Your Business Still Survives Without New Initiatives?

With technological innovation and cutthroat Merger & Acquisition activities, private equity players are acquiring very crucial position in financing Indian businesses. In this background, entrepreneurs and management need someone to initiate the new management methods. This scenario also provides immense business consulting opportunities to professionals. This article presents an overview of the new business initiatives every business needs to take sooner than later.

Managing business in today's global scenario is not an easy task. Gut feeling is being replaced by proper scientific analysis and benchmarking of each and every business initiative.

Be it strategy or quality or lean or performance parameter, the ball game has changed completely. Economic Value Addition is replacing the concept of Earning Per Share (EPS) while Six Sigma is replacing TQM.

Customer is still the king but 'wowing' them with branded experience is what companies are aiming at. Market is global but Blue Ocean Strategies are on the agenda of corporate boards. While better Corporate Governance is fetching greater business value, risk management is also most relevant in today's world.

Does your business still survive without New Initiatives? If the answer to the question is yes, then you are running your business by chance and not by strategic actions. Today, the kind of initiatives the businesses have to take to survive is mind-boggling. There are endless issues entrepreneurs have to tackle internally and manage profitable customers externally. Amid so much hue and cry about globalisation and its impact on our business, no business owner can survive for long if he is not taking the initiatives as follows:

— CA. Sunil Gandhi

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Going straight to the point let me start with boarder initiates:

1. Balance Scorecard

This concept was first developed by Robert Kaplan, professor at HBS & David Norton. Today, there is no measurable performance matrix for companies apart from normal accounting of financial performance. But all would agree that business is not just finance and accounts. It's much much more. One needs to have a strategic plan to measure performance on all counts. Business deals with external customers, internal customers i.e. employees, investors i.e. shareholders and banks/lending institutions and suppliers of materials and services. Now, financial performance will be affected if a company is not catering to the needs of any of its stakeholders. Financial performance is the result of how well these stakeholders are taken care of.

Balance Scorecard is the matrix which considers management of all stakeholders. What the company needs to do and achieve in all the above stated parameters is defined and measured against. At strategy formulation stage, each strategy is defined in operational terms. The ability to execute strategy is more important than having a great strategy.

Successful companies who have implemented Balance Scorecard based measurement approach describe their strategy well through strategy maps as it is difficult to execute things

which cannot be described. So the chain is from strategy maps to balance scorecard to strategy focused organisation.

How many of our SSI/SME (SME size includes companies with Rs.250 crore Topline) size companies have executable business strategy in place to measure all critical non-financial aspects of their business? How many companies have strategic business plans ready till 2010 or 2012 or 2015?

2. Economic Value Addition (EVA)

Profit & Loss Account does not reflect the true picture of financial performance of the company. Yes this is the fact. It may be good for the shareholders of listed companies to look at PAT figure in P & L statement but if business owners start relying on this figure as their performance measure they are in for trouble.

Considering this fact now Indian companies' annual reports also contain a statement on cash flow. Cash flows are more important than accruals. Profit Before Tax (PBT) in absolute term indicates hardly anything. Whether a company is creating value or destroying value is not possible to know from PBT.

Companies with different financial leverage positions with similar Topline and other cost structure will have different PBT. So what is important to know is whether business is generating enough profit after providing returns to all stakeholders i.e. lenders and equity holders.

If for example, PBT of a company is Rs.10 crore, equity is Rs.10 crore and reserves are Rs.190 crore, return on net worth is just 5%, though in absolute terms Rs.10 crore profit is good to look at and even EPS will look attractive at Rs.10/-. So even at Rs. 10/- EPS, performance of the company is weak.

EVA measures profit after considering adequate risk adjusted returns to all stakeholders. So most of our enterprises are neither measuring financial performance the way it should be nor measuring non-financial performance at all.

3. Six Sigma

Six Sigma is a quality measurement system. This system is transforming some of the best-managed companies of the world. Though this is a statistical and technical measure, it also means near perfection in meeting customer requirements.

Six Sigma means 3.4 defects per million activities or opportunities (DPMO). It's a goal few companies or processes can claim to have achieved. Six Sigma is a culture and can bring sweeping changes in the overall performance of a company. Jack Welch implemented this rigorously in GE and WIPRO is practising it in India along with some other awakened companies.

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The benefits of Six Sigma include cost reduction, cycle time reduction, customer retention, defect reduction, culture change and productivity improvement. It is not just quality initiatives but the change in the mindset it brings with it which is very crucial. Just check your company's Sigma level and where it lies on the Sigma chart.

