

Integrating Decision Analysis Into Other Business Processes

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Topics

- Introduction
- Where does DA fit in your organization
- “Value Creation Process”
- Integrating into strategic planning
- Integrating implementation projects
- Other areas for integration
- Q&A

Introduction - Personal

- Live in SLC
- 15+ years executive experience – Partner, Owner, COO, CFO, Controller
- 15+ years consulting firm experience – Petrous, SDG/Navigant, several regional firms, AA & Co.
- Functional experience – NOT DA, strategy, lot of implementation, financial/systems/process background
- NOTE, many of the ideas presented here were developed at SDG

Comprehensive Process Solutions on How To ...

- Do meaningful strategic planning
- Align to and implement strategic plans
- Make quality strategic decisions
- Better manage any portfolio
- Increase value capture in a merger/acquisition
- Identify, assess and manage risks, including fail-safing
- Measure and increase customer satisfaction
- Redesign or reengineer business processes
- Measure and improve human performance
- Diagnose and solve "People" Problems
- Manage large scale change

Success and Failure Perspectives

$$P(\text{success}) + P(\text{failure}) = 1$$

- | | | |
|---------------------|---|--------------------------------------|
| • Opportunity focus | ▪ Reflect full range of probability in all values | ▪ Problem focus |
| • Creative | ▪ Quantitative analysis | ▪ Practical, real, and down to earth |
| • "And" logic | ▪ Statistical basis | ▪ "Or" logic |
| • often fad/trend | | ▪ Never trendy |

Objective = Organizational Alignment

- | | | |
|----------------------------|-----------------------------------|-----------------------|
| • Vision, Mission, Values | • Strategy/Decisions | • Issue-raising |
| • Leadership Development | • Portfolio Mgt | • Risk Identification |
| • Reengineering | • Value/Risk Profile | • Risk Perceptions |
| • Six Sigma, etc., etc.... | • Risk Management and Engineering | • Fail-safe |

Executives' primary objective is to optimize the value of their organization.

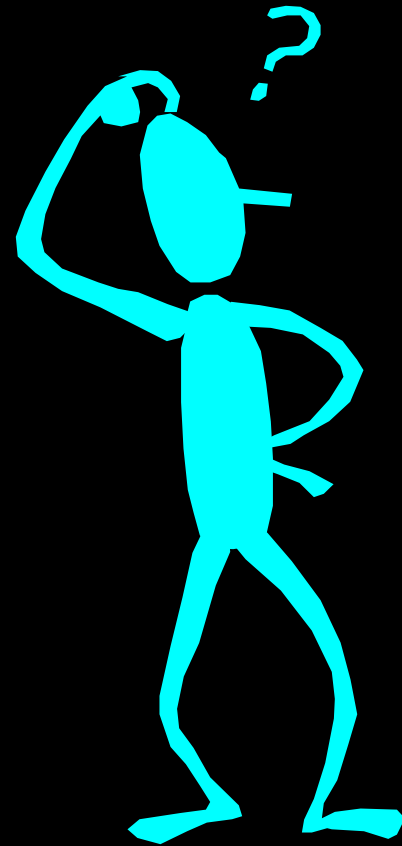
This can be accomplished through:

- Operations - good management of the normal business
- Operational change - all the incremental change any organization must undergo to sustain and grow their core businesses (e.g. continuous improvement)
- Strategic change - a significant re-direction of company energy, effort and resources with the anticipation of new value creation.



In your organization ...

- How aggressively are you trying to create new value?
- Who owns value creation?
- Do you establish accountability and track performance for all aspects?
- Where does DA/DQ fit relative to how value gets created?



Where/how Do You Fit in Your Organization?

Group with
DA skills but
no separate
charter

Function -
with DA &
Portfolio
scope

Process Leader
with idea
inception to full
implementation
responsibility.

(Count)

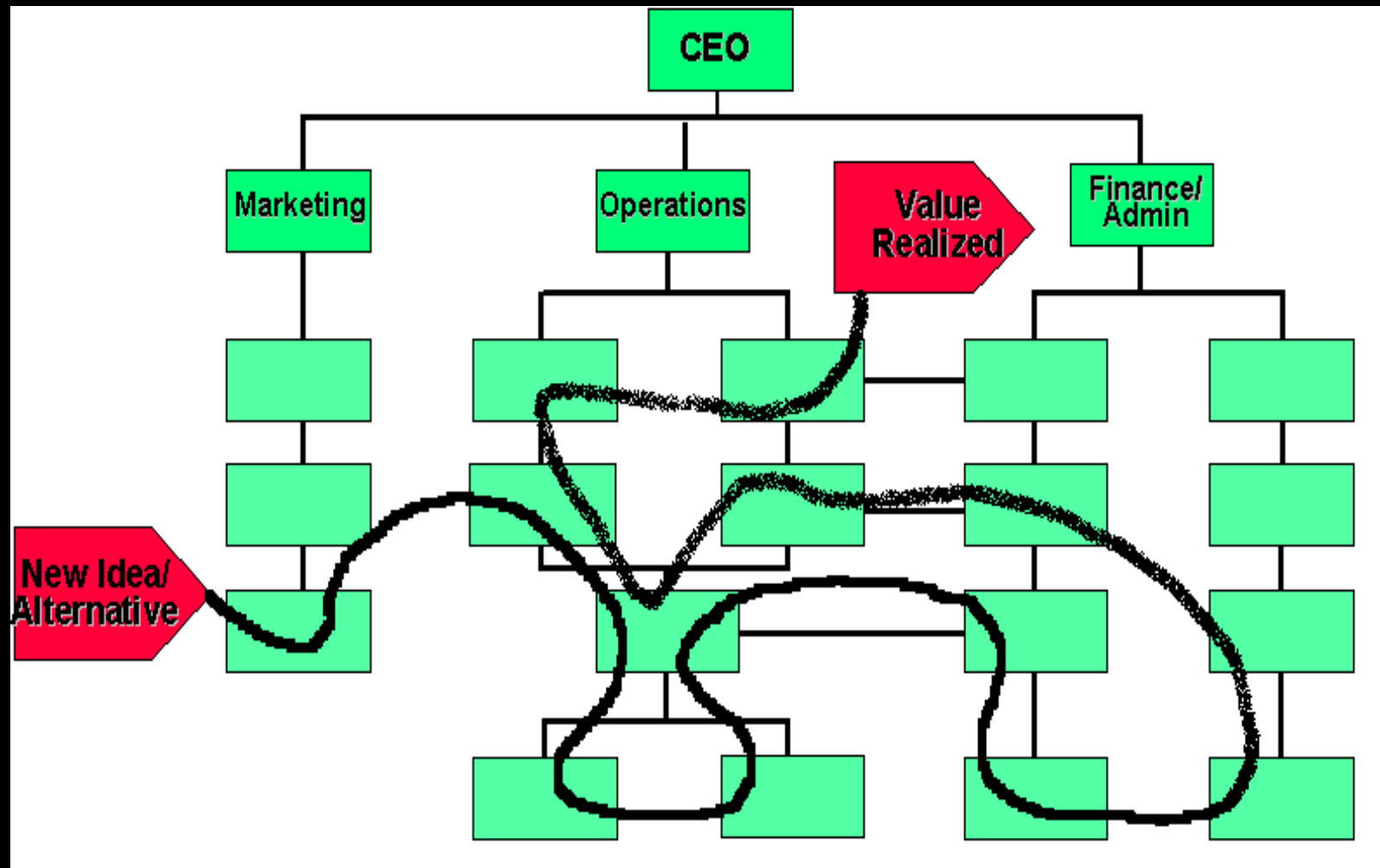
Reports to?

Optional or Mandated

Free, budget recovery,
or market to Users

?	?	?
?	?	?
?	?	?
?	?	?

Random Trail for Value Creation unless Defined/Organized



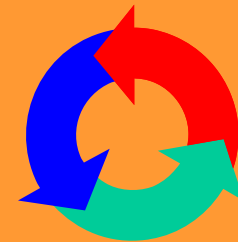
The Strategic Value Creation Process

**Strategic
Planning**

**Strategy
Development and
Decision-Making**

**Implementing
Change**

**Normal
Operations**



Who we are.

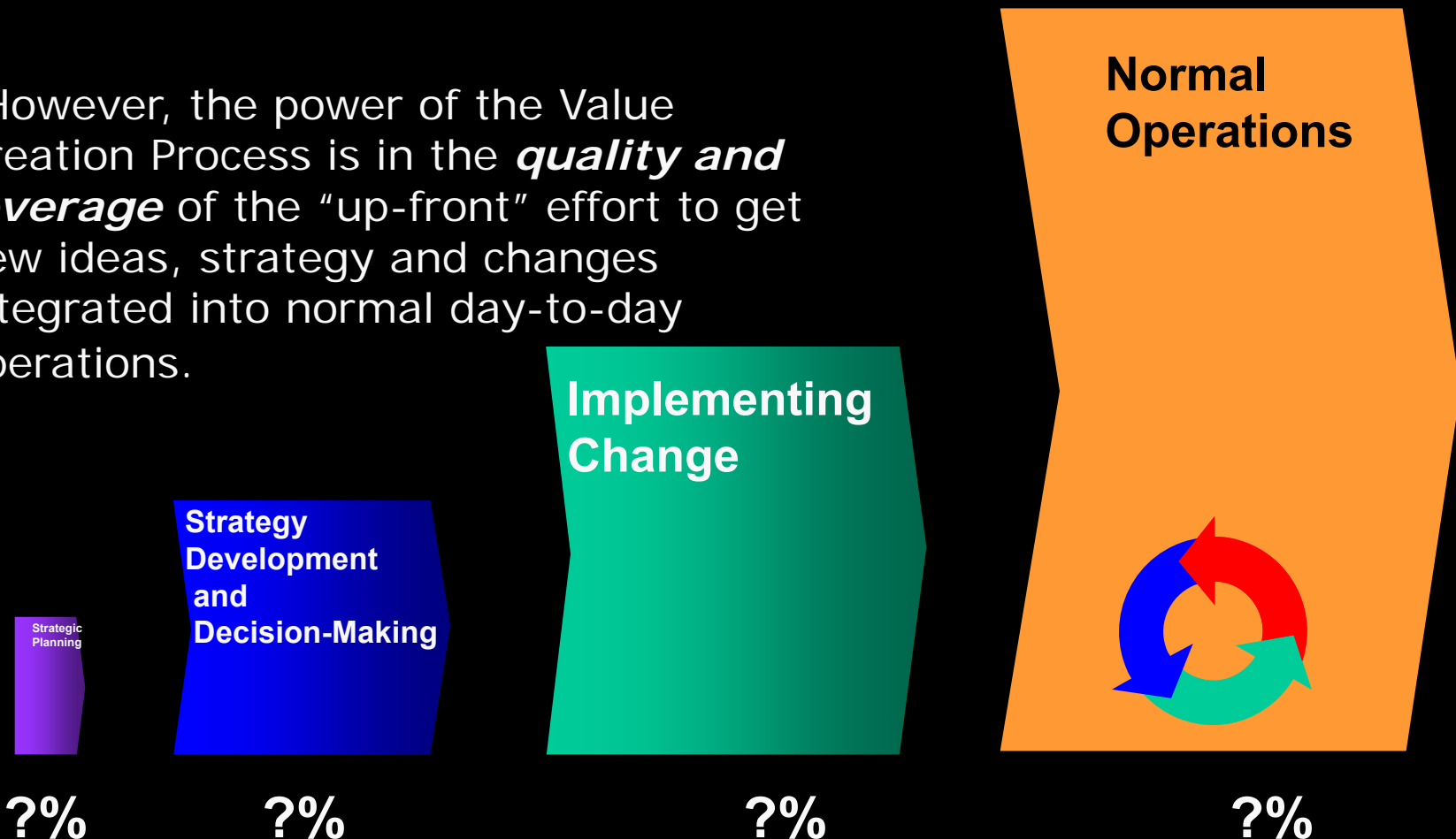
Where we are
going.

