



STUDY NOTE - 2

STRATEGY IMPLEMENTATION

This Study Note includes:

- **Corporate Performance, Governance and Ethics**
- **Operationalising strategy**
- **Strategy tools – Benchmarking, Balanced scorecard, EVA, Reverse engineering, BPR and BPM**
- **Controls**
- **Initiate feedback**

STRATEGY IMPLEMENTATION

Step1. Lay down principles for corporate performance, governance and ethics

Step2. Operationalising strategies

Step3. Executing strategy using various tools

Step4. Introduce controls

Step5. Detect variance, measure variances, match against control and initiative feedback for revision, if necessary

STEP 1. LAY DOWN PRINCIPLES FOR CORPORATE PERFORMANCE, GOVERNANCE AND ETHICS

Corporate performance depends on the four pillars of profitability, solvency, growth and sustainability. A blueprint for such a performance has been evolved through proper linkages of Vision, Mission, Objectives/ Goals, and Choice of strategies and a Framework through a long-range plan broken up into annual plans for operationalising the same. Corporate performance can be monitored, measured, controlled and regulated using specific tools.

Corporate governance is based on the principles of integrity, fairness, equity, transparency, accountability and commitment to values. Good governance practices stem from the culture mind set and shared values of the organization. The evolution of corporate governance shows that the dichotomy of the Board of Directors and the management of a company had two approaches, namely, Agency theory and Stewardship theory. Agency theory argues that shareholder interests require protection by separation of incumbency of roles of board chair and CEO. Stewardship theory argues shareholder interests are maximized by shared incumbency of these roles.



Approach	Agency theory	Stewardship theory
Management	Agency	Stewardship
Principles of governance	Economic	Sociological and psychological
Behavioral	Individualistic	Collective
Congruence of interest between the shareholders* and management	Divergence	Convergence
Motivation	Own interest	Company's interest
Organizational structure	Authoritative	Participative
When shareholders evince	Risk aversion	Risk propensity
Relationship between shareholders and management	Control	Trust

*Shareholders are represented by board of directors

As the shareholders now a days evince keen interest in the practices and performance of the companies, corporate governance has assumed a gargantuan stature.

Corporate Governance in India

An outline provided by the CII was given concrete shape in the Birla Committee report of SEBI. SEBI implemented the recommendations of the Birla Committee through the enactment of Clause 49 of the Listing Agreements. They were applied to companies in the BSE 200 and S&P C&X Nifty indices, and all newly listed companies, on March 31, 2001; to companies with a paid up capital of Rs. 10 crore or with a net worth of Rs. 25 crore at any time in the past five years, as of March 31, 2002; to other listed companies with a paid up capital of over Rs. 3 crore on March 31, 2003. The Narayana Murthy committee worked on further refining the rules of SEBI. The recommendations also show that much of the thrust in Indian corporate governance reform has been on the role and composition of the board of directors and the disclosure laws. The Birla Committee, however, paid much-needed attention to the subject of share transfers which is the Achilles' heel of shareholders' right in India.



Recommendations of various committees on Corporate Governance in India

CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
a) No need for German style two-tiered board b) For a listed company with turnover exceeding Rs. 100 crores, if the Chairman is also the MD, at least half of the board should be Independent directors, else at least 30% . c) No single person should hold directorships in more than 10 listed companies. d) Non-executive directors should be competent and active and have clearly defined responsibilities like in the Audit Committee. e) Directors should be paid a commission not exceeding 1% (3%) of net profits for a company with (out) an MD over and above sitting fees. Stock options may be considered too. f) Attendance record of directors should be made explicit at the time of re-appointment. Those with less than 50% attendance should not be reappointed. g) Key information that must be presented to the board is listed in the code. h) Audit Committee: Listed companies with turnover over Rs. 100 crores or paid-up capital of Rs. 20 crores should have an audit committee of at least three members, all non-executive, competent	a) At least 50% non-executive members b) For a company with an executive Chairman, at least half of the board should be independent directors, else at least one-third. c) Non-executive Chairman should have an office and be paid for job related expenses. d) Maximum of 10 directorships and 5 chairmanships per person. e) Audit Committee: A board must have an qualified and independent audit committee, of minimum 3 members, all non-executive, majority and chair independent with at least one having financial and accounting Knowledge. Its chairman should attend AGM to answer shareholder queries. The committee should confer with key executives as necessary and the company secretary should be he Secretary of the committee. The committee should meet at least thrice a year — one before finalization of annual accounts and one necessarily every six months with the quorum being the higher of two members or one-third of members with at least two independent	a) Training of board members suggested. b) There shall be no nominee directors. All directors to be elected by shareholders with same responsibilities and accountabilities. c) Non-executive director compensation to be fixed by board and ratified by shareholders and reported. Stock options should be vested at least a year after their retirement. Independent directors' should be treated the same way as non-executive directors. d) The board should be informed every quarter of business risk and risk management strategies. e) Audit Committee: Should comprise entirely of “financially literate” non-executive members with at least one member having Accounting or related financial management expertise. It should review a mandatory list of Documents including information relating to subsidiary companies. “Whistle blowers” should have direct access to it and all Employees be informed of such policy (and this should be affirmed annually by management). All “related party” transactions must be approved by



CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
and willing to work more than other non-executive directors, with clear terms of reference and access to all financial information in the company and should periodically interact with statutory auditors and internal auditors and assist the board in corporate accounting and reporting. i) Reduction in number of nominee directors. FIs should withdraw nominee directors from companies with individual FI shareholding below 5% or total FI holding below 10%.	directors. It should have access to information from any employee and can investigate any matter within its TOR, can seek outside legal/professional service as well as secure attendance of outside experts in meetings. It should act as the bridge between the board, Statutory auditors and internal auditors with far ranging powers and responsibilities. f) Remuneration Committee: The remuneration committee should decide remuneration packages for executive directors. It should have at least 3 directors, all non executive and be chaired by an independent director. g) The board should decide on the remuneration of non-executive directors and all remuneration information should be disclosed in annual report h) At least 4 board meetings a year with a maximum gap of 4 months between any 2 meetings. Minimum information available to boards stipulated.	audit committee. The committee should be responsible for the appointment, removal and remuneration of chief internal Auditor. f) Boards of subsidiaries should follow similar composition rules as that of parent and should have at least one independent directors of the parent company. g) The Board report of a parent company should have access to minutes of board meeting in subsidiaries and should affirm reviewing its affairs. h) Performance evaluation of non-executive directors by all his fellow Board members should inform a re-appointment decision. i) While independent and non-executive directors should enjoy some protection from civil and criminal litigation, they may be held responsible of the legal compliance in the company's affairs. j) Code of conduct for Board members and senior management and annual affirmation of compliance to it.
	Disclosure and Transparency	
a) Companies should inform their shareholders about the high and low monthly	a) Companies should provide consolidated accounts for subsidiaries where they	a) Management should explain and justify any deviation from accounting stan



