THE SUCCESS

IN

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Executive Summary

IRIZAR is a luxury coach builder and a part of large Co-operative Corporation (MCC) with share holdings in five other countries. It went through crisis in the 1990s as a result of changes in internal and external environments. To survive in the crisis and regain competitiveness in the market place, Mr. Saratxaga was appointed as the new leader of the company. He made revolutionary changes (i.e. change in mission and business model through participatory management) and was able to achieve trajectory growth rate in sales and expansion into other countries.

The key elements of Irizar's business model included: flat organization (with decentralized autonomy of responsibility and control of own goals), value proposition (i.e. how value was delivered through human resources structure and its value networks), Target market segment (i.e. focused on luxury coaches in premium market), values chain activities (i.e. inter-play of interaction and communication between employees, teams, customers and suppliers in service delivery), Partner Networks (i.e. communication and distribution channels in the network) and Core competencies (i.e. leadership skills, recruitment process and incentive system).
The features interconnect to create a network focused on building capacity for innovation, which created long term learning for Irizar.

For Irizar to sustain the business model for long term growth however, it needs to make some choices. For example, they should implement control systems e.g. accounting controls and object controls like personnel controls, action controls and cultural controls for proper allocation of resources and responsibilities, and also steer the direction of the company towards its goals. Other choices available include performance management tools like balance scorecard to communicate the strategy within and across units of the partners in the network. Lastly, interactive control system and social network analysis (SNA) can be implemented to respond to uncertainties that may evolve within the network and especially as the company grows. These control systems however require training, motivation, commitment, clearer communication channels to make them workable.
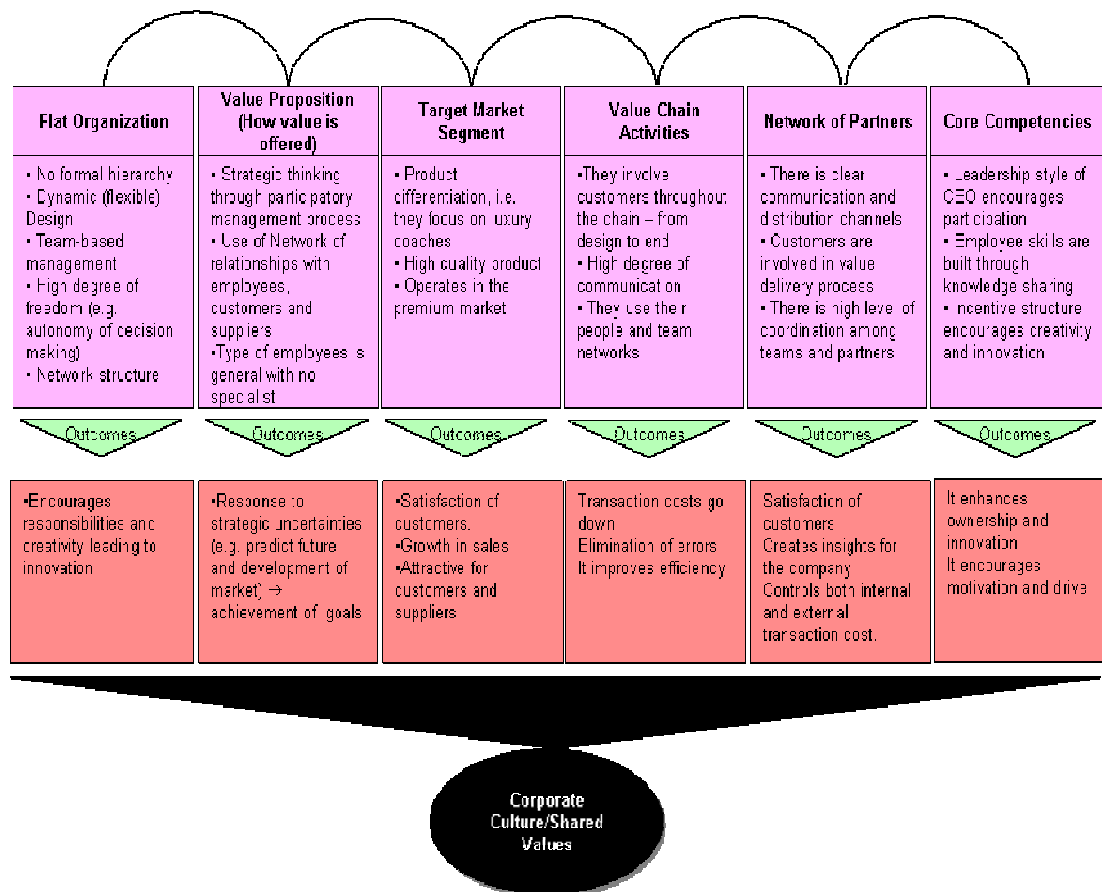
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1 What are the features of Irizar's business model?

