

## IBIS NEWSLETTER 2004- NUMBER 6

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IBIS - SPECIALISTS IN BUSINESS PLANNING. 20 YEARS EXPERIENCE AND THE BEST SELLING BOOK, **A BUSINESS PLAN** (FINANCIAL TIMES PUBLISHED, NATIONAL WESTMINSTER BANK SPONSORED, TRANSLATED, ISBN 0273 63562X.

IBIS EMPHASISE A QUANTIFIED AND OBJECTIVE APPROACH TO THE ANALYSIS AND DEVELOPMENT OF BUSINESS PLANS WITH A UNIQUE SCORING SYSTEM (LIMITED VERSION AVAILABLE FREE OF CHARGE AT THEIR WEB SITE).

FOR ESTABLISHED COMPANIES IBIS MONITORING MODULES BASED ON OVER 15000 OPERATIONAL BENCHMARKS ACROSS INDUSTRY THROUGHOUT EUROPE ENHANCE PERFORMANCE AND BUILD WORLD CLASS ORGANISATIONS. OVER 60 STANDARD OPERATING PROCEDURES NOW DRIVE THE DEVELOPMENT OF KNOWLEDGE BASED ORGANISATIONS - [www.ibisassoc.co.uk](http://www.ibisassoc.co.uk)

The Ibis newsletter now has readers in over 60 countries – WE WELCOME NEPAL - some of whom have been suggested by colleagues or associates. Should you wish to be removed from the list, let us know. Should you know of anyone who should be added to the list, let us know. Suggestions (hopefully polite) always welcome. Contact: [info@ibisassoc.co.uk](mailto:info@ibisassoc.co.uk)

### NEW COMPONENTS FOR BUSINESS START UP ANALYSIS

Ibis have re-visited the business start up analysis with a further batch of European plans. The initial conclusions and weightings proved to be largely accurate (though of course we would say this!) but there were further reductions in the unexplained variations of the analysis. The main changes were in the necessity for improving control over the progress of implementation and the clarity of the corporate governance, with a strong relationship between those plans including details of these components and plan success.

Ibis have also now created an offline analysis system which provides a more detailed breakdown of the plan strengths and weaknesses. Visit the new page on the site where it is all

explained.

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## **BARRIERS TO PLANNING**

Often companies complain that their attempts to introduce improved planning and control systems into their operations have not yielded the anticipated results. When company procedures are investigated, it generally becomes quite clear that “planning” is seen as an activity which is separate from others, and has been added as a superficial afterthought to existing operations.

For planning and control to become integral to an organisation it must consider the variety of barriers that may or may not exist in its implementation and consider how they can be overcome. Effective planning and control does not happen automatically overnight – like liberty it involves and demands eternal vigilance. Otherwise, the forces of darkness (anti-planning and effective control) can easily re-assert themselves. Good planning and control systems after all demand work and continued attention to detail; a sharing of power within organisations; the need to often face up to unpleasant and disturbing facts; the requirement to be open-minded rather than closed, and the acceptance that you as an individual may not know best, but that others in the organisation are better qualified in many matters to determine the new directions.

### **How can one isolate and identify the key barriers to effective planning and control?**

Human behaviour is complex, and difficult to label precisely. Research does however identify certain characteristics of what can be called the “premium planning” enterprise, and put them in some sort of order of importance. This does not mean that they operate in isolation to each other; but suggests to the outsider looking for reasons for success and failure in planning and control measures, what the most likely and least likely factors are for the success or otherwise of the exercise. All attempts to give values to particular components are misleading in detail – however they have value in providing an assessment of the order of magnitude of a particular element.

A suggested evaluation chart based on Ibis experience provides an overview of the range of factors that are involved, and the degree of their importance.

<i>Main element</i>	<i>Components</i>	<i>Score</i>
Shared values	Management actions support planning through personal involvement and commitment to action plans	100
	Management insists that planning should be a continuous rather than intermittent process	100
	Management commits to necessary investment in development and maintenance of planning, allocates specific times to plan completion and review	100
Style	Management insists on objectivity and honesty in planning process	90
	Planning process is inclusive rather than exclusive	90
	Information is shared throughout the organisation	100
Systems	Corporate governance structure meets best practice	100
	Standard operating procedures define planning and control processes	90
	Joint planning and monitoring sessions central part of the	80

