



Accountants: Building Sustainable Competitive Advantage

**By
Mr. David Muturi
Chief Executive Officer
The Kenya Institute of Management**

Credibility

.

Professionalism

.

Accountability

PRESENTATION STRUCTURE



- The New thinking by Michael Porter
- The comprehensive business performance measurement approach(OPI)
- Benchmarking and global standards
- Conclusion

THE NEW THINKING



- Capitalism is under siege.
- In recent years business has been increasingly viewed as a major cause of social, environmental and economic problems
- Companies are widely perceived as prospering at the expense of the broader community

THE NEW THINKING



- A big part of the problem lies with companies which remains trapped in an outdated approach to value creation
- They view value creation narrowly – optimizing short term financial performance in a bubble
- They miss the most important customer needs and ignore the broader influences that determine their long term success

THE NEW THINKING



- The solution lies in the principle of shared value
- Creating economic value in a way that also creates value for the society
- They must address society's needs and challenges

THE NEW THINKING



- Companies known for their hardnosed approach to business have embarked on efforts to create shared value
- GE, Google, IBM, Intel, Johnsons, Nestle, Unilever and Walmart.
- Have started re conceiving the intersection between society and corporate performance.

THE NEW THINKING



- Leaders and managers must develop new skills and knowledge
- Deeper appreciation of societal needs; a greater understanding of the true bases of company productivity; ability to collaborate across profit/non profit boundaries
- The government must support shared value.

THE NEW THINKING



- It is no longer just about profits
- We must learn how to create shared value
- Recognize that societal needs, not just conventional economic needs define markets

THE NEW THINKING



- Social harm or weakness create internal costs
- Wasted energy; costly accidents
inadequacies in education

A COMPREHENSIVE APPROACH TO BUSINESS PERFORMANCE



- Adapt comprehensive business excellence framework
- Upgrade existing business excellence framework or create new ones

The KIM Approach

The Organizational Performance Index (OPI)

