General Management Practices

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Review

Agenda

- Strategy Management
- Financial Management
- Risk Management

Strategy Management

The purpose of the strategy management practice is to formulate the goals of the organization and adopt the courses of action and allocation of resources necessary for achieving those goals. Strategy management establishes the organization's direction, focuses effort, defines or clarifies the organization's priorities, and provides consistency or guidance in response to the environment.

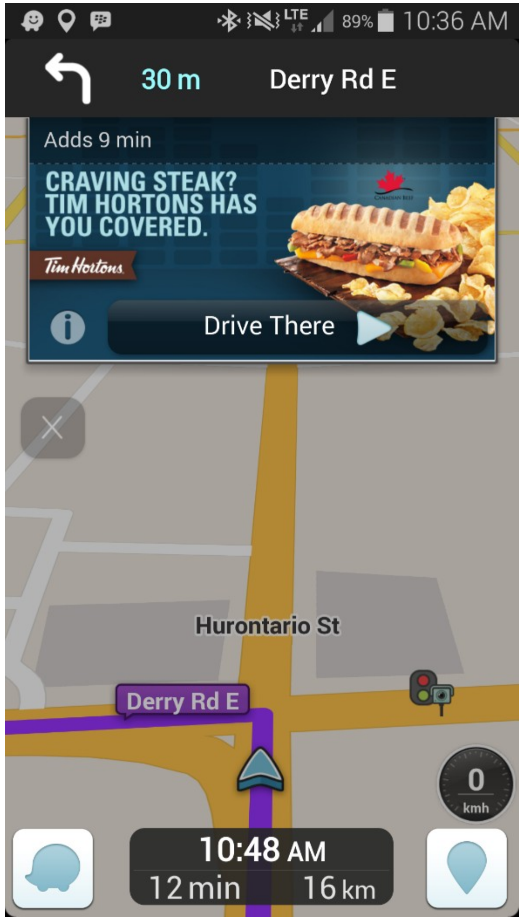
A high-performance strategy is one that enables an organization to consistently outperform competing alternatives over time, across business cycles, during industry disruptions, and when changes in leadership occur. It should be focused on what needs to be done across the organization to facilitate value creation.

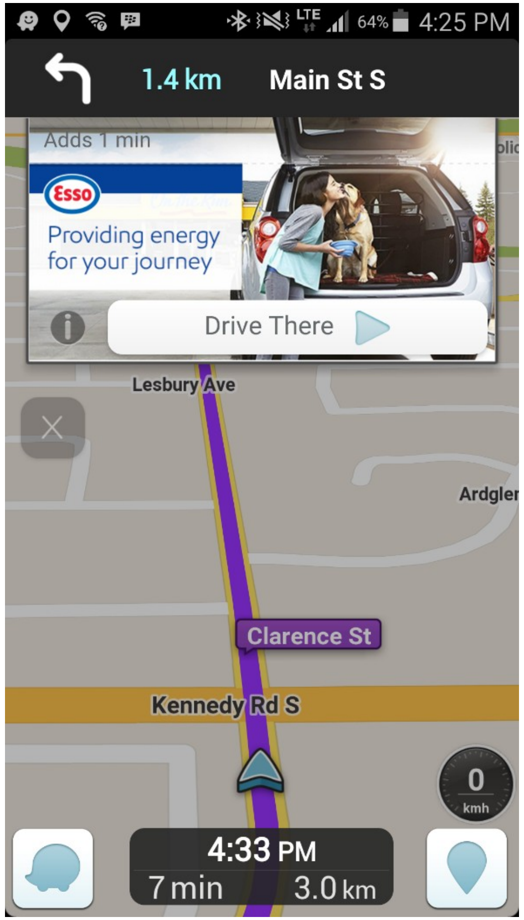
Some fundamental questions

When determining the strategy, senior management must address the following questions:

- What is our business
- Who is our customer
- What does the customer want (value)
- What is something that we must do exceptionally well to be a leader in the market
- What are our Strengths, Weaknesses, Opportunities and Threats (SWOT)
- What resources do we have
- Where do we see the market 1yr, 3yr, 5yr and 10yrs from now
- What are the services that we should offer
- What are the services that we should not offer

Collaboration over Competition





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Strategy Management

The objectives of strategy management are to:

- Analyse the environment in which the organization exists to identify opportunities that will benefit the organization
- Identify constraints that might prevent the achievement of business outcomes and define how those constraints could be removed or their effects reduced
- Decide and agree the organization's perspective and direction with relevant stakeholders, including its vision, mission, and principles
- Establish the perspective and position of the organization relative to its customers and competitors
- Ensure that the strategy has been translated into tactical and operational plans for each organizational unit that is expected to deliver on the strategy
- Ensure the strategy is implemented through execution of the strategic plans and coordination of efforts at the strategic, tactical, and operational levels
- Manage changes to the strategies and related documents, ensuring that strategies keep pace with changes to internal and external environments and other relevant factors

Service Financial Management

The purpose of the service financial management practice is to support the organization’s strategies and plans for service management by ensuring that the organization’s financial resources and investments are being used effectively.

