Absence of Business Excellence

Feel the pain?

Introduction to Business Excellence

Why does any business strive to become better or, indeed, excellent?

The owners/leaders of such businesses believe that a focus on and investment in achieving excellence will enable them to be more competitive - making them more attractive to customers and prospective customers - and to deliver better overall financial performance for the benefit of their shareholders and staff.

There are lots of books describing what highly successful businesses have done and the benefits they derive from their excellence. There is also no shortage of coaches and consultants ready to offer their assistance to businesses that want to raise their performance.

So why aren't there more excellent businesses and more businesses striving to be excellent?

There are several reasons:

- They don't believe it will make a difference
- They are too pre-occupied with survival to give any time to new initiatives
- They think it will be too costly &/or will not be a good return on the investment required
- They don't think the experience of highly successful businesses is relevant to their business
- They don't know how to start
- They don't know what to do
- They don't know what excellence in their business would look like

Our proposition is simple – business excellence is a competitive advantage that is reflected in the financial performance of a business – to the benefit of shareholders, customers and employees. It should therefore be at the top of the agenda for all business owners, executives and leaders.

What if Business Excellence is absent?

If excellence is missing from your business, you will undoubtedly experience some or all of the following:

- Difficulties in winning and retaining clients
- An inability to recruit and/or retain high calibre staff
- Disruptive and/or inconsistent behaviours between personnel across the business
- A pervasive sense that the company is struggling for business
- Habitual discounting in order to get invoices paid
- Profitability under increasing pressure
- Owner earnings declining
- Banking conditions becoming less favourable, which may have a negative impact on cash flow
- Policies and procedures being set but not followed
- A general sense the organisation lacks leadership and direction
- Seemingly simple decisions deferred indefinitely

All of these are serious danger signs that ultimately lead to shrinking of the business, a take-over or – in the worst case – liquidation.

How do you recognise a lack of business excellence? The key characteristics are illustrated in Figure 1. In the following section we illustrate the attributes of an organisation in which excellence is absent from its People, Operations and Finance disciplines.

