Consortium

MACSAN
Santa Barbara, California, USA

IIOSS
Tokyo, Japan

PROBENEFIT CONSULTING
Sarajevo, Bosnia and Herzegovina

Organization Indicator

INDIVIDUAL REPORT for **Sample**

November 25, 2018

HARMONY - MODEL

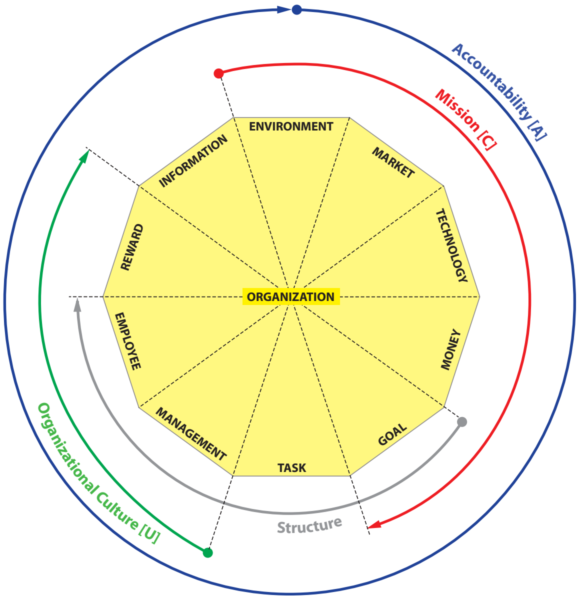
ORGANIZATION MODEL

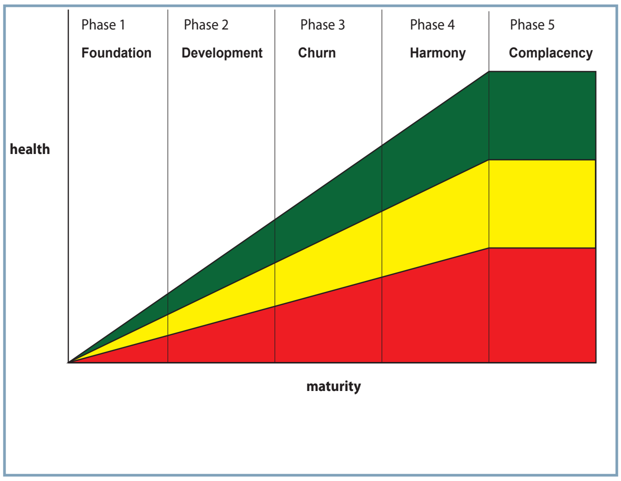
An organization is a living, dynamic and adaptable system, influenced by and influencing all people that are involved. Every organization can be represented by ten functions: employee, task, environment, management, goal, reward, market, technology, money, and information. When you think about each entity like the employee or management, you begin to notice how each entity correlates to each other, constructing a very complex system.

LIFECYCLE MODEL

The organization passes through five developmental stages. As it maximizes the business opportunity at its birth, the organization attempts to survive the competition while offering something original and unique.

Growing and maturing is not a linear event – the organization needs to resolve its internal and external struggles so that it can survive and prosper.





In many cases, the management is the driving force for organizational advancement and it is the main reason for organizational decline. Thus, the basic managerial task is to continuously look for all kinds of incompatibilities in all organizational functions, their characteristics and relationships and try to minimize those incompatibilities. In other words, the basic managerial task is to find all disharmonies in the organization and harmonize them as much as possible. This is a permanent task since the organizations change throughout their life span.

Principles of the Lifecycle Model

- Organizations have lifecycles, like all living organisms.
- The organizations exhibit predictable and repetitive patterns of behavior in each phase
- The advancement on the developmental path is exhausting.

How well or poor the disharmonies are addressed on the advancement path of your organization?

Our Transformation Consulting Services, in addition to the client company's strong leadership and commitment to change, provide solutions for a healthy organization development.

GENERAL CHARACTERISTICS OF LIFECYCLE PHASES

One challenge for the founders while approaching the first kabe is to set up appropriate expectations: as the expectations increase, a proportionate dedication should be provided. Otherwise, it will remain just a wishful thinking. The other dangerous point while approaching the first kabe is giving away the ownership over parts of the new, not yet born company: many founders can easily give away portions of the ownership believing that it will attract the necessary people to the company. The founders will regret this decision later, when the company start growing.

