

A Framework to view your Business  
What it Is, What it Could Be,  
What it Should Be.



A fresh look at Modeling your Business

# WORKBOOK

Level 4 Frameworks

# 4

*A good deal of the corporate planning I have observed is like a ritual rain dance; it has no effect on the weather that follows, but those who engage in it think it does.*

*Moreover, it seems to me that much of the advice and instruction related to corporate planning is directed at improving the dancing, not the weather.*

*Russell L. Ackoff*

# Level 4 Frameworks Workbook

## Building Business Frameworks

Business frameworks generally describe the organization or management structure an organization might develop to achieve a particular goal or innovation. Level 4 Frameworks provide a business framework in which people and business partners can work efficiently and effectively, both individually and collectively, and succeed for mutual benefit.

Business (be it the business of commerce or government) is about process, typically starting with a customer request and then proceeding through a sequence of tasks and activities, ending with the delivery of some value.

Business processes exist within a business framework – implicit or explicit. All businesses have such a framework – this book is about constructing or working with frameworks, which for the most part, are based on standard management practice. Much of what is taught at business schools is about business processes based on this standard management practice – a standard that has existed militarily for thousands of years and practiced commercially for hundreds of years.

### Level 1 - Normative

Elegant in its Simplicity - Understanding the essence of your Business

### Level 2 - Logical

Logical Business Systems - Business Efficiency

### Level 3 - Rational

Business is not Logical - Strategy and Innovation

### Level 4 - Intelligent

It's all in what it means for you - Content for your Context

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## Contributors to 30 years of business analysis

This book results from many years of working with and being inspired by many creative and experienced individuals. Space restricts the number of named individuals listed as there are very many who have been a positive influence over me and the work incorporated in this book.

Of note are:

- Much missed business partner George Henderson.
- Great champion of Business Frameworks, Kim Sienkiewicz.
- Maverick information technologist, consultant and business leader from maverick New Zealand, Brian Clark.
- I have shamelessly attempted to copy the wit, wisdom, and style of Russell L. Ackoff as being the most appropriate for this book.
- Intellectual thought provoker and idea catalyst Malcolm Ryder.
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The new horizon," Data Base 10, No.4, 3-9 (Spring 1979).

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**Your Business**

**what it is, what it could be, and what it should be.**

## Preface

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Investors have a low tolerance for failure within organizations, resulting in risk-averse decision-making and requirements for rigid strategic plans. Consequently, companies typically drift through years of incremental competitive advantages without being agile or risk-taking.

Who can blame them as innovating or being entrepreneurial is the opposite of what most businesses do every day? Companies are formed to strategize and then operationalize routine: customers want predictable product quality, dependable service, and consistent experience every time they encounter a business.

Businesses would like to believe that their markets will remain stable – knowing that this is not accurate means that they look for areas around their edges hoping to get some strategic advantage; finding something unique in their marketplace, they can then use marketing to push a supposed edge while avoiding risk and searching for cost-reduction.

Most businesses do not know how to be innovative and entrepreneurial or adapt to the necessary changes, let alone changes that will invariably happen because of biotech, robotics, the Internet, artificial intelligence, or machine automation. Despite exhortations to be more innovative or entrepreneurial, most will opt to stay incremental. True innovative or entrepreneurial behavior means that, at the very least, we must have an excellent understanding of our current business and an ability to examine and analyze options that might be open to us.

It used to be that we looked at specific areas within an organization without understanding the full impact on an entire structure. Today we realize that the total needs of an organization must be understood, evaluated, and considered in their development. However, correct and complete business requirements are frequently challenging to obtain. There are four main reasons for this:

1. There is a significant lack of entrepreneurial thinking and innovation - at least there appear to be few ways to achieve this without adverse risk.
2. The complexity of eliciting information requirements to support significant changes.
3. The complex nature of effective communication among stakeholders trying to define requirements.
4. The limits on us to be effective information processors.





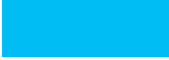
So, how can we “frame” an entire structure in an objective, honest, and meaningful way?

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**Competitive strategy is about being different.  
It means deliberately choosing a different set  
of activities to deliver a unique mix of value.**

**Michael Porter**



# WELCOME

## Level 4 Frameworks Workbook

Welcome to the Level 4 Frameworks workbook. This workbook has been written based on many years of creating business structures that can help you both get started using Level 4 Frameworks, and help you find ways to re-invent and re-imagine your existing business environment.

“The parts of workbook cannot be read easily. It requires study. We hope that you will have the patience and inclination to do so.”

In this introductory section, learn more about us and how to get the most out of your experience with Business Frameworks.

# FRAMEWORKS

## An Effective Business Management Tool

A tool for:

Analysis

Planning

Implementation

Management

### Needs

Frameworks create the tools necessary to analyze your business in the most powerful way so that your planned changes have the effect you intend them to have.

Frameworks provide a normative model that entirely and concisely represents your organization and gives you the information you need to make correct business decisions.

Frameworks determine the intellectual structure by which an enterprise effects its business plans. The framework gives opportunities to change activities within a business.

A toolset that will provide timely information to you, as you need it...now and in the future.

Frameworks can analyze your business thoroughly and in a structured way so that you can make informed and well-prepared decisions about the strategic direction of your business.

## Benefits

It focuses on business issues rather than technological issues. The Framework helps ensure that the information systems and the business processes reflect the management's priorities.

Provides an objective framework

Based on a normative model rather than individual's perceptions, Frameworks provide an objective subject for analysis that is largely independent of both current systems and organizational biases.

Reduces demands on valuable personnel

Interviews are only needed to validate and modify the normative model and so require less time and manpower than other approaches.

Improves communication

Frameworks model the enterprise in terms of management processes so it can be readily understood and used by executives. Because it focuses on business requirements a deep understanding of information systems technologies is not needed.

Frameworks allow you to examine what and through whom information travels within your organization. By understanding your information needs as well as the structure into which they must fit. It lets you identify critical information paths, as well as any "bottle necks" or "hot spots" that may be affecting your business.

Assists your business plan

Frameworks allow you to align your business planning with your business strategies.

## Description

The fundamental concept embodied in Frameworks is that a normative model, based on general management theory, can be used to describe the activities and information flows that do (or should) exist in any enterprise. The normative model can then be tailored to describe the enterprise's unique characteristics.

Because Frameworks models the enterprise in management processes, executives can readily understand and use them. Frameworks also provide an information flow model that helps translate the business model into a form meaningful to information systems.

### Completeness

The Framework provides a complete list of functional areas, functions and activities that constitute your enterprise. It allows for strategic, tactical and control issues as well as operational issues and considers:

- The markets your enterprise is in.

- The products and services delivered.

- Resources used.

- Expectations for the results of the work done.

The Framework considers all of the above and provides lists of functions or activities necessary to support your business.

### Appropriateness

The model is a reasonable and valuable way to understand your enterprise. It is expressed in terms acceptable to the management and so is descriptive and uses the terminology of your enterprise.

### Permanence

The Framework is independent of the organization and should survive management changes and re-organization.



## Description - Contd.

Assists in decision making

Business decisions can be made quickly and accurately utilizing the information structure provided. Frameworks ensure you have detailed company knowledge at your fingertips in a constantly changing business environment with continual advances in new technology.

Helps analyze and tune your information

The flow of information is the heart of any business. The key people must get the information, but when they get it can be of critical importance.

Provides tools for ease of analysis

Key personnel do not have the time to analyze the structure and processes of their organization from the "grass roots" level. Frameworks provide the "tools" that accurately represent the business decision-maker.

## Summary

Creates:

A "tool" for your business to analyze and integrate information. A structured viewpoint through an objective working model of your enterprise.

A consistent analysis by using the normative approach so all aspects of your business remain consistent in their structure and detail.

Using:

A set of structured and close-form questions to build its models. Data gathering is over a short time frame creating minimum disruption.

The Frameworks process has been applied in a multitude of different areas and industries at all levels of organizations.

# ABOUT LEVEL 4 FRAMEWORKS

## Imagined by Business Analysts - the future

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Level 4 Frameworks is the current status of an effort by various business analysts who have sought ways to define a business in terms appropriate for a variety of audiences for over thirty years.

Originally this was somewhat predatory as a means to sell more computer products to computer hardware customers and then, later, to better understand (in a more general way) the information necessary to communicate between various business entities. As this progressed, we found that this could also be used to define the data elements that constituted those entities in real-world situations. Thus we could design computer systems based on the necessary support of those data elements. This was far better than the “great data hunt” that many followed; find all the data a company had in its files, thereby defining the business.

Unfortunately, like organization charts, this data was a reflection of the historical business rather than what it needed. Further reflection enabled us to expose the normative essence of a business and use other logical methods to create a picture (or model) that could be used to quickly and easily experiment with various options.

Today's semantic/intelligent software goes much further in removing our limited perspectives to search for and find alternative content appropriate for our individual and collective contexts.

## Designed for re-imagining your Business Structures

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**The framework** standardizes terminology uses, highlighting issues and activities that already exist but that need to be re-examined and re-specified. By tracing the business view through its enabling processes, all areas of managed entities can be aligned for inclusion and completeness in covering issues that make something a “solution”.

**A Solution Framework** provides a standing reference for recognizing when and how something qualifies unambiguously as a solution.



## Requirements for a common view - the future

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*All successful systems allow their stakeholders to view the system from their perspective. However, before building any system, there are usually as many sets of data used to define the system as there*

*are people trying to explain it.*

*Each level of an organization and every division have their perspectives and must be allowed to view any definition of a business unit from all other expressed needs and interests.*

*To properly communicate and understand each perspective, there has to be a common vehicle through which each stakeholder can view their concerns and those of others.*

*The principles behind the methodology used in the workbook are based on an approach that provides a common framework to look at aspects of the proposed business processes and generates a plan to allow for the successful implementation of such entities. This is known as the Level 4 Framework Methodology and has been used successfully in both government and business for the past thirty years.*

*No plan can meet all eventualities, but we can plan to build a sufficiently comprehensive and flexible structure to maximize the chance of success.*

“ “ A theory has only the alternative of being right or wrong. A model has a third possibility: it may be right, but irrelevant.

Manfred Eigen

# HOW TO FRAME AN ENTIRE BUSINESS STRUCTURE

Current approaches suggest the way we should start is to “model” our organizations. We tend to use this misnomer of “model” for what we do, but in an increasingly dynamic and uncertain business environment, we need “Business Structures” through which we can **Understand, Communicate, Change, Measure and Simulate**.

So why the word “structure” rather than a model? Simply because, for innovation and strategy, we need a *framework* to satisfy the left brain so that the right hemisphere has some boundaries. We are not looking for the impossible – an exact model of our business – but rather to analyze opportunities for expansion or change through which we can improve our business. “Modeling” typically descends into a hierarchical exercise where we try to define every last procedure to ensure we have everything covered to run the business. If created by a “big name”, this becomes the “best practice” we are expected to follow. If that were correct, we would not have the North American scenarios of Ford, GM, and Chrysler versus Honda and Toyota versus BMW and Mercedes – we would have only a one size fits all model for the automobile industry.

What is the right structure - a value proposition model? By definition a promise of value to be delivered, communicated, and acknowledged. A belief from the *customer perspective* about how value (benefit) will be delivered, experienced and acquired.

## **But what is the right structure and value for you, the business owner!**

My experience of structures is that they should be created to allow business acceptance of an interface between the main modules necessary to examine a general picture suitable for further analysis. That is all it should be – a conceptual framework for iteration towards viable business options, generating options, and making a real picture. I am concerned that some of the “models” referenced are no more than techniques adopted for implementing a strategy once a “modeling” exercise defines them. Strategy is defined more by capabilities (one’s own combined with partners) required to meet a market segment, a resource restriction, a product portfolio needs, or some financial restrictions rather than one dictated by a customer - a strategy for what you can actually (or will be able to) deliver to run a successful business. More than anything else, your capability will determine what strategy you will have to follow both now and as the business matures and changes. A *model* does not therefore exist – rather only a framework through which you can, and should, continuously examine options and their effect on other aspects of the business.

## Key Business Structure characteristics

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In my experience, objective, honest, and meaningful business structures are:

- a) Organizational independent – don't build based on organization charts as they are both historical and political and rarely reflect what truly happens on the ground.
- b) Fractal in nature – there is no way you will accommodate a business on a one level chart. Areas will have to be broken down into a lower level of detail. If they have the same structure, no matter the depth you go to, the reader will better understand them.
- c) I have found that even in situations where I do not speak the client's language and some team members do not speak mine – once a group has established a gestalt of what represents a business building block it is much easier to engage in effective collaboration. In my experience, once a left brain reference is established, everybody knows what part of the framework I am talking about, and it enables right brain thinking. No one is hung up on the semantics of the words in that building block. e.g. What changes do I need to make now that I have added a new relationship to a process?
- d) Capable of clear definition - WHAT needs to be done, HOW it should be done (innovative strategy), and the WHAT and HOW should reflect the CONTEXT of both. This means that there are likely multiple versions of each structure depending on the business context. A value proposition of efficiency, as opposed to innovative, as opposed to consultative, has different characteristics and, therefore, will alter the contents of all building blocks.

There are no “rules” as to what elements comprise a good business model.

“Business Modeling” is not easy, and the sooner you, the reader, comprehend the inherently iterative nature of utilizing a structure rather than something that pretends to be definitive, then real success becomes achievable.

“ This is a heuristic or exploratory problem-solving set of techniques that utilize self-educating techniques to improve performance. It is more than merely a set of algorithms used as a set of rules for a machine to follow.

# BEFORE YOU GET STARTED

## A Workbook not a Cook book

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This is not the sort of guidebook, where we are going to tell you what your business should be. For all his narrow-minded self-opinionated years of creating models/frameworks, this author does not presume to tell you how to run your business or those of your client. One-size-fits-all "programs" and "methodologies" are often ways for consultants to gouge clients and book buyers. Instead, this workbook simply describes ways to describe business both as it is, and as it should become, or could become. The purpose of this book is to exercise your options with a new set of eyes for redirecting your opinion of your (or your client's) company and how you might go about rehabilitating your business according to its unique circumstances.

The **Level 4 Framework** is a reference model or abstract framework. It is a non domain-specific ontology consisting of an interlinked set of clearly defined concepts and produced by a real-world proven normative history of business entities to encourage clear communication. It strives to be reference model representing the parts of a consistent idea, from business functions to system components. This reference model can then be used to communicate ideas clearly among members of the business model building community.

### Chicken or egg?

When we first started creating business models it was quite often by request from Information Technology (I.T.) Managers. They were required to create and submit to corporate management a strategic plan and budget for I.T. to the corporation. The fact that corporate management had no business plan (or to be charitable, they did have a plan but were not prepared to share it ) meant that I.T. were faced with an almost impossible task.

To come up with a strategic plan for I.T. we had to quickly create a corporate strategic business plan based on the existing or proposed business direction. Then, and only then, was it possible to create an appropriate technology plan.

In today's world it may well be the converse. Someone has an idea about how they would like to exploit technology and need to understand what an appropriate business model should look like. Technology alone is not enough to generate the sustained growth necessary to transform the business. Adding new technology to a business may improve it and make it more profitable, but the business model that goes with that technology will dictate its success or failure. Whatever the starting point it is best answered by going through **Level 1 and Level 2 Frameworks** with rational decisions made at a **Level 3 Framework**.

# YOU AND YOUR CLIENT

Working for yourself or a client can be tricky for business model building. Particularly if it is a new client.

The key to your success is to stay as open minded as possible throughout the process. Start by extracting as much information as possible at a briefing stage and kick-off meeting.



*You will need to open your eyes to new ways of thinking and seek to achieve process clarity.*

If you have a client who has a fixed idea of what they want from their model, but you perceive that this is not right for them, then it's incumbent on you to explain your reasons why. Just because your idea is ground breaking, don't expect your Client to be willing to see it through immediately. Expect and invite their skepticism.

I have found success in winning over clients by presenting my ideas as well as developing the client's ideas and requirements. Then I shared clear reasons why (based on the process we follow) I feel this different version will benefit their product, service, or brand. Typically, if your model rationale is genuinely stronger, the client will see merit in the recommendations.

## 7 Key Questions to ask your client

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- 1 What does your business do, produce or sell?
- 2 Who are your current and potential customers?
- 3 What problems do you solve and how do you benefit customers?
- 4 What is the primary message you want to convey to customers?
- 5 Who should be your customer?
- 6 What products or services should you offer?
- 7 How should this be done?

# THE BRIEF

Prior to starting the project for [Level 1 Frameworks](#), create a “brief”. This approach engages an analyst that investigates and a stakeholder that decides. Together they explore ways to arrive at and finalize an initial “Brief.”

## Seven key questions to ask yourself or your client

- 1 What is the purpose/objective/context of the project?
- 2 What are the deliverables for the project?
- 3 What do you expect me to deliver?
- 4 Do you have your own specific design dos and don't s?
- 5 What companies do you like and dislike?
- 6 What is my main point of contact, and who is the decision maker on the project?
- 7 What are the time scales and budget for the project?

Once you have your brief and insight into your client's business, you can begin your design process. Remember, this project is like any project that stands a much better chance of success when following prescribed work steps.

If your or your client already has a documented business model, you might want to ask why their current operation is not working and if they have any current collateral which will need updating with the new model.

# STARTING THE PROJECT



## White space - it's a challenge

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Holding a beautiful piece of blank paper: smooth, clean, and ready to record your ideas is the moment of opportunity to bring meaningful insights to your client or team.

But how are you going to capture everything about the company on one sheet (or a minimum number of sheets) of paper?

- It needs to have an impact.

- It needs to generate a return on the time and money you put in to it.

- What will work?

- What should you say?

- What will have the most impact?

- You want it to be interesting.

- You want people to notice it.

That blank piece of paper quickly stops being enticing and instead suddenly seems daunting and procrastination probably sets in for another day... it's that dreaded "Blank Piece of Paper Syndrome." A blank piece of paper invokes a vast sense of possibility but does little to start the process. Building a model or structure of a business is as much about the journey as it is about a destination. Working with clients often means talking through their aspirations and needs for the business and then working together to develop an effective and practical plan to follow.

Frameworks are all about creating (literally) a representative picture of an organization with or without the clients initial input. If you can ascertain something that the client organization delivers to its clients, then you can create a first "picture" as the basis of something which can be used as a catalyst for the journey - an initial picture avoids the blank piece of paper syndrome and is the start of a plan to follow.

The first section on **Level 1 Normative Frameworks** creates a picture that acts as a "straw man" for initial analysis and discussion on the nature of an appropriate structure for the organization's planned business or modification - you only need to specify it somewhat. You can then ride on the dynamics of the system .