<i>Main element</i>	<i>Components</i>	<i>Score</i>
	company information system	
	Planning incorporated in induction, maintenance and development training	70
	Appraisal methods emphasise planning contribution	50
	Recruitment concentrates on acquisition of diverse skills; analytical ability	50
	Planning and project management seen as core technique for staff development; motivational component in being a member of the “planning group”.	90
	Disciplinary and grievance code include planning issues	50
Support	Planning information held centrally and accessible to all relevant staff	100
	Automation wherever possible of data collection and presentation	80
	Investment in appropriate software for improving quality of data analysis, software modified for specific company requirements	
Skills	Analytical	85
	Implementation	90
Staff	Sufficient staff involved in the planning process	100
	Gatekeeper and decision leader roles in organisation clearly understood	70
Structure	Reporting system linked to functionality and control; bottom up rather than top down	100

### What do these summary elements mean in reality?

**Shared values** are the most important component in the development and maintenance of planning systems. Management must first of all believe (rather than pay lip service to the idea) that planning and monitoring make sense for the organisation. Next they have to be seen to be involved, both in making agreed policies work, but also in ensuring that enough time and resources are made available for planning activities. It is all too common, in the experience of Ibis to put aside monthly review sessions as there is “more important” work to be completed. Once this habit is established, it is amazing how rapidly the company monitoring system disintegrates. Only senior management is able to insist that planning sessions are a vital part of both the maintenance of company operations and their future development. Our experience also suggests that only where senior management are prepared to deal honestly with planning issues, and encouraging the acceptance of mistakes, that a first class planning system can evolve.

We would see the involvement of an outside organisation as providing a useful service in maintaining the shared value “reality” check – that monitoring must occur on the date fixed; there must be a specific agenda, there must be sufficient staff present to discuss departmental performance, and so on.

**Style** is all about how the organisation works as a team or not. All the research on planning in complex systems suggests that team approaches to problem solving, especially when they comprise individuals with differing backgrounds, have far greater levels of success than the individual (there is less requirement in simple, single product or service operations). This is not to say that styles that verge towards the bureaucratic or dictatorial cannot incorporate team contributions – though the more complex the business, the less those styles are likely to be effective. What also appears to be important, and is certainly supported by Ibis experience, is the determination of the organisation to ensure that relevant employees have the right information at the right time to improve their

performance. This again does not demand “open” government, but what it does demand is that employers do not concentrate on the mushroom principle.

A systematic approach to the involvement of key staff in planning and development requires the company to consider both the flow of information throughout the company (see below under systems) and the way in which formal and informal decision making can occur. For example, research shows that where company wide quality circles (or similar) exist, the quality of the planning and decision making is enhanced. Following these two principles will have the effect of enforcing a particular type of management style, suitable for improved planning. Obviously the ideal is that the type of management style leads the type of decision making that is appropriate for the enterprise – but this in Ibis experience is rarely the case.

**Systems** cover a range of interlocking factors that either prevent or enhance the planning process within the organisation. The creation and maintenance of effective corporate governance will ensure that decisions are recorded; information is available and disseminated to key decision makers. As part of this Ibis considers that the creation and maintenance of standard operating procedures is the first essential in reducing barriers to planning. Establishing a clear and transparent methodology in areas such as investment appraisal, project management, contingency planning and the like ensures that there is communality of thought and action within the enterprise. Integrating this with a standard reporting and monitoring system – in the Ibis model this consists of a monthly analysis of key operating data by department – especially those elements considered to be key performance indicators (KPI's). These planning sessions and the standard operating procedures can be used to significantly enhance the quality of induction, maintenance and development training, and have been found to be a very cost effective method of delivering key training information to the majority of staff. Research has found that the membership of the top “team” is very motivational – and does significantly develop and enhance inter-group and inter-company understanding and efficiency. Further research on motivation identifies the role of project development as another important motivational tool; where lower level employees are given the opportunity to create and where possible manage specific programmes, all of which feed into the reporting system.

It is obvious that recruitment, appraisal, and disciplinary policies can also support and enhance the planning process. Recruiting individuals with an interest and understanding of effective management and control is an obvious option; but otherwise to identify those individuals who can be trained to meet the monitoring and planning requirements of the enterprise. Similarly, the alliance of appraisal systems with project based management and action planning provides an ideal mechanism for providing feedback on the effectiveness of the individual contribution towards planning requirements. Finally the disciplinary code needs to emphasise the need to share information, but above all else to provide accurate information on the progress of key projects. It should be clearly stated that failure in this respect has the most serious consequences and should be considered gross misconduct.

