

HOW TO SUCCESSFULLY DEVISE AND IMPLEMENT A STRATEGIC BUSINESS PLAN BY USING VALUE MANAGEMENT PRINCIPLES

René Donais, P.E., CVS



René Donais is a registered engineer with 27 years of practical experience in both the Canadian public and private sectors. From 1980 to 1993, as an associate engineer in a private consulting firm, he was mainly involved in construction materials engineering for civil engineering projects. In 1994, he joined Valorex Inc., a Value Analysis/Value Engineering consulting group. As a senior Value Engineer, he conducted over 100 VA/VE workshops and Module 1 Training sessions. One of his main accomplishments was the transposition of the VE job plan for manufacturing process simplification. He was involved in VA/VE consulting services for major clients as: Hydro-Quebec, Quebec Ministry of Transport, City of Montreal, Bell Canada Enterprises, Pratt & Whitney Canada, Montreal Airport Authority, Port of Montreal.

1.0 Abstract

This article establishes the relationship between a company's strategic development and the Value Management job plan. It proposes an approach and gives concrete examples of its application within a Value Management consulting firm. It shows how to make the connection between the functional business model, the strategic elements, the company's environmental impact and the scorecard the company uses to implement its strategy. Finally, it presents the advantages and benefits obtained following the strategy's implementation.

2.0 Introduction

Since the early 90s, we have seen major global paradoxes. In the eastern hemisphere, we have witnessed the collapse of the Asian banking system, accompanied by devaluation of the currencies of powerful member countries of the G-7.

On our side of the globe, in America, we have observed vigorous economic prosperity, with no inflationary thrust, driving unemployment rates very low, along with a strong dollar, which hurts exports.

Who would have believed that American automobile manufacturers, which were on the

verge of bankruptcy a few years ago, would buy BMW, VOLVO, DAIMLER-BENZ etc.

Modern companies are evolving in contexts where the rules of the game are changing every day, if not every hour. The traditional organizational models and the processes that govern them no longer correspond to today's reality.

These models were efficient as long as the markets were sufficiently dominated by companies (Jocou & Meyer, p.6). But the evolution of consumer expectations and our human resources, and the obligation to face strong competition, and thus increase our competitiveness, impose a much more rigorous management approach.

Henceforth, the markets no longer behave as if they were planned by the companies. On the contrary, companies must adjust to the markets. The great challenge of modern managers is to grow their company in a complex and constantly changing environment, which obliges them to introduce a culture of change management.

This article presents an advanced approach to the application of Value Analysis by corporate executives. This is Value Management, or the management of value creation in companies, from development of the strategy to operational processes.

3. How to cope with this environment

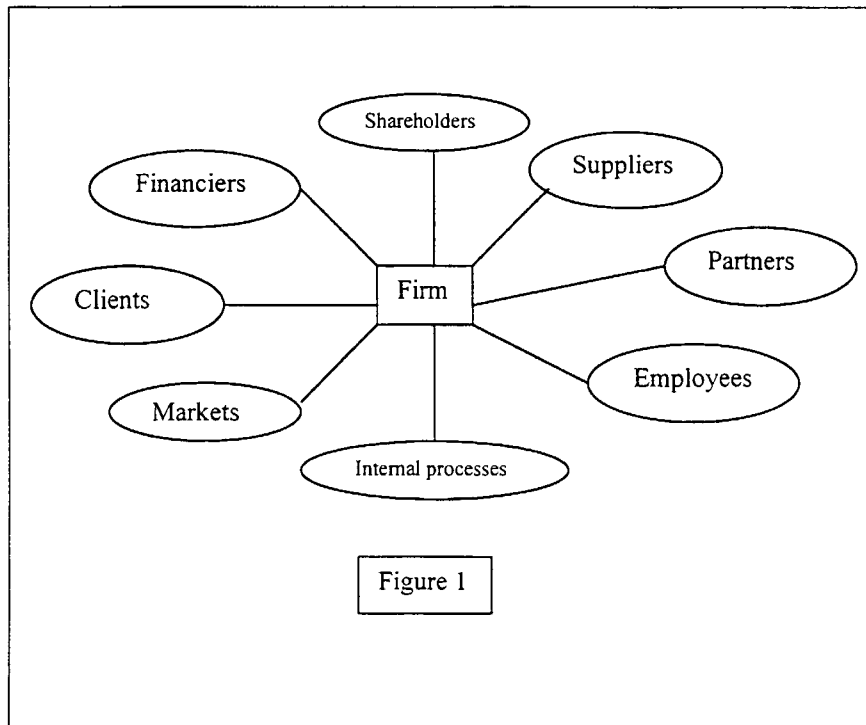
3.1 Functional analysis through environment analysis:

The team brings together the firm's executives and employees. Functional analysis through environment analysis allows questions to be raised to a level of abstraction that leads the team into a creative state off the beaten path. The traditional management functions of *planning, organizing, directing and controlling* become « hows? », or means of performing functions at a much higher level more connected to the firm's ultimate goal,

such as *developing markets, growing with our clients, enticing our clients, training resources*, etc.

These functions, called first level functions, are identified through analysis of the company's environment.

The company's ultimate goal is to produce value which should benefit all the identified interactors. Figure 1 shows the main interactors of a typical company. The clients and markets, shareholders and financiers, suppliers and partners are external to the company while the other interactors are internal.



i) For *clients*, the functions correspond to the actions to be performed to satisfy their conscious or unconscious, present or future needs. Information must therefore be obtained on the clients' needs, behaviors and wants with regard to our types of products and services.

Markets require to position ourselves in relation to the competition, know our market share, and identify our strengths and weaknesses, threats and opportunities.

ii) *Human resources* include our employees, suppliers and partners. Their expectations are

evolving and require constant listening to their needs and concerns. *Material resources* consist of the equipment required to convert our raw materials (input) into output. The needs concern preventive maintenance, renewal, conversion to new technologies, etc.

iii) *Financial resources* concern shareholders and lending institutions. In this field, especially for a public company, the rules of the game are very structured and are subject to the laws and regulations in force, which are published and controlled by governments. Constraint functions result from this supervision.

Funding sources have their own expectations concerning the company's performance, which is generally related to the overall operating results, reflected by the creation of economic value which will be discussed in more detail in the next few chapters.

iv) *Internal processes* operate on three levels. There is the strategic level, the middle management level and the operational level. The needs that the processes must satisfy, viewed from a Value Management perspective, must be analyzed and reinvented so that they meet the needs of the internal client-supplier chain, or the cross-functional, interdepartmental axis, as well as the optimization needs of the value produced by each work cell, trade and discipline, or the vertical axis.

In general, Value Management must introduce a permanent function for arbitration of needs and priorities, so that the cross-functional axis is in balance with the vertical axis. This product's end value depends both on the value added produced by each cell and the residual value transferred from one cell to another.

3.2 The organization's function tree

It is first necessary to identify the organization's vision and mission. The vision is defined by answering the following questions:

Where are we?

What are our values and our *raison d'être*?

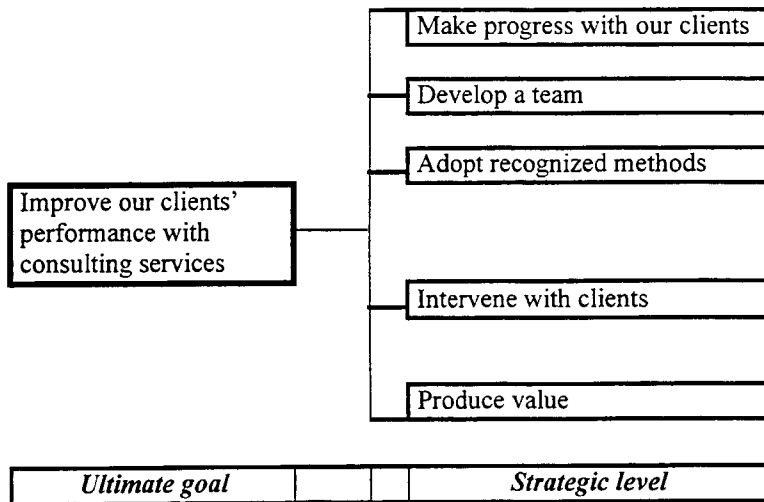
Where do we want to be in the future?

This exercise also involves the participation of all employees and executives of the firm. The deep-rooted values of all individuals are shared to obtain a consensus on what the firm's basic values will be, to which everyone will have adhere thereafter.

Our values and our *raison d'être* result in the mission. The mission is the ultimate goal of the firm.

