

Software Measurement Services

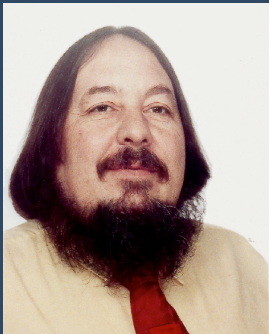


BMIF – 6th December 2010

Business Value Business Results



Your presenter



P. Grant Rule, Managing Director, SMS

As a founder of the UK Rightshifting Network, with over 35 years experience in the field of softsystems, I am committed to leading firms in learning how to be more effective at creating value and achieving desired outcomes for all stakeholders.

Software Measurement Services Ltd.



- Established 1994, SMS provides selected clients with unique insights into the whole-life effectiveness and efficiency of software-intensive systems.
- We work on behalf of stakeholders with private and public sector decision-makers to improve outcomes, increasing value while reducing cost and risk.
- Using evidence-based methods and benchmarks, we coach business people and technologists to work as partners.
- We are dedicated to rightshifting the performance of outsourced services, along with those managed in-house. Returns can be £5 or more for every £1 invested.
- Our recognised subject matter experts are specialists. They have wide experience, enhanced by SMS' objectivity as an independent consultancy & trusted 3rd party.
- This definition-to-deployment know-how enables us to contribute authoritatively on the cost-effective use of softsystems to implement our clients' business strategies.