4. Lean

Lean is the Toyota way of working. Just in time, effective supply chain management and waste reductions are some of the measures companies take to become operationally lean.

Toyota has identified seven major types of non-value adding waste. These are over production, waiting (by employees, goods for further process or by customers for goods and services), unnecessary conveyance/transport movements of goods, over processing (includes defects), excess inventory i.e. excess raw material, WIP or finished goods, unnecessary movements of employees and unused employee creativity (by not listening to them).

Mr. Ohno, founder of Toyota Production System considers over production to be the fundamental waste. This causes most of the other waste. How many of our enterprises have a godown full with goods from raw material to finished goods waiting for orders? Concept of Lean is equally applicable to service industry.

5. Strategic Cost Management

World-class companies view cost as lost profits. In other words all costs are unnecessary unless proved otherwise. This is what Prof. Bala Balachandran of Kellogs School of Management believes.

Business equation changed from Sales = Cost + Profit to Profit = Sales - Cost. So now it is the cost, which drives profit and not sale price. Larger companies, which understand this change, now first decide price affordability of products and then work backward to achieve that cost which will also leave some profit to the company.

Many companies also employ faulty costing method. Cost allocation often gives wrong indication and resultant wrong decision. Understanding which products are adding to the contribution is very important. Now if one looks at Six Sigma and Lean concepts, cost management is the indirect result of such initiatives. So what an enterprise needs to do to manage cost is to manage quality and speed of doing things. Are there continuous improvement measures at all levels to manage cost, quality and speed in your organisation?

6. Standard Operating Procedures (SOPs)

This is nothing great but equally important. Larger organisations survive because they have all checks and systems in place to do different processes in particular way. When a new employee joins the organisation he is given the SOP manual for his process and from which he learns how to do certain acts and handle certain performance requirement.

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SOPs are fixed and rigid way of doing things. When creativity is not an essential job requirement, SOPs are the best way of getting things done in systematic way irrespective of the people doing it. SOPs are authorised written procedure giving instructions of performing operations. This is more used in technology and healthcare industry but it is no less important for all other industries. SOPs can be effective for operations like handling inquiry, issues from store, managing delivery, making payment to vendors or welcoming customers and attending their order in service industry.

Is your organisation process driven and does it have SOPs for each and every repetitive operation?

7. Technology

Having dozens of computers and classy cells will not make any enterprise tech savvy. Using technology in itself means nothing. The key is how usage of technology is making our

customers happy. It could be faster operations and better utilisation of resources, which in turn improves costing and better product pricing. Now this could be ERP, online tracking, booking, payment or delivery, RFID, supply chain management, intranet or any such hi-tech effort.

Prof Mohan Sawhney of Kellogs Graduate School of Management in his book *The Seven Steps to Nirvana* suggests focusing technology programme by considering: what inputs are most important for your business and what business processes add the most value to your customers and trading partners. Thoughtless unconnected technology initiatives will yield nothing; customer focused technology programmes will keep business competitive.

8. Branded Culture

Today, the scarcest resource is human resource. There is literally war for acquiring good talent by enterprises. Good people are in short supply not only in IT but also in other spheres of enterprise be it accounting, finance, human resource or engineering.

Just as the above is true there are ample creative, effective, experienced people available. Top business leaders in the enterprises must be able to attract such talent. Mr. Narayan Murthy or Azim Premji can do it but how many of the others? People will engage themselves 100% in the companies they are working for if they are happy in what they are doing and for whom they are working.

When business is 100% dependent on people, highly motivated employees can become great brand ambassadors for companies. It is now the responsibility of every boss to see that their subordinates are given exciting and interesting jobs.

Does your company command that kind of brand image in the talent market? If not, how are you going to attract and retain the best people?

9. Knowledge Management

If you do not have Branded Culture as stated above or even if you have one, is tacit knowledge stored in the minds of your employees or explicitly stored electronically? Every employee while working for your organisation has gained some experience and applied some knowledge of his own.

Tech companies are discussing their Business Risks in Annual Report in pages at length. Business is all about return on risk undertaken. But management needs to know about the kind of risk they are taking and their implications.

Is every possible event or project or assignment and experience being properly documented? Because if not, this knowledge is lost forever from the company when the person who has executed the assignment leaves the organisation.

Be it professional firm, industry or manufacturing enterprise, managing tacit knowledge is very important and serious part of the business. Like SOPs, Knowledge Management is crucial for smooth survival of any enterprise.

Does your company have a Knowledge Manager managing knowledge of existing employees?

10. Enterprise Risk Management (ERM)

ERM has become critical in the backdrop of instances likes terror attacks, technology breakdowns, global oil prices or currency fluctuation or Enron kind of fiasco in reporting.

