contends that customer responsive organizations grow at least 3 times faster than competitors with profits more than twice the industry average. Delivering the greatest value at the lowest cost, in the least elapsed time will enrapture customers. Quicker delivery times and faster new product introductions made by time-based competitors facilitates wider choice,

lowers costs by between 10 and 50%, improves quality, lowers risks and captures price premiums of between 10 & 100%.

The aggrieved customer could potentially balloon a single £500 sales loss into a massive £240, 000 of irretrievable business!

The market leader elevates customer expectations

Customer expectations are a moving target reshaped by the leading competitor, see Fig. 1. Different customers derive value from their purchase in different ways. Value is actual and perceived. A car may get you from A to B, but its status and ego appeal persuades the buyer. Conformance and price for industrial fasteners is fundamental, but supplier reliability & technical support are critical loyalty drivers. Motivated and 'happy' market leader employees alter perceptions of customer value through unremitting improvements in superior relative perceived quality, consistently outstanding service levels and exceptional 'service recovery'⁶ from mistakes.

One contemporary aspect of front-line improvement (beyond the customer care or "charm school" initiatives) is the quality of the 'service encounters' or 'moments of truth' as Jan Carlzon, the CEO of SAS calls them. Three different categories exist; environmental, transactory and assistance-based, each requiring a different investment and training approach according to Kevin Coyne in the Summer '89 Sloan Management Review.

'Dissatisfied' customers guarantee failure. 'Satisfied' customers are fickle, sowing the seeds of commercial demise. Customer-driven firms 'enchant' customers by creatively remoulding expectations. They nurture cultures and capabilities that build strong customer loyalty and high profitability:

- 5% increase in customer loyalty can double profits.
- Superior (vs inferior) relative perceived quality and high (vs low) differentiation is 4x more profitable.
- Customer responsive firms are 2x more profitable and grow 3x faster than the industry average.
- Regular customers spend up to 8x more than new ones.
- It costs 5x more to win a new customer than keep an existing one.

Notes:

1. US Office of Consumer Affairs: Consumer Complaint Handling in America. Part II. April 1986.
2. Financial Times. 16 July 1990.
3. Ibid.
4. The PIMS Principles: Linking strategy to performance. Buzzell, R & Gale, B. The Free Press. 1987.
5. Competing Against Time: How time-based competition is reshaping global markets. Stalk, G & Hout, T. The Free Press. 1990.
6. The Profitable Art of Service Recovery. Hart, C, Heskett, J & Sasser Jr., W. Harvard Business Review. July-August 1990.

3. COMPETITION

3.2 Reconfiguring for Lean Supremacy

Challenges seriously flawed assumptions about cost behaviour and customer value. Different approaches essential for success.

International Management Advantage Briefing Paper

Reconfiguring for Lean Supremacy

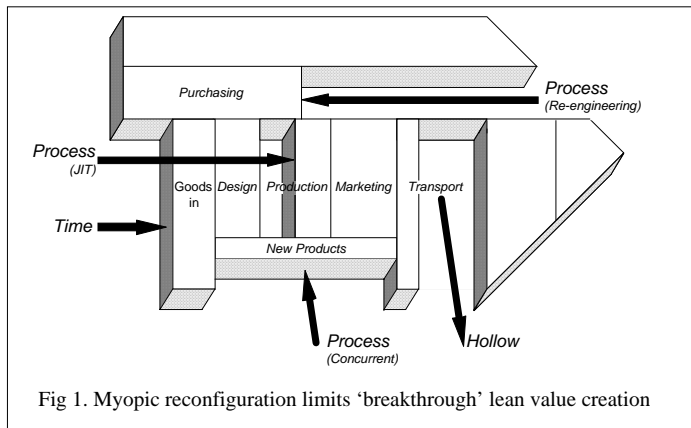
Mass production is obsolete. Rudely pushed aside by the staggeringly competitive lean enterprise. The reconfigured, customer obsessed, lean and learning organisation is here, now. Rivalling the industrial revolution in importance, lean firms¹ are already pulverising ill-prepared adversaries. Most attempts at lean reconfiguration are paradoxically flawed by myopic thinking, an oversight compounded by managements failure to challenge profoundly wrong, yet long cherished assumptions about cost behaviour and customer value.