The features of Irizar's Business Model determine the critical factors which influence strategic changes in the company. These features are interconnected based on the 7-S McKinsey model described in the figure 4 in agreement with Forcadell. F.J et al (2002), on the Knowledge Management Strategy of Irizar.[1]

Based on the case analysis, the main features are presented (see figure 1 below) critical to value creation in the delivery process. In effect, they interact to form the corporate culture or the shared values that the people stand for and believe in.

1.1.1 Figure 1: Main Features of Irizar Business Model.

Flat Organization	Value Proposition (How value is offered)	Target Market Segment	Value Chain Activities	Network of Partners	Core Competencies
• No formal hierarchy • Dynamic (flexible) Design • Team-based management • High degree of freedom (e.g. autonomy of decision making) • Network structure	• Strategic thinking through participatory management process • Use of Network of relationships with employees, customers and suppliers • Type of employees is general with no specialist	• Product differentiation, i.e. they focus on luxury coaches • High quality product • Operates in the premium market	• They involve customers throughout the chain – from design to end • High degree of communication • They use their people and team networks	• There is clear communication and distribution channels • Customers are involved in value delivery process • There is high level of coordination among teams and partners	• Leadership style of CEO encourages participation • Employee skills are built through knowledge sharing • Incentive structure encourages creativity and innovation
Outcomes	Outcomes	Outcomes	Outcomes	Outcomes	Outcomes
•Encourages responsibilities and creativity leading to innovation	•Response to strategic uncertainties (e.g. predict future and development of market) → achievement of goals	•Satisfaction of customers. •Growth in sales •Attractive for customers and suppliers	Transaction costs go down Elimination of errors It improves efficiency	Satisfaction of customers Creates insights for the company Controls both internal and external transaction cost.	It enhances ownership and innovation It encourages motivation and drive

Corporate Culture/Shared Values

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[1] Source: Knowledge and Process Management, www.interscience.wiley.com (May 8, 2007). See diagram in question 3 on interconnectivity of features of Irizar' Business Model

2   What allows this business model to work?

Irizar' Business Model captures real value through a network of activities with its major stakeholders including; customers, partners, owners, employees and suppliers. Creating a sustainable competitive advantage, in an increasingly dynamic and competitive environment (i.e. uncertainty); Irizar will have to make relevant choices. Three choices are available: **1) Management Control Systems 2) Performance Measurement System and 3) manage the network**. A Social Network Analysis should be performed and furthermore implement Interactive Controls Systems to identify and capture key individuals in the network. This also allows for the creation of contingency plans/strategies.

Forcadell. F.J et al (2002), reports that *the process of creation, storage, distribution and application of new knowledge has been systematized (with Knowledge Management Tools) in Irizar through working, supported by values like trust and tolerance.* This indicates that more conventional control and performance systems are necessary to sustain the model in case of unpredicted happenings like:
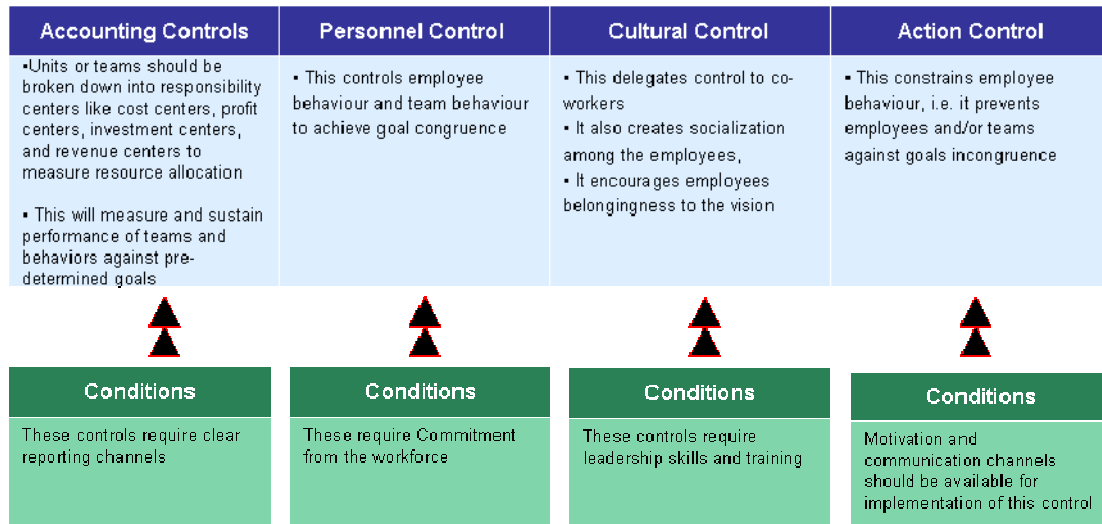
a) Saratxaga leaves the company

b) The company continues to expand into other product areas and regional areas with less regard for such a model.