**Support** technology has provided the planner with the ability to manipulate and manage data far more rapidly and effectively, *providing that they know what questions to ask and whether the answer is meaningful*. A growing barrier to planning is the overload of data – as the ability to measure something has grown, so has the expectation that each of the metrics generated has value. All too often this results in the worst type of micro-management within senior levels of the company. Let us take an example; waste levels in a manufacturing process have risen from 1.0% to 2.0% during the period of review. The temptation is to see this as a major problem and to spend considerable amounts of time debating it. A major problem therefore with the availability of data management systems is to manage the data. An agreement on what are key performance indicators KPI's will do much to focus the effectiveness of data analysis.

The second major problem is ensuring that the technology provides access to the information for all the personnel involved. This is complicated in many organisations by the perception of management that information must be guarded at all costs. With the increasing sophistication of Intranet systems it is quite possible to set controls in specific areas, and to control review meetings with specific staff reporting on particular topics. It is essential in the Ibis view that management establishes a clear policy (ideally supported by a standard operating procedure) which defines data access and review/ planning involvement – and like all SOP that this is available to staff.

The third problem is the way in which support technology is used. Default values within accounting systems and project management tools are not the ideal for most organisations, and yet they remain in place. The enterprise needs to consider the way in which data is collected, analysed and distributed to ensure that the three key elements of the good management information system (MIS) are always emphasised:

That the data is accurate;  
That the data is useful (ie usable);  
That the data is timely.

**Skills** requirements for planning fall into two main categories. The enterprise needs individuals with substantial analytical ability – and at least as important, the management techniques to make things happen – to implement the plan. There is ample evidence from the research that higher skills levels throughout the organisation enable the enterprise to successfully carry out more complex strategies (eg plans).

Ibis considers that skills levels should be one of the key objectives of the organisation as they are one of the most significant barriers to planning. What constitute the relevant skills for a particular task obviously change over time, so the enterprise wishing to remain ahead of the competition needs to continually revisit their skills assessment and the maintenance or development necessary to achieve the plan requirements. Our experience is that a detailed analysis of the induction, maintenance and development requirements will be central to effective planning and control.

**Staff** requirements for planning will obviously vary from organisation to organisation, but there are two key issues that must be addressed. The first is the need for succession planning and management development. Company managers must be able to point to an individual (or ideally a number of individuals) as their existing deputies (with enough knowledge and experience to carry out tasks in their absence) or as their eventual successors. Effective planning demands that these individuals are central to the planning process as it is vital that knowledge of the detailed direction of the enterprise is available to them. This involvement of deputies and successors will also ensure that the quality of the decision making is improved. All studies continue to show that decision making is improved with a group approach, up to the point at which the group becomes unwieldy. Research and personal experience suggests that once numbers exceed ten, decision making is damaged. Obviously planning and reporting on a divisional basis will mean that this golden number is not exceeded – but that each division is effectively involved.

The second important element of defining staff requirements is one of communication. Information on company prospects needs to flow both up and down within the organisation, and the identification of decision leaders/ gatekeepers and their involvement in the planning process will do much to reduce barriers to implementation and improve decision making.

**Structure** can be a significant barrier to effective planning and control. Where an organisation is involved in an activity that requires a specific set of skills it should report along these lines. Therefore it makes sense to report on finance, marketing, new product development, production/

service delivery, information systems, and personnel separately. If the enterprise has significant international sales this should become another separate reporting priority. Breaking down the big problem (enterprise-wide planning) into a series of discrete chunks makes bottom up rather than top down planning feasible and manageable and this should be ideal that organisations work towards.

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### **FORMAL PLANNING FOR SURVIVAL AND RECOVERY IMPROVES CHANCES OF SUCCESS**

Research into business failure in the US of 37 companies with turnovers between \$ 5 and 10 million found that very few (4) attempted to create a formal (or informal) survival plan prior to their collapse, and only 5 changed management in an attempt to redress the underlying problems. The research found that where companies asked for advice they tended to turn to their accountants; few involved other stakeholders. The authors contrasted these failures with analysis of a further 24 companies that had recovered – of these 21 had developed a survival plan, many of which involved management changes the close involvement of stakeholders. The involvement of the widest range of stakeholders appeared to be a fundamental difference between survival and recovery businesses and failed businesses, with the inability to effectively deal with the causes of the problem.

This survey supports other findings that companies in trouble need a detailed plan to assist their survival and recovery. It suggests that stakeholders should perhaps take a more active role in developing the plan and monitoring its progress.