Unassailable global leadership by lean firms such as Nissan, Komatsu and Mitsubishi are scorching flat-footed competition in two fundamental ways. Premier customer value is consistently delivered through *highly differentiated* products and services produced at extremely low cost, whilst pushing customer expectations beyond the reach of many competitors.

The supremacy of lean economics is awesome.

Applicable to manufacturing

and services² firms alike. The cornerstone of lean practice is the incredibly low cost base constantly reinforced by rising productivity of world class 'benchmark' resource utilisation, *half the*; floor space, people, machines, time for NPD, inventory and money, all together, as quality rises inexorably, time-to-market collapses, risks diminish and defects plummet, whilst margins are bolstered by higher prices.



Massive productivity gains...distinguish these firms from the corpulent, uncompetitive majority of firms

The enduring advantages of massive productivity gains and customer adaptability fundamentally distinguish these firms from the corpulent, disadvantaged and uncompetitive majority of firms. Entrenched in Japan, grossly misunderstood everywhere else. Well intentioned though myopic attempts at hollowing-out, JIT or process management (see value chain in fig. 1.) will fail to stem the rising tide of impending national economic deprivation, spiralling unemployment and corporate slaughter. There are *five* ways to reconfigure business value activities: *core*, *hollow* and *process*, and the revolutionary enterprise reinventions and close cousins of *time* and *lean*.

Core

The core business or back to basics. A retreat back to the core business(s) at the corporate portfolio level, often precipitated by escalating globalisation, intensified competition or predatory financial practices. The deliberate shedding and strengthening of business units or whole firms. Examples include BAT's exit from retail (and other) businesses to selectively refocus on tobacco and financial services, and Philips' divestment of their loss-making data processing division to DEC in order to reposition on consumer electronics. This is distinguished from the notion of core competencies which is an important feature of leanness.

Hollow

The hollow corporation is a fundamental reconceptualisation of the firm. Sometimes called an 'intellectual holding company,' it is characterised by outsourced overheads, strong co-ordination capabilities and a skeletal value chain of distinctive service competencies. Firms like LA Gear, Benetton and First Direct Bank conceived at formation as the 'virtual' firm, whereas other specific business process activities, like Amstrad's production in the Far East or BT's £400m transport division are, or could be, sub-contracted, divested or 'hollowed-out.'

Process

This comprises process management, Just-In-Time (JIT), re-engineering and concurrent engineering.

• Process management

Is an approach to work simplification of specific business areas, activities or processes. Motorola³ evaluates departments like a factory: materials, labour, products, customers and cycle time. They applied the concept to internal auditing and achieved a 10x improvement in cycle time, reduced staff by a third and saved on external audit fees, whilst sales doubled. The hardest part is figuring out where the process begins and ends. Supporters include Corning Glass, Amoco, IBM and the 1991 Laura Ashley SFA-Simplify, Focus and Act programme to cut complexity, duplication, and staff.

• Just-in-Time

A recent convert to JIT, Havelock Europa⁴ a Nottingham storefitting firm discovered that only 22 production steps out of 116 actually added value in the factory, and process time was only 4 hours out the seven weeks spent in the plant. Lead times were cut from 25 to 5 days, stock reduced by £2m and more are reported. Principles well understood by many firms.