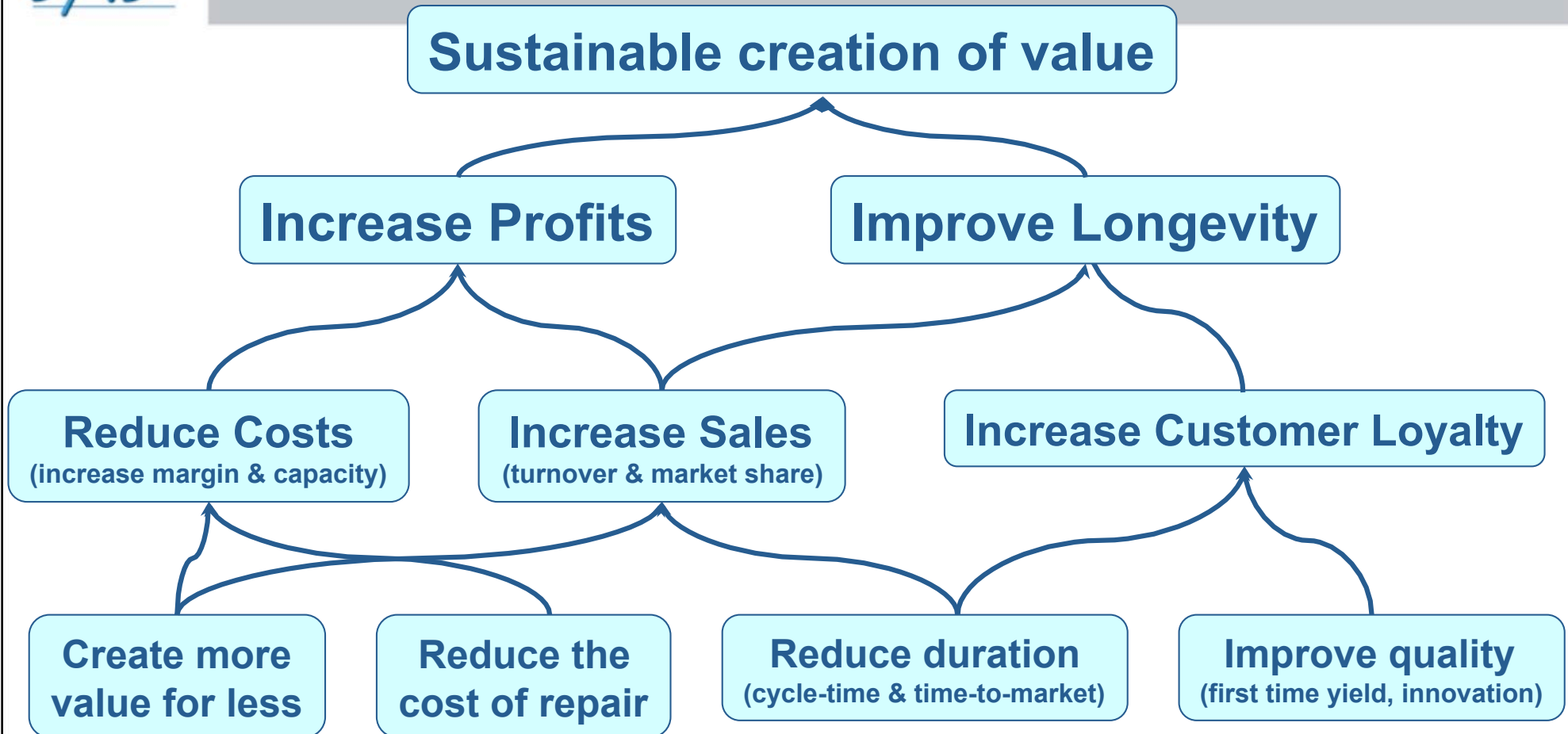


Three key messages...



- Understand what your stakeholders value...
 - Know and understand all your stakeholders, and collaborate closely with them to understand their requirements
- Align all activities with the stakeholders' desired outcome(s)...
 - Actions that don't add stakeholder value constitute waste that eventually increases costs for the end consumer (or taxpayer) and reduces business turnover & margins
- Help value to flow smoothly, keeping pace with demand...
 - Business value accrues when the end-consumer gets what they want, without hassle, when it is wanted, at an acceptable price

Ultimately, all firms share the common objective of sustaining the creation of stakeholder value



Priority & relative importance depends on your firm's strategy and your stakeholders



Ref : Treacy & Wiersema, 1995
"The Discipline of Market Leaders"

Customer intimacy
(one-stop shop, domain knowledge)

The organisation provides domain knowledge & integrates with customers to deliver tailored solutions to meet precise needs

Promise: "Superior business knowledge to predict & maximise opportunities"

The organisation invests in R&D, moving new products, services, & features to market as quickly as possible

Promise: "The latest, most innovative, feature-rich products"

Product leadership
(innovation, pioneering R&D)

What's your value proposition?

The organisation provides high-quality, standard products very quickly with the lowest total cost

Promise: "Unbeatable value-for-money for a restricted range of commodities"

Operational excellence
(low cost, reliable, WYSIWYG)

Value is 'covalent' – it is a negotiated convention between multiple stakeholders (incl. civil society)



- Multiple stakeholders hold differing, sometimes wildly conflicting, viewpoints
- The value of a function (product or service) is relative to that of other functions
- Agreeing a consensus definition of the desired outcome requires time and engagement

Ref: Unpublished papers on Rightshifting & Flowchain, Bob Marshall, Falling Blossoms, 2008

Sustainable development...

