BusinessPlus+ Newsletter

CBSW
TAX & BUSINESS ADVISORS

Level 2, 49 Oxford Close
West Leederville WA 6007
PO Box 1475, West Leederville WA 6901
T: +61 8 9363 7300
E: admin@cbswtax.com.au
W: cbswtax.com.au

INDEX

Issue – November 2023
Researched & Compiled by Lyall Bear – Business & Family Business Advisor

Can We Measure Performance Without a Strategic Direction?

By Stacey Barr

We can measure anything without a strategic direction or plan; that doesn't mean that what we measure is meaningful. **A strategic direction sets a meaningful context for measurement.**

We don't just measure the goals in our strategic plans. We measure all kinds of things in a business or organisation:

- financials, like profit and loss, balance sheet, and cash flow
- program or project performance, like on-time, on-budget, outputs and outcomes.
- business process performance, like with Lean Six Sigma
- regulatory requirements or industry standards, like food safety or customer response times
- day-to-day operations, like cycle time or customer complaints

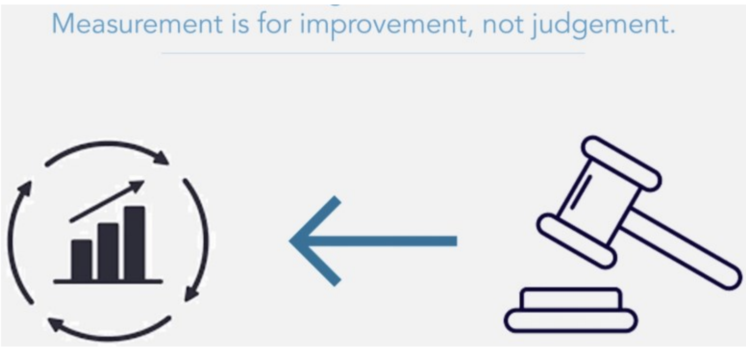
We could, potentially, measure anything that moves in a business or organisation. And whether or not we do have a strategic plan, there will still be other triggers for what we measure.

There are other triggers for what we measure…

Some of the most common triggers for the performance measures or KPIs that any business or organisation tracks include:

- the data we have available (and feel like we should be using)
- what has been historically measured in the business or organisation already
- what is traditionally measured in our industry or function
- what our competitors are measuring
- what our consultants say we should be measuring
- day-to-day problems that we're trying to fix.

Even with a strategic plan, many of these triggers still might take a role in the selection of things we measure. But **unless the strategic plan takes precedence over these other triggers, we'll almost certainly be measuring more than is useful.**

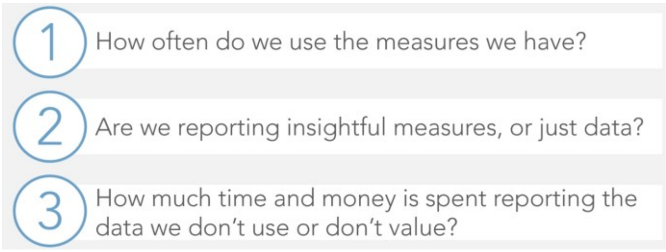


We end up measuring the wrong things…

By assuming that all those triggers listed above are valid reasons to measure something, we end up living with some very real consequences:

- not enough measures that align with decision-making needs
- too many measures to make good use of
- costly data collection and reporting processes
- narrow focus on operations or 'the machine' (because that's the easy data to get)
- some stakeholder needs ignored (because that's the data that's hard to get)
- short-term goal or decision horizon

These consequences mean our attention is spread too wide, too randomly, and too thin. What strategy does is keep us focused on a narrower range of things to spend resources and time on measuring. With a strategic direction, we can do a much better job at what matters most.



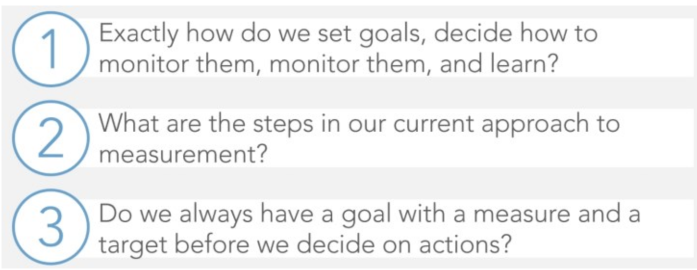
But a strategic direction helps us prevent another consequence of those triggers above…

Those measures misalign the parts of our organisation…

Sure, it is possible to measure some things that matter, without a strategic plan. But the prioritisation of what's worth measuring is done locally, without big picture direction. That means that each team makes their own decisions about what to measure, without appreciation of interdependencies between and among the teams. And we know that what we measure is what gets done.

If each team in an organisation could successfully choose their own priorities and measures, without impacting the rest of the organisation, then we don't really have an organisation. But that's not true: an organisation is an holistic system, whose success depends on the interactions of its parts.

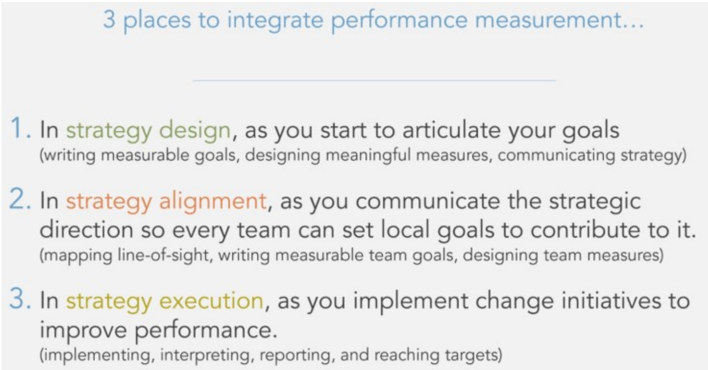
So, **without a unifying strategic direction that aligns performance measures across the organisation, we have another consequence: misalignment**. The parts of the organisation pull against each other, rather than working in collaboration toward a share outcome.