Please stop waiting for a map. We reward those who draw maps, not those who follow them.

Seth Godin

# WHY 4 LEVELS ?

Four levels of model frameworks might imply that it is necessary to go through all four stages to obtain a solution. Each level provides sufficient to create business models appropriate for increasing levels of sophistication. However, each of the four levels builds on the knowledge from the previous level.

Business models should be far more than the supply of content to a group of named business blocks. They are more than corporate propaganda statements incorrectly labeled as a "value proposition." Business and business models are not new, and the ground rules that underlie business have been built up over millennia. What typically is missing are the fundamentals that your business needs to understand before you can move on and grapple with an attempt to become entrepreneurial or innovative. Get to know your business before you take off on a flight of fancy in unknown and untried directions.

Good business models require a careful, progressive methodology: with this, your investment in time and energy will not only be short but very, very productive.

For many, **Level 1 Normative Frameworks** using normative rules will be sufficient to sort through ideas without the constriction of trying to make sense of existing organizational charts or process flow charts. **Level 1** says that these tried and true "rules" work for many, many businesses. Use them to get started. The "rules" associated with business questions and their answers allow you to build (with the aid of a structural framework) an initial business model. *The business the business is in.*

**Level 2 Logical Frameworks** says that, while at this level, there may not be "rules" to employ, there are valid inferences that can be made if you follow the steps of the method for the framework. Logic rests on assumptions that may not correspond to anything in the real world, but they are a proper, or reasonable way, of thinking about or understanding something. Adding each piece of knowledge about the business will change and shape the whole model. Each piece will impact other entities either directly or indirectly. When you can "see" of all of the areas, and the impact changing an entity will make on the entire enterprise, then you see the big picture more clearly.

Logic is considered to be the systematic study of valid inference. Whereas in the previous section on **Normative Frameworks**, we show how "rules" have been built up over time and can tell us how we can define what is going on in a business, Logical Frameworks rely on valid inference. Adding each piece of knowledge about the business will change and shape the whole model. A valid inference is one where there is a specific relation of logical support between the assumptions of the inference and its conclusion - a good basis for deciding just how efficient our business is.



**Level 3 Rational Frameworks** and logical frameworks have very different roles. The fundamental challenge to management is not to stay the same; instead, it is to stay effective - and that means being able to change when circumstances have changed.

Therefore, your behavior (and thus business model) needs to be guided more by conscious reasoning than by experience and not adversely affected by emotions.

Strategy and innovation are essentially rational, not logical. Strategy and innovation must look beyond what is internally logical and desirable within a framework. **Level 3 (Rational)** is when we look for “white space” (or in another terminology, “blue ocean”), which means “a place where a company might have room to maneuver in a crowded playing field” or where there’s no competition. Perhaps an entirely new market or gaps in existing markets or product lines.

It's all about opportunity. By changing our assumptions from **Level 2** (perhaps as a result of an audit), we may well be able to create something unique in the way we want to run our business. Good business is not logical it is, or should be, rational for you and your business.

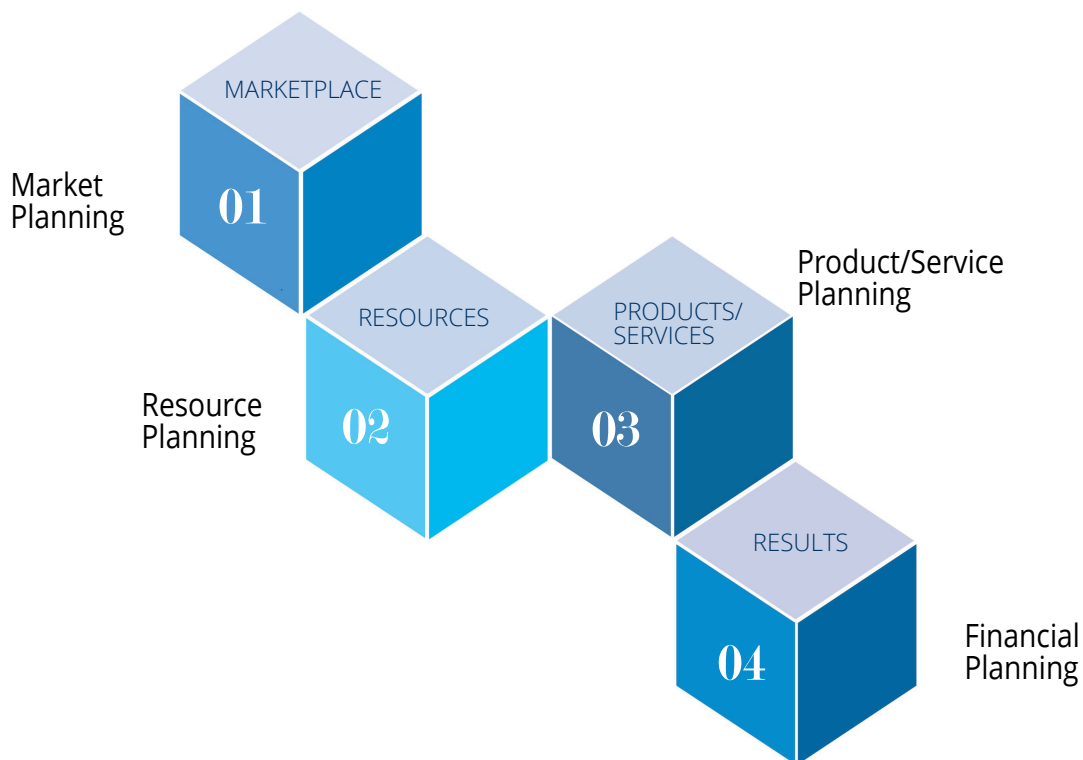
**Level 4 Intelligent Frameworks** are about strategic change, which can be revolutionary or evolutionary — choosing and implementing the new strategy. What is our context (or what other contexts can provide insight into this context)?

An Intelligent Framework is where knowledge is best understood as a set of related concepts but with *context*, the prominent feature: different context, different contents.

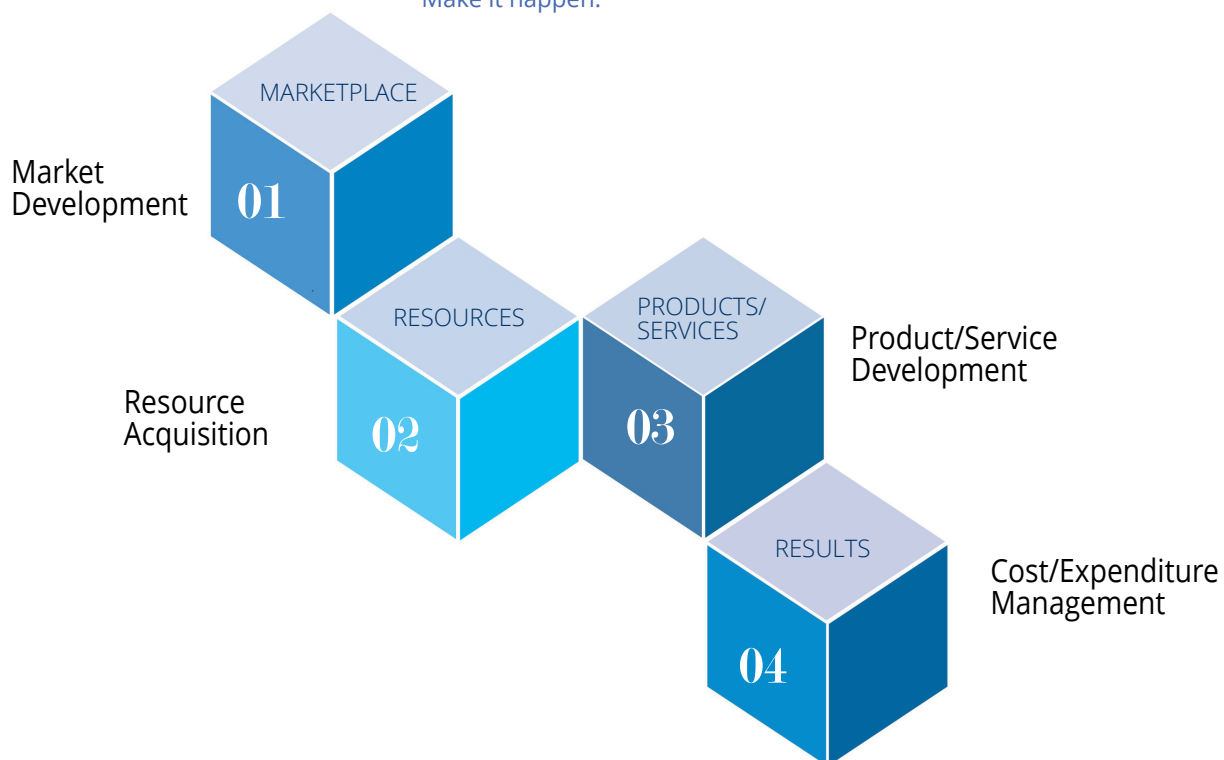
The next two sections will show you some (corporate, not dance) steps that can change both your current state of business and indicate what you can do to mitigate and change conditions to your benefit.

.....with apologies to Russell L. Ackoff

**STRATEGIC PLANNING** The goals and objectives (raison d'être) for the business.  
"Doing the right thing."

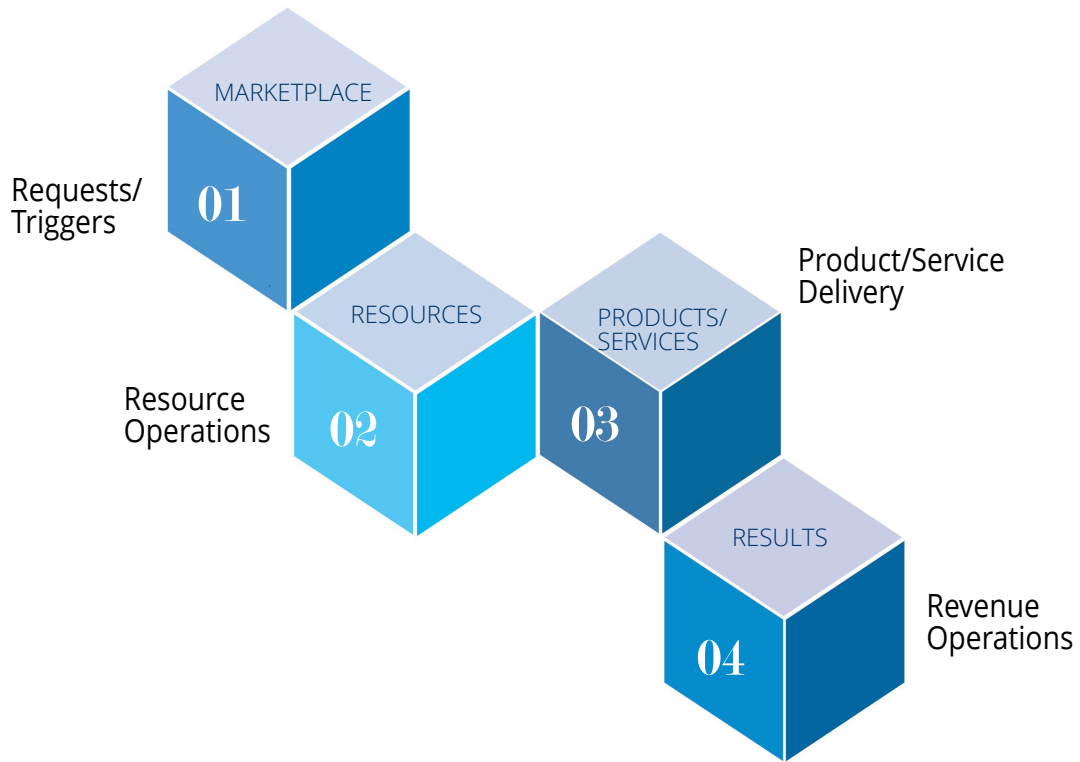


**TACTICAL PLANNING** Creates the environment for the goals and objectives to happen.  
"Make it happen."

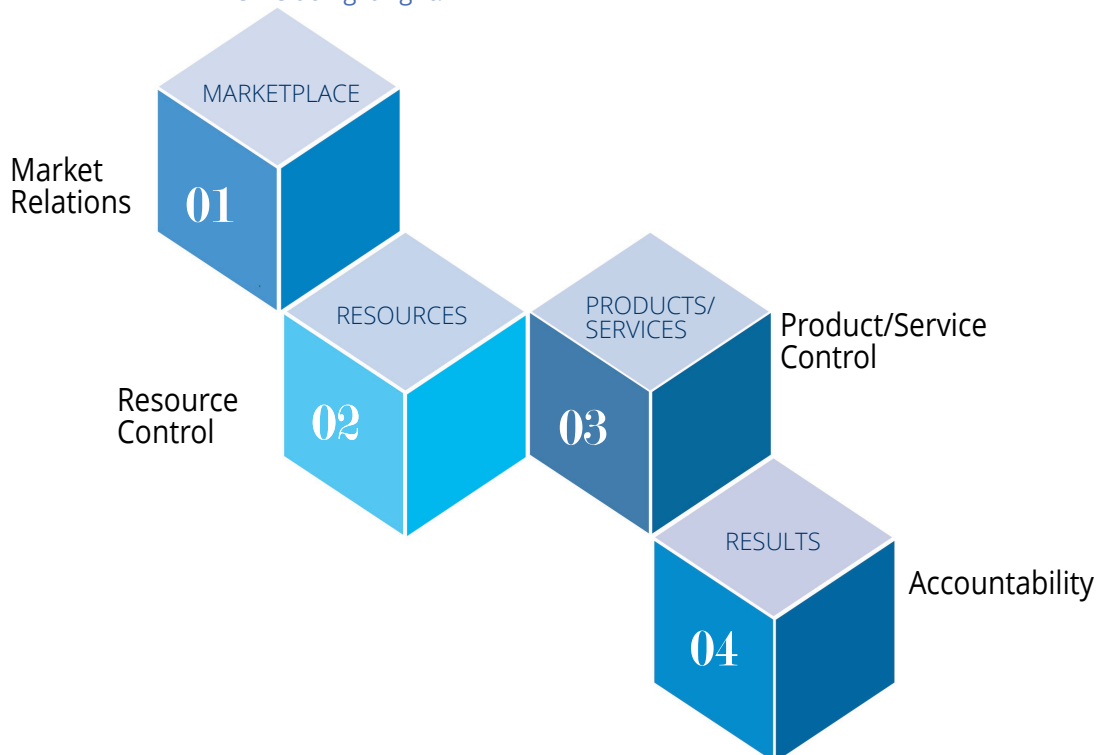


# ELEMENTS

**OPERATIONS** The line of product / service analysis.  
"Doing things right."



**CONTROL** The procedures for checking progress against standards.  
"Are we doing it right?"





## Scope - be realistic, as it is a challenge

---

As part of the brief for this business modeling exercise, we would like to be able to define the scope of the effort, "the work that needs to be accomplished to create a model." What is the aim of this project?

Unfortunately, many discussions surrounding business modeling have descended into debates about how one should aim to be innovative and entrepreneurial. This is not model building but is a strategy. Without having taken the time to build an underlying model, we have no way of manipulating or changing the business essentials to be innovative or entrepreneurial.

In the framework approach, we deliberately avoid strategy until **Level 3 of Frameworks (Rational)** at which time we have the business entities (parts) that constitute the business and therefore something to work with.


**Level 2 of the Frameworks** help you define and then analyze the business parts allowing you to address such statements as "how do we make money in this business?" Who are our customers? What does the customer value about our company?

In turn, attempts to fix those parts deemed to be inadequate will not work if you fail to recognize that business modeling is about the total system as a whole, not just about the parts. A business works or does not because of the relationship between the elements and how they interact and fit together. Business is a holistic system where all components are essential, and none should be looked at as independent of the rest.

Therefore, the holistic nature of business is first addressed at **Level 1 of Frameworks** with the recognition that a structure (such as the Framework) is critical to enable cross-referencing of the parts to ensure consistency.

The effectiveness of any model we use to describe and understand the behavior of our business ultimately depends on how well that model accurately and honestly represents that business. However, "instead of trying to specify a system in full detail, specify it only somewhat. You can then ride on the dynamics of the system in the direction you want to go."

The bottom line is that the scope of this project will depend on what your initial efforts consist of in finding out about the business before marching off in a fixed direction.



**Model building is the art of selecting those aspects of a process that are relevant to the question being asked.**

**As with any art, this selection is guided by taste, elegance, and metaphor; it is a matter of induction rather than deduction.**

**John Henry Holland**



# NORMATIVE FRAMEWORKS

## Level 1 Frameworks Workbook

Strategic honesty; what business are we actually in or think we are in.

The most common use of a **Normative Framework** is to give a starting point for developing a new version of an existing business, product, or procedure.

Once we create the framework, we can apply logic to perform additional analysis of the framework. We make no claim, nor do we seek ultimate perfection, in a framework because the model's integrity is relative to assumptions we have made in the creation of the framework.

In essence, **Level 1** is a series of feasibility studies to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, the opportunities and threats present and, the resources required to carry through, and ultimately determine the prospects for success



## Getting our hands around the “problem.”

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There is considerable controversy around the number and types of business entities that constitute a business model framework or represent a given organization, be it business or government.

The difficulty derives from the fact that traditionally there is no explicit way for determining business entities. There is a lack of a clear, intelligible and universally accepted definition of how many business objects and subsequent business processes should exist for any given business.

There is, however, a consensus that a business has well-identified products, and customers and business objectives that should match through the (product offering) processes required to deliver the product. Customers may be external or internal to the organization. If we start with this consensus, this approach allows stakeholders to come to grips with the “problem”.



# STARTING THE PROCESS

## Business requirements

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*A business has well-identified products, and customers, and business objectives should match through the (product offering) and the processes required to deliver the product.*

A substantial body of evidence indicates that traditional management tools and techniques are insufficient to define and manage the problems and complexity of today's business requirements.

There are, however, two general approaches to the process. They have been likened to two professions: that of an engineer and that of a clinical psychologist. One methodically checks the work against a blueprint and fixes the problem (normative), and the other follows a route of trying to understand and relieve dysfunction within a business by "discovering" the problems.

However, to meet the engineering analogy, a normative approach must have a "blueprint with which to start.

Consultants love to "discover" the problems and solutions (based on time and materials), but if that does not make economic sense (and it typically doesn't), then the idea of copying someone else "solution" usually comes to the fore.

As a simple but an unfulfilling approach, management tends to be seduced by the idea that "best practices" are an effective set of possible solutions and patterns associated with manageable high performance. Much loved by business schools "best practices" and case studies are a fudge between the two approaches. They are a means to teach that finding someone else's successful (or unsuccessful) "model" might be the answer to a business problem ( or perhaps an example of what not to do).

