Leadership Insight

Business Excellence - Why it matters

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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 and/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 does Business Excellence look like?

In simple terms it means being excellent in the three core disciplines of business activity – **People**, **Operations** and **Finance**.

It also means maintaining an enterprise that is healthy and able to respond dynamically to the constantly changing commercial environment in which it operates. The health attributes of an organization able to deliver on excellence comprise: Empathy, Followership, Leadership, Confidence, Innovation, Capability, Competence and Rigor.

The key to health and flexibility is found in the **internal alignment** of all business activities, the **quality of execution** throughout the organization and an **external focus** that utilizes what is happening in the broader business environment to its advantage. This leads to the healthiest organizations being able to adapt to changing circumstances better than the competition.

Achievement of both excellence and health is a major challenge. A lot of businesses struggle to excel in even one or two facets. Leaders are so steeped in the day-to-day running of their business, focusing on the short term that they fail to take sufficient time to contemplate tomorrow's market needs.

The primary driver for commercial success is found in a deep seated quality of leadership across the business, coupled with confidence in the business model and growth strategy. These foster engagement of all staff, engendering capability and competence across the organization.

Organizations that master those qualities and pair them with a strong desire/commitment to innovate, become the exemplars for outstanding client experience and typically progress to be the most admired, successful businesses.

Once people, operations and finance integrate seamlessly, (the key characteristics of which are illustrated in Figure 1) and the leadership place equal priority on the health of the organization, a business has the ability to continuously instigate change, rather than cope with it after it has happened.