Meaningful measurement comes only after prioritisation…

We have been told so many times, over many decades, but we still can fail to grasp the significance of ruthless prioritisation in systems with resource constraints:

"The essence of strategy is choosing what not to do." – Michael Porter
"Strategy is figuring out what not to do." – Steve Jobs
"There is nothing so useless as doing efficiently that which should not be done at all." – Peter Drucker
"Tactics without strategy are the noise before defeat." – Sun Tzu
"Without a strategy, execution is aimless." – Morris Chang
"Be ruthless. Ruthlessly prioritise the strategic goals to focus on performance results that matter most, right now (the more goals you have, the fewer you'll achieve)." – Stacey Barr

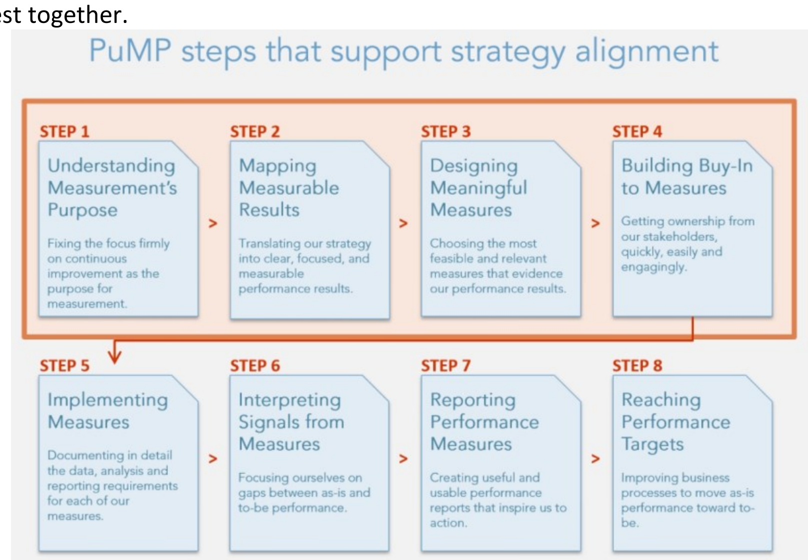


For me, at least, I come to two conclusions:

1. Yes, we can measure performance without a strategic plan, but we need to choose for ourselves which performance results are worth spending the time and resources to measure. And therefore, we must live with the consequences when these pull against other teams in our organisation that are competing for those limited resources.
2. If we care about the success of the whole organisation, we need to measure the performance results that contribute to that success. And this requires a strategic plan to make it clear what 'success' means and how each team uniquely contributes to it.

Of course, just because we have a strategic plan doesn't mean we'll automatically have meaningful performance measures (as this short study demonstrates). Formulating a strategic direction and articulating it in a clear and measurable strategic plan takes deep analysis, thought, dialogue, and skill. We cannot take these for granted, as we constantly hear how difficult it is for our clients to articulate the results that matter most (other than profit or financial performance).

That's why we need both a **robust approach to strategy, coupled with a robust approach to performance measurement** (like PuMP). They each work best together.



This article was first published at http://measureupblog.com by Stacey Barr. Stacey (based in Brisbane) is an Australian specialist in organisational performance measurement and creator of PuMP, one of the world's only deliberate performance measurement methodologies. PuMP is known for being practical, logical, and engaging, because it was designed to overcome people's biggest struggles with KPIs and measures. If you like, learn about the bad habits that cause these struggles, and how to stop them, by taking Stacey's free online course "The 10 Secrets to KPI Success" at www.staceybarr.com/the10secretstokpisuccess.

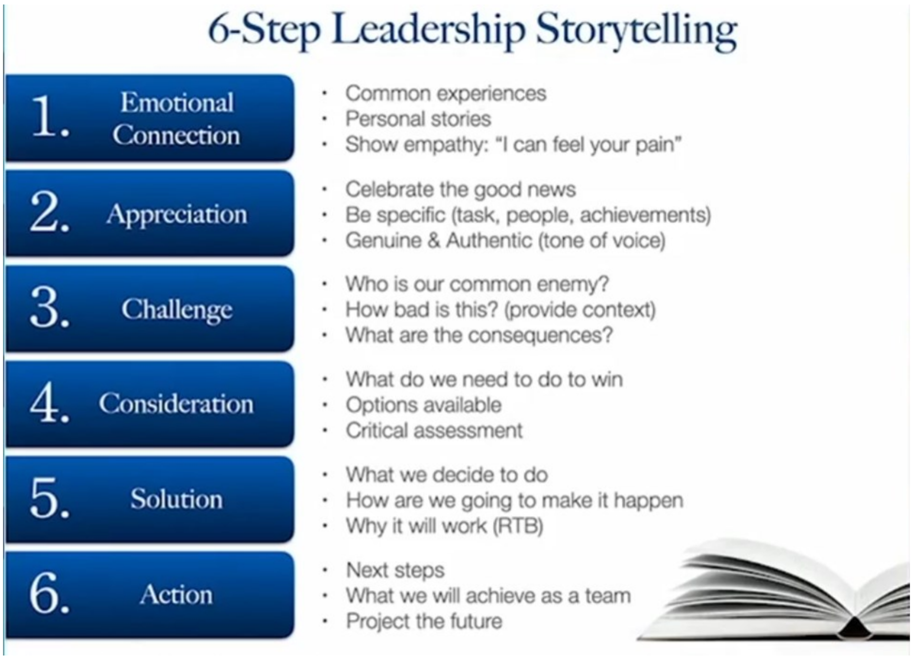
For leaders and managers, there are useful lessons around how to frame a strategy to ensure staff and other stakeholders back it, in the points discussed below.