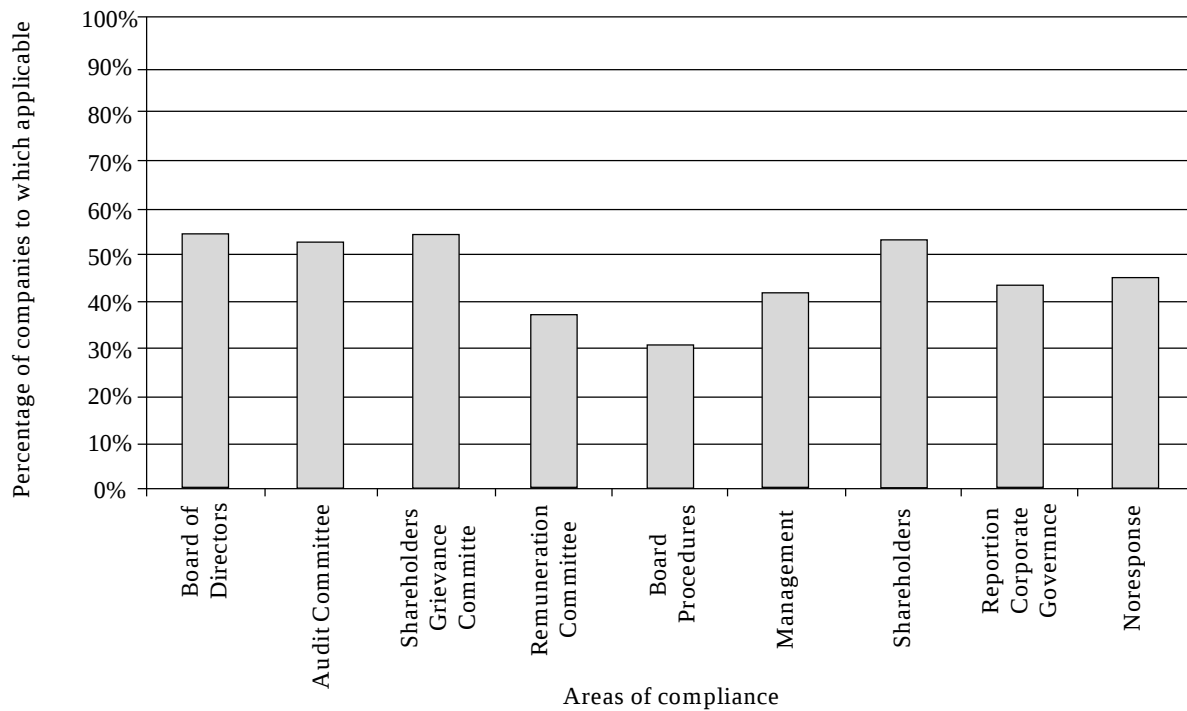
CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
averages of their share prices and about share, performance and prospects of major business segments (exceeding 10% of turnover). b) Consolidation of group accounts should be optional and subject to FI's and IT department's assessment norms. If a company consolidates, no need to annex subsidiary accounts but the definition of "group" should include parent and subsidiaries. c) Stock exchanges should require compliance certificate from CEOs and CFOs on company accounts d) For companies with paid-up capital exceeding Rs. 20 crore, disclosure norms for domestic issues should be same as those for GDR issues.	have majority shareholding. b) Disclosure list pertaining to "related party" transactions provided by committee till ICAI's norm is established. c) A mandatory Management Discussion & Analysis segment of annual report that includes discussion of industry structure and development, opportunities, threats, outlook, risks etc. as well as financial and operational performance and managerial developments in HR/IR front. d) Management should inform board of all potential conflict of interest situations. e) On (re)appointment of directors, shareholders must be informed of their resume, expertise, and names of companies where they are directors.	dards in financial statements. b) Companies should move towards a regime of unqualified financial statements. c) Management should provide a clear description, followed by auditor's comments, of each material contingent liability and its risks. d) CEO / CFO certification of knowledge, veracity and comprehensiveness of financial statements and directors' reports and affirmation of maintaining proper internal control as well as appropriate disclosure to auditors and audit committee. e) Security analysts must disclose the relationship of their employers with the client Company as well as their actual or intended shareholding in the client company.
	Other issues	
Creditors' Rights a) FIs should rewrite loan covenants eliminating nominee directors except in case of serious and systematic debt default or provision of insufficient information. b) In case of multiple credit ratings, they should all be reported in a format show	Shareholders' Rights a) Quarterly results, presentation to analysts etc. should be communicated to investors, possibly over the Internet. b) Half-yearly financial results and significant events reports be mailed to shareholders	Special Disclosure for IPOs a) Companies making Initial Public Offering ("IPO") should inform the Audit Committee of category-wise uses of funds every quarter. It should get non-pre-specified uses approved by Auditors on an annual basis.



CII Code recommendations (1997)	Birla Committee (SEBI) recommendations (2000)	Narayana Murthy committee (SEBI) recommendations (2003)
ing relative position of the company c) Same disclosure norms for foreign and domestic creditors. d) Companies defaulting on fixed deposits should not be permitted to accept further deposits and make inter-corporate loans or investments or declare dividends until the default is made good.	c) A board committee headed by a non executive director look into shareholder complaints / grievances d) Company should delegate share transfer power to an officer / committee / registrar / share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight.	The audit committee should advise the Board for action in this matter.

The implementation of various recommendations of the Birla Committee as part of Clause 49 of listing agreement covered substantial segment of public companies as can be seen from the table below:

Compliance with Clause 49 of Listing Agreement, (Sep 30, 2002, BSE companies)





Corporate Ethics and Social responsibility

Corporate ethics is the foundation on which corporate decisions are made and appraised. An ethical decision is the acceptable decision because it is in the interest of the various stakeholders, the organization or the society. The purpose of business ethics is to set in motion a thinking process to embrace moral implications of strategic decisions. The two main factors in the task of business ethics are:

- Business decisions have an ethical component and
- Managers must choose an avenue for action after weighing the ethical implications

Thus corporate ethics would encompass corporate social responsibility also or in other words, the duty of the corporate body towards the society. This responsibility can find its ramifications through safety measures against occupational hazards, health care, education and pollution control.

Corporate social responsibility (CSR) has evolved into a way of corporate life and become part of any corporate performance. The definition of CSR has also changed into a more inclusive statement.

Defining Corporate Social Responsibility

World Business Council for Sustainable Development defines Corporate Social

Responsibility (CSR) as “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”

The European Commission advocates CSR as “Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders”

In the Indian context it will be relevant to point out that the concept of social responsibility dates back to early 60's of the 20th century, Quoted in Mohan, A. Journal of Corporate Citizenship, Summer 2001. In 1965, the then Prime Minister of India presided over a national meeting that issued the following declaration on the Social Responsibilities of Business:

...[Business has] responsibility to itself, to its customers, workers, shareholders and the community ... every enterprise, no matter how large or small, must, if it is to enjoy confidence and respect, seek actively to discharge its responsibilities in all directions ...and not to one or two groups, such as shareholders or workers, at the expense of community and consumer. Business must be just and humane, as well as efficient and dynamic”

CSR can be classified under four heads namely:

- Community involvement
- Socially responsible production processes
- Socially responsible employee relations
- Socially responsible to stakeholders



Community involvement

This involvement with the corporate sector can be both external and internal. A corporate business when it embarks on a project in a location is regulated by the laws of the land in regard to environment pollution, fair compensation for the land taken over from the local residents for the project, compensate for use of natural resources of the community like water, minerals, vegetation...

The new concept of CSR relates to the linkage with the fabric of sustainable development. Protection of the environment and a country's natural resources would certainly be a paramount element of this concept of sustainable development. To carry this list further, it will be relevant to refer the United Nations' Millennium Development Goals (MDGs) and the WEHAB (Water, Energy, Health, Agriculture, and Biodiversity) agenda of the UN Secretary General are key essentials for bringing about a solution to the very basic problems facing society. Consequently, if corporate actions are to target the most fundamental problems facing the society in developing countries, then the components of the MDGs, including water and sanitation, prevention of eradicable diseases and the items included in the WEHAB agenda. It is often asked why a company should worry about anything other than the bottom line measured purely in financial terms. However, business leaders who are evolving long term strategy have understood the importance of CSR and have been quick to accept the new ethos identifying its potential for triple bottom line benefits, namely:

1. Economic bottom line
2. Social bottom line
3. Environmental bottom line

The objectives of sustainable development rest within the principles of corporate social responsibility (CSR), because unless the needs of society, both present and future, are served, sustainable development would remain only a myth. And the most significant step in pursuing CSR is to proactively protect the environment.

On an examination of the activities pursued by Indian corporate in the areas of CSR showed that while improving the environment the companies found that their business interests were also served and a cost-benefit analysis showed that they had realized incomes from the expenditure towards CSR programmes.

Expenditure, therefore, on projects related to CSR, if properly designed, can actually help the business of a company positively in a financial sense. It is estimated that by the year 2020 advertising expenditure of various kinds round the world would total about INR 80 trillion annually. The current expenditure is about 25% that is about INR 20 trillion. This would mean that for advancing the corporate interests through advertising campaigns can better be served by diverting this quantum of expenditure towards CSR programmes. Expenditures on CSR could be far more effective even in a business sense, and yet to go far beyond the purpose of advertising by receiving the trust of society if these expenditures meet the very basic needs of society in general. Hence, such actions would clearly subscribe to Gandhiji's wish of trusteeship involving a new ethical code in voluntary actions of the owners of business.



