MAKING YOUR BUSINESS COMPETITIVE

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To my great loves: Tamar and Mia

David Jacobs

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Chapter 1

Introduction

There is an urgent need to improve business competitiveness in the face of ever-increasing global competition. Competitiveness includes two elements: the desire and the ability to compete. The desire to compete is an attitude of mind, which must be shared by all members of top management, and communicated to everybody in the company. If top management lacks this attitude, wallows in complacency, laziness or ignorance, very little will happen. We do not know how to galvanize inept top managers. We are therefore addressing those managers who do have the right attitude, but who may feel that their companies' ability to compete could be improved.

We believe that the ability to compete has two components:

- organisational efficiency
- organisational effectiveness.

The terms 'efficient' and 'effective' are used very loosely and often interchangeably. Strictly speaking, 'efficient' means performing tasks with a minimum of effort and cost, whereas 'effective' means the ability to achieve results. It is possible to be efficient by carrying out certain tasks quickly and at low cost. However, if those tasks should not have been undertaken at all, because they do not contribute to the achievement of organizational objectives, or if the way in which they have been performed has not had the necessary impact ('going through the motions'), the organization or person performing those tasks cannot be defined as effective.

For brevity, we have elected to use the single term 'productivity' to describe the functioning of an organization or an individual, thus implying the achievement of both planned results and having impact, as well as efficiency, (cost-effectiveness), through obtaining those results in the shortest time and at minimum cost.

Achieving and maintaining organizational productivity depends on a number of factors:

- Top management's ability to define and communicate overall company objectives sufficiently clearly, so that managers at all levels can define their own departmental and personal job objectives in terms of their contribution to the achievement of company objectives.

  Clear long-term strategic objectives give a sense of direction to all employees, while clear quantified operational objectives, derived from the long-term objectives, ensure coordinated effort by all departments. Not only do clear objectives provide the starting point for better planning, they also provide unambiguous criteria for success, in terms of which each manager can measure his or her own performance.
- Top management's willingness to expand the jobs of all managers so as to give them the greatest sense of challenge and freedom of action.
- Top management's ability to develop a team of managers who constantly strive to improve their own productivity, by focusing on 'value-added' work; and a workforce that 'really cares': cares about 'getting it right first time' in accuracy, quality, cost, delivery and customer satisfaction.
- The development of operating systems which provide the most cost-effective means of planning and control and yet are suited to the human needs of managers and employees.
- Management awareness – really knowing what is going on both outside and inside the company. The focus of management attention should be on:
  - ☐ The business environment, especially on markets, customers and competitors.
  - ☐ Internal factors:
    - — operating results (in both financial and non-financial terms);
    - — the organization's structure, with particular reference to the clarity with which people understand their roles and their expected contribution;
    - — the effectivess of all operating systems;
    - — the working climate, which in our view is the determining factor in producing a productive organization.
- Management's ability to diagnose the symptoms disclosed both by the formal management information system and by informal personal impressions.
- Management's ability to communicate information to all levels in the organization, and to involve them in developing plans for immediate implementation and/or corrective action.

The concept of organizational productivity should be applied not only to work on the factory floor (which in many cases represents only a small proportion of total costs), but to all company activities, including the managerial. Frequently, there are opportunities for significant savings in insurance premiums, financial charges, stock levels, penalty clauses etc, which are not 'production' costs, but which have a major impact on overall costs.

Can any organization improve its competitiveness? We have no doubt that it can. The critical factor is the attitude of top management and its willingness to operate as suggested in this book. In offering these ideas, we are not presenting a theoretical treatise, or describing a utopian world. The ideas are based on our observations of the successful and less-than-successful practices of the companies with whom we have been privileged to work during three decades; they are therefore intended as practical, down-to-earth suggestions, which can be implemented in all organizations.

This book is not intended to be a textbook for students; it is rather a handbook for managers, presented in a concise form. The book's structure is intended to facilitate accessibility, and diagrams have been used where it was felt that they would contribute to better understanding of concepts.

Chapter 2

The Hierarchy of Linked Objectives

If the measure of effectiveness is the achievement of planned results, the starting point for effective action must be the definition of objectives on which to base appropriate action plans. There are two elements involved: the clarity of the objectives themselves, and the extent to which they are understood, accepted and followed by all members of the organization.

COMPANY OBJECTIVES

In the company as a whole objectives often suffer from the following shortcomings:

- They are expressed only in financial terms, with no attempt to translate financial objectives into meaningful operational objectives for each division and department.
- They are set for the benefit of Stock Exchange analysts and the financial world, and do not relate to the realities of the market-place.