The "standard" solution looks to find lists of these practices... but there's no such thing. A "best practice" is best only in the precise, specific context in which it exists. Do you know that context? We will show you that it is improbable that you do. If moving from one situation to another, the odds of the transfer being made with all the good practice(s) intact is nil.

In every situation where the transfer occurs, the perceived "best practice" does not result in the expected outcome(s), and those who adopt the "best practice" fail to deliver the intended value.

## Discovery, fudge it, or Normative?

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A survey by the consulting firm Bain & Company (Bain & Company is a management consulting firm - they advise leaders on strategy, marketing, organization, operations) found that not only did the average company use less than half of the 25 leading management best practices but also that the life cycle of a new technique had shrunk from a decade to a year or less. Bain's research further concluded that the probability of success in applying the latest new best practice is about one in four.

In essence, "best practices" attempt to address:

- Effective management of resources
- Alignment to the strategic goals of the organization
- Reduction in the time and money spent on ensuring projects come to a successful conclusion

**The sentiment is correct, but the approach is wrong.**

So if discovery is time consuming and expensive and best practice is less than ideal, we are left with a need to examine and find a normative approach that might act as a blueprint to follow.

Let us examine both approaches some more and see if our preference for Normative has the best arguments for adoption.

# DISCOVERY vs. NORMATIVE

## Two alternative approaches

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We need a conceptual structure intended to serve as a support or guide for the building of and definition of a business model: in this case, it consists of a group of business entities constituting what we call a business model. But how do we come up with these business entities? How do we use these to determine which entities are appropriate and applicable for your business?

There are two approaches for analysis leading to the definition of general business entities which are in widespread use: discovery and normative.

## Discovery

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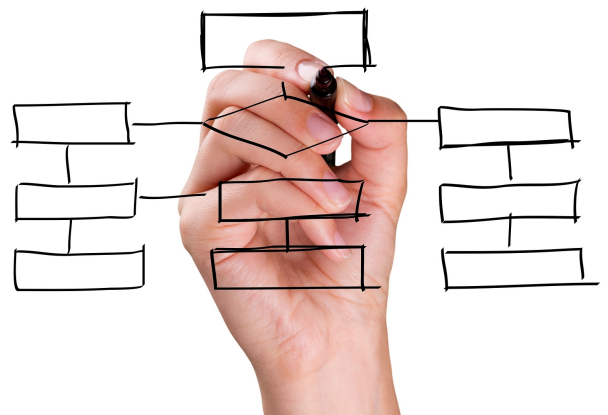
It starts by posing questions for analysis of problems or scenarios - rather than simply presenting facts or portraying a smooth path to knowledge. Knowledge is acquired by such means as posing questions to members of staff deemed essential by their position on an organization chart: and by:

- obtaining a list of projects of interest to the company;
- scenarios suggested by stakeholders of importance in the organization or
- seen in similar organizations.

Discovery takes place in problem-solving situations where the analyst draws on their own experience and prior knowledge. Unfortunately, when analysts assimilate new information, they typically incorporate it into an already existing mental framework without changing that framework.

## Problems with discovery

Discovery based on walking through organization charts tends to rely on hierarchic, historical, and political influences.





You will need to open your eyes to new ways of thinking and help yourself to achieve process clarity.

## Normative

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Means relating to an ideal standard or model, or being based on what is considered to be the normal or correct way of doing something. Normative is considered to be a prescriptive part of a “standard.” It characterizes that part of the standard which describes what *ought* to be done within the application of that standard. It is implicit that the application of that standard will result in a *valuable* outcome.

### Example - Normative

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An excellent example of a standard (normative) entity is that of the application of a Roman arch. As a foundation of Rome's architectural mastery and massive expanse of building projects across the ancient world, it allowed the Romans to be consistent when making bigger buildings, longer roads, and better aqueducts.



Rather than simply describing how a particular enterprise works, a normative business framework prescribes structures and practices for the business.

Historically, for instance, the conduct of war or managing an army follows a normative set of standards established centuries ago. The same is true of the profession of project management - it follows a series of standards and steps that have proved themselves over many years and act as the basis for instruction at business schools.

What is the equivalent of the “Roman arch” or project steps when defining the business objects that constitute your organization? Remember the Roman arch was simply a component that could be configured in multiple ways, in many contexts, to create any number of different structures. An arch is simply a part of a more holistic structure.

Is there a normative set of business components that can form a holistic structure?



Its not once nor twice but times  
without number that the same  
ideas make their appearance in  
the world.

Aristotle

## Discovery and Normative comparison

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**Discovery:** each structure for each business is unique and created by the study team in a way that describes the business to their satisfaction. Each structure is newly created every time and is tailored to fit the business. Its validity is dependent upon the skills and understanding of the study team.

Discovery is a creative analysis in which the study team manually classifies, defines, relates, analyzes, concludes, etc., and its quality is very dependent on their experience and on the team's understanding of what they are looking for and their ability to find it. Because the structure developed is created from scratch, it is highly customized to the business studied and therefore has little transfer-ability to or comparability with other study structures.

**Normative:** the structure is extracted from a super set of predefined components, categories and relationships which are contained in a generalized model. Those categories and relationships that are pertinent to a specific business are assembled to represent the business under study. It is quickly generated, reproducible, and less dependent upon the skills and understanding of the analysts.

*A normative study has considerable strengths.*

*Because of its predefined structure, the tailored model of the business unit under review is generated rather than created from scratch. At worst, it has to be validated and altered if considered necessary, to represent the business.*

*Therefore, it is quick, it requires minimal labor, and the resultant structure is reproducible. Any analyst, regardless of skill, should come up with the same structure for the same business.*

# A FEW QUESTIONS - RESULTS IN A LOT OF INFORMATION

Getting someone's attention - Normative

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*How to profile a business with just  
7 questions and to get it all down on  
a single piece of paper.*

"How to profile business with just seven questions and to get it all down on a single piece of paper - Don Burnstine" was my first introduction to the notion of fast-tracking a business model via a normative method.

While (at the time) very appealing as a statement, it was met with a mixture of disbelief and the desire to find the magical 8th question - 8 is more significant than 7 and therefore naturally more comprehensive!

Initial skepticism, while never wholly removed, gave way to a desire to at very least listen to the steps involved. Thus began the world of normative modeling as a way of making use of historical proven business methods to get a head start on a challenging problem. And so continues: my fascination for business modeling and its application.



# GENESIS OF FRAMEWORKS

A basic normative business framework - in an early attempt to work with software that could rapidly create applications in response to business change, we searched for ways to profile organizational needs.

Building applications that didn't meet the real business need were hardly productive. Research uncovered the work conducted by Donald C Burnstine, who looked at ways to describe a customer's needs in terms of information-handling functions. Don sought out and researched every question he could find that seemed to relate to how information-handling requirements emerge in an organization. After examining 300 /400 questions, and their implications, he found seven that uniquely and systematically characterized the way an organization uses information. These seven questions are independent of an organization's size and independent of the products or services it provides.

To test his theory, Don turned to a creation of the 1930s when the United States government needed standardized and meaningful ways in which to measure, analyze and share data across its various agencies. They created Standard Industrial Codes (SIC). SIC codes are four-digit numerical representations of major businesses and industries. They are assigned based on common characteristics shared by the products, services, production, and delivery system of a business.

Burnstine determined that by using seven questions, all enterprises can be classified based upon their order handling techniques. In all the industries he tested, based on the enterprise profile as defined by their SIC, the seven questions created consistent results.

The seven questions became a technique to create a complete boundary around the information needs of an organization. The questions are part of the method known as Business Information Analysis and Integration Technique (BIAIT).

## Seven normative questions to ask

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- 1 Bill or accept cash?
- 2 Deliver in future or immediately?
- 3 Need history of customer buying behavior?
- 4 Negotiated or stipulated price?
- 5 Rent or sell?
- 6 Track product sold or not?
- 7 Made to order or provided from stock?

# SHOULD WE BE SUPPLIER OR CUSTOMER DRIVEN?

## Nature of an order

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Should the customer be the driving force for our business, or is our ability to deliver a product or service the driver of the business?

The first concept we need to deal with involves the idea of just what is an "order." An order can take many forms, some formal and some informal. It can be a purchase order, it can be a request, or it can be merely a question. An order can arise from any source external or internal to the organization under study. An order is anything that requires a response from a supplier.

The second important concept adopts the idea that the supplier is more important than the customer when it comes to the *initial* creation of a business model. The view taken by the analyst is directed only toward the supplier of the ordered entity.

Whenever a customer places an order, the supplier needs to respond. At this point, we shall be looking at the organization or person who responds to an order. A simple way to keep this view is to remember that if a business or organization receives or miss-handles orders, it will have a very limited life-span. It is the ability of the supplier to handle the order which is going to make or break the business. The nature of the order and how the enterprise handles it now becomes critically important.

In its initial form, the way the order (in Burnstine's BIAIT - Business Information and Analysis Technique) is handled depends on the ordered entity being identified and defined. The ordered entity (what the supplier must supply) must be either a **thing**, a **space** or a **skill**. (This is modified when we get to Level 2 Logical Frameworks).

**Thing** - a chair, a computer, a house, a building, a machine or a report.

**Space** - includes something as temporary as a seat for a movie or airline seat. The space is not necessarily fixed and can move, as in a truck or an airplane.

**Skill** - is typically defined as a proficiency, facility, or dexterity that is acquired or developed through training or experience. A skill may be provided by anyone.



A supplier can receive many kinds of orders under the ground rules of BIAIT. An enterprise may bill some of its customers and take cash from others - two different orders. Similarly, a vendor may rent equipment to one customer and sell it to another - two different orders.

Some of the questions require only a simple "yes" or "no". Others provide a choice, as in the "bill" or "take cash." Four questions deal with the supplier, and three questions relate to the ordered entity. As an illustration (see next page), there are three levels of organizational elements shown. The phrasing of the question needs to be tailored while maintaining the essential concept within the decision environment involved. Terminology may differ depending on management level but the information-handling implications are the same, whatever the terminology used.

Does the supplier **bill the customer or take cash?**

At the department level, the phrasing of the question has to fit. Is the department a cost center which accounts for each service provided, or is it operating on a budget basis that requires no accounting of individual service actions?

At the occupation level; commission or straight salary? Some combination of each? Piecework or strictly on an hourly rate? Wide differences appear in the information-handling requirements, depending on which of the two answers is correct for the specific situation being analyzed.

**Deliver immediately or later?** The department has to decide whether they can plan the work involved or deal with it immediately. At the occupation level, can we schedule our work, or is job priority set by others?

**Profile the customers?** If a profile is kept, there are specific information requirements. If no profile is kept, those elements disappear.

**Negotiate, or is the order at a fixed price?** Some of each, depending on the customer, the quantity, or the ordered entity? At the department or occupation level, costed work orders or some standard, non-negotiable rate?

# BIAIT 7 QUESTIONS

## BIAIT Questions 1 through 4

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Questions 1 through 4 relate to the supplier:

Supplier Questions-	1. Bill or Cash ?	2. Deliver Future or Immediate ?	3. Profile Customer ?	4. Negotiate Price ?
Organization Level-				
ENTERPRISE	Bill or take Cash	Later or Now	Previous Orders or No profile	Negotiate or Fixed Price
DEPARTMENT	Cost Center or Budget	Plan Work or On Demand	Previous Orders or No profile	Costed Work or Standard Rate
OCCUPATION	Commission or Salary	Self Scheduled or Priority set by Others	Previous Orders or No profile	Costed Work or Standard Rate
	Piece Work or Hourly Wage			

## Ordered entities

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If you, the supplier, rent out the ordered entity, you retain ownership with all the record-keeping implied by such ownership.

If you sell it, the record of the transaction is quite simple. A department or occupation either lends things (like reports) and thus keeps records or gives things in response to an order and keeps no records of the transaction itself.

An enterprise or establishment track products for such reasons as warranty or recall purposes. A department tracks a report to be able to update it, when necessary. The complexity of tracking products through successive locations and owners can be quite demanding. On the other hand, there may be no information-handling involved if there is no tracking of the ordered entity.

The enterprise can choose to wait and make the entity to order, or it can build an inventory and provide from stock. Assembly from stock parts upon receipt of an order is equivalent to "made to order." A department or occupation also responds to an order by assembling or creating the response. Alternatively, the response may be handled by simply pulling something from a file.

Each area of a business has associated with it a set of business objectives that normally come into play when a supplier receives and responds to each kind of order. Each response has set of information-handling disciplines that are required to process the order. In essence, each question and the corresponding response points to the factors that are critical to ensure success for a manager or an organization.

The BIAIT process is designed to understand the end-user management and the analyst before anyone creates a system. Everyone needs to speak the same language. Processing tasks and procedures, when undertaken, are directly relatable to the business objectives through BIAIT. From the answers to seven questions, the BIAIT approach gives a generic model of the organization or occupation being analyzed. It provides logically expected goals (or critical success factors) and reports or measures to be expected.

## BIAIT Questions 5 through 7

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Questions 5 through 7 relate to the ordered entity:

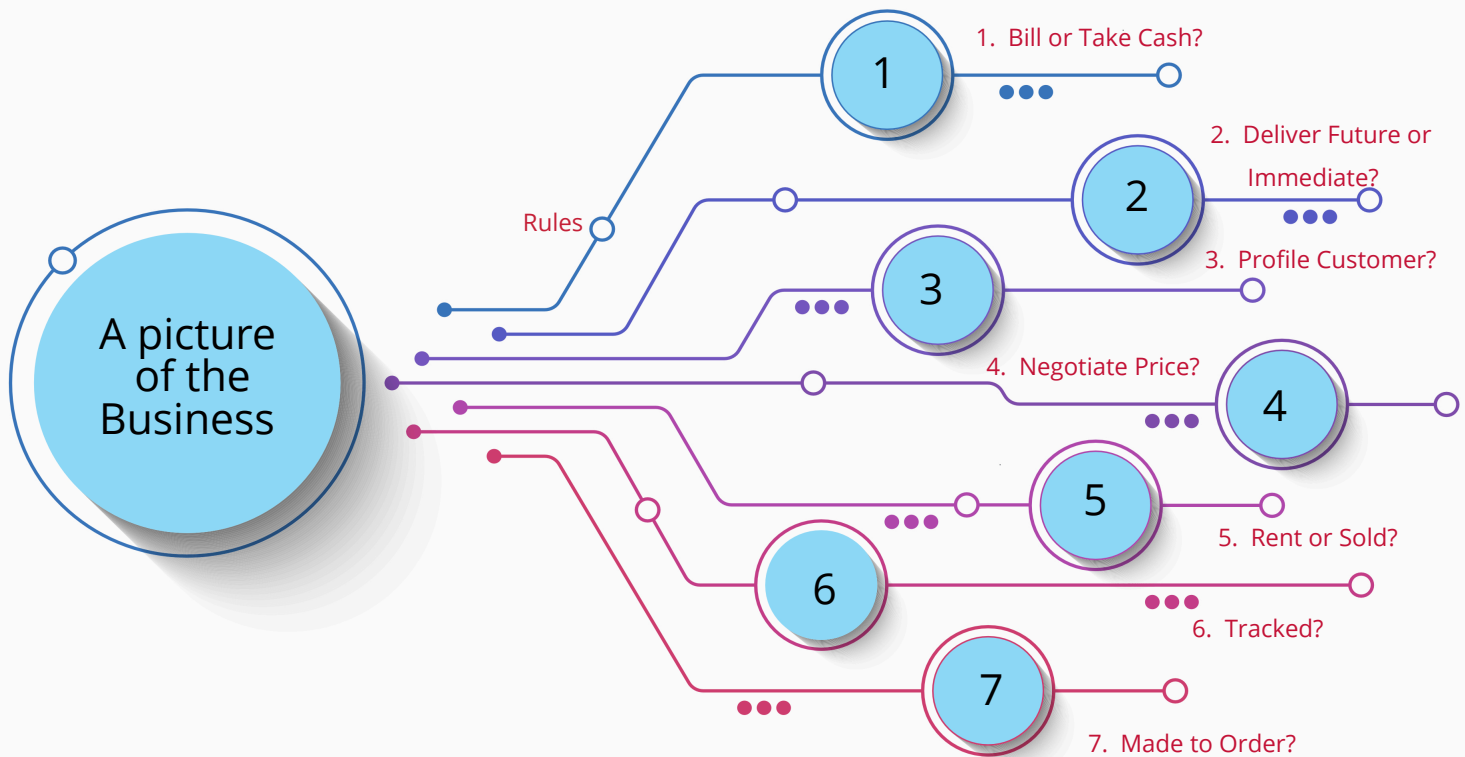
Ordered Entity Questions-	5. Rent or Sold?	6. Tracked ?	7. Made to Order ?
Organization Level-			
ENTERPRISE	Rented or Sold	Record who Received or No Record	Made/Assembled to Order or From Stock
DEPARTMENT	Loaned or Given	Record who Received or No Record	Assemble/Create or Provide from Files
OCCUPATION	Loaned or Given	Record who Received or No Record	Assemble/Create or Provide from Files

A normative business model does not just describe a situation or structure in an enterprise. Instead, it is a plan that an enterprise utilizes to improve its operations. Rather than just stating how a particular enterprise works, a normative business model prescribes structures and practices for the business.

A normative approach aims at finding out not only how things are, but above all how they should be, which means that it will be necessary to define an initial normative point of view. The target is not only to gather facts but also to point out in which respects the object of study might be improved as a result of making it more explicit.

A further stage typically involves getting out to interview the decision-makers in the organization to see how closely the model fits their operations. The use of the generic model in developing the interview procedures saves lots of time. The analyst and the executive do not have to invent things to talk about. The model gives a wealth of detail that they can quickly confirm or modify to fit what shows up on actual forms and reports. The decision points (or lack of them, sometimes) become rapidly identified. The product is an agreed-upon model of the actual business information flow in the organization.

BIAIT is a formal yet simple analytical tool. The results are reproducible. Different analysts can check each other against formal rules. It is a theory that is reducible to practice. BIAIT works in a way that is independent of the organization's size, the products or services it provides, or the structure of the organization concerning type or level. It serves as an attractive foundation for a normative business model.



## Development history underlying frameworks

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Burnstine (the creator of BIAIT) set up a company to develop detailed models of an enterprise and the method was applied to all types of enterprise:

- Business
- Government
- Charitable Organizations and
- Universities

With 50 person years of development and more than 100 studies, the following became the "rules" of BIAIT:

a)

1. Identify the order
2. View the order from the perspective of the supplier, not the consumer
3. Multiple orders can and do occur within any enterprise
4. Classify each order according to seven questions
5. The responses to the seven questions will give an inventory of information handling disciplines required to manage the enterprise.

b)

Use the life-cycle of tasks to build a set of processes by which to manage the business functions.

