Five basic methodologies for assessing SMBs and Micro-Enterprises
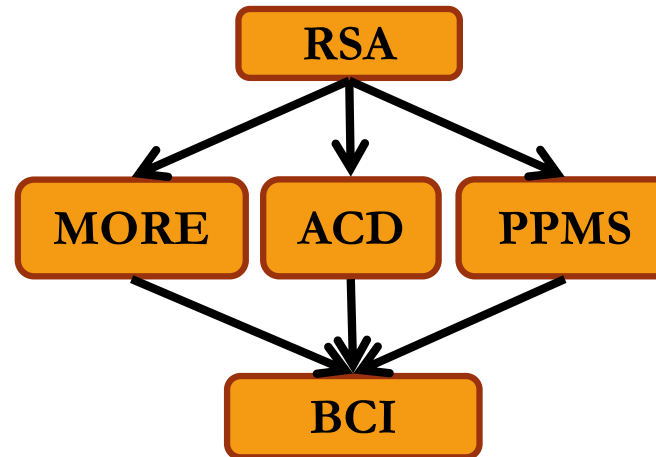
Torino, March 2012

Summary

GcM Consulting proposes methodologies that may be applied to research facilities, businesses, and organisations committed to development, optimised for the success of medium, small, and micro enterprises.

The purposes served by the individual methodologies are:

- **RSA™:** or **Rapid Strategic Assessment**: quickly evaluates the strengths and improvements to be made regarding: strategies, markets, management organisation and tools of a business or cluster of businesses.
- **MORE™ or Multi Objective Rating Evaluation:** rapidly evaluates the economic and financial soundness of a company, partners, suppliers, clients, and competitors with an approach based on the international rating system.
- **DCA or Distinctive Competencies Analysis:** identifies, manages, and cultivates competencies that characterise and generate value for a company in the short, mid, and long term.
- **PPMS (Products, Processes, Methodologies, and Services):** controls the business components of a product along its entire lifespan with a systemic approach, updating the inputs essential for profitability.
- **BIC or Balance of Intellectual Capital:** highlights the intangible resources of a business and its strong points over time to establish and develop its competitiveness.

The main synergetic connections are:

Short-/mid-/long-term objectives

Strategies for attaining them

Operating environment

partners
competitors
clients
suppliers

RSA

Organisation

Economic indexes

Operative indexes

+ MORE™; economic financial strategies

+ DCA: distinctive competencies analysis

+ PPMS: strategies for product development

+ BIC: evaluation of intangible resources
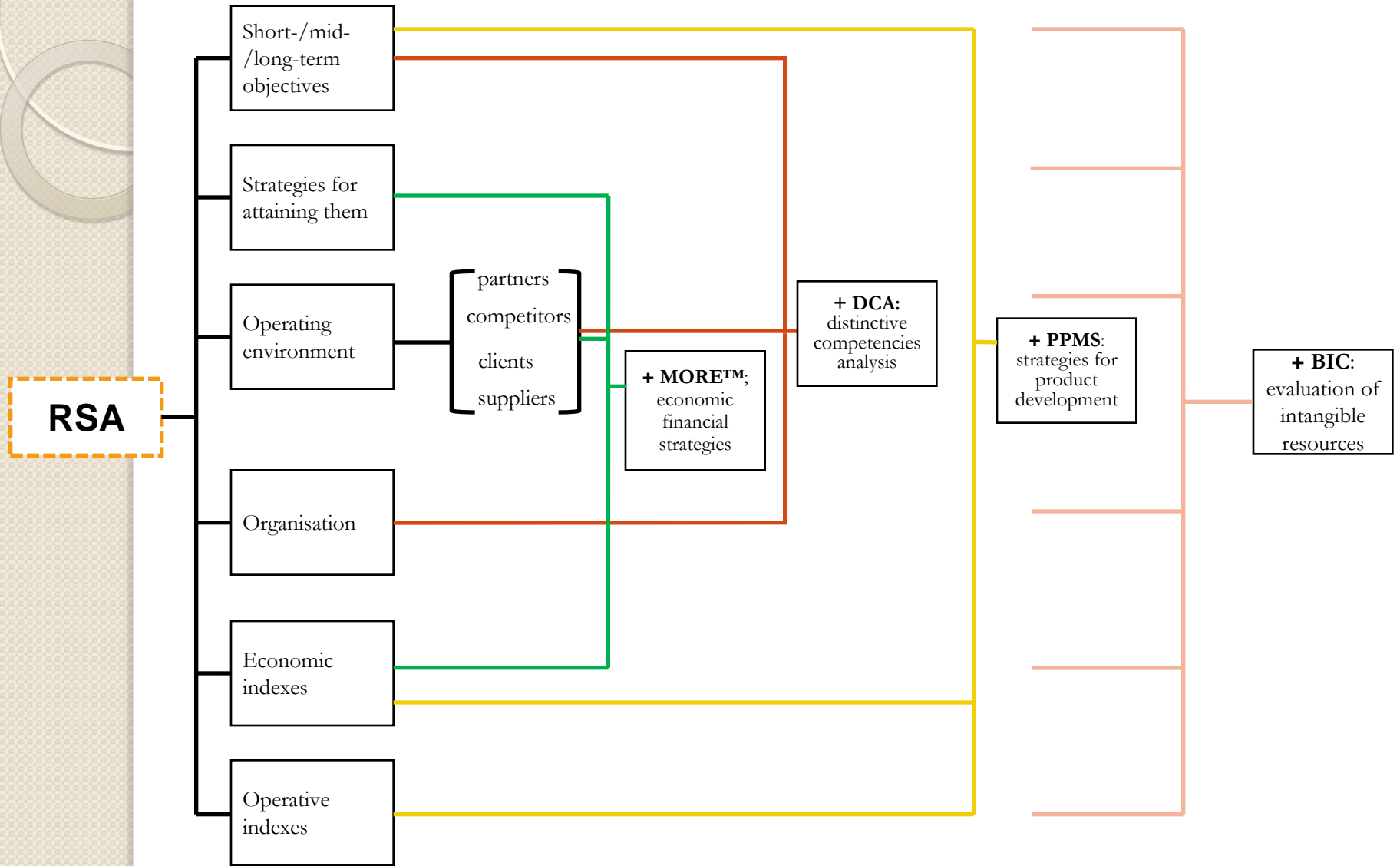
RSA^{TM}, in particular, may be integrated with other methodologies to render them more effective in meeting a company's needs