Emotions Rule People's Decisions

Do not assume that people will take objective information and statistics as seriously as they should. As has been proven experimentally, the framing of an idea changes the decisions that people make. Humans do not just view things objectively, but rely on emotion, opinion and connotations; their decisions are shaped by their 'cognitive schemas' – that is, patterns of thought or behaviour that are influenced by individual characteristics.

When looking to frame a strategy that staff will buy into, executives and senior managers can use this to their advantage by ensuring they use appropriate language. For instance, using the term "those people" to describe a particular group is likely to provoke implicit and unintended responses among employees who do not immediately identify with a particular strategy, and could alienate the very people you need to get onside.

Consider Storytelling



Conversely, effective framing can also help generate buy-in for a particular strategy. Make use of storytelling and metaphors to create a particular image or to convey a potential future situation.

Research has found that evoking implicit storylines which invite moral considerations and emotions into the decision-making process has a significant impact on outcomes. It's a technique deployed to great effect by marketing agencies. Soft-drink brands will present images of people drinking their product on a beach with a party going on around them to create positive associations with the product; in reality, very few people will enjoy their drink like this.

But it's a powerful image, and a technique that business owners/managers can also use when selling a vision to staff, customers or even investors. They should look at their different stakeholders and identify the framing strategy that is most likely to resonate with them and be seen by them in a positive light.

You could use these '*storytelling wells*', to draw stories from:

- **Public well** - available to everyone. You might see something on YouTube or read a story online for example.
- **Professional well** – stories about things that happen at work, could be from your employees, customers or stakeholders.
- **Personal well** – draws on your personal experiences for stories to share. This is the richest place to hunt for stories. You might feel vulnerable when you share personal stories, yet you know instinctively that they pack a punch. As in life, the greater the risk, the greater the reward. What keeps you safe is understanding the difference between your personal and private wells.
- **Private well** – contains the stories you decide not to share. Each storyteller must decide what is private for them.

Understanding the different wells helps you get the balance right between vulnerability and over-sharing. They'll also give you a bottomless treasure chest of potential stories.

Source: "*The Science of Storytelling*" - Gabrielle Dolan

Ensure Others Know About It

When looking to frame a strategy in a particular way, it's important to ensure that other departments involved, are also aware of just how important framing is and how a particular strategy is being positioned.

This could include marketing, internal communications, media and external relations or employee engagement teams, as well as line managers. If necessary, consider investing in training so staff understand how to frame their own messaging around a strategy.

Know Where To Draw The Line

There is a dark side here, with the obvious potential for framing to be used to justify things that are questionable or unethical. Influencing the senior management team to make a debatable investment, or key investors to reach a particular position, may be morally dubious.

It's important that any framing is conducted within the right ethical parameters, where a degree of persuasion is useful and acceptable, but misleading and conveying a false impression is not.

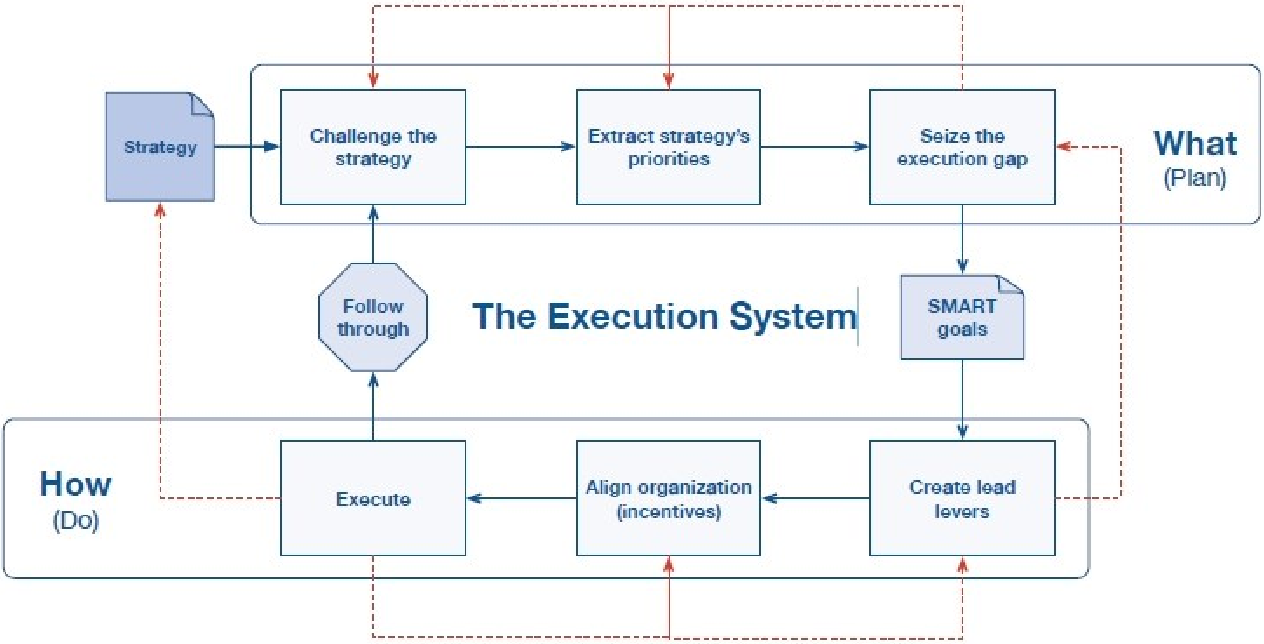
Watch Out For Other People Using Framing On You

As well as using framing to help deliver a strategy, it's important for business leaders to be aware that their own decisions can be affected by their own instinctive reactions. They need to put in place measures to ensure they assess any strategy or decision objectively, so they do not fall victim to the effect of framing.