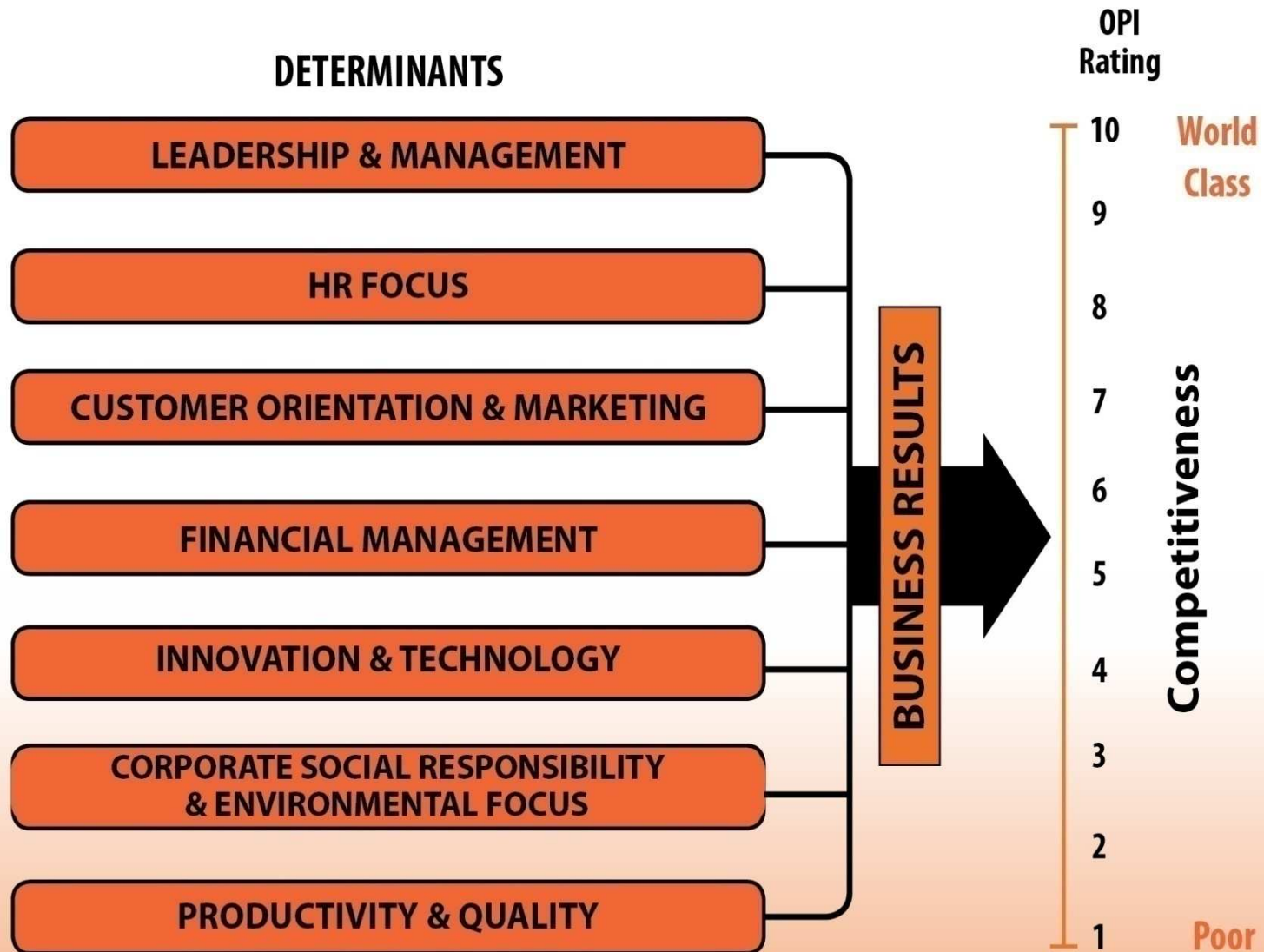


- The Organizational Performance Index (OPI) model assesses the whole business in attempt to link business processes with results.
- The tool caters for all sectors in the industry, benchmarking organizations against global standards.