Designing and
building the
road.

Getting the most
from the journey.

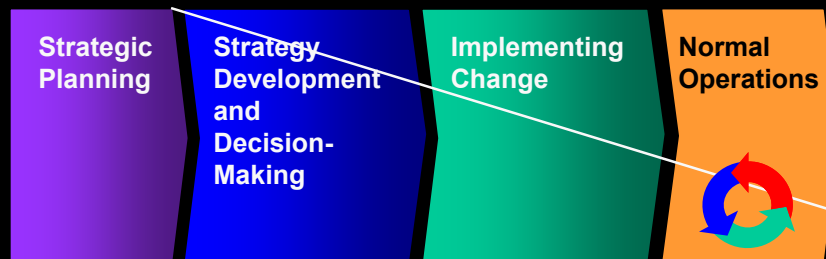
“Normal Operations” represents the vast majority of an organization’s effort .

- However, the power of the Value Creation Process is in the **quality and leverage** of the “up-front” effort to get new ideas, strategy and changes integrated into normal day-to-day operations.



Relative Levels of Organizational Effort

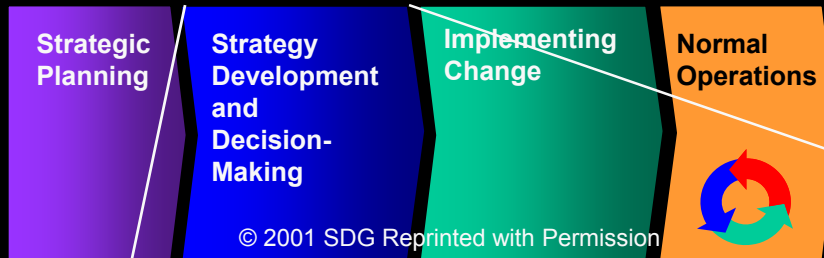
Value creation begins with a rich shared understanding of who we are, what we are about and our aspirations.



Strategic Planning

- ***Vision*** - a clear conceptual picture of the enterprise's desired future state. It is comprehensive and should change little over time.
- ***Values*** - the guiding principles and fundamental beliefs which provide the basis for the way we live, act and make decisions. They represent core values (things we would die for) and aspirations.
- ***Mission*** - statement of purpose that defines who we are, what we do, and how we will realize the vision. It is operational and may evolve with business realities.
- May also include ***Business Concept, Business Lines, Segment Analysis, Strategic Objectives, Critical Success Measures*** and ***Strategic Initiatives***.

It incorporates the Traditional DA tasks of Strategy Development and Decision Making.



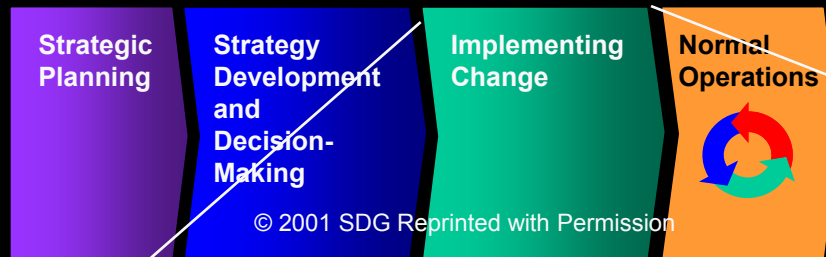
Strategy



Key Decision Review Points

- | | |
|--|---|
| 1 Shared understanding of the situation, and the objectives for making a decision. | 3 Review of the information gathered to gain insight and understanding. |
| 2 Agreement on alternatives to consider, and the questions to ask for evaluation. | 4 Agreement on best alternative to pursue, and actions necessary to assure success. |

Implementing Change takes an idea with executive buy-in to an operations platform that can deliver the anticipated value.



Implementing Change

Vision

Design

Build

Install

Key Decision Review Points

- 1 Shared vision of the end result sufficient to proceed with design.
- 2 Review/Acceptance of the design and agreement to begin construction of the delivery platform.
- 3 Acceptance of the “As Built” delivery platform and testing.
- 4 Review/Acceptance of the delivery platform and its integration into business operations.

The relative effort for each phase varies greatly by project, some examples:



Merger or Acquisition - Heavy Vision emphasis, then may begin combining without a Design or Build phase, doing these tasks "real time".

Core Process Redesign - Heavy Vision and Design phases, Build and Install may be done together.

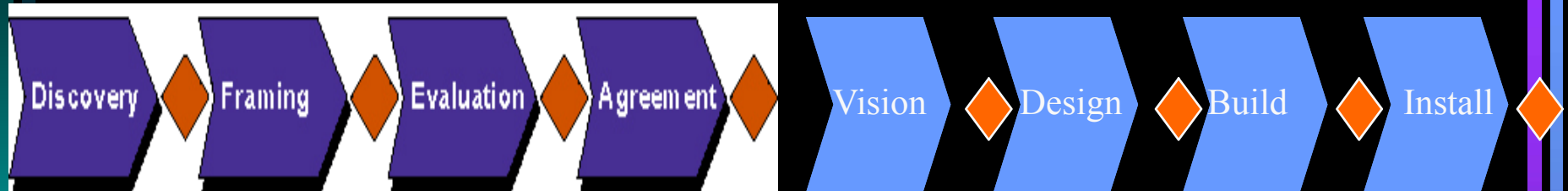
New Product or Service - Design or Build phase could be heaviest if significantly different from past offerings, Install heaviest if complicated roll-out

Custom Designed Computer System - Design and Build phases are heaviest.

New Ways to Lead an Organization - Could include a protracted Install phase as leaders adopt new behaviors.

Organization Redesign - Quick Design and Build if mostly re-doing reporting structures, more work in these phases if a lot of new roles and responsibilities are envisioned that need to be well defined.

Once-in-a-Lifetime Family Vacation Analogy



Lots of ideas and issues

Decide on Objectives:

- Fun Index/\$
- All go
- >.5 Fun for each person
- \$ limit
- New experience
- Educational

All votes are equal

Alternatives:

- Snow Skiing in Colo
- Scuba dive in Bahamas
- Mountain climbing in Nepal
- River Run in So Amer
- Alaskan Cruise

Uncertainties

- Costs
- Schedules
- Availability

- Gather data
- Refine alternatives
- What ifs
- Insights
- Creative **combination** or other alternatives
- Sensitivity

Take 3 weeks, summer, Oregon, Raft Rogue River, Scuba in ocean, climb mtns



Vision

July, 5 day raft trip, week at ocean in condo, rent scuba gear, 3 days at Lassen Park, 3 day Redwoods, 2 days Mt. Hood.

Design

- Pick:
- guide
 - flights
 - condo
 - hotel
 - Camp-grounds
 - gear
 - raft

Plan activities
Recheck all costs

Build

- Booking
- Deposits
- Buy and test gear
- Scuba diving lessons
- Get in shape

Install

- Buy supplies
- Pack
- Farm out pets
- Stop mail
- House lockup
- GO!!

Potential economic value is dependent upon business realities and the **quality** of each predecessor stage.

\$\$

Strategic
Planning

Strategy
Development
and
Decision-
Making

Implementing
Change

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- Higher Quality means higher value and more leverage

- Quality can include expertise, estimates, tools, leadership skills, level of commitment, resourcing ...

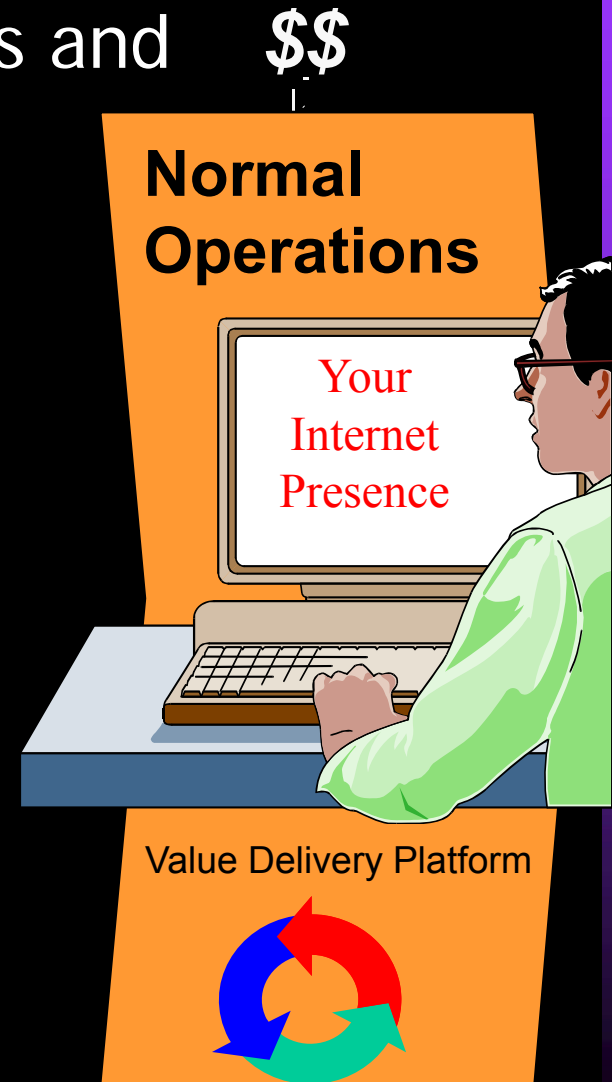
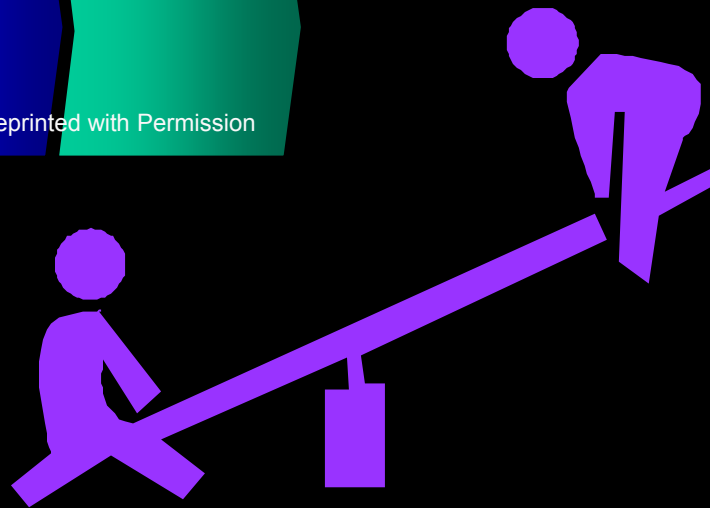
**Normal
Operations**