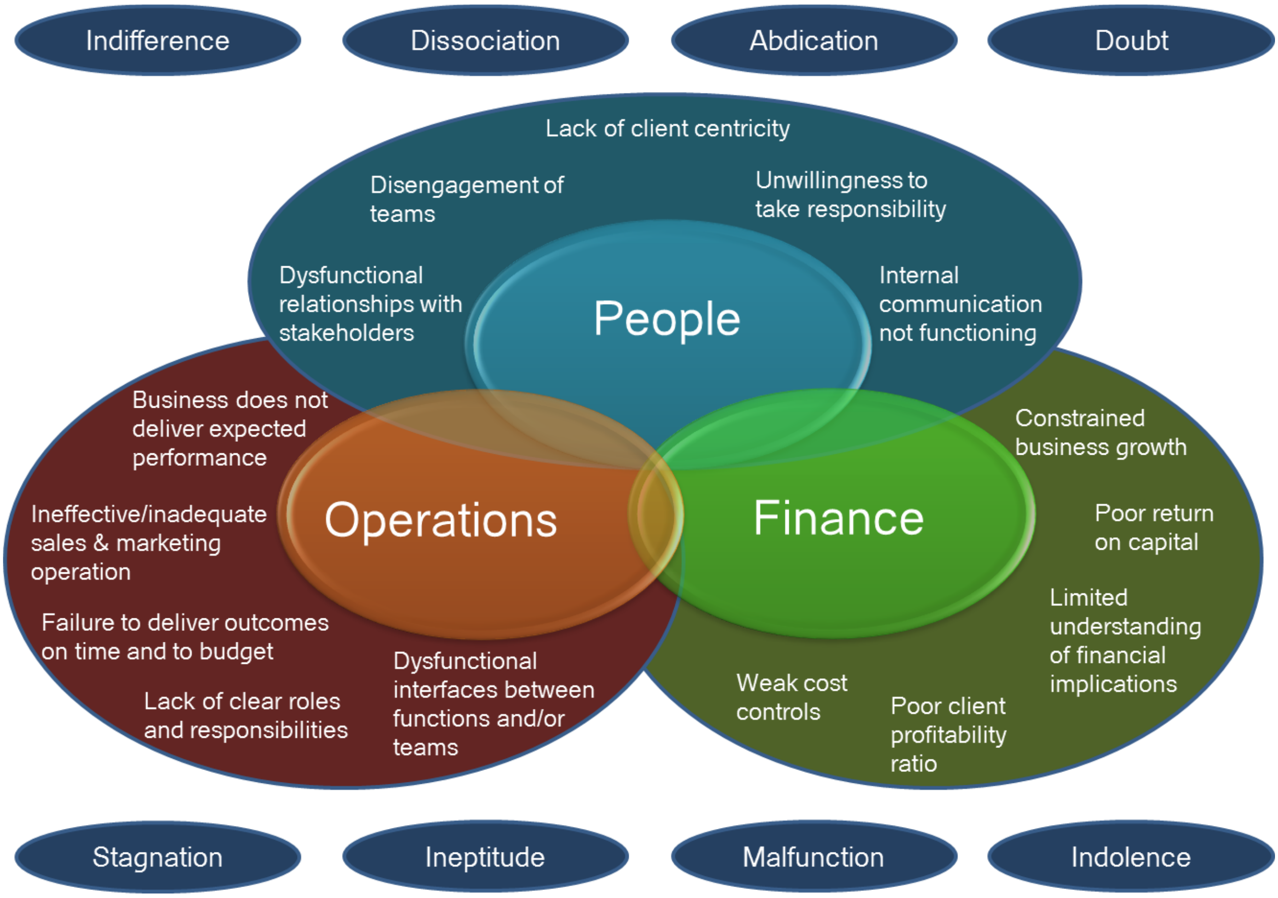

Figure 1: Lack of Business Excellence

Lack of Business Excellence Explained

In the following pages, for each of the attributes of absence of excellence, we provide an explanation followed by a brief real life example.

Do not be surprised if some of these are familiar, as they occur in most businesses at some time.

People

Lack of client centricity: people are inward focused and more concerned about what they provide, rather than what the client wants/needs; there is an unwillingness to take responsibility for client issues.

> *A telephony technology provider was invited to propose a solution to the requirements of a growing telemarketing business. The prospect found their proposal difficult to understand, because it was full of technical terminology and lists of equipment.*
>
> *Despite several attempts by the prospect to clarify what was being proposed, the technology provider continued to provide everything in technical terms so the prospect found it difficult to understand what they were being asked to invest and how it would meet their requirements.*
>
> *When the prospect compared the proposed solution with others it became evident that this providers solution would not be fit for purpose and they went and bought elsewhere.*

Dysfunctional stakeholder relationships: 'the left hand doesn't know what the right hand is doing' - people work in silos, seek solutions in isolation, which leads to loss in human capital, synergies and effectiveness.

> *In a large professional services firm with multiple teams there was much talk about cross selling and referring clients from one team to another. Despite the talk the level of referral was very low. Partners in team A felt their clients would not be treated properly by team B in terms of service, technical solutions or pricing.*
>
> *The outcome of this dysfunction was reduced billing and profit for the firm, a lack of continuity in the provision of services for their clients and lost opportunities to create client loyalty. Not only did the firm fail to maximise revenues from existing clients, but they continuously struggled to find enough new clients.*

Unwillingness to take responsibility: people take a step back to avoid being held accountable for their performance whenever a new initiative is launched or an important decision is needed.

> *A fast-growth technology company found it necessary to press a number of their people into management positions in order to sustain the pace of business growth. Most of these people, however, did not seek or wish for the added responsibility that came with their new roles, for which they felt inadequately skilled. Consequently, they did not manage effectively and, individually, they tended to avoid making key decisions.*

The result was delays in development and delivery of products, high levels of dissatisfaction within the business and from clients and, within a year, the reversal of the previously rapid growth of the business.

Disengagement of teams: people don't feel heard or appreciated, which leads to them refusing to get involved and, in the worst case, to sabotaging progress.

A new support manager in a small manufacturing business wanted to impress the Managing Director with his team's performance. The manager without discussion with the team introduced a rule that all requests made before 3pm would be dealt with on the same day. The team duly nodded when the rule was announced but the actual responsiveness was unchanged, with many requests remaining unanswered after two days.

The unresponsive approach of the team emanated from the old and substandard equipment they had to work with. Constant equipment failures meant it was impossible to meet the deadline. The new manager had not thought to discuss with his team why they were "unresponsive" or get their perspective.

The manager's autocratic approach resulted in the team failing to report the equipment deficiencies either as an existing problem, or as an obstacle to the implementation of his new rule. Not surprisingly, this manager failed to demonstrate a high performing team.

Internal communication not functioning: a mind-set of 'information is power' – i.e. people do not share knowledge and experience or request help when they need it, which creates a fertile ground for misinformation, misunderstanding and rumours.

A business-to-business services company was taken over by a new owner, following the death of the previous owner and founder. The business had grown successfully over many years but had been faltering in the previous couple of years – mainly due to the ill-health of the then owner. The new owner believed she could turn it around and was keen to make changes.