The best way to overcome the framing bias is to ensure there is a diversity of inputs into decisions. There are techniques to accomplish this, such as dividing a team into two groups and asking them to research and debate opposing positions. Another method is to appoint somebody as a 'devil's advocate' whose role it is to challenge the assumptions underpinning proposals and arguments, with the aim of preventing any framing bias.

Communication is essential to the implementation of any strategy, and there is a lot more to it than just exchanging information. Knowing and using the true potential of language with the right framing can help people become more effective strategists and leaders.

Executing Strategy



Execution is about making strategy happen and doing so entails processes and systems to ensure that goals are being achieved. Without effective execution, strategy has no meaning and that's why any serious effort to design a company's strategy must consider its ability to execute it.

The real execution of a strategy must address the strategy itself, which outlines where to compete and how to win; and the business model, which addresses the basic building blocks of how the strategy is delivered. Osterwalder and Pigneur (2010) describe the business model as a blueprint for strategy, which means, at a minimum, describing your intentions around:

- Which customer segments you will target;
- What value propositions will attract those customers;
- Through which channels you will make your offer and service those customers;
- How the customer relationships will be maintained (e.g. through great products, great service, low cost);
- What resources are required to deliver on your promises;
- What activities will these resources, at a very high level, perform; and
- Which partnerships are needed.

A lot of good material has been written about execution which makes it a bit difficult to come up with a single, unified system, but for a good execution approach it:

■ **Has The Right People In The Right Jobs**:
Execution-focused leaders don't cut corners to ensure that the right people are occupying the right jobs. This is one case where knowing your people really goes a long way. That means that as a leader you must be reachable and in direct contact with your subordinates to develop an active sense of awareness. Asking questions and honestly listening to the answers are powerful techniques that pay off big time when implementing your strategy.

■ **Rewards High Performance**:
People who perform well at doing their jobs must be rewarded better than those who don't. It is that simple. A company may have great, smart talent, but if they don't understand their jobs or are not focused on achieving high performance, the company will be wasting time and money and may never reach its goals.

■ **Manages The Trajectory, Not The End Point**:
Most organisations set goals during their annual business reviews, then everybody goes back to work and comes back a few months later to see whether they met their goals, but by then it's too late to act if something didn't go as planned. High-performance organisations, on the other hand, track the execution of the underlying tasks closely, so that there's no surprise when the results come in, giving executives the chance to act immediately if something goes out of whack.
■ **Establishes Clear Accountability**:
Providing clarity on what needs to be done, by whom and by when is very important when it comes to execution. That is perfected by keeping clear accountability during implementation, so that all key people know who's on target and who's falling behind. While many companies operate in silos with clear goals defined vertically, horizontal alignment is also important and makes coordination across teams more efficient.

■ **Provides And Encourages Feedback**:
Providing timely feedback is essential to keep high performance on things that are going well and correct poor performance on time. In this sense, feedback must be bi-directional, coming from leaders to all people in the organisation, and from people on the front lines of execution back to the leadership. Both need to report how things are going and provide early notice of changes that could affect results down the road. If feedback is provided in a sincere and non-judgemental way, people will be more open to sharing things that are not going well or that could become a problem later. No one can fix a secret, so you must encourage people to speak up and get the help they need when they need it.

■ **Provides Flexibility And Allows Agile Pivoting**:
The "plan-then-do" approach to execution may have worked well in the past, **but in a more dynamic environment agility, flexibility and the ability to regroup when faced with unexpected roadblocks**, can give companies an execution advantage in the different markets where it operates.

Conclusion

Based on these ideas, a series of activities – steps - that if implemented systematically, can help ensure that the strategy is well executed, providing early signals about things that could be getting off track. These activities include: -

1. **Challenging and fine-tuning the strategy**: Streamline the strategy and get it ready for execution by challenging its fundamentals and assumptions, exploring the different ways in which it could be achieved and finally selecting the best ways to execute it.
2. **Extracting strategic priorities**: Identify leadership priorities from the strategy and break them down into their main underlying drivers. Those drivers will become the levers that the individual units must act upon to achieve their individual goals.
3. **Seizing the execution gap**: Evaluate your ability to execute the strategy and look for gaps or missing links that could create confusion or derail your implementation efforts.
4. **Managing through lead levers**: Identify the leading metrics that should be used to track execution and create a system to monitor progress.
5. **Aligning the organisation for execution**: Create the right incentives to align individual interests with the strategy of each division or business unit.
6. **Executing and following through**: Set execution in motion, continually monitor the implementation of the strategy, and quickly react to changing environments. Keep your ear to the ground for emerging opportunities.

Additional Resources

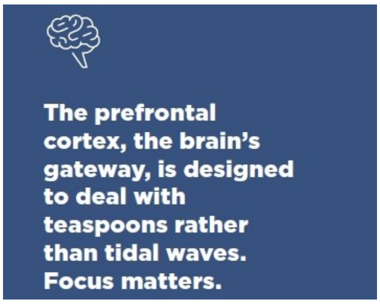
For further information on Business Storytelling, please refer to the following excellent resources from Australian global thought leader on strategic storytelling and real communication, Gabrielle Dolan: -

- ***"The Science of Storytelling"*** whitepaper, can be accessed **HERE**
- Another whitepaper ***"Business Storytelling"*,** can be accessed **HERE**
- An article ***"Four Types of Stories You Need in Business",*** can be accessed **HERE**

By FranklinCovey Institute

Every year, organisations globally spend more than $30 billion on strategy creation—and more than 80% of those strategies fail. FranklinCovey's **The 4 Disciplines of Execution methodology** provides the framework for organisations seeking to increase strategic execution by creating a culture of high performance.

