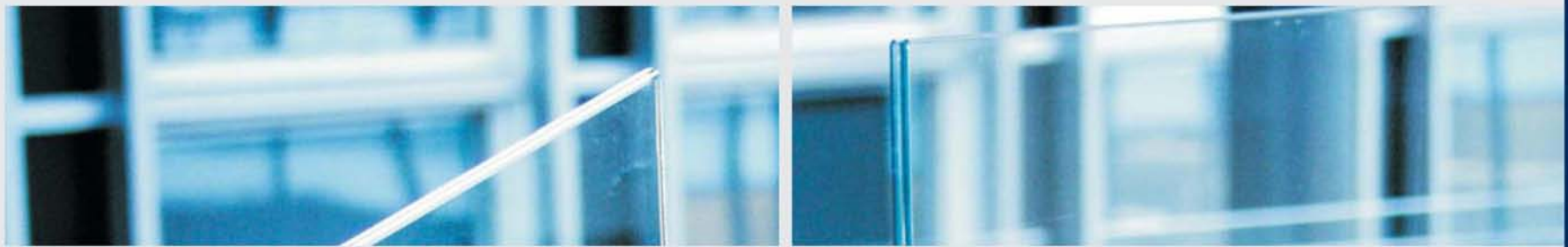


HOW A FIRM'S RENEWAL CAPABILITY CAN BE MEASURED, DESCRIBED AND VALUED



Culture as Innovation

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The Points of Departure

- The more knowledge intensive business environment, the more the competitiveness is based on organization
- The more turbulent business environment, the more competitiveness is based on organization's renewal ability

Organizational Renewal

is a three-dimensional phenomenon consisting of

- 1) effective standardization, replication, implementation and maintenance of the existing knowledge base
- 2) continuous incremental development of it
- 3) production of radically new knowledge and innovations.

KMfactor® measurement

- is a web based questionnaire, easy and quick to fill in
- shows what is the enterprise's capacity for renewal compared to the reference group

KMfactor[®] measurement

analyses the capacity of the organization

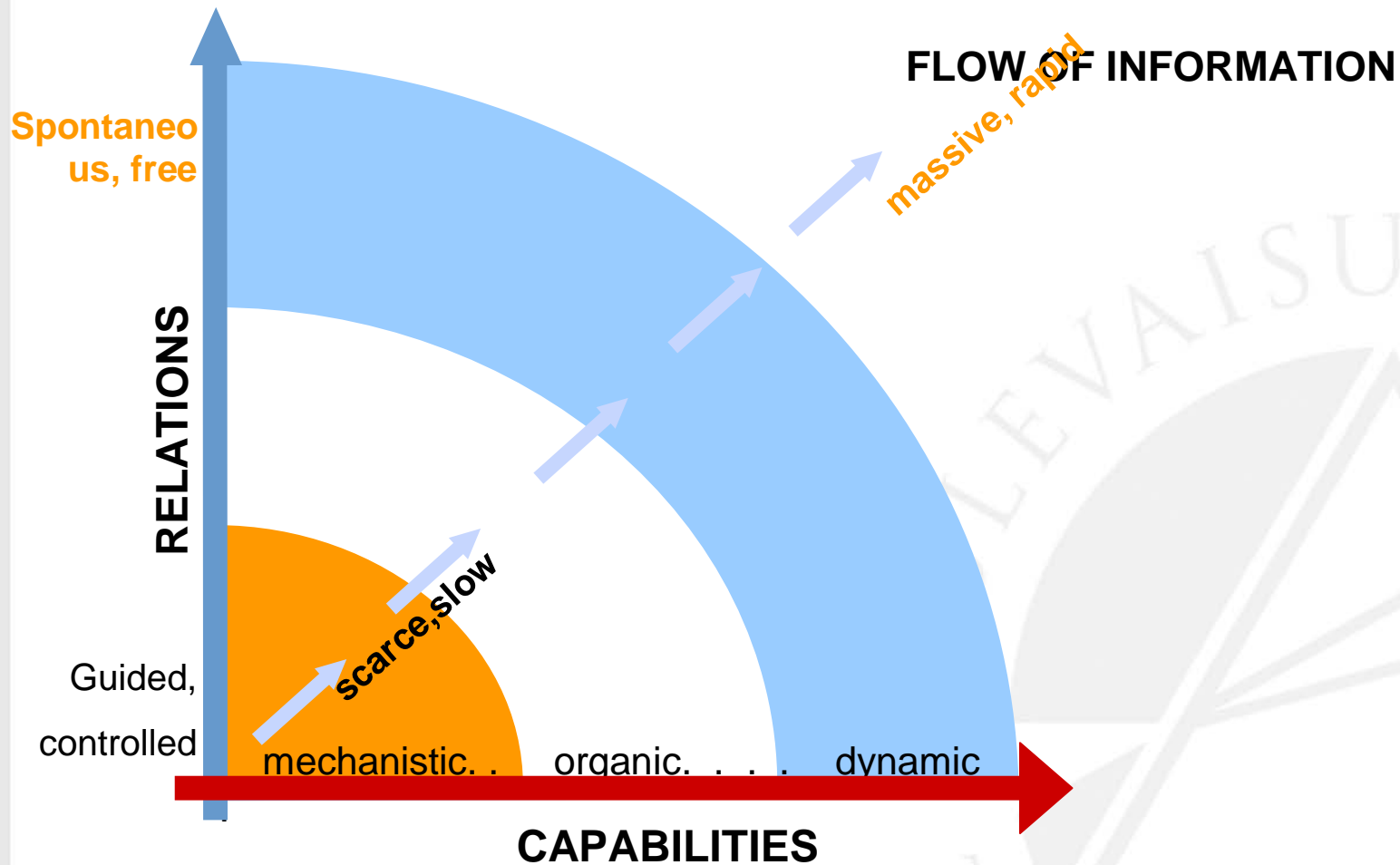
- to implement the company's (aimed) strategy
- to survive from the changes on the market (flexibility)
- potential for internal innovativeness.

