

A Systems Thinking Approach to Evaluating and Improving Enterprise Performance

Part II: Performance Assessment and Recommendations

By Aleksander Nitecki

Demkovitz Consulting

Demkovitz Consulting | System Thinking Approach to an Enterprise Performance

The information and recommendations provided in this document are based on Demkovitz Consulting's extensive research and professional experience. While we strive to offer actionable strategies and insights for business process improvement, we acknowledge that the applicability and effectiveness of this advice may vary across different organizational contexts. No representation is made as to the accuracy or completeness of this information, which has not been independently verified by Demkovitz Consulting. The views and strategies described herein are offered with the understanding that they are not to be interpreted as specific, personalized professional advice. We encourage readers to consider the unique aspects of their organizations and, where appropriate, to seek direct engagement with Demkovitz Consulting for services tailored to their specific needs. Implementing any recommendations without a tailored consulting engagement with Demkovitz Consulting is at the sole discretion of the reader, and it is advised to consider the unique context of your organization. Demkovitz Consulting expressly disclaims all liability for any loss or damage that may arise directly or indirectly from the use of any information contained in this document. Furthermore, this document and its contents are the intellectual property of Demkovitz Consulting. Unauthorized use, reproduction, distribution, or transmission of any material in this document, in part or in whole, without the express written permission of Demkovitz Consulting, is strictly prohibited and may be unlawful.

Introduction

In Part I of our work, we made the case that a business organisation may be treated as a system, and we exemplified our logic with the analogy to the human body. In this Part II, we focus solely on the business aspect of helping companies grow by building a simplified model of five distinct categories of organisational system. Based on this we outline the diagnostics method for a business including: 1) A self-assessment tool, 2) In-depth discovery interview, and 3) Metrics evaluation.

Following this methodology, we propose what might be the next steps in improving a business performance and in what areas Demkovitz Consulting is best suited to help: 1) Leadership, People and Culture, and 2) Business Model and Design. In other areas, we partner with domain experts whom we can refer to provide specific support to an enterprise's requirements.

5 Areas to Assess and Manage a Business

Once we have made the case for the systemic approach to managing a company with reference to biology, we would like to focus on business aspects only and group the above elements into five distinct categories that would allow to holistically analyse and manage an enterprise.

1. Leadership, People and Culture: This category measures the level of morale, motivation, and energy among the teams. As strong leadership builds a good organisational culture it unlocks creative ideas, determination to solve problems and transparent communication. In exceptional cases, we describe the interactions in high performing teams as magic, due to their ability to turn problems into solutions against the odds.
2. Business Model and Design: A representation of the structure and how all departments interact with each other in the system. This category is predominantly based on the strategy defining the business model. Further, it focuses on organisation structure, scope of responsibilities of each department as well as feedback and reinforcement loops supporting actions and decision making in the company. The other variables in this field include sales channels, data structure and reporting, and the information flow across the entire organisation.
3. Customer Obsession: In present times, there shouldn't be anything more important to a business than its customers. Every process should originate

from their needs and focus on creating value for the end consumer. In this metric, we evaluate the marketing efforts, growth and sales strategy. We also assess the customer experience, which is the real differentiator in the competitive markets.

4. Financial Management: Another key area in running a business is controlling the finance aspects of it such as cost allocation, budgeting process and cash flow management. The company has to own mechanisms to allocate and monitor its expenses, review the performance and ensure transparent accounting. This is the basis for informed decision making both short-term and long-term.
5. Operational Excellence: Last variable we should assess is the system of efficiency across an organisation. This includes both supply chain operations in production, warehousing, deliveries as well as business administration. Both aspects should be optimised and where possible documented in standard operating procedures to allow for automation and time savings. The overarching aim for companies is to create the optimal value with as little as input and costs as possible.

Diagnosics

Now that we have determined the five distinct categories for managing a business, we introduce the initial screening of an organisational health divided into three sections. The first part consists of 18 questions for each area as the first discovery of a company's performance and operations. The second part is a discussion with a consultant about the results and a further interview to understand the complexity of the business. Lastly, the consultant, may analyse selected metrics to confirm the key areas for improvements and growth levers in strategy and operations.

Part 1: Self-diagnostic business operations tool

An executive or owner of the business should respond to each statement with one of the following: Strongly Disagree, Disagree, Neither Agree nor Disagree, Agree, and Strongly Agree, each being scored 1-5 respectively. The answers are then summed up and divided by 90 to get the percentage score for each category and presented on a radar chart. We offer the pre-built tool to do the test and dynamically calculate the output, but we also share the list of questions for individual reflection (Appendix 1).