Discipline 1: Focus on the Wildly Important



Business research has shown that only 15 percent of employees know their organisation's most important goals—either there are no goals or they have too many goals.

Focus on less to accomplish more. Start by selecting one **Wildly Important Goal ("WIG"**) instead of trying to work on a dozen goals all at once. We are not suggesting you ignore the work necessary to maintain your daily operation. **We are suggesting you narrow your focus to work on what you want to significantly improve.**

Most intelligent, ambitious people don't want to do less. Especially if it means saying no to good ideas. They are wired to do more, but there are always more good ideas than there is capacity to execute.

When you choose a WIG, you identify the most important objective that won't be achieved unless it gets special attention. In other words, your normal course of business won't make it happen.

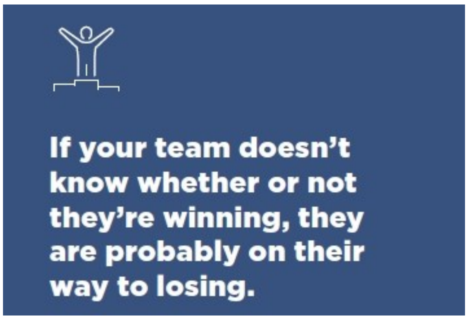
To define a WIG, identify where you are now, where you want to be, and by when. Said differently, you define a starting line, a finish line, and a deadline. Psychologically it is important to have a single measure of success. This is the discipline of focus, and it's the first step in creating a winnable game.

Discipline 2: Act on the Lead Measures

While **a lag measure tells you if you've achieved the goal, a lead measure tells you if you are likely to achieve the goal**.
No matter what you are trying to achieve, your success will be based on two kinds of measures: Lag and Lead. Lag measures track the success of your wildly important goal. Lags are measures you spend time losing sleep over. They are things like revenue, profit, quality, and customer satisfaction. They are called lags because by the time you see them, the performance that drove them has already passed. You can't do anything to fix them; they are history.

Lead measures track the critical activities that drive or lead to the lag measure. They predict the success of the lag measure and are influenced directly by the team. An example of a lag measure is weight loss. Which activities or lead measures will lead to weight loss? Diet and exercise! Proper diet and exercise predict the success of weight loss, and they are activities that we can directly influence. Simple enough but be careful: even the smartest people fall into the trap of fixating on a lag measure that they can't directly influence. This is because lags are easier to measure and they represent the result we ultimately want**. Think of a lead measure as a lever that moves your Wildly Important Goal.**

Discipline 3: Keep a Compelling Scoreboard



The right kind of scoreboard motivate players to win. People play differently when they are keeping score. If you doubt this, watch a group of teenagers playing basketball. See how the game changes the minute scorekeeping begins.

The lag and lead measures won't have much meaning to the team unless they can see the progress in real time. Bowling through a curtain is not that much fun. **Discipline 3 is the discipline of engagement**. People perform best when they are emotionally engaged, and the highest level of engagement comes when people know whether they are winning or losing.

The best scoreboard is designed for and often by the players. A player's scoreboard is quite different from the complex scoreboard that coaches love to make.

Discipline 4: Create a Cadence of Accountability

Each team engages in a simple weekly process that highlights successes, analyses failures, and course-corrects as necessary, creating the ultimate performance-management system. The cadence of accountability is a rhythm of regular and frequent team **meetings that focus on the Wildly Important Goal**. These meetings happen weekly, sometimes daily. They ideally last no more than 20 minutes. In that brief time, team members hold each other accountable for commitments made to move the score.

The secret to Discipline 4, in addition to the weekly cadence, are the commitments that team members create in the meeting. One by one, team members answer a simple question, "What are the one or two most important things I can do this week that will have the biggest impact on the scoreboard?" In the meeting, each team member reports first if they met last week's commitments, second if the commitments move the lead or lag measures on the scoreboard, and finally which commitments they will make for the upcoming week.

People are more likely to commit to their own ideas than to orders from above. When individuals commit to fellow team members instead of only to the boss, the commitment goes beyond professional job performance to become a personal promise. When the team sees they are having a direct impact on the Wildly Important Goal, they know they are winning, and nothing drives morale and engagement more than winning.

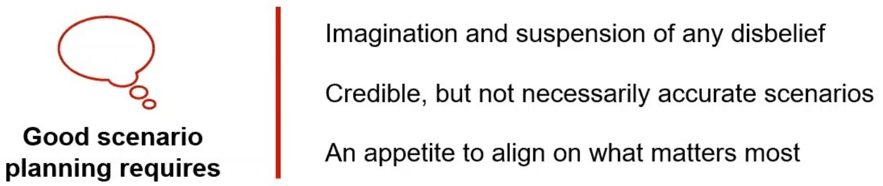
Additional Resources

- The FranklinCovey Institute paper "***Turn your Average Employees into High Performers***" can be accessed **HERE**
- The Growth Faculty paper "***Ten Best Methods for Improving Accountability***" can be accessed **HERE**