• Re-engineering

Re-conceptualising business activity analysis around the capability of computer technology. Ford⁵ undertook to reduce costs in the accounts payable department, through automation and paring the headcount of 500 by 20%. They were astonished to learn that Mazda only had 5 people doing the same job. After adjusting for firm size, Ford should have had a workforce nearer 100. Conventional productivity improvement approaches were jettisoned to accommodate a radical rethink. Analysis showed that most effort was spent matching (and mismatching) purchase orders, receiving documents, invoices and making payments. The new system called 'invoiceless processing' is organised around a computer database reducing staffing by 75%. Batterymarch⁶ is a USA financial investment firm with \$12b of pension funds under management who redesigned it's business processes around I.T. and halved professional's from 36 to 18, and support staff from 108 to 17.

• Concurrent

Like most firms, NCR⁷ used to develop new products in steps, largely independent of each other. They now use a collaborative team approach called concurrent engineering, where specialists from design, hardware,

software, purchasing, manufacturing and field support work together. Development for a new supermarket checkout terminal was recently completed in half the normal time, had 85% fewer parts and assembled in one quarter of the time. Facilitated by Computer Aided Design (CAD), new products incorporated quality, ease of maintenance and manufacturability from the start. Development time cut by 30-70%, quality improved by 200-600% and return on assets 20-120% higher. Also called 'simultaneous' engineering, users include; AT & T, Westinghouse, and Kodak.

Their immense global superiority will simply obliterate all Western firms who fail to rapidly reinvent themselves

Time

Reconfiguring value activities around time rather than costs or assets will surface powerful new insights. Citicorp, Wal-mart and Sun have secured leadership positions by focusing on time compression as the critical

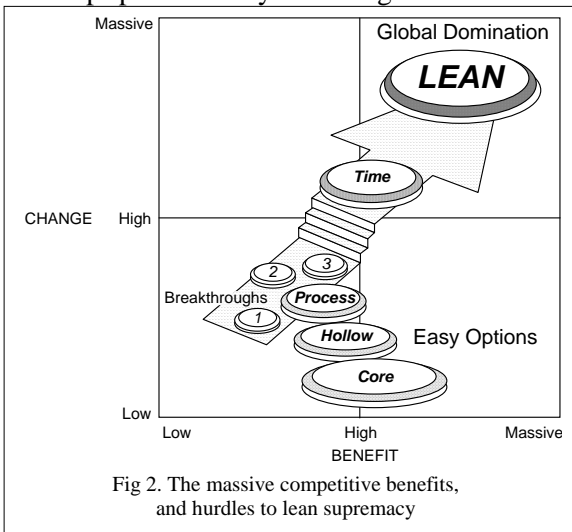


Fig 2. The massive competitive benefits, and hurdles to lean supremacy

management and strategic parameter. Much vaunted by BCG with a decade of experience, and other respected consultancies. A close relation of leanness, *economies of speed* drives higher productivity, better quality, less inventory, less space, lowered risk, faster throughput and NPD, whilst offering greater

variety, price premiums, lower production volumes and better customer service.

Lean

The lean enterprise commands the strategic high ground. Their immense global economic and business superiority will simply obliterate all Western firms who fail to rapidly *reinvent* themselves. Stepping onto the lean fast-

track will require radical 'breakthrough' approaches, see fig. 2, making the value chain in fig.1 resemble a wedge of Swiss cheese. Reconfiguration demands a holistic, systems and paradoxical synthesis perspective, with a focus on knowledge-intense value activities and flexible service networked linkages (Kieretsu). Organisational redesign must be underpinned by learning capabilities which accelerate continuous improvement (Keizen), broaden skills development and instil effective teamwork.

Severe obstacles to leanness are rooted in Western mindsets predisposed to problem decomposition and myopic solutions, analytical left brain and sequential mass production reasoning, crippling either/or thinking, quick fix preferences and vested interests which support problem resolution not elimination. The customer obsessed, lean and learning organisation has placed industrial economic paradigms in turmoil by unleashing a groundswell of industrial and commercial dislocation resembling the displacement of craft methods nearly a century ago.

Notes:

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