Systemic Analyses of the Organization

- Mechanistic system
 - strategic emphases of added value on fixed production lines, cost efficiency -relatively stable markets
- Organic system
 - emphases on customized services, quick adaptation - markets with constant changes
- Dynamic system
 - added value from radical growth and innovativeness - turbulent markets

All three are important for all the companies, but one of these is the main strategic focus.

Organization as a Knowledge System

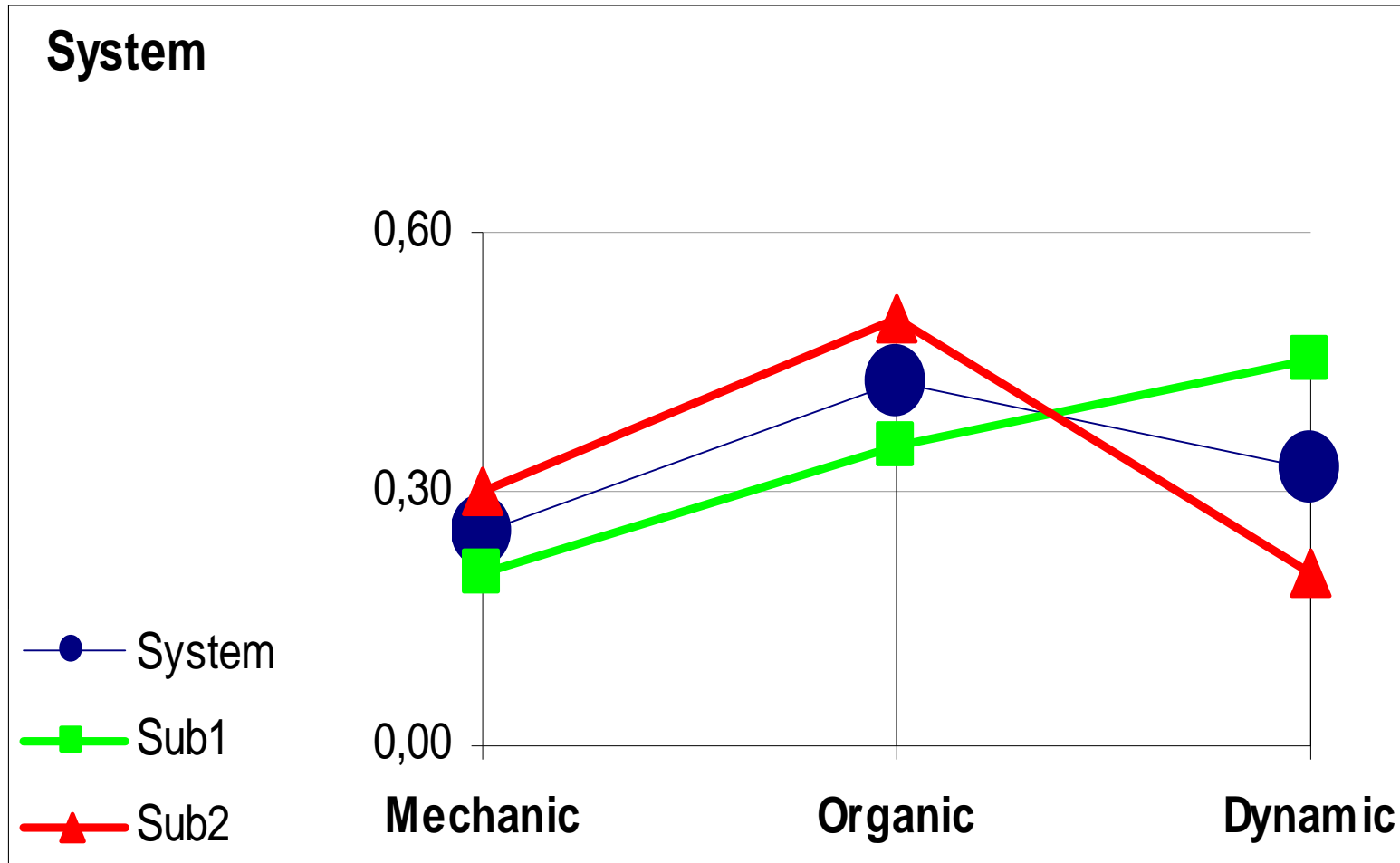


SYSTEM CLASS	Mechanical	Organic	Dynamic
CONSTITUENT			
Capabilities	DEFINED EXPLICIT	EXPERIENTIAL, HIDDEN, TACIT	INTUITIVE, EMERGING, POTENTIAL
Information flow	ONE-WAY TOP-DOWN	MULTI-WAY, COMPLEX	CHAOTIC
Relationships	DETERMINED BY HIERARCHY	RECIPROCAL, DOUBLE CONTINGENT	SPONTANEOUS NETWORKED
Management	ORDERS, DIRECT USE OF POWER	COACHING, EMPOWERMENT	PORTFOLIO MANAGEMENT, RELINQUISHING POWER

The Phases of the Analyses

- 1. phase directly based on the theory of organizations as 3-dimensional systems
 - reported as systemic profiles
- 2. phase based on analyses on the systemic behavior of the numeric data of the respondents
 - reported as 10 indexes
 - based mainly on consistency, coherency and resonance of the respondents

The 1. Phase Analyses: Systemic Profiles



2. Phase Analyses: Renewal Indexes

Strategic Capability

- n How unanimously the current situation is viewed
- n Is the current operational mode in line with the strategy
- n How unanimously the developmental challenges are viewed
- n Are the desired changes in line with the strategy
- n How much sensitivity to weak signals there is

Power to Change

- n How ambitious the goals are
- n How much potential for innovation there is
- n How high the motivation level is
- n How much mutual commitment to goals there is:
management < - > personnell
- n The level of internal networkedness

How the Indexes are Composed

- all indexes are relational figures, composed in relation to the comparison group (= always 100)
- about 200 measured organizations in the databank (=comparison group)
- f.ex. Renewal index 116 means that the company's renewal capability is 16% higher than that of the comparison group