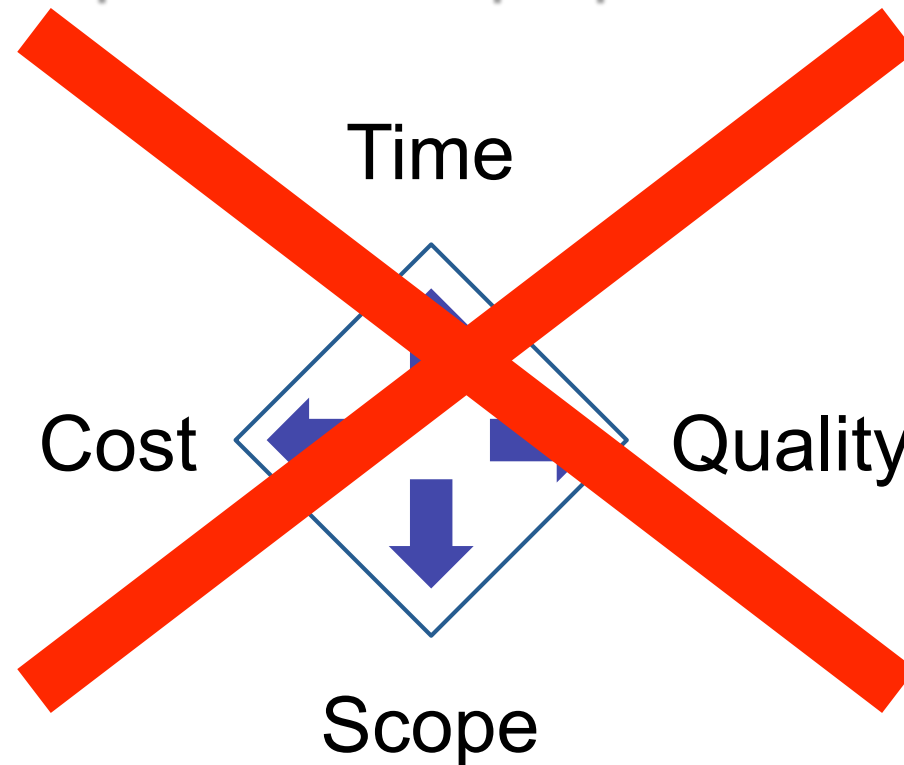


- ...is development that synthesizes social, economic, and environmental issues to preserve opportunities and resources for future generations

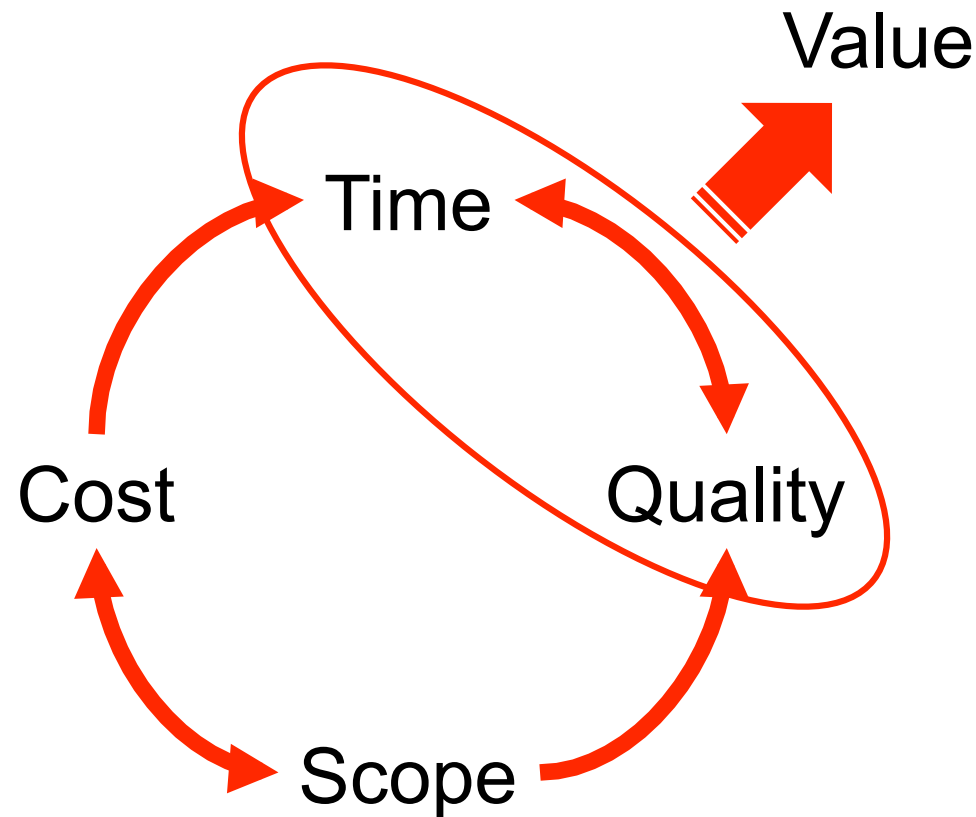
Myth: firms must trade-off cost, quality, time & scope... you can't have it all at once