RSA™ integrated:

➢ with **MORE™** allows the selection of economic-financial strategies best-suited to the operating environment at hand (partners, clients, supplier, and competitors);

➢ with **PPMS** allows the distribution of resources dedicated to product development over time (short-/mid-/long-term);

➢ with **DCA** suggests the management of Human Resources (increase, acquire or outsource) in function of corporate and competitors' complexities;

➢ with **BCI** indicates the areas of increase or decrease of structural and relational human capital over time.
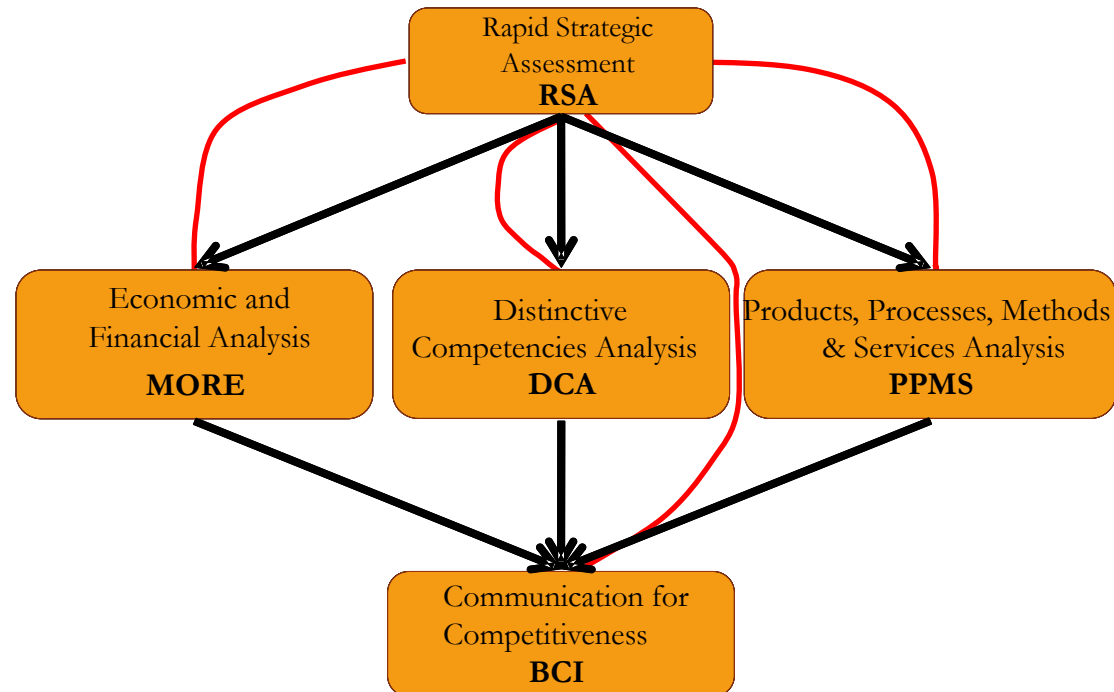
Summary

Presentation of the 5 methodologies and their application for SMBs

1. **RSA™: Rapid Strategic Assessment**
   a. **What is it? / How is it applied?**
   b. **What does it do?**
   c. **Benefits / References**