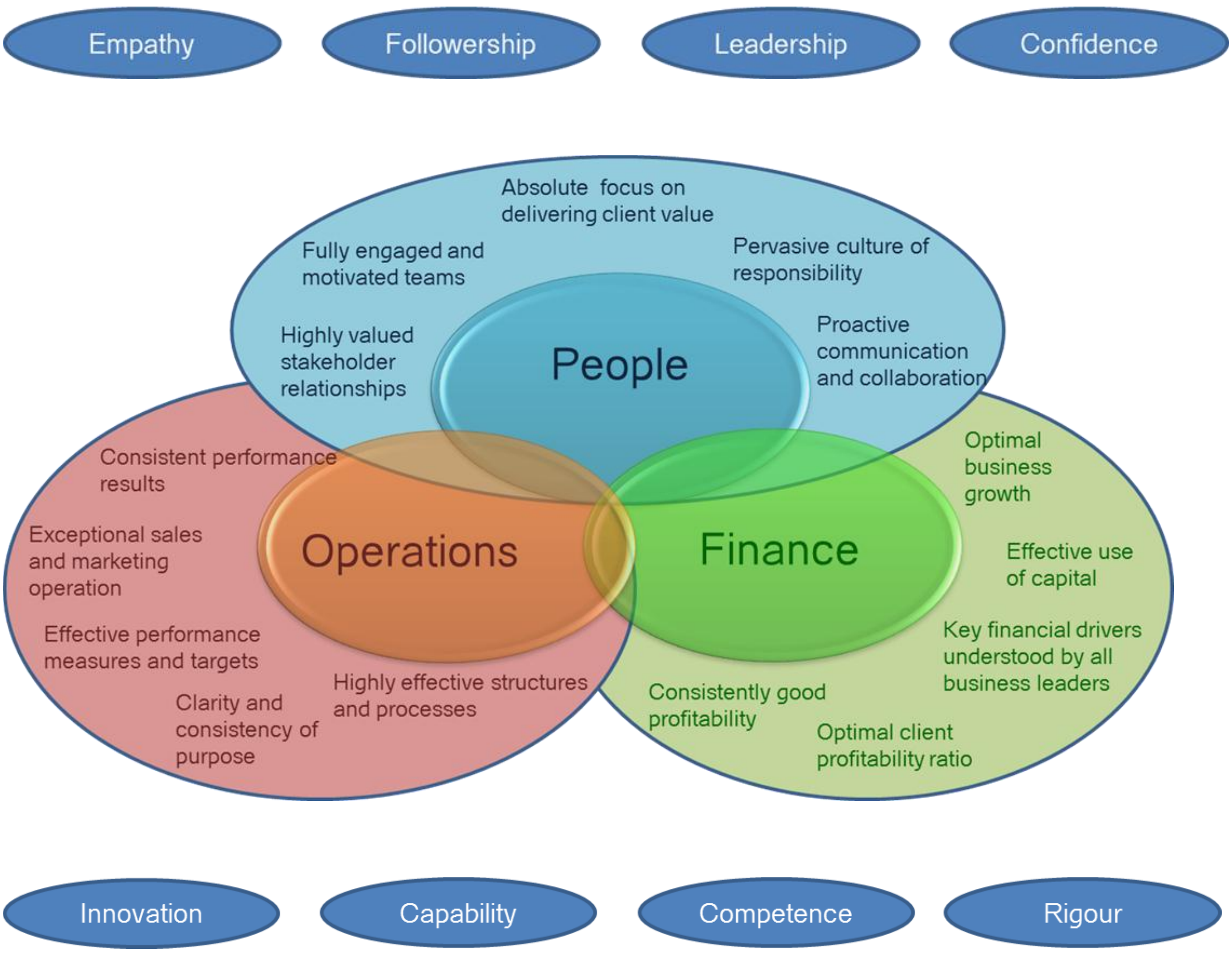

Figure 1: Business Excellence Achieved

Business Excellence Explained

In this section we provide an explanation of the attributes of People, Operations and Finance Excellence shown in Figure 1. For each attribute we provide a brief real life example, taken from our work with many businesses over the last decade.

People

Absolute focus on delivering client value: everything anyone in the business does is motivated by delivering value to the client, listening to the client needs and wants first and then tailoring the service offering accordingly.

An IT maintenance company on a continuous drive to improve customer service did a client survey to establish whether what they thought their customers bought, was what their customers really bought.

They found out that their clients weren't buying 'IT maintenance', but 'sleeping at night' and 'absence of hassle'. The company realigned both communication and client service towards the results, which led to doubling of revenue within a year, increased client satisfaction, referrals and new client attraction.

Fully engaged and motivated teams: everyone pulls together and all team members are able and willing to put team objectives above their own.

An equity partner in a large law firm was seeking ways to attract new commercial business that would stay with the firm over the long term. He identified the entrepreneurial community as a likely source, as well as an untapped market for high quality legal advice.

He gained commitment from his Equity Partners to take this strategy forward and to create a cross-department and cross-function Entrepreneurs Group, with both senior and junior partners stepping forward to be involved. Within three months they created a product offering in collaboration across functions, which helped them develop that market. They also increased their marketing effort in this area through collaboration with other external organizations operating in it.

The products increased the firm's attractiveness to the target market – the entrepreneurial community – and resulted in new instructions from them. They also caught the eye of investors in that community, which has led to further new business for the firm.

Highly valued stakeholder relationships: clients, suppliers and staff feel valued and heard and their contribution are acknowledged.

The chief executive of a drinks company ensured that his staff knew how much he valued their contribution by practicing 'leadership by walking around'. This gave his staff the opportunity to discuss issues directly with him and created an environment for them to step forward with ideas and contributions.

A line supervisor came forward with an idea on how to re-organize his production line to reduce water consumption. The CE requested a written proposal, which the supervisor provided with help of his line manager.

The case was approved and tested on one line, with the result that water consumption was reduced by more than 50%.

The solution was then rolled out to other plants, which led to substantial cost-savings for the company. The supervisor received recognition in both financial and leadership terms, which enhanced the culture of engagement, innovation and pride in the business. This culture has led to many more improvements, cost savings and new opportunities for the company.

Pervasive culture of responsibility: everyone in the business is clear about what is expected of them and expects in turn to be held accountable for what they deliver.

At a large professional services firm every member of staff was always conscious of the need to do the best possible job, with the support of their peers.

This led to a continuous dialogue between functions with the view to improving behaviors, service and results. Mistakes were discovered and dealt with early, performance was monitored by team members as well as leaders, people were willing to stay late to assist a colleague in finding a solution to a specific problem or work out a new opportunity.

The escalation of problems was expected and supported. "Finger pointing" rarely arose.

In a large record company, the engagement of staff was such that any member of the team who picked up a phone would take immediate ownership of the issue raised by the caller and see it through to completion, no matter what department was 'responsible' for that issue or activity.

The person taking the call would take responsibility for having the matter resolved – with the help of whichever other member of staff they needed.

Everyone would pull together and no-one ever said 'not my problem, you have to speak to X'.

Proactive communication and collaboration: everyone in the company is willing to step forward with ideas, take responsibility for the way they communicate and take the initiative to find solutions together.

The head of department in an accountancy practice was planning ahead and realized that workloads were likely to decline due to the economic downturn. She took immediate action to inform staff of this and explained to the team that the future looked bleak if they, as a firm, did not find a solution to the situation.

