malik

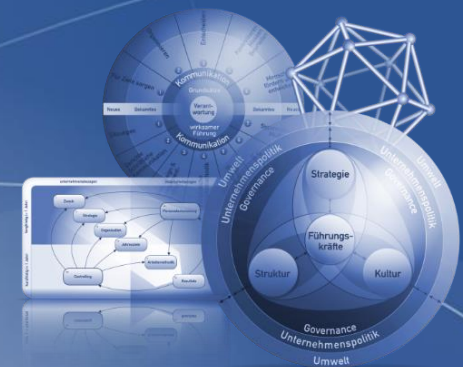# Three Questions of VSM Applications in Business

… and suggested solutions

Dr. Martin Pfiffner
Senior Partner

System-kybernetische
Malik ManagementSysteme®
für das Meistern von Komplexität

27. 09. 2016, Leeds UK

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 reoganize 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
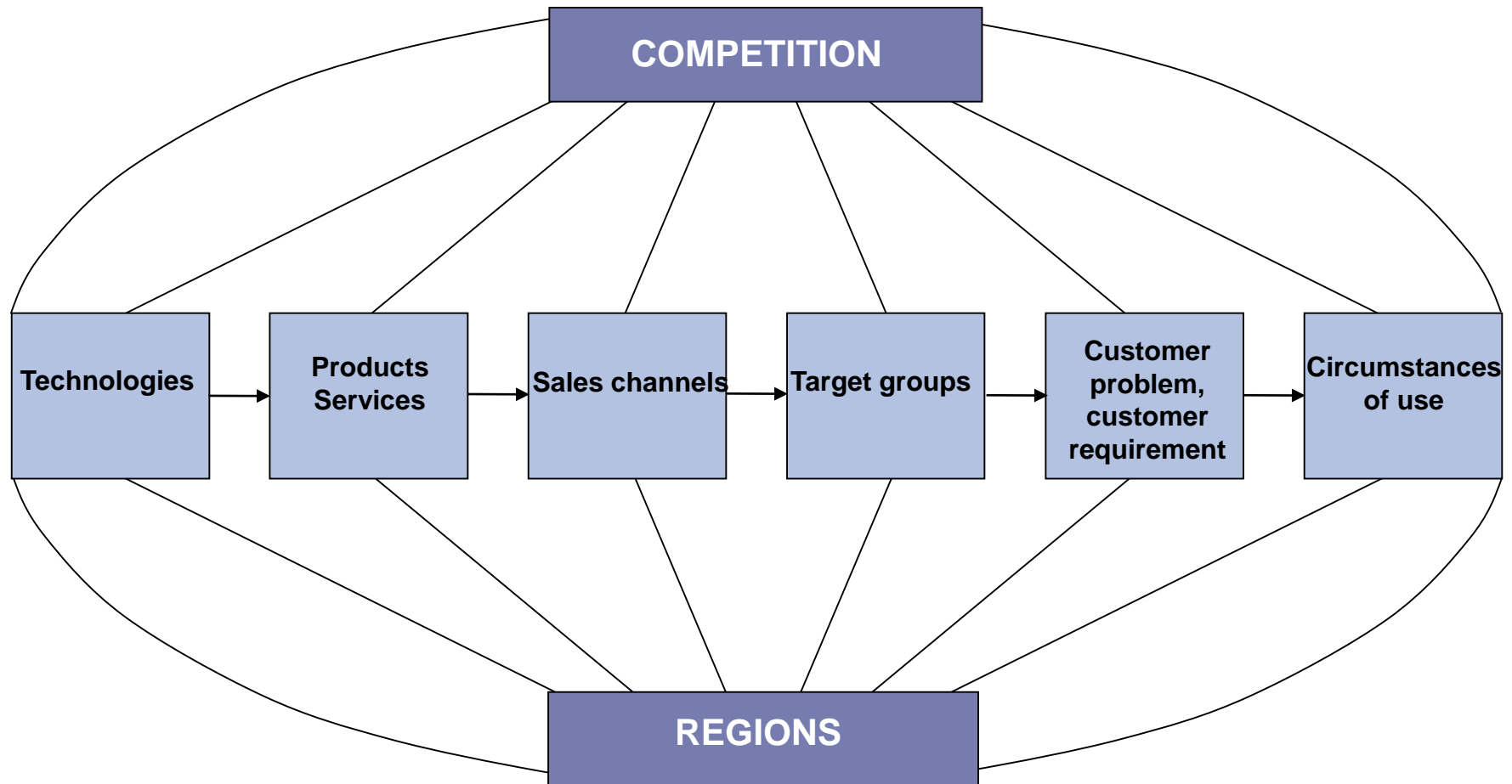
There is a **neurology** – dealing with the control processes that make things work

The **VSM deals with the neurology** – the control and communication processes of a given anatomy.