Working with Burnstine, and after creating many BIAIT based models, we came to the conclusion that there was a more extensive way to apply this and other normative methods.

You will find a good description of the ideas within BIAIT described in W. M. Carlson, and the original catalyst "Business Information Analysis and Integration Technique (BIAIT) - The new horizon," Data Base 10, No.4, 3-9 (Spring 1979).



## BIAIT Summary

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The BIAIT Normative approach:

1. Determine the appropriate questions
2. Derive the deductions that can be obtained from the answers
3. Test the deductions with the actual organization

Deductions derived from the seven questions:

1. Information handling disciplines (basic business systems)
2. Objectives
3. Goals
4. Competencies
5. Measurements

BIAIT Deficiencies:

1. Primary focus was the manufacturing world
2. Identified operational issues only
3. Provided a list of potential I.T. applications (basic business systems)
4. Did not provide a structure to integrate the deductions

Within BIAIT there was no logical connection between the 7 questions and the identification of key business resources. What was required was a structure and procedures to assist in the identification of corresponding business entities.

As many associate the term “business” solely with commerce, we choose to be more inclusive by using the term Key Management Entity (KME) rather than resources when moving from BIAIT to Management Frameworks.

## BIAIT as a resource for Frameworks

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The BIAIT theory proposes that the complete information-handling characteristics of a business can be predefined given an understanding of seven binary variables relating to how the business handles its orders.

Example of the variables. Example - "Does the business bill the customer for his order?"

If so, then the information-handling characteristics include some form of credit checking, bill preparation, accounts receivable management, etc. If the business does not bill for the order, then it receives cash and in this case information-handling characteristics are not implied. Similarly, the other six variables reveal additional information-handling characteristics about the business.

When this analysis is applied to each type of order the business receives, the result is an identification of all the information handling characteristics of the business.

These seven questions about an operational transaction give two possible answers create 128 theoretical combinations of responses, with about 60 (feasible) combinations).

The responses define an entity that has associated with it four lists of generic requirements:

1. Common business functions
2. Information processing requirements
3. Business objectives
4. Occupations

This generic model is customized and labeled with the function names unique to the industry and business. The prescribed generic requirements are examined to see if and how they apply. From the customized model, reports, measurements, and data requirements can be derived.

A normative methodology such as BIAIT can be used at the organizational requirements level, at subsystem level, and application level. The methodology operates at a fairly high level and is probably most useful for organizational-level requirements or for categories of standard application requirements. The advantages of a normative prescriptive method are the structure it imposes on the *process*, and the completeness that can be obtained. It is especially useful for an analyst who does not have a good knowledge of the organization or application being studied, since it results in an examination of the normally prescribed information needs. The disadvantage of the BIAIT normative method for deriving information requirements lies in the generality of the result. Normative requirements usually require adjustment and tailoring to fit specific organizational needs.



*Level 4 Frameworks is the result of working with the deficiencies of BIAIT and provides for a more holistic and comprehensive path to business modeling.*

## Moving beyond BIAIT

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When creating a business model, or framework, it is always about creating new knowledge or a new interpretation or further explanation of the business around us. However, the “blank page syndrome” is one of the greatest challenges often faced by professionals engaged creatively in providing a “picture” of their business. The benefits of the seven questions include: you don't have to start with a blank page, they have been shown to work for most if not all business, they are normative, they are still an integral part of the framework approach.

Answers to the seven questions provide a group of related ideas that guide a project or business endeavor. However, they suffer from the same problem as a discovery approach in that it is difficult to determine if the resultant information is both comprehensive and complete. Therefore the next appropriate step is to provide a (theoretical) framework that an organization can use as a repository of these ideas to promote the corporate and product image. This repository can then be the important determinant of its ultimate success.

Using a theoretical framework narrows the questions and helps create hypotheses of what the business is or could be. Consistent definitions for each concept exposed by the answers to the questions start to build the theories upon which the new or improved business can develop. The framework also can be used to refute an argument that opposes assumptions made by answers to the questions within the study. The theoretical framework in the initial study works as a map for further analysis.

Theoretical frameworks are also important in exploratory analysis, where you don't know much about what is going on and are trying to learn more. There are two reasons why theoretical frameworks are important here. First, no matter how little you think you know about a topic, and how unbiased you think you are, it is impossible for a human being not to have preconceived notions, even if they are very general. These fundamental beliefs affect how you look at things when doing analysis. In this sense, you are always being guided by a theoretical framework, even if you don't know it. Second, not knowing what your real business framework looks like is a major problem. The framework tends to guide what you notice in an organization, and what you don't see. In other words, you don't even notice things that don't fit your framework!

To get around this we can reduce the problem considerably by simply making our implicit theoretical framework explicit. Once it is explicit, we can deliberately consider other frameworks, and try to see the organizational situation through different lenses.

So what does an explicit framework look like, and what are its building blocks?

## Frameworks - a start for new business strategy

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Frameworks aim to provide a practical structure/repository and advice that will help managers think about how to develop and implement both innovative strategies capable of creating sustainable competitive advantage, and describe approaches to enable this process. Strategy formation requires different perspectives and managers are going to have to deal with all the entities that constitute a complete vision of their new or improved business.

Strategy can be categorized by four dimensions (1) what business are we in, (2) what is its content, (3) what processes do we need, and (4) what is our context (or what other contexts can provide insight into this context).

The advantage of thinking in these four dimensions of structure and approach is that strategy now becomes problem-driven, and decision-oriented instead of focusing too much on the tools, or a certain perspective.

This problem-driven approach enables us to have a holistic look at the issues of strategic innovation, taking various aspects and perspectives into account, instead of following a step-by-step, single tool-driven approach.

The approach defines and identifies four topics::

1. strategic honesty, what business are we actually in or want to be in, which is normative,)
2. strategic thinking, which is logical,
3. strategy formation, which can be either deliberate or emergent, which is rational,
4. strategic change, which can be revolutionary or evolutionary, which is intelligent.

*Level 4 Frameworks is the result of working to find a method by which we could provide for a more holistic and comprehensive path to business modeling.*

# KEY MANAGEMENT ENTITY

## Initial building for the Framework approach

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Every framework/business model uses entities to define that business. They are key to the management of that business and hence the use of the term Key Management Entities. Their role in the company is further defined by their “position” within standard business functions.

A framework is created by looking at an enterprise in normative historical (transaction) terms of:

- Markets
- Resources
- Products/Services
- Results

Then at four standard normative management levels to manage the above:

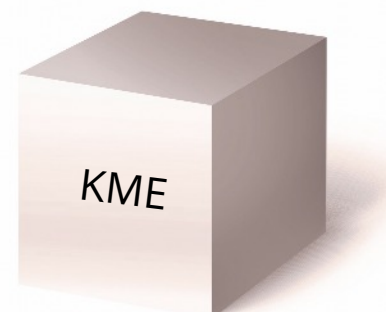
- Strategic
- Tactics
- Operations
- Control

When matched against each other, this structure creates a framework matrix of 16 distinct areas for the management of business entities.

At the highest level, this business entity is the enterprise itself. In our terminology, management is the process by which businesses manage their various management entities effectively.

Key Management Entities (KME) are therefore, those entities that must be first defined and then managed to enable us to operate our business. They are, of course, the intersection of normative management functions against the main classifications of normative business transactions. This leads us to group them with such labels as “Market Planning” for the strategic planning of the marketplace for our business and “Revenue Operations” for the entities associated with results at the operational level.

“ ” *KMEs are the building blocks describing the most important assets needed to make a business model work. Every business model requires them.*



# BUILDING A KME FRAMEWORK

## Operations

When matched against each other, this structure creates a framework matrix of 16 distinct areas for management of business entities. At the highest level this business entity is the enterprise itself. In our nomenclature, management is the process by which businesses manage their various management entities effectively. Key Management Entities (KME) are therefore those entities that must be first defined and then managed to enable us to operate our business. They are, of course, the intersection of normative management functions against the main classifications of normative business transactions. This leads us to group them with such labels as “Market Planning” for the strategic planning of the marketplace for our business and “Revenue Operations” for the entities associated with results at the operational level.

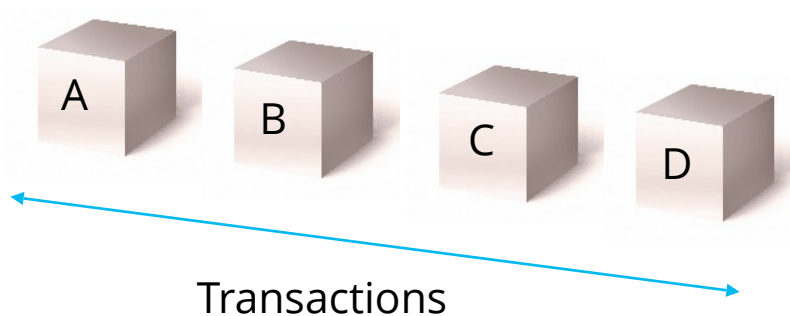
## Operational Transactions

A Orders.

B Processes.

C Products.

D Pay for.



Business follows standard operational transactions - an order gets placed (A), it is processed (B), goods or services are delivered (C) and someone pays for it (D).

These are the normative blocks of transactions.

## Management

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Business follows standard management practice -- they plan (strategy) (1), they develop tactics (2), they conduct operations (3) and they impose control (4).

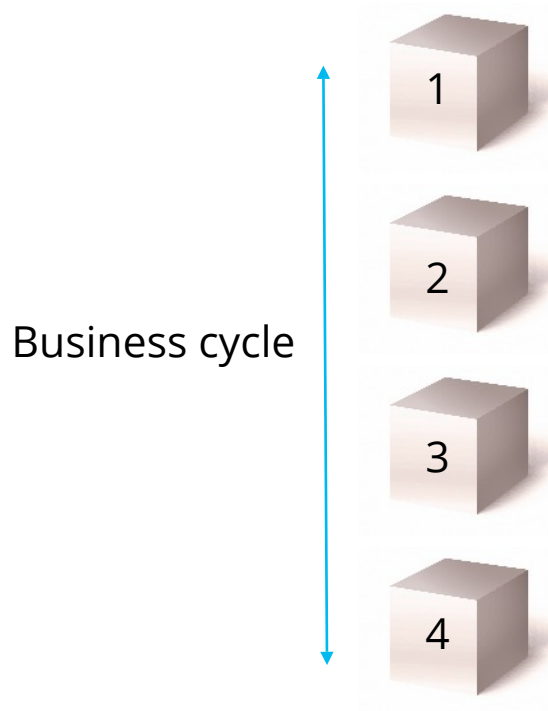
These are the normative blocks of the management business cycle.

## Management Business Cycle

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- 1 Strategy.
- 2 Tactics.

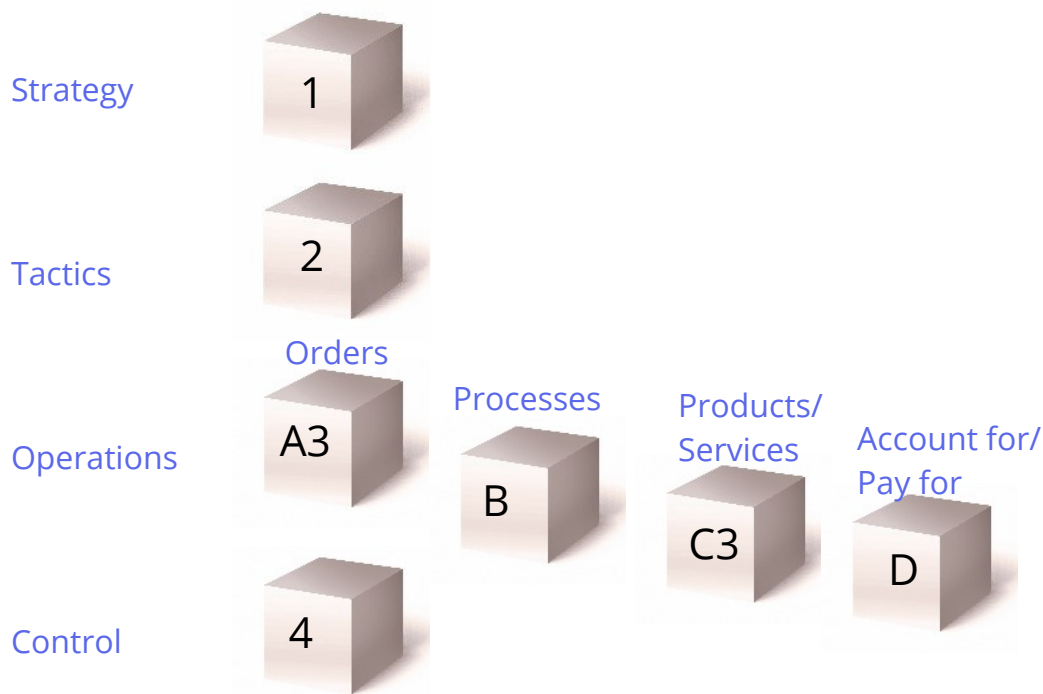
- 3 Operations.
- 4 Control.



# A KME FRAMEWORK

## Management plus Operational Transactions

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Transcend the language definitions of particular management processes by using the alpha-numeric s above.

C is generally representative of Products and Services while C3 would indicate we are talking about the operational level of products and services and we are talking about what goods and services we deliver.

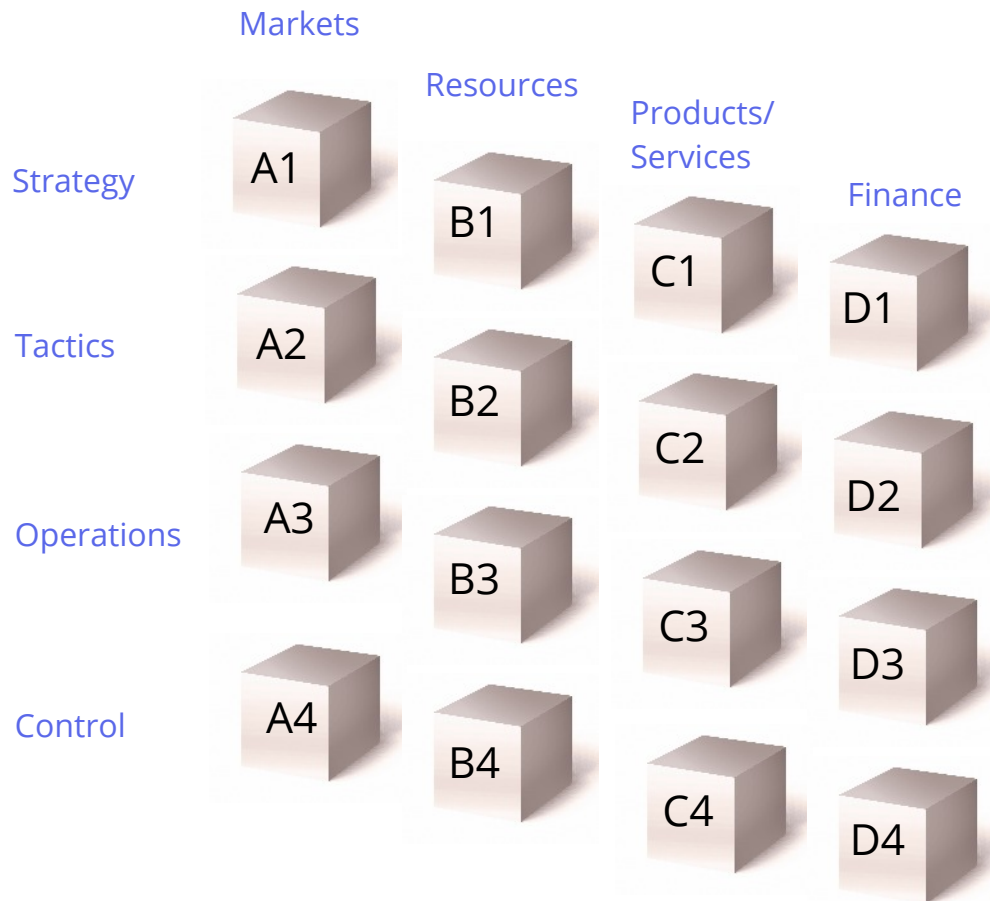
Similarly, A3 would indicate that we are at the operational level and taking orders for what we are going to deliver in C3.

The transaction is something that is made of many parts and yet is more than, or different from, just the combination of its parts. It generates a perception of what is happening - a configuration or pattern of elements unified as a whole so that it's properties are more than a simple summation of its parts. A "Gestalt" perception.



Use a Gestalt approach (such as below) to transcend the semantic definitions of particular Key Management Entities.

## Entity Framework - think alpha-numeric



A Gestalt approach means that the framework structure, both as transactions and individual blocks, allows us to think about areas in ways that transcend the language definitions of particular management resources. Fayol's type definitions of Strategy (Planning) - "forecasting and determining what will be needed in the future," when coupled with an appropriate noun (portfolio of products and services for instance) opens up a whole spectrum of thought:

- Planning for a new portfolio? C1 - Planning for a new customer set using the same portfolio? A1
- Planning for a new financial algorithm for the portfolio? D1
- Planning a new business plan for the portfolio? B1
- What is the gestalt (general character) of this planning process? Markets (A1), business plan (B1), the products and services (C1), the financial plan? (D1)

# FRAMEWORK MATRIX

This basic normative framework structure is described in the following matrix:

	The Marketplace	The Resources	The Products / Services	The Results
STRATEGIC PLANNING	Market Planning	Resource Planning	Product/Service Planning	Financial Planning
TACTICAL PLANNING	Market Development	Resource Acquisition	Product/Service Development	Cost/Expense Management
OPERATIONS	Requests / Triggers	Resource Operations	Product/Service Delivery	Revenue Operations
CONTROL	Market Relations	Resource Control	Product/Service Control	Accountability

The framework above acts as the repository for the entities that emerge as a result of looking at the combination of transactions and management cycles.

A normative business framework does not describe a situation or structure that exists in an enterprise. Instead, it is a plan that an enterprise utilizes to improve its operations. Rather than simply stating how a particular enterprise works, a normative business framework prescribes structures for practices for the business. These structures encompass the whole, not just parts of the business.

Our normative approach aims at finding out not only how things are, but above all how they should be or could be, which means that it will be necessary to start with an objective definition - in this case, sets of key management entities that can be used to describe and then evaluate alternatives.





You will, at some stage, need a full-blown traditional business plan because, in the real world, banks, financiers, and business partners are traditional and think traditionally. Tradition says that is what you need to be legitimate. But what you need is an honest, full exposure of what it is going to take for you to succeed - in a brief but comprehensive framework.