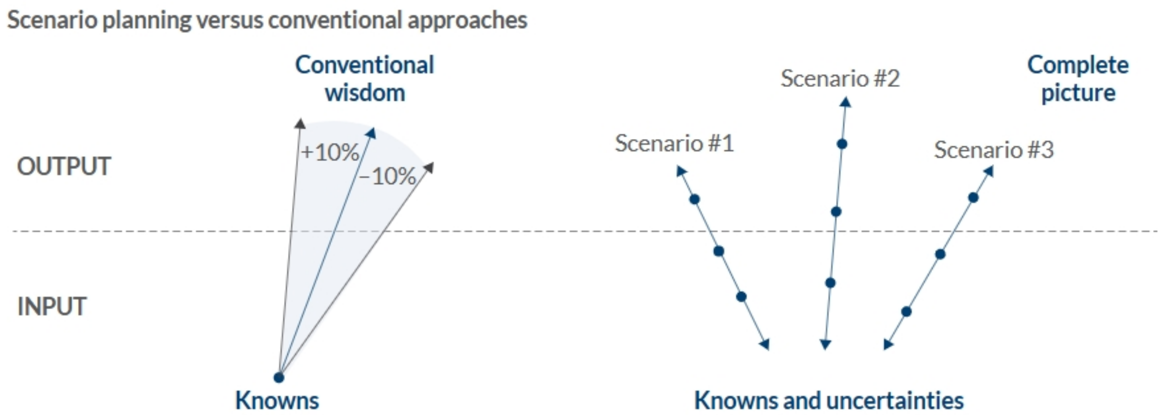
Setting Your Key Business Priorities For 2023/24 & Beyond

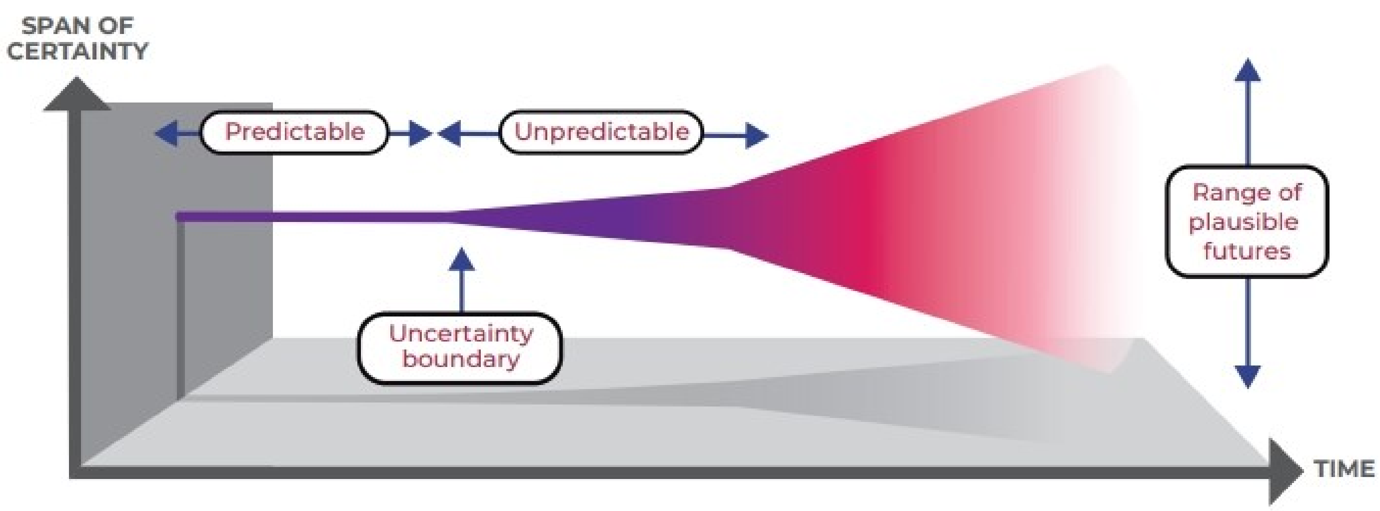
Here are some key priorities for businesses to focus on for the current financial year (and beyond) together with a checklist that can help you ensure you're prepared for the business year. **As you read through these key priorities businesses should focus on, we encourage you to rate yourselves on how you think you'll do in each of them.**

Scenario Planning Risk Management:



Especially in evolving environments, tracking the evolving market and economic conditions and ensuring there are sufficient mitigation strategies, is critical for the performance of the business. It's also important to focus on addressing increasing technology risks.





Sustainable Growth and Expansion:

EXTERNAL DRIVERS

- Economic growth
- Government policy/ regulation
- Demographic change
- Market size and growth rate
- Commodity prices
- Consumer spending
- Rate of technological innovation
- Inflation
- Cost of borrowing
- Social attitudes

INTERNAL VARIABLES

- Mission, vision, strategy
- Business model
- Customer satisfaction/loyalty
- Productivity
- Cost structure
- Quality
- Talent
- Time to market
- Reputation/trust
- Access to capital

The key word here is 'sustainable'. **Businesses need to ensure they are building a foundation that can sustain continued growth – a holistic and strategic platform pillared by the right people, processes, suppliers, clients, and strategy.**

Maintaining Financial Discipline:

$$G + P = E1 + E2 + E3$$

G = Growth

P = Profitability

$E1$ = Economy

$E2$ = Efficiency

$E3$ = Effectiveness

For the small business to be successful and grow and prosper in a profitable manner, the small business owner must operate the business using the least amount of scarce resources (economy), using sound business practices in its operations (efficiency) to achieve the optimum results of success (effectiveness).

Maintaining financial discipline is a vital trait that companies must cultivate to achieve lasting success and enable them to weather economic uncertainties, seize growth opportunities and build a solid foundation for long-term prosperity, ensuring their sustainability and competitiveness in a dynamic business landscape.