c) One or more members begin to break trust and behave opportunistically and,

d) Unpredicted changes in the competitive environment might requires different business model

Irizar should not design a different system, but, revise the existing reporting channels and incrementally change and become more sustainable. I.e. monitor, measure performance and make someone responsible and accountable.

2.1 Management Control System

Irizar should design a control system that monitors activities and control the respective recourses efficiently and effectively, in meeting organizational goals. This is essential because different tasks need different resources, hence there is the need for monitoring processes and control. The figure 2 below defines the objects of control framework and accounting control and their enabling conditions as relevant choices in a management control system.

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2.1.1 Figure 2: Management Control Systems

Accounting Controls	Personnel Control	Cultural Control	Action Control
▪Units or teams should be broken down into responsibility centers like cost centers, profit centers, investment centers, and revenue centers to measure resource allocation ▪ This will measure and sustain performance of teams and behaviors against pre-determined goals	▪ This controls employee behaviour and team behaviour to achieve goal congruence	▪ This delegates control to co-workers ▪ It also creates socialization among the employees, ▪ It encourages employees belongingness to the vision	▪ This constrains employee behaviour, i.e. it prevents employees and/or teams against goals incongruence
Conditions	**Conditions**	**Conditions**	**Conditions**
These controls require clear reporting channels	These require Commitment from the workforce	These controls require leadership skills and training	Motivation and communication channels should be available for implementation of this control

These control systems increase commitment, responsibilities and performance measurement suitable for the members of the network.

To foster innovation, the controls should not be too tight to because it is essential to foster and keep the flexible culture (which is the innovation enabler). On the other hand, controls should not be too loose; as it grows into other areas there is higher probability of cultural clash and relatively tight controls are necessary. For example, action and personnel control, with key performance indicators, should be tighter than cultural controls where core values of the company are communicated.

2.2 Performance Management Systems

For Irizar to sustain its Business Model, may use tools like **Balance Scorecard** to communicate its strategy and team goals through the organization. Furthermore, the Balance Scorecard can replicate business models activities and goals to other countries where, Irizar is represented. It can also be easily adapted to Irizar's business model.

The organizational structure of Irizar, which is supported by network of relationships and activities, requires the Balance Scorecard to be implemented at the functional level and not at the individual level. This is to avoid constraints/restrictions of innovation which begins at the roots (or individual level) of the organization.

2.3 Interactive Control System

Irizar should add Interactive Control System to manage the network between people, teams, customers and suppliers. In managing the interaction between players in the network, one should identify gaps to be improved (e.g. customer preferences, innovation, etc). Furthermore, the company is advised to influence direction of interaction and learning among teams/persons and across firms. Ergo Irizar is advised to perform a Social Network Analysis and make them interactive (See sample in figure 3 below).

In the network below, groups of four or five interact among themselves and between team leaders within the company. The customer-lines allow coordinating teams to interact with customers and suppliers continuously. The interaction is a two way process where information is shared between the participating members in the network where learning is achieved. In the value chain, from customer call-ins to manufacturing processes to the end of product, these players continuously interact and hence SNA and interactive control systems are necessary.