Your
Internet
Presence

Value Delivery Platform

Economic value realization begins when the “Value Delivery Platform” is integrated into Normal Operations and will vary depending on business realities and operational quality.

- Maximum value results from great strategy and great execution



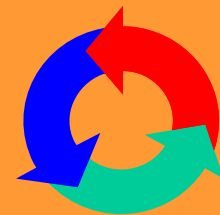
The Strategic Value Creation Process requires evolving types of leadership and management.

Strategic Planning

Strategy Development and Decision-Making

Implementing Change

Normal Operations



Idea Leadership: creative, open, visionary, and collaborative, and thinks long term in the consideration of new ideas.

Project Management: coordinate and deploy a small number of known resources to a set of sequential tasks with little ambiguity or risk.

Change Leadership: focused, committed, influential, thinks systemically, thorough, urgent, enthusiastic, communicates, and challenges status quo.

Program Management: coordinate and deploy many resources to a set of complex parallel efforts with much ambiguity and risk.

Shared Leadership and Managerial Excellence: builds relationships, goal oriented, motivates, manages conflict, action bias, results & performance orientated.

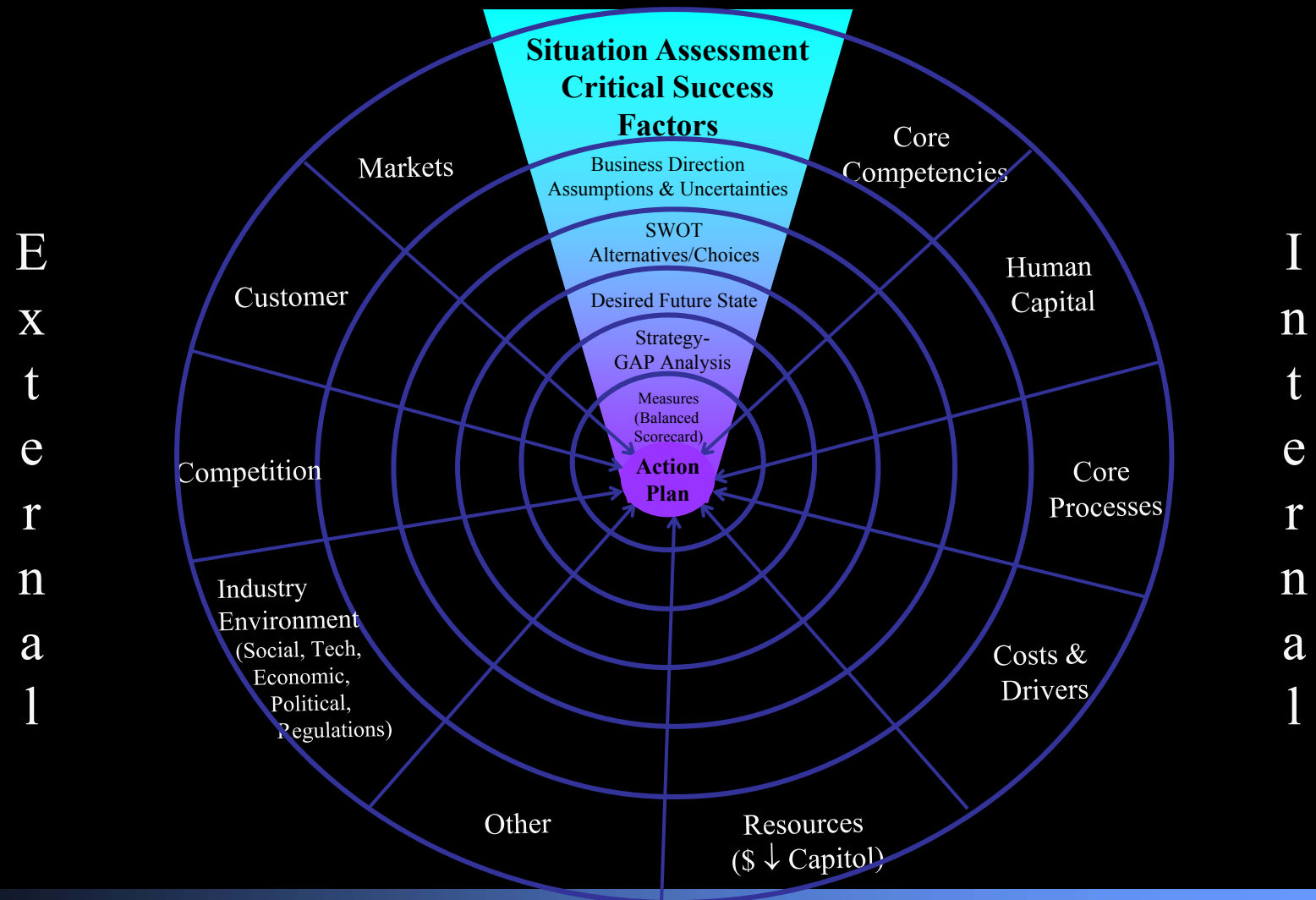
Analogous Evolutions

- Purchasing and R&D:
 - Both began as part of operations responsibility.
 - Early recognition that specialized skills and competencies could save substantial \$ on major purchases of goods and services.
 - Realization that the savings could be extended to smaller items, and the necessity of controls, lead to the establishment of a “function”.
 - Process thinking lead to the conclusion that additional savings could be realized by having responsibility from inception through utilization
 - Procurement and New Product Processes now relatively common.

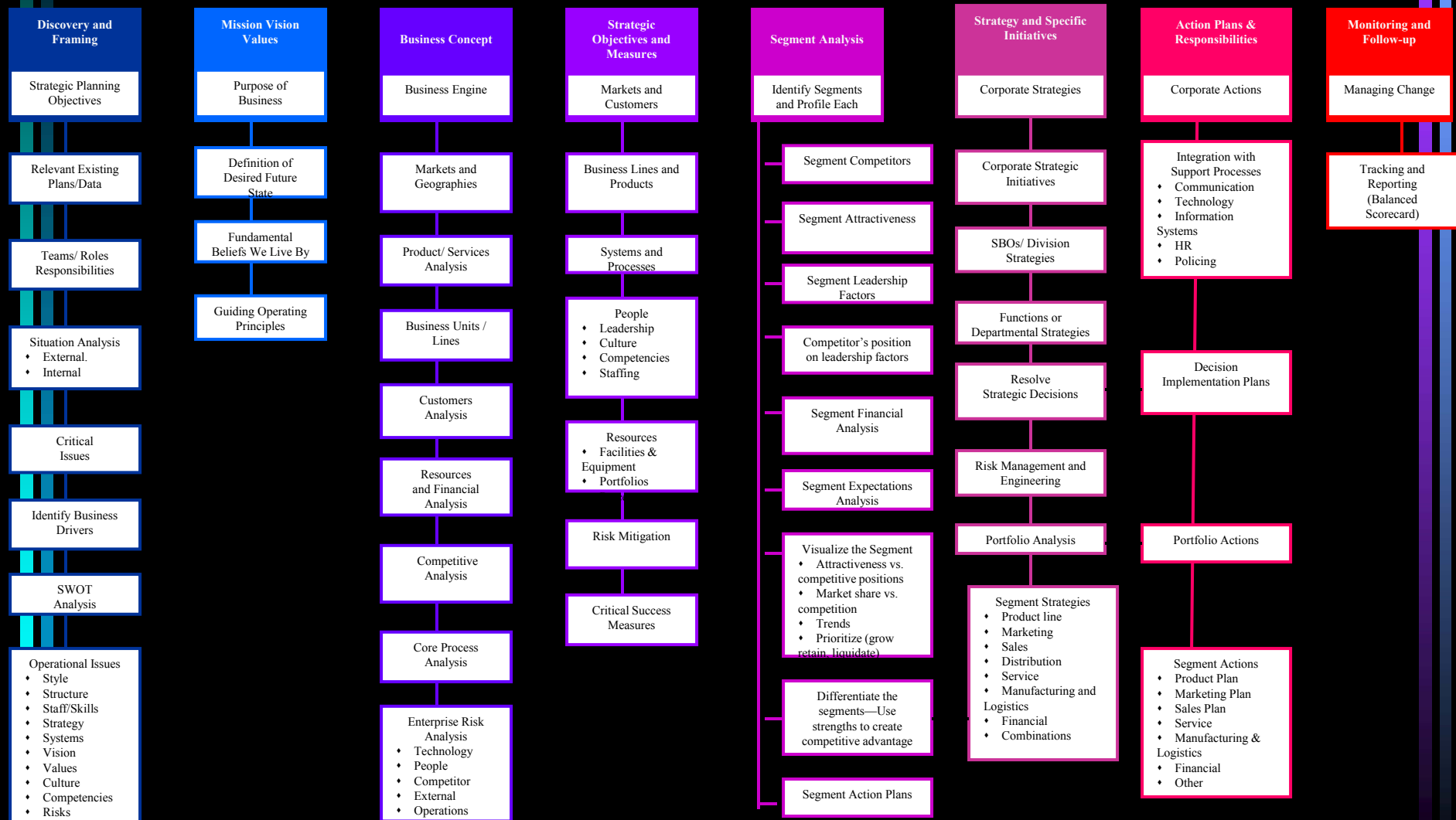
How is DA evolving in your Organization?