  We recall the resentment of a managing director, who had completed his company plans for the coming year, showing a profit projection which had been based on a very careful analysis of market potential, only to be faced by a demand from the plc chairman to add another million pounds to the profit figure.
- They are extremely vague: 'improve our image'; 'improve quality'; 'increase sales'; 'improve the working climate'. All of these are doubtless fine ambitions, but if not expressed in terms of specific targeted results, cannot serve as the focal point for effective action.

DEPARTMENTAL OBJECTIVES

At the level of divisions and departments, company objectives suffer from the following shortcomings:

- They have not been tested to ensure their feasibility, or to ensure the compatibility of the objectives of the operating departments.

We have an example in which a sales-volume objective translated into a production objective requiring three-shift working every day – a programme which would have prevented the maintenance department carrying out its essential work.

- They have been defined without the active and uninhibited participation of line managers and without a substantial measure of consensus between them.

  A steel manufacturing company decided to double its productive capacity at a time when steel plants were being reduced or even closed. Half the managers believed it was a good idea, while the other half believed it was terrible. The consequence was irreconcilable conflict between the two groups.

- Managers, even at high level, are not aware of objectives.

  Each manager in a major car manufacturer was asked at a seminar to write down what he believed to be the company's most important objective. The replies were sorted into almost equal groups. One group stated 'to manufacture cars and car spares'; the other group stated 'to provide jobs'. Moral considerations aside, these two objectives were incompatible, since at that time it was very difficult to sell cars. If the prime objective was to build cars only, then it would have been appropriate to reduce the workforce; had the prime objective been to provide jobs, then it would have been necessary to introduce other products. This fundamental disagreement on the very *raison d'être* of the company was a symptom of a very sick organization.

PERSONAL JOB OBJECTIVES

At the level of individual managers, lack of awareness of company and even divisional and departmental objectives leads to a lack of definition of personal job objectives, which in turn leads to work-orientation rather than results-orientation. In other words, instead of focusing on achieving objectives, the manager is anxious to show how hard he or she has worked and may even give attention to the wrong things, being unaware of real priorities. This lack of awareness of objectives and priorities leads to a lack of common understanding between managers at different levels in the organization. We know the owner of a company who took on a general manager and was subsequently very disappointed that the person had not fulfilled expectations, even though those expectations had never been defined!

CRITERIA FOR OBJECTIVES

As a starting point for effective action, objectives should fulfil the following criteria:

- *They should be specific, clear and unambiguous:*
  - the vague, unspecific 'improve our image' should read 'ensure delivery on promised dates in 95 per cent of cases; arrange press releases every month on new-product development', etc.
  - 'improve quality' should read 'reduce complaints by 50 per cent within three months; obtain the national standards institute approval on main products within six months', etc.
  - 'increase sales' should read 'increase cash sales by 15 per cent within two months, increase credit sales by 40 per cent within four months, increase number of new customers by 20 per cent within four months', etc.
  - 'improve working climate' should read 'reduce work stoppages by 10 per cent and reduce absenteeism by 25 per cent, both within three months; introduce weekly team briefings in the factory immediately'.

- *They should be measurable.* All objectives should be quantified in terms of targeted results (for example sales), which should be increased by a stated amount, or undesired results (for example accidents), which should be decreased by a stated amount; or in terms of cost. Certain objectives (for example, those relating to the working climate or to company image) may have to be expressed in terms of symptoms (absenteeism or labour turnover), or appropriate actions (team briefings or press releases). This is an essential requirement, since what is not measurable cannot be controlled.

- *They should be defined within a clear time-frame.* Objectives which have no target date are only statements of good intention and cannot form the basis for meaningful action plans. Thus, 'We will start exports to South America' is meaningless; 'We will export 10 000 pairs of shoes per month to Bolivia by 30 November' is meaningful, since it provides a focal point for all departments concerned.

- *They should be challenging,* representing something to strive for and so providing a sense of direction and excitement. They must, however, be established and accepted by the managers who will be responsible for achieving them.

  We conducted a strategic planning workshop with the managers of a small manufacturing company, who agreed that their main objective was to become the biggest in their industry. In order to do so they had to increase their sales by a multiple of ten. They analysed the implications of this outrageous objective, broke them down by departments and by time periods and decided that they could do it within five years. They then defined the sales volume required in the first year of the five-year programme, and the sub-objectives for each department in order to reach that first-year figure. Each manager then committed himself to achieving his objectives by actually signing the flip-chart paper on which he had written them. In a letter, the managing director later told us, 'I have had comments from every person who attended the workshop, ranging from "I see things differently now" to "This is like a new company". I believe that the motivation and drive that has come out of this workshop is a direct result of the way we sat down and formulated what we are going to do for the next five years. We have update meetings every two weeks; we review our actual position with the plan. Every person in the company now has a mutually agreed objective which is reviewed quarterly.'