2. MORE™: Multi Objective Rating Evaluation

3. DCA: Distinctive Competences Analysis

4. PPMS: (Innovative) Products, Processes, Methodologies, and Services

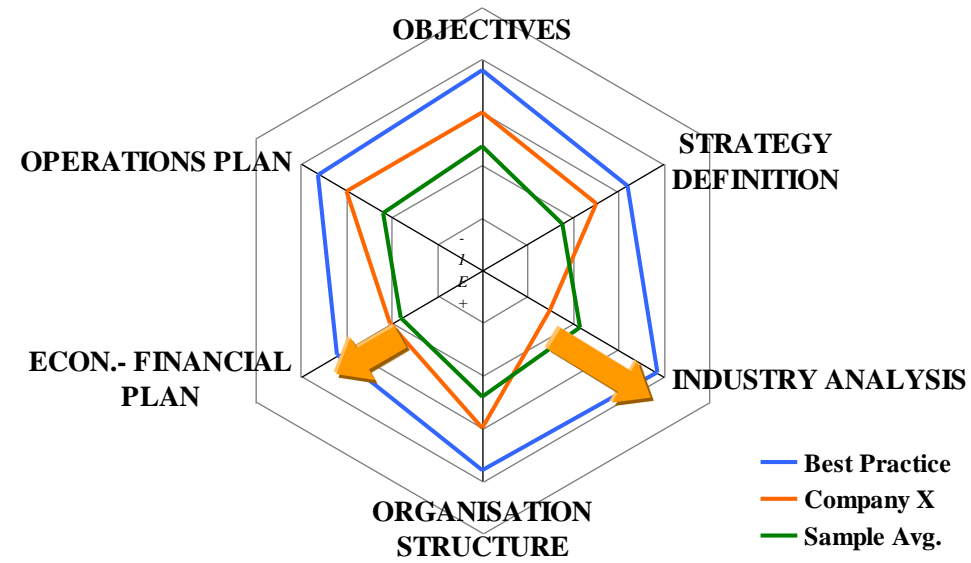5. BIC: Balance of Intellectual Capital

6. Next steps
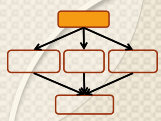
RSA™ is a methodology for analysing an SMB or a Micro Business with a series of specifically structured steps
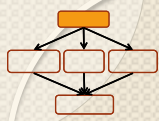
- The methodology of evaluating a business takes place by means of a rapid, **three-phase process** as follows:

  ➢ Preliminary analysis and work plan

  ➢ Interviews, their elaboration, and identifying a strategic profile

  ➢ Sharing and defining of improvement interventions

- The 'heart' of the analysis is the model based on **6 main areas** of study and **18 sub-areas** of detailed study, as well as reciprocal **interaction**.

- The application of the RSA methodology begins with **an interview** consisting of open questions to be answered by the entrepreneur and/or company management.

- The interview is followed by the **elaboration of the data acquired**, their **validation** by those interviewed, and the company being attributed a **RSA score** by the work group.

- A second meeting takes place during which the company profile drafted by the company officers is compared with similar companies (best practices), the results obtained are discussed, and the potential improvement interventions are indicated.

- If the company so desires, an improvement plan may be drafted to establish the successive steps to be taken.

RSA™ is a flexible tool for a quick and sufficiently precise diagnostic analysis of an SMB or Micro-Business

- **RSA™** is a proven methodology that rapidly attains an initial identification of the **strong and weak points of a company** and allows **priority interventions** to be defined relatively quickly at a cost lower than that what might be obtained with other methodologies currently in use.

- More specifically, the application of the RSA methodology makes it possible to determine

  ➢ a **synthetic profile** of the company based on the 6 areas of analysis.

  ➢ an **analytical profile** of the **18 sub-areas** where priority structural improvements can be pursued.

  ➢ an analytical and synthetic comparison with other 'best in class' companies and others (**GcM Consulting proprietary database**).

  ➢ if believed to be useful, a **growth plan** may be established.

OBJECTIVES

STRATEGY DEFINITION

OPERATIONS PLAN

INDUSTRY ANALYSIS

ECON.- FINANCIAL PLAN

ORGANISATION STRUCTURE

— Best Practice
— Company X
— Sample Avg.

This methodology has already been applied to companies in various industrial sectors in Italy.

- **RSA™** has been applied to about one-hundred companies over the past two years.

- The **RSA™** methodological approach, applied several times in similar situations, **allows a reduction of more than 80% in the time** required for corporate **assessment**.

- Up until today, more than 95% of the beneficiaries have declared that they are either satisfied or very satisfied with the results.

- The technological sectors of the companies that have most frequently been subjected to such applications are:
  - ICT,
  - electronics/ electro-technics,
  - engineering,
  - chemical,
  - bioengineering,
  - energy and the environment
  - advanced business services.

