

# Wass Consulting Group, Inc.

## *Management Insight*

<http://www.wcginc.com>

Vol. 7, No. 4

## Reevaluating Your Business Management Model

### Are all of its gears meshing?

#### Summary

Every company or organization has a business management model that describes how it is run, and how it works, whether documented or de facto. Over time, however, elements of the business model, whether the strategy, operating philosophy, business processes, organization structure, or performance measurement/monitoring systems often fall out of step with one another. This *Management Insight*, the first in a series, reviews the essential parts of a typical management model, and discusses their various interrelationships. When viewed in this way, it becomes obvious how disconnects in any one element can have significant effects on the overall business, and must be dealt with if the business is to survive and prosper.

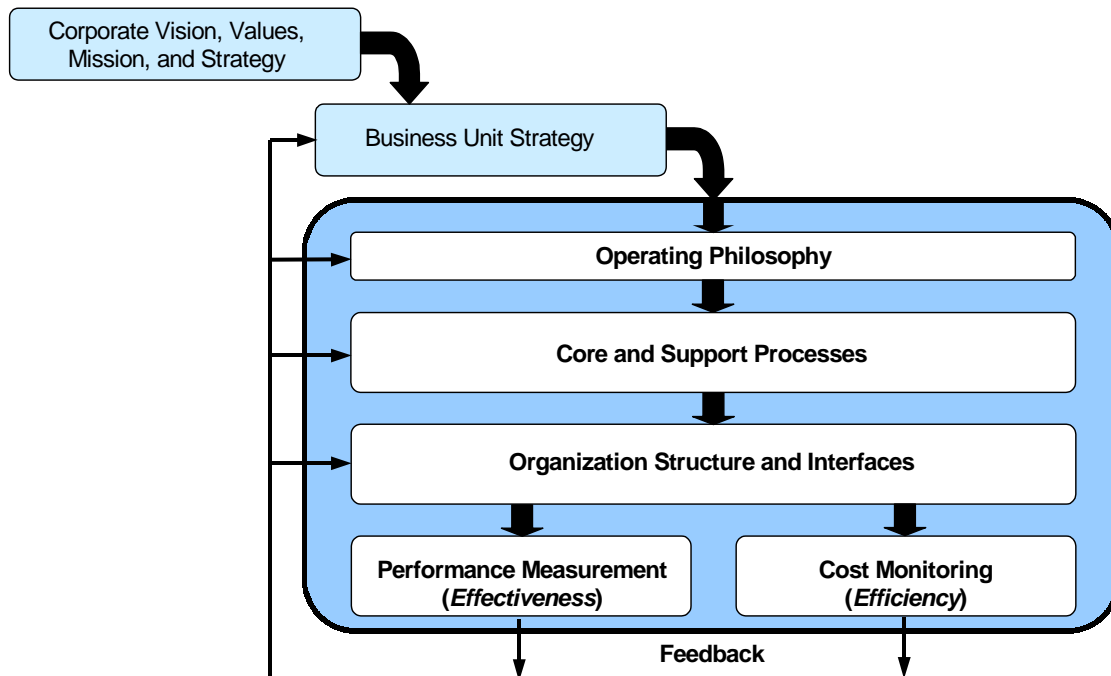
#### Background

Regardless of the size, makeup, or specific characteristics of your company or organization, you no doubt have a business management model that describes how your company is run, and how it works. The model may be formalized, well documented, and very explicit; or it may be relatively undefined, but most individuals familiar with the organization could probably describe elements of it if asked. Unfortunately, we often find that many management models are overly simplistic, operate at too high a level to be meaningful to those responsible for implementing it, or have important parts missing (or misaligned) which prevent realization of important benefits

thought to be inherent in the model. For example, most management models include a description of the company's vision, its values, and its mission. These, of course, are necessary and often quite valuable, but by their very nature are usually vague and difficult to guide specific action. Similarly, every organization has a variety of business processes that define its work activities, and each has a structure that defines how it is organized. But oftentimes we find these to be sub-optimized one to another, and frequently reflect a historical way of conducting business inherited from the past rather than an integral part of the current business management model. And finally, all companies/organizations provide some level of measurement and monitoring of company/department performance, both from a production as well as financial perspectives. Again, however, we often find that what is measured and monitored are often an outgrowth of the accounting system rather than what is truly needed to manage the business. Thus, a periodic reevaluation of one's business management model and how its various interrelated parts function in practice can lead to insights not often obtained by simply taking a more focused view on specific elements of the model.