In short, CSR in relation to community can be stated as follows:

- Respect the principle of preventive action.
- Support a precautionary approach to environmental challenges.
- Rectify environmental damage as a priority at source.
- Respect the principle that the polluter bears the environmental costs.
- Promote greater environmental responsibility.
- Encourage the development and diffusion of environmentally friendly technologies.
- Contribute to the preservation of biodiversity.
- Contribute to equal access to health facilities.
- Contribute to access to basic food, housing, sanitation and sufficient safe drinking water.
- Contribute to education and access to information with respect to essential health problems in the community.

Socially responsible production processes

Occupational hazards are part of production processes and are often taken care of by adopting safety procedures. For example, in atomic power plant radiation is an operational hazard which can lead to carcinogenic affliction of the employees if not properly protected. In quarries the dust problem is so overwhelming that it can result in silicosis, a pulmonary ailment for those who are working on site. In these cases, statutorily the corporate have to provide safety equipment and adopt safety procedures and the compliance in this regards is total. However, social responsibility would require the company's to periodically monitor the impact of occupational hazards on the employees proactively to avoid any deleterious affect. Certain companies go further to provide dietary supplements to provide immunity in the employees to resist any ill effects due to the hazards.

Another aspect is to reduce any effluents emanating from the process which are harmful to the employees as well as the society surrounding the factory. A big multinational company developed such a positive attitude that they developed a norm to avoid any effluent by improving the processes instead of reducing the effluents. By introducing this norm the company actually benefited by better quality and greater quantum of production and avoiding the costs of treating the effluent. So when the company became more socially responsible in improving the processes, it paid ample dividends. There are many cases where such effluents have been converted into useful raw materials for making new products. These conversions help in improving the environment with in the factory and without, apart from providing additional employment and increasing wealth.

In short CSR in relation to production processes can be stated as follows:

- Reduce energy use
- Limit or alter material use



- Reduce water use
- Limit emissions
- Reduce waste

Socially responsible employee relations

CSR in relation to employees would involve the following:

- Respect and ensure the freedom of association and right to collective bargaining
- Do not engage or support the use of forced Labour
- Contribute to the abolition of child Labour
- Do not discriminate with respect to employment and occupation
- Ensure security of employment
- Ensure a living wage.
- Ensure occupational health and safety.
- Respect maximum number of working hours.
- Provide training.
- Guarantee handling of complaints.
- Provide timely information on reorganizations and the right to collective discharge and redundancy schemes.
- Do not use the threat to transfer the operations of the company to other countries as a means for
- Influencing the negotiations with trade unions or employees.
- Do not use double standards.
- Employ and train local staff as much as possible.
- Enable worker representatives to negotiate and confer with decision makers.
- Promote respect for other socio-economic rights, like the right to work, social security, and maternity leave, to take part in cultural life.

These are the standard norms for CSR, but the more enlightened employers take care of the families of the employees by providing health care, education, counseling and improved conditions for living.

Socially responsible to stakeholders

While increasing the wealth for the shareholders as one of the major stakeholder, the main stakeholders in the corporate sectors are the shareholders, employees, the surrounding community, the vendors and the consumers. The responsibilities towards shareholders, employees and surrounding communities have already been discussed. CSR with respect to remaining stakeholders, consumers and the vendors' specific attention as follows:

1. Consumers
 - a. Ensure access to essential goods and services.
 - b. Ensure the right to safety, with respect to:
 - i. physical safety



- ii. safety and quality of consumer goods and services
 - iii. food, water and pharmaceuticals
 - c. Ensure the right to information.
 - d. Ensure the right to choice in the market place.
 - e. Ensure the right to be heard.
 - f. Ensure the right to obtain redress.
 - g. Respect the right to consumer education.
 - h. Promote sustainable consumption.
 - i. Respect the right to privacy.
2. Vendors
- a. Ensure the vendor understands corporate values in regard to social responsibilities programme
 - b. Provide raw materials and components of specifications to promote quality of finished product
 - c. Follow ethical practices in supply of materials to avoid adulteration, pilferage and other malpractices
 - d. Follow trade practices and respect law of the land in regard to payment of duties, taxes, etc.
 - e. Treat vendor as a partner and not as an outsider

Chambers, E., Chapple, W., Moon, J. & Sullivan, M. (n.d). CSR in Asia conducted a seven country study of CSR in South Asia. The extent of CSR penetration in the seven Asian countries showed that the average for the seven countries (even including industrially advanced Japan) in terms of value is just 41% compared to say a score of 98% for a developed nation like the United Kingdom. But India for example had an average CSR penetration of 72% compared to Indonesia's 24% and the average of 41% in terms of value.

Especially, in the Indian context corporate performance, governance and ethics have become part of India Inc. and a treatise on the subject becomes part of every annual report under the headings Managements Discussion and Analysis, Corporate Governance, Corporate Social Responsibility. This has been introduced as per the guidelines of Security Exchange Board of India (SEBI). To take care of transparency and share holders interests SEBI have made it mandatory for disclosures of performance results every quarter, improved governance through independent directors forming part of the board, mechanisms to educate the investors periodically of the nuances of corporate strategy and investment. Specific rules have been framed through listing agreements for informing capital markets periodically in specific formats for proper comparison and compliance. SEBI also has taken special care to avoid or reduce the impact of misguided strategies like insider trading, hostile takeovers, pricing for public issues by laying down rules and regulations for the companies to comply with.

STEP 2. OPERATIONALISING STRATEGY

Implementing strategy would involve laying down policies and procedures to be pursued with in and without the company. These policies and procedures can be laid down only if



a proper organizational structure with an inherent culture specific to the company operationalises the required strategies through proper systems.

Whenever an organizational structure is designed three major factors need to be considered:

1. Grouping of tasks into functions and grouping of functions into business units to develop distinctive competencies required for the strategy to be pursued.
2. Delegation of authority and delineation of responsibility among the functions and the business units.
3. According as the complexity of the structure, introduce the required level of coordination or integration as may be necessary.

The types of structures can be either Tall or Flat according to the number of hierarchical levels. The development of any structure will have to reckon with communication problems, distortion of commands and orders as well as high expenditure on salaries, benefits, and accommodation aids, etc. Another very important factor is to establish a relationship between the structure and the strategy to be implemented.

Impact of strategy on structure				
Formulation of a new strategy	Resulting administrative problems	Corrective decision on organizational performance	Formation of a modified or a new organizational structure	This leads to organizational performance

The beliefs and values shape the attitudes and behavior of the employees of an organization and this aspect has a definite impact on the implementation of the strategies. The organizational culture needs to be understood well because it moulds the decision-making process, the extent of cooperation among the various functions and inherent attitude towards the company. Again organizational culture is often shaped by the style of management pursued by the chief executive officer either by being a leader or an autocrat.

Descriptions of the styles of two CEO's

CEO 1 (Participative style)

(Forty years old. The company has sales of INR 500 Crores, has multiple products, and is divisionally organized)

- Stimulates by inquisitive mind, youthful enthusiasm, ideas and efforts to extend them
- Encourages executives to set high standards, is a strict evaluator and replaces mediocrity
- Decisions are information based and are made after consultation with executives
- Use of authority is reasonably permissive within limits of achievement goals
- Authority is more implied than used
- Catalyses change, pushes for it, and is exhaustive in programming for execution



- Is fully involved in planning, goal setting, and evaluation against targets, with the result that he has a good comprehension of each business and has close, frequent contact with each key executive

CEO 2 (Autocratic style)

(Fifty-five years old. The company has sales of INR 500 Crores, has a single product, and is functionally organized)

- Drives executives by sharpness and toughness of his thought process
- Is respected but not held in affectionately
- Imposes his own standards and is highly demanding in nature
- Becomes emotionally involved in HRD problems and makes arbitrary decisions
- Highly authoritative, has positive point of view but imposes decisions with force
- In spite of efforts to delegate breaths down the shoulder, interferes in operations. Though fully involved in implementation of strategy

Implementing strategy has a facet of control systems, which forms part of the triumvirate and usually lays down policies and procedures to be followed.

Hierarchy of policies

Company strategy: Acquisition of a chain of departmental stores for increasing sales and profitability objectives

Supporting policies:

- All stores will be open from 8 AM to 8 PM for six days in a week with different off days so that customers will be able to market all the seven days in any one of the outlets
- All stores must submit a monthly performance report in the requisite format
- All stores must adhere to laid down guidelines for pricing as per the company manual so that there is uniformity in prices

Divisional objective: Improve division's revenue from INR 10 Mn in 2007 to INR 12 Mn in 2008.