ORGANISATIONAL PERFORMANCE INDEX

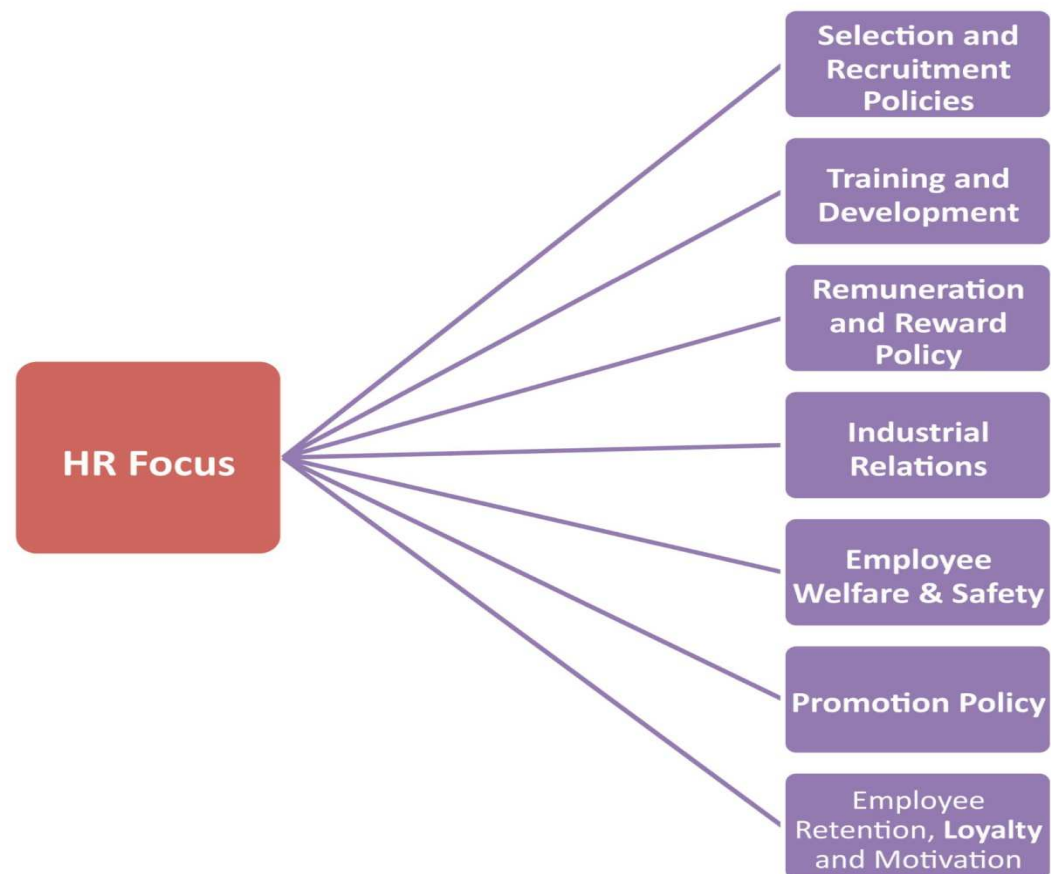
OPI EXCELLENCE MODEL FRAMEWORK



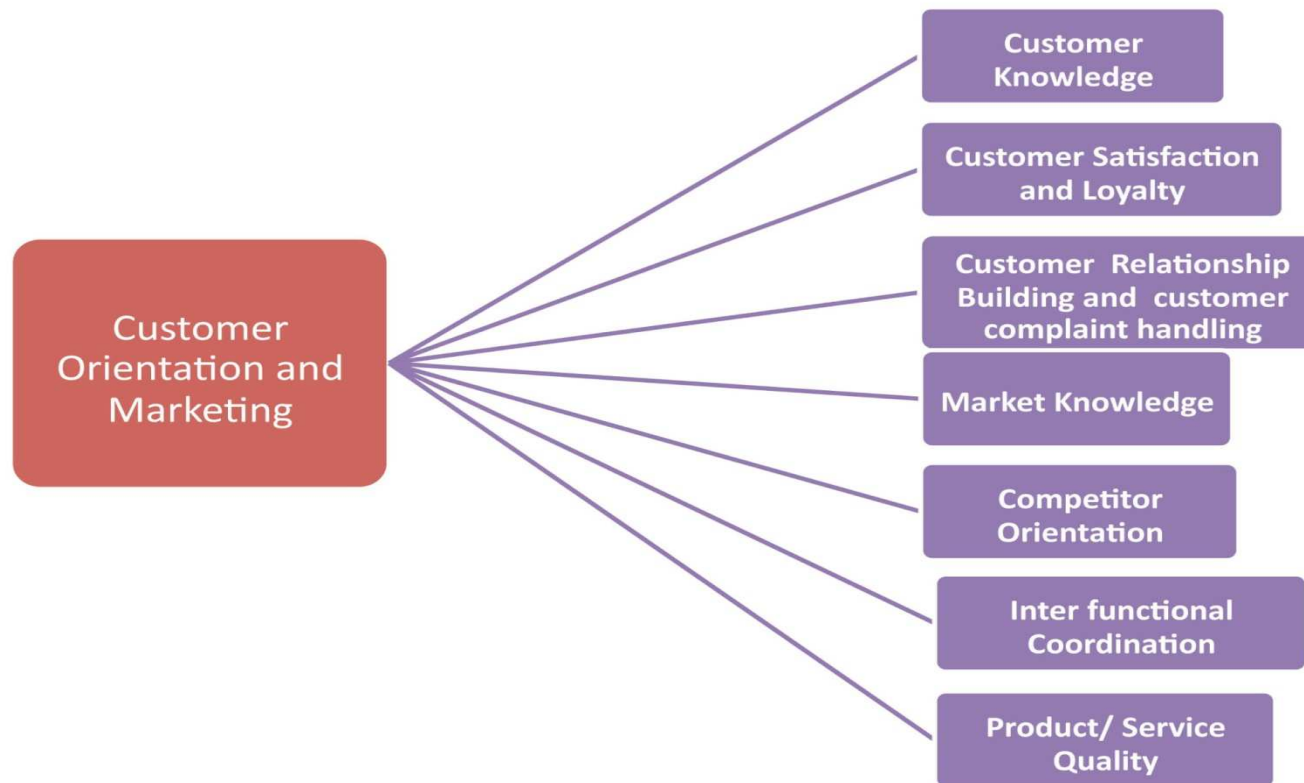
Leadership and Management



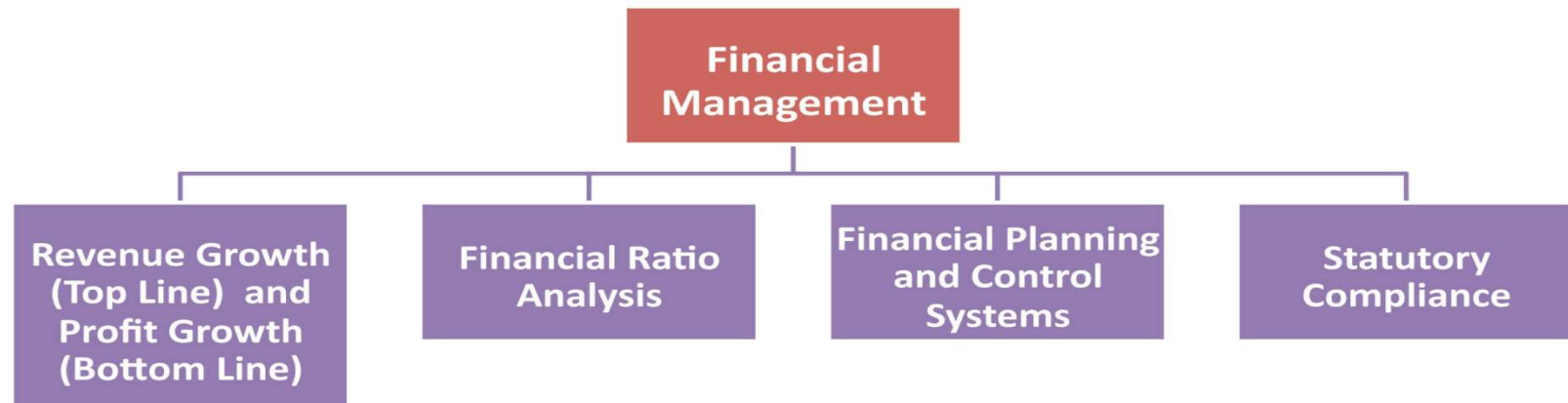
Human Resource Focus



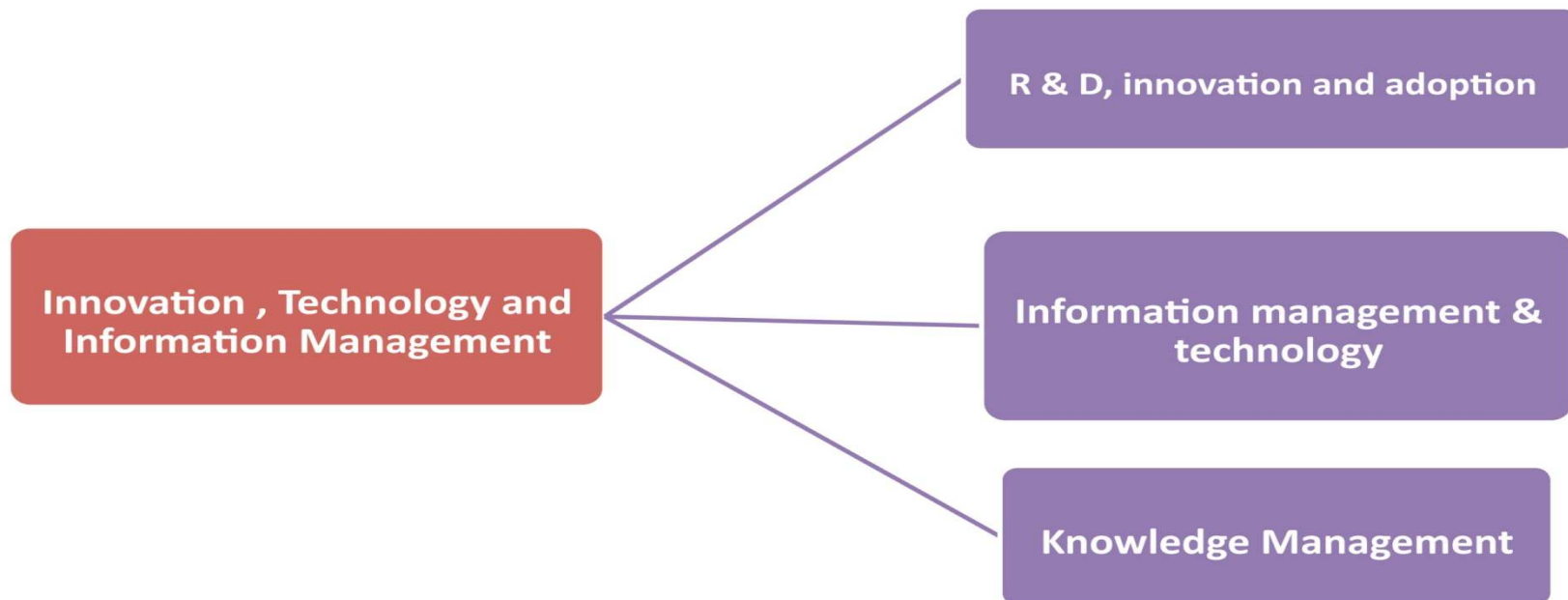
Customer Orientation and Marketing



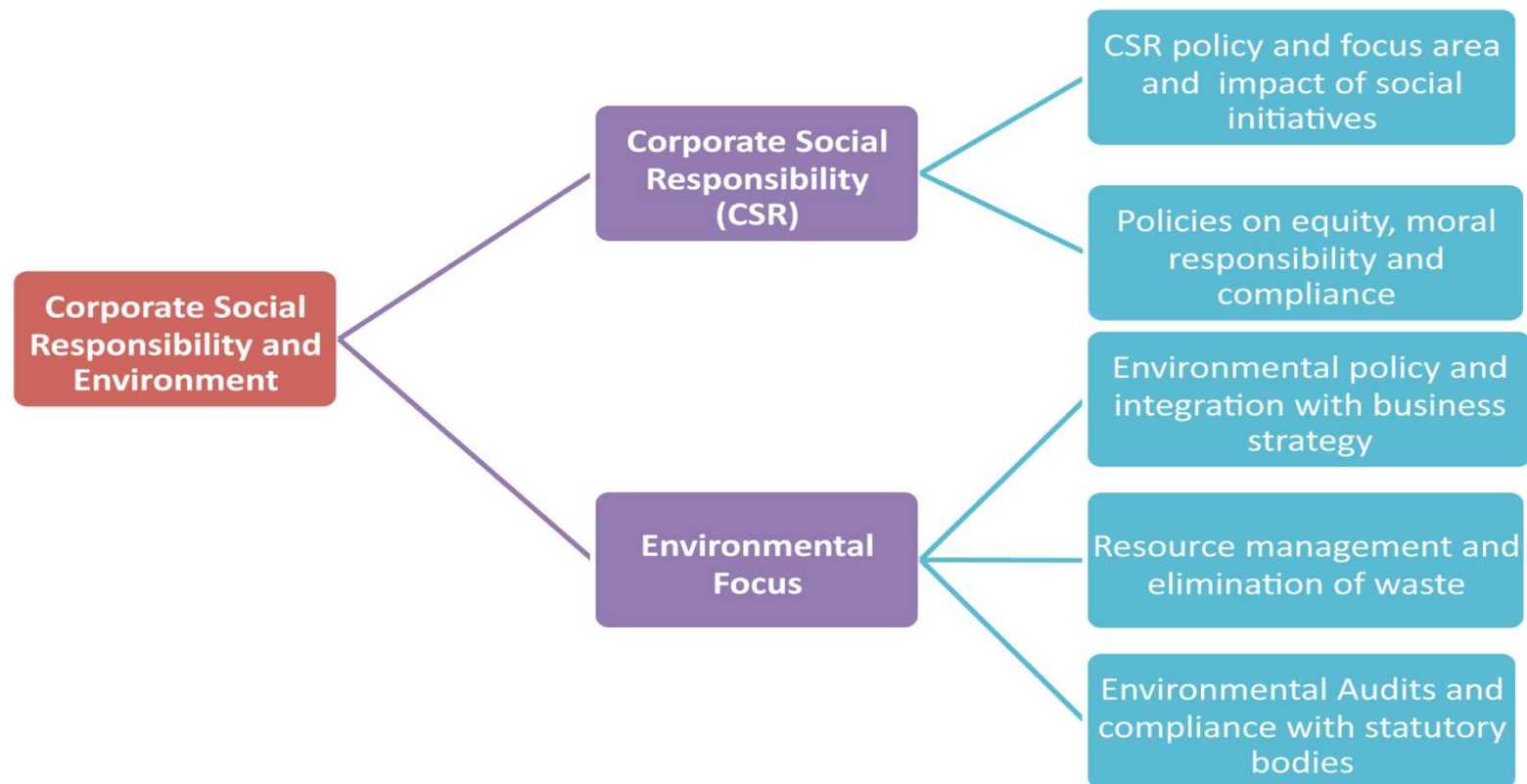
