

## The Linnergy Business Improvement Program

...putting *you* confidently in control of *your* business

This paper outlines the program we, at Linnergy, have developed to improve the performance of our SME and family-in-business clients. It outlines how we see many best practice ideas and concepts coming together in an integrated methodology rather than the fire-fighting or piece-meal approach so often used.

### A Business' Purpose:

"The purpose of a business is to create and capture value and sustain it into the future" HBR article *Strategy as Active Waiting* by Donald N Sull September 2005. We believe that this statement very concisely and simply defines the purpose of any business.

It is from this simple understanding that Linnergy has built its Business Improvement Program.

Business is about creating, capturing and sustaining value. Generally we see that it creates value for the clients/customers and captures value for its other stakeholders, primarily (but not only) its shareholders and its employees.

We believe that this quote applies equally to a profit focused business as it does to a not-for-profit 'business'.

### The Process for Creating, Capturing & Sustaining Value

The Linnergy Business Success Model (*adapted from a paper written by John Barton Department of Management Monash University in March 2000 titled "Personal Development Through Further Studies: Systems Thinking and Organisational Learning"*) identifies a simple process by which an organisation creates, captures and sustains value. This model starts with the understanding that the two building blocks of any business are:

1. Leadership and Management and
2. The Strategic Assets of the business.

The strategic assets of the business is what we refer to as 'real assets' of the business – the assets from which the business value is generated. They are generally not shown in the balance sheet of the business (a message?). A simple way of understanding them is to ask the question; If you were to sell your business what are you really selling and what would an astute purchaser do their due diligence on? The sorts of answers may vary according to the nature of your business but would almost certainly include such things as:

- o Your people.
- o Brand, profile, reputation – positioning in the market.
- o Client base.
- o Knowledge – know-how and IP etc.
- o Exclusive licenses or rights.
- o Distribution channels.

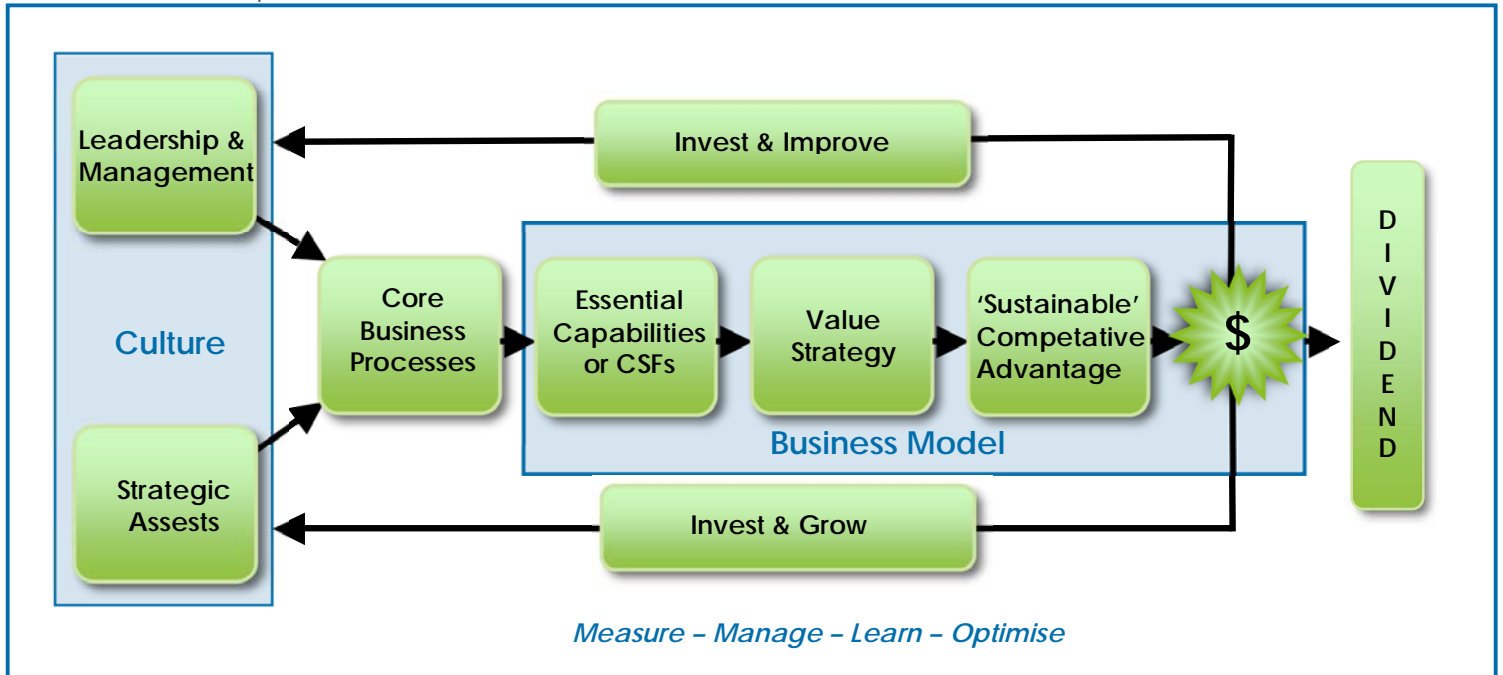
...and the list goes on.