2.3.1   Figure 3: Sample of a proposed Social Network Analysis (SNA) at Irizar

Sample of Social Network Analysis for Irizar
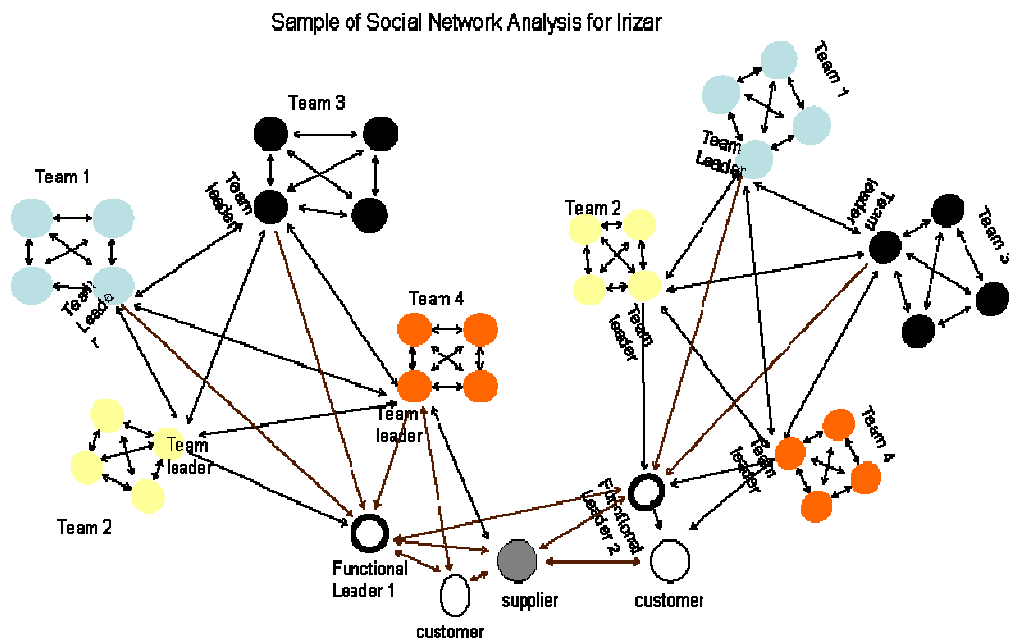
2.3.2 Conditions

- ▪ Training/Leadership Skills – In this kind of network, training is required to increase leadership skills. Leaders and all the employees who assume

leadership roles will empathise, collaborate, motivate, communicate and influence one another for effectiveness and efficiency. Furthermore, the rotation of leaders within the team enables all the respective employees to understand what is required from a team leader and respect the leader decisions.

▪ Communication and Information Channels – This network analysis requires clear communication and information channels in identifying core informal roles in the organisation (i.e. personnel that informally possesses a unique and core network essential for the organisation to function)

3 The interconnection of the business model's features, and why it has worked well

Irizar captures value by taking in resources or inputs generated within the company. These inputs include personnel, leadership, innovation, partnership, etc. The economic inputs or results are the value created out of the way the business model is organized. In the diagram below, the features of the business model are interconnected with one another in a network fashion, able to convert them into results. The results or outcomes also give indication of adjustment to business model and then creates new requirement of inputs.

3.1.1 Figure 4: Interconnectivity of Irizar Business Model Features (adapted from 7-S McKinsey Model)

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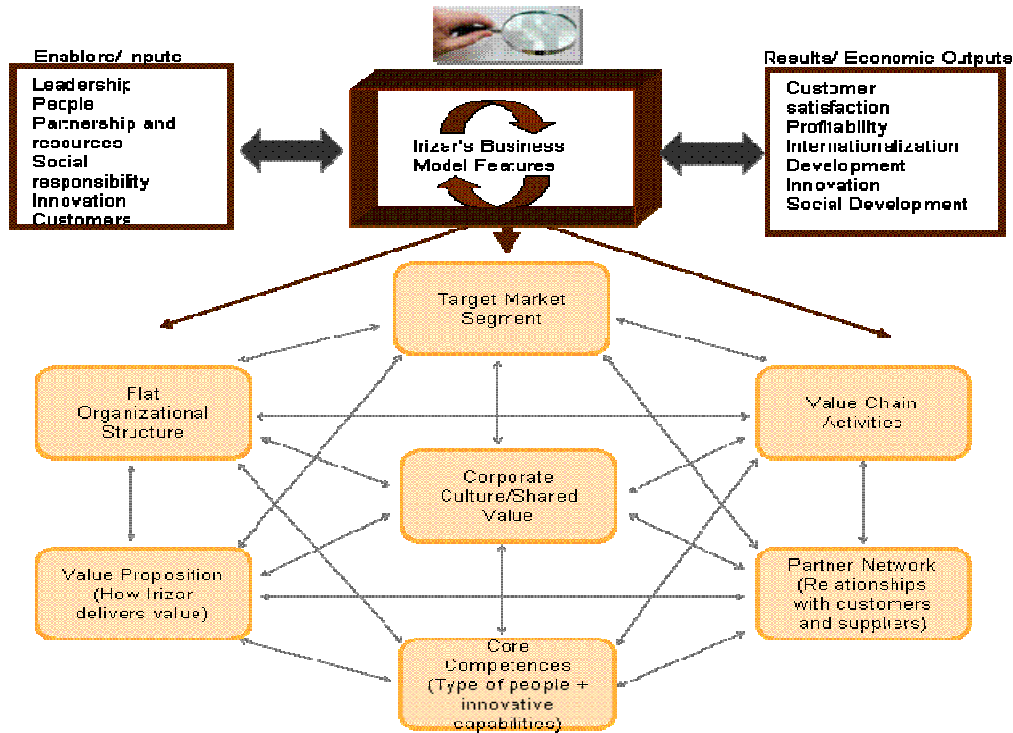
From the diagram above, it can be seen that the features interact with another to make this business model of Irizar to work. Major interactions are briefly discussed below.