Why might you want to use a framework instead of a traditional business plan? Because the right framework captures all the essential elements that history has shown to be necessary for a business - a history that goes back for thousands of years. And the right framework shows the inter-relationships and dependencies whenever you add to or change its elements. A framework should be both simple but elegant.

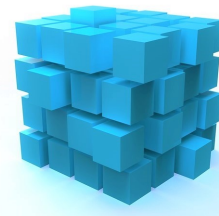
It can be as simple as one page or many depending on the type(s) of a product or service you provide. However, it should be fractal in nature - the same basic structure; however, deep you want to go in your analysis. They, the frameworks, can and should be normative following historical business "rules."

Business needs to provide a product or service to a customer set, and we need a plan by which we are going to do that, and we need some form of compensation. In simple terms:

- What Markets, Resources, Products/services, and Finance?

History teaches us we need a strategy, some tactics, operations, and some form of overall control.

- Strategy, Tactics, Operations, and Control.



## Framework Categories

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### **Market Planning**

While we, in this approach, do not start with this element, it is obviously one of the most important. Who or what market segment are we going to sell to? It's the first of the strategic elements of our business and, if this is our main strength, could be the driving force behind our overall business strategy.

### **Resource Planning**

If, however, we are a new business counting on our particular expertise, we may well use this to either drive or constrain the business. This is where we will draw up our business plan.

### **Product/Service Planning**

This area of strategy obviously must tie in with our market planning as this is what we have decided is the product or service portfolio we are going to offer our customers.

### **Financial Planning**

It does not matter if we are a business or a government entity; we still require a strategy that answers the question of revenue. Can we generate enough, or do we have a source that will finance this business?

### **Market development**

Unhappily, "provide it, and they will come" doesn't work for most of us so we have to have a plan that addresses the market segment that we have decided to target and come up with a set of tactics we think will encourage them to request our product or service.

### **Resource Acquisition**

Our business plan should have defined the personnel, equipment, or facilities we need to provide our products, and this is where we need tactics to acquire these resources.

### **Product/Service Development**

Usually, the most difficult to define in the framework as it shares the tasks with the tactics for resource acquisition. In general terms this is where we need to deal with resources that are acting in partnership to deliver our portfolio.

### **Cost Management**

Defining and handling our expenditures is ultimately the area that will make or break our ability to make a profit, so while it is considered to be a significant chore, it is vitally important.

## **Sales**

We have defined our market segment and the tactics we are going to use to entice people to request our products and services, and here we need efficient mechanisms to handle our orders. Considered by many to be the exciting part of our business, the strategy of defining the market and the means by which the customers find us and place orders are usually the most neglected in the market management. In the studies and audits we have performed the sales (taking the orders) is thought of as the strongest area even though market segmentation is usually the weakest – its just not logical.

## **Resource Operations**

Now we have orders we need to process them in order to deliver our products and services to our customers.

## **Product/Service Delivery**

Match our orders to our customers and deliver what we have promised.

## **Revenue Operations**

Get our compensation for our business.

## **Market Operations**

Having defined our market segment, enticed them with our tactics, received our orders, we need to make sure that they continue to be synchronized or adjusted as needed.

## **Resource Control**

Our ability to continue to execute our business depends on our ability to measure and control our resources – skill sets, materials, production etc.

## **Product/Service Control**

Is the customer satisfied? Are we adjusting our portfolio and partners as needed?

## **Accountability**

Doesn't matter if we are a business or government; we are accountable to our constituents either by legislation or profitability.

Everything above is the result of a historical but successful approach to the fundamentals of conducting business. As such, it can be considered as a normative set of “rules” to be followed. Using the guidelines, create a framework.

# Framework Matrix

© L4 Frameworks

	MARKET PLACE	RESOURCES	PRODUCTS SERVICES	RESOURCES
	The markets that the business is in. The Customer Consumer.	Required to facilitate the process. The resources used.	The products delivered. The services delivered.	Reasons for producing the deliverable.
<b>STRATEGY</b>	<b>A1 Market Planning</b>	<b>B1 Resource Planning</b>	<b>C1 Service Planning</b>	<b>D1 Financial Planning</b>
The goals and objectives (raison d'être) for the business. "Doing the right thing."	<ul style="list-style-type: none"> <li>Goals and objectives for the market.</li> <li>Market strategies.</li> <li>Forecast sales.</li> <li>Market/Competitor analysis.</li> <li>What business are we in?</li> </ul>	<ul style="list-style-type: none"> <li>Goals and objectives for resourcing.</li> <li>Forecasting the resources to accommodate market demand.</li> <li>Business plan.</li> </ul>	<ul style="list-style-type: none"> <li>Product/Service portfolio.</li> <li>Product/Service research.</li> </ul>	<ul style="list-style-type: none"> <li>Business goals &amp; objectives.</li> <li>Financial forecasts.</li> <li>Financial policies and procedures.</li> <li>Pricing policies.</li> </ul>
<b>TACTICAL PLANNING</b>	<b>A2 Market Development</b>	<b>B2 Resource Acquisition</b>	<b>C2 Service Development</b>	<b>D2 Cost Management</b>
(Development) Creates the environment for the goals and objectives to happen. "Make it happen".	<ul style="list-style-type: none"> <li>Creates the environment to get A1 to A3.</li> <li>Communicates C1 to the customer.</li> <li>Develops market promotional programs.</li> </ul>	<ul style="list-style-type: none"> <li>Creates the environment to get B1 to B3.</li> <li>Acquiring and developing necessary resources.</li> <li>Inventory of components or raw materials.</li> </ul>	<ul style="list-style-type: none"> <li>Creates the environment to get C1 to C3.</li> <li>Development of products/services.</li> </ul>	<ul style="list-style-type: none"> <li>Expense management from acquiring and developing resources, products/services.</li> </ul>
<b>OPERATIONS</b>	<b>A3 Sales</b>	<b>B3 Resource Operations</b>	<b>C3 Service Delivery</b>	<b>D3 Revenue Operations</b>
The line of business analysis. "Doing things right".	<ul style="list-style-type: none"> <li>The trigger (order) from a customer for products/services.</li> <li>Drives the profit line.</li> <li>Initiates action.</li> </ul>	<ul style="list-style-type: none"> <li>Processes the order.</li> <li>Provides the facilities.</li> <li>Assembles the resources.</li> <li>Facilitates production.</li> </ul>	<ul style="list-style-type: none"> <li>Deliver products/services to satisfy customer orders.</li> </ul>	<ul style="list-style-type: none"> <li>Closes the transaction.</li> <li>Account for/pay for.</li> </ul>
<b>CONTROL</b>	<b>A4 Market Relations</b>	<b>B4 Resource Control</b>	<b>C4 Service Control</b>	<b>D4 Revenue Accountability</b>
The procedures for checking progress against standards. "Are we doing it right".	<ul style="list-style-type: none"> <li>Change control.</li> <li>Monitoring the mood of the customer.</li> <li>Market share.</li> <li>Audience rating.</li> </ul>	<ul style="list-style-type: none"> <li>Measure against standards.</li> <li>Maintains the resources.</li> <li>Tracks the resources.</li> <li>Quality assures resources.</li> <li>Utilization of resources.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the deliverable.</li> <li>Post-delivery audit.</li> <li>Crisis resolution.</li> </ul>	<ul style="list-style-type: none"> <li>Business activity reports.</li> <li>Asset/liability reports.</li> <li>Reports on D2 and D3 against D1.</li> </ul>

Everything above is the result of a historical, but successful, approach to the fundamentals of conducting business. As such, it can be considered as a normative set of “rules” to be followed.

Unfortunately, writing a traditional business plan will not show flaws in your idea; you need a “Systems Thinking” approach to identify problems and provide a comprehensive view of the business.

So, what is a “Systems Thinking” approach, and why should I start with one? Systems thinking is a holistic approach to analysis that focuses on the way that a system's constituent parts (in this case, business entities) interrelate. Traditional business plan analysis breaks down the components and documents them as if they are entirely separate elements. This creates an atmosphere of “all I have to do is complete this list of required parts and I will necessarily end up with a good plan.”

It does not matter if the plan is to start a new business or to “fix” an existing business we need comprehension of all the parts of the company as they are intimately interconnected and explicable only by reference to the whole plan. Whether it is a new business or an existing situation, systems thinking is relevant to each of the following scenarios:

1. Unaware. We are starting a new business, and we don't know where to start, or we are in business, and we know things are bad, but we are not sure precisely what the problem is. We might see the area the problem is in, but we aren't sure of what exactly the problem is.
2. Problem-Aware. We are aware; we know what the problem is, but we aren't exactly sure what to do about it. We are not yet aware of our options.
3. Solution-Aware. We have an idea of what we are doing wrong and what the solution might be, but we aren't yet sure what the best option is to pursue a solution. We need a new or better model, but which one? How to choose?
4. Opportunity-Aware. We know there is an opportunity to be entrepreneurial or innovative but lack the methodology to get it right. We are looking for help, but we have not yet decided on who we are going to learn from. A traditional plan might help, but we need a far more systematic approach to solve the problem.

Although these phases further complicate our desire to sort out our situation, the cross-referencing aspect of the Framework Matrix will help.

# CONTEXT

## Understand your Business Context

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The key to the future of a business is to understand the context in which it will have to operate and, more importantly, the context in which you want it to work. The context in which you decide to run the business – has to be your choice, or at the very least, you need to fully understand the trends, impacts, and relationships between your business and the wider world.



So our first priority is to use a methodology in which we can define our context and then use that context to influence our choices of the things we are going to manage.

We need to understand the circumstances that form the setting for an event, or skill, or product in terms in which it can be fully understood and assessed - the whole situation, background, or environment relevant to a business and its ability to offer such a particular event, skill, or product.

The results of such understanding can be used to target new, profitable business potentials and support your workers by providing relevant information – any time for this business context.

A "business context" is a context in which we may well have to offer a specialized vocabulary. It will have to be relevant for an individual organization (traditional business or government), and larger business or conglomerates of business.

In a time of encouraging innovation and entrepreneurship, analyzing the context can uncover insights for such moves. This provides for the formulation of a strategy, which will not only sustain the current business but a context that allows the business to thrive for years to come.

Application of the right methodology for establishing the business context has to start with an ability to define the current business – what business is the business in. This may sound odd, but many companies have become so mechanical in their steps and methods that they have lost their sense of direction. A new innovative business model is required to bring new ideas to fruition and ensure their delivery.

This is not to say that going through the exercise of defining both existing and new contexts is easy, but it does remove a large measure of uncertainty. The result is a business that is more innovative and forward-thinking than the competition, a business that allows you, the supplier, to anticipate new needs and experiences fewer surprises in the market and a context to suit your needs.

From the very outset (BIAIT 7 questions), we have seen that we use methods to question what we will be supplying and how we will deal with orders, production, and payment. These questions define the context of the particular lines of business that we wish to offer. These questions give orientation to the business, and they are used throughout the analysis process.

Later in the framework process, we will also concentrate on the context we wish to use to bias the value proposition we utilize in our business.

## What are transaction deliverables in Level 4 Frameworks

In Level 4 Frameworks (as in BIAIT) it is important to start by identifying and defining what the supplier provides as a deliverable. In frameworks there is one additional type of deliverable, and therefore the ordered entity must be One of **four** types. Skill (02), Thing (03), Space (04) plus (in Level 4 Frameworks) **Event** (01).

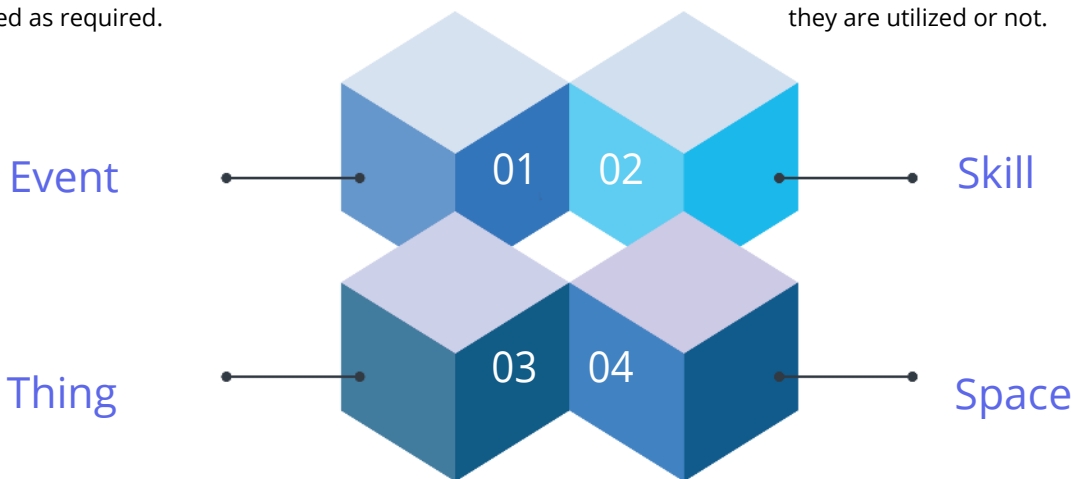
### These ordered entities set the Context for the Framework.

Those projects that are planned and used to meet a particular need of the customers and clients.

A set of activities conducted in a specific time frame, resources are only allocated as required.

Those resources that are typically skill sets.

A continuous process providing resources to a task. The resources are committed to the task, whether they are utilized or not.



Those things that are produced as products.

A physical entity that is consumed by the task it is allocated to.

Consumed may also mean that the entity changes form and becomes a different entity.

A physical entity that is allocated to a task for the duration of the task and is then returned to the supplier. On-going systems, those functions that exist within and that are used on a continuous basis without regard to the individual needs of the clients.



## Examples of Transaction Deliverables

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Start by identifying and defining the deliverable (event, skill, thing, or space) to be used in what we refer to as “Line of Business” analysis. Line of business (LOB) is a general term that refers to a product or a set of related products that serve a particular customer transaction or business need. There is no restriction on the number of LOBs (deliverables) you want/need to run your business. You just need to do LOB analysis for each.

If, for example, we have a business that caters to Canadians who want to go south in the winter to either Florida or Arizona and the customer wants to take their car with them, but don't want the long drive, then our business (“K2FA” cars to Florida or Arizona) can do it for them.

Possible lines of business:

- We will drive your car to your destination - provide a qualified driver (*Skill*) or
- Chauffeur you and your car (*Event*)
- Set up a project to drive overnight to an interim stop in North Carolina ( so that you can golf there for a few days ) and then we will drive on to Florida (*Event*) or
- Buy a car for you and drive it to your destination (*Thing*) or
- Use a transporter to move it for you (*Space*) or
- Provide special insurance for you (*Thing*)
- Rent a car for you (*Event*) or
- Any combination of the above.

It's your business and you will decide which deliverable you choose for each LOB. There are no rules so if you can think of innovative ways to define which of the four types of deliverable (in addition to what is suggested above) you want to run your business then go ahead and examine the implications across the framework matrix.

Start by taking each LOB and use the seven questions to examine the practicality of the deliverable for you and your business and see it in terms of its core competencies. Then move on to LOB analysis using the four types of ordered entity.

## Intellectual examination of the options

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Each of the four proposed deliverables requires examination in the light of our current operations and as a workable situation for any new business. If, for instance, we provide a skill (C3), do we have a good profile (A1) of the type of client who requires this service, and what of our tactics (A2)? Do they enable transmission from the identified sector into the actual orders we receive (A3)? Do we have control mechanisms (A4) in place that adjust the entities associated with each cell so that we cover the market segment of our business (A1 thru A4)?

Does the fact that we are going to provide a skill require a ready source of immediately available personnel, or do we have time to train them? Do we have access to appropriate training?

Do our business plan (B1) and, our financial plans (D1) address our identified market segment (A1)?

The same is true for all types of deliverables - do our business plans (the resource Column B) remain consistent across our assembly of resources (B2), our operational entities (B3), and resource maintenance entities (B4)?

Analysis of each line of operational entities and cross-checking across the entire 16 cell matrix will both provide clarification (and questions) about our knowledge of our business.

This analysis, coupled with asking the seven questions, provides ample opportunity to identify the basic entities required for our business.

## Four deliverable questions to ask

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- 1 Event?
- 2 Skill?
- 3 Thing?
- 4 Space?

## Seven normative questions to ask

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- 1 Bill or accept cash?
- 2 Deliver in future or immediately?
- 3 Need history of customer buying behavior?
- 4 Negotiated or stipulated price?
- 5 Rent or sell?
- 6 Track product sold or not?
- 7 Made to order or provided from stock?