The results show percentage scores for each area which can be divided into three buckets: 1) 0-65% for the areas that need urgent improvement, 2) 66-85% for the aspects of the business that could be optimised but are not critical, and 3) 86%+ for the strengths of the company that should be leveraged for growth. Based on the results, we provide radar chart with the score for each category as well as initial assessment of the company performance and recommended next steps. A sample report is available in Appendix 2. This is an introductory overview that may be discussed further in the discovery interview described below.

Part 2: Discovery interview

Following the initial assessment, we offer a one-hour consultation to discuss the results and dive deep into a company's performance and operations. The goal of the conversation is to determine how the enterprise functions as a system and what improvements may be implemented. The main topics we aim to answer are listed below, however, the specific questions may vary based on consultant's expertise and company's requirements.

1. How does the business deliver value to its customers. What drives the most value?
2. What do the employees think should be improved? What is the internal knowledge that is not leveraged?
3. What does the internal and market data show about performance and market environment? How does hard data compare after quantifying qualitative aspects such as culture, morale, motivation and risks in the enterprise?
4. What is the goal of the organisation? Does it have a correct time-horizon, and does it consider long-term consequences and scenario planning?
5. What is the mindset in the company?
6. What are the rules and what is the organisational culture? What determines how the company operate?
7. What is the information flow in an organisation?
8. What are the corrective feedback loops and reinforcement/accelerating processes? Are they strong enough to make sustainable business model or are they out of control?
9. What is the business model? What is the function and its variables?
10. How can the variables be optimised for maximum productivity yet including buffer for resilience and inherited delays in the processes?
11. What would need to be implemented to support the 10X growth of the company in terms revenue and units sold?

Part 3: KPI and benchmarking analysis

Following the discovery meeting, we might recommend checking KPIs of the business for overall performance or selected areas (a sample but comprehensive list of KPIs is available in Appendix 3). Based on this, it is possible to look for trends (data should be collected over a 3-year period) and make a comparison to industry benchmarks. The results will confirm the hypothetical improvement areas and strengths of the business and help determine the detailed recommendations for the strategy and operations. In reference to the previous medical analogy, we can compare this process to doing a blood test for selected markers.

When to do the business assessment?

Our tests are addressed to the following four company profiles that Demkovitz Consulting is best suited to help.

1. An SMB with up to 100 employees and/or £/€ 100MM annual revenue, with plans to scale and introduce structured processes.
2. A new and quickly growing business units within large corporate structures.
3. Portfolio companies of a Private Equity fund requiring restructuring, strategy and operational improvement.
4. A company that noticed recent declining performance as identified by one of the following characteristics:
 - a. Declining profitability and/or revenue.
 - b. High people turnover and toxic culture.
 - c. Bad reviews for products, brands and company as an employer.
 - d. Cash liquidity issues and poor credibility among financial institutions.
 - e. Or Declining market share.

Recommendations and Next Steps

Following the free assessment, Demkovitz Consulting offers to prepare a paid in-depth analysis and recommendations for the business, including the well-known SWOT, PESTLE and Porter's Five Forces analyses as well as using our bespoke models. This work aims to provide the executive team a list of strategic recommendation for the future actions of their company.

In the evaluation, there are two possible outcomes: the company is thriving and ready for further growth and investment; or it has concerns with varying level of criticality. In the former scenario, Demkovitz Consulting supports companies with building their strategy and operational growth plan and can assist with the implementation of the expanded business model. In the latter situation, we have an expertise to implement the change within the first two categories: 1) Leadership, People and Culture, and 2) Business Model and Design. In other categories, we work with industry-leading experts that can dive deep within the chosen domain and provide toolbox to implement improvements.

Appendix 1. The self-diagnostic reflection questions about the company

Leadership, People and Culture

1. Employees are encouraged to experiment, and controlled failures are seen as learnings. Employees can admit to making a mistake and the company focuses on solving the problem rather than putting a blame.
2. Any employee may disagree or suggest an alternative approach to anyone (including the CEO) in the company if their argument is based on data, facts and merit.
3. People feel safe to raise problems in the company without the fear of being judged or being blamed for.
4. People in the company act as partial owners of the business and they are motivated to help the company grow beyond their scope of responsibilities.
5. There is a high level of humour and well-earned recognition in the organisation.
6. The company is willing to wait for the right candidate rather than hire a mediocre talent to address the short-term need.
7. People in the company are empowered to make difficult, but right decisions instead of focusing on the short-term gains.
8. Employees are not scared of the CEO/Founder/Business Unit Director.
9. Employees are given high level of responsibility and support to grow professionally and deliver results independently.
10. Leadership in the company understands the operational details to the extent they are able to challenge and track the implementation of proposed solutions.
11. Leadership admits to making a mistake and owns the responsibility to fix it.
12. Employees have an easy access to knowledge library to learn processes and documented solutions.
13. The leadership does not tolerate people who do not earn trust of others and are negatively impacting an organisation culture despite achieving their results.
14. There are processes in place to mitigate mobbing, discrimination, information theft, and bribery.