0 to I | **Dedication proportionate to expectations.**

PHASE 1 (EMBRYO: Nowadays, we see a lot of different ways of giving birth to organizations. Whatever way they were born, there is only one way to keep these organizations alive: do the job and get results! The first driving force for the organization in phase 1 is the support from those who founded the organization. In order to survive, the organization in phase 1 needs a lot of commitment from everyone involved. The second driving force for an organization in phase 1 is chasing deadlines to meet the client demands – the organization has to do whatever it takes to meet those deadlines.

I to II | **Getting out of the client's bear hug.**

PHASE 2 (FOUNDATION): When the production gets stabilized, the clients' needs are somewhat satisfied, the cash flow is yet negative but under control - the organization moves to phase 2. The first driving force in phase 2 is its previous success and the many opportunities that occur every day. That leads to a frequent change in the organizational priorities and the organization wants to take it all. The second driving force is the enhancement of the organization's portfolio with new products/services as well as with new clients within the same or in new market segments.

II to III | **Learning to say "no" to some opportunities.**

PHASE 3 (DEVELOPMENT): An organization in phase 2 is characterized by arrogance, uncontrollably fast growth, centralized decision-making, and a lack of systems, budgets, policies, and structure. This kind of organization has all preconditions for crisis and that's usually what provokes a request for transitioning to a different kind of organization. Up to that point, it's very difficult to make the transition. The phase 3 is mostly about the transition from a founder-led to management–led organization, a separation of management from ownership.

III to IV | **Not wasting energy on internal fights.**

PHASE 4 (CHURN): So far, the organization has made a tremendous progress and has reached the throne. However, making progress is obviously less difficult than to preserve that progress, reaching the throne is easier than staying there. The organization should make continuous changes in all entities in order to stay at its premium level of performance. The champions, in order to remain so, should put much more efforts than they have put in earning the championships. Being on the top means having a lot of rivals interested in taking over the throne.

IV to V | **Finding out how not to cross this wall.**

PHASE 5 (COMPLACENCY): After being for a while in phase 4, unless the company has no secured the foundations in the previous phases, the company can easily slide into saturation. There is only one reason for that, with many manifestations: organizational fatigue. The first manifestation of the fatigue is the organizational sense of self-satisfaction of the company in Phase 4. The second manifestation is the vision for the future progress and advancement: up to phase 4 the company was an environment-driver, now it becomes environment driven. The third manifestation is called "big company syndrome."

LIFECYCLE PHASES AND FUNCTIONS

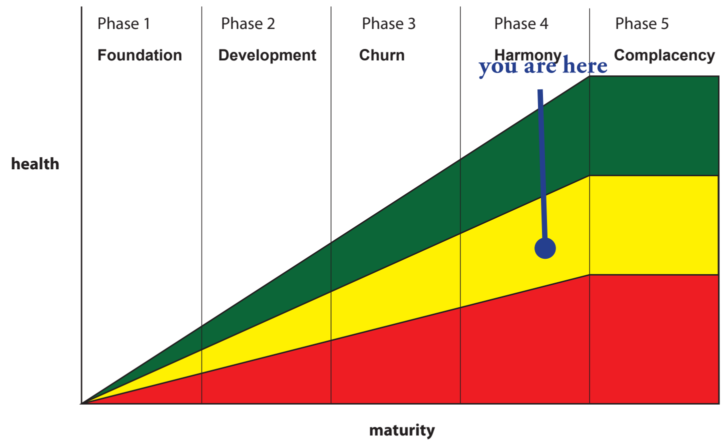
functions/PHASE	PHASE 1	PHASE 2	PHASE 3	PHASE 4	PHASE 5
Employee	Survival	Busy	Rumor for change	Improved capability	Self-protection
Task	Founder is everything	Flat structure, by function	Vertical/horizontal differentiation	Headquarters-Profit Centers balance	Strong corporate staff
Environment	Hard work	Everything is of high priority	Conflict between control and growth	Market brand, power domination	Formalization
Management	Founder manages everything	Limited delegation of power	Building management infrastructure	Management Accountability System	Internal entrepreneurial crisis
Goal	Dream vs. reality check	Always high	No agreement/not clear goals	ROI/Corporate value	Conservative
Reward	Everything or nothing	Aligned with sales	New system (inconsistent)	Linked with company's performance	Losing flexibility
Market	Repetitive orders	Aggressive commitment	Pricing policy	New businesses within the company and M&A	Less customer interface
Technology	Research and Development	Production rump up	Standardization	Enriching Product Portfolio	Not many new products
Money	Initial investment	Capital investment	Inventory and A/R	Cash rich	High administrative Costs
Information	Separate	By function	Beginning of integration	Management Dashboard	Gap between management information and reality