One of the assistants was determined to do what she could to limit the impact of the down turn. With the partners' approval she joined a local networking group and through it introduced a good level of new work to the team.

As other colleagues followed her example, the firm's fee earning was maintained at a good level and they were not impacted by the downturn to the extent of most other firms.

Operations

Exceptional sales and marketing operation: everyone in the business is clear about the target market(s), the way to reach that market and how to engage and build relationships with prospects and clients in that market; the business has a clear sales process built on understanding the needs and wants of the identified market(s) and enough people who can close sales to ensure a consistent client acquisition and retention rate.

A business-to-business marketing agency, on a continuous drive to improve profits and client flow, went through an assessment of their marketing and sales processes and found some room for improvement. Their research established their unique identifiers to be:

a) *a direct and no-nonsense approach to identifying the problems in their prospects' and clients' marketing strategies and*
b) *their focus on doubling the business of their clients, rather than creating award winning campaigns.*

They used this new understanding to redefine the market they should target for business.

This helped them gain clarity about the business they want to be and the type of business they want to have and encourages them to say no to anything (including potential clients) that doesn't get them there.

They have undertaken more extensive research of this new market in order to better target their marketing expenditure to generate new leads. Their sales process is also completely aligned with their unique identifiers.

They use the Sandler sales method, to weed-out prospects who are not a good match. Once they sign up clients, they continually maintain the relationship with excellent after sales service that checks for further needs and wants, with the constant mind-set of 'how can we help?' This leads to pro-active cross selling of all departments and has resulted in a continuous flow of new business with consequent growth of sales revenue and profits.

Clarity and consistency of purpose: everyone in the business is clear about its vision, mission and goals. All staff operate to a common standard and their efforts are focused unfailingly on the overall success of the business.

The plant manager of a small textile manufacturer discovered a lack of buy-in and understanding of the strategy on a client factory tour.

He immediately took action and instigated a workshop process, where he re-introduced the long term strategy and engaged all heads of department in working through each department's goals – including the interdependencies - together. The department heads then went away to implement a similar process with all their teams regarding the implementation of those goals.

Within a few weeks the atmosphere in the plant changed into one of enthusiasm and engagement, productivity went up and wasted effort and re-work dropped considerably. New ideas were being put forward that led to the company being able to increase their profitability in a declining market.

Highly effective structures and processes: organizational structure and processes enable the business to operate under changing operating conditions in a consistent manner and deliver the key performance indicators in the right order of priority.

In a medium sized engineering company, the leadership team and all staff have a good awareness of the key drivers of the business and relative priorities. As a consequence, they plan at 90 % of capacity to allow flexibility in deployment of resources.

Therefore, if a major client assignment demands significant additional resource, they are able to provide it without any significant disruptive impact on the rest of the company and other clients.

Although some might argue the company's approach is wasteful, in reality it has enabled flexibility and a higher level of service quality for clients – attributes that have won them valuable additional orders.

Effective performance measures: ensuring that performance of all staff and resources is reported in relevant terms to ensure a consistent level of performance. This process (usually referred to as KPI reporting) creates focus on value creation for clients and not just financial data.

In reviewing their performance, a construction company realized that focusing the attention of their client facing team on maximizing revenue per client was no longer working for them, due to eroding margins and increasing demands of existing clients.

They introduced an additional target for all client-facing staff, to identify a set number of prospects or referrers each month, with whom they would develop strong relationships. In addition, they were targeted on the quality of the relationships with their existing clients, which were measured on the number of referrals and testimonials given.

This change in performance measures re-focused the client facing team on the appropriate actions and is resulting in renewed growth of the business at better margins.

Consistent performance results: the individuals, departments, functions and business units deliver against performance goals and targets over the short, mid and long term, through cascading performance goals and targets and aligning them throughout the organization.

A large aero engine manufacturer operates a very structured process whereby the top level goals of the business are rolled down through the whole hierarchy.

The head of each department is expected to put the relevant targets in place. These are validated with their business unit leader to ensure alignment with the overall strategy, goals and targets of the organization.

Effective performance measures ensure managing and monitoring of results and remuneration accordingly. KPIs include people development/mentoring, contribution to cross-departmental forums and external industry groups, in addition to financial performance and client satisfaction metrics.

This company is consistently at, or near, the top ratings in terms of growth, profitability, standing as an employer and client satisfaction.