#### Conceptual Framework

The conceptual framework for a typical business management model is shown on the next page in Figure 1, and can apply equally well to an energy



company with a variety of production facilities, a manufacturing enterprise with distributed manufacturing operations, or a retail or service operation with a variety of outlets. We have purposely chosen the more complicated case of organizations with distributed operations, since it is more generally applicable, with the case of a single location operation just a special case of the more general.

As shown in the figure, the conceptual framework begins with the overriding corporate (or organizational) strategy. This includes the previously mentioned Vision and Values, statement of Mission, and importantly the key elements of business strategy that differentiates this organization from others similar to it. What are its key success factors, assets, strengths, and/or business processes that it will exploit to leverage itself over the competition? How exactly (but not necessarily in detail) does it plan to do so? Once the overall corporate strategy is in place and communicated throughout the organization, implementing strategies that govern smaller parts

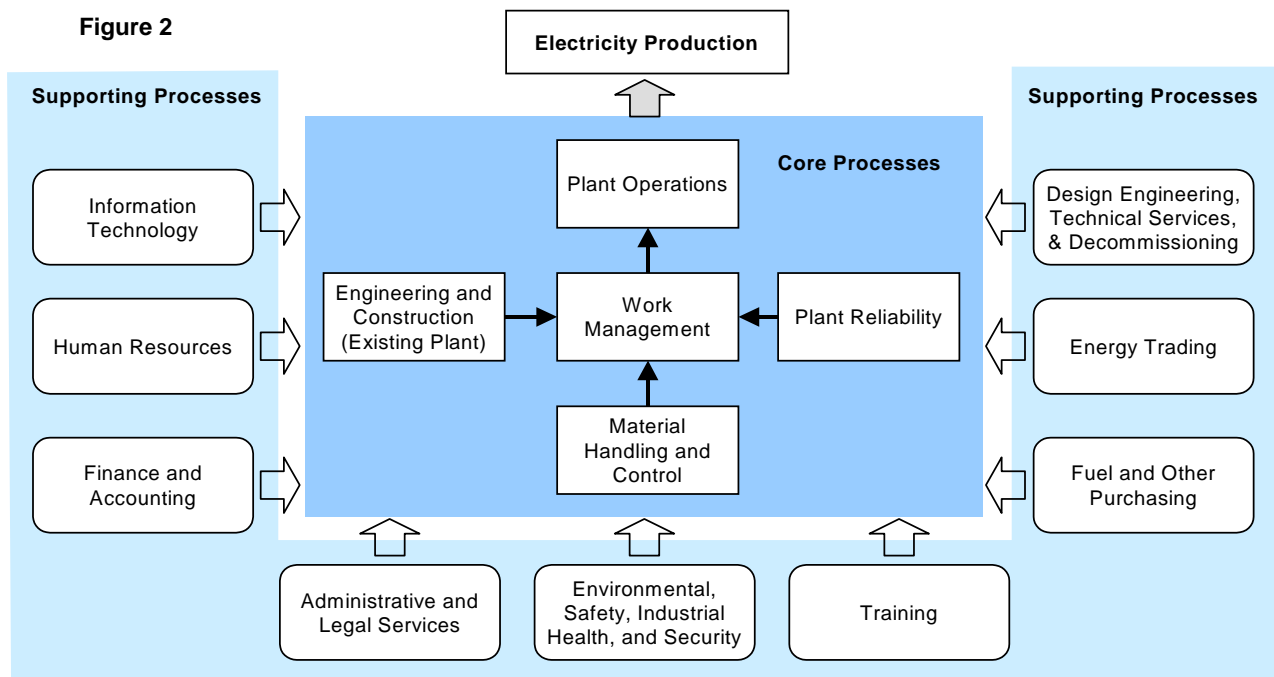
of the organization, such as specific business units, must be in place. For example, in the case of large electric companies with business units responsible for generation, transmission, and retail distribution/sales, each would have its own implementing business unit strategy. In the case of manufacturing or retail operations, business units may be designated by geography, technology, customer class, price range of products or services, or other key characteristic.