Summary

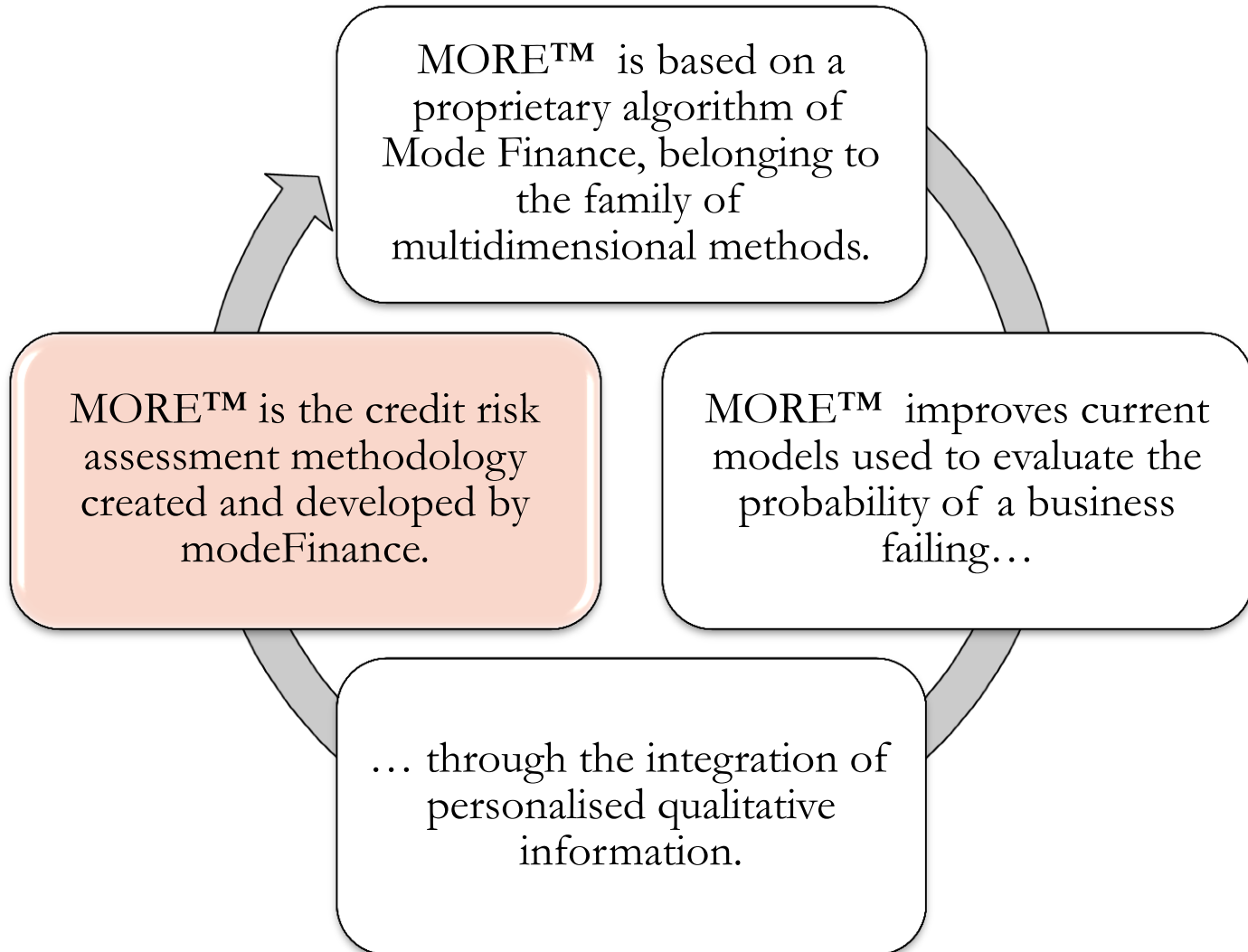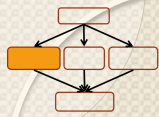Presentation of the 5 methodologies and their application for SMBs

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3. DCA: Distinctive Competencies Analysis

4. PPMS: (Innovative) Products, Processes, Methodologies, and Services

5. BIC: Balance of Intellectual Capital

6. Next steps

MORE™ (Multi Objective Rating Evaluation) is a multidimensional methodology used to evaluate the economic-financial soundness of a capital stock company.

MORE™ is based on a proprietary algorithm of Mode Finance, belonging to the family of multidimensional methods.

MORE™ is the credit risk assessment methodology created and developed by modeFinance.

MORE™ improves current models used to evaluate the probability of a business failing…

… through the integration of personalised qualitative information.

# MORE™ (Multi Objective Rating Evaluation) is used to evaluate the economic-financial soundness of a capital stock company.

MORE™ can be used to analyse individual companies as well as clusters of businesses (for example, in a specific territory) or specific industrial sectors. It enables the user to evaluate the capacity of the subjects analysed to sustain their competitiveness from an economic-financial point of view and to monitor the economic-financial structure of these sectors over time.
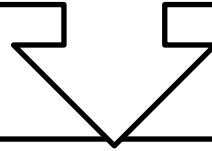
MORE™ also enables the user to analyse and derive useful information on the **players the company maintains relations with** (competitors, clients, suppliers, partners) and the territories or sectors in which it operates or is considering entering.
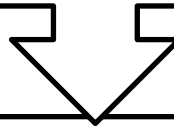
MORE™ is useful for:

- Gathering and elaborating economic-financial quantitative information (market trends, margins, leverage, ROI, ROE, etc.)

- Comparing a company with a suitable 'Peer Group' of Italian or foreign companies

- Assigning a rating (from AAA to D) to the companies examined, after taking into consideration their public data.

MORE™ receives much positive feedback from its clients/users seeking a transparent and balanced economic – financial analysis of the agents it deals with.

For example:

• *CHUBB Insurance* «Before finding modeFinance we had had positive business assessments even with our balance sheet in the red, as we were assigned a positive score for having paid our utilities bills. This is unacceptable for us.
Instead, after having found modeFinance, we were very impressed by the evaluation obtained with MORE(™). Their approach to the financial analysis of a company, even if much more complex than ours, is in fact the first automatic analysis tool that is most like our company analysis approach.

