ENGLISH

Blueprint of company transformation by Efficient Resource Flow Alignment © ERFA Methodology

Why might you need to transform your company?

Owners and shareholders employ top managers to make the "business organism" strong and active to create and capture more value while spending less resources. Efficiency of "business organism" is the fundamental challenge for business owners and top managers.

However, **current management methods often fail exactly on the fundamental efficiency challenge.**

Reason: "business organism" lives its internal life and learns to hide its consumption of resources and production of value in the "bushes of internal process complexity".

- If a business is unprofitable or stagnating, this efficiency problem becomes vivid and acute.
- A growing and/or profitable "business organism" skilfully hides its potential to grow even stronger and give even more profit. Internal controls weaken and non-productive consumption of resources becomes stronger.

So, no matter how efficient your company seems to perform, it is highly likely that it could be much more efficient – you just do not see potentials to increase efficiency in the mesh of internal process complexity.

Efficiency problems for every business, according to our experience and conviction, are caused by sub-optimal flows of money and work through the company as a system, in process of transforming value.

You might need to transform your company to make it more efficient by trimming your "business organism" and uncovering hidden efficiency potentials. For that, it is essential to focus on flows of money and work INSIDE THE ORGANIZATION.

What is the solution?

Our solution is formed as the management methodology Efficient Resource Flow Alignment © ERFA. It can help to trim your "business organism" and make it more efficient, no matter how it performs today, by optimizing the flows of money and work THROUGH YOUR ORGANIZATION.

How does ERFA © Methodology help?

ERFA© consists of revolving analysis and improvement in 2 flows of Product Management:

- Product Investment Flow (PIF)
- Product Process Flow (PPF)

What are the 12 steps for you to transform your management system by ERFA © Methodology?

As ERFA© consists of revolving analysis and improvement in 2 flows of Product Management, the first 2 steps of your transformation will consist of analysis.

Step 1: Perform Analysis of Product Investment Flow (PIF)

Step 2: Perform Analysis of Product Process Flow (PPF)

The first two step will highlight issues that money and work face to move through your company and will prepare the core decision to form the 5 internal Flow Domains that shall transmit money flow sequentially and getting work done in exchange for money.

These domains are:

- "Finance" Flow Domain (F)
- "Market Edge" Flow Domain (ME)
- "Product Flow" Domain (P)
- "Technology and Infrastructure" Flow Domain (TI)
- "Human" Flow Domain (H)

You only need these 5 Flow Domains to transform an initial investment from company's shareholders into a value generation portfolio of products that perform as end-to-end processes focused on customer's satisfaction, payment and loyalty.

Step 3: Announce decision to start transformation into ERFA-managed company and form 5 Flow Domains

This step kicks-off your transformation journey. It is important to communicate the reasons and goals of the transformation, its timing and expected results, reassuring your team that the transformation will be a collaborative and respectful journey leading to tangible wins for all engaged, loyal and contributing employees.

Step 4: Present Job Descriptions of 5 Heads of Flow Domains and Internal Frame Flow Agreements between Flow Domains

This is the crucial step that presents the new “rules of the game” to your team, allowing them to associate themselves with the future and start dialogue and contribution to transformation.

Step 5: Appoint all 5 Heads of Flow Domains

Note A: Ideally, one person should be Head of just one Flow Domain. Combining the roles of Heads of Domain is possible but not desirable as it creates conflicts of interests and dilutes focus of the responsible manager. In a startup or Small or Medium Business, you might have to combine several roles in a same person, even all 5 Flow Domains in case of individual entrepreneur. However, you should aim at separating the roles as soon as possible.

Note B: Already having an internal organizational structure, you might wonder how it will be compatible with Flow Domains. The answer is as follows: you can start transformation keeping your existing structure and running the Flow Domains virtually “above” your structure, by attaching units of structure to the Flow Domains. You will have to change the “rules of the game” between units of your structure, so that all movements of money and work happen only in domain-to-domain mode. You might then gradually adjust structure to Flow Domains interaction. Alternatively, you can opt for adopting the 5 Flow Domains as your new organizational structure by a straight “one cut” decision, announcing that from Day X the company works in the new operational mode and backing it by a map of structural transposition. What path to chose is individual for each company’s situation and culture.

Note C: We recommend creating an internal competition for the roles of Heads of Flow Domains and to run this competition for about 4 weeks, inviting employees to apply for the roles, if you feel that some of the roles of Heads of Flow Domains are not fully covered by the current management team composition. This is a delicate aspect of transformation, so you will need to be transparent and clear about intentions and approach to filling the roles of Heads of Flow Domains. Compromise decisions might be on your agenda, as you might opt for appointing a manager to the role even seeing some mismatch. This is normal and will regulate itself in process of flow interaction, as ERFA methodology leaves no opportunity for a Head of Flow Domain to hide behind “collective responsibility” or shift blame.

Step 6: Open 4 sub-accounts in your bank, one for each Flow Domain except Product Domain, and delegate authority for the accounts to Heads of Flow Domains to spend money upon verification by financial controller or accountant. Product Domain gets a sub-account that does not face external world (cannot neither send nor receive money to externals) but can make transactions with 4 other sub-accounts of Flow Domains.

This step shows to Heads of Flow Domains that they will have trust, responsibility, and authority of decisions in uncertainty that lead to performance. Money will have just 4 gateways of entry and exit to your Company, and each gateway will have just one gatekeeper.

Product Domain shall not have an external gateway, because it operates indirectly through agents – other 4 Flow Domains.

