Three Questions of VSM Applications in Business

... and suggested solutions

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The Gestation of the Questions

Questions of practical applications have arisen mainly in VSM projects with the following firms:

1. Heraeus  Precious Metals, 12’000 EMP
2. Peri  Construction Industry, 7’000 EMP
3. Volkswagen  Automotive, 300’000 EMP
4. Panalpina  Logistics, 15’000 EMP
5. Geiger  Construction Industry, 7’000 EMP
6. Asamer  Construction Industry, 7’000 EMP
7. DIE  Education, 100 EMP
8. Ifolor  Photo Industry, 300 EMP
9. Metro  Trading, 300’000 EMP
10. Otto group  Trading, 50’000 EMP

… and in app hundred Seminars and Education Programs on VSM over the course of twelve years with app 2’000 top-managers of different organisations in both the business and the non-business arena.
Questions of practical applications in the business-area

1. System One Design and Segmentation

2. The Measurement of Horizontal Variety

3. The Allocation of Success Critical Tasks to Recursions
Prologue on perception - «What is it?»

Another experience with the VSM: Dealing with the prejudice

Is it an alternative to existing organizational models? like the Functional-Organization the Matrix-Organization the Divisional-Organization the Cluster- Organization

«... oh – then we’ll gonna have to reorganize if we apply it? We rather stay with what we have!»

THE WAY OUT: Using the metaphor of the living organism
There is an anatomy – dealing with the parts and boxes in the organization chart
There is a physiology – dealing with the business/support processes
There is a neurology – dealing with the control processes that make things work

The VSM deals with the neurology – the control and communication processes of a given anatomy.
Viable System Model (VSM)
1. System One Design and Segmentation (1/4)

A Strategic Business Unit (Element of S1) always consist of a combination of dimensions. These however are of greater or lesser significance for the purpose of segmenting S1.
Bottom Up or Top Down?

In my work with Stafford Beer, I learned to choose the system in focus on the recursion level, where the purpose of the organization is produced – where students are educated, where cars are built, where a patient gets treated.

The next level of recursion was designed on the basis of synergistic support in the System One: In what way can the Elements of S1 support each other best?

Whereas this approach certainly makes sense, there is an alternative:

It starts with the strategy of the system in focus, and chooses the segmentation of S1 that best supports it … Structure follows strategy!
1. System One Design and Segmentation (3/4)

**Design principle:** How do we organize so that what the customer pays for is at the centre of attention and can not disappear from there anymore?

**Segmentation-Options?**
(Product, Region, Customergroups, etc.)

- Key buying criteria from customers perspective (and own strengths)
- **dominant control dimension**
- Strategic challenges in the six central performance controls

**Definition of the Operative Units in S1**
anchoring responsibility for customer value (strengthening of the market share) and for strategy implementation
1. System One Design and Segmentation (4/4)

Please give a value 1-5 to each criteria for every segmentation variant. On each line please use each value only once – one value remains unused. 5 = best, 1 = worst.

<table>
<thead>
<tr>
<th>Nr.</th>
<th>Evaluation criteria</th>
<th>Variant 0</th>
<th>Variant I</th>
<th>Variant II</th>
<th>Variante III</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Region</td>
<td>Customer Group</td>
<td>Application (NB;SI;G;M&amp;C)</td>
<td>Ship Types (Container Tanker Bulk Dry Cargo)</td>
</tr>
<tr>
<td>K1</td>
<td>Technical competence (20%, o)</td>
<td>1</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>K2</td>
<td>Flexibility and 24h local service (23%, +)</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>K3</td>
<td>Lead Time (20%, -)</td>
<td>5</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>K4</td>
<td>Wide range of services (7%, o)</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>K5</td>
<td>Distance from customer (30%, +)</td>
<td>5</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>Market Position: ……</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>2</td>
<td>Innovation power: ……</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Productivity: ……</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Attractiveness for the right people: ……</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Liquidity/Cash Flow and Profitability: ……</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Summe</td>
<td></td>
<td>40</td>
<td>28</td>
<td>31</td>
<td>28</td>
</tr>
</tbody>
</table>
2. The measurement of horizontal variety for dealing with the first Axiom (1/1)

Horizontal complexity arises from:
1. the number of operating units
2. their diversity
3. their capacity to manage themselves

Vertical complexity arises from:
a) Environmental overlap
b) Auditing
c) Operational dependencies
d) Resource bargaining and accountability
e) Corporate intervention
f) Self-coordination
3. The Allocation of Success Critical Tasks to Recursions (1/2)

Three questions on whether to opt for decentralised or centralised for each success critical task …

1) Does it influence a key buying criterion? **decentralise**

2) Can we afford to decentralise it? **decentralise**

3) Can we create synergies without infringing question (1)? **centralise**

… and each task brings along its competency and responsibility.
3. The Allocation of Success Critical Tasks to Recursions (2/2)

<table>
<thead>
<tr>
<th>Critical management task</th>
<th>Lead</th>
<th>RO (Group)</th>
<th>R-1 (Market Units)</th>
<th>R-2 (Subsidiary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTC 1 - Sales Tools (IT) technical design (offer creation, order processing, accounting)</td>
<td>Com ExC</td>
<td>Development and initial concept, programming, training, rollouts, cont. improvement, support</td>
<td>Annual request and planning of rollouts together with Excellence Functions; participant in final roll-out presentations</td>
<td>Local adaptation, usage, key user assistance, local conceptional input within guidelines</td>
</tr>
<tr>
<td>OTC 3 - Sales Support Packages --&gt; Products (Handbooks, Videos, documentation)</td>
<td>PM</td>
<td>Development and initial concept, design, training, cont. improvement, support, Internal Sales</td>
<td>Adapt support packages to the local / regional needs / usage</td>
<td></td>
</tr>
<tr>
<td>OTC 11 - Standardized Contracts, Terms and Conditions</td>
<td>Com ExC Legal</td>
<td>Provide corporate templates</td>
<td>Adapt to local demands, local government requirements</td>
<td></td>
</tr>
<tr>
<td>OTC 20 - Guidelines for International Cooperation</td>
<td>Sales</td>
<td>Definition and control of central guidelines, policies, strategies (Clearing)</td>
<td>Coordination of the execution, coordinate between the MU’s (Clearing)</td>
<td>Local adherence</td>
</tr>
<tr>
<td>OTC 26 - Key Account Management for International Customers</td>
<td>Sales</td>
<td>-</td>
<td>Key Account Management only local level</td>
<td></td>
</tr>
<tr>
<td>M 12 - Define Product and Service Range</td>
<td>PM</td>
<td>Central Portfolio Management giving generic Guidelines (i.e., menu for services and framework of what we generally and at least offer)</td>
<td>Define Regional Product Range together with RO</td>
<td>Local decision on the portfolio, within the guidelines</td>
</tr>
<tr>
<td>M 13 - Market Intelligence (project, competitors)</td>
<td>CD</td>
<td>Consolidation, interpretation, everything what is important for the group needs to be done centrally</td>
<td>Consolidation, interpretation, everything what is important for the MU needs to be done centrally</td>
<td>Largely decentralized</td>
</tr>
<tr>
<td>M 15 - Pricing Policy</td>
<td>Com ExC Pricing</td>
<td>Central guideline, central tools, support on list price definitions for neighboring countries</td>
<td>Regional harmonization of the price levels</td>
<td>Autonomous decisions on list prices and net price</td>
</tr>
</tbody>
</table>

1. Influence on Key Buying Criteria?  
2. Decentralization not possible?  
3. Exploiting Synergies?