• *Piaggio Group* «Over recent years, modeFinance has proven to be our best partner in responding to our specific requests for monitoring the credit ratings of our strategic suppliers worldwide. This result was achieved thanks to the quality and accuracy of their financial reports. Following our rapid growth on an international level, we are developing a credit risk rating platform for each supplier together with modeFinance, thereby reaching a global analysis of our group on European and Asian markets.

Summary

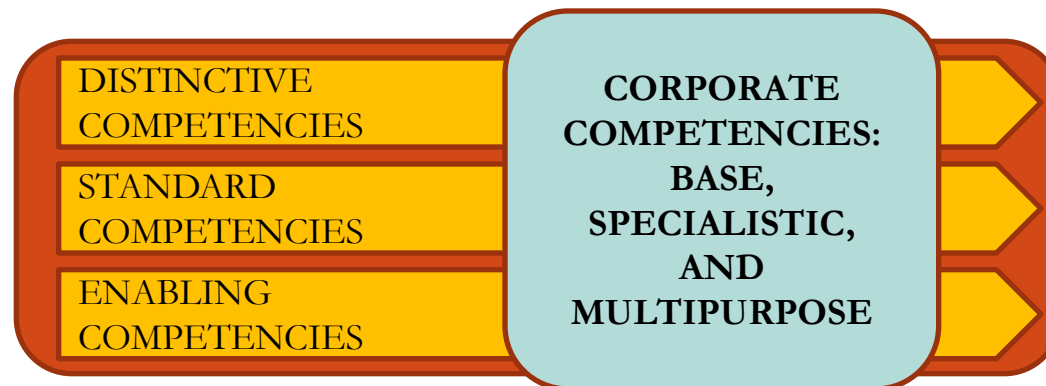Presentation of the 5 methodologies and their application for SMBs

1. **RSA™**: Rapid Strategic Assessment

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4. PPMS: (Innovative) Products, Processes, Methodologies, and Services

5. BIC: Balance of Intellectual Capital

6. Next steps

The Distinctive Competencies Analysis (DCA) is a methodology that allows a business to identify the competencies it should possess and which opportunities should be invested in or disinvested.
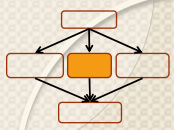
Constantly, and above all in times of crisis, it is necessary to identify distinctive competencies, be they proprietary or acquired, distinguishing between:

- **Distinctive Competencies** are those that characterise the Company and are difficult to train and copy. These are also necessary for the success of the company in the short, mid, and long term. The objective of the Company is to maintain and develop them.

- **Standard competencies** are those that are more easily available outside of the company and that can therefore be outsourced with economic and organisational advantages.

- **Currently enabling competencies** are those required by the company to attain success in the short and (to some extent) mid-term. The objective of the company is to maintain them and then reconvert them or transfer them out to clients who subsequently develop them as distinctive competencies.

DISTINCTIVE COMPETENCIES	CORPORATE COMPETENCIES: BASE, SPECIALISTIC, AND MULTIPURPOSE
STANDARD COMPETENCIES	
ENABLING COMPETENCIES	