In our experience there are generally three to five key strategic assets on which the success of the business primarily depends. It is the role of Leadership and Management to understand these strategic assets in the context of the business, to leverage these assets and grow them in line with the strategic objectives of the business and (anticipated) movements in the market.

The way leadership and management leverages the assets essentially creates the culture of the organisation, and the purpose of leveraging these assets is to create core business processes that can consistently and reliably create distinctive capabilities for the business. These distinctive capabilities enable the business to create value for clients/customers which, in turn, underpins the competitive advantage of the business. It is this

competitive advantage that attracts clients/customers and ultimately the dollars needed to generate value for shareholders and re-invest in the business to generate greater business value.

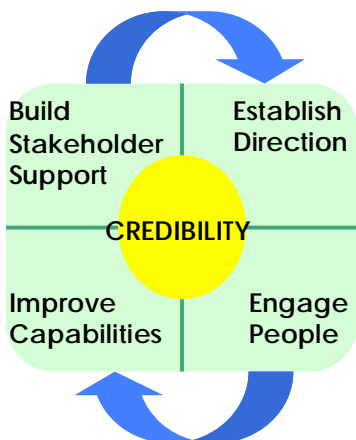
The model of this process is as follows:



**Leadership & Management**

It is important to explain, from the outset, that although we refer to “leaders” and “managers” in this paper we do not see leadership and management being divided up between a group of people called leaders and another group of people called managers. We see leadership and management as being required skills or competencies at every level in the organisation (and even at an individual or personal level). However as you progress to higher levels of the organisation the emphasis naturally shifts more to the leadership skills and competencies.

In simple terms we see leadership as being more about doing the right things (direction) whereas management is more about doing things right (implementation). One without the other is a recipe for failure. However, in our experience, most organisations are relatively strong in management but relatively weak in leadership. For that reason we tend to emphasise the development of leadership thinking in the Linnergy Business Improvement Program. The leadership model we have developed is as follows:



To be effective, leaders need to firstly be credible to those whom they lead. In the Linnergy Business Improvement Program credibility is achieved through three key mechanisms:

1. Demonstrated alignment to the core values of the organisation (this is further emphasised later in this paper under the heading of culture).
2. Clearly defined governance processes – generally in the form of an Enterprise Governance Charter. This is particularly important in family owned and operated businesses.
3. Leadership competencies such as communication, strategic thinking, problem solving, facilitation and influencing. We have identified and train leaders in a small number of key competencies using an experiential or action learning approach.

Having established your credibility as a leader the next question is; what do leaders actually do? The answer is; they set the direction of the business, they engage their people in that direction in order to improve capabilities and finally they build the necessary stakeholder support.

Management, on the other hand, is more about managing (and leveraging off) the strategic assets within the parameters that leadership establishes to deliver the targeted outcomes.

Again we emphasise that thinking needs to shift away from leaders and managers to thinking about the leadership and management functions within each role in the organisation. This, we believe, to be a most important understanding if you are truly to improve your leadership and management.