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### **INVESTORS CAN IMPROVE PERFORMANCE BY SUPPORTING START UPS WITH KEY STAFF**

A European investment group found that over a three year period that supporting the sales and project management function within technology start ups significantly improved both the overall level and rate of return. The group installed a specialist project manager and sales manager with specific expertise in the sector in 60% of their investments, and in two cases a project risk manager as well. Even in the depressed market conditions of recent years, they found that the returns in the “controlled” group far outweighed the “uncontrolled” group, even when taking the costs of additional staff into account.

This supports the view held by the companies themselves that money is only part of the need for start up companies, that tend to have limited management depth.

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### **AWARENESS OF CORPORATE GOVERNANCE DEMANDS STILL POOR IN EUROPEAN SME SECTOR**

German research on awareness of corporate governance found low levels of awareness in all three countries studied – France, Germany and the Netherlands. Using as a basis the OECD guidelines on corporate governance, the study found that corporate governance was overwhelmingly associated with the way in which the board of directors should conduct internal discussions and decisions. There was limited understanding of the need for corporate governance to cover the entire range of stakeholder relations. For example, less than 20% of the respondents were aware of the employee

dimension to corporate governance.

The analysis of a business using the entire range of corporate governance issues provides a valuable “health check” in assessing the depth of integration of stakeholder requirements with company operations and information flow. It can be seen, like contingency planning, as a valuable method of reviewing a wide range of company policies, as they both provide an integrating function within corporate planning.

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### **SOME FURTHER EVIDENCE ON SENIOR MANAGEMENT PAY AND PERFORMANCE**

Research in US/ Canadian 185 SMEs found that there was a strong link between senior management pay and corporate performance, measured on cumulative cash flow on investment (CFROI) over a five year period. The companies investigated had starting sales of between \$50 and \$280 million.

The researchers separated senior executive pay into five bands based on the ratio of the average remuneration of skilled labour in the sector, including share options and other benefits:

- 1-5 times;
- 6-10 times;
- 10-15 times;
- 16-20 times;
- 21 times +

The study found that there was little correlation between performance and executive pay which fell into the first two categories (1-10 times the average skilled worker pay), but that was an increasing negative correlation between cash flow generation and pay levels in the remaining three categories. The authors suggest that as executive pay increases in relation to that of the skilled employee a growing emphasis is placed on short term performance rather than long term development, and that the senior management team become increasingly divorced from the reality of the majority of their workforce.

This research is the start of the attempt to define “realistic” pay levels for senior executives. It is striking how much variation there is on a country by country basis – with little reflection in overall performance. This finding supports other research that suggests that the ceiling for profitability is likely to be a multiple of the low teens. It has implications for investors in the SME sector, and may have relevance for larger companies.

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### **KNOWLEDGE MANAGEMENT IMPLEMENTATION DECLINING**

Research in the European Union found that the number of companies employing specific “knowledge management” staff had declined by over 60% in five years. The 73 companies investigated commonly reported an inability to implement knowledge management concepts. Most found that knowledge management had tended to increase the flow of data rather than focus management information systems into those areas which staff could use and influence; that knowledge management implementation lacked specific and measurable objectives (ie that all knowledge was a “good thing”); that there were poor links with the management of the decision making processes, and that the organisation of knowledge management was more top down rather than bottom up.

A MIS needs to deliver accurate (specific), useful, and timely data. This demands an approach that understands the requirements of operational departments rather than one that overloads the system. The Ibis approach of introducing specific monitoring modules with quantifiable data which can be influenced within the operational team, and linking these teams into a decision making system is a pragmatic and flexible way to build knowledge management into the organisation, rather than relying on centralised data flows.

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## **WHY A STRUCTURED APPROACH TO PLAN ANALYSIS, DEVELOPMENT, AND CONTROL?**

Investors, advisers and business managers are faced with common problems in business planning and development. **What should we concentrate on? What are key issues which drive success and reduce failure? How can we create a framework in which performance is enhanced?** Though plans come in all shapes and sizes with different objectives and audiences, certain common ground is easily established.

\ It is clear that start/ up and early stage operations must be separated from established. The focus of attention for start up operations, and their planning, should be on **structure** – how the organisation is structured to deal with product, market, customer, stakeholder, resource access (money, personnel, production/ service delivery), and implementation. For the established company, the emphasis, and the focus of their planning, must be on **operations** – how the organisation will drive forward its existing interaction of market, product/ service and organisational delivery.