Adapting and Excelling at Lead Generation and Sales:

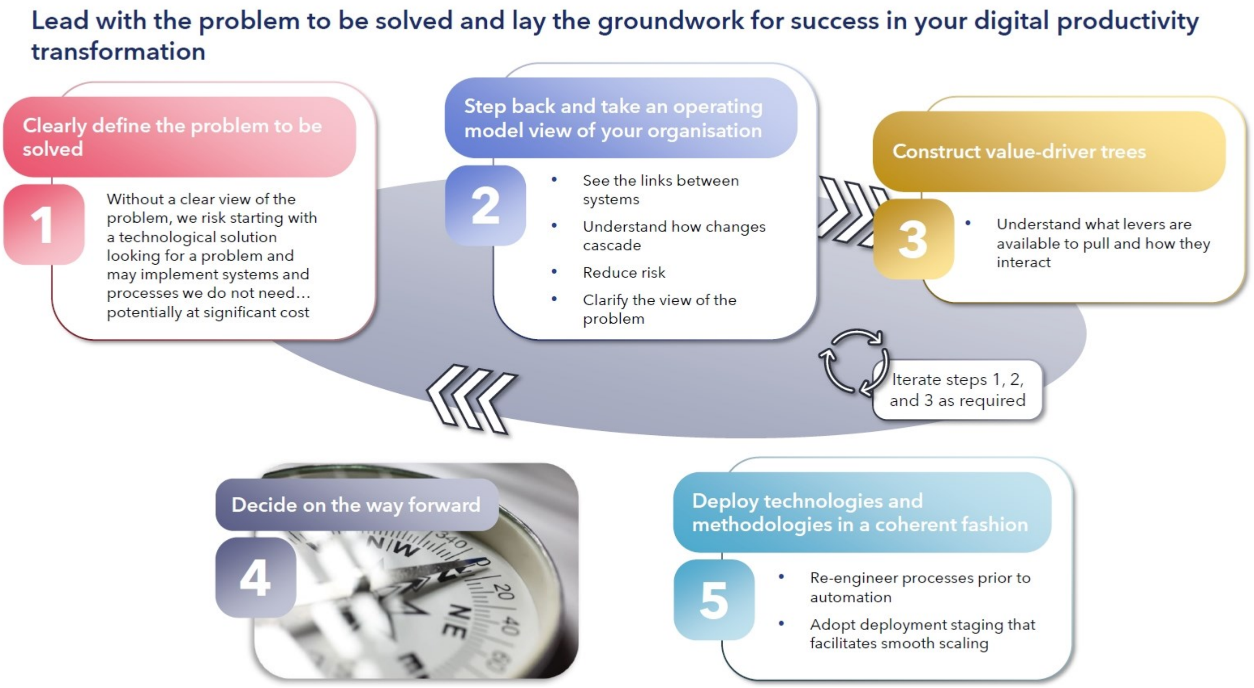
You can't be in business if you're not "being in sales". With markets and consumers evolving, it's critical for companies to ensure they are investing in continually improving and oiling the sales machine of the business and taking a holistic approach by establishing effective processes, upskilling and training, reviewing and having the right tools and resources available.

Customer Experience Enhancement:

Source: McKinsey & Company

Businesses need to understand that consumers who buy from you also likely buy groceries from the local grocer or visit a hairdresser or buy from an electronics store etc, so the customer expectations are often also influenced by experiences outside of their specific industry. So with major businesses continually improving their **CX** and **UX**, it's important for all businesses to ensure they are not perceived to have a poor customer focus nor have a significant gap in fully understanding and excelling in delivering on their needs. **CX = Customer experience UX = User experience**

Continued Digital Transformation:



Embracing AI and digital technologies and leveraging them to transform business processes is a priority for organisations especially with major advancements in AI recently. Companies shouldn't shy away or fear new technology especially AI, but educate themselves, learn and plan to integrate these tools to add greater value, where appropriate.

Talent Management and Development:

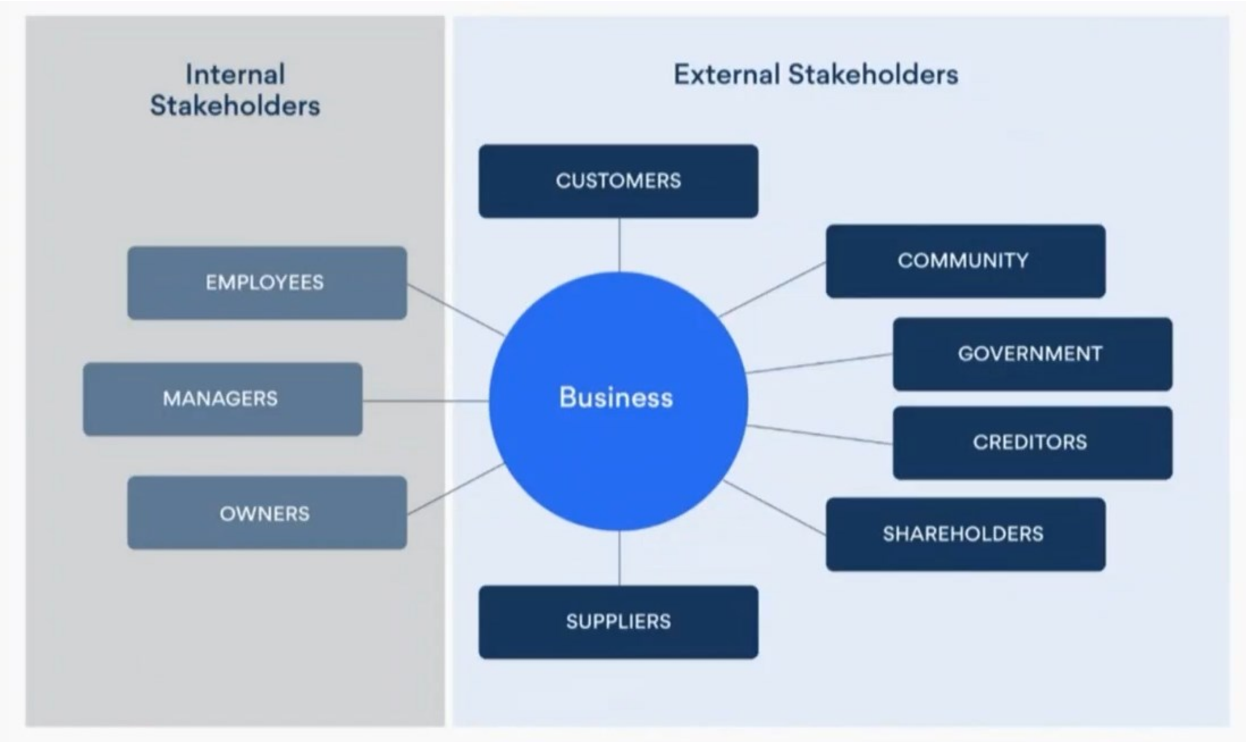
In most cases, companies need to understand that they are not a manufacturing or retail business for example, **but they are a people business that specialise in those areas**. So having the best functional team structure enables a business to achieve its goals more effectively and efficiently, to scale and grow sustainably.