Examples of Correlations between KM-factor and Financial Key Figures

Examples of internal correlations between Kmfactor indexes and economic key figures	Renewal ability	Strategic capability	Unanimity regarding present situation	Strategic fit of operational profiling	Unanimity regarding objectives	Strategic fit of objectives	Sensitivity to weak signals
Profit/Loss					0,49	0,38	
Overall profitability	0,55				0,73		0,62
Financing encumbrance	0,33	0,48	0,46				
Low financing risk	0,57	0,39	0,38		0,72		0,70
Overall rating	0,54	0,51	0,55		0,46		0,65
Overall Points	0,52	0,48	0,52		0,41		0,60
Turnover growth rate				0,70			
Operating profit before depreciation						0,53	
Operating profit/loss						0,55	
Profit before extraordinary items					0,31	0,52	
Net profit/loss			0,38				
Return on capital employed	0,56				0,68	0,49	0,55
Return on capital					0,63	0,44	
Return on equity					0,69	0,59	
Turnover/person	0,49	0,47	0,39				0,46
Added value / person	0,64				0,74		0,60
Personnel expenses/ person	0,47				0,49		0,44
Real productivity of work						0,55	
Added value / turnover							

In this table $r() > 0.25$ significant, $r() > 0.45$ very significant

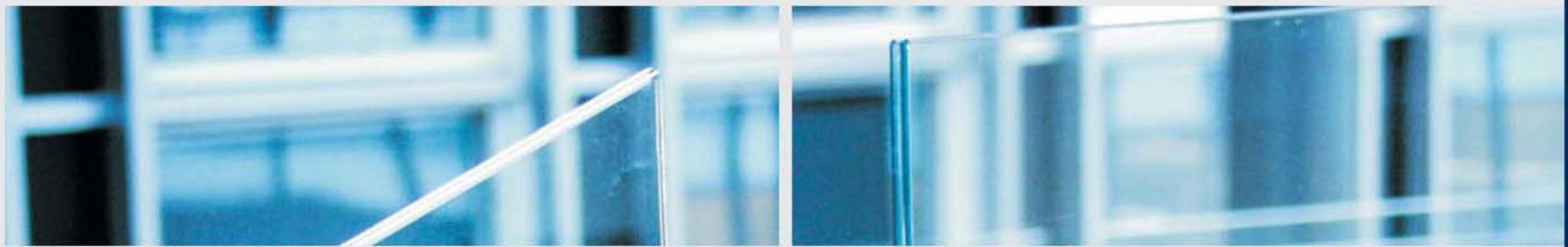
Examples of Correlations between KM-factor and Financial Key Figures

Examples of internal correlations between Kmfactor indexes and economic key figures	Renewal ability	Power for change	Challenge presented by target level	Innovation potential	Level of motivation	Commitment to objectives	Internal networking
Profit/Loss						0,50	
Overall profitability	0,55	0,62	0,63	0,72			0,50
Financing encumbrance	0,33				0,59		0,43
Low financing risk	0,57	0,60	0,55	0,62		0,31	0,60
Overall rating	0,54	0,50	0,40	0,62	0,43		0,60
Overall Points	0,52	0,48	0,40	0,66	0,48		0,55
Turnover growth rate					0,45		
Operating profit before depreciation						0,37	
Operating profit/loss						0,39	
Profit before extraordinary items						0,41	
Net profit/loss				0,44	0,51		
Return on capital employed	0,56	0,68	0,74	0,81		0,51	0,42
Return on capital			0,40			0,50	
Return on equity						0,68	
Turnover/person	0,49	0,39				0,78	0,54
Added value / person	0,64	0,76	0,82	0,51		0,72	0,51
Personnel expenses/ person	0,47	0,56	0,36	0,61	0,41		
Real productivity of work						0,56	
Added value / turnover				0,41	0,52		

In this table $r() > 0.25$ significant, $r() > 0.45$ very significant

CASE:

Measuring renewal capability in training service business



Why ?

Measuring *renewal ability* are the first steps to start to understand dynamics inside it and the impact of renewal capability *to business performance according to strategy* and even to financial figures

..share systematic best practices to achieve innovation leadership..

..incorporate knowledge sharing in learning environment..

..encourage innovation via opportunity exploiting..

..establish learning services as growth engine for business..