- Is your organization evolving this direction, or the opposite?
- Where do you think it should go?
- What will be the driving criteria?
- What integration do you have/envision with strategic planning?

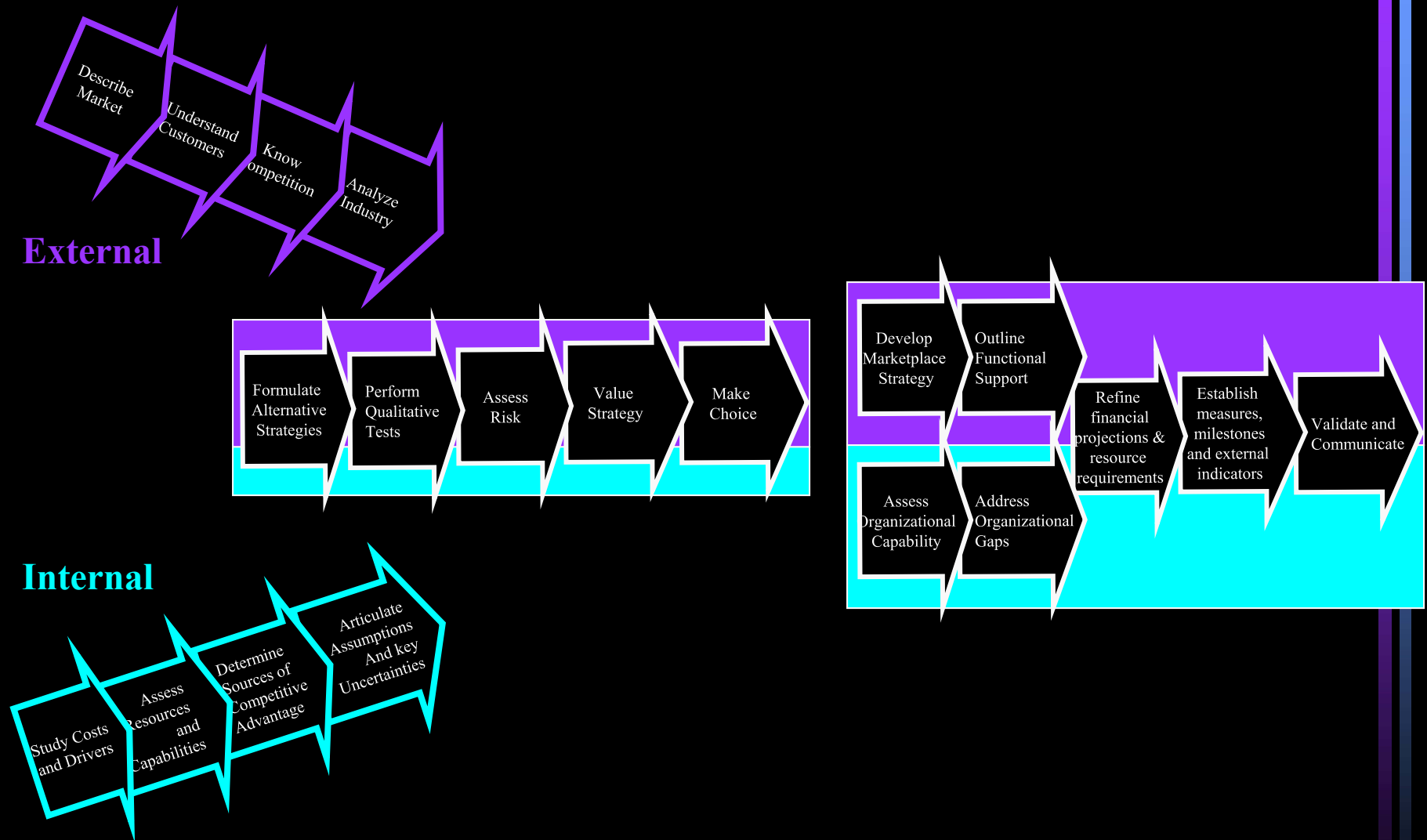
This Strategic Planning Model could involve DA at several levels



This Model Shows Decision and Portfolio Steps



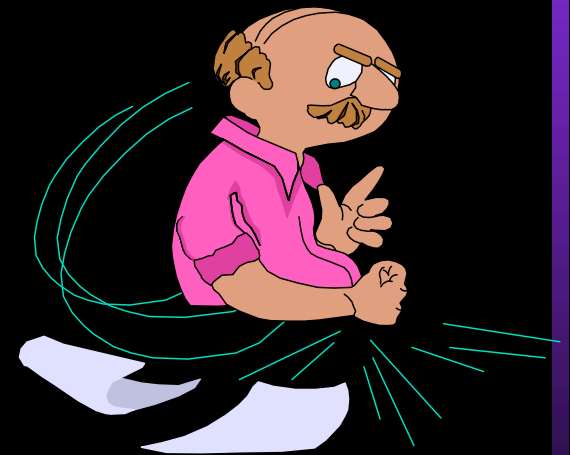
This Strategic Planning Model has DA in a Pivotal Role



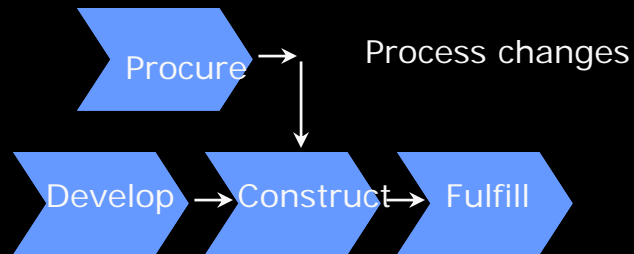
Integrating with Implementation of Change

- The Implementation Process starts once a decision had been made.
- Seldom is it so simple as to immediately just do things differently.
- The decision rarely includes the specificity necessary to even begin.
- Most implementation or strategic change impacts multiple arenas and requires an integrated set of phases, with decision-maker agreement at key checkpoints on what is really wanted.
- Integration between decision process and implementation process is key.

*“Implement It,
Now!”*



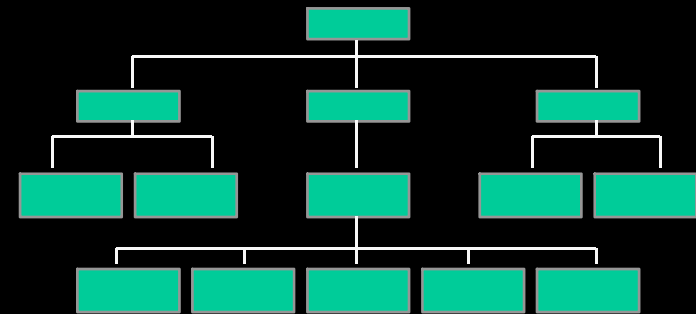
Change usually impacts multiple arenas!



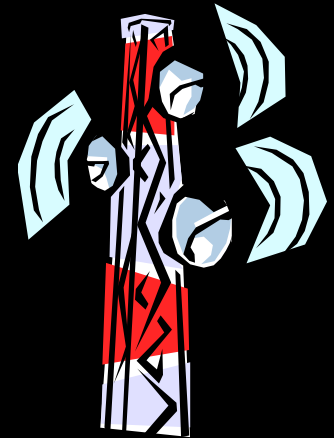
Culture changes



Organization changes



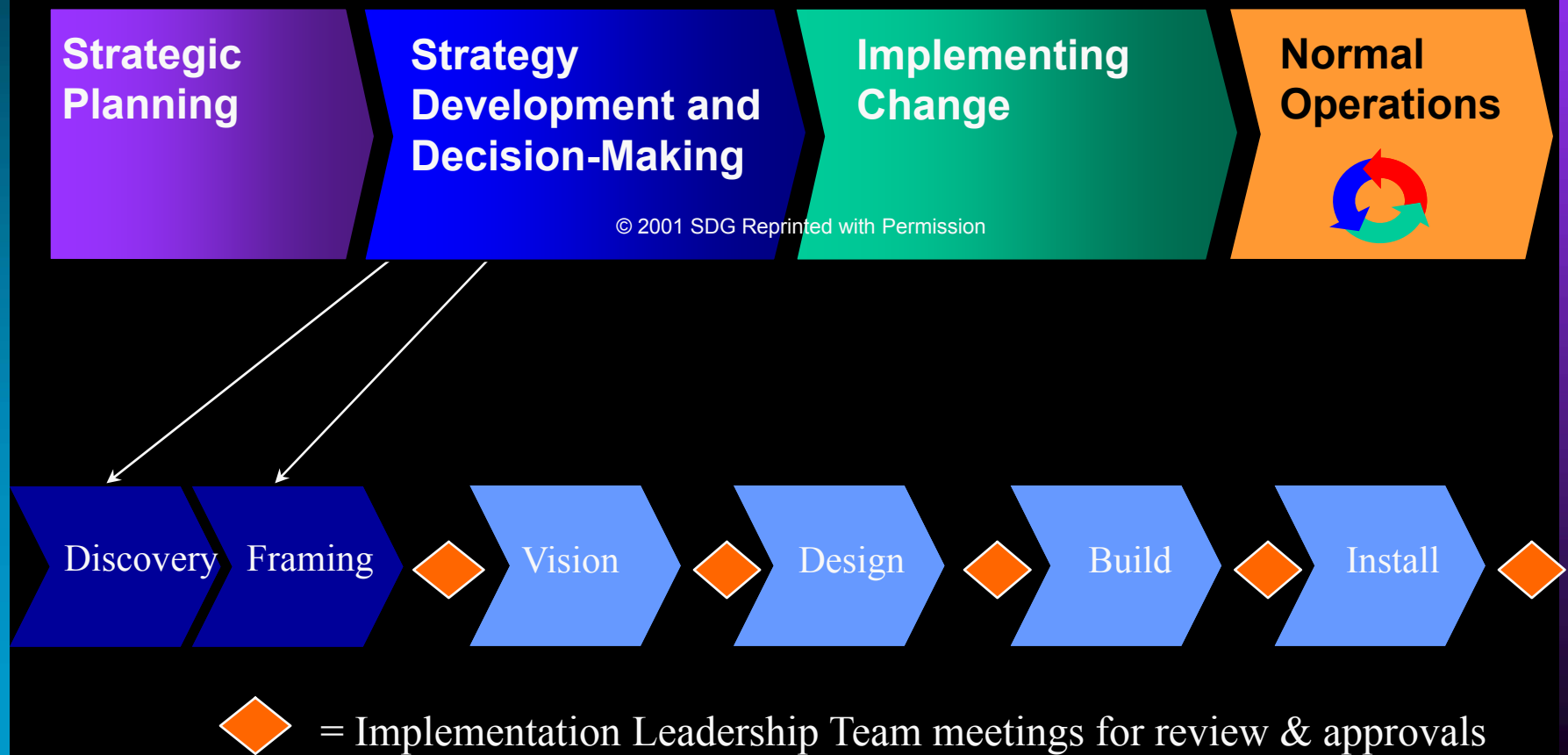
Infrastructure changes



PLUS - Changes in related or support areas:

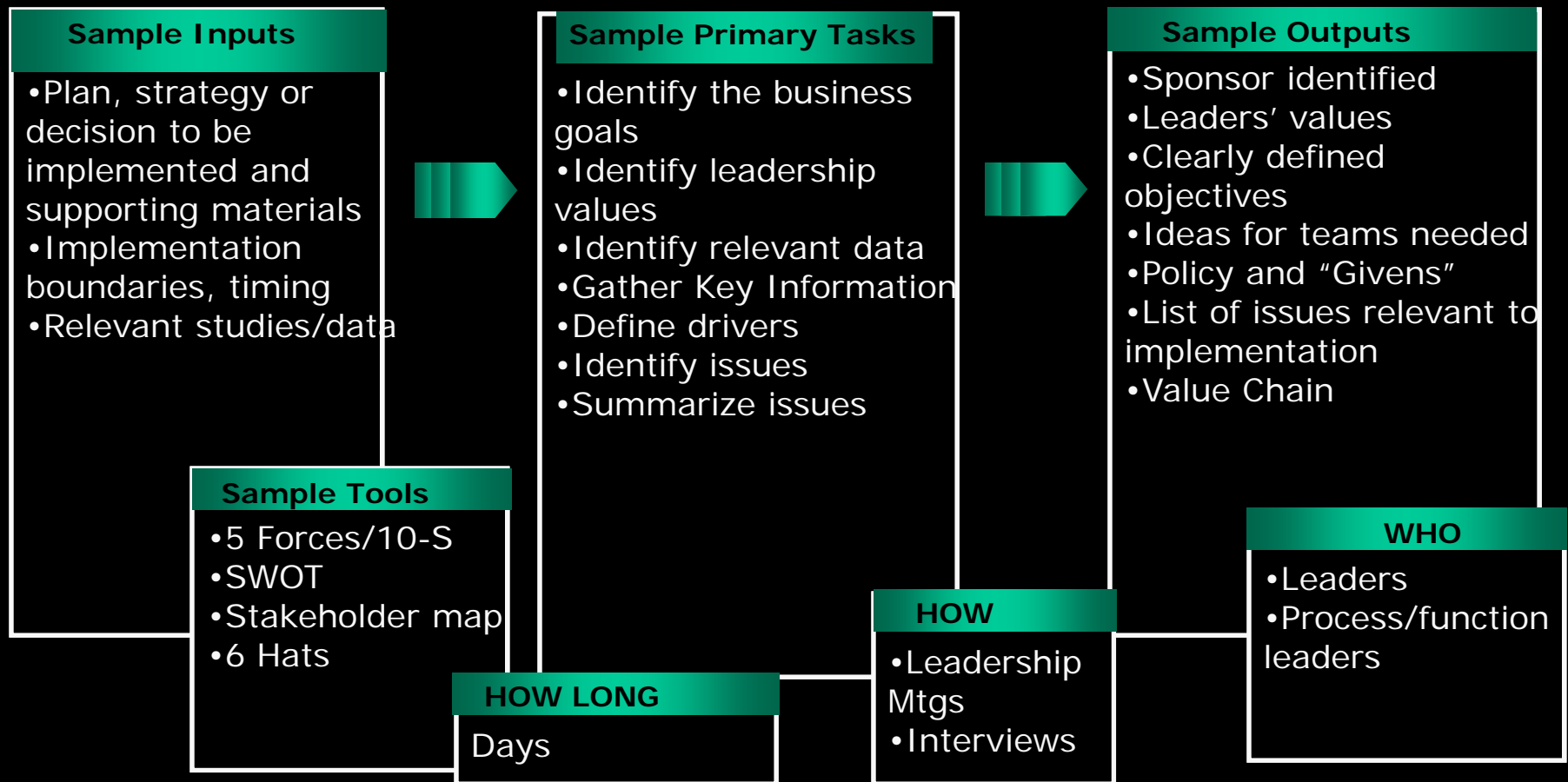
Policing, Education/Training, Communications

If Change is operationally driven, or was not sufficiently framed for implementation, additional Discovery and Framing will set the stage for successful implementation.



Discovery

Develop a shared understanding of what will be implemented, why and supporting rationale sufficient to correctly Frame an implementation project.

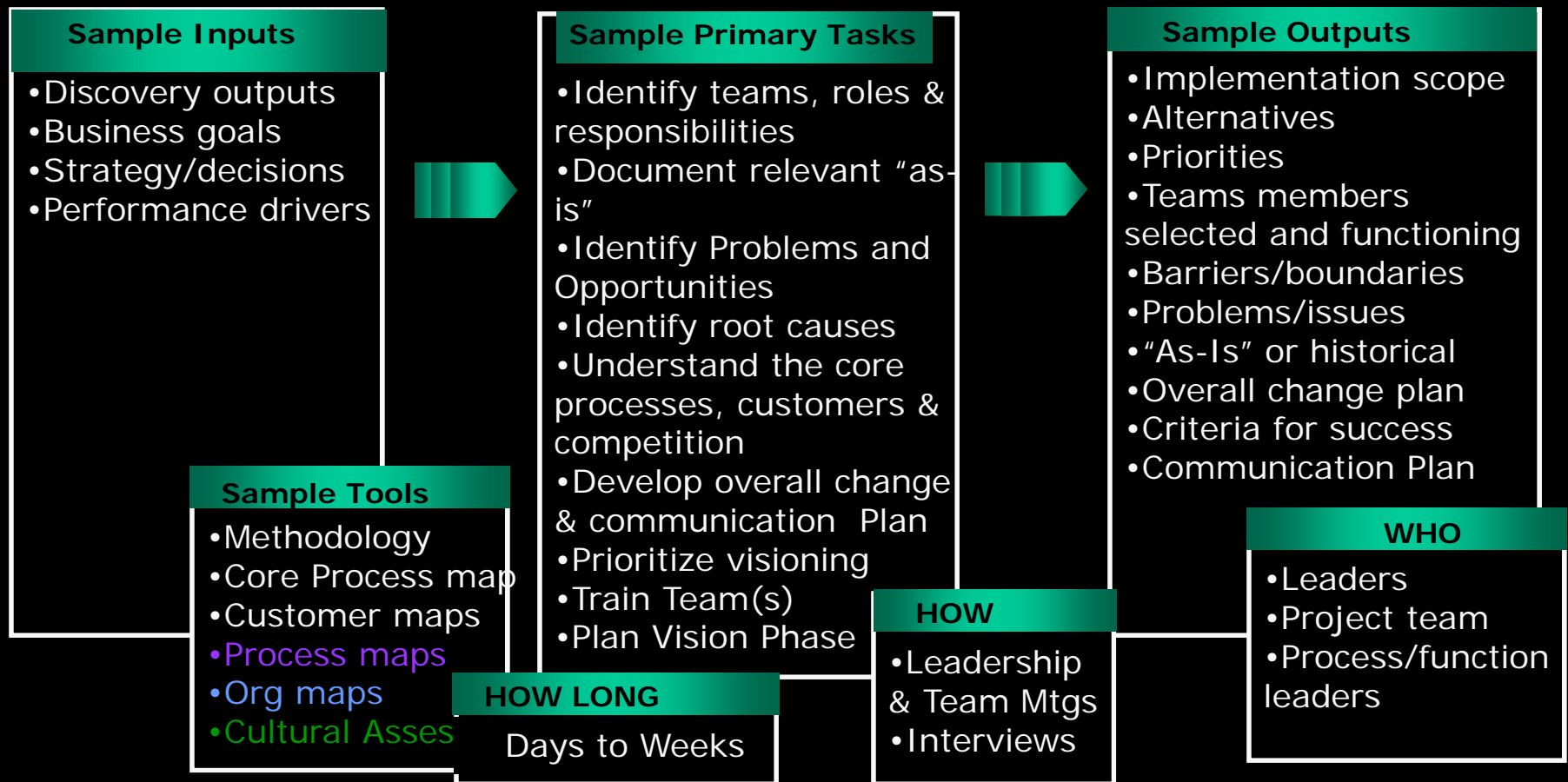


Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure



Framing the Change Program or Project

Develop an understanding of the current situation sufficient to correctly scope, plan and resource the project.