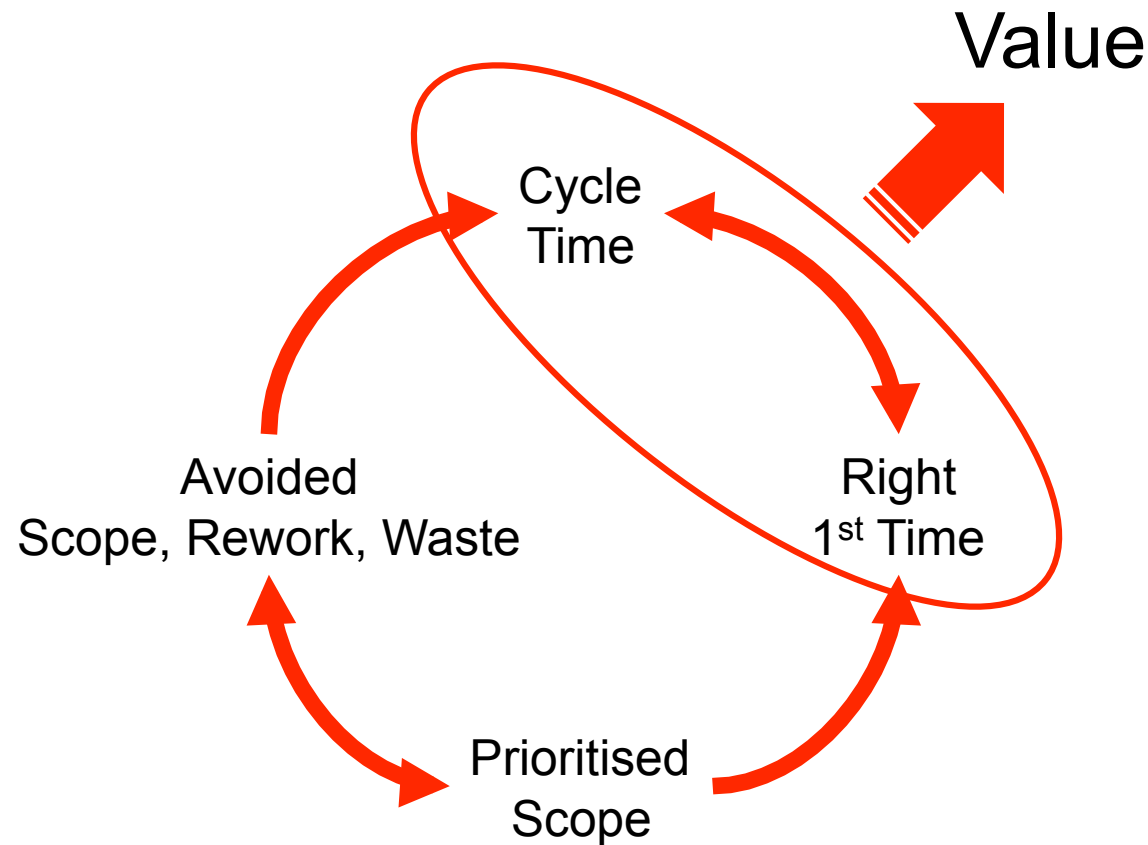
Transforming the process steps performance up a gear



A focus on value pulls speed & quality... avoids non-value-adding work, preventing defects



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Principles of Lean Systems Thinking



- Value – understand what value means to the stakeholders
- Value stream – identify and align all the process steps that contribute value... eliminate those that add no value
- Flow – create conditions that enable value to flow smoothly downstream, with no logjams or inventories
- Pull – enable the customer to pull value from the stream at the time and place and in the quantities desired
- Pursue perfection – continuously improve the production system to respond to the stakeholders' demand for value

Ref: 'The Machine that Changed the World', James P Womack, Daniel T Jones & Daniel Roos, New York, 1990

So what do we mean by 'value'?