The managing director and his financial controller refused to share key information with the new owner. They also regularly undermined the new owner's position with the rest of the staff, by initiating false rumours about her plans for the business and failing to share information that the owner had asked to be communicated.

The consequence was that the performance of the business deteriorated further and faster. A key contract renewal was lost and some staff made redundant. The business owner found it increasingly difficult to turn the business around.

Operations

Ineffective/inadequate sales and marketing operation: there is no structured approach to identify prospective clients and campaign to win their business; marketing effort on business development is non-existent or fails to deliver adequate results; lack of measurement of the effectiveness of both sales and marketing efforts.

> *A medium sized construction company was lacking proper performance measures in the sales and marketing departments. They tracked the number of calls their telemarketers were making, but not the quality of the leads and follow-up. The sales team was encouraged to go on lots of appointments and follow-up everything that telemarketing came up with, but they were not measured on what business resulted from those appointments.*
>
> *The poor quality of the leads frustrated the sales team and their efforts became similarly lack-lustre. As a result, the sales pipeline dried up and the lucrative contracts went to the competition.*
>
> *The CEO of the company only got to know how bad the situation was at the eleventh hour, when a client mentioned, in a routine call on an on-going project, that they were sorry to have to give the follow-on project to a competitor, due to the lack of interest and response from the sales person dealing with them.*

Business does not deliver expected profit margins: profit margins get eroded by ineffective use of resources and inattention to results, delivery and measurement of KPIs.

> *Based on their view about their fee rates, bookable hours and cost base, a law firm produced a budget, forecasting a profit margin of 40%. The key metric by which the firm monitored performance was the number of hours recorded by each fee earner. However, they failed to hold fee earners responsible for delivering the hours that had been budgeted and did not take action in respect of consistently poor performers.*
>
> *Furthermore they did not monitor costs, resource allocation, achievement of new client instructions and client satisfaction. Consequently they were unable to see their true progress towards achieving their forecast, which resulted in the firm consistently underperforming against budget.*
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> *Their level of performance was below average for a firm of this size and, therefore, impacted the firm's ability to attract new partners, pay staff at a market rate and invest in their infrastructure.*

Failure to deliver outcomes on time: the structure and processes of the business don't operate effectively, which leads to missed deadlines and/or non-completion of activities.

> *A company's standard terms of engagement required payment within 30 days. Each head of department was required to monitor and manage outstanding debts. They each had online access to the relevant internal systems and also received regular standard debt reports for their areas of business. Heads of department were bonused on achieving a certain level of collections as well as billing. In addition, the company employed two credit controllers.*
>
> *Despite these support mechanisms and performance metrics, in excess of 50% of the debt ledger was more than 6 months old at any time. Although the credit controllers were permitted to send out statements on overdue accounts, they were not allowed to escalate the need for payment with a firm letter, because heads of departments were concerned about damaging client relationships. For the same reason, they even extended credit on new orders to clients who had a history of failing to pay their bills.*
>
> *As a consequence the company had a significant overdraft, which was expensive to maintain. They continue with a high exposure to bad debts/default and poor cash-flow, which represents a major risk to their business.*

Lack of clear roles and responsibilities: people are confused about their KPIs, job description and what is within/without the scope of their role and influence.

> *The unit leaders in a small manufacturing plant did not consider it their responsibility to develop their people. They felt that was the role of HR. The HR department did not have the in-depth knowledge required to help nor the capacity.*
>
> *This dichotomy was never discussed between HR and the unit leaders and hence never resolved. As a consequence the employees were left alone with their personal development and struggled to see how to progress their careers within the company.*
>
> *The best of them decided to look elsewhere and accepted offers from competitors. The company struggled to retain their talent and due to its remote location found it very difficult to replace the people they lost. This made it increasingly difficult for the company to service contracts, which lost them clients.*

Dysfunctional interfaces between functions and/or teams: any formal processes exist only within departments and there is no holistic view of the operation of the business; people operate in silos, leading to abdication of responsibility for the overall result at the point of handover to another department or team.

> *To communicate more effectively with their clients, the design department within a construction company decided to establish a database of client contact details. This was done on a spreadsheet, maintained within the department.*
>
> *Unknown to the design department, the marketing team was already performing the same task using an appropriate CRM system. However, the marketing team did not make this information available to other departments.*
>
> *Consequently, the clients of the design department were invited to a function at the firm twice - both by the design department and the marketing team. This did not present the professional image sought by the company and was extremely wasteful of time and effort by the respective teams.*

Finance

Poor client profitability ratio: low and/or inconsistent return on client acquisition cost due to lack of understanding of client needs and wants; disproportionate amount of time/resource deployed on clients that are poor value to the business; a lack of cross selling of all products/services the company can provide; failure to monitor the true financial value of each client to the business and adjust the company's response accordingly.