- **Operating Philosophy** - As indicated earlier, corporate (and even individual business unit) visions, missions, and strategies tend to be at a fairly high level by necessity, and a means is often necessary to bring these concepts closer down to the implementation or realization level within the organization. This can most readily be done by a tailored Operating Philosophy for each major element of the organization that explains just how their work activities support the overall corporate and business unit goals.

For example, the Operating Philosophy for a Generation business group within a utility might include how the generating plants are to operate (e.g., base load, peak load, etc.), what its maintenance philosophy is, and how it coordinates its activities with sales/load dispatch, among others. The Operating Philosophy for an internal support organization might include how and in what areas it plans to provide support services to its customers, its pricing/reimbursement policies, make vs. buy practices, freedom of internal customers to buy from others, and whether the support organization can sell its services outside the organization, among others. In other words, the operating philosophy puts meat on the bones of higher level visions, missions, and strategies to help managers at all levels throughout the organization understand how to make choices consistent with higher level plans. It goes without saying, of course, that all subsidiary operating philosophies should be consistent with the corporate/business strategies, and with the operating philosophies of other business units.

- **Business Process Model** - Within this strategic framework and consistent operating philosophy, business units and subsidiary organizations must carry out their management processes to ensure that all necessary functions are effectively carried out. To do this, organizations must have a good sense of what business processes are core to its ongoing operations and what processes support them. An example of a business process model for a Generation Group within a large electric utility might look similar to that shown in Figure 2.

In this figure, the core business processes which lead to the production of electricity at a power plant includes the core processes of: Material Handling and Control, Plant Reliability, Field Engineering and Construction, Work Management, and Plant Operations. In support of these core processes are the supporting processes which include: Design Engineering and Technical Services, Energy Trading, Fuel Procurement, Training, Environmental Health and Safety/Security, Administrative and Legal Services, Finance



and Accounting, Human Resources, and Information Technology. In this example, the majority of the core processes are carried out at the plant site, while many of the supporting functions can be carried out either at the plant site (primarily execution tasks), at a more central location, or in combination at various locations.

Different types of businesses and business units would naturally have different core and different supporting processes. For example, a business unit with high sales and/or customer service responsibilities would have core processes that emphasize supply chain, production, and transportation functions. While any business process could be outsourced if the circumstances warranted, core processes are the least likely of the various business processes to be outsourced.

- **Organization Structure** - Once the various core and supporting processes have been addressed, the organization can be developed/modified as necessary to best support them, and is not done in a vacuum. The organization structure is more than “boxology”, or the simple review of spans and levels of control. Before a structure is attempted, it is important to obtain answers to a variety of questions, such as: What does the organization do? What business(es) is it in? What are its key products or services? How does it create value? Who are its customers or clients? Are they inside or outside the company/organization? Questions regarding size, workload, type of operation, and degree of specialization are also important. In addition, the relative advantages of functional versus self-contained types of organization structure must also be evaluated, as should possible hybrid structures. Finally, factors such as the operating philosophy, preferred level of standardization, interfaces, and environmental factors should play a major role in determining the final organization structure.

- **Measuring and Monitoring** - Regardless of the organization structure in place, management must continuously monitor business operations and performance, both from technical as well as financial perspectives. In order to do so most effectively, management processes must be sufficiently defined and detailed so as to make performance evaluations meaningful. To the extent that the business unit has similar operations taking place simultaneously (e.g., at different locations), they should be sufficiently standardized both in business processes and in organization structure to allow for meaningful comparisons. Where this is the case, meaningful performance measures can be developed and reported/trended on a periodic basis, and appropriate management corrective action taken where necessary. Where this is not the case such that consistent technical (e.g., output, schedule adherence, etc.) or cost (e.g., activity based costing) performance measures cannot be developed, the resulting management model would be seriously flawed.

### The Wass Consulting Group, Inc.

The principals of WCG have served the utility and energy industries for over 30 years, and have lived through the changes and cycles the industry has encountered.

Our mission has remained the same, to provide general management consulting services that address the challenges that boards of directors and senior executives face in their daily operations, including matters of mission, governance, strategy, organization, business process transformation and re-engineering, benchmarking, operational improvement, competitive analysis, due diligence, post-merger integration, market entry, litigation support, and others.

As a complement to these consulting services, we also provide Executive Search consulting for our energy clients.