We, at Linnergy, have developed a simple concept to combine both leadership and management within the one frame. We have called this concept the Leadership Quotient (or LQ). It is a simple way of measuring the effectiveness of leadership and management of an organisation:

**LQ = (Control x Innovation)/Risk.**

In other words; is the business under control and innovating at a rate to enable it to be successful in its markets into the future and is it doing this within an appropriate risk profile? The degree to which this is answered in the positive is the degree to which we see leadership and management being effective.

- Control:** Consistent performance within expectations/benchmarks. A key part of getting a business under control is often simplifying the business based on the 80/20 principle. Understanding what clients, products, services and activities generate the profits and represent the future of the business.
- Innovation:** Innovation is about learning and growth. Evolving the organisation so it can thrive into the future. Keeping abreast of market trends, generating ideas and turning them into new (and profitable) products, services or processes.
- Risk:** Understanding the inherent risks, whatever they may be, in your industry and the risk profile of your business and managing within that profile. A risk audit is often at the heart of this process.

Is your business under control?

Is your business innovating and evolving as it needs to/capable of?

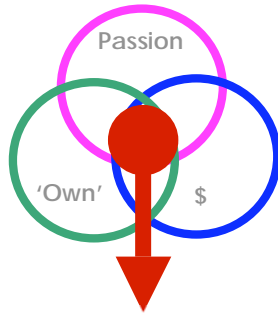
Is all this happening within a tolerable/appropriate risk profile?

### The Linnergy Business Action Planning Process

The Linnergy Business Action Planning Process is at the core or the 'back-bone' of the Linnergy Business Improvement Program. It is the frame from which everything else is supported. It helps define 'true north'.

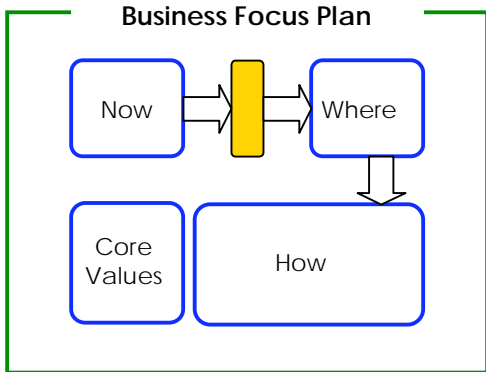
The Linnergy Business Action Planning Process turns traditional business planning on its head. It starts from a fundamentally different premise. Traditional business planning is all about creating a document. And for certain situations this may be required. However what we are focused on is improving business performance. Put simply a document can't improve the performance of a business. Only a process can do that. Therefore we see a business plan as being a process, not a document. The emphasis needs to move from creating a static document to embedding a dynamic process. The traditional business plan is a document that struggles to be implemented whereas the Linnergy Business Action Planning Process is a process of improvement that is evidenced and kept on track through an appropriately designed (one page) suite of (cascading) documents.

The process, in summary, is represented as follows:

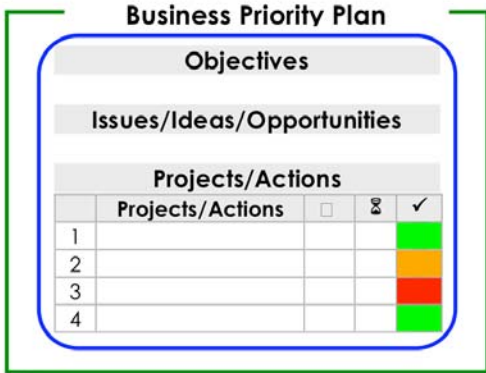


Translate this into a simple organising idea that guides all efforts and decision-making.

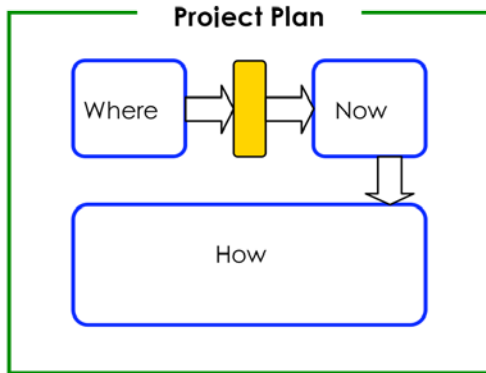
Converts the organising idea into business priorities/objectives.