15. People are motivated by their goals and are assured of the prospects of professional growth in a company.
16. The company has a high talent density with people able to learn quickly and solve problems outside of their primary domain.
17. The company has an HR systems and work processes that allow employees to accelerate their careers.
18. Employees are satisfied with their job, managers and are aligned with the strategic vision of the company.

Business Model and Design

1. The company has a well-defined business model, and it understands the variables that influence revenue and profitability.
2. The company develops a 3-year strategy with detailed ownership and implementation plan that is reviewed at least semi-annually.
3. Each department has a clear scope of responsibilities in line with the key variables impacting the business model. Each role in the company has a clear scope of responsibilities and decision-making ability.
4. Each department is incentivised to work in the company's interest; however, their goals may be balancing/opposing to other teams' metrics to build a control mechanism.
5. There are no more than 8 people reporting to a direct line manager in any team, except Customer Service, Operations, Logistics and Warehousing.
6. There is a reporting mechanism for the key performance metrics that are reviewed and discussed on a regular basis (weekly/monthly/quarterly). The decisions are made based on the data.
7. The data structure allows for cost attribution on the SKU level for in-depth profitability analysis.
8. The reporting allows to calculate the uplift of marketing campaigns, downstream impact of selected portfolio and activities, as well as, analyse the channel performance in detail.
9. The company has a clear channel management strategy, including marketing, stock allocation and commercial model for each.
10. Each of the existing sales channels work effectively in fulfilling the customer demand and is not cannibalising the others (if more than one channel exists).
11. The company has a board of directors who are included in making the enterprise-wide business decisions.
12. The company has digitalised information transfer and workflows through ERP, communication platforms, and knowledge sharing.

13. Leadership has a good understanding of the challenges faced by employees at all levels based on effective internal communication.
14. The company has a mechanism whereby an employee can stop a faulty process and there is a structure method of identifying the problem's root cause to solve it completely.
15. The company has a high degree of documented processes that could be performed by any employee with no previous handover.
16. The company has at least 30% of its documented processes automated.
17. The company conducts scenario analysis on the key business model variables to simulate future performance under assumed conditions.
18. The data in the company is widely accessible for the employees with the permission to see it; access rights are clearly defined and monitored.

Customer Obsession

1. The customers are the most important group for the company (more important than short-term employee frustration, individual sale profitability or leadership opinion).
2. The company has a structured way to collect, categorise, and communicate customer feedback to its employees.
3. Customer feedback is the main driver for implementing and improving company's processes and offers.
4. The company has a good understanding of its customers in terms of segmentation, characteristics, needs, desires and behaviour.
5. The company continuously adapts and improves its purchasing journey and user experience to the customer segments' needs.
6. The company makes Customer Service accessible and easy to communicate with to resolve any queries.
7. There is an easy way to return, replace or make a claim about an order.
8. The company's sales and channel strategy are based on adding value to the customer and solving their problems.
9. There is no such thing in the company as "too little or nonsense issue to solve for a picky customer".
10. The business has a way to measure its customer acquisition cost, lifetime value, loyalty and spending behaviour to make strategic decisions about its marketing and product range.
11. The company invests in doing the right thing for the customer to gain their long-term trust instead of short-term gains.
12. The company has and invests in a mechanism to gather insights about consumer needs and innovates based on the market needs.

13. The company experiments with new ideas and lets the market validate the new products and offerings.
14. The company provides an experience (beyond a transaction or a service) in their interaction with customers to make it entertaining, educational, or prestigious to make it a memorable event.
15. The company has a well-defined (cost efficient and revenue-attributed) performance marketing.
16. The company invests in initiatives benefitting customers outside of buying the products, such as educational content and events.
17. The company uses the latest technological innovations to interact with its customers and does it in an organic and non-intrusive way.
18. The company has a significant community of ambassadors showing that customers trust the brand and resonate with the business message.