- Organizational Structure and Value Chain.

  The flat organizational structure allows significant interaction between employees, teams and partners (customers and suppliers). This will enable equality and respect, thus increasing the motivation among the employees. The employees work across the organisation (with suppliers and customers) to create an on-time, high quality product. Making the team performance transparent in the organisation and base the incentives on organisational performance, will steer employees towards a common goal. Furthermore, Sarataxa's leadership style allows for an environment of creativity and innovativeness.

- Core Competences/Value Proposition/Market Segment

  The shared vision (participation as a strong value) encourages commitment to the common company jargon, dreams and team involvement. This enables an environment of tacit knowledge transfer between the employees allowing competence building and innovation creation. The customer interaction with the Irizar teams allows the company to tap into unique source market knowledge.

- Employees and Partner Network (Suppliers and Customers)

  Irizar has a strategy to keep excellent working relationship with the suppliers and

customers, thereby aligning partner interests to achieve a common goal.

The business model has been working well because of:

- The recognition and allegiance to the vision and shared value of the Corporation, i.e. project based on participation and mutual trust.
- The leadership style of the Saratxaga which has rippled down to other employees
- Recruitment process; the type, training and commitment level of new employees
- The network itself, which has been the source of knowledge management (KM) and innovation which is close to impossible to imitate, and
- Installation of KM tools to convert and transfer knowledge effectively, i.e. tools like information and communication, education and training, working teams and committees, external relations, etc foster knowledge sharing. Unique measurement systems in Irizar are not only focusing on quantitative measures but strategic objectives as well. **Forcadell. F.J et al (2002).**

4 The role of innovation in the business model and in its enabling conditions

The interconnectivity of the features in the business model gives rise to shared learning process, capability building and hence evolvement of knowledge management as an innovation strategy at Irizar. The role of innovation is encapsulated in the features or building blocks of the business model that captures real value to the customers and all other stakeholders in the network. The following statements below give a snapshot of the role of innovation in the network.

- It builds a stronger culture through participatory decision processes, i.e. "*project based on people*" → *Creation of Knowledge*
- It converts individual or team tacit knowledge into explicit knowledge that can be stored, useful and add value to the entire network as a continuous learning process, within and outside of the organization.
- It builds capabilities and abilities (i.e. core competencies) on which value proposition (i.e. mode of value delivery) is delivered
  → *Storage of Knowledge*

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- It conveys structured information giving rise to efficient processes and products along the customer lines

- It also makes sure that the knowledge developed within the organization gets to the right people, at the right time, to improve the functioning of the organization

  → *Distribution of Knowledge*

- It develops competences through shared leadership, shared knowledge and team work to apply the knowledge as efficiently as possible.

  → *Application of Knowledge*

This together make up what is referred to as the KM cycle by Forcadell. F.J et al (2002), in their case study on the implementation of Knowledge Management Strategy Oriented to Innovation of Irizar.

Figure 5 below gives general roles and enabling conditions of innovation within the main features of Irizar's Business Model.

4.1.1   Fig. 5: Roles of Innovation in Irizar's Business Model.

Business Model Elements	Role of Innovation	Enabling Conditions
Clear Value Proposition	Increases expected value offered to the market through creativity of individuals and groups	Motivation, Participation, Skills of employees and customer focus
Target Customer Segment	Increases competences to focus on the chosen Luxury market	Personnel , Action Controls and customer focus
Elements of Value Chain	It motivates teams to design own goals and work processes, and to connect across to deliver the overall value of the Irizar.	Interactive controls and Knowledge transmission tools
Cost Structure (Revenue Streams)	It reduces transaction costs across units, i.e. it makes it cheaper to process, store and share information across units. This makes them concentrate on service quality, motivate employees leading to high quality product @ relatively low cost	Clear communication channels and reporting lines
Position in Value Network	Enhances communication and builds relationship or interaction in the value network.	Clear Communication and Reporting Lines
Competitive Strategy	It converts its *shared leadership* strategy to create knowledge pool responsible for creativity in the company	Training and Skills development strategies
Relationship with customers	Innovation creates insights and learning for Irizar with a long-term relationship with customers	Customer focus, Commitment and Performance measurement tool
Core Capacities/Capabilities	It builds information repository within the team and in the organization. This builds core competences as a competitive advantage for Irizar	Interactive Control System to steer goals and leadership quality

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