Operational Efficiency:

Source: Business Survey Results

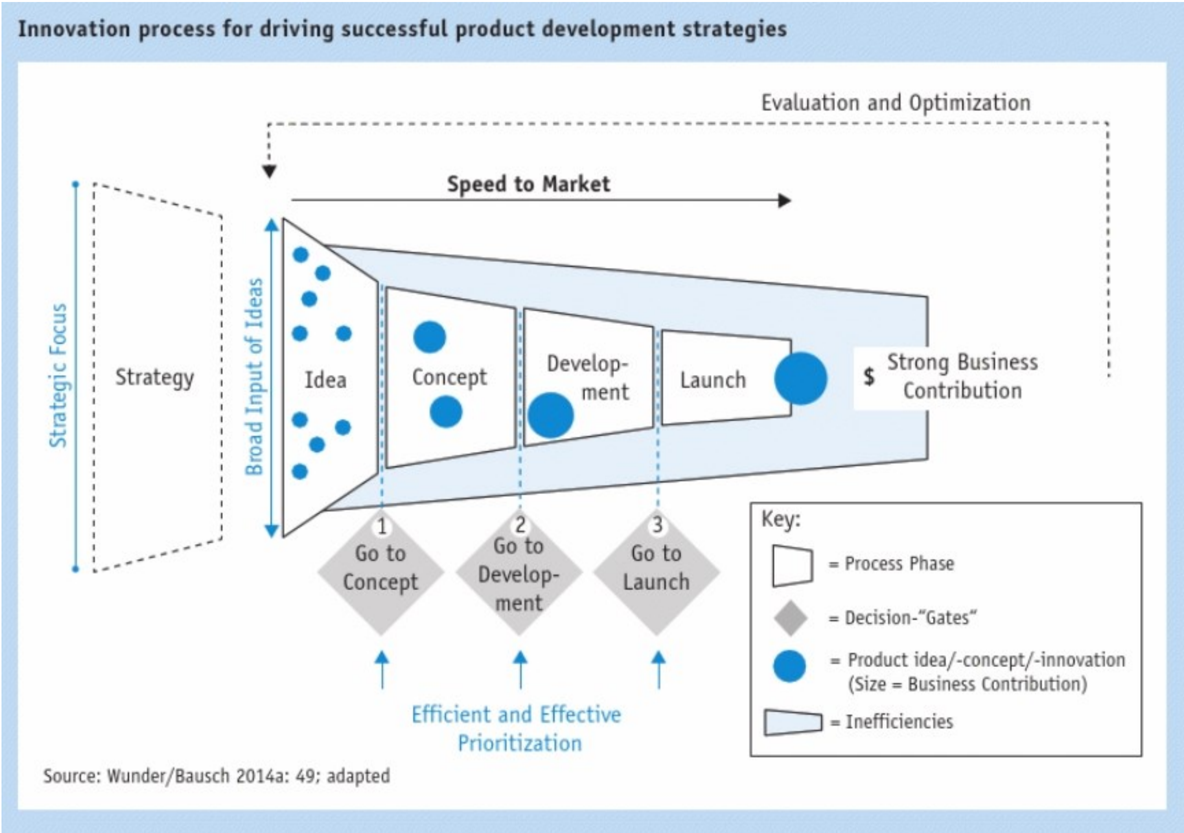
Today's business game is very much about efficiency and the most effective organisations win. **Optimising internal structures, processes and systems must be a priority for businesses**. Ensure you are always reviewing and continuing improve and streamline workflows, review operating costs, improving supply chain management, and enhancing overall operational efficiency.

Supplier and External Team Relationships:



With so many aspects to be experts in, successful businesses build strong external teams that support their business. Having trusted advisors help businesses to stay on top of trends, apply best practice and enable strong supply relationships.

Innovation and R&D:



With how quickly things are changing, companies need to stay ahead of the curve to remain competitive and relevant. Hence **it's critical to invest in research and development activities to drive innovation** – exploring new technologies, investing in product/service improvements, and fostering a culture of creativity and experimentation.

Decisive and Adaptable Leadership:

Leaders have a role beyond communication in resilience, sometimes "yesterday's style" does not match today's challenges