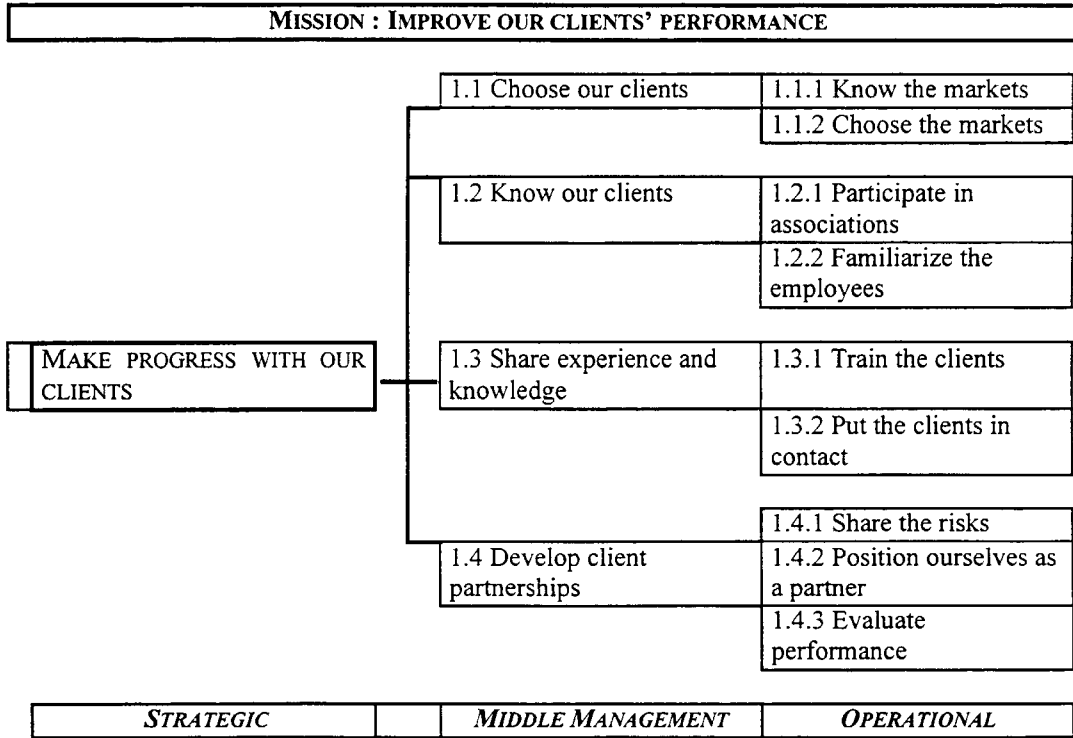
The overall objective is to produce value for the clients, the shareholders, the employees and all the other interactors.

Once the mission is identified, a functional model of the organization is developed by positioning the functions in a tree structure, by following the rules of « how ? » and « why? ». Figure 2 illustrates a few branches of this tree, with the first level functions, e.g. the strategic level.



THE MODEL OF THE ORGANIZATION
Figure 2

The first level functions are subdivided in turn into middle management (2nd level) and operational (3rd level) functions, as shown in Figure 3:

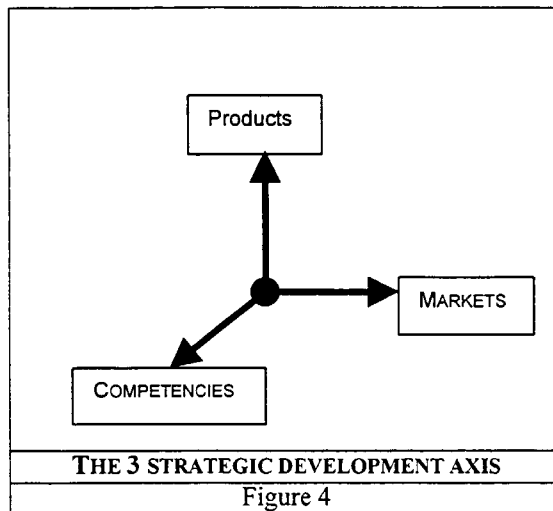


THE MODEL OF THE ORGANIZATION
Figure 3

4.0 The Diagnosis:

To achieve the firm's strategic positioning, data must be obtained in relation to the different interactors, such as survey results, economic data, our market share in relation to the competition, etc.

We must then analyze our opportunities and threats and determine our strengths and weaknesses in relation to these threats. Figure 4 illustrates the following three axes, according to which our development strategies can be oriented. It also shows the distinctive competencies that we must possess or develop for our strategy to succeed.