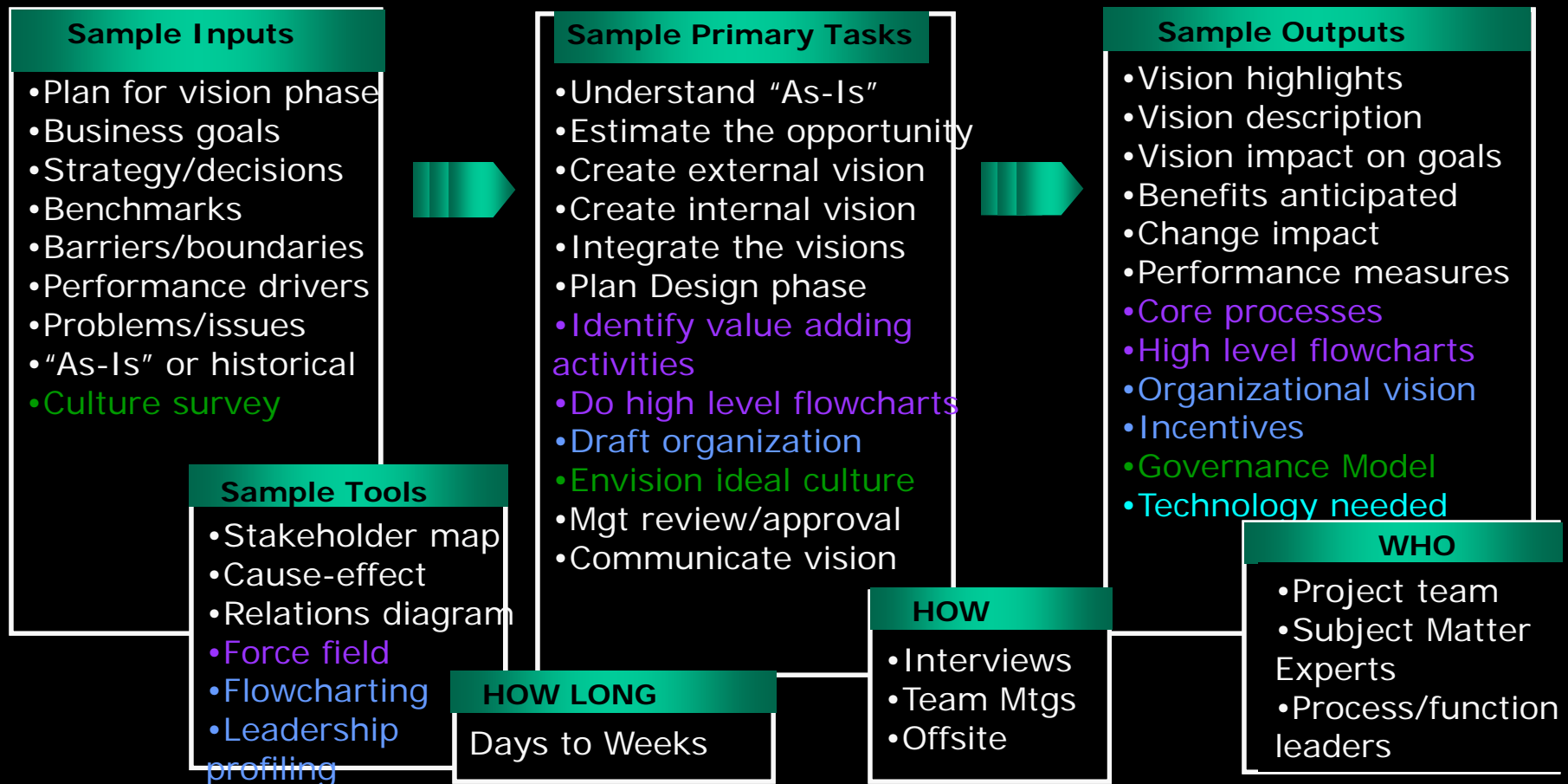


Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure



Vision of Platform to Deliver Value

Definition of the desired future state in sufficient detail to get approval and complete design specifics.

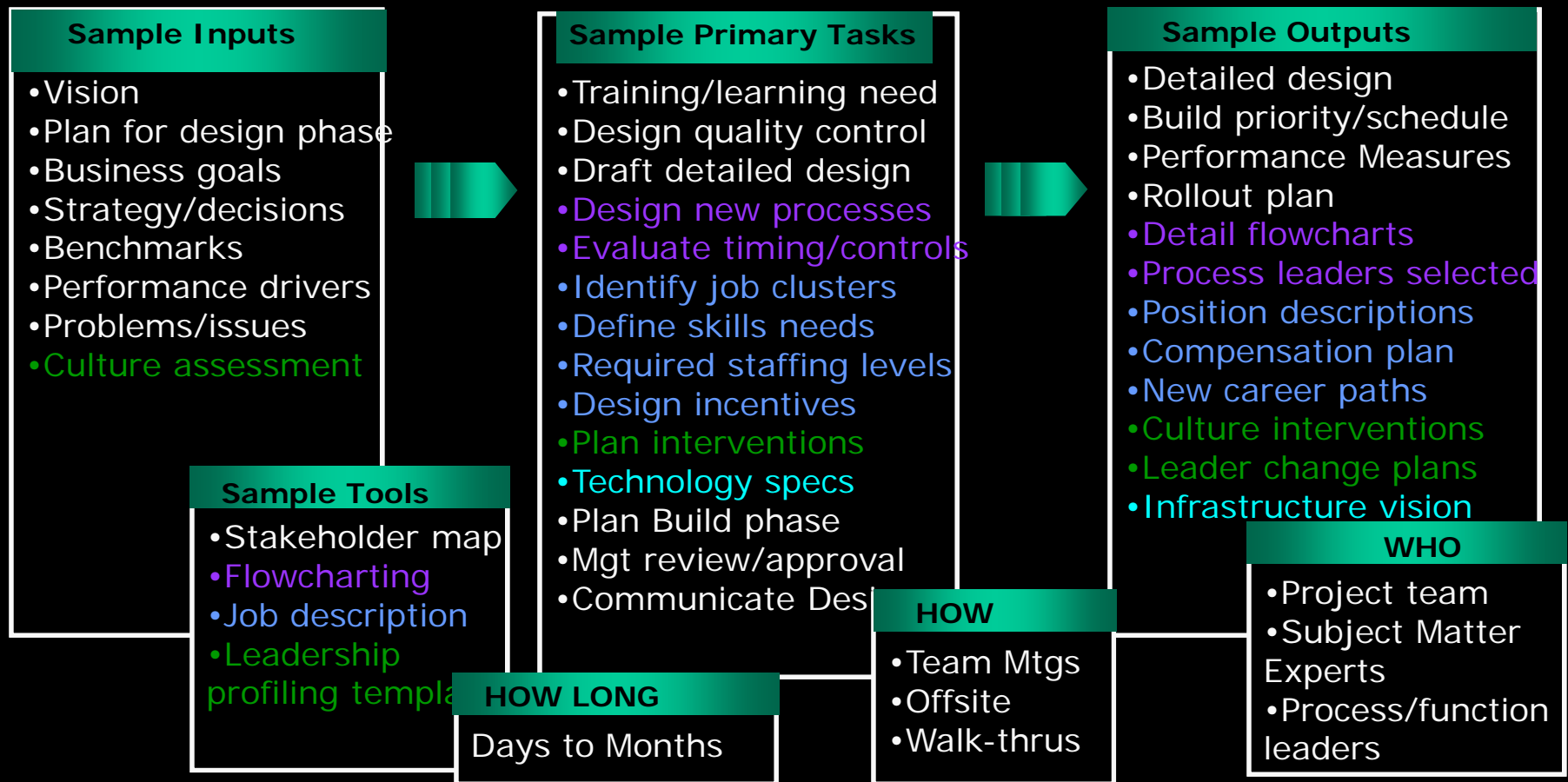


Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure



Design the Delivery Platform

Specifics are added to the vision sufficient to allow construction of the delivery platform.



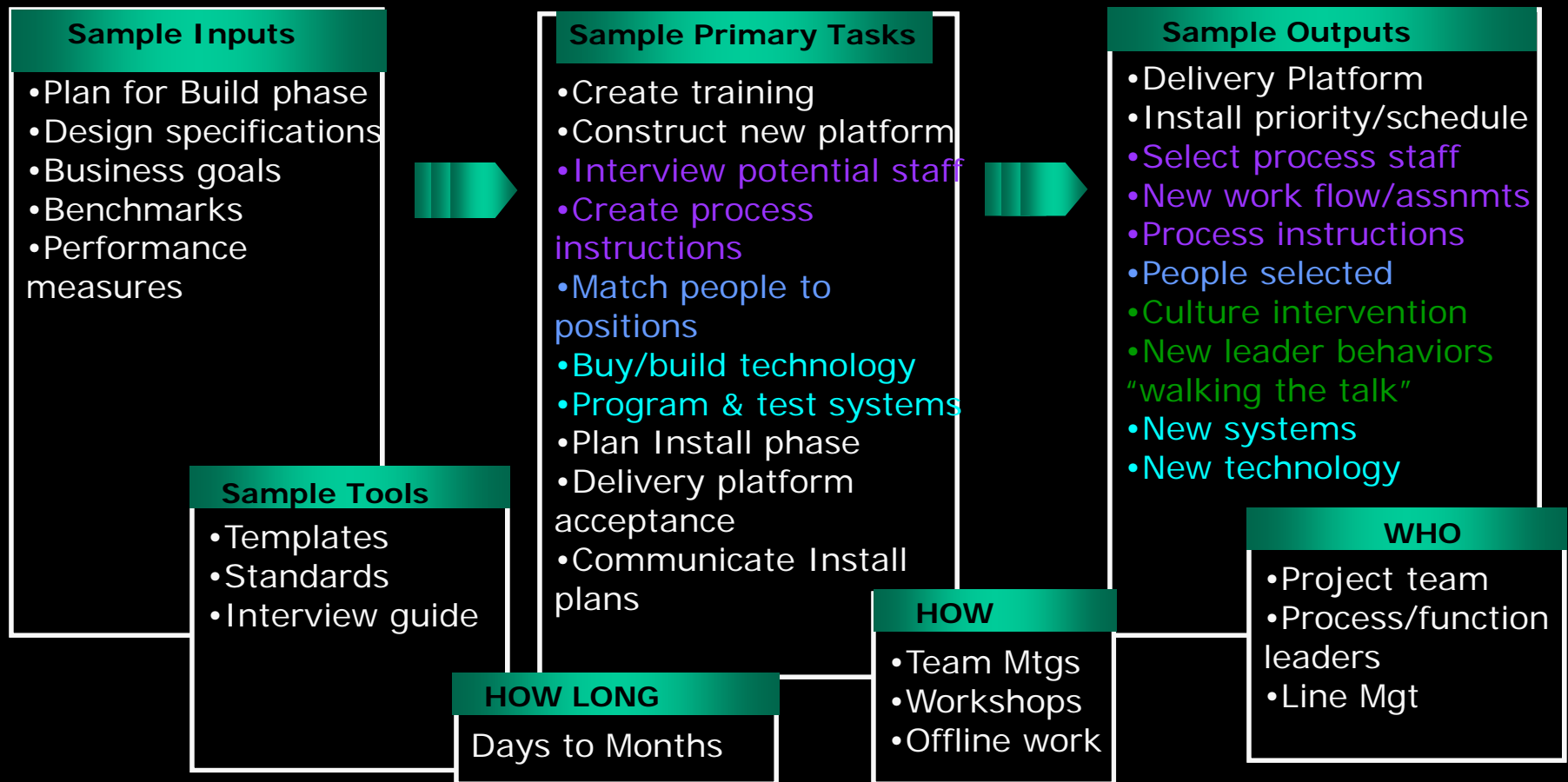
Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure

Build



Build the Delivery Platform

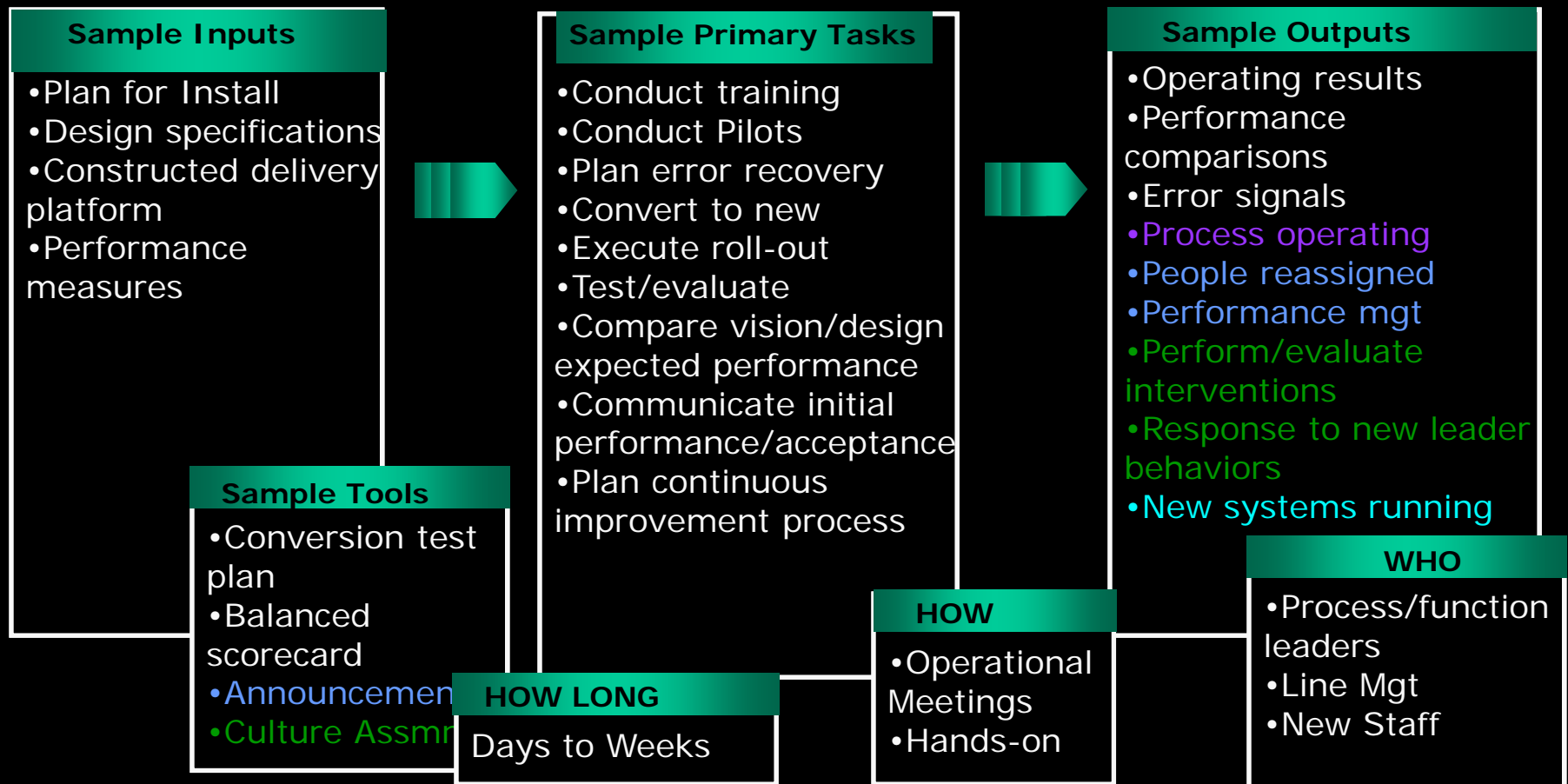
The Platform that will deliver the expected value is constructed and tested.



Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure

Installation

Operations are initiated on the new value-delivery platform and initial performance is monitored.



Key: All Projects/Programs, Process Design, Organization Change, Culture Change, New Infrastructure

Examples of Implementation work resulting from a new strategy or decision

- New strategy necessitated the complete re-design of all core processes (major paper manufacturer)
- Strategy to split a utility into generation, transmission and distribution lead to re-design of several processes (several utilities)
- New exploration/development strategy lead to need to re-design several key processes and need to identify new core competencies (major oil)
- Strategy project on where to put a document management group lead to development of a master implementation plan (auto manufacturer)
- New marketing strategy lead to an organizational re-design in the middle and back office (major mutual fund)

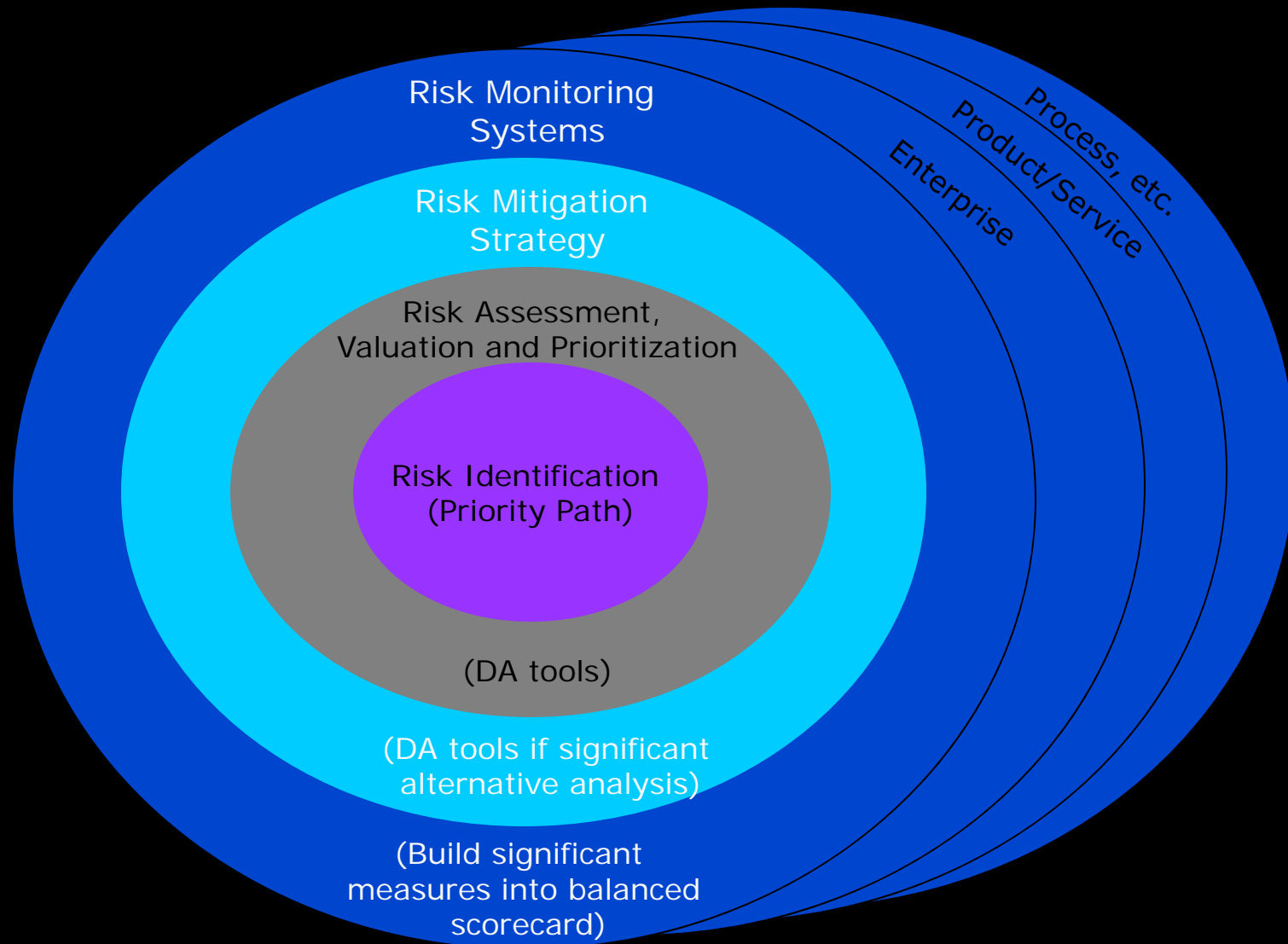
Why change initiatives fail!

- DON'T HAVE A METHODOLGY
- Don't understand as process
- Don't manage the process
- Shortcut any stage
- Lack commitment or lose momentum
- Don't resource
- No one accountable for the process
- Management action not consistent with statements
- Recognize and reward "old" ways
- Unclear change goals or not communicated
- Unclear success measures
- Inadequate change agents

Opportunities for lateral DA integration

- Risk identification, assessment (valuation and prioritization), risk mitigation strategy and risk monitoring systems
- M & A Activities
- Change Management

Integration with Risk Management



Petrous

MISSION DEVELOPMENT

We Help Build Your Strategic Roadmap

2. RISK ASSESSMENT

3. ACTION DIAGRAM

- Practice Mergers
- Acquisitions
- Systems Re-engineering
- Physician/Hospital Networks
- Electronic Medical Records
- HMO Development

The image shows a trade show booth for Petrous. A large blue banner at the top reads 'We Help Build Your Strategic Roadmap'. To the left, a yellow lightning bolt graphic is mounted on the wall. Below the banner, three large diagrams are displayed on the wall, labeled 'MISSION DEVELOPMENT', '2. RISK ASSESSMENT', and '3. ACTION DIAGRAM'. To the right of the diagrams, a list of services is posted on a dark background. In the foreground, a white table holds several brochures and a small notepad with a pen.

Integrating with an M&A Process

- “83 percent of the 700 most expensive mergers during the past three years failed to increase shareholder value; in fact, 53 percent reduced it.”