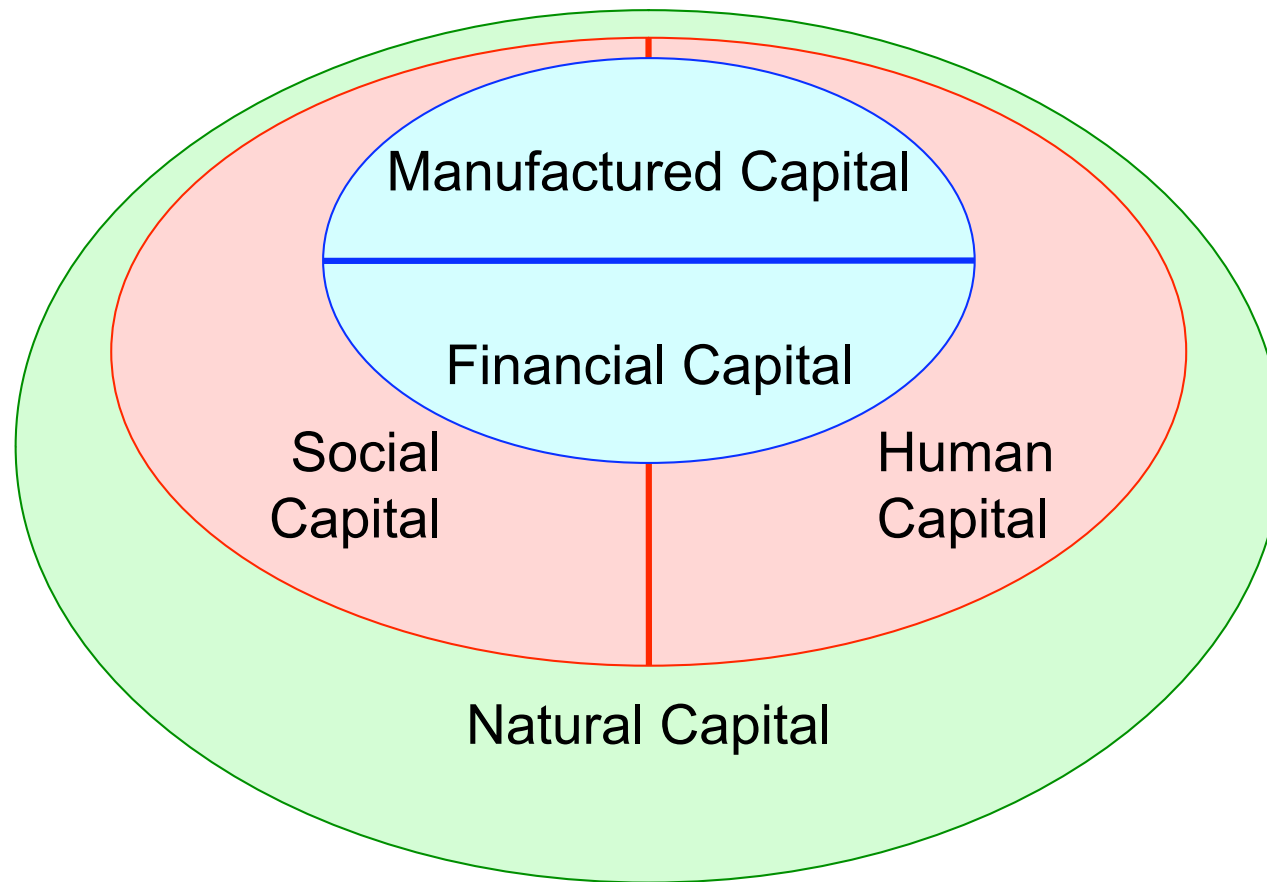


- If effective fast delivery of 'value' is the key to increased turnover, driving costs down & quality up, we'd better understand what 'value' means

Humans derive value from five types of capital that sustain & improve the quality of our lives



“The Five Capitals Model”, The Forum for the Future
www.forumforthefuture.org



The Five Capitals model



- **Financial Capital ('treasure' - a means of exchange):**
 - Finance has an important economic role as a means of exchange, but it has no inherent value. It represents natural, human, social or manufactured capital (e.g. as shares, bonds or banknotes) and facilitates trade.
- **Manufactured Capital ('the built environment' – including softsystems):**
 - Products, fixed assets & infrastructure e.g. tools, machines, buildings, roads, etc.
- **Human Capital (including intellectual property):**
 - People's health, talent, education, know-how, guidebooks, instructions, skills, creativity, motivations & morale... all of which contribute to productive work.
- **Social Capital (the institutions of 'civil society' and community):**
 - Institutions that help people maintain & develop human capital in partnership e.g. families, communities, businesses, trade unions, schools, voluntary organisations, local and central government. Community spirit, team spirit, loyalty, culture.
- **Natural Capital (renewable & non-renewable resources):**
 - Any stock or flow of energy or renewable and non-renewable resources; sinks that absorb, neutralise or recycle wastes; natural processes & cycles that regulate the environment, growth & decay, etc.