Results: strategic focus and operations emphasis

Strategic focus of the case organization defined by management is:

- *Flexible organization focusing on service concepts and customization*
- Innovative organization capable of managing radical renewal and/or growth

The current state of the operation is not in line with the strategic focus:

- *Service centered operations are under emphasized, development and production centered operations are over emphasized*

Results: Renewal indexes

	All Clustered	Unit 1	Unit 2	Unit 3	Unit 4	Average
Renewal capability	115	114	108	108	105	109
Strategic capability	110	107	105	112	102	106
Unanimity regarding the current situation	120	101	116	124	110	113
Operational profiling according to strategy	109	101	103	118	100	106
Unanimity regarding objectives	104	110	96	92	99	99
Strategic fit of development challenges	96	112	97	100	94	101
Sensitivity to weak signals	112	120	105	106	104	109
Power to change	120	122	111	105	108	112
Challenges presented by target levels	144	171	134	118	121	136
Innovation potential	109	146	110	80	94	108
Level of motivation	108	98	103	105	109	104
Commitment to objectives (management <--> personnel)	129	88	106	113	114	105
Internal networking	108	109	103	108	101	105

Note

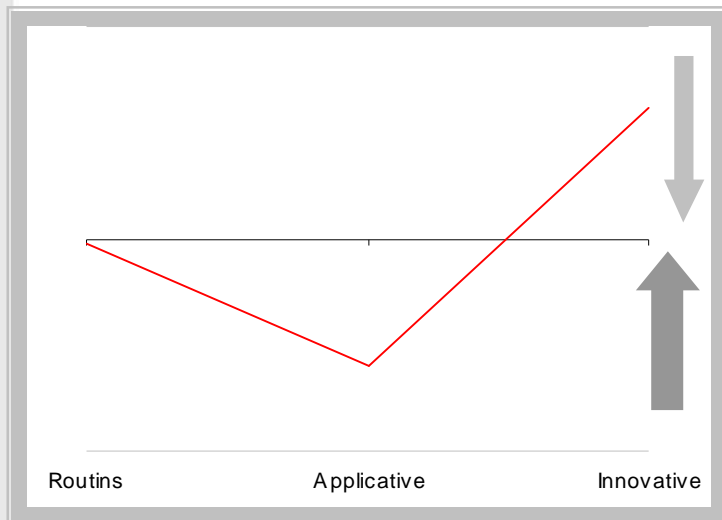
Due to missing information Unit 5 is part only in the clustered result

(C) businessXray 2006

Results: The summary of required change directions

	Mechanic	Organic	Dynamic
Mngmt Personnel			
Competence the master and development of management and one's own leadership work	↓ ↔ Routines	↑ ↑ Applicative	↔ ↓ Innovative
Information flow the availability and exploiting of information	↔ ↔ Operative	↔ ↔ Cooperative	↔ ↓ Multi channeling
Relations co-operations, responsibilities and influence channels	↓ ↔ Predefined	↑ ↑ Flexible	↓ ↓ Self organizing
Management the support systems of technology, processes and employees	↓ ↔ Authoritarian/Guiding	↔ ↑ Coaching/Empowering	↑ ↓ Visionary/Inspiring

Example of the results: The change compass for personnel (competence)



Skills / Personnel
the master and development of one's own work

Use more competence development methods for supporting *organic and gradual type of renewal and knowledge development*

Competence development to systematic and continual process

Development more linked to own work

Collaborative development and implementation focus

Usage of best practices, knowledge sharing

From conclusions to action, for example..

- *Focus to communication* and discussion more clearly, earlier and to wider audience about current situation and future challenges and needs.
- Heavy emphasis on *strategy communication and understanding* in every level of the organization
- *Capability development* mode to support on *qualification in own work* and support incremental growth (for example Trainer Qualification scheme)
- *Centres-of-competence/expertise* with collaboration focus
- *Knowledge management tools and practises* implementation starting (repeatable way of working, best practises sharing)
- Closer to the customer having *consultative* approach
- *Collaborative development approach* together with global and region levels; easier establishment of project organizations and SoR for short-term business needs

Development of renewal capability

- New measurement is planned to be done by the end of the year when the new organization is established and functioning
- Follow-up measurement should follow
 - renewal capability as KPI for capability development success?
- Pilot projects are recommended to be done concentrating to study some key development areas arising from the findings:
 - *leadership*
 - *communication*
 - *information sharing and transformation*
 - *interaction formation*
 - *authorizing and empowering project members*
 - *ability to develop and implement change in people's own work*