## Line of Business Analysis

	The Marketplace	The Resources	The Products / Services	The Results
STRATEGIC PLANNING	Market Planning	Resource Planning	Product/Service Planning	Financial Planning
TACTICAL PLANNING	Market Development	Resource Acquisition	Product/Service Development	Cost/Expense Management
OPERATIONS	Requests / Triggers	Resource Operations	Product/Service Delivery	Revenue Operations
				
CONTROL	Market Relations	Resource Control	Product/Service Control	Accountability

It is within this framework that the Key Management Entities (KMEs) are identified. Line of business (LOB) analysis:

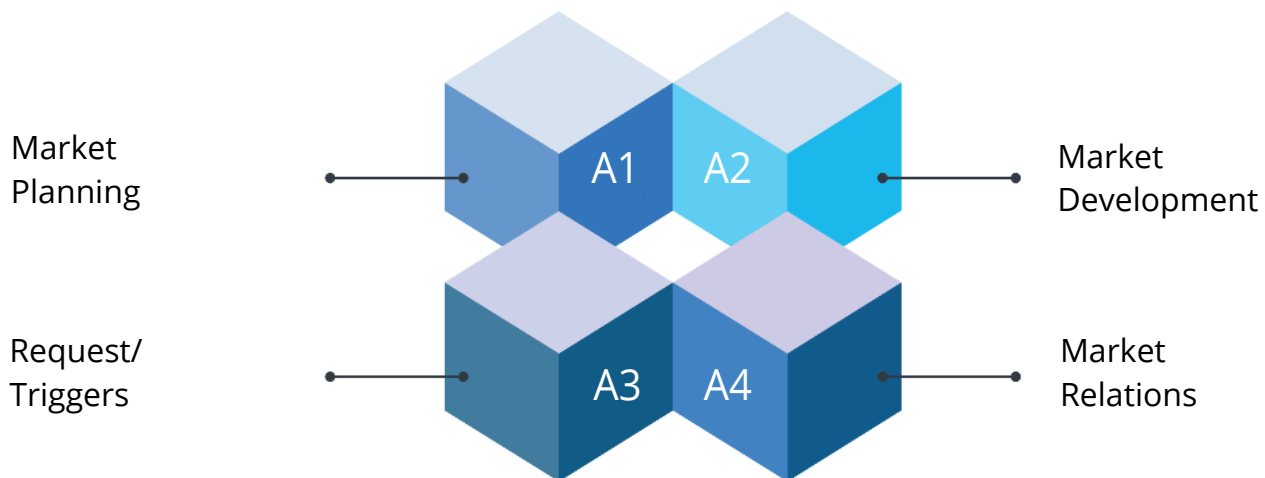
- define the deliverables provided to consumers
- classify each deliverable as an event, skill, thing or space
- identify each element in the line of business transaction
- identify the consumers / customers
- logically identify the key management entities in all cells corresponding to the operational row
- add as many KMEs you can think of for each cell of the matrix framework
- use documentation from the enterprise to identify any non-lob related key management entities
- conduct structured walk through of the model

# KEY MANAGEMENT ENTITIES

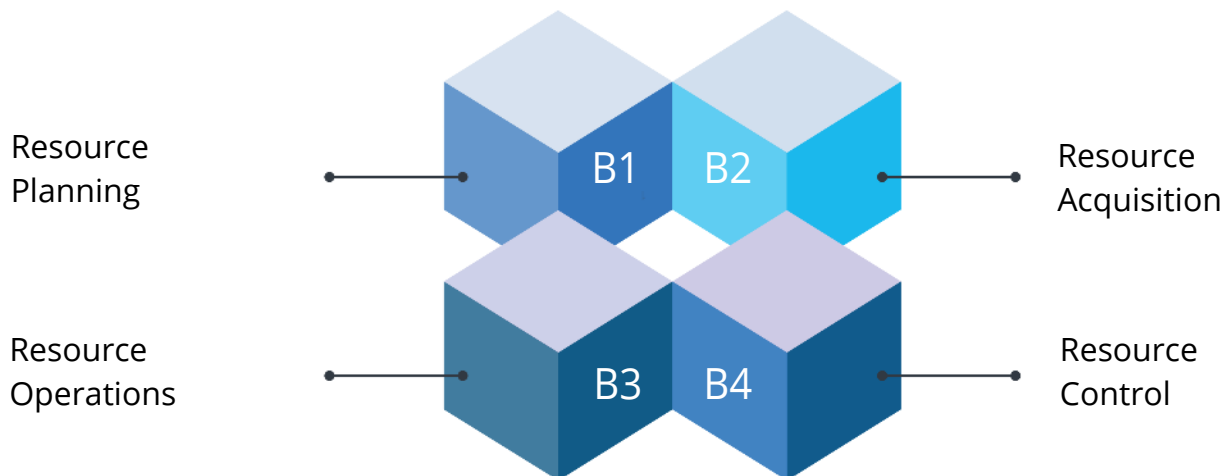
Alpha-numeric 16 Element macro description for a Framework entity cluster

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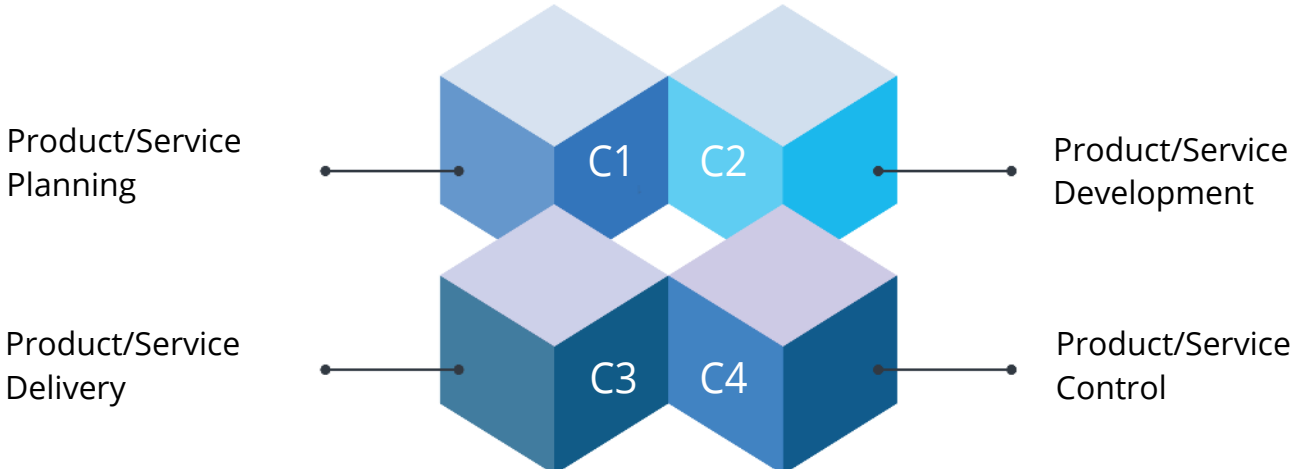
## The Market Place



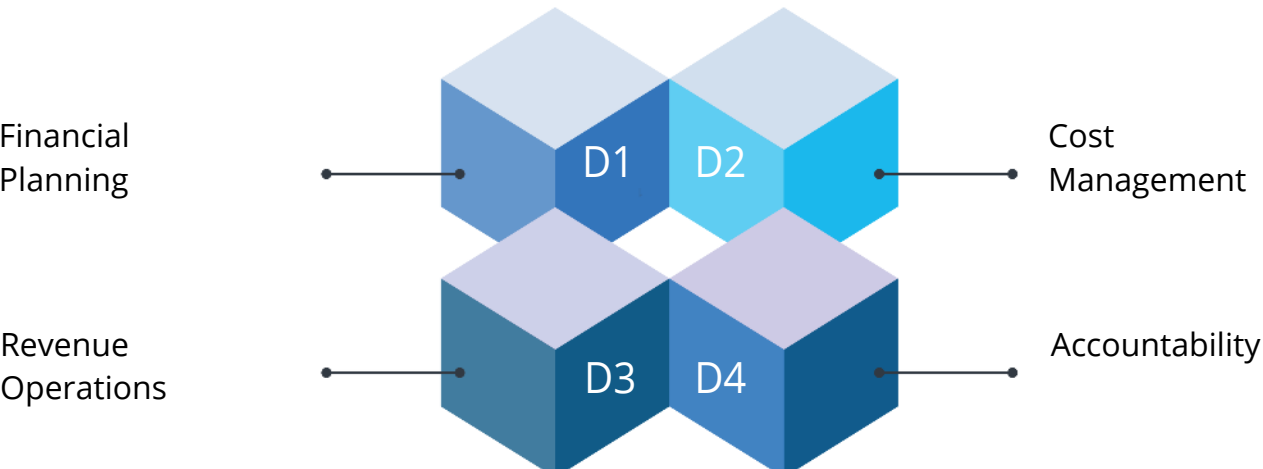
## The Resources



### The Products/Services



### The Results



# 4 Framework Matrix

## STRATEGIC PLANNING

The goals and objectives (raison d'être) for the business.

"Doing the right thing".

## TACTICAL PLANNING

Creates the environment for the goals and objectives to happen.

"Make it happen".

## OPERATIONS

The line of product / service analysis.

"Doing things right".

## CONTROL

The procedures for checking progress against standards.

"Are we doing it right?"

The Marketplace	The Resources
<b>The sectors that the Business is in.</b> <b>The Customer/Consumer.</b>	Required to facilitate the process. The resources used.
<b>A1 Market Planning</b>	<b>B1 Resource Planning</b>
A. Goals and objectives for the sector B. Analysis of this sector C. Market strategies to be followed D. Forecast demand E. What business are we in?	A. Goals and objects for resource B. Forecasting the resources to accommodate the demand C. Business plan
<b>A2 Market Development</b>	<b>B2 Resource Acquisition</b>
A. Creates environment to get from A1 to A3 B. Communicates C1 to the customer C. Develops market promotional programs	A. Creates the environment to get from B1 to B3 B. Acquiring and developing necessary resources
<b>A3 Requests / Triggers</b>	<b>B3 Resource Operations</b>
A. The trigger (request) from the customer for products / services B. Drives the revenue / cost line C. Initiates action	A. Processes the request B. Provides the facilities C. Assembles the resources D. Facilitates production
<b>A4 Market Relations</b>	<b>B4 Resource Control</b>
A. Change control B. Monitoring the mood of the client C. Measure success in reaching the customer / client D. Market share	A. Measure against standards B. Maintains the resources C. Tracks the resources D. Quality assures the resources E. Measures utilization of the resources

The Products / Services	The Results
<b>The products and services delivered.</b>	Reasons for producing the deliverables.
<b>C1 Service Planning</b>	<b>D1 Financial Planning</b>

A. Product / Service portfolio

B. Product / Service research

C. Goals and Objectives (policy)

A. Business goals and objectives

B. Financial forecasts

C. Financial policies and procedures

D. Pricing policies

<b>C2 Service Development</b>	<b>D2 Cost Management</b>
A. Creates environment to get from C1 to C3	A. Expense management for acquiring and developing resources and services
B. Standards and Procedures	B. Creates environment to get from D1 to D3
C. Development of products/services	C. Market development outcomes

<b>C3 Service Delivery</b>	<b>D3 Revenue Operations</b>
A. Deliver product/service to satisfy customer order	A. Closes the transaction
	B. Account for or pay for the transaction

<b>C4 Service Control</b>	<b>D4 Accountability</b>
A. Review of deliverable	A. Business activity reports
B. Review standard suitability	B. Reports on A4, B4, and C4
C. Post delivery audit	C. Reports on D2 and D3 against D1
D. Crisis resolution	D. Asset/liability reports
D. Policy adherence	

## STRATEGIC PLANNING

The goals and objectives (raison d'être for the business.

"Doing the right thing".

## TACTICAL PLANNING

Creates the environment for the goals and objectives to happen.

"Make it happen".

## OPERATIONS

The line of product / service analysis.

"Doing things right".

## CONTROL

The procedures for checking progress against standards.

"Are we doing it right?"

# NORMATIVE FRAMEWORK CATEGORIES

## Management + Operational transactions

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*"The proper set of categories provides a structural framework that helps us organize the detailed facts and general principles of a business.*

*Without them, nothing seems to fit, and the resulting system is far too complex or unwieldy."*

- Sowa

## 16 Cell Matrix of Categories - Key Management Entities

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- *Strategy for customer/client requests, resources, services to be delivered and results.*
- *Tactics for acquiring customer/client requests, resources, services to be delivered and results.*
- *Operations to handle requests, resources, service and results.*
- *Control of customer/client requests, resources, services and results.*



# INVENTORY OF KEY MANAGEMENT ENTITIES

## Deliverable based collection of entities

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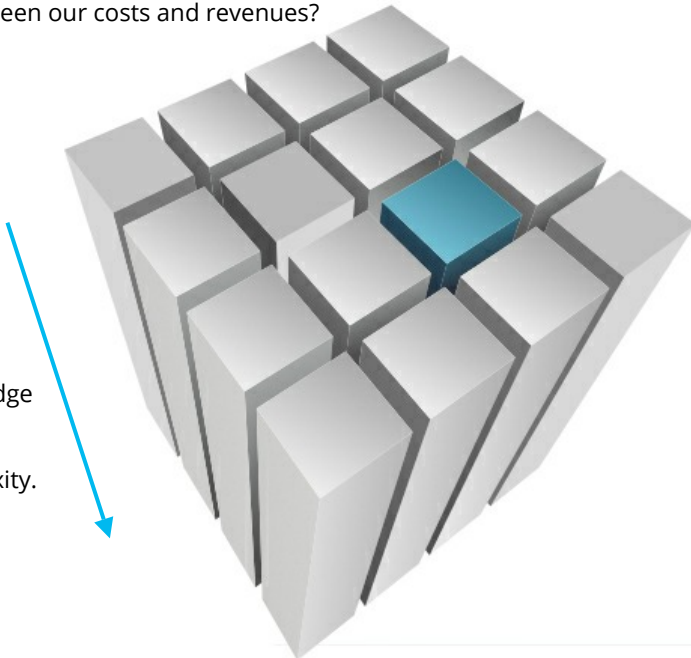
Multiple deliverables and, therefore multiple, lines of business result in a large inventory of key management/business entities. It is not unusual to have 50 created entities associated with each deliverable, and (given our example for “K2FA”) we could end up with 350 entities (7 (lines of business) X 50).

This could easily become difficult to manage and runs counter to our desire for simplicity. It does give us a sense of the complexity and depth of knowledge required to manage a business and gives us a method by which we and our colleagues can easily walk thru our options.

A typical walk-thru is usually accomplished by following each entity across the matrix, starting at the deliverable. For this deliverable, what is the corresponding order, and what operational capability do we need? How will we get paid? Does the order match the customer profile that we have? What were are tactics that encouraged someone from our profile to purchase? Do we need to adjust either the profile or the tactics? If we adjust the profile, will it mean we have to change the parameters in our business plan? Will we need a different set of skill sets, and will that affect our operations with a corresponding change to the maintenance of our resources?

Changing our market profile or our business plan may mean changes to the portfolio of products and services with a corresponding change to our financial plan, and our corresponding costs. How will this affect our revenue collection, and can we now reconcile the difference between our costs and revenues?

Increased depth of knowledge  
and deliverables.....  
increased complexity.



# VERSATILITY OF FRAMEWORKS AS FRACTALS



*A fractal is a never-ending pattern. Fractals are complex patterns that are self-similar across different scales. They are created by repeating a simple process over and over in an ongoing feedback loop.*

## Collection of entities based on a Deliverable

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To keep the element of simplicity, we usually express each framework matrix as a model based on a single deliverable (of whatever type) with the entities necessary for that deliverable spread across the matrix.

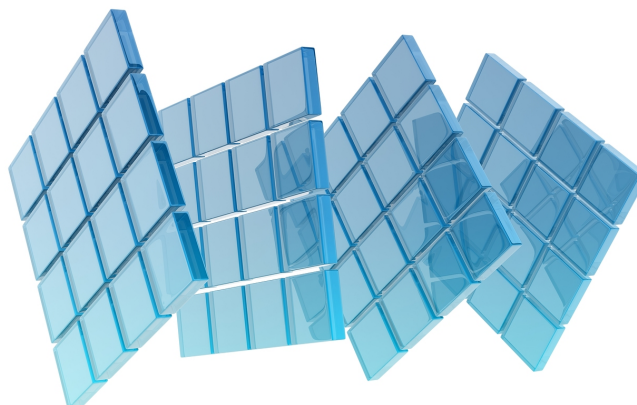


## Framework based on one of four levels

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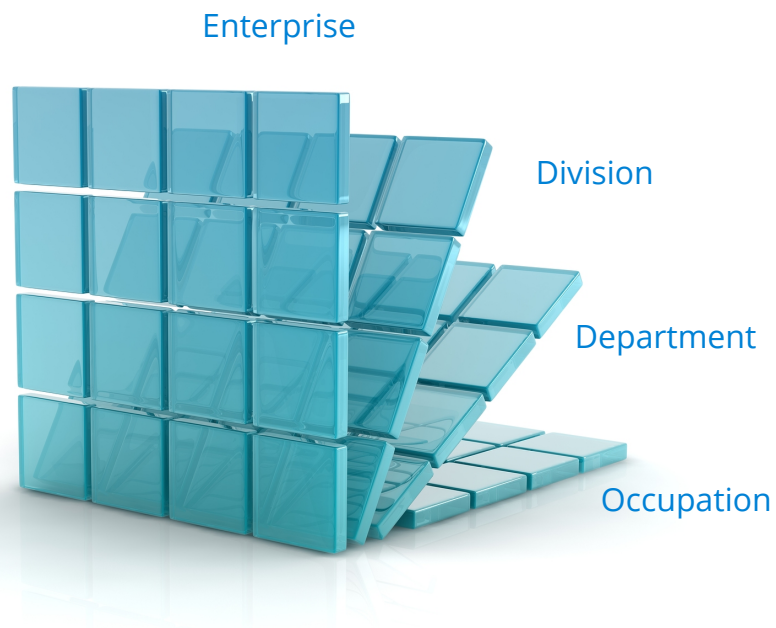
As we shall see in later sections of the Workbook, our matrix can be based on and expressed as any of the four levels of the Framework as it progresses from level to level.

Normative  
Logical  
Rational  
Intelligent



## Frameworks expressed at organizational levels - contexts

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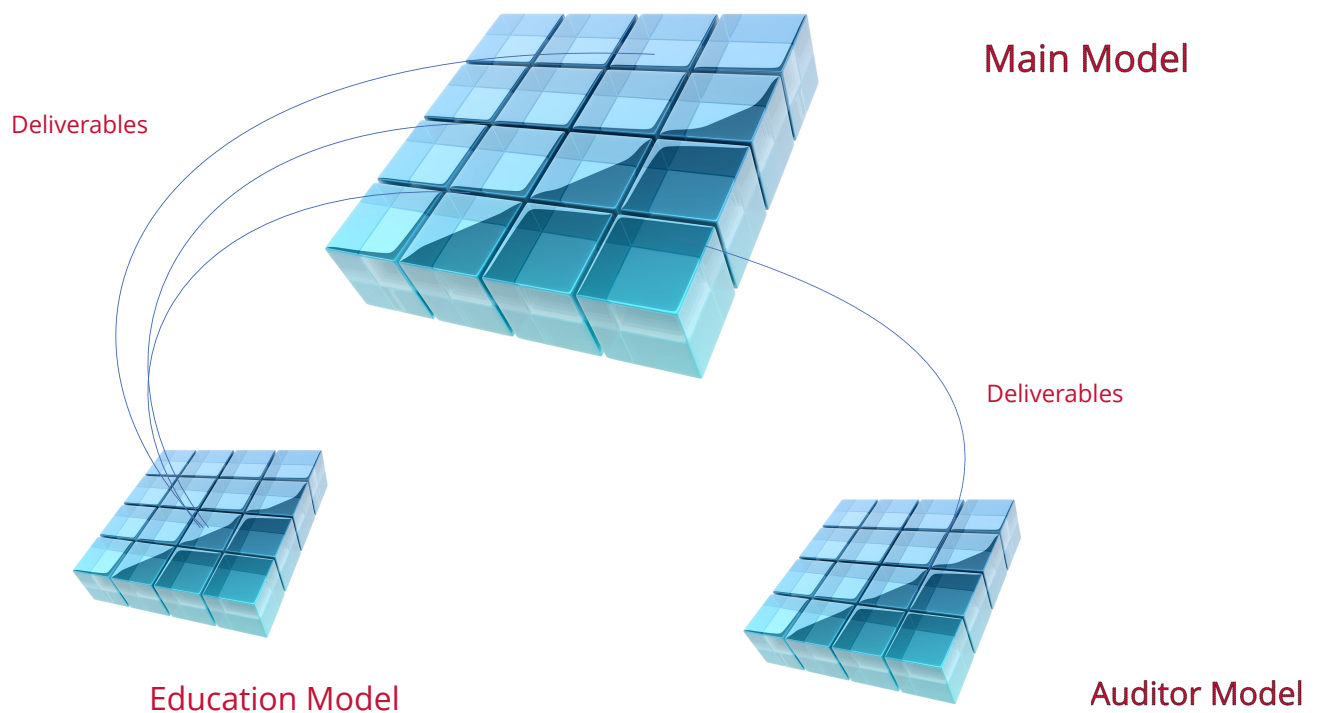


As shown in earlier pages where we illustrated BIAIT questions 1 thru 4, the questions (and therefore the answers) can reflect the operational areas that we are interested in. Therefore the defined key management entities within each cell of the framework matrix can reflect entities appropriate for any organizational level of the enterprise; for the enterprise itself, for a division, for a department, section, by occupation, or by any other definition as required within the modeling process.