Financial Management

1. The company monitors its free cash flow, which is growing with time.
2. The company has no difficulties paying salaries and suppliers on time.
3. The company has an OPEX and CAPEX policy for cost approval.
4. Each year, the company's profitability (measured as percentage of revenue) is not decreasing.
5. The company budgets headcount allocation for each team based on the growth projections.
6. The company has a budgeting process and the assumptions made in the sales and growth forecast are thoroughly challenged and reviewed by the leadership.
7. The company is a credible organisation in terms of liquidity in the ratings performed by third party financial institutions, for example, banks. The company has no difficulty increasing or getting a line of credit should it be required.
8. The company has a clear cost allocation and accounting that allows it to review a P&L for the company and each category on at least a monthly basis.
9. The company has an ERP or invoicing system for transparent accounting.
10. The company has less than 5% bad debt to revenue ratio.
11. Each department in the company has a savings goal in their annual budget alongside a responsible owner for this goal, which is reviewed regularly by the Finance team.
12. The Finance team provides sales analysis and profitability drivers (including trendlines) to the business as well as suggestions on areas of improvement.

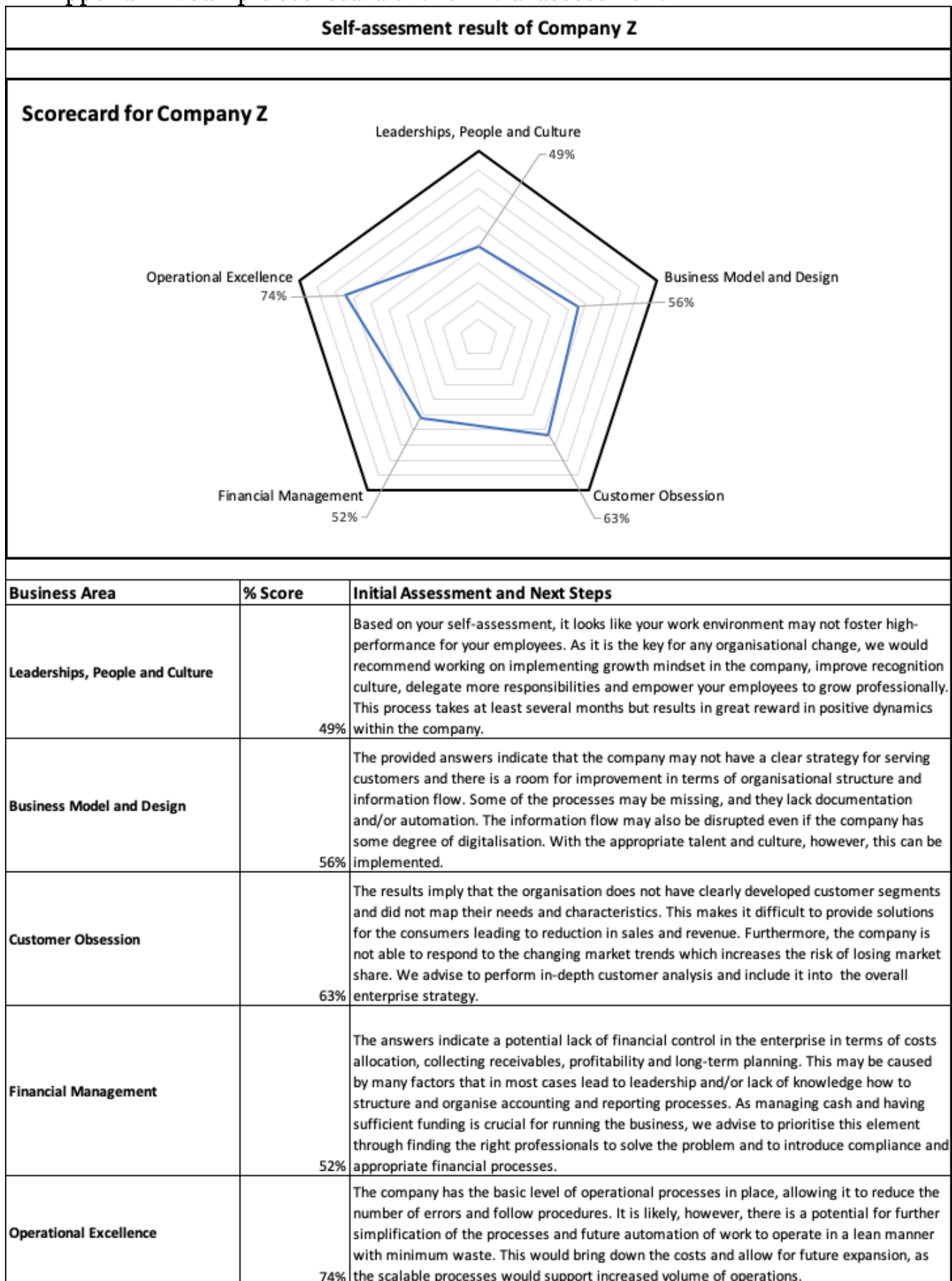
13. The Finance team is empowered to challenge and even block investment, purchasing, hiring and commercial decisions based on the agreed criteria.
14. The company's financial statements are always submitted on time, and if required, validated by an independent auditor.
15. The company has a clear approval workflow for document signing, costs and expenses, so that different individuals generate and accept the amount.
16. The company has a depreciation and amortisation method of its assets, which is in line with international accounting standards.
17. The company has positive retained earnings that can be re-invested in the company.
18. The company can finance its operations from equity without much dependence on debt and receivables.