Step 7: Set up your ERFA cash flow sheets (Excel or Google Sheets will fit the purpose)

You might already have an ERP, CRM, and other business support systems in place. You don't need to replace them at once, just start reflecting the flows of sub-accounts of Flow Domains in a simple and regular way and disable any form of spending money that bypasses the Flow Domains.

Step 8: Move the first investment of money into the company by stating the real Working Capital as the sum that Shareholder(s) have given to CEO and further CFO with an announced expectation of ROI that the CFO is expected to bring back to CEO for dividend distribution proposal.

This step triggers the internal negotiating between Heads of Flow Domains, as each of them will have to receive money and commit to delivery in return.

For example, your books will show that there is a total sum of 1 million EUR working in your business turnover through the year, of which 400 000 EUR is equity and 600 000 EUR is debt capital (loans). Now you name 1m EUR as the investment that CEO received from shareholders, with an expectation of 1,2 m EUR to be available for debt service, working capital re-investing and net profit dividend distribution. CEO forwards this commitment to CFO, and now CFO needs to get the target financial performance aligned with other Flow Domains' commitments.

Step 9: Starting the internal negotiating between Heads of Flow Domains, perform the 1st round of goal setting for the Product Portfolio and budgeting of the Product Roadmaps.

See ERFA© flow schemes for what Flow Domain is responsible for what money parameter.

Note D: Allocate 100% of cost of the Company to Products by common sense proportions, aiming to reflect how each product consumes resources from each Flow Domain, forming a full-allocation view of your Products and Product Portfolio as a whole.

Step 10: Review your Product Portfolio again, now performing Product Investment Flow (PIF) and Product Process Flow (PPF) analysis with newly installed Heads of Flow Domains.

This may reveal necessities to optimize your Product Portfolio by eliminating some products, initiating inclusion of new products, or modifying the existing products. **In 2-4 iterations, all Heads of Flow Domains need to agree on their commitments by signing the full stack of Internal Frame Flow Agreements between Flow Domains.** The agreements shall include the sums of motivational bonus pay-outs inside each domain (“money extraction for bonuses”) for “performed as agreed” states, and “penalties” for under-delivery as pay-backs between Flow domains and respective reductions of “money extraction for bonuses”.

Step 11: Make decision about the need of separating Product Creation and Product Operation. This decision is about splitting the role of Head of Product Flow Domain in 2 sub-roles.

Note E: Here you have the following options:

A) The sole Head of Product Flow Domain remains responsible for creating / suppressing products and for operating products; you can call him / her Chief Operations Officer (COO), and the product creation is subordinate to this sole head, with one or several Product Managers and / or Product Owners being the team of the Head of Product Flow Domain

B) Product Flow Domain is co-headed by Product Operations Manager and Product Portfolio Manager; they decide “as one” on everything substantially impacting Products; so they will have to agree before deciding anything - Product Portfolio Manager takes care of what products are in the portfolio (Product Investment Flow) and Product Operations Manager takes care of how efficient is each product’s performance measured by product KPIs; you can name Product Operations Manager as Chief Operations Officer (COO) of the Company.

C) Product Flow Domain is headed by the Company’s CEO, and there is a Product Operations Manager in the Domain, with respective operational authorities delegated by CEO ad Head of Product Flow Domain to the Product Operations Manager (can again be called COO if necessary to highlight his/her authority to decide on efficiency and quality matters of products)

Step 12: Announce that the core of the transformation is completed, set the quarterly cycle of Flow Sprints, and the week for the first quarterly Flow Scoring Review. Complete the first quarterly Flow Scoring Review. Now, your company has worked its first quarterly cycle in ERFA mode.

Note F: In the Flow Scoring Review, the 5 Heads of Flow Domains and the CEO get together and review how they performed in mutual bilateral Internal Frame Flow Agreements. All transactions of money flow are reviewed in the sheets, decisions explained, and received delivery weighed against prices paid. The core questions of the review, for each Head of Flow Domain are:

- “Did my Flow Domain get what I pay for?”

and

- “Are you satisfied with what my Flow Domain delivered for money you paid us?”

This is a Peer-to-Peer discussion between 5 Heads of Flow Domains directly facing responsibility for their decisions and execution performance.

Finding points of disagreements about performance-for-money, they resolve it in transparent and honest discussion, where each Head of Flow Domain may invite necessary managers to bring light and transparency about what went wrong and impeded agreed performance.

Note G: In each Flow Scoring Review, be prepared to assess the questions of orchestrating your organizational structure with the Flow Domains approach, as well as the topics of HR matters not only among Heads of Flow Domains but in functional units, products, and projects. Approach these topics with common sense, humanity, and wisdom – nobody is perfect, on the one hand, but results are measured and evaluated, on the other hand. Balance will be in the golden middle.

Congratulations!

Now, after these 12 steps, you transformed your company and removed any chance for your "business organism" to hide its consumption of resources and production of value in the "bushes of internal process complexity".

You will further iterate in the ERFA methodology, learning lessons from every quarter and unleashing potentials to improve performance. It will be a challenging and sometimes delicate path, requiring diplomacy, empathy, and human touch. But in the end, the inevitable bare truth of business is that companies are there to make profits for shareholder, and people work in companies to earn money and increase their future earning potentials on the labour market. This rational thinking and common sense do not contradict to non-monetary inspirations and ecological and social responsibility, honesty and integrity and ability of people to be friendly and helpful to each other inside corporate structures, forgive minor mistakes, facilitate learning and transfer of expertise. There is nothing better for business efficiency and growth than a happy handshake of internal customer and supplier upon having accomplished their contract.

Be sure that you can always count on DEXENTRI Consulting to implement and develop your ERFA management system. We are there to help: www.dexentri.com