You Are Coming From: **Phase 3**

There was a lot of internal fight during the Transition. The organization went through all kinds of crises. The founder might still be around but he/she might be already gone. Some creative people and entrepreneurs might be gone, too. The organization has successfully introduced internal systems, policies, and control. Tracing and rewarding everyone's contribution throughout the organization has become quite possible.

It's been a tough battle: founder vs. management (the founders might be still around playing different roles or they might be already gone), old-timers vs. newcomers, creators vs. administrators, businessmen vs. politicians. It was all about gaining power and control over the organization. All of these battles are necessary in order to advance on the lifecycle.

Based on the score, you are in **Phase 4.**



BASIC CHARACTERISTICS OF PHASE 4

"The highest function of conservation is to keep what progressiveness has accomplished."

—R.H. Fulton

So far, the organization has made a tremendous progress and has reached the throne. However, making progress is obviously less difficult than to conserve that progress, reaching the throne is easier than staying there. The organization should make continuous changes in all entities in order to stay at its premium level of performance. The champions, in order to remain so, should put much more efforts than they have put in earning the championships. Being on the top means having a lot of rivals interested in taking over the throne.

The organization in phase 4 is more professional and less intuitive in decision-making. It is opportunity-driving, rather than opportunity-driven. The emphasis necessarily switches to systems, policies, and administration - which requires a totally different set of skills. The company does not need someone like the founder. It needs an administrator.

The organization is emancipated from the founder's style of management – the authority is fully decentralized, the governance function is institutionalized. The flexibility no longer may take precedence over control. The functions within the organizations are well defined and that makes easier to recruit skilled outsiders. This staffing phase of the development has its own problems. The leaders from the previous phases have loyalties to the employees who were with them through the tough times. There are all kinds of written and unwritten commitments and coalitions. Even to think about violating any of those codes creates an emotional episode.

You can always slide into: **Phase 5**

The champions can become tired, the company in phase 4 can start experiencing fatigue. The sources of that fatigue are:

- sense of self-satisfaction;
- change in perceiving the market needs
- "big company syndrome" and
- power shift, from the profit centers to the Headquarters.

It will be all about self-protection and not making unnecessary moves and shakes.

DETAILED CHARACTERISTICS OF PHASE 4

Employee: The tasks throughout the organization have been redefined and now they set different requirements for the employees. The existing employees get additional training to meet those new requirements. This process doesn't go smoothly and some of the existing employees simply do not fit to it. Thus, the organization hires new employees.

Employees enjoy working at these companies. Few leave willingly, and there are is a steady streams of people applying for positions.

Task: In earlier phases, the organization was structured around people and now the people needs to get organized around what the organization needs. This means that the organization is structured by fully authorized business divisions and they are held accountable for their own success.

The organization has a Board of Directors as a governing body and it consists of both internal and external members. Very often, the founder himself/herself is one of the members of the Board and from that position can still influence the organization.

Environment: Since the management systems are already implemented, the organization in this phase operates in more predictable environment. Small problems in the environment now do not have a big impact on the organization since it is prepared for those kind of situations. Not everything is treated like a crisis, the organization takes time to react to the issues coming from its environment. Simply, the organization can control itself. Even more, in some cases, the organization can provoke changes in the environment. Through its membership in different associations, the organizations can influence the legislative measures regarding the business. Organizations in phase 4 are well integrated with their clients, suppliers, investors, and the community in general. They are admired for their services and practices.

Management: The top management of the organization is more focused on regulating aspects, putting control in place and monitoring the implementation of the polices agreed upon. The division heads run "organizations within organization" – they negotiate budgets and they make sure the budgets are met. This requires fully developed managerial skills, with an emphasis on the balance sheet management.

Being organized into divisions, generates a healthy competition between those divisions. The managers of these divisions are forced to search and study in order to develop the best-known methods. The usual source for the best practices are the past decisions – some past decision which was tactical in its nature, if it produced success, becomes a policy for everyone.