Source: elaboration by GcM Consulting

In particular, DCA is a methodology that allows the business to articulate the distinctive competencies of those who deal in R&D and innovation, with the competencies that are indispensable for optimising technological transfer
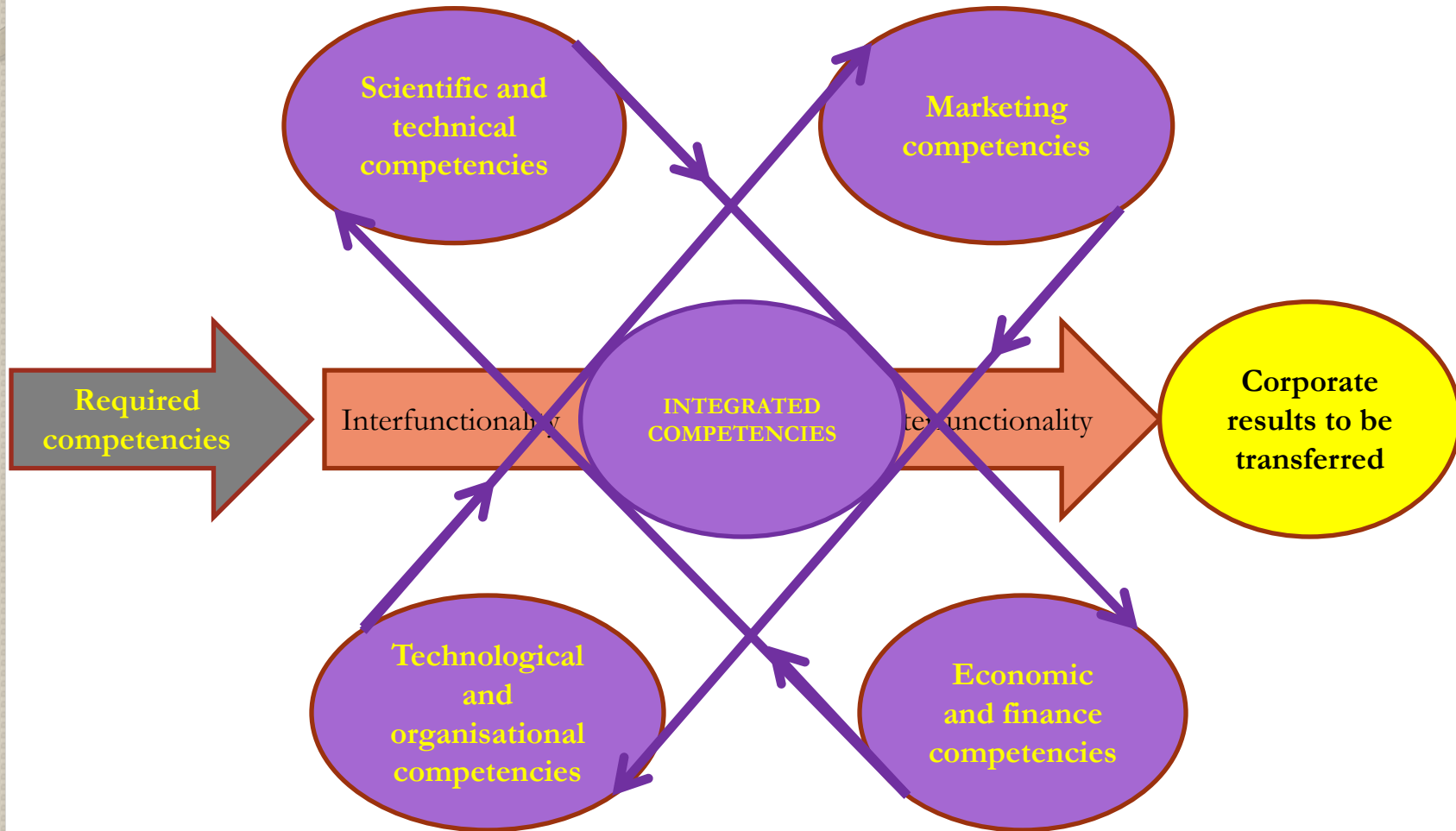
The Distinctive Competencies Analysis contributes numerous benefits on individual, corporate, and systemic levels.

- On an individual level:
  - ➢ It enables the identification of **existing competencies**, on multiple levels of definition, in individuals.
  - ➢ It favours training or the **reconversion of persons** (with competencies that are no longer necessary/indispensable, or their mobility).
  - ➢ It enables the **competencies of individuals to be correlated with the activities** to which these same people are assigned or may be assigned, depending on their skills and experience or workload.

- On a corporate level:
  - ➢ It illustrates **the map of existing (or lacking) distinct competencies** on the short or mid-term (competencies of the individuals plus HW and SW).
  - ➢ It establishes the **training needs** of human resources in the short and mid-term and the need to acquire HW and SW to optimize the use of competencies.

- On a systemic level:
  - ➢ It helps to keep the definitive model of competencies updated and to experiment with new methods of assessment ("top-down", "bottom-up", mixed, …)

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The PPMS (Products, Processes, Methodologies, and Services) forms collect the information of company output in a structured manner to optimise their transfer to the market.

In order to define an innovative output (PPMS), the following are necessary:

- Description of the result (technical and functional characteristics)

- Level of current research (stage of development and result)

- Forecasts (development phases, transfer, production start-up …)

- Advantages over the state-of-the-art

- Situation of the competition

- Criticalities foreseen for the development, industrialization, and distribution

- Objectives and cost and investment analyses

- Collaborations

- Patents or other Intellectual Property rights

- Further potential developments of the result

- Potential industrial sectors of application (business models and supply chains)

- Potential fallout and impact

PPMS forms are used to control corporate output, intended as results that can be sold externally and help to:

Draft a **business summary** for each corporate output

Obtain **contributions focused** on one's own output, whether from inside or outside of the company

Define a **system of objectives** focused on product development priorities

Define, together with the world of research, a **concrete contribution** to the company's need for innovation: state-of-the-art analysis, scientific-technical support, new technologies for existing and new products, new professional profiles

Select the most useful methodologies for obtaining information necessary to the **development of saleable results**