Financial Management



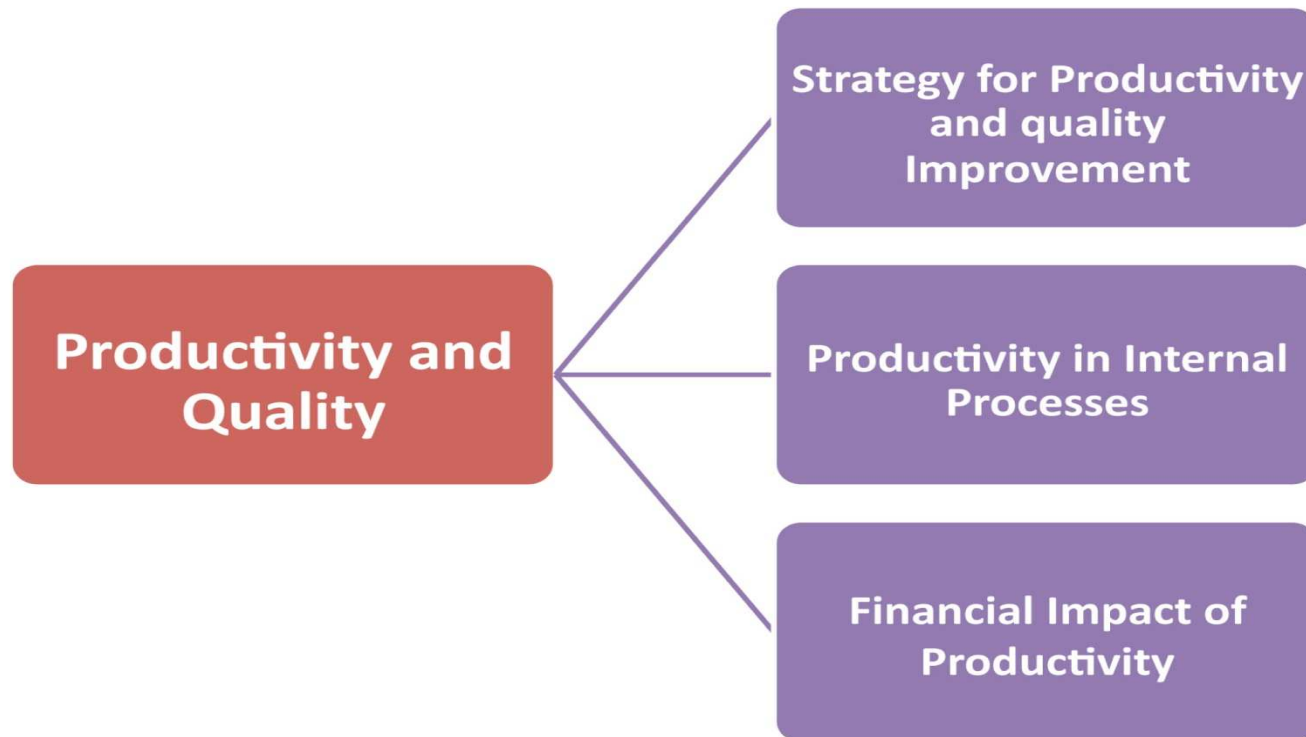
Innovation and Technology



CSR & Environmental Focus



Productivity & Quality



The OPI Approach



Existence

- Existence of approaches for each process as per the determinants will be ascertained
- Measures existence of approach and extent of deployment

Implementation

- Extent to which the existing process are implemented
- Measures level of integration and evidence of continuous improvement of processes - learning

Results

- Effectiveness & efficiency of existing process
- Measures Trends, Current performance and performance within industry

Benefits of OPI



- OPI is a powerful excellence model for your organisation that will :
 - **Allow** you to analyse your productivity rigorously
 - **Reveal** the true performance of your organisation

Benefits of OPI



- **Position** leadership teams to drive continuous improvement
- **Empower** you to develop world class processes and innovation capability to sharpen your competitive edge at global level
- **Enable** you to benchmark your performance with industry peers and against international standards