Viable System Model (VSM)
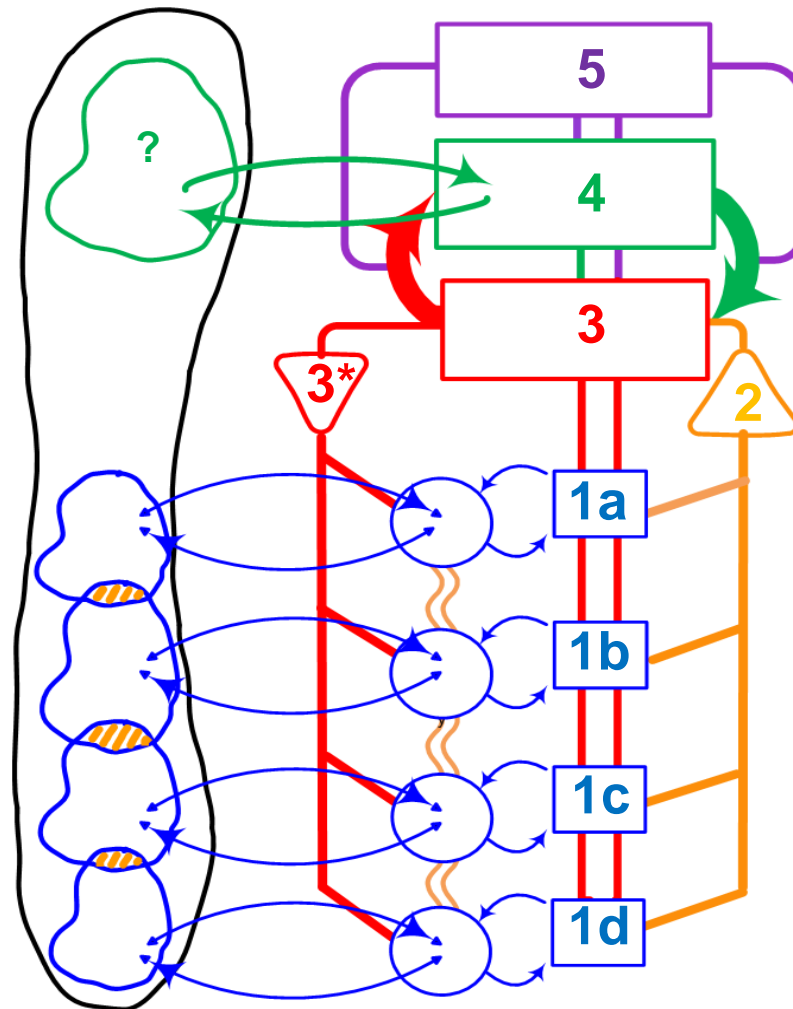
1. System One Design and Segmentation (1/4)

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.