Operational Excellence

1. The company has no products in its inventory that had no sale in the past 12 months.
2. The inventory levels do not exceed 8 weeks of planned demand for each category of products.
3. The company's out of stock rate is below 5%.
4. The company is able to reduce the production and transportation costs (per unit or relative to revenue) each year.
5. The company's products are sourced and manufactured in a sustainable way with limited waste.
6. The company's operations are carbon neutral or near that level.
7. The company's on-time delivery rate is 95%+.
8. The company is able to quickly adapt its manufacturing and supply chain process for products with different operational requirements (e.g., oversize).
9. The company's picking, preparation and dispatching times are decreasing over time.
10. The warehousing and storage costs are decreasing per unit (or relative to revenue) over time.
11. The office rent to revenue ratio is below 5% and the company has an adequate venue for its employees.
12. The business has either an in-house or external IT and cybersecurity support.
13. The company has automated, or is in the process of automation, its documented processes such as invoicing allocation.

14. The company is generating savings in its General & Administration Expenses budget each year.
15. The company has less than 3% customer returns for its products.
16. The business does not experience out-of-stock status on its products for longer than 10 days.
17. There is a buffer strategy for operations to ensure continuity of the business in case of disruptions.
18. The company is using a predictive forecasting system for demand planning and continuously improves the model based on the new data and error analysis.

Appendix 2. Sample scorecard of the initial assessment



Appendix 3. KPIs for more in-depth company performance evaluation (based on 3-year trend as well as industry benchmarking).

Overall company metrics

1. Productivity = Revenue/Full-time employees
2. Revenue
3. Debt to Equity Ratio
4. Working Capital Ratio
5. Free Cash Flow
6. Return on Equity
7. Current and Quick Ratio
8. Gross and Net Profit Margin

Sales

1. Revenue and profitability by channel
2. Revenue and profitability by product category
3. Revenue and profitability by manufacturer
4. Conversion rate per product category
5. Units sold per product category
6. Average selling price per product category
7. Returns rate

Inventory Management

1. Inventory turnover (days)
2. % of inventory value with overstocked products (usually >8 weeks of cover)
3. % of inventory value with non-sellable products (no sales in the past 12 months)
4. Out of stock rate per product category

Manufacturing

1. Throughput
2. Cycle time
3. Capacity utilisation
4. Per-unit production cost
5. Schedule attainment
6. Defects rate

Supply Chain (Warehousing, Operations and Logistics)

1. % of on-time delivery
2. Storage cost per unit
3. Picking and prepping cost per unit
4. Shipping cost per unit
5. Incidents rate

HR

1. Average time to hire
2. Average attrition rate
3. Full-time employees per department (and vs budget)
4. Average cost to hire
5. Average salaries per department (and vs budget)
6. Employee satisfaction rate
7. Employer rating (for example on Glassdoor)

Marketing

1. Brand's net promoter score
2. ROAS for marketing campaigns
3. Traffic per product category
4. Split of traffic between paid and organic
5. Cost per click for paid campaigns
6. Customer retention rate
7. Customer lifetime value
8. Customer acquisition cost

Customer Service

1. Number of contacts per product category
2. Average waiting time to get support for a customer
3. Average satisfactory issue resolution rate
4. Concession rate

E-commerce Customer Experience

1. Cart abandonment rate
2. Number of clicks to complete the purchase
3. SEO score

4. Number of registered users/customers
5. Number of active customers (purchased in 30 days)
6. Bounce rate
7. Average session duration