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Energizing/Activating Your Vision

The Importance of an Operating Philosophy

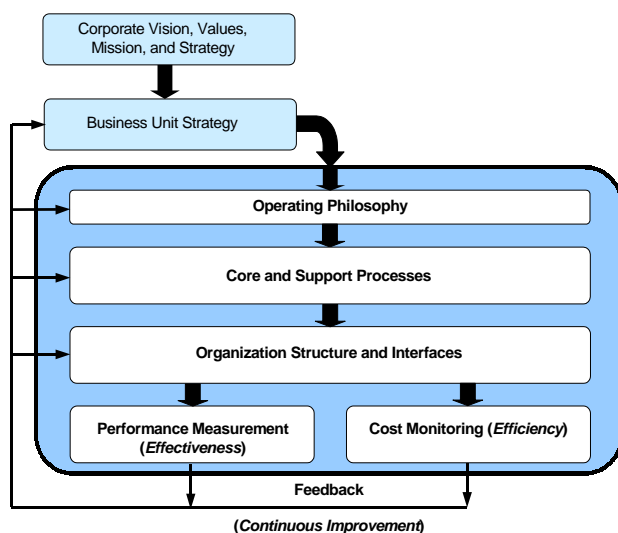
Summary

This *Management Insight* is the second in a series that reviews the essential parts of the corporate management model, and discusses their interrelationships. In this *Management Insight*, we address the importance of documenting and communicating the firm's Operating Philosophy to help ensure that high level vision, values, mission statement, and strategy(ies) are implemented consistently throughout the organization.

Background

In an earlier *Management Insight*, we reviewed the conceptual framework of a typical business management model, and highlighted the essential parts which are shown in Figure 1.

Figure 1



As shown in the model, the foundation of any company or organization consists of its vision, values, mission statement, and overriding strategy, both for the business/organization as a whole as well as for any major sub-units such as subsidiary business units. In all too many companies/organizations, however, this is often as far as senior management goes in providing guidance to its management team and employees in how to run the business. Instead, individuals are left to their own devices in reaching decisions that can affect the business, and all too often rely on what was done in the past under similar circumstances. In static businesses/industries, this may be sufficient, but certainly not so in the rapidly changing, competitive businesses of recent years and the future.

Operating Philosophy - What is it?

Using a construction analogy, if the vision, values, mission statement, and strategy are the foundation of the business, then the Operating Philosophy is the framework or structure that supports and gives substance to the business processes and organizational features of the business management model. It is the "bridge" between the business's vision and values and the specific day-to-day behaviors that each company/organization desires to inculcate into its normal behavior. It is that set of rules, understandings, and cultural behaviors (as opposed to business processes or procedures) that affect how decisions are made in the allocation of resources towards the attainment of organizational goals. While an Operating

Philosophy may be written and formalized or not, every organization has an Operating Philosophy, whether or not it is explicitly acknowledged. Sometimes it may have several conflicting operating philosophies at the same time, depending on the strength of individual personalities. That is where the majority of difficulties often arise. It is also why we recommend a well reasoned, documented, and well communicated Operating Philosophy to be in place for most organizations. In addition, it greatly simplifies the company's development of supporting business processes and organization structures.

Elements of an Operating Philosophy

As each business/organization is different, with differing visions, values, and strategies, we would expect that their resulting operating philosophies would also be different. So too, the operating philosophies of different business units within a larger corporate structure might also be different from one another. However, in all such cases, each of the subsidiary operating philosophies must be consistent with the overall corporate/business strategy and its overall Operating Philosophy.

At the highest level of the organization, the Operating Philosophy may include elements dealing with overriding business principles such as: relationships with various stakeholders (e.g., shareholders, customers, employees), safety, the environment, integrity/ethics, its approach to human resources, and change/continuous improvement (e.g., 6 sigma). Similarly, it might also include elements dealing with competitiveness, the setting of aggressive/stretch goals, management of risk, outsourcing, and approaches to the market. Larger, more diverse organizations might also include elements dealing with internal interfaces, leadership, and organizational approaches/ preferences.

At each level in the organization or within each business unit, there will also be an Operating Philosophy (consistent with higher level ones) tailored to its own operations and unique business

needs. For example, the Operating Philosophy for an internal support organization might include how and in what areas it plans to provide support services to its customers, its pricing/reimbursement policies, make versus buy practices, etc. Similarly, the Operating Philosophy for a Sales/Marketing/Customer Service unit might include its approaches to market segmentation, pricing, discounts, credit, refunds, vendor/production relationships, sales force organizational preferences, etc. And in the case of a Generation business group within a utility, the Operating Philosophy might include: how various generating plants are to operate (i.e., base load, peak load, etc.); what its maintenance philosophy is (i.e., an operating philosophy towards an important business function - maintenance); how it coordinates its generating activities with sales/load dispatch; and its approaches to items such as fuel inventory, stocking of parts, relative size of workforce, and use of contractors for peak work, among others.

Level of Detail in an Operating Philosophy

As discussed above, an Operating Philosophy puts "meat on the bones" of higher level visions, missions, and strategies to help managers and decision makers at all levels in the organization understand how to make choices consistent with higher level plans. The level of detail required depends to a great extent on the size and scope of the business and the individual needs of its various operating units. It also depends on the degree of change taking place, and on the stability of the existing rules, understandings, and cultural behaviors. The greater the level of change, whether initiated from external (e.g., the market) or internal (e.g., merger/ acquisition or reorganization) forces, the greater the need for a more detailed, documented, and well communicated Operating Philosophy throughout the organization.