1. System One Design and Segmentation (2/4)

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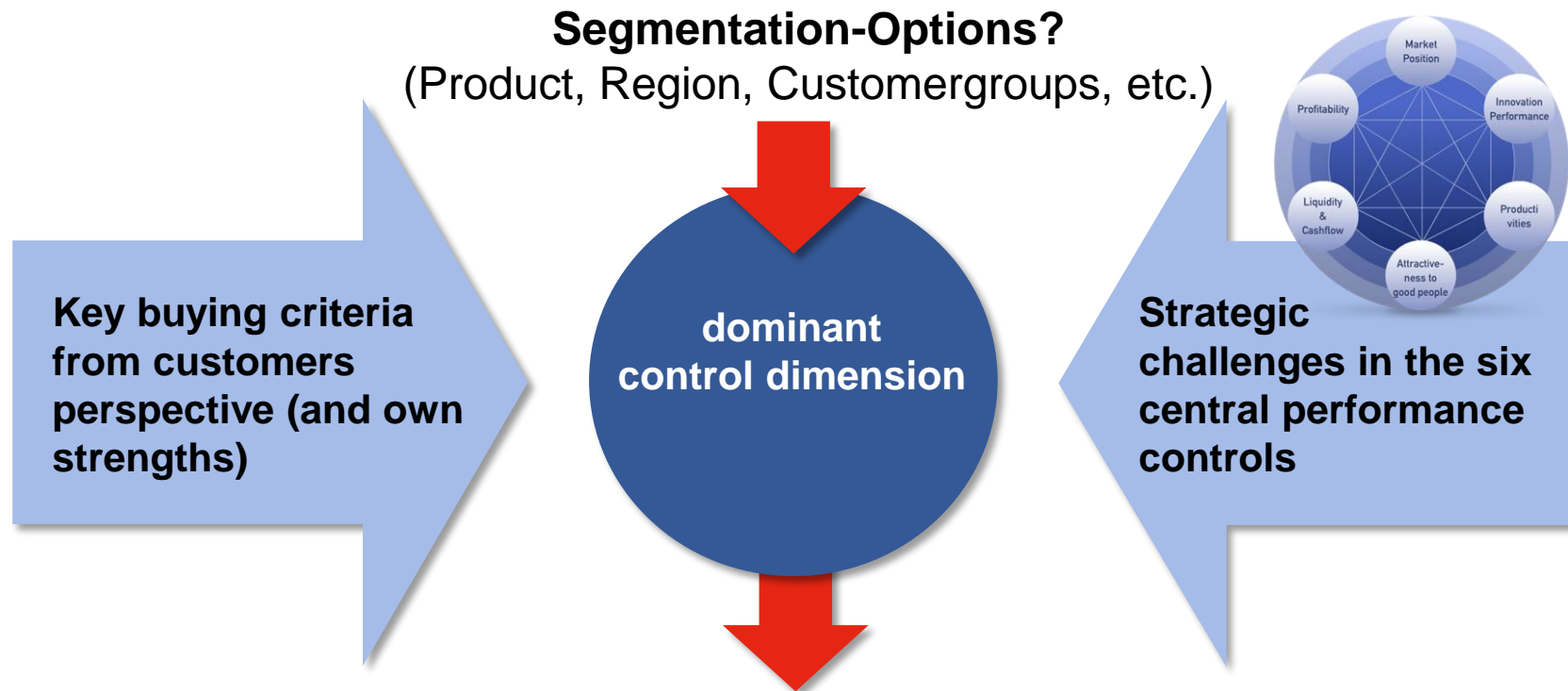
The next level of recursion was designed on the basis of synergistic support in the System One: In what way can the Elements of S1 support each other best?

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 disapear 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

Market Position
Innovation Performance
Profitability
Producti vities
Liquidity & Cashflow
Attractive- ness to good people

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

Project Example

| Nr.	Evaluation criteria	Variant 0	Variant I	Variant II	Variante III
		Region	**Customer Group**	**Application** (NB;SiO;M&C)	**Ship Types** (Container Tanker Bulk Dry Cargo)
K1	Technical competence (20%, o)	1	3	4	5
K2	Flexibility and 24h local service (23%, +)	5	2	3	1
K3	Lead Time (20%, -)	5	2	4	1
K4	Wide range of services (7%, o)	1	5	3	4
K5	Distance from customer(30%, +)	5	3	2	1
1	Market Position: ……	5	3	1	2
2	Innovation power: ……	3	5	1	2
3	Productivity: ……	5	1	3	2
4	Attractiveness for the right people: ……	1	2	4	5
5	Liquidity/Cash Flow and Profitability: ……	5	1	2	3
	Summe	**40**	**28**	**31**	**28**

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

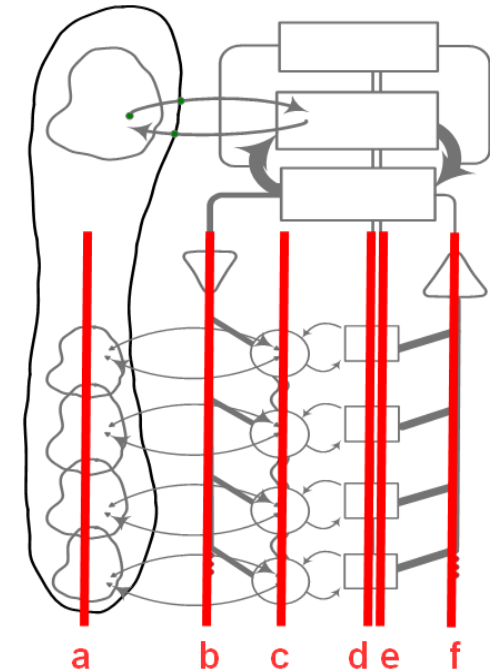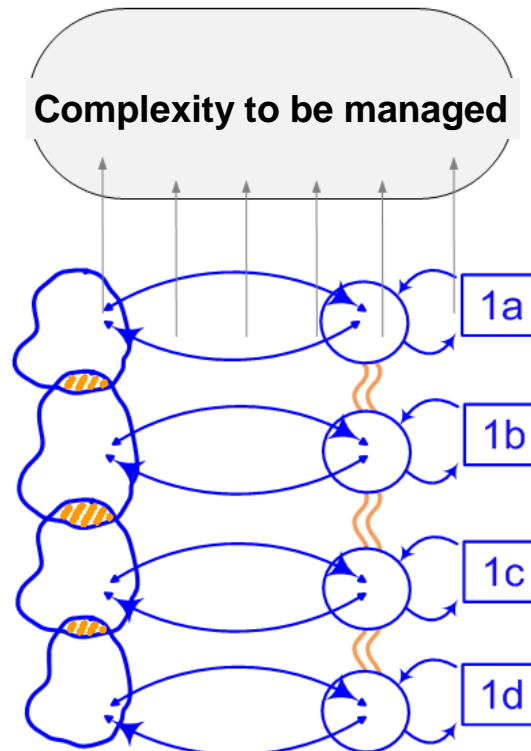**Vertical complexity arises from:**