Benefits of OPI



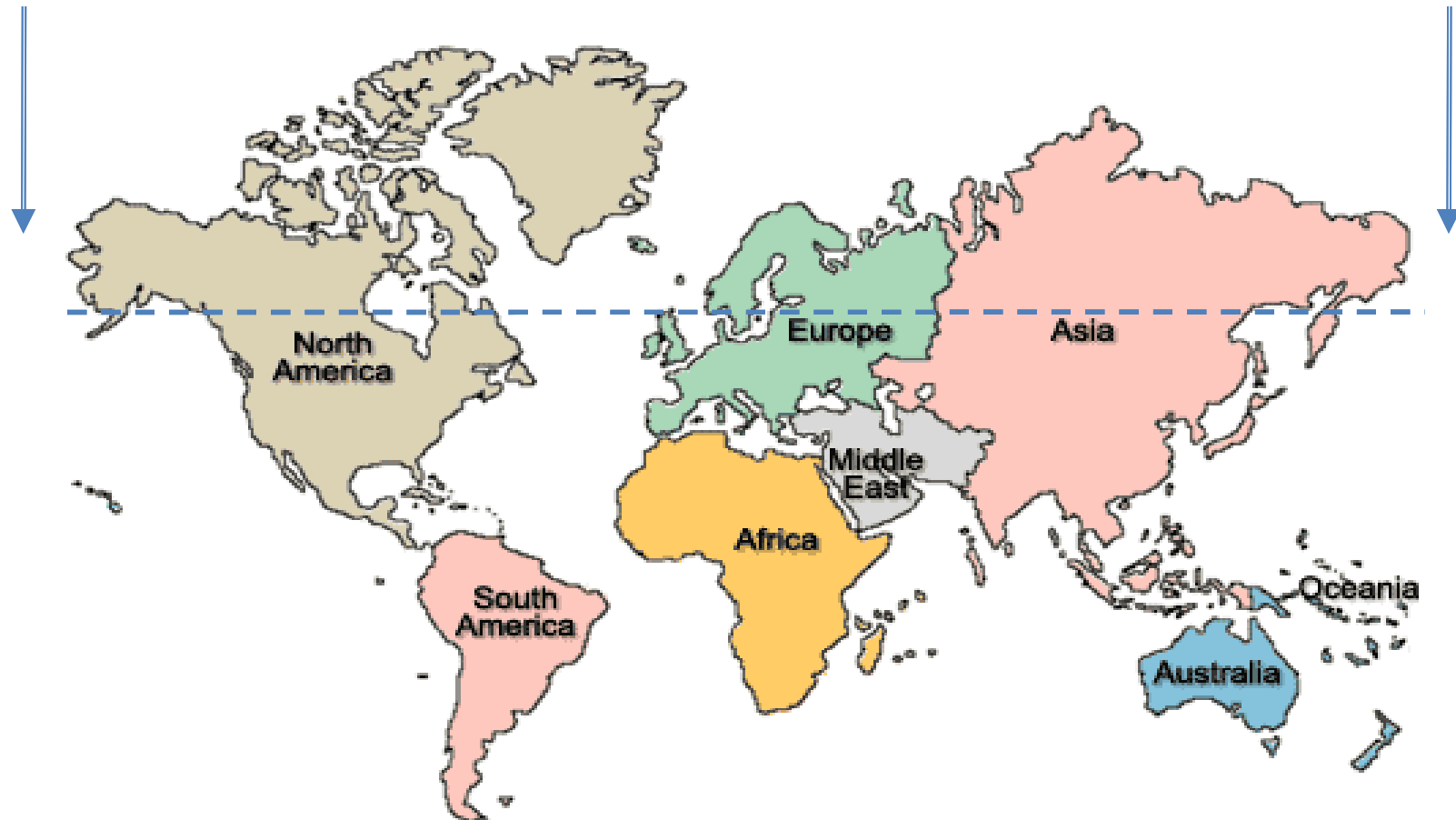
- **Provide** a forum for participants to share proven best practices
- **Equip** organizations with the tools and insight to influence the development of sectors
- **Define** your competitiveness with one integrated score

The need for Benchmarking



- For organizations to create and sustain competitive advantage.
- benchmarking with their peers help identify performance gaps.

A BENCHMARKING HEADED SOUTH!



SOURCE: WordPress



SUB-SECTOR

TOP PERFORMERS

| | |
|--|--|
| Crop & Livestock Farming | China. Russia. Israel. Australia. |
| Forestry | Honduras. Canada. Indonesia. |
| Education & Training | Finland. Singapore. |
| Retail Banking & Lending | Austria. Germany. Netherlands. |
| Investment Banking | Switzerland. Singapore. Hong Kong. |
| Insurance & Pensions | France. Netherlands. Japan. |
| Customer Service | Singapore. |
| Sales/Retail & Innovation | United Arab Emirates. USA. India. |
| Governance | Norway. New Zealand. |
| Water, Roads, Elec., Energy, Ports, Railways, Freight, Fire Response, Police Services | New Zealand. South Korea. Venezuela. Hong Kong. Japan. Singapore. Australia. |
| Hospitals, Clinics, Ambulances | Norway. Republic of Ireland. Australia. |
| Tourism, Conf., Hotels, Restaurants | Malaysia. South Africa. USA. |
| Packaging, Plant Efficiency, Workforce, Maintenance, Productivity | South Korea. Germany. USA. China. Brazil. India. |
| ISPs, Data Transmission, Telephony | Hong Kong. Denmark. |