### **Start up operations**

\ Start up and early stage operations have key drivers for success and failure which can be measured and evaluated. Applying these criteria means that:

- (1) The business does not receive resources until key questions are resolved.
- (2) That the chances of success are substantially increased once this initial hurdle is completed

All studies (not just Ibis) indicate that a disciplined and detailed stage of business development yields enormous benefits.

**The Ibis model provides one such framework for evaluating start up and early stage plans, which involves an overall view of the organisation outside the financial analysis. This includes a much greater understanding of the risk management environment than is normal. As 50 per cent of businesses fail for non-financial reasons any business plan review methodology should involve this broader assessment. Ibis can mentor plan development – but the plan must retain the conviction of the founding members.**

\ Most start up and early stage companies lack key skills and a broad understanding of the business environment. To make the company successful it will need:

- (1) Early identification of potential problems in operational as well as financial performance;
- (2) Additional advice and support from the outside

Studies support the value of a range of support functions and the potential for improved monitoring to build skills, and reduce the potential for problems.

**The introduction of Ibis monitoring modules into the growing early stage company provides one such mechanism. By making early stage companies (providing sufficient management is in place) create firm foundations in each area of operation it enables them to focus on key opportunities or problems. The introduction of standard operating procedures (SOP's) is also central to this building programme. SOP's cover the entire range of procedures in the organisation and are continually reviewed to ensure best practice.**

**Established businesses**

- ✧ Established businesses have different success and failure drivers from start up early stage which can also be evaluated in the plan. Applying these criteria will:
  - (1) Ensure that the business has solid foundations prior to the injection of additional finance
  - (2) Improve the ability of the business to add value in a controlled way

Non-financial factors continue to be as important in the established business as the start up. Traditional evaluation methods focus on a small proportion of the key factors.

**The Ibis model provides one such framework for analysing established business plans. The Ibis approach of building the plan from a bottom up (customer, product, divisional achievements) identifies operational performance in businesses as a basis for project/expansion finance.**

- ✧ Established businesses need to create targets for performance throughout the organisation so that efficiencies can be maximised, growth enhanced, and problems rapidly resolved.

**The introduction of Ibis style monitoring modules linked to benchmark targets devolve responsibility within the organisation and set clear realistic goals for performance. Building better than benchmark performance throughout the organisation creates world class companies. Standard operating procedures (SOP's) also help in identifying best practice in entire areas of company operations.**

The ladder of plan development – stages, milestones and suggested external input

Stage	Milestone	External input
Pre -start up	Completed concept analysis	Personnel analysis Concept analysis Preliminary risk analysis
<i>Why? Lower failure, lower investment</i>	<b>Ensure that concepts do not pass without written clearance</b>	<i>Ibis has templates for evaluating pre-business plan viability</i>
Start up	Comprehensive business plan	Plan review and upgrading
<i>Why? Lower failure, better returns on investment, faster growth</i>	<b>Ensure that plans do not pass without full evaluation and clearance</b>	<i>Ibis has detailed evaluation methodology for plan analysis</i>
Early stage	Target achievement	Non-financial monitoring

		modules, benchmarking
<i>Why? Non-financial monitoring provides the longer term control than financial assessment</i>	<b>Ensure that targets are closely tracked and corrective action taken</b>	<i>Ibis has detailed benchmarks across most sectors, experience with non-financial monitoring</i>
Established	Business platform	Platform review Plan review and upgrading
<i>Why? Creating firm foundations is essential to ensuring that progress will occur and risk is reduced</i>	<b>Ensure that plans are not accepted without full evaluation and clearance</b>	<i>Ibis has evaluation system for established business plan analysis</i>
Expanding	Target achievement	Non-financial monitoring modules, benchmarking Standard operating procedures
<i>Why? Building the knowledge based company is the final challenge to ensure long term success in an increasingly competitive market</i>	<b>Ensure that targets are closely tracked and corrective action taken</b>	<i>Ibis has detailed benchmarks for most European sectors, over 60 standard operating procedures, extensive non financial monitoring experience</i>
<i>Knowledge centric</i>	<b>Full transfer of internal and external data to appropriate individuals</b>	<i>Information rich organisation through appropriate HR and IT tools</i>
<i>Why? As the organisation grows it must structure and use its knowledge of the market, and internal resources to achieve maximum competitive advantage</i>	<b>Ensure that systems build towards complete integration of external and internal knowledge</b>	

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