The Washington Post, March 20, 2000

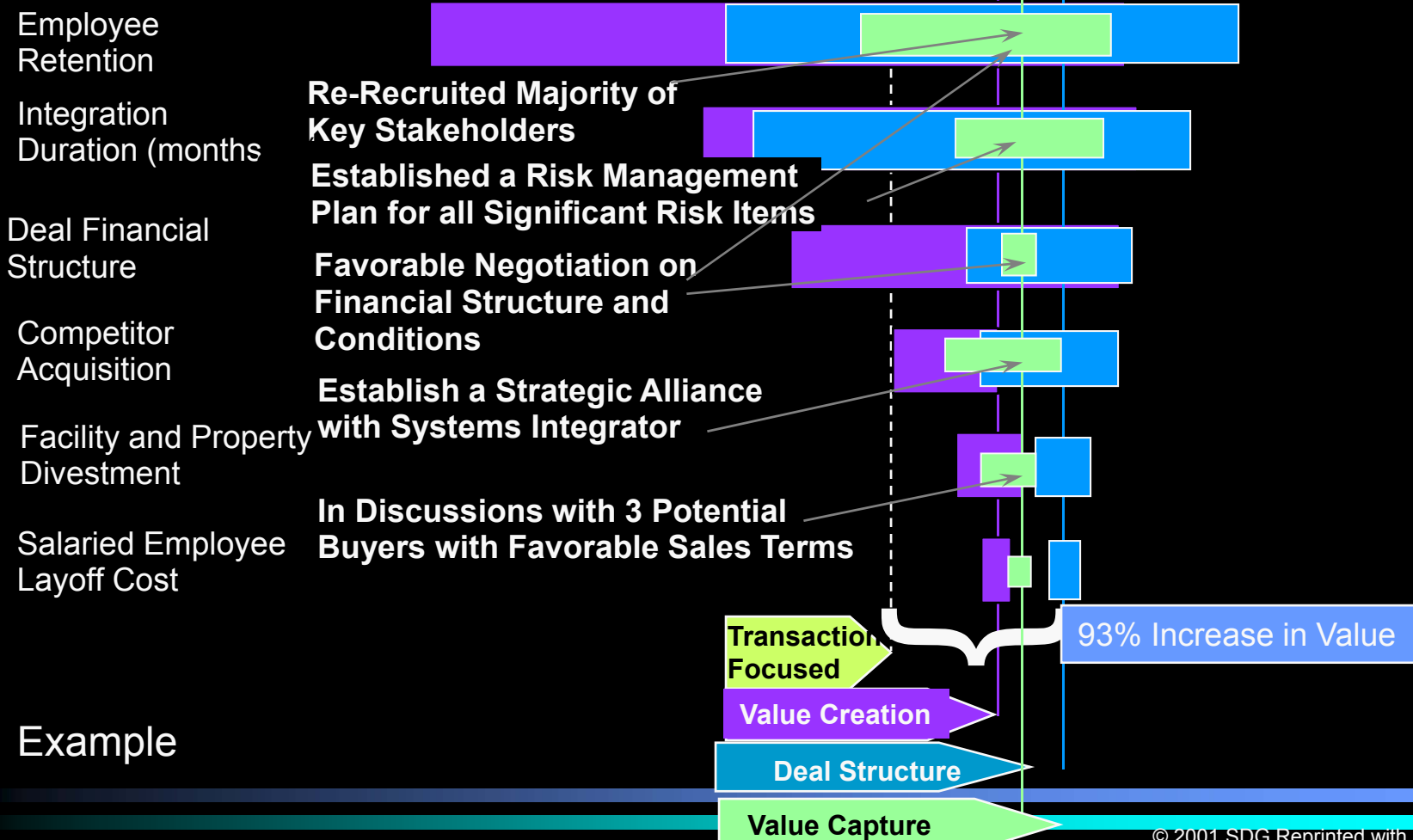
- In a December 2000 study of unsuccessful M&A transactions, 30% were blamed on strategy, 17% on Negotiations (the deal) and 53% on failed post-merger integration.

Keys to a successful M&A transaction

- Identify all sources of potential value and risk in the strategy phase using DA tools (not just typical cost savings)
- Make the team responsible to track and monitor these sources of potential value through the entire M&A process, reducing risk in each stage as possible
- Use a comprehensive post-merger integration methodology to be sure the targeted value is captured

By the completion of the detailed design of the integration, the risk profile of the overall strategy had increased 93% in expected shareholder return and significantly reduced the risk.

Uncertainty

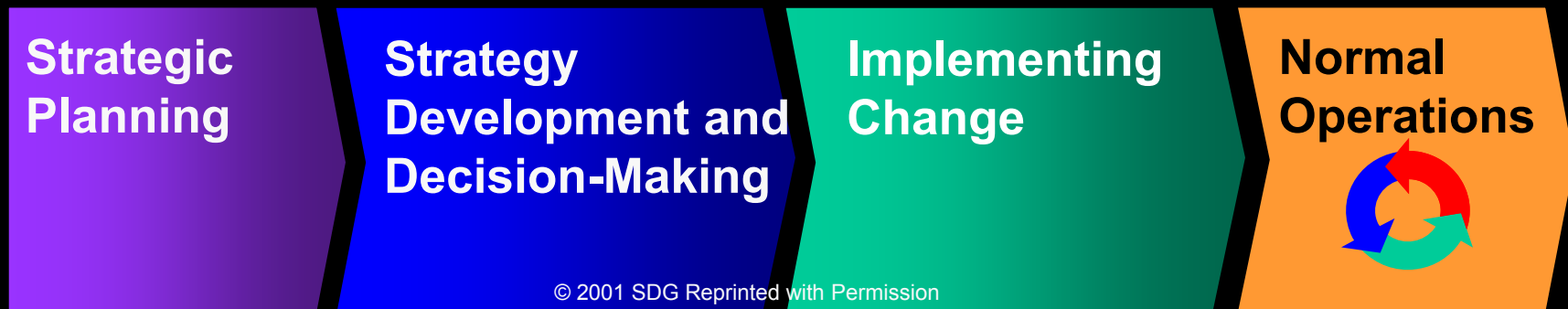
Shareholder Value Growth
NPV (\$ millions)

Example

Change Management

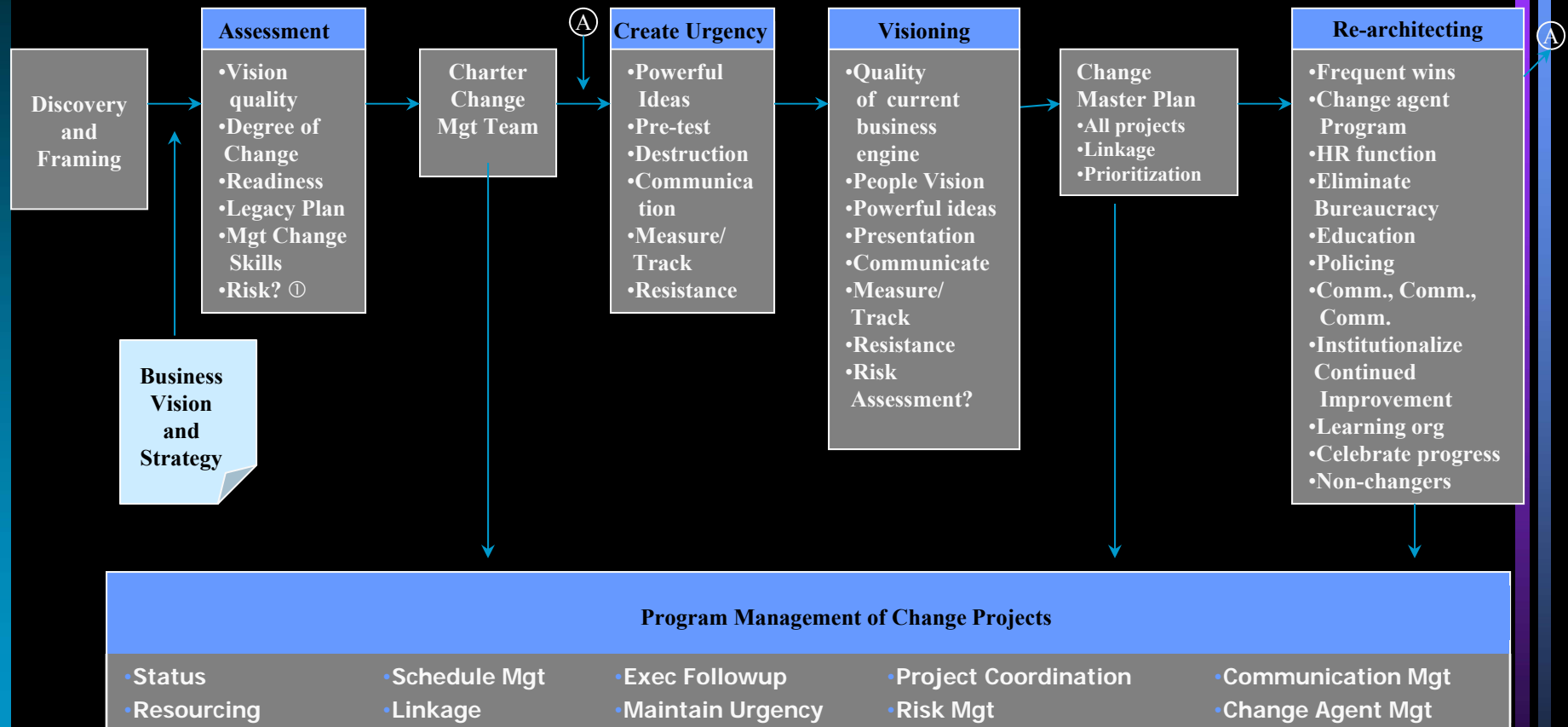
- an opportunity for integration
- Change occurs at three orders of magnitude
 - Chaos - Continually Recurring Change typical of organizations that are forced to continually re-invent themselves, those with extreme growth rates, those in rapidly changing markets, or those with other pressures requiring almost constant significant change.
 - Revolution - Large Scale Transformations typical of organizations with many large interrelated change efforts, most of which need to be completed in say 1-5 years, and that require a focused Herculean effort during that period.
 - Evolution - normal change projects typical of any organization doing continuous improvement or normal evolution.
- The first two offer the best opportunity for integration.

Chaos - Continually Recurring Change



- A "Value Creation Process" Leader probably exists, the CEO if not someone else
- Weighty strategic decisions are frequent and having in-house skills would add competitive advantage
- Portfolio management skills may have application at a business unit level.

Revolution – Large Scale Change*



*DA methodology/skills could contribute to assessment, visioning and re-architecting phases.

Presentation Summary & Conclusions

- Reviewed a “Value Creation Process” that we believe is the direction of the future.
- Reviewed how to DA is being integrated into various strategic planning processes.
- Reviewed how to flow seamlessly from decision projects into implementation.
- Reviewed other opportunities for integration:
 - Risk management
 - M&A Transactions
 - Change Management
- Discussion