Each capital has matching debts and flows



Five Debts

- **Financial debt** : represents labour and/or tradeable assets
- **Physical debt** : aka **technical debt** – incomplete or missing quality, defects that will need correction
- **Knowledge debt** : aka ignorance – lack of know-how needed to achieve some goal
- **Social debt** : unfair social conditions, poor education, inadequate healthcare, unemployment, inter-community tension, disloyalty to family & community, favours owed
- **Environmental debt** : pollution, damage to the natural regulatory cycles, disruptive change to habitats, non-sustainable land use

Five Flows

- **Cash flow** : invoicing, accounts payable
- **Trade** : flow of made goods
- **Knowledge flow** : training, education, communication, creation & loss of intellectual property
- **Community spirit** : human interactions, will to cooperate & collaborate, exchange of favours, goodwill
- **Flow of natural resources** : Time, H₂O, CO₂/O₂, N₂ cycles, growth & decay, population dynamics, oil & gas cycle, tectonic movement, evolution

Leaders create alignment by agreeing the firm's 'True North' direction

e.g.
2x speed – 2x margin – 2x market share

e.g.
accurate budgets – on-time delivery – effective standards – quantified capability

e.g.
double turnover & triple profit by EOY 2012

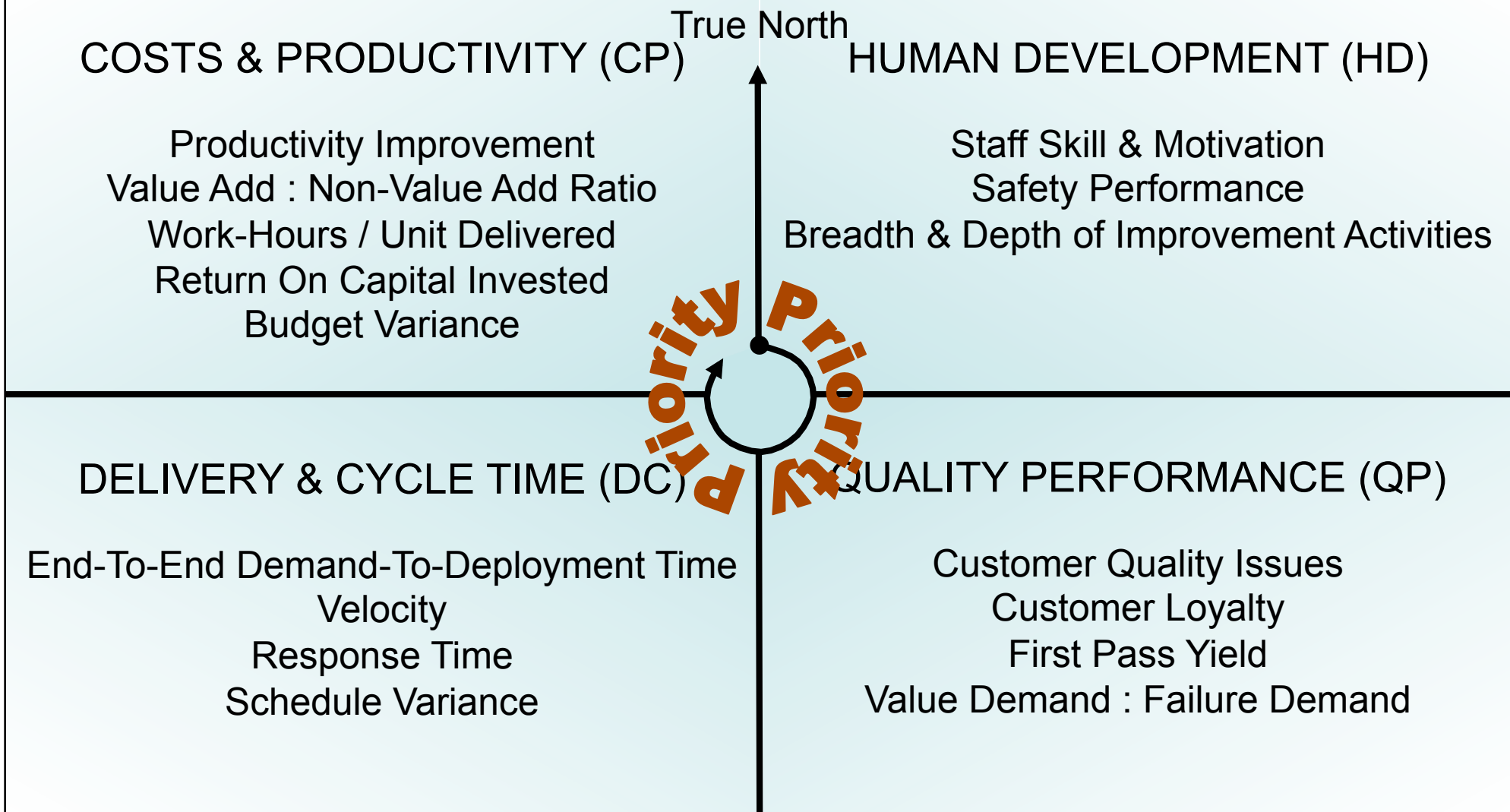


- A simple pungent phrase that expresses the critical success factors that characterise the desired outcome and helps create a sense of urgency
- An organisation's 'True North' direction...
 - Exerts a 'pull' toward which everyone in the organisation, whatever their rank or role, can align themselves and their activities
 - Encompasses all stakeholders needs – value for customers, knowledge for staff
 - Enables construction of a balanced scorecard
 - Establishes targets as a basis for gauging process performance & success
 - Ensures solutions are sustainable over time

Toyota's 'True North' Metrics: the critical measures always fit into a Balanced Scorecard & priority increases top-left to top-right



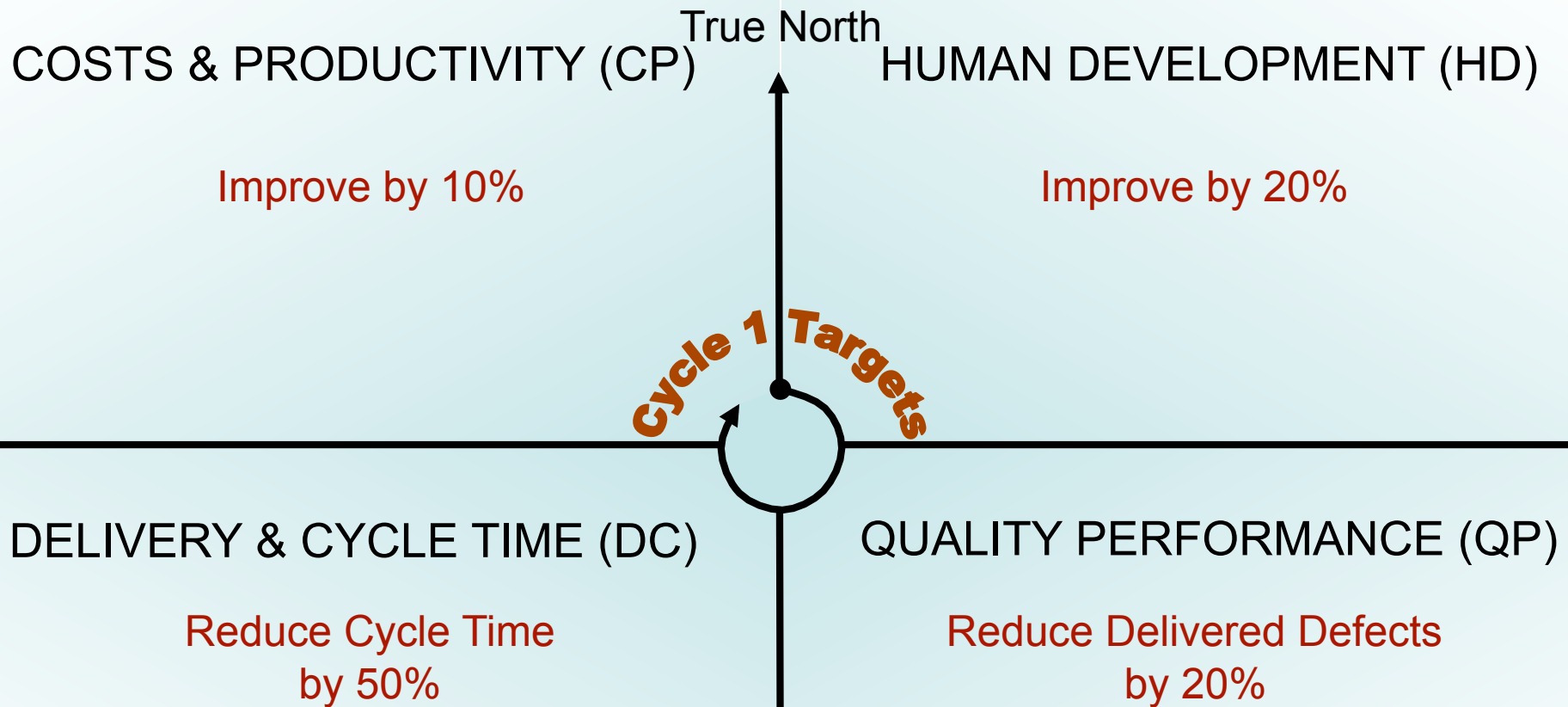
“Strategy Deployment: Linking Lean to Business Strategy”, George Koenigsaecker, Manufacturing Engineering, March 2006 Vol. 136 No. 3