PPMS forms were developed and applied initially with the FIAT Group during the 1980s and have gained other significant applications ever since:
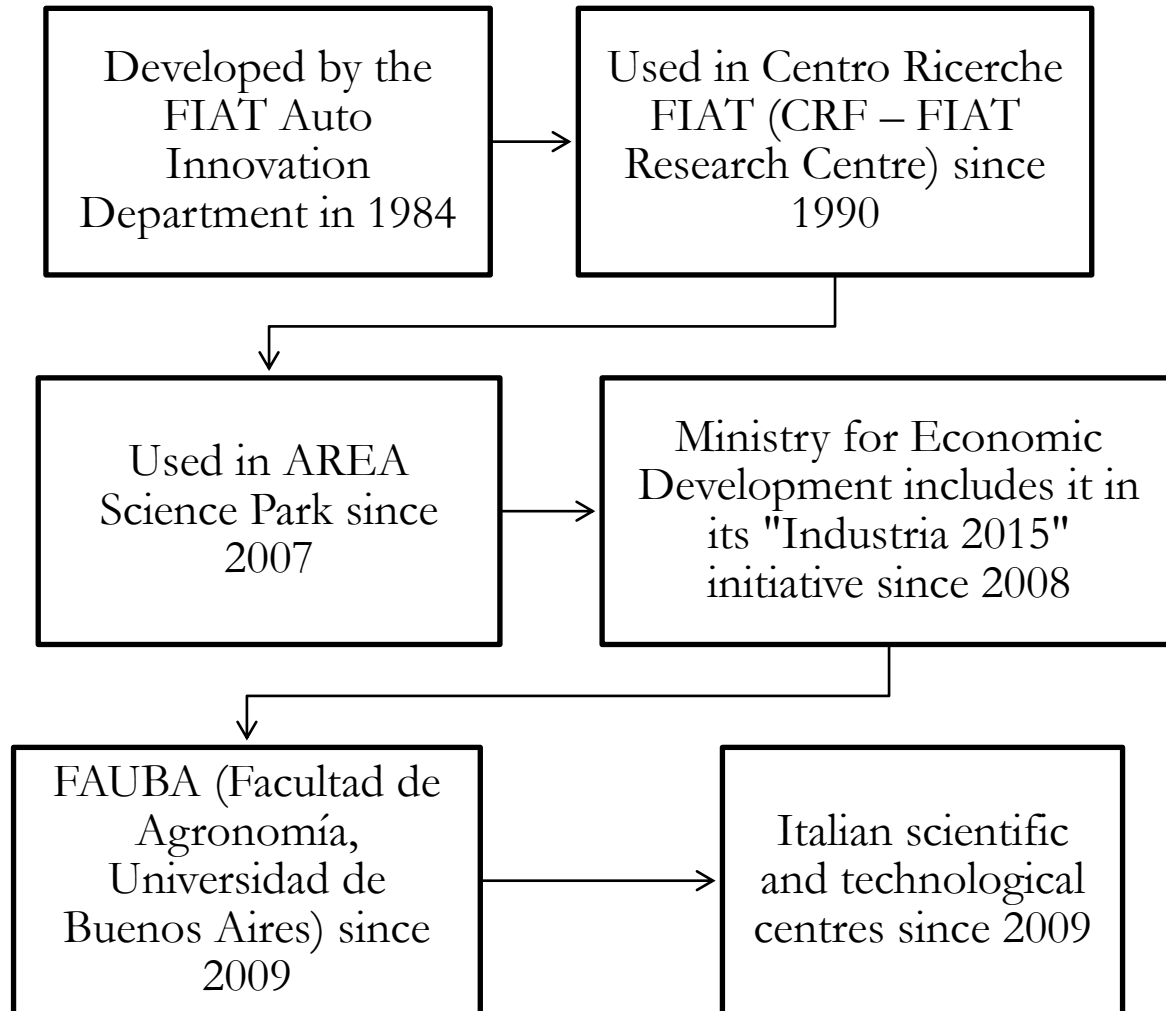
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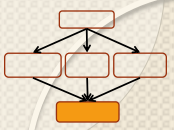
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The Balance of Intellectual Capital (BIC) is a methodology for evaluating the intangible assets of an organisation (a corporation or business)

The BCI is a document that defines the intangible assets of a business, or in other words, that set of knowledge, skills, and relationships that constitute essential elements in the process of creating value. The elements that make up the IC can be divided into 3 categories:

Human capital, **relational** capital, and **structural** capital.

The **Human Capital** (or thinking capital) is the set of skills, capacities, and expertise gained by those who work in the company. Given that the people are in a company only temporarily, it is opportune to convert human capital into structural capital by sharing skills and expertise.