Goal: The process of setting goals in this phase is a two-way street: the main goals are defined at the top and later, they are decomposed into divisional goals. This coordination process goes up-down-up several times, until all differences are reconciled. Once the goals are defined, everyone is chasing his/her own goals.

The focus in the first phase was on the revenues, in the second phase it was on sales (sell first, think later), in the third it shifted to the profits. Now, the organization is focused on both sales and profits: sell more but without losing the profitability. Since the organization is under full control, it is easy to reach this goal. In other words, this is the first time the organization is chasing both the sales and the profits simultaneously.

Reward: In earlier phases, the founders used bonuses and commissions to increase revenues. In phase 4, a diversity of rewards recognizes different kinds of performers. Front-line supervisors and managers get salary along with bonuses for individual achievement. Middle managers get proportionately lower salaries with more profit sharing and stock options. Top management gets compensation packages that motivate them: conservative salaries supplemented by extensive op-

DETAILED CHARACTERISTICS OF PHASE 4 (CONT)

portunities for profit sharing and stock options. By entwining employees' personal future with their companies', leaders of the organization can secure their workers' support during the restructuring and decentralization that accompany this phase.

Market: When an organization reaches phase 4, it knows what markets it wants to be in and what markets it does not want to be in. A phase 4 organization knows its strengths and weaknesses and consciously develops a strategy that defines where to go and where not to go. When yes and when no. With whom yes and with whom no. The organization learns what not to do from its experience and that experience gives it wisdom. Wisdom comes with the growing pains of phase 3.

A company in phase 4 is a market-driver: it generates new market needs or re-shapes the existing needs. The company has a brand-name and dictate the market. In doing so, the company in phase 4 usually is a global company.

Technology: In transition, the profit centers were delegated only profit responsibility and they didn't have enough capability to manage it. Now, in [phase 4], the ratio between the responsibilities and authorities is in balance. The supply chain is stabilized and under control, the quality of the products/services is constant, the operations costs are monitored daily.

Phase 4 companies seek profitable, controlled innovation: the engineers call the shots, manufacturing and the financial controller should have commensurate power with engineering; otherwise there will be innovation, but not necessarily manufacturable or profitable innovation. As a product-development project progresses from one stage to the next, it passes through different filters. By the time a new product is ready to be shipped, everything has been done right and in sync.

Money: In terms of sales results, companies in phase 4 have even better results than those of phase 2: they make money and grow. The main difference between phase 2 and phase 4 organizations is predictability: companies at phase 2 know how to make money, companies at phase 4 know why they are going to make money. The companies in phase 2 have a difference, for better and for worse, between budget and actual performance; the companies in phase 4 have aggressive budgets, but the variance is within a predictable and tolerable range. A phase 4 organization has the vision and aggressiveness of a phase 3, with the control systems and self-discipline, acquired during phase 3, that produce predictable implementation. In one word, the company becomes very good at Balance Sheet and ROI-management

Information: The organization has started establishing the accountability system. Accountability is more than responsibility. Somebody is accountable only when he/she is able to deliver what he/she is responsible for. Some people could be responsible but could not be held accountable. One important part of the definition of the accountability includes the information – without a strong information system the organization cannot establish the accountability system. This system integrates all entities within the organization.

HEALTH ASSESSMENT

About Health Symptoms in General

It is normal for the early childhood to have chicken pots, it becomes a kind of dangerous for a teenager, and it is extremely dangerous and eventually fatal for the adulthood.

It is the same with the organizations: what is somehow normal and interim symptom for one phase, can become dangerous or even deadly for some other phase. Those symptoms that are age-appropriate we call "green symptoms," the age inappropriate symptoms that are not life-threatening are called "yellow" and those that can kill the organization are "red" symptoms.

Let's take several examples of symptoms and discuss their nature.

Example 1: "short in cash"

- it is a green symptom for phase 1 because the organization at this stage is permanently hungry for cash to finance the production, research and development;
- it becomes yellow for the phase 2 because it is to assume that the organization should already has stabilized its cash flow from selling goods and services; and
- it gets red for Phases 3, 4, and 5 because the organization cannot reach those stages unless it has resolved the cash flow.