> *Many businesses assess client value by reference to the amount of revenue generated per client, without taking into account the costs of servicing the client.*
>
> *One technology services business we met gave their largest client a 15% reduction on all their standard fees, provided free seminars, invitations to all corporate entertainment as well as extended payment terms. These actions were taken on a piecemeal basis, with the commendable intention of encouraging client loyalty and ongoing repeat business. In reality, although repeat business was forthcoming the company still had to compete for some of the client's business and the incentives were provided at the expense of all other clients of the company.*
>
> *A focus on client profitability would have revealed the largest client was loss-making for this business. In addition, by giving so much to one client, they stifled their ability to win more profitable work elsewhere.*

Constrained business growth: falling profits leading to reduced cash flow make it increasingly difficult to fund critical business activities, such as marketing and business development.

When a mid-size accountancy practice experienced a reduction in turnover it began to suffer weak cash flow. The initial reaction of the partners was that they and the senior managers each needed to devote more time to winning new business, in order to recover the lost revenue. After some months they realised that their individual efforts were not delivering the level of additional business the firm needed. In addition, they were finding it difficult to devote sufficient time to business development alongside their client work.

They had little understanding of how marketing stimulated new client introductions, as this was not measured by the firm. Consequently, during the budget process they followed their instincts (also the guidance they typically gave their clients) and reduced all "overhead" spend, which resulted in the marketing budget being cut by four fifths.

By reducing the firm's marketing budget and failing to understand how effective marketing generates opportunities, the partners prolonged the weak cash flow position and the firm continued to suffer reduced fee income.

Weak cost controls: expenditure not controlled against a budget that reflects a realistic forecast of revenues, leading to poor financial performance (often appearing by surprise towards the end of a month/quarter).

A niche engineering company designed a new product. For various sound reasons they outsourced production and took responsibility for assembly and shipment. They were also responsible for their own marketing and direct sales.

Although they had carefully costed the product, over time they found their production costs rising. They had no contingency in their budget for additional costs and there was an upper limit to the price at which the market would accept their product.

Consequently, they found it difficult to manage costs to a sales forecast and ran into progressively more challenging cash-flow difficulties. They were no longer able to service the market opportunity adequately and were close to bankruptcy. They were fortunate in securing external investment at the last minute which enabled them to re-design the product for lower cost production and re-build their market position.

Poor return on capital: the effectiveness of capital expenditure is not formally monitored; lack of process to enable appropriate prioritisation and selection of options for investment.

> *A maintenance company engaged in an office refurbishment program nine months into the credit crunch when sales revenue had started to slide. On completion of the refurbishment they had smarter offices, but 20% of the offices were now vacant due to staff reductions, arising from falling demand for their products.*
>
> *In addition they had an outstanding loan for the refurbishment from the bank, on which the repayments were taking an increasingly larger slice of their profits, as revenue continued to fall.*
>
> *It had taken two years for the original plans to receive approval from the planning authorities and the directors took the view that they just wanted to see the job finished. A formal assessment of the situation, based on a robust business case rather than "gut instinct", would most likely have led them to a different and less costly solution.*

Limited understanding of financial implications: everyone relies on the finance director to know if the financial performance of the business is on track; insufficient appreciation by senior staff of how their actions impact financial returns.

> *An events and broadcasting business experienced steady, seemingly profitable growth over several years. It occupied a niche market position with some key technology IP.*
>
> *The MD/Owner saw a window of opportunity to sell and cash-in. However, when he turned to his business advisor for help they quickly established that the financial controller, on whom the MD relied totally for managing the finances of the business, had difficulty providing the necessary financial information on a timely basis.*
>
> *At the same time, market demand started to fall off rapidly – exposing a serious cash-flow problem. On further investigation, in conjunction with the MD, the advisor uncovered other problems with the finances and identified serious incompetence on the part of the Financial Controller.*
>
> *As a consequence, the MD was in shock and unable to proceed with the sale and, most significantly, his business was then in need of financial rescue.*

From the preceding descriptions and examples we hope you will have developed an understanding of the impact of the lack of business excellence on your business.

Get in touch don't go away!

If you are interested in discussing the content of this White Paper in more detail, or would like to talk to us about your competitive challenges, please get in touch with us:

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