Converts business priorities into projects & actions



Converts projects to actions



In his highly celebrated book, "Good to Great" Jim Collins brings our attention to a key principle of leadership that he refers to as "The Hedgehog Concept". From his research those who were able to build the good-to-great companies were able to simplify a complex world into a single organising idea – like a Hedgehog.

Collins concluded that there were three critical components to this concept:

- o **Passion:** What you feel deeply passionate about, from a business perspective. We, at Linnergy, list core values, customers/clients, products/services and activities as the things you need to consider under the 'passion' heading.
- o **Own:** What you can be best in the world at. What space you can 'own' in your markets. And just as importantly the spaces you can't own.
- o **Financial:** What drives your economic engine? You need to clearly understand how your financial success is driven/determined.

It is from understanding these three concepts, or more particularly, understanding the space where they intersect that successful leaders are able to create good-to-great companies. This is the mechanism by which leaders can simplify their business into a single organising idea.

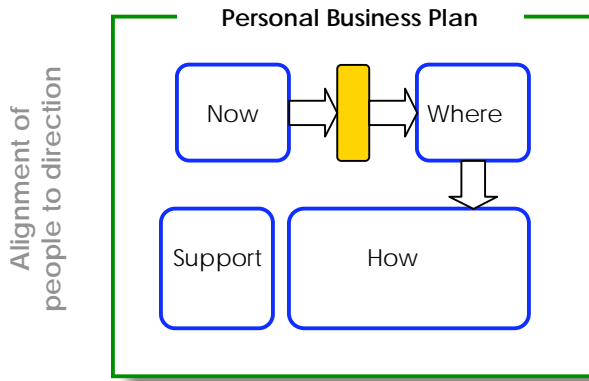
The Linnergy Business Action Planning Process picks up on these understandings with a process using a cascading series of one page plans. The documents are less important than understanding the process that links them:

- o The Business Focus Plan takes the single organising idea (or Mission and Vision, BHAG, Business Objective or whatever you want to call it) and turns it into a small number of strategic or business priorities.
- o The Business Priority Plan then expands on these priorities, using a one page format, and turns the priorities into a series of projects and actions.

Once you have clearly identified a small number of projects needed to achieve the strategic objectives you then move to the Linnergy one page project to convert the projects to these projects into actions. These are 'working on the business' projects that are then project managed.

This step and the next are particularly important part in the overall Linnergy Business Improvement Program.

The need to align and engage people in the organisation is one of the fundamentals of success in any business and is written about in many management books. It is where 'empowerment' starts to take hold and you turn your people from being problem finders to problem solvers. In



this phase they learn project management and problem solving skills as they move the organisation forward in line with the business' objectives.

Finally we recommend working with individuals to build and monitor their personal business plans. Where do they want to take themselves and their role over the next twelve months (in line with the overall direction of the business)? This is a most important part of aligning and engaging people.

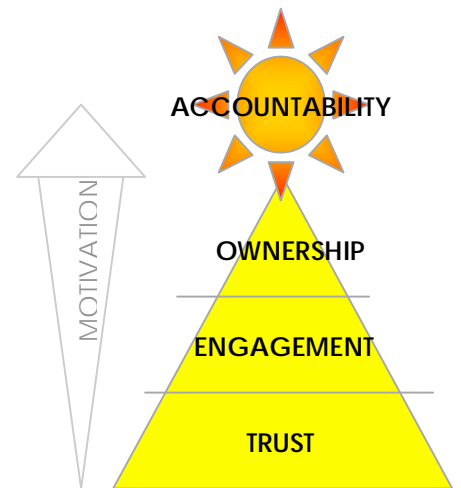
You now have a dynamic process based on a consistent suite of planning templates and methodologies that are used to drive the organisation forward to its goals.

**Culture:**

Culture is the sum of the behavioural norms of an organisation and as such it represents a very important 'organising force'. It not only determines what gets done and when it gets done but it also, most importantly, determines how it gets done (the quality). As a result it needs to be managed.