Evidence suggests that reducing lead time by 75% enables 2-4x growth compared to the average for an industry



“Competing Against Time: How Time-Based Competition Is Reshaping Global Markets” George Stalk & Thomas Hout, Free Press, March 1990



1st Cycle Goal: “Reduce total lead time by 50%”

2nd Cycle Goal: “Reduce total lead time by half again”

The business case for change concerns improving & sustaining our firms' capability to deliver value



- By managing the balance sheet to grow & sustain wealth creation in all five capitals
- By avoiding hidden debts
- By thinking holistically & continuously improving the end-to-end performance

We can never just do one thing... there are always emergent features and unintended side-effects in any non-trivial system

Morale: Keep It Simple Silly (KISS) and Think It Through (TIT)

The value stream(s) *are* the business... to track value we use a standard balance sheet



- **Assets**
 - Cash + debtors (liquid assets)
 - Fixed assets
 - Stock
- **Liabilities**
 - Creditors
- **Capital**

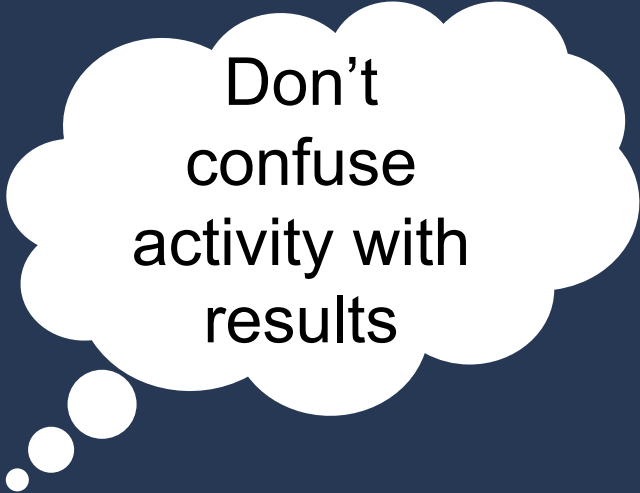
Integrity demands the balance sheet accounts for all the contributions that sustain business



- Cash →
- Production →
- Raw materials →
- Know-how →
- People →
- Income & expenditure
- Facilities & equipment
- Natural resources
- Intellectual property
- Culture

When we consider all the stakeholders, not least the business itself, it is evident that the desired outcome includes creating a value stream that can sustain the delivery of value over time

Dysfunction is avoided through objective measurement



Don't confuse activity with results



- Facts
 - Evidence
 - Visibility
- cf.
- Myth
 - Opinion
 - Hidden agendas

Summary: a value focus pulls business results



- Value pulls speed & quality, reducing costs
- Understand value if you want to create it
- Consider all 5 capitals... and 5 flows & debts
- Objectivity & visibility mitigate against waste
- Actively align customer & supplier activities to the desired outcome & 'True North'
- Value, Value Stream, Pull, Flow, Perfection

References



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Questions?



SMS are specialists at
improving business
outcomes from software-
intensive systems



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If you have been...
...thanks for listening