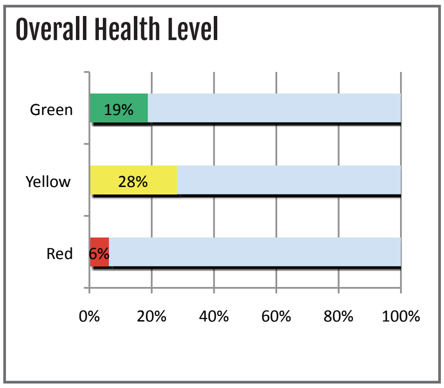
Example #2: "strong internal control"

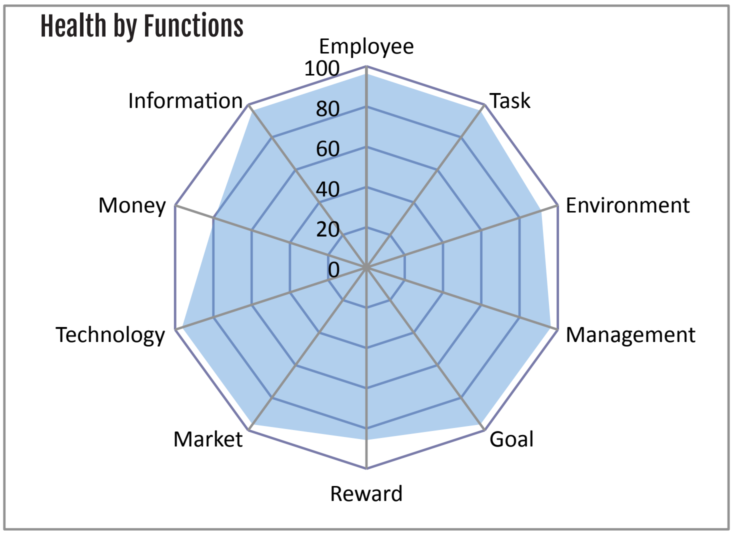
- the symptom is green for phase 5 because the companies at this stage are all internally oriented; however, the green area on the lifecycle for phase 5 is very small, just the beginning of the stage - this stage, by definition is declining and the number of green symptoms is really small;
- it becomes yellow for phase 4 because the strong internal control can kill the flexibility; and
- it becomes red for phases 1, 2, and 3 because these stages need more freedom than control.

From the examples above it is clear that the symptoms shouldn't be interpreted in a mechanical way but regarding the of the organization, its location on Lifecycle.

YOUR HEALTH ASSESSMENT RESULTS

Based on the score, your organization predominantly is in **Yellow Area**





A typical company at phase 4 with a Yellow level of health, shows the following symptoms:

- overconfidence, almighty, supremacy
- WYSIWYG management dashboard but with some false premises
- incoming battle between headquarters and profit centers
- management education taking the backseat
- “why rush, we are designated winners anyway” syndrome.
- the portion of revenue coming from new products/services is decreasing

Be Aware of the **Red Area**

A typical company at phase 4 with a Red level of health, shows the following symptoms:

- no more exercising, or just some “seasonal” or “annual” exercises (during annual meetings)
- not hungry for new victories
- too much silence throughout the organization
- “cold comfort” instead of “hot seat” philosophy
- losing the spirit of creativity, innovation, and enthusiasm for change that brought it to phase 4.

You should be aiming at: **Green Area**

- challenge and expand the goals of the profit centers; achieving those goals will require extension of creativity, innovation, and cooperation company-wide
- restructure the company by empowering the profit centers for the sake of the headquarters
- profit centers might feel overconfident - challenge the transfer prices between them; increase competition by adding outsourced providers
- introduce a continuous education for the next generation of managers.