a) Environmental overlap
b) Auditing
c) Operational dependencies
d) Resource bargaining and accountability
e) Corporate intervention
f) Self-coordination
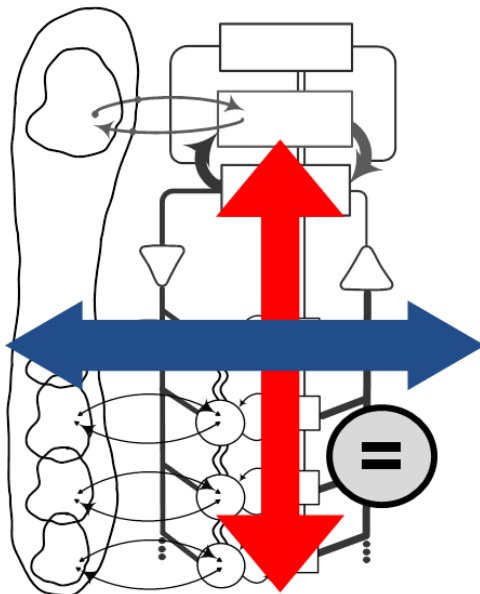
**Ashby's Law
First Axiom**

Complexity to be managed

1a

1b

1c

1d

a   b   c   d e   f

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)

Project Example XY GmbH

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

		Critical management task	Lead	RO (Group)	R-1 (Market Units)	R-2 (Subsidiary)
O T C	1	Sales Tools (IT) technical design (offer creation, order processing, accounting..)	Com ExC	Development and initial concept, programming, training, rollouts, cont. improvement, support	Annual request and planning of roll-outs together with Excellence Functions; participant in final roll-out presentations	Local adaption, usage, key user assistance, local conceptional input within guidelines
O T C	3	Sales Support Packages -> Products (Handbooks, Videos, documentation)	PM	Development and initial concept, design, training, cont. improvement, support. → Internal Sales		Adapt support packages to the local / regional needs; usage
O T C	11	Standardized Contracts, Terms and Conditions	Com ExC/ Legal	Provide corporate templates		Adapt to local demands, local government requirements
O T C	25	Guidelines for International Cooperation	Sales	Definition and control of central guidelines, policies, strategies (Clearing)	Coordination of the execution, coordinate between the MU´s (Clearing)	Local adherence
O T C	26	Key Account Management for International Customers	Sales	-	-	Key Account Management only local level
M	12	Define Product and Service Range	PM	Central Portfolio Management giving generic Guidelines (i.e. menu for services and framework of what we generally and at least offer)	Define Regional Product Range together with RO	Local decision on the portfolio, within the guidelines
M	13	Market Intelligence (project, competitors)	CD	Consolidation, interpretation, everything what is important for the group needs to be done centrally	Consolidation, interpretation, everything what is important for the MU needs to be done centrally	Largely decentralized
M	15	Pricing Policy	Com ExC. Pricing	Central guideline, central tools, support on list price definitions for neighboring countries	Regional harmonization of the price levels	Autonomous decisions on list prices and net price

mal|k

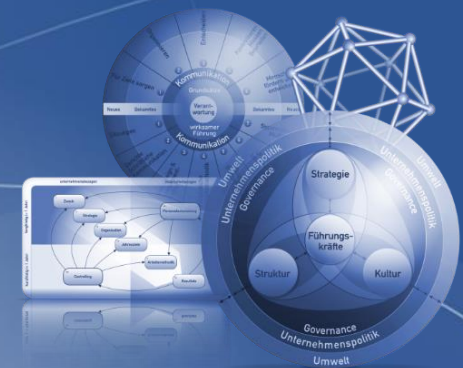**Malik**
Geltenwilenstrasse 16
CH-9001 St. Gallen, Switzerland

T +41 71 274 34 00
F +41 71 274 34 99

info@malik-mzsg.ch
www.malik-management.com

System-kybernetische
Malik ManagementSysteme®
für das Meistern von Komplexität