Finance

Optimal client profitability ratio: consistently obtaining a return on each client that ensures 100% client satisfaction, an acceptable financial return for the business and the best possible return on client acquisition cost.

An IT systems and consulting company reviewed the profit from each client contract/engagement as part of its annual business planning cycle.

It found time and again that the most profitable clients were those with whom the commercial terms were unambiguous, the ongoing dialogue was robust and meaningful to both parties, the client gave clear instructions for changes on timescales that were realistic and they paid their invoices on time.

This understanding was built into the client engagement process and used to train sales/business development staff so they could more effectively negotiate contracts and monitor their clients' behavior.

The result was that profitable clients received a consistently good level of service and were easily retained. Clients that delivered poor profitability were given extra management focus that resulted either in improvement to the profits they delivered or they were managed out of the client portfolio.

This approach improved client perception of the quality of service as the efforts of the company were totally focused on satisfying client expectations. Profits at the company increased steadily and were sustained.

Consistently good profitability: year on year delivery of profits that are sufficient to support on-going investment in the future of the business.

An accountancy firm was keen to maximise the benefits of its success and committed to a rolling three year business plan from which future investment decisions (capital expenditure, new offices, staff progression and recruitment) were set.

This approach immediately introduced a clear link that everyone understood, between profitability growth and the development aspirations of the firm. In particular it broke the historic attitude of many, who saw profitability of the firm as being only in the interest of the partners.

This also meant contentious decisions made in previous years (like the marketing budget and new partner appointments) were now more readily approved by partners.

The result was consistent year on year fee growth with a high level of partner consensus.

Optimal business growth: developing and implementing growth plans that reflect the strategy of the business and that are affordable in terms of finance, skills and resources.

A marketing services company wanted to accelerate its rate of growth and was concerned about over-stretching its financial and management resources. The Chief Executive engaged a business advisor who supplemented the in-house skills and provided an independent view on what they were seeking to do and how.

Working with the advisor they developed growth plans that were realistic and affordable, yet still stretched the business to deliver the necessary performance. They set revenue and profit growth targets, by quarter; introduced a bonus payment scheme for key staff, linked to the achievement of quarterly financial targets and only invested in additional resources where the costs and return on investment satisfied strict criteria.

The targets and the company's performance against them were reviewed and, where appropriate, revised regularly.

The company doubled its annual sales revenue in each of the following two years (during a recession) and increased its profitability over the same period by several points. It continues to grow successfully, without debt.

Effective use of capital: ensuring that the business delivers an acceptable level of return on capital employed (RoCE).

The Marketing Director of an international record company advocated the purchase of new Customer Relationship Management (CRM) software. This represented a significant investment for the business and would replace an existing software product.

The proposed new CRM system would integrate with other software systems at the company and, consequently, enable analysis of billing data alongside other customer information. It would also enable the various relationships that the company had internationally with its chain clients to be more easily understood by a wider range of people, thereby enabling more cross-selling opportunities for local releases between national markets.

The Finance Team supported the Marketing Director in preparing the internal business case, which projected the new system would enable an increase in sales revenue of at least 15% from their top chain clients. The project was approved with a return on capital of 25%.

Key financial drivers understood by all business leaders: educating all leaders on the key financial metrics of the business and ensuring that their personal KPIs are linked to those metrics.

Following the re-organization of a large IT outsourcing company, a new director was appointed to have responsibility for all functions outside of sales, HR and finance. This remit covered a diverse array of functions from the provision of premises, security and in-house IT services to strategic planning and marketing.

As these functions did not directly generate revenue or deliver services directly to clients, the director recognized that many in the business (including staff in these functions) considered these to be "overhead" activities. Historically, they were under constant pressure to reduce their operating costs whilst supporting a business that had aggressive growth targets – something they had struggled to achieve.

The director, with the support of the Finance Director, mandated that each of his departmental heads instigate an analysis of the components of their respective cost bases and how these contributed to delivering profit to the company. Although a challenging a task, the outcome was a much deeper understanding by all the heads of department of the key financial metrics of the business and how their activities impacted those metrics.

The director also implemented a revised remuneration plan for the heads of department that made a direct link between their bonuses and their individual and collective performance against their KPIs.

The department heads, supported through mentoring by their director, became more collaborative and innovative in finding ways for their functions to enable the achievement of the revenue and profit goals of the company. The result for the company was a steady improvement in net profitability over successive years.

From the preceding descriptions and examples we hope you will have developed an understanding of the attributes of business excellence and what it does for organizations that apply them.

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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