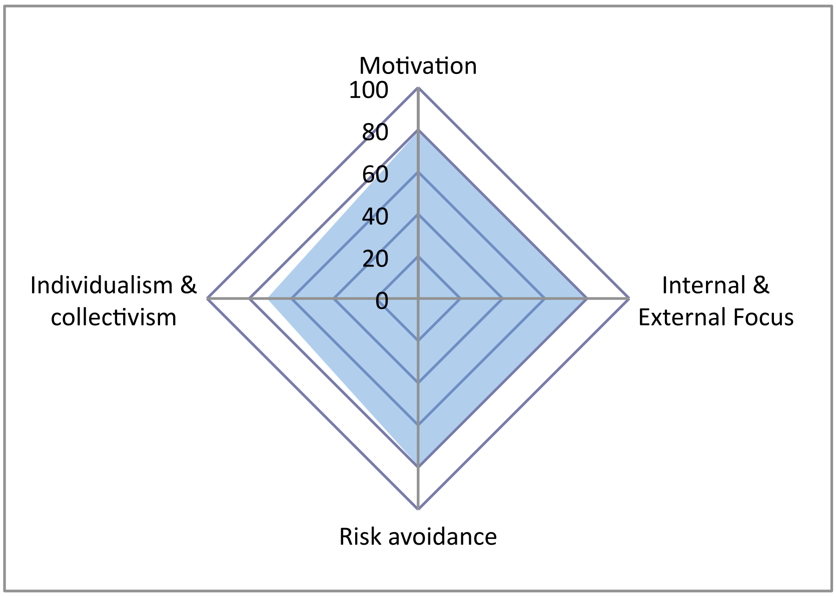
BASIC AREAS OF TRADITIONAL MANAGEMENT:
CULTURE

About Organizational Culture in General

Organizational Cultures vary in their underlying patterns of values and attitudes. The way people think about such matters as achievement, wealth and material gain, risk, and change may influence how they approach work and their relationships with organizations. In our model, the climate is a result of the interrelationships between all entities. However, there are four dimensions that can be found in almost any organizational culture:

- Risk/Uncertainty avoidance: is a cultural tendency toward discomfort with risk and ambiguity. It reflects the degree to which people are likely to prefer structured organizational situations.
- Individualism vs collectivism: is the tendency of a culture to emphasize individual versus organizational (company's) interests. It reflects the degree to which people are likely to prefer working as individuals or working together in groups.
- Motivation: a relatively stable level of enthusiasm for achieving the organizational goals, present in the organization for a longer period of time.
- Internal vs external focus: the level of energy in the organization is somehow limited and it can be spend either externally (in dealing with the market) or internally (in dealing with itself).

Your Assessment of the Company's Culture



BASIC AREAS OF TRADITIONAL MANAGEMENT:
MISSION

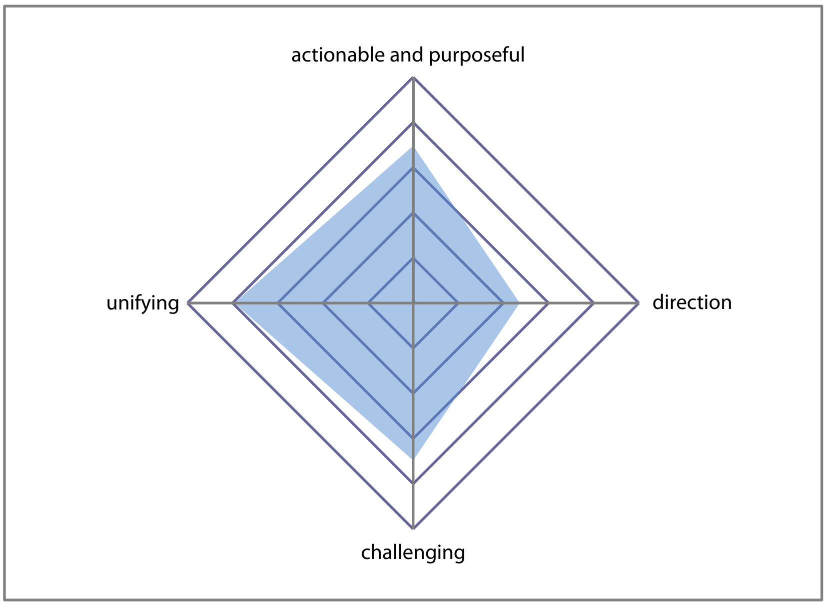
About Organizational Mission in General

The mission is what the organization is going to do, the main direction where to go. The mission usually gives answers to the following questions: What business are we in? Are we in the right field? Should we re-model the business as an answer to the change?

Shaping the identity of an organization really begins with defining its mission, its reason for being, its purpose, its focus. The mission is expressed in a mission statement. A mission statement is an enduring statement of purpose for an organization that identifies the scope of its operations in product and market terms, and reflects its values and priorities. Once the mission is defined, its quality can be assessed by using the following criteria:

- Clarity of Direction: where the company is headed to, long-term orientation.
- Actionable/purposeful: is the vision/mission supported by action items, do they engage people to stretch their activities.
- Challenging vs. realistic: does the company make its plans on a realistic basis, how are the creativity and innovations supported in the vision/mission.
- Unifying: does everyone know the vision/mission of the company and does everyone stand behind them.