Culture is essentially determined by what people perceive (and therefore by what messages they receive about what) they have to do to fit in, be accepted and rewarded in their workplace.

As a consequence the Linnergy Business Improvement Program addresses culture by managing messages (to improve the levels of trust) – ensuring the **behaviours** (particularly of influential people), **symbols** and **systems** are aligned to the core values of the organisation and to its strategic objectives.



The Linnergy Business Improvement Program focuses on building an accountability culture through establishing a foundation of trust then leveraging off this trust to engage people – you can't engage people where there is little or no trust. As a result of engaging people they start to take ownership of their jobs – start thinking and acting like owners of their jobs, in line with company values and objectives. It is important to understand that you cannot motivate another person. You can only engage them and engage with them. It is through this engagement that motivation (and initiative) will grow. Focus on engagement not motivation.

Warren Bennis, renowned leadership author, very succinctly and simply summarised the philosophy we believe sets the foundation for how best to work with people: *"When we love our work, we need not be managed by hopes of reward or fears of punishment"*. Surprisingly, getting people to love their work is easier to do than what most people believe. *"This is because regardless of money, each of us has a deep desire to do meaningful work"* (from *"Abolishing Performance Appraisals"* by Coens and Jenkins). Tap into this desire. Three key starting points are:

- o Emphasising the intrinsic value of the work people do (rather than emphasising the extrinsic rewards).
- o Take time to build a positive and trusting relationship with staff (engage with your people) and then
- o Meaningfully engage them in the direction of the firm.

## Core Business Processes:

Having briefly discussed the culture and people issues, and in no way wishing to underestimate the importance of people, it should be noted that "Over the past few decades, highly revered business visionaries ... have emphasised that improving *systems*, rather than individual efforts, is the most effective way to leverage the organisation" (from "Abolishing Performance Appraisals" by Coens and Jenkins).

In our experience businesses over emphasise recruiting the 'highest performing' people. This is often a flawed strategy for a number of reasons:

- It is often very difficult for smaller businesses to attract and retain the highest performers, especially in a highly competitive recruitment market. They simply are not available to many SMEs. SMEs find it hard to compete in terms of salaries/benefits and in many cases are not seen as offering the career/personal development opportunities of larger organisations.
- If you have poorly defined or inefficient systems then hiring the highest performing people, even if you can get them, won't necessarily deliver the performance that you want/need. They will be 'defeated' by the systems, become frustrated and often leave disillusioned.
- The highest performers will often want to do things their way, not yours. The way they have been successful in the past. So even if you have good systems and processes they may find them restrictive and seek to 'get around' them. They can bring an attitude/culture or ways of doing things that clash with your organisation and they will often, due to their past successes in using these processes, be head-strong in maintaining them.
- When you work in an SME environment you have to do whatever is required when it is required. You cannot afford to be 'precious' in small business. The level of support that a bigger organisation can offer is often not available. For this reason a person who is a top performer in a bigger business may not necessarily be able to translate that performance into a smaller business.

For these reasons the Linnergy Business Improvement Program emphasises the importance of systems thinking and improving business processes as a key part of overall performance improvement rather than just focusing recruiting the top performers. The irony is that once you do this you often make your organisation more attractive to the higher performers. We believe that an average performer who is engaged and operating within well designed systems and processes will consistently out-perform a star performer who has to struggle against the inadequacies of the systems they encounter on a daily basis.

## Measure – Manage – Learn – Optimise:

Finally, the overriding process of measuring, managing, learning and optimising is emphasised. Establishing key measures (early in the process), managing the organisation in line with these measures, learning from departures from the targeted performance and then applying that learning so the performance of the business can be optimised.

The measures need to reflect both financial and non-financial factors and different measures will need to be developed at different levels of the organisation. Measurement is a fundamental skill or competency that needs to be developed at all levels of the organisation as it can be a great aid to management. We would not go so far as to use the simplistic and clichéd phrase; what you can't measure you can't manage. One of the key skills of leadership is being able to manage the intangible and often the unmeasurable. But nonetheless measurement is important in facilitating more effective management in most instances.

**Warwick Cavell**



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