



Working Resources

Helping Companies Assess, Select, Coach and Retain Emotionally Intelligent People

Newsletter

Making Strategy Everyone's Job

A few years ago, *Business Week* carried a cover story extolling the resurgence of strategic business planning: “*Business strategy is now the single most important management issue ... and will remain so for the next 5 years.*”

After years of reengineering, downsizing and optimizing operational efficiencies, companies are now focusing on new ways to generate distinctive competitive advantages. Strategic planning is back, but with a difference: it is no longer the domain of the CEO and senior executives.

Managers can be so caught up in applying themselves to the crisis of the day that they forget strategy. If the organization's strategy were delivered as a top-down program, there is also the problem of getting buy-in and real commitment from employees.

Smart organizations are changing the way strategy is handled. Companies such as Electronic Data Systems and Nokia have launched participatory strategic-planning programs involving thousands of employees. Influential consultants such as Gary Hamel urge CEOs to include new voices, younger managers and even newcomers, in the strategy-making process.

To keep the planning process close to the realities of markets, today's strategists say it should also include interaction with key customers, end-users and suppliers. Such a key element is a revolutionary step in strategic planning but necessary to help produce what customers really want.

Robert S. Kaplan and David P. Norton, authors of *The Strategy-Focused Organization*, emphasize the importance of making strategy “everyone's everyday job.”

Dr. Maynard Brusman is a consulting psychologist and trusted advisor to the senior leadership team. He is the president of Working Resources, a human resources consulting, training, and executive coaching firm.

We specialize in helping companies assess, hire, coach and keep top talent; executive selection; leadership consulting; 360-degree feedback; change management; interpersonal communication skills; emotional intelligence; performance improvement; culture surveys; career development and executive coaching.

Dr. Brusman is a highly sought-after speaker and workshop leader. He leads mission, values, and vision retreats.

“Maynard Brusman is one of the foremost coaches in the United States. He utilizes a wide variety of assessments in his work with senior executives and upper level managers, and is adept at helping his clients both develop higher levels of emotional intelligence and achieve breakthrough business results. As a senior leader in the executive coaching field, Dr. Brusman brings an exceptional level of wisdom, energy, and creativity to his work.”—Jeffrey E. Auerbach, Ph.D., President, College of Executive Coaching

He has been chosen as an expert to appear on radio and TV, MSNBC, CBS Market Watch, and in the Wall Street Journal, San Francisco Chronicle, and Fast Company magazine.

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Three Questions...

Understanding strategy and how to formulate an effective plan for your organization is a daunting task. To begin, it is useful to ask three questions that any corporate strategist has to answer.

1. What business should the company be in?
2. What are the company's capabilities?
3. Is there a good fit between the business and its capabilities?

1. Where should we put our efforts (and why)?

Companies cannot be all things to all people. Michael Porter, the Harvard Business School professor and author of *Competitive Strategy*, was the first to identify the importance of "positioning." In his book he outlines three generic strategies: cost leadership, differentiation and focus.

Companies have a lot more to deal with now than when Porter wrote this in 1980. At the time, industries had stable, well-defined boundaries. Since then, the marketplace has developed the capacity to change at internet speed and new industries have arisen overnight.

New thinkers argue for bold strategic approaches to stay ahead of rapid change. Instead of being called upon to eke out fractions of market share or revenue growth, strategic thinking should look to change the rules of an industry to its advantage.

Strategists now urge companies to explore unconventional positions. Companies such as IKEA and The Body Shop have stepped outside traditional positions to create whole new market segments. Gary Hamel celebrates these forward-looking companies as "rule-breakers." Hamel encourages revolutionary strategic planning to "*shape the emergence of new opportunity arenas, whether it's branchless banking, satellite telephony, or genetic engineering.*"

Others have urged company leaders to look beyond their traditional business boundaries and focus on the points along the value chain where they will be allowed to make a profit. Some argue in favor of industry segments that are "profit pools," deeper in some places than others. Companies can accept low margins on one kind of business if they make up the difference elsewhere. Thus U-Haul earns most of its profits on selling boxes and insurance, not on renting trucks, where the profit margin is low in order to stay competitive.

2. What do we bring to the table?

This next question examines the company's capabilities. Internal strategy making is based on the idea that what a company *can do* determines what it *should do*. This is similar to the idea of core competencies introduced a decade ago by Hamel and C.K. Prahalad.

For example, Hamel and Prahalad in their book, *Competing for the Future*, cite Federal Express as having a core competency in package routing and delivery. This competency reflects the company's expertise in bar-code technology, wireless communications, network management and linear programming. FedEx's strategy flows out of core skills and technology.

John Kay, former director of the Said Business School at Oxford University, argues that core competencies alone are an inadequate definition of a company's competitive advantage. He is a proponent of what is known as resource-based strategic planning. Kay says that strategists must consider their company's entire package of resources, particularly those that can't be reproduced by competitors.

This includes not just core competencies as Hamel and Prahalad define them, but also patented products, strong brands and reputations, a well-established position in an industry, know-how that takes time to develop, and patterns of relationships with suppliers, customers and end-users.

3. Do our capabilities suit our position?

Capabilities must ultimately match market position. A company cannot focus on a position it can't sustain; and it's fruitless to develop competencies that provide no competitive edge. Porter's recent work in *Harvard Business Review* (Nov.-Dec. 1996), "What is Strategy?" emphasizes the importance of fit.