Supporting policies:

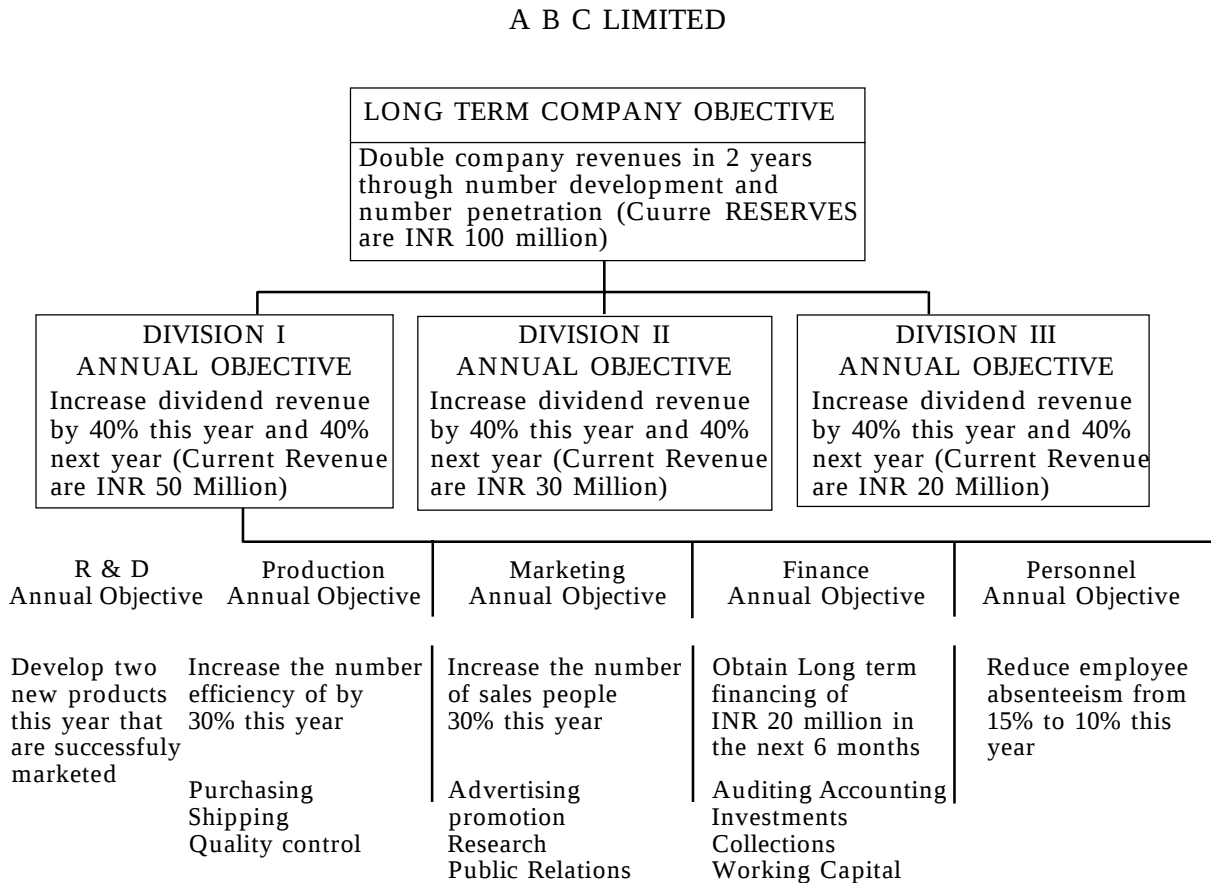
1. Beginning January 2008 each one of the divisions sales man must file a weekly activity report as per the requisite format
2. Beginning January 2008 the division will give a five percent incentive of its gross revenue for those sales man who achieved targets
3. Beginning January 2008 inventory levels carried in warehouses will be reduced by 20% in accordance with MRP approach



These control systems will provide the management with a set of incentives for motivation of employees for improvement of efficiency, quality, innovation and responsiveness to customers. The annual objectives and targets are enshrined in the master budget that is evolved through cross-functional exercises, marrying physical targets imputing financial values. The control system should also provide specific feed back on the performance of the systems.

In conclusion the integration of various attributes of a company to successfully implement a strategy can be visualized through the Mc Kinsey 7S's as discussed in models chapter.

The exercise of annualizing objectives drawing inspiration as well as continuity from long-term objectives of the company keeps the strategic focus alive. Care should be taken to see that annualized objectives in the form of operating budgets do not become standalone exercises. An example of a company trying to establish annual objectives based on long-term objectives is given below:



The above illustrates how the ABC Company could establish annual objectives based on long-term objectives.



STEP3. EXECUTING STRATEGY USING VARIOUS TOOLS

Having developed a framework incorporating policies, procedures and systems the actual execution of the strategy becomes alive. Execution of strategy in a company is fraught with both resistance and speed breakers due to hierarchical and cultural scenario. To navigate a particular strategy through an organization requires specific tools and these tools have been developed through actual experience with the managerial acumen thrown in. There are certain empiricisms in the approach that need to be tested by each company with the set of variables that need to be correlated. Management tools that are currently used in implementation of strategy can be listed as below:

1. Benchmarking
2. Balanced Scorecard
3. Economic Value added
4. Reverse Engineering
5. Business Process Reengineering
6. Business Process Management

1. Benchmarking

Benchmarking can be defined as a tool for improving performance by continuously identifying, understanding, adopting and adapting best practices and processes followed by an entity internally and externally of a company. It will be necessary to note that a benchmarking exercise is based on “best practices” and not on “best performances”. For “practices” connote continuity in use while performances may be flash in the pan and not continuous. Best practice is a continuous process of learning, feedback, reflection and analysis of what works (or does not work) and why? Types of benchmarking are given below:

- i. **Strategic benchmarking:** This aims at enhancing a company’s holistic performance by analyzing the long-term approaches and strategies adopted by the “best practice companies” for their success in any sector across the globe.
- ii. **Competitive benchmarking:** This is confined to the area relating to the performance characteristics of the companies key products and services. So competitive benchmarking will involve the best practices of the companies in the same sector.
- iii. **Process benchmarking:** This is attempted to improve specific key activities and operations culminating into processes with the help of best practice organizations that are engaged in similar activities and services.
- iv. **Functional benchmarking:** Optimization of functional processes or activities through benchmarking can be done by comparing with different business sectors but engaged in similar functions or processes.
- v. **Internal benchmarking:** This involves benchmarking against the companies own divisions or branches or strategic business units situated at different locations. The purpose is to develop a database which gives access to information and a cross fertilization of the managerial acumen with in the company.



The benchmarking process follows a dozen steps:

Phase 1: Planning

1. Identify the area to be benchmarked
2. Identify the sensitive performance indicators
3. Identify benchmarking entity
4. Identify the method of collecting data

Phase 2: Analysis

5. Collection and collation of data and identify gaps
6. Measure and analyze gaps
7. Set phased targets

Phase 3: Integration

8. Develop consensus on gap analysis and targets set
9. Develop implementation programme

Phase 4: Action

10. Sensitize the target audience and start implementation
11. Monitor and measure variations in performance
12. Assess the success of benchmarking process quantitatively and qualitatively

A company may benchmark itself either for survival or for growth. In both cases the functional level strategy needs to be pursued, as it is a strategy inside out. The areas for developing excellence as identified as this strategy are achieving superior efficiency, total quality management, innovation and superior responsiveness to customers. The benchmarking approaches to be adopted for the above areas are listed below:

Achieving Superior Efficiency (Function and defined roles)

Production

1. In mass production, pursue economies of scale.
2. Introduce flexible manufacturing systems for lean production.

Marketing

1. Adopt aggressive marketing using the experience curve.
2. Reduce customer defection rates by improving brand loyalty.

Human resources

1. Institute vocational programs to build skills.



2. Encourage self-managing teams.
3. Implement Rewards Scheme for performance.

Materials management

1. Move towards reducing wastage/inventory.

Information Systems

1. Use information systems for solutions
2. Use information systems to improve Communication / Coordination.

R & D

1. Reduce gestation periods

Top Management

1. Involve companywide commitment to efficiency.
2. Promote cooperation among functions.

Total Quality Management (Function and defined roles)

Production

1. Optimize cycle time.
2. Trace defects through cause and effect analysis.

Marketing

1. Customer Driven Approach
2. Obtain customers' feedback on quality.
3. Approach Robust Quality.

Human resources

1. Institute TQM education programs.
2. Encourage employees to form quality circles.

Materials management

1. Rationalize and integrate suppliers
2. Call for third party certification

Information Systems

1. Institute online controls

R & D

1. Develop to include quality function deployment.



Top Management

1. Develop leadership and commitment to quality.
2. Set Goals and Offer
3. Welcome suggestions
4. Facilitate cooperation among functions.