Finance is the common language which allows the organization to communicate effectively with its stakeholders. Service financial management is responsible for managing the budgeting, costing, accounting, and charging for the activities of an organization, acting as both service provider and service consumer.

Service Financial Management

- **Budgeting/costing** is an activity focused on predicting and controlling the income and expenditure of money within the organization. It focuses on capturing forecasted and actual service demand. It translates this demand into anticipated operating and project costs used for setting budgets and rates to ensure adequate funding for products and services. Service-based budgeting seeks to understand the budget and establish funding models based on the full cost of providing or consuming a service.

- **Accounting** enables the organization to account fully for the way its money is spent, allowing it to compare forecast vs actual costs and expenditures. It usually involves accounting systems, including ledgers, charts of accounts, and journals.

- **Charging** is required to formally invoice service consumers for the services provided to them. It is important to note that while charging is an optional practice, all services require a funding model, because all costs need to be adequately funded by an agreed method.

Service Financial Management

Direct vs Indirect

- **Direct cost** is something that can be attributed to a single customer or service. E.g. cost of server hosting an application which is used exclusively by a single customer

- **Indirect cost** is something that is spread over many customers. This is also called shared cost. Examples includes cost of utilities, taxes and legal fees which is typically spread evenly among all the customers

Capital vs Operational

- **Capital Costs** are the ones used to buy assets that generate returns over a period of time. This typically includes investments in buildings, infrastructure, automobiles etc. The assets are depreciated over a number of years and adjusted against taxes

- **Operational Costs** are the ones that are used to run day to day operations. This includes salaries, utilities & taxes etc. Operational costs are usually also classified as indirect costs

Risk Management

The purpose of the risk management practice is to ensure that the organization understands and effectively handles risks. Managing risk is essential to ensuring the ongoing sustainability of an organization and creating value for its customers. Risk management is an integral part of all organizational activities and therefore central to the organization’s SVS.

A possible event that could cause harm or loss, or make it more difficult to achieve objectives. Can also be defined as uncertainty of outcome, and can be used in the context of measuring the probability of positive outcomes as well as negative outcomes.

As with costs, there are two types of risk that are of concern to service consumers:

- Risks removed from a consumer by the service. These may include failure of the consumer’s server hardware or lack of staff availability.
- Risks imposed on a consumer by the service (risks of service consumption).

Risk Management

According to ISO 31000 ‘the purpose of risk management is the creation and protection of value’ and that risk management ‘improves performance, encourages innovation and supports the achievement of objectives’.

Risk is normally perceived as something to be avoided because of its association with threats, and although this is generally true, risk is also associated with opportunity. Failure to take opportunities can be a risk in itself.

The consumer contributes to the reduction of risk through:

- Actively participating in the definition of the requirements of the service and the clarification of its required outcomes
- Clearly communicating the critical success factors (CSFs) and constraints that apply to the service
- Ensuring the provider has access to the necessary resources of the consumer throughout the service relationship.

Risk Management

Decisions about risk need to be balanced so that the potential benefits are worth more to the organization than the cost to address the risk. For example, innovation is inherently risky but could provide major benefits in improving products and services, achieving competitive advantage, and increasing agility and resilience.

For risk management to be effective, risks need to be:

- **Identified** Uncertainties that would affect the achievement of objectives within the context of a particular organizational activity. These uncertainties must be considered and then described to ensure that there is common understanding.
- **Assessed** The probability, impact, and proximity of individual risks must be estimated so they can be prioritized and the overall level of risk (risk exposure) associated with the organizational activity understood.
- **Treated** Appropriate responses to risks must be planned, assigning owners and actioners, and then implemented, monitored, and controlled.

Risk Management

The following principles apply to the risk management practice:

- Risk is part of business. The organization should ensure that risks are appropriately managed. This does not mean that all risks are to be avoided. On the contrary, risk-taking is required to ensure long-term sustainability. However, risks need to be identified, understood, and assessed against the levels of risk the organization is willing to take (i.e. the risk appetite), and appropriately managed and monitored.

- Risk management must be consistent across the organization. It is vital that the risk management practice is managed holistically to achieve consistency across the whole organization.

- Risk management culture and behaviors are important. This is demonstrated by behaviours and beliefs such as:
  - Understanding that effective risk management is vital for the sustainability of the organization and supports the achievement of business goals
  - Using proactive risk management behaviors ensuring transparency and clarity of risk management procedures, roles, responsibilities, and accountabilities
  - Actively encouraging and following up the reporting of risks, incidents, and opportunities ensuring remuneration structures support desired behaviors (i.e. this should not discourage the reporting of incidents nor encourage over-reporting)
  - Actively encouraging learning and growth in maturity from the organization’s experiences and the experiences of other organizations.

Recap