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Learning to see - evaluating the business model performance and potential

//Søren Laugaard



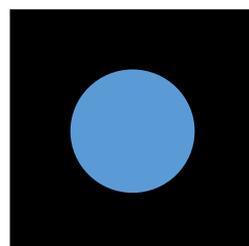
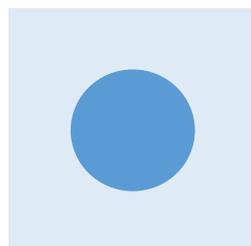
Imagine if you could see your company's performance and potential without prejudice, from multiple angles and perspectives, having all the required information, drawing on relevant insights, experiences and knowledge, and on this basis always make well-founded and wise decisions. How would that impact the company performance - and your own? We like to believe that we are completely rational, and are basing every decision on all available facts, but while the human brain is extremely powerful it is not immune to faulty judgements. Our mental behaviours are based on subconscious information processing procedures which in today's increasingly complex business environments quite often will lead to faulty judgements. The brain can only see

what it is prepared to see, and it is hard-wired for pattern recognition and linear thinking. Thus, if we want to assess the true performance and potential of company performance, we need to break these fixed and linear patterns, and learn to see things differently and from multiple angles simultaneously.

Cognitive biases can explain a part of why people make errors, overestimate their capabilities and underestimate the tasks at hand. Cognitive biases describe illogical, inaccurate or “poor” judgement by the human brain. There is by now a lot of literature and studies on cognitive biases, and there are currently more than 100 known decision-making, belief, memory, social and behavioural biases. For instance, the human brain has a bias for status quo and is risk averse. There is also a general confirmation bias, which is a tendency to seek, interpret and remember information that confirms one's beliefs or hypotheses.

Seeing things differently will lead to higher performance, new ideas and innovation - but this requires changing between different frames. The way information is framed influences the judgements, and the frame helps people to understand complex information. Let us take an example where you represent the world population, and is offered a new technology that will increase the global wealth, make us more efficient, more productive and make our lives much more fun. The price is that 1 million people are selected at random and killed every year - or about 2 persons every minute. Will you take the deal? Probably not – when framed like that. However, the deal has already been struck – it is cars. Now, are you willing to give up cars? If not, how do you explain this discrepancy in your judgements?

The below framing provides an optical illusion, where the circle appears brighter on the darker background (although the colour is the same):



The same framing effects apply in relation to business models and company performance. The frame, background, perspective and context applied when evaluating the information will heavily influence the judgement and decision. The messenger may have – knowingly or unknowingly – put a spin on the information, evaluation, result or proposal, and in this way biased the decision process. It means that it is vital to evaluate the frame applied, and at the same time be able to shift frames and perspectives as required. Otherwise, you are at the mercy of the prevailing frame and messenger, and your autonomy and creativity is hindered. Let us look at two different ways of mastering frames, with the aim of evaluating the true company performance and generating better options and more ideas:

1. **Changing perspective**
2. **Creating relevant benchmarks and references**

Edward de Bono's Parallel Thinking, or Six Hats, is one way of changing perspective, by applying 6 different perspectives to the thinking process - a fact based perspective, intuition and experience, all the positives and benefits, all the negatives and risks, ideas and creativity and lastly a perspective of structure and integration. It is a great concept for exploring and evaluating new ideas and proposals, and can also be applied when evaluating performance and potential.

Creating relevant benchmarks and references, including establishing the relevant context, is another way of changing the frame and broadening the basis for judgement. Performance is always relative and should be evaluated in relation to the situation and context - for example resource availability, supply/demand balance, etc. - and also the relevant benchmark or reference. An actual sales volume of 90 against a target of 100 may be a better performance than 120 against a budget of 100, depending on the circumstances.

From an overall perspective of company performance, we can apply 3 different frames when evaluating the business model performance and potential:

1. A **Strategy** perspective, assessing the company positioning and understanding of value drivers and battlefields, customers and value proposition, competitive advantages and how well the company exploits its overall strategic potential.
2. An **Execution** perspective, assessing how well the company operational system executes the strategy.
3. A **Governance** perspective, determining how well the company adapts to changes and evolves in terms of business model maturity and competitiveness.

Let us zoom in on the **Strategy** perspective, and see how we can assess the company performance and potential in further detail. Try scoring your company on a scale from 1-4 on the below assessment questions:

(1="Completely Disagree", 2="Disagree more than Agree", 3="Agree more than Disagree" and 4="Completely Agree")

- **We capture a proportionate share of the overall value created by the industry value chain.**
- **We are positioned optimally in the industry value chain.**
- **Our strategy prepares us for shifts in technology and market trends.**
- **We have a competitive market, product/service, customer segment and technology strategy.**
- **We have an excellent understanding of the customers and their requirements and headaches.**
- **Our value proposition is balancing customer requirements with company profitability.**
- **We systematically collect detailed knowledge about the competences, advantages and performance levels of our competitors.**
- **We have sustainable competitive advantages within the core aspects of our business model (i.e. those aspects that our organisation needs to excel in).**

These 8 questions are addressing 4 different dimensions of strategy design. You should consider each question, and the company performance, from the 6 different Six Hat perspectives, when scoring: 1) What facts are available and what information is missing? 2) What is your gut feel about the performance? 3) What are all the positive aspects of the

current performance? 4) What are all the negative aspects of the current performance? 5) How could the current performance be improved? 6) What is your overall conclusion and what are the next steps?

This process will provide a much broader perspective and a better and more balanced decision base than normally – but what is your benchmark or reference? You could score based on past, current or future performance (with different time horizons), or benchmark performance against the company targets, average competitor performance levels, against industry leaders or compared to the company potential.

There are many possible benchmarks or references and both the frames, context and references lead us towards specific judgements. However, also the specific wording of the questions is important. Try scoring the 3 below overarching questions instead:

- **Our strategy will exploit our full company potential.**
- **We are clear on the strategic priorities that drive the highest value for the company.**
- **Our strategy will bring us ahead of competition in terms of growth and profitability.**

Answering these questions requires a full and comprehensive understanding of the company strategy, the company potential, the company competitive environment, etc. It also requires that you have done the homework first – i.e. the detailed questions – and naturally there are many other relevant questions, perspectives and aspects of strategy than the above. In total it thus requires that your company has an overall excellence system and a systematic and integrated approach to enhancing the company business model. You can evaluate how systematic and integrated the company approach is when scoring the last three strategy assessment questions:

- **We have an integrated and complete company approach to strategy design, strategy deployment and strategy governance.**
- **We master the required strategy frameworks, concepts, models and tools.**
- **We have the required strategy competences and mindset within the organisation.**

These 14 questions will provide you with an initial understanding and assessment of your company's strategic potential and performance. What is your conclusion, and which other questions, frames and perspectives could you apply?

Søren Laugaard is the author of **Business Model Excellence**, which is a book about outperforming competition through faster and more dynamic business model innovation.

See more on www.businessmodelexcellence.com or join the Business Model Excellence Group on LinkedIn.

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