You should note that each entity's organizational responsibility within the matrix is dealt with at Level 2 of the Frameworks at the logical level - typically by conducting an audit exercise.

## Benefit of a “fractal approach

---



As the construct of each (framework) model is the same basic matrix, the delivery (C3) from one model can be a KME in another model. If, for instance, a business is required to supply education as part of its overall delivery of a product or service, then it makes sense to build a model to show the “business” of education. This can then be delivered to the main model as B3 (as part of operations, or B4 (maintaining skill level of the workforce), or C2 (as the tactical level of delivery) or to whatever cell that makes sense for the business model. Education could also be another LOB as part of a portfolio of products and services.

At a department level, an audit department could “deliver” its services to audit the business as finance control (D4). Similarly, you can create an administrative model for the business which would overlay the main model.

Each cell in each model still retains the same basic characteristics of the normative structure of management cycles and transactions for each level. (Strategy, tactics, operations, and control vs. markets, resources, products/services, and finance.)

## Deliverable based collection of entities

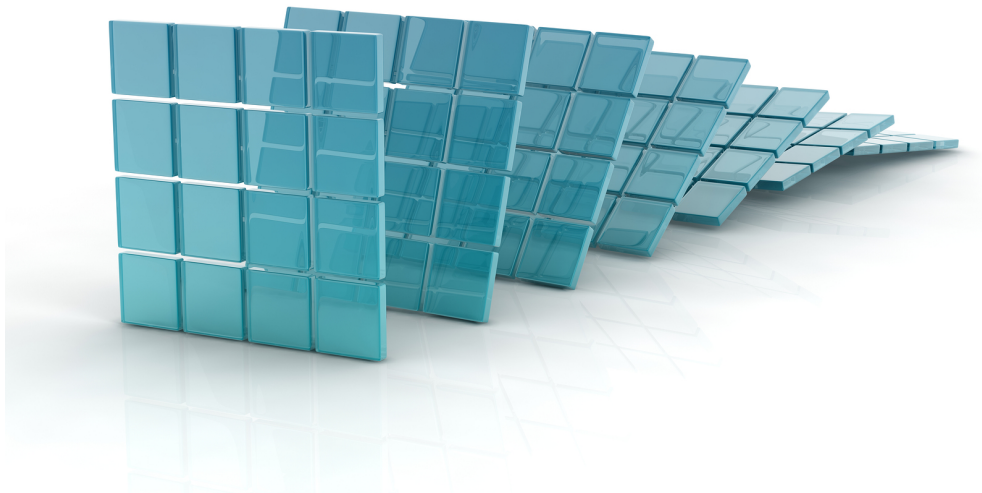
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There is no theoretical limit to the number of lines of business an enterprise can have. In some of the studies we have conducted we had as many as nineteen lines of business for a state government department. The department provided multiple services for applicants that were interested in employment services. As these services were mandated by a federal government, we could have similar models for many state governments.

As we use the same model framework, the entities managed within each Line of Business can then be compared and analyzed.

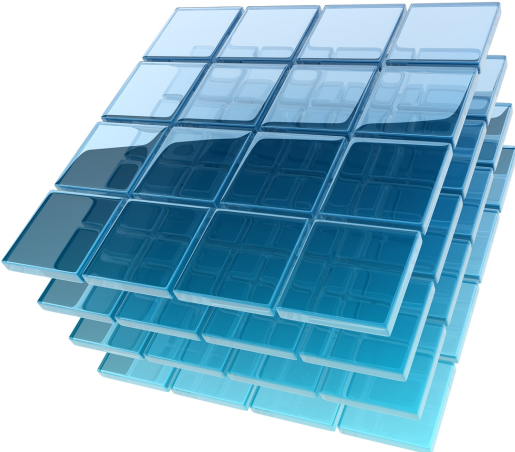
I.e. All the market strategy elements across all the business lines, or all of the tactics for resource operations, etc.

### Multiple frameworks for Multiple Lines of Business (LOBs)



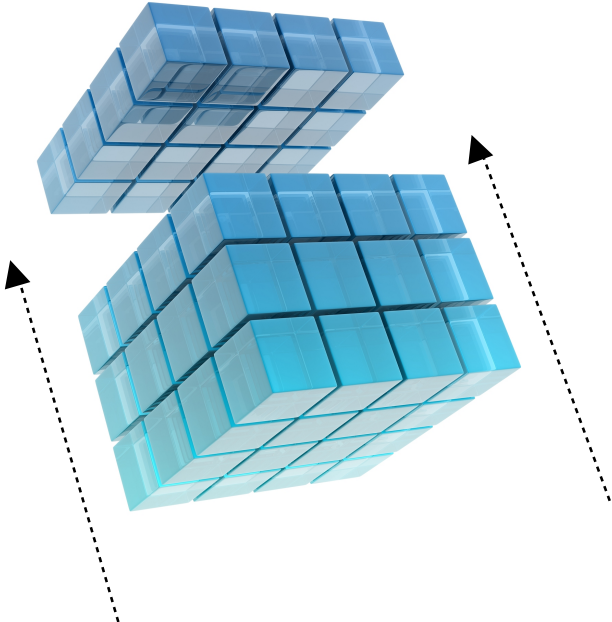
# Using self similar elements of the framework

---



As the various levels of an organization and each line of business use a common framework, the combinations for slicing and dicing for analysis and description purposes are endless.

Importantly the framework is based on sound accepted business practice using a standard business cycle and standard definitions for business transactions.





## Benefit of using a structural framework

---

Structural frameworks allow us to work through a set of steps to elicit business functions.

The matrix framework came about as the result of a client engagement in 1981 that became too complicated to deal with as a BIAIT model. Having elicited (via the seven questions) the processes that were needed and managed in the business, an additional set of steps were needed to provide more insight into management functions. Once you have defined the business entities you need a set of processes to manage them.

To produce and market a product, every enterprise has a finite set of business functions. BIAIT used the concept of eleven step business inventories for managing such things as buildings, raw materials, customers, etc. They are defined as such because (like inventories) they must be managed in a life-cycle of tasks. In a generalized sense, an inventory is "all work within the process of production - all work that is or has occurred before the completion of production."

Unless you are in the manufacturing business, the concept of inventory is somewhat alien. Because of this, after using BIAIT for several years, we decided that a simpler but more comprehensive approach was needed - the matrix.

However, under the mantle of a normative framework approach to business modeling, you (like us) may find that the seven questions and the 11 step cycle of tasks provide a means to understand an organization while engaging in a study. In 1979 Don Burnstine defined (BICMX) an 11 step life cycle of steps to define business functions:

- 1 Set requirements for inventory
- 2 Specify the items of the inventory
- 3 Select source (make or buy)
- 4 Order / authorize
- 5 Test / accept
- 6 Add to inventory
- 7 Monitor performance
- 8 Upgrade
- 9 Maintain
- 10 Transfer
- 11 Account for

There are, of course, multiple normative approaches that appeared after our initial work in 1979. The most quoted include Porter's Value Chain (1985). M. Porter introduced the generic value chain representing all the internal activities a firm engages in to produce goods and services. Primary activities that add value to the final product directly and support activities that add value indirectly.

## The Matrix as a basis for “value proposition”? - Yes but later in this workbook.

---

The phrase “value proposition” is credited to Michael Lanning and Edward Michaels, who first used the term in a 1988 staff paper for the consulting firm McKinsey and Co. In the paper, which was entitled “a business is a value delivery system,” the authors define value proposition as “a clear, simple statement of the benefits, both tangible and intangible, that the company will provide, along with the approximate price it will charge each customer segment for those benefits.” BIAIT, Four levels of Frameworks and Porter’s chain are all examples of structural frameworks useful in creating Value Propositions.

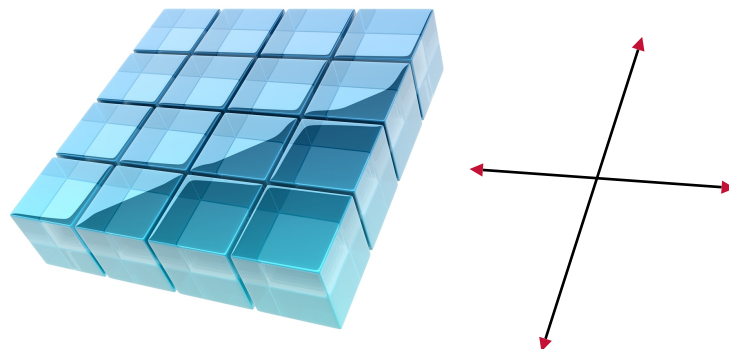
A value proposition is a statement that is meant to identify clear, measurable, and demonstrable benefits consumers get when buying a particular product or service. It should convince consumers that this product or service is better than others on the market.

This proposition can lead to a competitive advantage when consumers pick that particular product or service over other competitors because they receive higher value.

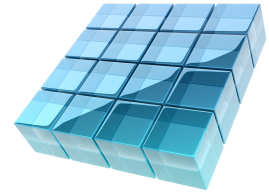
In a similar way, the Supply-chain operations reference (SCOR) model was developed in 1996. The SCOR model describes the business activities associated with satisfying a customer’s demand, including plan, source, make, deliver, and return. It is very similar to the BICMX structure of 1979.

Alexander Osterwalder produced a thesis in 2004, which popularized the Value Proposition Model as a means to model an organization. As with many definitions of business models, it includes the customer and product and service offerings as core elements. Namely: the customer interface, distribution channels and relationship, revenue streams and pricing; the cost structure.

A matrix’s benefit as a structural framework is (by its structure) the ability to start at any cell and cross-reference one entity to another in an adjacent cell. It does not rely on the (previously mentioned) sequential nature of BICMX.







**Note: you cannot maintain the integrity of the matrix if you move diagonally across the matrix. You must cross-check cells and their contents north/south and east/west to ensure all appropriate management and transaction entities are included in your deliberations. The matrix is a “system” of transactions and management cycles.**

Whatever approach we take we usually ask such questions as: is this a formal discipline that produces structure and reproducibility in its analysis? Does this get the chief executive involved? How do I establish priorities? How do I keep our systems current with changes in the business? How can I show the impact of system change?

The key to success starts with knowing what is working correctly. From this perspective, we can begin to understand the business we think we are in.

A normative prescriptive method's advantages are the structure it imposes on the process and the completeness that can be obtained. It is especially useful for an analyst who does not have a good knowledge of the organization being studied since it results in an examination of the normally prescribed needs. The approach is based on the belief that there are fundamental classes of object systems underlying all of our business systems. If we can make these fundamentals explicit, we can come up with a system of prescribed or normative sets of requirements with which we can then use to describe and then understand our business. Our analysis can then concentrate on tailoring the normative requirements to meet existing and future needs.

A further analysis stage involves getting out to interview the decision-makers in the organization to see how closely their operations fit the model. The use of the generic model in developing the interview procedures can save lots of time. The analyst and the executive do not have to invent things to talk about. The model gives a wealth of detail to quickly confirm or modify to fit what shows up on actual forms and reports. The decision points (or lack of them, sometimes) become quickly identified. The end product is an agreed-upon structure of the actual business and information flows in the organization.

Unfortunately, “value proposition” approaches quite often descend into marketing propaganda rather than insight for the functioning of the business. Generally, the Framework stays away from such propaganda, but we will come back to use “value” as a means for strategic advantage when we get to [Level 3 Rational Frameworks](#) later in the book.

# IS THIS FEASIBLE?

The process we follow aims to objectively and rationally determine if the proposal under discussion is feasible and to uncover the strengths and weaknesses of any existing business or proposed venture.

In essence, a feasibility study is also a type of analysis used to measure the ability and likelihood to complete a project, including all relevant factors. As participants in this exercise, we use feasibility studies to determine a business structure's potential positive and negative outcomes before investing a considerable amount of time and money into it.

At this stage, it is still an idea of what the structure might look like but not yet a detailed plan of how the project will be implemented. The idea is not to "sell" the plan but to ensure that the proposal is objectively agreed with the customer.

Suppose you've put much work into a long and refined document. In that case, you will be reluctant to throw the entire thing away and explore new avenues to turn your initial idea into a business - the framework process is fast and flexible, so it is not necessary to create the ultimate document until much later. More projects fail than are successful and you do not want this to be one of those failures. Future business is just as important as the existing business, and innovation requires a portfolio of current, and future structures. It's important that we can quickly build and examine a portfolio of options. At this stage, your (individual or collective) plans are not ready for implementation.

So what's the approach? Perhaps the advice of Michael Schrage of MIT. He says that "a testable idea is better than a good idea." Rather than write a lengthy business plan you should test and iterate your ideas for a structure quickly; when you've found sufficient evidence for a value that you can supply and one that customers want and is scalable, think about more details.

Remember, we are only at Stage 1 of a possible four stage framework process. Let us start with a verification process.

# THE MATRIX AS A BASIS FOR MANAGEMENT INTERVIEWS

## Purpose

The objectives for conducting interviews with enterprise managers are:

1. Validate the identified key management entities.
2. Validate the terminology utilized within the KME map.
3. Define the triggers and processes for managing each of the key management entities.
4. Obtain a variety of perspectives on how the enterprise currently operates and how it could operate.
5. Challenge managers on alternative procedures and processes for conducting operations.

***N.B. A more comprehensive interview and audit process is outlined in Level 2 of the Framework.***

## Structure

The preliminary KME framework matrix is used as the basic structure for the interview.

1. Brief description by manager on areas of responsibility within each matrix cell
2. Definition by the managers of their cell interaction
3. Specific questions on key management entities within the manager's area of influence.

## Preparation

1. Identify all managers to be interviewed
2. Define questions to be asked of each manager for each cell
3. Prepare interview guideline sheets based on cross-reference between cells

# Interview Matrix

## Verifying the Framework

---



*The framework might appear to be deceptively Simple, but its power lies in the complex inter dependencies of its parts.*

*Successful businesses devise a relatively stable system in which elements interact in consistent and complementary ways. A change to any one of the parts affects all the others and the system as a whole.*

*Inconsistencies will need to be discussed.*

## Work your way around the Framework

---

Using the items listed on the previous page start working your way around the matrix.

As an example any KMEs identified for cell B2 should be checked by talking to those responsible for that cell and then cross referencing with those that have KMEs in cells A2, C2, B1 and B3. That requires you to check with cell B4 and cells connected to A2 and C2 etc. etc.

This allows you to execute as many “what if I change X in cell Y” scenarios as you wish.

Interview someone who has responsibility for the area defined by the cell definition. Try to avoid a standard expectation that the organization chart is the authority on who this person is.

The Marketplace

The sectors that the Business is in.

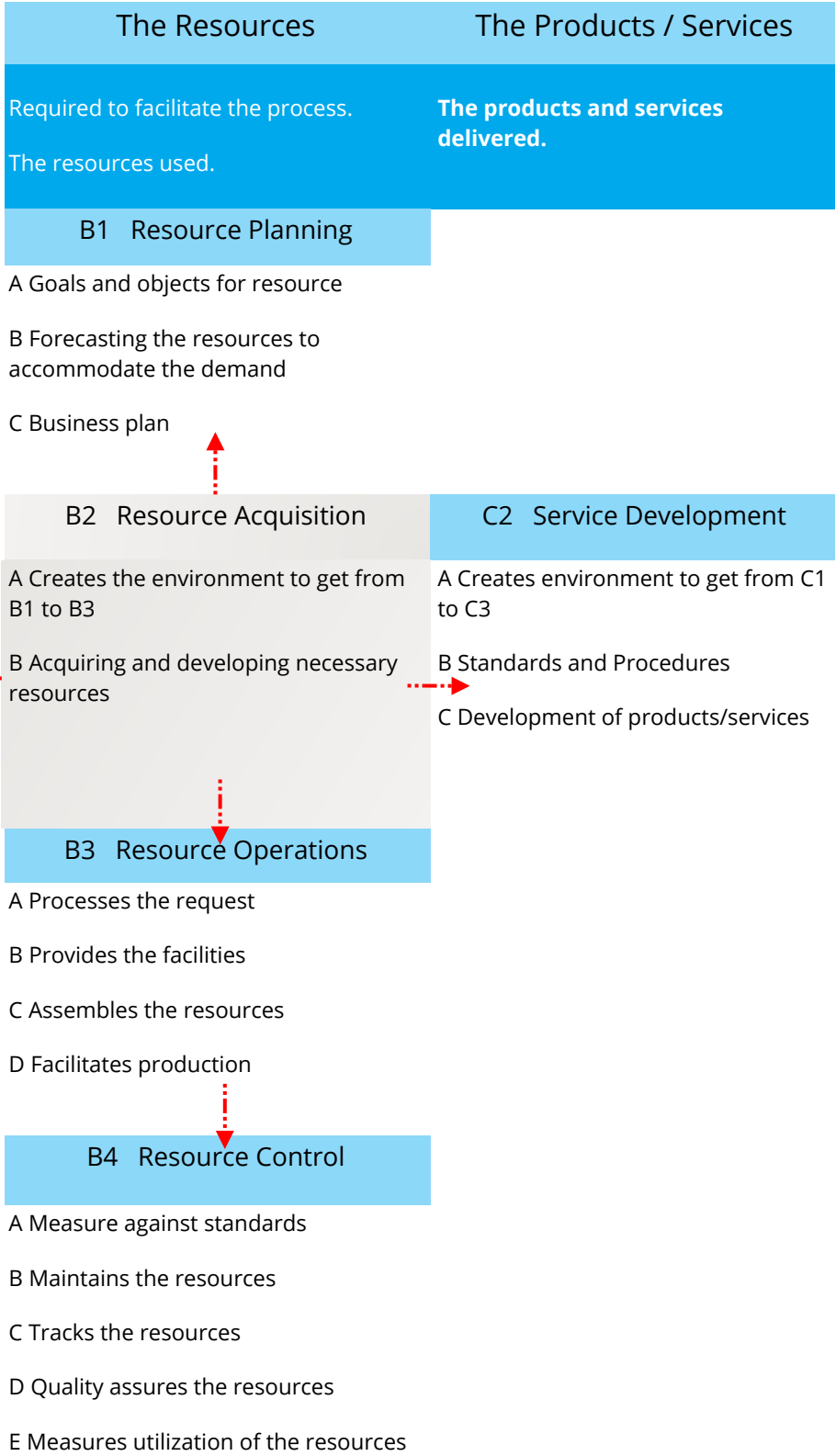
The Customer/Consumer.