Southwest Airlines, for example, has fended off competition not just because of its no-frills low-cost strategy, which anyone can copy, but because all of its capabilities fit its strategic positioning. It operates only one kind of airplane, allowing for faster turnarounds. It chooses airports and routes to avoid congestion. The competitive advantage, according to Porter, lies not in any single core competency, but in a whole system of activities. They reinforce each other, and all are appropriate to Southwest's chosen position. Such a system, furthermore, is more difficult for would-be competitors to copy successfully.

Strategy is a Continuous Process

Effective planning requires input from multiple sources. Middle managers decide which initiative to push. Salespeople decide which customers to focus on. Some strategic moves work and others don't—and the company must modify strategy accordingly.

Henry Mintzberg, McGill University professor, describes strategy as emergent: “*A single action can be taken, feedback can be received and the process can continue until the organization converges on the pattern that becomes its strategy.*”

Adopters of The Balanced Scorecard system of measuring strategic performance have been amazed at the way it keeps business units aligned and focused. At the same time, it provides feedback loops for revising strategies on an on-going basis.

While analysis and wise decision making at the top are important, creating the right conditions for effective experimentation and learning are even more so. The process of strategic formulation should be open to new voices and tap into the entrepreneurial energy that can be found in any organization.

At Nokia, the booming telecommunications business in Finland, the top executive team meets monthly with a strategy agenda. The line managers have also been trained to make strategy a regular part of their jobs. Nokia intends to make strategy a daily part of a manager's activities.

What matters is continual probing and testing. A business model may be made obsolete overnight by some change in the marketplace. Companies must be able to test several strategic hypotheses at once.

So what's right for your company? Theorists want to make universal statements that would be prescriptions for every business. But it would be more relevant to look at a company's unique situation and then assess its position in the industry, its internal capabilities, and then the fit between them.

Successful strategy implementation requires commitment and perseverance. It requires teamwork and integration across traditional organizational boundaries and roles. The message must be reinforced often and in many ways. Strategy should be everyone's everyday job.

Good strategies are not enough. They have to be operationalized:

1. They have to be the focus of everyday actions
2. They have to be everybody's job
3. They have to be made a continuous process
4. They have to be mobilized through effective leadership.

The Way Strategies are Measured

For the past 20 years management theories have focused on the importance of defining organizational missions and strategic objectives in order to generate superior performance. Yet companies continue to experience difficulties implementing effective strategies.

A 1998 Ernst & Young study of 275 portfolio managers found that the ability to execute strategy is even more important than the quality of the strategy itself.

A 1999 Fortune cover story about CEO failures concluded that the emphasis placed on strategy and vision created the mistaken belief that the right strategy was all that was needed to succeed. In 70 percent of the cases the failure was due to flawed execution rather than a flawed strategy.

Why? Part of the problem may be in the way strategies are measured, according to Robert S. Kaplan and David P. Norton (2001) in *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*.

In the past, market values of a company were determined by looking at tangible assets. Today one must look at knowledge-based strategies that use the company's intangible assets. These include customer relationships, innovative products and services, operating processes, information technology and databases, and employee capabilities, skills, and motivation.

Kaplan and Norton's previous book, *The Balanced Scorecard*, began with the premise that an exclusive reliance on financial measures in a management system was causing businesses to do the wrong things. Financial measures are lag indicators – they report on outcomes. The Balanced Scorecard approach retains measures of financial performance – and is supplemented with measures on the lead indicators, the drivers of future financial performance.

Some of the first companies to adopt The Balanced Scorecard include Mobil, Chase Bank and Brown & Root Energy Services' Rockwater Division. Each of these businesses executed strategies using the same physical and human resources that had previously produced failing performances, yet each enjoyed substantial benefits from their new strategies early on in their implementation activities. Executives were asked how they achieved their breakthrough results and consistently answered with two words: alignment and focus.

The Balanced Scorecard empowered them to align and focus their executive teams, business units, human resources, information technology and financial resources to the company's strategy. In other words, the strategy became everybody's everyday job. The strategy became operationalized and executed at all levels.

The Balanced Scorecard

Source: Kaplan, R.S. & Norton, D.P. (2001). *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*. Boston: Harvard Business School Publishing Corporation.

The Balanced Scorecard was created by Drs. Robert S. Kaplan and David P. Norton in 1992. It provides a view of an organization's overall performance by integrating financial measures with other key performance indicators around customer satisfaction, internal processes, and learning and innovation.

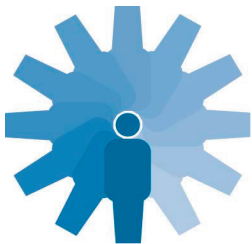
The Balanced Scorecard is customized for each organization. Four perspectives emerge for most:

1. The financial perspective
2. The customer perspective
3. The internal process perspective
4. The learning and growth perspective

Kaplan and Norton's research of successful companies has revealed a consistent pattern of achieving strategic focus and alignment. Each business followed the same five principles:

1. Translate the strategy into operational terms.
2. Align the organization to the strategy.
3. Make strategy everyone's everyday job.
4. Make strategy a continual process.
5. Mobilize change through executive leadership.

Individuals who have successfully led Balanced Scorecard organizations felt that their most important challenge was communication. They knew that they could not implement the strategy without winning the hearts and minds of everyone from middle managers to technologist to back-office staff. But they depended on their employees to find innovative ways to accomplish the mission.



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