We recently conducted the first annual follow-up workshop, when the managers reported that they had comfortably exceeded the first-year objective, thus proving to themselves that they were really on target, with every chance of meeting their ultimate objective.

- *All company, divisional and departmental objectives must be integrated into a mutually consistent hierarchy of objectives.*

THE HIERARCHY OF OBJECTIVES

The concept of a hierarchy of objectives is illustrated in Figure 2.1. Quite simply, it suggests that corporate objectives, expressed properly in financial terms, should be translated into operating objectives by each divisional or departmental chief and tested for feasibility and compatibility between them. Each divisional or departmental chief should then discuss the objectives of the unit with his or her subordinate managers, translating the unit objectives into sub-unit objectives and testing them in the same way for feasibility and compatibility. In turn, each of the subordinate managers repeats the exercise with his or her people. This sequence, as suggested by the downward-pointing arrows, is a 'top-down' method of planning. However, as suggested by the upward-pointing arrows, it envisages an upward flow of reaction and comment, which could even result in a modification of higher-level objectives.

This concept also clarifies the question of how different people are involved in the planning process. Lower-level managers are not involved in the process of setting corporate objectives; they are, however, actively involved in defining the objectives of their units in terms of company requirements, with the very real possibility that their input could change company objectives.

During a recent objective-setting workshop with the senior managers of a shipyard, we asked one of the managers if he could define his objectives. His reply was, 'I think my objectives are as follows . . . '. To our incredulous question, 'You think or you know?', he answered in all seriousness, 'I think.' The workshop helped the managers considerably to define their objectives very specifically and to 'know' them. In fact, after our workshop the senior

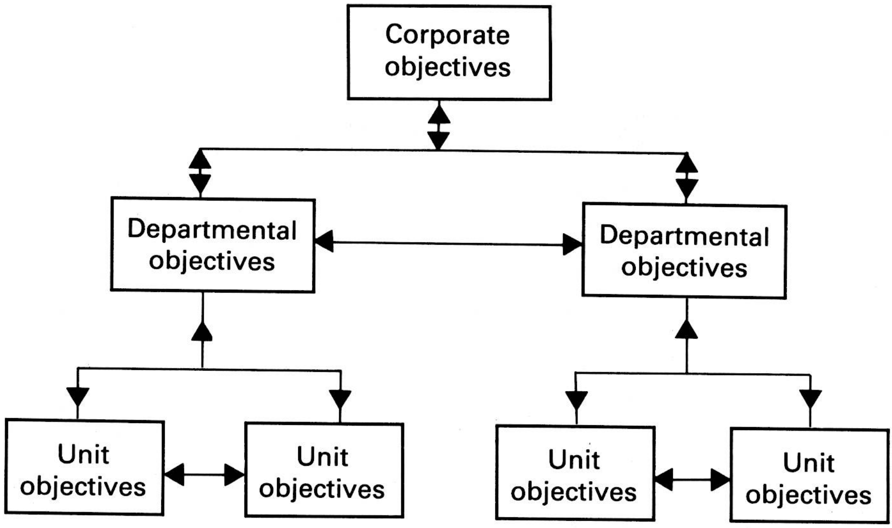

Figure 2.1 *The hierarchy of objectives*

manager repeated the exercise, involving 20 managers from different levels. They defined 132 personal job objectives (all related to the completion of a ship by a certain date), and developed a control system on a personal computer to follow up the achievement of these objectives.

Chapter 3

The Manager's Role

The object of organizational planning is to define the tasks of and relationships between divisions, departments and sections, and between the managers who are in charge of them. The document which is intended to describe these tasks and relationships is usually the organization chart (see Figure 3.1 for a typical example). This chart does show the hierarchical relationships (who reports to whom), but it gives no indication at all of the nature of each person's tasks, nor of the formal working relationships between them. Thus, while charts like this can give an overall picture of an organization's structure, they can do no more than that.