A2 Market Development

A Creates environment to get from A1 to A3

B Communicates C1 to the customer

C Develops market promotional programs



**STRATEGIC PLANNING**

The goals and objectives (raison d’etre for the business.

“Doing the right thing”.

**TACTICAL PLANNING**

Creates the environment for the goals and objectives to happen.

“Make it happen”.

**OPERATIONS**

The line of product / service analysis.

“Doing things right”.

**CONTROL**

The procedures for checking progress against standards.

“Are we doing it right?”

# NORMATIVE - WHAT ARE THE MAIN BENEFITS?

## What is it used for?

---

The benefits obtained from a Normative Framework depend on what it is used for, how well it is designed, and how it is applied. Many organizations use Normative Frameworks, in many different formats; however, we focus on two distinctly different applications as examples of its use; **operational control** and **strategic management**. The two applications substantially use the same framework design and development processes but provide different benefits to a management team.

Normative Frameworks used for Operational Control involve asking the following questions:

- What key entities and processes do we want to monitor?
- What aspects of these do we want to measure?
- What is considered the best practice for us?

This application aims to help managers monitor and control the delivery of a pre-defined set of activities – often with a view toward improving both efficiency and effectiveness performance levels.

Normative Frameworks help prevent organizations “drowning” in measures. Today’s technology makes it easy to measure “everything,” demanding that management teams actively choose what to measure, which demands that the teams reach consensus about what is important. Choosing is hard, and when this doesn’t happen, organizations end up with too many measures, and crucially they cannot separate information that informs on key activities from things that are less important.

The framework offers a holistic but more focused view of performance measurement involved in the design process. By helping management teams identify a concise set of operationally focused entities across framework perspectives, the framework makes it easier to highlight the key information needed - reflecting the impact of innovation and improvement activities.

The benefits arising from using Normative Frameworks for operational control purposes include:

- Increased understanding, awareness, and alignment about operations across the whole management team arising from the discussions during the design process;
- Easier and more effective monitoring of performance improvement initiatives;
- Improved understanding of the links between entities improves understanding.

## Normative - Combine questions with frameworks

---

The benefits of Normative Frameworks used for Strategic Management include the following questions:

What strategic outcomes are we trying to achieve?

What additional activities could we perform right now to achieve them?

Are these activities performed?

Are we achieving results?

This is expanded at Level 3 Rational Frameworks further in the book.

The benefits from using Normative Frameworks for strategic applications include:

Articulation of a set of key strategic objectives aligned to corporate vision;

Clarity concerning the links between implementation activities and the strategic objectives of the organization

dialogue about the organization's strategic goals and expectations.

## Some sobering thoughts

According to Bloomberg, roughly only 2 out of 10 businesses survive their first 18 months.

---

It's thought that 88% of businesses that are still alive struggle to keep things running every month. Long-term, only a small percentage of businesses ever get to the million-dollar mark.

You need to understand what to focus on to meet your goals - start with a normative framework.

# ELICIT INFORMATION VIA QUESTIONS

## Normative

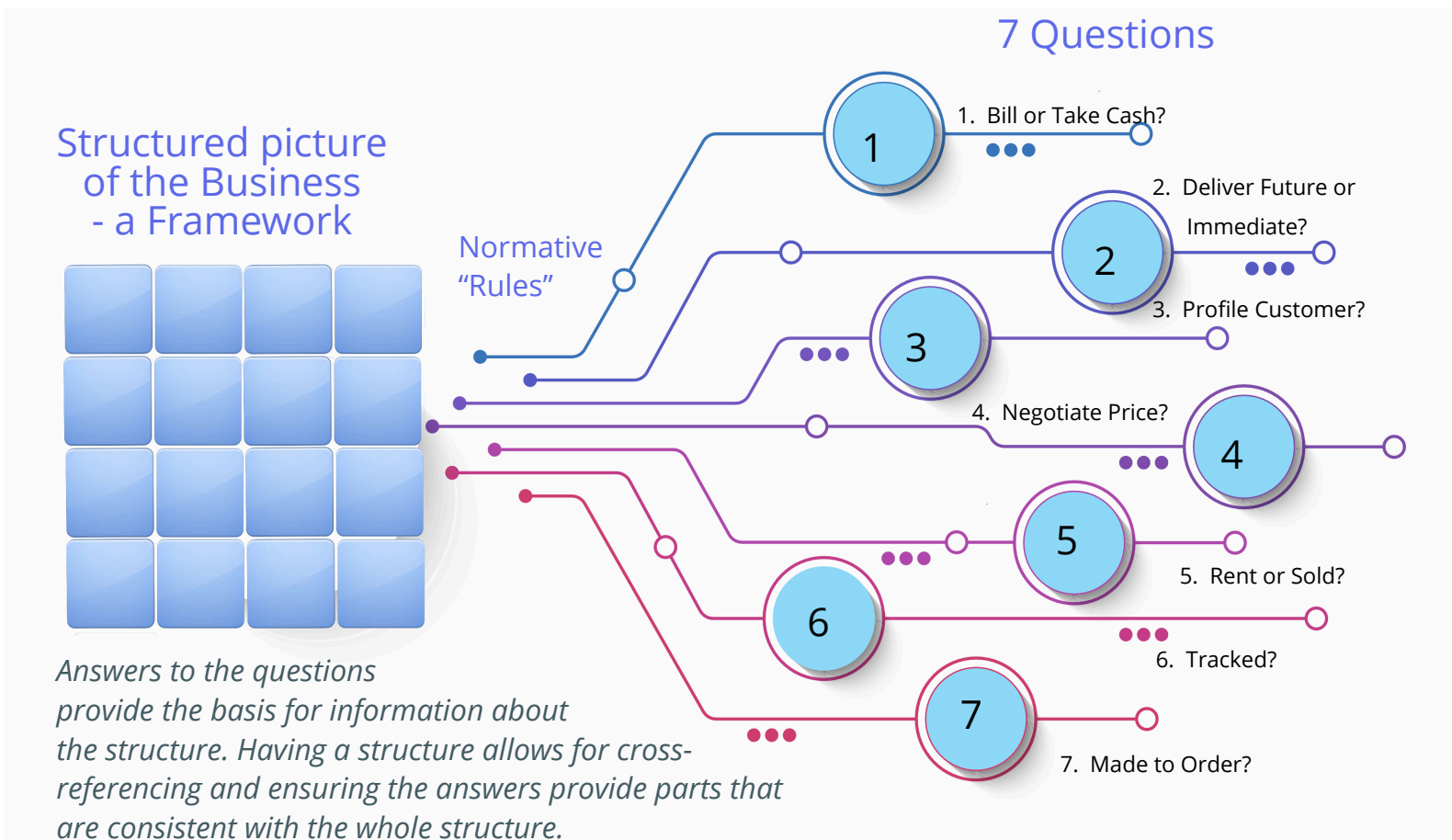
Descriptive, prescriptive, and predictive proven business practices and principles which can frame a business

## Fractal

A self similar business structure and components able to span different organizational scales.

## Objective

Not based on, constrained, or reflective of typical business metaphors e.g. organization charts, policies, financial reports, job descriptions, culture, etc.





# ELICIT KMES VIA DELIVERABLES

## High Value

Quickly delivers useful approximation of current reality - objective insight and understanding of the business supporting the objectives for analyzing and mapping the business.

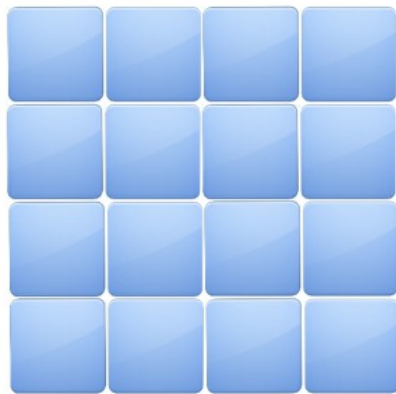
## Low Cost/Risk

Deep knowledge not required of the business nor expert analysis capabilities to generate useful and meaningful results.

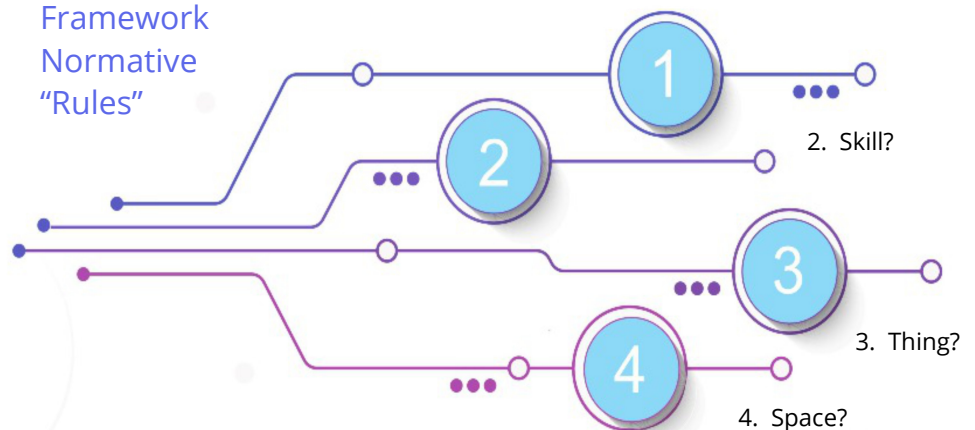
## Agile

Exposes explicit inter-relationships and relevant cause and effect of changes and omissions across the business enabling sound judgment, decisions and ease of modification.

## Structured picture of the Business - a Framework



Framework  
Normative  
"Rules"



*The deliverables provide the basis for elements (parts) in the structure.*

*Cross-referencing and ensuring the answers provide parts that are consistent with a holistic whole.*

*Verify the structure by interviews.*



*The effect of a concept-driven revolution is to explain old things in new ways.*

*Frank Watson*

## Concept - Normative Framework

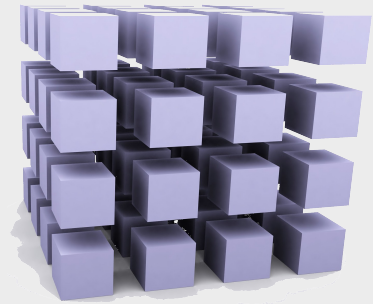
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The term Normative framework is used to mean relating to a descriptive standard: doing what is normally done in business or what most others are expected to do in business practice.

In this sense a normative framework is not evaluative nor a basis for judging behavior or outcomes; it is simply a construct or means to observe possible Outcomes without judgment.

## Simple Construct

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## Concept - Fractal

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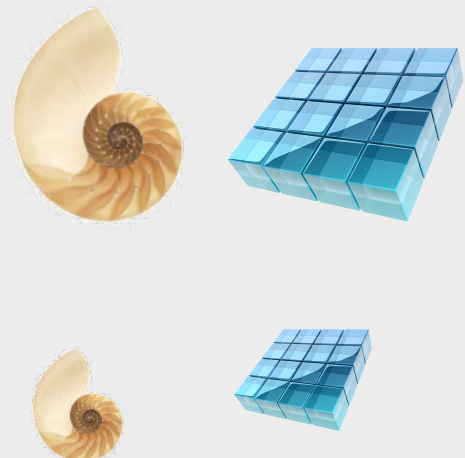
Fractal: the overall quality or character of something.

A fractal is a never-ending pattern. Fractals are complex patterns that are self-similar across different scales. They are created by repeating a simple process over and over.

In Frameworks, the feature of "self-similarity," for instance, is understood by analogy to zooming in with a lens or other device that zooms in on digital images to uncover finer, previously invisible, new structure. As fractals, however, no new structure appears; nothing changes and the same pattern of 16 normative cells repeats over and over.

## Self-similarity

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*Imagination is more important than knowledge.*

*Albert Einstein*

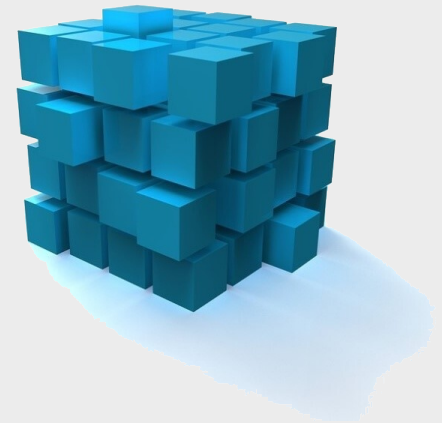
## Concept - Objectivity

---

By their position in the matrix and their generation based on the transaction cycle, we try to emphasize the entity's characteristics rather than the thoughts and feelings of the creator of the model. However, subjectivity will remain, thus demonstrating the importance of the exercise of cross-checking of the entities across the matrix.

## Reduce Subjectivity

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## Concept - Heuristic

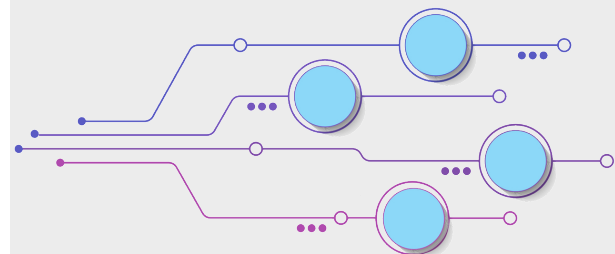
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A heuristic approach is defined as problem solving or self-discovery that employs a practical method, while not guaranteed to be optimal, perfect, logical, or rational, but instead sufficient for reaching an immediate goal.

Heuristics are mental shortcuts when model building that ease the thinking necessary to make decisions.

## Easy to understand

---



For many, Level 1 (Normative) will be sufficient to sort through their ideas without the constriction of trying to make sense of an existing organizational chart or process flow chart. Level 1 says that existing tried and true “rules” work for many businesses. Use them to get started.

# PROGRESSION OF FRAMEWORKS

## Level 1 - Normative What is.



*The framework might appear to be deceptively simple, but its power lies in the complex interdependencies of its parts.*

*Successful businesses devise a relatively stable system in which elements interact in consistent and complementary ways. A change to any one of the parts affects all the others and the system as a whole.*

Every problem interacts with other problems and is, therefore, part of a set of interrelated problems, a system of problems.....

I choose to call such systems a mess.

Russell L. Ackoff

# LOGICAL FRAMEWORKS

## Level 2 - Frameworks Workbook

Thinking is logical and leads to conclusions by both examining old and generating new ideas.

In the previous section the Normative Framework refers to abstract principles that guide action, indicating what should and should not be done in particular circumstances and why. The Logical Framework works on the conception of theory linked to the acknowledgment of how things are rather than how they should be. Logical statements try to be neutral and state the facts as they are without passing any judgment or making any analysis that may be biased because of the personal leanings of the individual.

The purpose of a Logical Framework is therefore to be able to test the integrity of the actual state of things within the enterprise compared to the normative generated state of things. This requires building a businessframework with all the components and relationships that are necessary parts to make the whole.

Dakota tribal wisdom says that when you're on a dead horse, the best strategy is to dismount.

Of course, there are other strategies. You can change riders. You can get a committee to study the dead horse. You can benchmark how other companies ride dead horses. You can declare that it's cheaper to feed a dead horse. You can harness several dead horses together.

But after you've tried all these things, you're still going to have to dismount.

Gary Hamel



# RATIONAL FRAMEWORKS

## Level 3 - Frameworks Workbook

Strategy formation, which can be either deliberate or emergent.

The best decision for you is considered the most rational one. Note that the rational choice depends on your desired outcome, to survive as a business. Logic has nothing to do with your desire. It is neither logical nor illogical to want to survive. However, if you do want to survive, and you know something about business, it might be considered illogical to be totally logical since it will likely not get you your desired outcome. Logic has more to do with the organization and coordination of your decisions and making the results of your reasoning process consistent with your desires and information.

However, to reach your desired outcome, you are going to have to be rational.

A problem never exists in isolation; it is surrounded by other problems in space and time.

The more of the context of a problem that a scientist can comprehend, the greater are his chances of finding a truly adequate solution.

Russell L. Ackoff

# INTELLIGENT FRAMEWORKS

## Level 4 - Frameworks Workbook

Intelligent Frameworks have two objectives, one is to classify data based on models which have been developed, the other purpose is to make predictions for future outcomes based on these models.

At the last stage of frameworks (Level 4 Frameworks -Intelligent Frameworks), we talk about semantic relations between concepts in a network (in our case, a network comprised of frameworks). A semantic network is used when knowledge is best understood as a set of concepts related to one another. In our case, concepts defined by their relationships in the matrix are defined at either the normative or logical stage or rational stage.

How can we use Artificial Intelligence to enhance our creation and maintenance of Frameworks? What is our context (or what other contexts can provide insight to this context)?

**This is a placeholder for a future, more complete chapter.**

# PROGRESSION OF FRAMEWORKS

Use Level 1 (Normative), Level 2 (Logical) and Level 3 (Rational) to gradually build more sophisticated frameworks of your business.

Level 4 Intelligent creates frameworks based on various aspects of Artificial Intelligence.

*Using Machine Learning*

## Level 4 - Intelligent Content in Context



*Learning Algorithms*

*Artificial Intelligence*

## Level 1 - Normative What is.



*Deceptively simple, but its power lies in the complex inter-dependencies of its parts to show what the business is today.*

## Level 2 - Logical What it should be.



*Use what is, modify for efficiency and turn the business into what it should be.*

## Level 3 - Rational What it could be.



*Match your new strategy. Model for effectiveness. This is what the business could be.*

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*“Those involved in the redesign process must know what they would do if they could do whatever they wanted. Such knowledge is essential if they are to set meaningful goals for the future. The outcome of such a design is idealized in the sense that the resulting system is ideal seeking, not ideal. It should be subject to continuous improvement with further experience and changing environments. The only certainty is that some of whatever we think we will want five or ten years from now will not be wanted then. Such a vision should be inspiring, a work of art. It should facilitate making short-run sacrifices for the sake of longer-run gains.”*

*Russell L. Ackoff*

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