Innovation (Function and defined roles)

Production

1. Associate with R&D on designing products that can be manufactured
2. Collaborate with R & D to develop process innovations.

Marketing

1. Identify Customer Needs
2. Test market products

Human resources

1. Hire talented Scientists and Engineers.

Materials management

1. Identify sources and develop them for required Raw materials / Components

Information Systems

1. Access relevant data globally in the designated R & D area

R & D

1. Develop new products and processes.
2. Associate with other R & D organizations externally for assessing development

Top Management

1. Manage R & D holistically including development.
2. Provide adequate resources

Superior Responsiveness to Customers (Function and defined roles)

Production

1. Introduce customization through implementation of flexible manufacturing. E.g. pull technology

Marketing

1. Provide After Sales Service



2. Communicate customer feed back to appropriate functions.

Human resources

1. Educate employees on customer expectations

Materials management

1. Improve Operating Cycle through better supply chain management.

Information Systems

1. Introduce Customer Friendly

R & D

1. Associate customers into the product development process through QFD.

Top Management

1. Develop customer driven strategy

In tracking the practices of other companies, **benchmarking** of the process of measuring the company against the products, practices, and services of some of its most efficient global competitors is the ideal way. For example, when Xerox was in the comeback trail in the last lap of 20th century, it decided to institute a policy of benchmarking as a means of identifying ways to improve the efficiency of its operations. Xerox benchmarked L.L.Bean for distribution procedures, Deere & Company for central computer operations, Procter & Gamble for marketing and Florida Power & Light for total quality management processes. By the early 1990s, Xerox was benchmarking more than 200 functions against comparable areas in other companies. This process helped Xerox dramatically to improve the efficiency of its operations.

2. Balance Scorecard

Balance scorecard is a system that measures and evaluates the progress of an organization towards strategic objectives incorporating financial indicators as well as three other perspectives namely customer, internal business and learning / innovation. The scorecard delineates the linkages between the four perspectives and the impact / interdependence among them. It helps an organization to provide continuity as well as monitor past present and potential performance. However, the most important aspect of a balanced scorecard is that it enables the company to decide what is vital for the business to set appropriate targets and provide the necessary motivation to the employees for achieving the same.

The balanced scorecard system came of age during the 90's and Kaplan and Norton popularized it in 1992. Professional manager, the official magazine of Chartered Management Institute, UK reports reveal that the companies are very receptive to this tool and nearly 40% of UK companies have used it and 50% of them to a "great extent". Comprehension about this system is wide spread both in US and Europe. This system has been instituted not so much in terms of Key Performance Indicators (KPI) and target setting, but more for aligning actions to the company's



strategy. Actually, a comprehensive scorecard identifies exactly where the company is heading and what the company is trying to achieve. It also explains the objectives and communicates them across the organization.

The first step towards using this tool is to design it properly on the basis of a consensus on the targets for achievement. As the scorecard is very powerful it is important to measure the deviations correctly and early. A delay in tracking may lead to the company derail from its track.

Approach to a balanced scorecard has following steps:

- a. How do we look to shareholders? Or to succeed financially how should we appear to our shareholders? – Financial perspective
 - I. Identify goals / strategic objectives
 - II. Develop measures
 - III. Set targets
 - IV. Develop key performance indicators
 - V. Take initiatives
- b. What must we excel at? Or to satisfy our shareholders and customers what business processes must we excel at? – Internal business
 - I. Identify goals / strategic objectives
 - II. Develop measures
 - III. Set targets
 - IV. Develop Key performance Indicators
 - V. Take initiatives
- c. Can we continue to improve and create value? Or to achieve our vision how will we sustain our ability to change and improve? – Innovation and learning perspective
 - I. Identify goals / strategic objectives
 - II. Develop measures
 - III. Set targets
 - IV. Develop Key performance Indicators
 - V. Take Initiatives
- d. How do customers see us? Or to achieve our vision how should we appear to our customers? – Customer perspective
 - I. Identify goals / strategic objectives



- II. Develop measures
- III. Set targets
- IV. Develop Key performance Indicators
- V. Take Initiatives

Note 1: All the above four steps are not sequential; they are interdependent and as such will have to be developed through cross-functional effort.

Note 2: The Key Performance Indicators will have to be developed for different layers of organization and different functions as they have a cascading effort across the organization. These indicators help to detect whether there is a short fall or the targets have been exceeded.

Note 3: The Key Performance Indicators also become the lead indicators to portray misalignment and strategy at a point of time.

Companies have used balanced scoreboard on an on going basis as part of their strategic management activities. The mission statement is connected to its purpose and spelt out clearly as key values. The balanced scorecard is likened to a steering wheel with four gears (Four perspectives) – customer, financial, operations and people. Latterly, a fifth (perspective) has been included in the form of community to reflect the impact of changing environment. As a steering wheel balanced scorecard communicates the direction of strategy as it is being implemented through out the organization. In some companies the business plan itself is prepared using balanced scorecard and also provide incentives on achievement of results. The results are monitored on quarterly basis and more frequent review meetings.

The scorecard has been improved to account intangibles like managing people, learning perspective, community behavior and so on. However, it is important to interpret these outputs and fully investigate the results, as there is a certain amount of complexity in the framework. Another salient feature of balanced scorecard is that it has a flexible framework that can be applied and adapted for a big or small business and for different circumstances and situations.

Canada's Management Accounting guideline applying the balanced scorecard states "managers can use the balanced scorecard as a means to articulate strategy, communicate its details, motivate people to executive plans and enable executives to monitor results. Perhaps the prime advantage is that a broad array of indicators can improve the decision making that contributes to strategic success...Non financial measures enable managers to consider more factors critical to long term performance."

Corporate social responsibility has gained great currency and has become part of annual reporting by organizations across the globe. In India, the governments during the last decade have been advocating public private partnership in many projects that are oriented towards community development. The focus of a company in respect of corporate social responsibility is to integrate this responsibility into the balanced scorecard's four perspectives so that they can be monitored. It will also establish proper alignment with the company's strategy. The following table shows the integration of corporate social responsibility to balanced scorecard:



How to integrate CSR into the Balanced Scorecard's four perspectives

Balanced Scorecard Perspective	Market Forces (Objectives)	How success or failure is measured using the triple bottom the (A common framework for sustainability reporting)	Target: The level of performance or rate of improvement required.
Financial	“Green” consumers	Energy consumption footprint (annualized lifetime energy requirements) of major products	Annual reduction in energy footprint for new products
Financial	Energy crunch	Direct energy use segmented by source	100% renewable energy
Financial	Financial	Increase/decrease in retained earnings at end of period	Percentage
Internal	Pollution and health	Standard injury, lost day and absentee rates and number of work-related fatalities (included subcontractors)	0 lost-time & fatalities, or long-term illnesses
Internal	Climate change	Total greenhouse gas emissions	Annualized reduction
Internal	Governments and regulators	Incidents and fines for non-compliance with all laws and regulations	0 incidents or fines
People and Knowledge	Civil society / NGOs	Policies guidelines and procedures to address needs of Indigenous people	Number of Indigenous employees
People and Knowledge	Activist shareholders	Business units currently operating or planning operations in or around protected or sensitive areas	Number of employees trained in environmental management practices
Customer	Erosion of trust / transparency	Policy to exclude all child labor	No child labor
Customer	Globalization backlash	Supplier performance related to environmental commitments	Use of 100% organic cotton or coffee



Source: Figure 3, page 859, “The balanced scorecard and corporate social responsibility: Aligning values for profit”, David Crawford and Total Scaletta – The Management Accountant, Volume 42, No.11, November 2007.