ROLE: THE IMPORTANCE OF DEFINITION

The relationship between a person and the organization in which he or she is employed is defined by that person's role. In the case of a manual worker or operator, this relationship is easily defined by the work itself: driving a truck or operating a machine. However, when the person has been promoted to a supervisory position and is responsible for the work of other people, the role is no longer so obvious. The truck driver is no longer supposed to drive a truck, but to plan and control the work of a group of drivers. This transition is very difficult. The promotion may not be to the person's liking: he may not even have been asked if he was interested in being a supervisor – many are not. He may well have been promoted because he was such a good driver and not because he showed managerial potential. The consequence is that the company has lost a good driver and failed to gain a good manager. Even if he is pleased with his new position, he has probably not been given any idea of what his new supervisory duties are, or of the distinction between managerial and operational activities. The operational area is the one he knows best and the one in which he feels most secure and self-assured, whereas the managerial area represents the unknown, calling for skills which he may not have. Operations are immediate, practical and real, while managerial activities are future-oriented and conceptual, requiring thought rather than action and often dealing with the behaviour and feelings of other people.

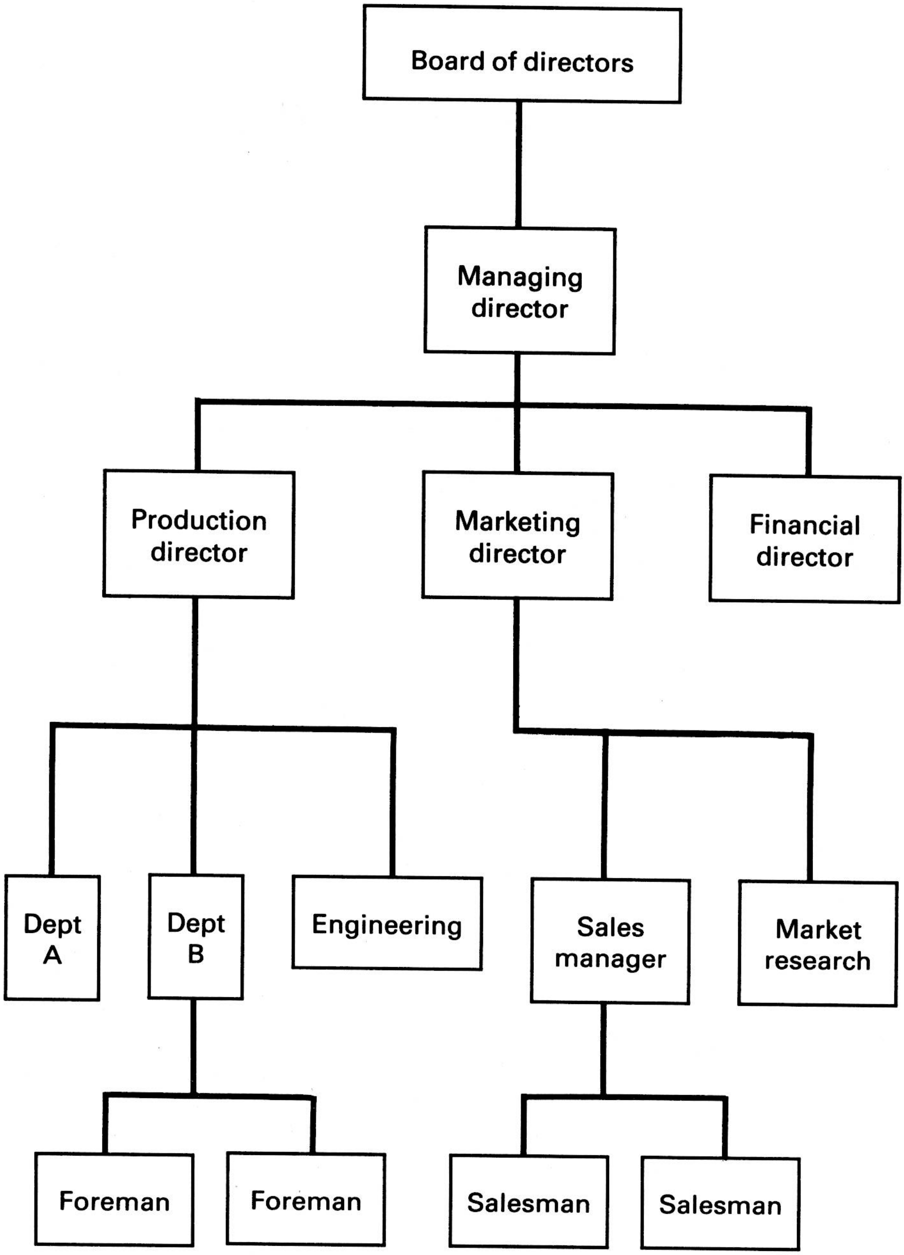

Figure 3.1 *A typical organization chart*