A Critique of Excellence Models



- Granted many excellence models have been developed and applied,
- They have failed to address the key determinants of organizational success
- like innovation, strategic positioning, marketing, R & D,
- Others do not address the linkage between processes and results

STANDARDS



- The attainment of competitive advantage must be based on some predetermined standards.
- Such standards should be dynamic and relevant to the global competitive scenario
- organizations have to continuously benchmark and also strive to raise the bar in order to achieve performance excellence

STANDARDS



- Research shows highly performing organizations align business functions, processes and strategies towards placing the entire organization on a globally competitive platform
- This in turn means that the accountant today has to raise the bar from just attaining the basics of operational efficiency to balancing with strategic goals of competitiveness

STANDARDS



- We as accountants must appreciate the holistic business perspectives and components.
- To include the wider macro environmental factors
- Other business variables such as: customers, innovation, knowledge management, leadership and management, people, corporate citizenship, productivity and quality

Need for Paradigm Shift



- For instance, in analyzing the Net Profit Margin Accountants need to go beyond the formula and understand the forces affecting this specific financial indicator in the relevant sector and how that impacts on overall business competitiveness.
- We have to go beyond the standard financial reporting and qualitatively analyze the business environment.

The Need for Paradigm Shift



This means accountants must be aware of;

- All components of their business (macro and micro)
- The new challenges arising in the sector they belong to and devise the mitigation factors in order to raise their competitiveness.
- New techniques in their sectors and use that information to provide advisory services to the other business functions within the organization.

Manufacturing :The OEE- EXAMPLE



| Indicator | | Level of attainment | Relevant Standards |
|--|--|---------------------|------------------------|
| Process improvements | | | |
| OEE | Cycle time improvements to get more production with the same resources – hence less energy use- 20-30% Weight reduction to top 30 customers products by 20-30 % hence less plastic | 78% | 85% |
| Availability | | 81% | 90% |
| Performance | | 90% | 95% |
| Quality | | 94 | 99.9% |
| Production setup time | | 20 minutes | 10 minutes |
| Engineering change process response time | | 2 days | 1 day |
| Quality rejection per million | | Not known | Ksh.40,000 per million |
| Utilized capacity | | 81% | 90% |
| Yield | | 61% | 74% daily |
| Manufacturing breakdown losses | | <2.0% | 1% |
| Production schedule attainment per month | | 72.6 monthly | 94.9% monthly |
| Manufacturing schedule adherence | | 43% | 72.5% monthly |

In the Service Sector



- The world class service delivery standard on telephone response is within 30 seconds. How will an accountant realize that delayed telephone response is affecting the business?
- If it takes an operator one minute to respond to a call , it means that every day a company is loosing 4 hours per day? How can this loss be recovered? This loss affects the profit margin and by extension hinders competitive advantage

The Training Saturation Rate



- The number of people actually trained versus the number of people planned to be trained: The world class standard is 75%
- For an accountant, resources may have been allocated to training but were not actually utilized thus creating an opportunity cost to the organization and hence compromising competitive advantage

The Efficiency Ratio



- The ratio measures how efficiently resources are utilized: The world class standard is an index of 128.1
- The degree to which this index can be achieved in an organization is dependent on their set accounting control procedures. This ratio has a bearing on competitiveness

Governance Standards



- According to the Commonwealth King III Governance Standards, the Level of Openness in financial disclosure should be at 80%
- Failure to attain this standard will impact on the overall organizational competitiveness

Innovation



- The Global Standard dictates that 18- 29% of revenue is dedicated to radical innovation in order to achieve competitiveness.
- The accountant will not factor this in the budget allocation if he/she lacks appreciation of the role of innovation in transforming the organization and in turn driving global competitiveness

In Conclusion



- There is a quest for multi skilled accountants who appreciate the need for sustainable competitive advantage in their respective organization and how to align various business functions in achieving this strategic goal
- This underpins the need for accountants to be aware of global standards that can help their organizations to benchmark with the best global industry players and improve on sustainable competitive advantage.



ORGANISATIONAL PERFORMANCE INDEX



THE KENYA INSTITUTE OF MANAGEMENT

**For more information about OPI,
contact:**

Tom Onguru
Relationship Manager
Tel: 0700116599
tonguru@kim.ac.ke

or

Maurice Sirengo
Relationship Manager
Tel: 0722631770
Email: sirengo@kim.ac.ke

or

Visit: www.opi-africa.com



ORGANISATIONAL PERFORMANCE INDEX



Since 1931

THE KENYA INSTITUTE OF MANAGEMENT

THANK YOU FOR LISTENING