To develop on the products axis, the required competencies are as follows:

- Very strong differentiation
- Very close to clients' needs
- Client-driven
- Constant innovation: reinvent what has already been invented (R&D)
- Time-to-market

The following competencies are required for the markets axis:

- Very little product differentiation
- Good control of operating costs
- Good sales & distribution network
- Networking
- Advertising & marketing
- After-sale service
- Production capacity

Finally, here is what is needed if we want to develop along the competencies axis:

- Knowledge base
- Personnel stability
- Intellectual property
- Technical publications
- Irreproachable experience
- High level of expertise

By producing a balance sheet of our strengths and weaknesses and the profile of our distinctive current and potential competencies, the strategies are identified. A creativity session specially dedicated to this step is necessary.

5.0 Strategies and Objectives

Objectives and targets are set for each of the identified strategies. For example, if one strategy is to increase our market share in the private major corporations sector, objectives in terms of sales volume and the number of new clients will be developed and realistic, achievable targets will be identified for each of these objectives. If the targets are not realistic, they will trigger a loss of motivation among the troops. As Cooper and Slagmulder mentioned in their book, *Target Costing & Value Engineering*, «The Japanese set their targets so that they create «tiptoe» objectives, that is, they can be achieved with considerable effort but not impossible effort».

For the strategy to succeed, another key condition is that the products and services offered must be connected to the clients' real needs. The same authors add: «the requirements for the product functionality must be clearly understood». This leads us to make the connection with the organizational model developed above.

6.0 Connection with the organizational model:

The impacts of each of the identified strategies on the firm's environment must be determined:

- Internal and external resources (human and material)
- Operations and internal processes
- Clients (current and future)
- Financiers (shareholders and financial institutions)

Depending on the type of impact, the analysis can be carried further by analyzing the risks. The exercise must be done with the team to obtain a consensus and a buy-in on the measures and sub-objectives to be put in place to ensure the operation's success. Thus, for each strategy and each general objective, sub-objectives corresponding to each interactor in the firm's environment are identified.

Since the model of the organization is already structured at three levels, *strategic, middle management and operational*, all the general objectives identified by strategy can be related to one of the first level strategic functions of the function tree (see Figures 2 and 3).

The sub-objectives for each measure to be implemented are associated either with middle management functions (2nd level) or operational functions (3rd level).

7.0 Monitoring implementation: the scorecard

To ensure that the strategy produces the expected results, a monitoring system based on tangible measurements must be implemented. This system, called the scorecard, consists of the following elements:

- Strategies and objectives distributed by function
- Measurement indicators (criteria) for each strategy/objective
- And targets (levels) to be met

The tree structure is used to relate each measurement criterion and each target to the

corresponding functions. If the targets are not met, the strategies must be either adjusted or realigned.

For example, for the «provide services to major private companies», the following strategic functions are identified with their criteria and levels to be achieved:

Strategic functions	Criterion (indicator)	Level (target)
Make progress with our clients	Number of new clients	10
	Corporate sector business volume	\$250,000
Develop a team	Number of qualified consultants	10
	Number of CVS or PMP	7
Intervene with clients	Number of new mandates	10
	% mandates/total	20%

The same procedure will be followed for the 2nd and 3rd level functions (middle management and operational). All of the tables obtained constitute the company's scorecard.

8.0 Conclusion :

The approach we have just described is an adaptation of Value Management principles to the context of the business strategy. These principles are:

- 1- Management by objectives broken down into ultimate goal and functionalities
- 2- Search for optimal solutions
- 3- Rationalization of choices through indicators
- 4- Competence pooling through teamwork
- 5- Cross-functional communication
- 6- People and group valorization through collective success

The following benefits can be expected by using such an approach:

- ✓ Determination and operationalization of the mission/vision and strategies
- ✓ Mobilization of executives and employees to achieve common objectives
- ✓ Communication of objectives and results
- ✓ Training of middle managers and employees in the firm's operation and key processes
- ✓ Establishment of links between employee performance and compensation
- ✓ Participatory target-setting and customized alignment of initiatives
- ✓ Monitoring and feedback tool

The beauty of such a system is that it is dynamic, simple to understand and easy to use, and provides for feedback and adjustment mechanisms following jolts from the market and the competition. This allows corporate managers to remain truly connected with their organization's environment and manage with full knowledge of the situation.

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Articles :