3. Economic Value Added (EVA)

Management performance has always been evaluated by financial ratios and the management gurus have propagated management of ratios through both numerator and denominator management. On such important ratio is

$$\text{Return on Capital Employed} = \frac{\text{Profit before Interest and Tax}}{\text{Net Fixed Assets} + \text{Net Current Assets}}$$

Or

$$\text{ROCE} = \text{PBIT} / (\text{NFA} + \text{NCA})$$

This ratio had been used for nearly a century for assessing both divisional and company performances from the operational perspective and utilization of funds. Improvement in this ratio has been attempted by the managers through both numerator and denominator management.

While the financial structure of an organization evolved **cost centers** gave way to **profit centers** to provide motivation to divisional managers. At this juncture ROCE was considered as the best measure of a profit centre. However, the divisional heads chose to improve this ratio more by denominator management, which is by reducing the denominator rather than augmenting the numerator. This led to an occupational hazardous situation where the Net Fixed Assets were being phased out but the repair cost to maintain the fixed assets were on the increase without replacing the fixed assets. Technological obsolescence was looming large in the horizon and many companies collapsed due to their fixed assets becoming anachronistic and inefficient. So the profit center had to be upgraded into a **strategic business unit** to take care of the business holistically to include strategy both in respect of business functions and technology with a futuristic tilt.

Arising out of this development *Economic Value Added (EVA)* as an integrated financial system has become important tool for guiding strategy. This forms the basis of an integrated financial system such as

- Setting financial goals
- Developing long-term strategic plans
- Short-term profit plans
- Making capital investment and disinvestment decisions
- Measuring operating performance
- Determining incentive compensation

The above financial system is designed as

- a. Corporate financial goals are identified in terms of Earning Per Share and Return on Net Worth



- b. Individual lines of business are assessed in terms of Return on Assets
- c. Capital investment⁴ is analyzed in terms of Discounted Cash Flow or Internal Rate of Return
- d. Acquisition are judged on the basis of their Contribution to Earnings Growth
- e. Division are evaluated with reference to budgeted targets
- f. Incentive compensation schemes are based on targets achieved
- g. Investor communication is normally in the form of Earnings Per Share and Dividends distributed

Economic Value Added can be computed in four different, yet equivalent ways,

- a. $EVA = NOPAT - c * x (CAPITAL)$
- b. $EVA = CAPITAL (r - c^*)$
- c. $EVA = [PAT + INT (1-t) - c^* x (CAPITAL)]$
- d. $EVA = PAT - K_e \times EQUITY$

Where,

- NOPAT is Net Operating Profit after Tax
- C^* is Cost of Capital
- CAPITAL is Economic Book Value of Capital Employed in the firm
- “r” is Return on Capital = $NOPAT / CAPITAL$
- PAT is Profit after Tax
- INT is Interest Expense of the firm
- “t” marginal Tax Rate of the firm
- K_e is Cost of Equity
- EQUITY is equity employed in the firm

The EVA system implementation involves six steps in an organization:

- a. Articulate top management commitment to EVA
- b. Develop acceptable definition of EVA
- c. Nominate EVA centers
- d. Identify drivers of EVA
- e. Develop incentive compensation system
- f. Educate all employee about EVA

Having implemented EVA system the ethos of a company will be to interpret EVA as per the requirement of each center and compare it with the targets. Each division then attempts to improve EVA and this can be done in four ways:



- a. Improving Operating Performance (Functional Level Strategy)
- b. Improving profitability of investment (Business Level Strategy)
- c. Divestment of unproductive capital (Global Corporate Level Strategy)
- d. Reducing the cost of capital (Corporate Level Strategy)

Balance sheet and profit and loss account of ABC Corporation

ABC cost of equity is 18 per cent. The interest rate on its debt is 12% which, given a marginal tax rate of 30%, translates to a post-tax cost of debt of 8.4%. Since ABC employs debt and equity in equal proportions, its weighted average cost of capital is: $0.5 \times 18.0 + 0.5 \times 8.4 = 13.2\%$

ABC NOPAT is $PBIT (1 - \text{tax}) = 42 (1 - 0.3) = \text{Rs. } 29.4$ million. Given a CAPITAL of Rs.200 million, ABC return on capital works out to $29.4 / 200 = 0.147$ or 14.7%.

(Rs. In Million)

Balance sheet as on 31/03/2007		Profit and Loss statements as on 31/03/2007	
Equity 100	F. Assets 140	Net Sales	300
Debt 100	Net C. Assets 60	Cost of goods sold	258
200	200	PBIT	42
		Interest	12
		PBT	30
		Tax	9
		PAT	21

Based on the information, ABC's EVA may be computed in four different, yet equivalent, ways:

$$\begin{aligned} \text{EVA} &= \text{NOPAT} - c^* \times \text{CAPITAL} \\ 29.4 - (0.132) \times 200 &= \text{Rs. } 3 \text{ million} \end{aligned}$$

$$\begin{aligned} \text{EVA} &= \text{CAPITAL} (r - c^*) \\ 200 (0.147 - 0.132) &= \text{Rs. } 3 \text{ million} \end{aligned}$$

$$\begin{aligned} \text{EVA} &= [\text{PAT} + \text{INT} (1 - t)] - c^* \times \text{CAPITAL} \\ [21 + 12 (0.7)] - 0.132 \times 200 &= \text{Rs. } 3 \text{ million} \end{aligned}$$

$$\begin{aligned} \text{EVA} &= \text{PAT} - K_e \times \text{EQUITY} \\ 21 - 0.18 \times 100 &= \text{Rs. } 3 \text{ million} \end{aligned}$$

**Numerical illustration of value creating strategies**Base Case

CAPITAL: 10,000

NOPAT: 2000

C*: 15 PERCENT

r: 20PERCENT

$$\text{EVA} = \text{CAPITAL} \times (r - c^*) = 10,000(0.20 - 0.15) = 500$$

Strategy 1: Improvement in operating performance

1. NOPAT increase from 2000 to 2250, due to greater operating efficiencies. This rises to 22.5 percent. As a result EVA raises to 750
2. $\text{EVA} = \text{CAPITAL} \times (r - c^*) = 10,000(0.225 - 0.150) = 750$

Strategy 2: Profitable Investment

1. A new project requiring 10,000 is expected to earn a return of 18 percent thereby adding 1800 to NOPAT. This project will increase EVA, even though the consolidated return will decline to 19 percent (the average of 20 percent and 18 percent)
2. $\text{EVA} = \text{CAPITAL} \times (r - c^*) = 20,000(0.19 - 0.15) = 800$
3. Note that maximizing EVA is more important, not maximizing return on capital. Hence the project should be accepted

Strategy 3: Withdrawal of unproductive Capital

1. 1000 of working capital can be liquidated with only a marginal decline of NOPAT. NOPAT will fall by just 50. Withdrawing this working capital would increase the rate of return to 21.67 percent $(2000 - 50) / (10000 - 1000)$ and EVA to 600
2. $\text{EVA} = 9000 \times (0.2167 - 0.150) = 600$

Strategy 4: Reduction in the cost of capital

1. The capital structure of the firm is altered and its change lowers the cost of capital to 13%, without affecting anything else. As a result EVA rises from 500 -700

$$\text{EVA} = \text{Capital} \times (r - c^*) = 10,000 (0.20 - 0.13) = 700$$

4. Reverse Engineering

From time immemorial man has been in pursuit of discovery and the ways and means by which he did his pursuit was through understanding nature. He tried to trace the origins of any natural product so that the production cycle or the operation cycle is fully understood. This sense of research into various steps of development from a seed to a tree, a cost to the effect he added his own expertise to synthesize products where natural products were available to improve on their properties. Natural vanilla was available when synthetic vanilla was available. Again natural indigo was available from the farmlands, to increase the availability throughout the year and improve the properties synthetic indigo was produced. In all these



processes reverse engineering method has been applied. Reverse engineering provides the research scholars an insight as to how an existing product was developed and this revelation could lead to a development of similar new products or an improved same product with technological break through.

Reverse engineering has been in prevalence for over centuries and Indian engineers have been particularly successful in reinventing many products through this methodology. Modification or developing a new process by which the same product can be produced at a lower cost with improved properties was achieved through reverse engineering without infringing the patent laws. The patent laws existed until the last decade in India was process oriented but from 2005 with the globalization in full steam the new intellectual property rights regime with product patent orientation has become a dampener on reverse engineering for the invention. However, reverse engineering still continues to be a tool to crack opens the secrets of production of a product and a total understanding of the product.