Your Assessment of the Company's Mission



BASIC AREAS OF TRADITIONAL MANAGEMENT:
STRUCTURE

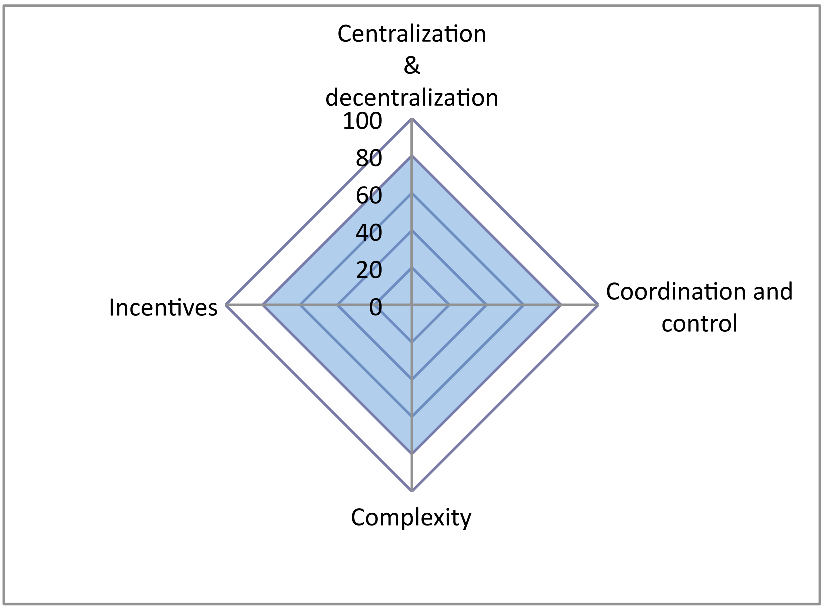
About Organizational Structure in General

The organization structure is a result of the relationships between all entities. Thus, it is a very dynamic and changeable. Very often, the structure dictates the organization members' behavior. That is why the structure should be considered as a crucial part in assessing the health of the organization.

The organizational structure specifies the organizational groupings - the units in the organization and the relationships between them. Designing the organizational structure begins with the entity task and it continues with all other nine entities. The final shape of the structure is strongly influenced by all ten entities. However, the organizational structure can be evaluated using the following criteria:

- Configuration and centralization vs. decentralization: it is the degree to which formal authority to make discretionary choices is concentrated in one individual, unit, function, or level in the organization.
- Coordination, control, and formalization: to achieve common goals, the activities must be coordinated. Coordination can be obtained by a number of means ranging from direct supervision to autonomous, self-managed groups. In addition, the rules in the organization for obtaining a standardized behavior of the employees are covered here.
- Complexity: it defines the depth and dispersion of the organizational configuration. It is the degree of horizontal, vertical, and spatial differentiation.
- Incentives: it is the way individuals and their activities in the organization are evaluated and compensated.

Your Assessment of the Company's Structure



BASIC AREAS OF TRADITIONAL MANAGEMENT:
ACCOUNTABILITY

About Organizational Accountability in General

Responsibility is what results a person is expected to deliver for the task assigned. In other words, responsibility is what somebody is obliged to deliver based on his/her task. Accountability is more than responsibility. Somebody is accountable when he/she knows what to do, has enough means to do it, and knows what is the reward for doing it. This means that some people could be responsible but could not be held accountable. How could that happen? What is the difference between an accountable and a not-accountable organization? The lack of accountability can happen for various reasons and the best way is to analyze the sources of accountability. Below are four criteria for assessing the accountability of an organization:

- Result Definition: an organization should define the results expected from someone. Those results should be either quantifiable (percentages, portions, etc.) or verifiable (yes-no, achieved-not achieved, etc.)
- Task Clarity: an organization should make sure the assigned tasks are clear to those who should perform them. The tasks are described in a document usually called Job Description.
- Ability: an organization is accountable if people assigned some tasks are able to perform those tasks. In other words, the assignments match people's capabilities (including education, skills, physical abilities).
- Reward: an organization is accountable if people assigned some tasks know in advance what is the reward or punishment for performing or not performing that task.

Your Assessment of the Company's Accountability