The **Structural Capital** (or thought capital) is the property of the company and consists of results and elements that support individuals in fulfilling their job requirements: patents, brand names, software, codified processes, industrial secrets, etc.
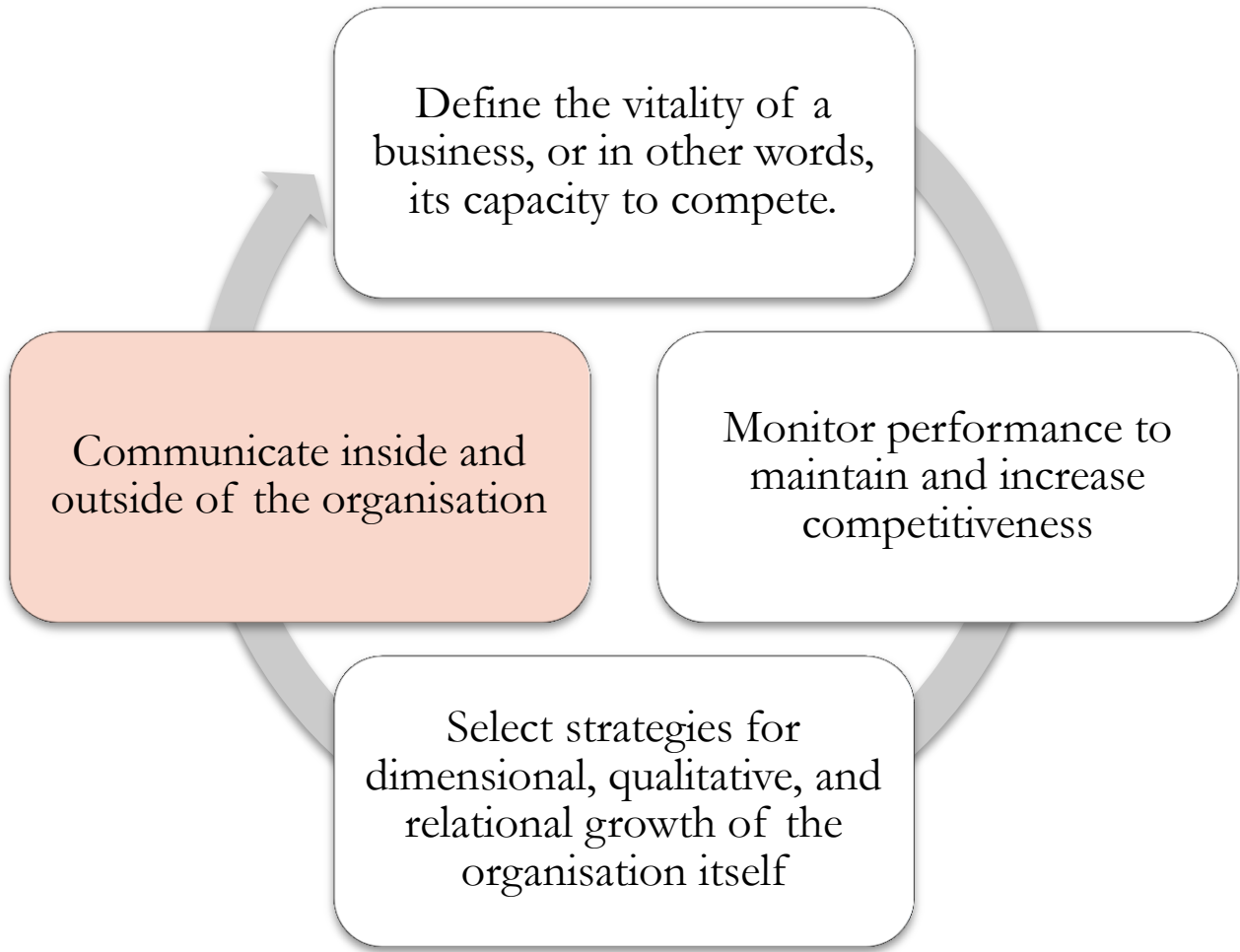
Relational Capital encompasses all those direct and indirect relations that the structure establishes with stakeholders, not only clients, but also suppliers, financial backers, partners, public agencies, the local community, etc.

The management of Intellectual Capital, in order to be efficient and effective, requires the management of various components and the inter-relationships between them, in order to increase know-how useful for creating value.

Source: elaboration by GcM Consulting
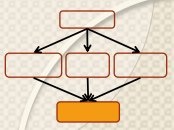
The Balance of Intellectual Capital (BIC) is used to evaluate the *soft* resources of an organisation and the effort made over time to establish and develop competitiveness.

The Balance of Intellectual Capital is used to:

Define the vitality of a business, or in other words, its capacity to compete.

Monitor performance to maintain and increase competitiveness

Select strategies for dimensional, qualitative, and relational growth of the organisation itself

Communicate inside and outside of the organisation

Source: elaboration by GcM Consulting

The Balance of Intellectual Capital is an approach that has already been used in Italy an abroad for many years:

- The IFAC (International Federation of Accountants) has proposed the measurement of Human, Structural, and Relational capital since 1999.

- Balance of Intellectual Capital is carried out by: Skandia, Nokia, Carl Bro Group, Coloplast, Hofman, Bang, COWL, Dans System Industry, Systematic, Dow Chemical, PLS Consult, Celemi, Ericsson ABB, Microsoft, Shell, Unilever …
  In Italy: Brembo, Sapa, CRF, BANK d'Italia, AREA Science Park, ICTP, Sincrotrone, Università degli Studi di Trieste …

- Since 1999, Baruch Lev (USA and CH) has compiled the Annual Knowledge Capital Scorecard for 22 sectors and for 205 companies.

- The ASC (Austrian Research Centers) has been publishing the Intellectual Capital Report since 1999 and, since 2001, all Austrian universities must produce a report on intellectual capital based on the ASC system (Site:ac.at).

- In Australia, Professor Sveiby developed software known as Tango, used by more than 30,000 companies worldwide (October 2001), including: BHP Australia, China Light and Power Hong Kong;, Deloitte, Fuji Xerox Japan, Hewlett IBM Europe, Intel USA, Mobile Telephone Network (MTN) South Africa, National Air & NASA USA, Oracle USA, Volvo AB …

We are missing an opportunity to sell our competitiveness.

Source: elaboration by GcM Consulting

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6. **Next steps**

The next steps to start up a company improvement project:

- **Define intervention priorities**

- **Select the methodologies** to be used according to the priorities defined

- Identify the field of intervention, the **objectives** to be reached, a **time frame** for attaining them, and the **investment** required

- **Project start-up**