Reverse engineering is essentially a four-stage development process. The first stage is a development of awareness. At this stage a product that has come into the market and has been accepted by the customer becomes the target for a competitor. The competitor identifies this product, which has just started its life cycle and has a lot of growth potential and tries to gather whatever information is available in the public domain. In the second stage the competitor initiates reverse engineering. He obtains the new product from the market, breaks open the formula, analyses it to understand the nuances of processes, which have produced the product. This part of the research work is time consuming as it has a lot of trial and error judgments involved and the cost also is fairly high. In the third stage the competitor has been able to develop a know how through reverse engineering in the second stage and tries to design new prototypes improving on the product already in the market. The product development goes through their entire gamut of design, producing prototype, test marketing, modifying characteristics and finally ramp up. In the fourth stage commercialization is taken up either to compete with the product already in the market or to substitute it through replacement.

In conclusion though reverse engineering has taken a back seat for introduction of new products akin to the products already floated in the market due to IPR restrictions, the advantage of reverse engineering to understand any new product gives a competitor or entrepreneur new insights for similar products of a family. The basics to understand nature like the cracking of DNA or the processes of cloning etc., reverse engineering still has a big role to play as a functional strategy.

5. Business Process Reengineering

Reengineering has been defined as “the *fundamental* rethinking and *radical* redesign of business *processes* to achieve *dramatic* improvements in critical contemporary measures of performance as cost, quality, service and speed”. The keywords in the above definition clearly indicate the following:

1. The approach to reengineering is from the basics and not just a window dressing operation



2. The approach has to question the basics as to the relevance of the bygone era to the present reality
3. The purpose of reengineering is to bring about a dramatic change or in other words not just an improvement through synergy but as a total turn around
4. Processes, which a collection of activities culminating to a definable stage and are critical, they need to be re-engineered to help a, b and c points. This is in view of the fact that these critical processes are the main constraints and the removal of these constraints will unlock the total flow and energy of the organization.

The reengineering methodology has four phases as follows:

Preparing for change:

The top management understands need for a reengineering process to be introduced in the organization as a vital tool to turn the organization around. It takes entire organization into confidence and starts exploring the reengineering process.

Planning for change:

This includes application of radical approach to the existing strategy and development of totally a new vision, mission and guiding principles. On the basis of this a new strategic plan has to be developed.

Designing change:

Getting into the brass-tacks of the total change to be brought about and then follow specific steps to design the new processes.

Review and evaluate progress:

Critically evaluate the results and the problems phased during implementation for any operational modification or breakthrough

The detail steps of the four phases are mentioned below:

Preparing for change

1. Top management explores the reengineering process.
 - a. Educate management on the reengineering process and the need to change.
 - b. Create a reengineering steering committee.
 - c. Develop an initial action plan.
2. Prepare workforce for involvement and change.

Planning for change

3. Create a vision, mission, and guiding principles.
 - a. Identify core competencies.
 - b. Develop a vision statement.
 - c. Develop a mission statement.
 - d. Determine guiding principles.



4. Develop a three to five year strategic plan.
 - e. Conduct a current business review.
 - f. Determine external environmental factors.
 - g. Conduct an internal health review.
 - h. Complete business-as-usual forecasts.
 - i. Conduct a gap analysis.
 - j. Develop a three – five-year strategic plan.
5. Develop yearly operational or breakthrough plans.
 - k. Develop operational objectives.
 - l. Organize resources.
 - m. Rank potential changes in order of priority.
 - n. Develop one-year operational plans and budgets.
 - o. Apply and evaluate operational plans.

Designing change

1. Create a vision, mission, and guiding principles.
 - a. Determine the critical organizational processes.
 - b. Measure the critical processes.
 - c. Rate the process performance.
 - d. Identify opportunities and the process (es) to be reengineered.
2. Establish the scope of the process-mapping project.
 - e. Identify process stakeholders.
 - f. Create the project's mission and goals.
 - g. Structure and select team members.
 - h. Develop a work plan.
3. Map and analyze the process.
 - i. Depict the process in a flow-chart.
 - j. Depict the process in an integrated flow diagram.
 - k. Complete the process-mapping worksheet.
 - l. Complete the cultural-factor analysis.
4. Create the ideal process.
 - m. Describe the ideal process on paper.
 - n. Compare the current process to the ideal process.



- o. Assess the gaps.
- 5. Test the new process.
 - p. Develop pilot objectives.
 - q. Develop pilot measures.
 - r. Gain agreement and approval from stakeholders.
 - s. Conduct a pilot test of the new process.
 - t. Assess the impact of the pilot test.
- 6. Implement the new process.
 - u. Develop an implementation action plan.
 - v. Execute the plan.

Evaluating change

- 7. Review and evaluate progress.
 - w. Evaluate organizational measures.
 - x. Having the steering committee evaluate the results.
 - y. Revise the three-to five-year strategic plan, if necessary.
- 8. Repeat yearly operational / breakthrough planning cycle.

In India business process reengineering has come of age and many companies have successfully attempted bringing dramatic change. Examples can be drawn from the reengineering done by ICICI Bank when they took over Madhura Bank, Indian Railways when they introduced computerized reservation, State Governments introducing reengineering for registration of land and properties, election commission of India reengineering the electoral process itself.

6. Business Process Management (BPM)

Another important tool for implementing strategy is the Business Process Management that has come of age. Mark McGregor, a management Guru from U.K has popularized this framework by developing the BPMG 8'Omega framework. The crux of this approach is the grid analysis and the relationship through the grid of the five important perspectives namely, purpose, strategy, people, process and systems with a proven structured approach following a definite path starting with discovery, analysis, design, validation, integration, implementation, control and improvement (DADVIICI).

	Discovery	Analysis	Design	Validation	Integration	Implementation	Control	Improve
Purpose								
Strategy								
People								
Process								
Systems								



Purpose: Arising out of vision and mission of a company the key perspectives, strategy, people, process and systems need to be integrated into single-minded purpose (Ekaagra sandhi). This step is very important in as much as purpose enshrines both quantitative and qualitative aspects of vision and mission in a seamless form.

Strategy: Strategy is what separates winners from losers, it is a guiding principle behind what we do and why we do? If projects are not related back to strategy they are not delivering the business value needed for long-term success. Understanding strategy better with the purpose for which we are applying the resources in the most appropriate manner can infuse the purpose in the project.

People: Traditional approaches and frameworks have paid little attention to the people perspective. It is necessary to understand the impact of change on people to increase the chances for success in a project. Several organizations have succeeded by just dealing with people, process and strategy without much attention being paid to the other perspective – systems. Or other words, systems are for people and not people for systems. People are the lifeblood of any organization. If the company does not adequately recognize and understand the people impacts of any change, the project tends to fail. People are being bombarded with change in every aspect of their life and the last thing they feel comfortable with is yet, more change at work. The people perspective ultimately controls the success or failure in strategy implementation through projects.

Process: Process perspective can relate to enterprise business processes or value chains, business processes or just processes. It is the process that is at the heart of an organization second only to the people perspective. If the company does not fully understand the processes used in the organization, then the chances are that unnecessary waste / cost will be incurred.

Systems: Most of the earlier frameworks commonly in use attack the problem from a systems perspective and relate the rest of the world to them. In the 8 Omega framework, systems have been accorded a position where it designed taking into consideration the purpose, strategy, people and process. Naturally, systems perspective is the invisible thread that connects the above four perspectives. The Bhagavad Gita has offered many systems to approach the Atman, based on the level of comprehension of the individual of the relationship between body and soul. The system to be followed by the individual to reach the goal of Atman is to be selected very carefully. As the individual has control only over the system the results automatically follow if the selection of the system has been properly made on the basis of purpose, strategy, people and process. Systems are also about the way that the people work.