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ERM component consists of objective, risk identification, risk assessment, risk response, policies and procedures, communication and monitoring. Knowledge of risk taking is a must. Only then will a risk response system be developed. Generally, the mindset of owners of smaller organisations is that they are small and all these are non-issues to them. But the fact remains that all these initiatives are equally important to them, unless they can afford to fail.

Does your company have a Risk Officer doing all this thinking for the long-term survival of the business? All these initiatives are for what? Do we have enough customers or satisfied and happy repeat customers?

11. Wow Culture

Wow is an expression used when persons experience better than expected service quality, products or behaviour or scene. Coined by leading management guru Tom Peter, Wow Culture should be the culture of every enterprise. Be it for customers, suppliers, employees or investors, an enterprise should be able to wow them whenever they are dealing with that enterprise. Most of the time customer feedback about the goods or services they receive is just pathetic. If customers whose existence is the only reason for enterprise to survive offers such a feedback just think how the enterprise must be dealing with other stakeholders.

Wow is the culture, which percolates from top to the bottom. Wow culture ensures that who-so-ever deals with the company will always have a Wow experience. If this is what is coming from the top, Wow culture can take shape on its own at each of the levels.

Does the top management in your company promote Wow Culture? Are employees willing to go out of the way just to Wow the stakeholders? It's a mindset change programme.

12. Blue Ocean Strategy (BOS)

This is something new and fresh for expansion of market. Enterprises must look beyond their normal day-to-day market and should aim to create the market. Peter Drucker observed 50 years ago that the aim of business is to create the customers. So enterprises have not only to satisfy the need of customers but also create customers.

Basic difference between Red Ocean (usually followed) and Blue Ocean Strategy is as under:

Red Ocean	**Blue Ocean**
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit Existing Demand	Create and capture new demand
Source: *Book Blue Ocean Strategy by W Chan Kim & Renee Mauborgne*	

The fundamental shift this strategy is talking about is to shift focus from competitors to alternatives and from customers to non-customers. BOS is about value innovation and not value creation. Here focus is on cost reduction and product differentiation.

Is this kind of thinking really happening in your enterprise? What are your company's plans to shift strategy from Red Ocean to Blue Ocean? Philip Kotler, legendary marketing guru, says: "Good Companies will meet needs, great companies will create markets".

13. Corporate Governance (CG)

This is fundamental to change and performance. Though SEBI has prescribed CG norm for listed companies, even non-listed companies will benefit immensely in creating value if they follow the CG norm independently on their own.

What is good practice in Corporate Governance? Just to have better reporting of results and transparency in operations. Have some one independent and knowledgeable on the company's board to guide and inspire the company board/promoters.

For some promoters this may be a hurdle or interference in company's functioning, but for far-sighted promoters who are there to create values for all stakeholders, CG practice will really prove to be a boon.

14. Merger & Acquisition

Acquiring businesses is big business today. Companies acquire ready-made business if they see value. Value means under-utilisation of existing resources by the Target Company or better synergy with integration between target and acquiring company.

In today's time speed is the essence; acquiring a ready-made business makes more sense than to setting up green field ventures. Across industry there are a number of companies, which are under performing. This could be due to non-competent management or satisfactory under performance.

Mittals or Reliance or E Bay and HP all are looking out to acquire companies. For smaller and medium size companies also there are plenty of opportunities available in under and non-performing segment. Banks and FIs are flooded with these kinds of assets. Some real bargain deals are possible for companies really looking out to expand this way.

15. VC and Private Equity

Banks and financial institutions have been conventional source of raising finance. But today private equity and venture capital is out to grab major portion of business finance. Recent data suggests that India receives higher FDI than FII investments. Foreign funds are investing in Indian companies directly than by stock exchange route.

This means they seek their say in the performance and governance of the companies. Private equity deals almost every week is an indication of interest these international funds have in Indian businesses. Even Indian Funds are very aggressive and active in acquiring stakes in unlisted companies. For entrepreneurs looking to grow, this model could lead to a much better option.

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These kinds of investors come not only with money but with their experience and contacts. They bet on competence of entrepreneurs and financial support where it is lacking. Enterprises should not see them as interference but partner /mentor in value creation.

Takeaways

These are extremely important initiatives for long-term survival of the organisation. Person responsible for routine and daily jobs will not be able to focus on these initiatives. Some one responsible in the organisation must keep eye on the future and keep working to take the organisation to the next level. Managing and surviving by chance will not last forever. Andy Grove of Intel believes that the job of the leader is to understand future, mega trends and strategic inflection point. ❐