These five perspectives in the 8 Omega framework is built up as follows (DADVIICI):

Discovery: Discovery is the starting point for any project or any initiative. Until the company is certain that it has collected all the data and information it cannot proceed to the next stage of analysis. The risk in the discovery stage is that all the variables that impact the perspectives are not identified always. For this stage seeks to identify the root causes to the problems faced by the company. The steps to be followed in the discovery stage are as follows:

1. Compile current and future strategic plans
2. Determine key decision makers
3. Identify strategic planning process



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4. Audit current skills
5. Determine process roles
6. Map functional activities to customer outcomes
7. Understand current process capability
8. Identify process dependencies
9. Map current metrics
10. Audit current systems
11. Capture systems development plans

Analysis: Once the company comprehends the issue at hand and has determined the scope analysis can be started. Again the issue is analyzing the problem and not jumping into premature evaluations of potential fixes. The key point here is to do just enough and no more than the company needs. The steps involved in the analysis are given below:

1. Undertake strategic analysis of best practice process performance
2. Identify critical skill sets for improving process performance
3. Establish competence framework
4. Size the effort to move to
 - a. Awareness
 - b. Critical mass
 - c. Fully process centric working
5. Audit the current processes
6. Identify root cause analysis
7. Quantify tactical opportunities available
8. Develop a case for change
9. Complete BPM maturity model
10. Assess systems alignment with process objectives
11. Prioritize system development to align with process objectives
12. Identify business process management systems (Available as specific / generic software systems in the market)

Design: In the design phase the company seeks to identify new solutions. In order to do this the company should look and evaluate multiple solutions. The company should also identify some quick wins – the ones that can be put in place and easily in order to encourage the management activity. The company should also propose some outlandish solutions, as many management teams would like to drive the extra mile. It will be apt to quote here Lord Byron “Your desire must extend your grasp, or what else is the heaven for”.



The steps to be followed in this phase:

1. Established “hardwired” strategic view of processes
2. Develop process system design to incorporate key performance measures allied to strategy
3. Create strategic process model
4. Develop people skills development programme and identify reward systems
5. Align customer outcomes to key business processes
6. Create /Refine process model
7. Establish a strategic process model outline
8. Plan process priorities aligned to customer outcomes
9. Select systems for tactical and operational deployment of process change
10. Categorize systems development effort to optimize process deployment

Validate: The validation phase is where the company starts to test that the new processes will actually work in the organization. Often, issues crop up during the implementation phase that should have been foreseen, had some one tested the proposed solution was implementable in the organization. Often, the best solution is not the most suitable to the company. All the organizations are different and as such there is not ideal solution. The steps for validation are given below:

1. Simulate strategic roll out to test strategic process assumptions
2. Executive reviews
3. Review process competencies against targets and objectives
4. Confirm skills development programme to grow process knowledge and application
5. Review and agree process plan which sponsors an executive team
6. Confirm and size strategic process model
7. Simulate process activities with in current and developing systems
8. Refine systems development approach
9. Populate strategic process model

Integrate: Integration is a phase little understood in the business process world. But the fact is that the company has to put new processes in place in an organization where old processes already exist. More time will have to be spent on this phase for proper integration of the old and the new. The steps involved are:

- Redefine existing strategy into strategic process model
- Undertake organization wide communications defining and emphasizing process objectives
- Align current and developing process management competence system with existing



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reward system

- Migrate people management systems into strategic process model and framework
- Appoint key process people and roles
- Dovetail process change across main functions and activities
- Determine and refine process integration programme
- Migrate legacy systems into new system environment
- Optimize process role out through current systems

Implement: Now that the proper groundwork has been done, the company can begin implementation of the new processes or solutions. At this stage communication is very vital, especially as the resistance to change will have to be overcome. The steps for implementation of the new processes or solutions are given below:

- Deploy strategic process model
- Communicate improved process flow and operating guidelines
- Conduct training on improved processes
- Establish BPM awareness and education programme
- Establish process teams priorities
- Manage process integration programme
- Role out process controls
- Deploy new BPM systems
- Refine current systems to achieve process objectives
- Manage roll out and re assess integration approach through BPM audit and feedback

Control: During the analysis and design phases the company would have developed measures and metrics to judge the success of the processes or solutions. The company should ensure that the gains are retained and not reverting back to old ways. The steps for instituting controls are as follows:

- Review and monitor strategic process measures
- Provide feedback and action planning to refine strategy
- Review and maintain training and education approaches
- Roll out and maintain BPM awareness
- Manage process metrics
- Hold and continually improve process performance gains

Improvement: This is a phase that separates those doing improvement projects from those looking at BPM as a way of life. However well a company does there are always new and innovative ways to improve. The maxim of continuous improvement can never be gainsaid.



The steps in the improvement phase:

- Embrace all key strategic activity
- Align strategy to customer outcomes
- Grow and refine strategic process model
- Broaden process understanding
- Deepen process skills
- Develop process competence
- Populate strategic process model
- Extend process scope across the value chain
- Reinforce customer proposition through process evolution

In conclusion the essence of BPM can be spelt out in the following words:

- a. Identify best practice within the organization
- b. Identify best practice applied in the industry
- c. But, better, cheaper, faster is not enough
- d. In future it will the next practice organizations that will prosper, because
 - i. They are more agile
 - ii. They break the rules
 - iii. They constantly innovate
 - iv. They disrupt markets

STEP 4. INTRODUCE CONTROLS

With the various strategies being implemented using different tools, it is absolutely necessary to oversee that the implementation is proceeding in the correct direction and pace. Towards this, certain strategic controls need to be established for detecting variations from standards. These strategic controls provide the necessary feedback. There are four types of controls, which are normally established.

1. Premise control

Strategy implementation is always based on certain premises and assumptions and these assumptions need to be validated from time to time. The assumptions can be broadly divided into two types namely environmental based and industry based. Environmental factors relate to demography, statutory regulations, technology, inflation, financial indicators, etc. Industry factors are based on the information on competition, suppliers, substitutes, market, etc. All these assumptions are quantified as far as possible so that a comparison can be made with actual

2. Implementation control



The implementation phase is made up of a number of steps sequentially performed. These steps can be a part of the network and are designated by the time taken, resources required and the critically to the total project. The implementation control aims at monitoring strategic thrusts and milestone reviews.

3. Strategic surveillance

This control is mainly to ward off any threats or reduced impact of the same. This surveillance is designed to monitor specific events, internal and external to the company that may develop into a threat for the implementation. Examples can be that a particular industry enjoys certain favorable tax sops, export import subsidies, etc. Removal of such sops may threaten the industry itself and the assumptions made for implementation of strategy.

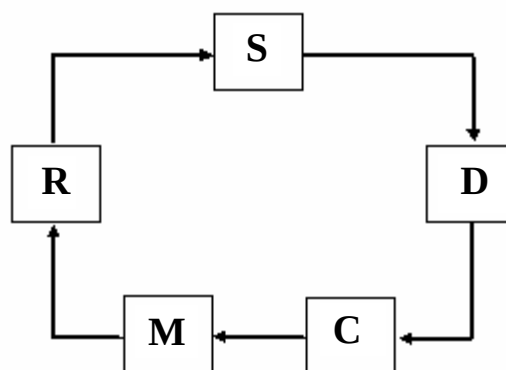
4. Special alert control

This control is mainly introduced to expect the unexpected. In many a strategy implementation project it spans over period of years and sudden unexpected events can totally derail the course of implementation. Under such circumstances such an occurrence should be handled on a war footing and a crisis management team will have to go into action immediately. For example, devaluing Indian Rupee in early 1990's put many a project into jeopardy and crisis management efforts had to be put into action. Special alert control in this regard is able to bring to the notice of the management any impending contingency on the basis of certain lead indicators so that the company is not caught off guard.

STEP 5. INITIATE FEEDBACK CONTROL

Having established the four different controls it is necessary to establish a feedback control system as shown below:

Feedback control loop



Where, S is system, D is detection, C is control, M is measurement and R is regulation.

For our purposes a company can be regarded as a system (S), which is implementing a strategy and has established controls (C). Any deviation from the control is detected by a



sensor (D) and compared with the control (C) to measure the deviation (M). According as (M) corrective action as regulation (R) is put into the system as a feedback. Now in a strategy implementation four different types of controls and as such detection of deviation will have to be monitored by specific agencies (D).

The agencies can be cost control cell for cost overrun, project-monitoring cell for time overrun, steering committee for strategy deviations and corporate planning cell for environmental scanning to identify impending threats. This monitoring is an ongoing process. Senior management on the basis of the nature and quantification of the deviation normally take the corrective action. This may be in the form of crashing using cost slope and probability models.