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Business Behavior and Development Series

Strategy: Everyone's Job

Mike Nordbye is principal of Proven Strategies, a business and management development firm. Recognizing that companies and situations are unique, Mike adapts the best management and leadership strategies to produce measurable results quickly for his clients. Being sensitive to individual situations, Mike skillfully adapts the philosophy and theory of validated growth strategies into practical, easy to implement solutions that have both immediate and sustainable positive impact on the bottom line. His goal always is to see ideas and systems translated into realities.

Mike holds a Ph.D. in Adult Learning Strategies, an MBA and a Masters Degree in Organizational Behavior and Development. For the past 15 years Mike has been working one-on-one and with groups to create meaningful results over a broad range of industries. Clients describe him as being direct with a sense of humor that provides for a light touch combined with an innate ability to inspire and create confidence.

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.

Academic theories have proliferated and strategy-consulting firms come up with new ideas every few months. A recent book identified ten distinct schools of strategic thought. It is easy to become overwhelmed in understanding what really matters when considering your company's strategic plan.

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*, are the originators of the Balanced Scorecard, a system for measuring strategic performance. They emphasize the importance of making strategy “everyone’s everyday job.”

Today, strategy is the concern of everyone from the top down through middle managers, team leaders, and to front-line employees. And it is even more so at the critical interface between customer and company, i.e. customer services, sales and marketing.

It is easy to be overwhelmed by strategy. Distilling the essential points from popular business books is a daunting chore. The overview that follows here focuses on key ideas and theories. Included is a brief overview of the Balanced Scorecard and the ways that one can use measurement of strategic objectives as a management tool.

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)?

First, let’s look at the “what-business-should-we-be-in” question. Amazon.com has had tremendous success selling books on line. So much so that they decided to sell housewares, toys and hardware online. The jury is still out on that strategy. This question of “what-business-should-we-be-in” is of major importance for any organization.

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.” Porter is known for his “five forces” which provide strategists with a framework for analyzing an industry and mapping out a defensible strategic position. 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 competence in package routing and delivery. This competence 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 advantages. 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 competence, but in a whole system of activities. Each reinforces the others, and all are appropriate to Southwest's chosen position. Such a system, furthermore, is more difficult for would-be competitors to copy successfully, as Continental Lite found out.

How Strategy is a Continuous Process

Examining these three questions can help one to assess strategic proposals. In today's fast changing business environment, 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." Feedback becomes even more valuable when employees are involved and engaged in the strategy.

Adopters of the Balanced Scorecard system of measuring strategic performance have been amazed at the way it keeps business units aligned and focused – and, at the same time, provides feedback loops for continually revising strategies.

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.

The Balanced Scorecard

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.

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, authors of *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (Harvard Business School Publishing Corporation, 2001).

In the past, market values of a company were determined by looking at tangible assets. A 1982 Brookings Institute study found that tangible book values represented 62 percent of industrial firms' market values. By 1992, the ratio had dropped to 38 percent. Recent studies at New York University estimate that the book value of tangible assets now accounts for only 10 to 15 percent of companies' market values.

This shift reflects opportunities for creating value through intangible assets. Today one must look at knowledge-based strategies that use the company's intangible assets. These include:

- Customer relationships
- Innovative products and services
- High-quality and responsive operating processes
- Information technology and databases
- Employee capabilities, skills, and motivation

It used to be that companies could use financial measurements to record their investments in inventory, property, plant and equipment on balance sheets. In today's economy, intangible assets are the new



sources of competitive advantage. They demand new tools to describe knowledge-based assets and the value-creating strategies that these assets make possible. When companies lack such tools, they run into major problems trying to manage what they cannot measure.

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.

After all, financial measures are lag indicators – they report on outcomes. The Balanced Scorecard approach retains measures of financial performance – but is supplemented with measures on the lead indicators, the drivers of future financial performance.

So if financial measures were causing organizations to do the wrong things, what measures would prompt them to do the right things? The answer turned out to be – *measure the strategy*. Thus, all of the financial and non-financial measures on a Balanced Scorecard should be derived from the organization's vision and strategy.

Some of the first companies to adopt the Balanced Scorecard included 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.

Research has discovered five basic patterns of achieving such strategic focus and alignment. Each business approached the challenge in different ways, at different paces and in different sequences, but they 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.

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

Many of the companies that achieved breakthrough success implementing the Balanced Scorecard used the same physical and human resources that had previously produced failing performances. When the executives of these firms were asked how they achieved their breakthrough results, they consistently mentioned two words: *alignment* and *focus*.

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.



Separate the Facts from the Fads:

A groundbreaking, five-year study by Nitin Nohria, William Joyce, and Bruce Roberson reveals the must-have management practices that truly produce superior results. Their article *What Really Works* appeared in the July 2003 issue of Harvard Business Review. This study included more than 200 well-established management practices that were employed over a 10-year period by 160 companies. Most of the management tools and techniques had no direct causal relationship to superior business performance.

Without exception, companies that outperformed their industry peers excelled at what are called the four primary management practices of strategy, execution, culture, and structure. These areas were reinforced with any two of the four secondary management practices of talent, innovation, leadership, and mergers and partnerships.

Winning companies are realistic. They recognize that there is no way they can outperform their competitors in every facet of operations. So they determine which processes are most important for meeting their customer's needs and focus their energies and resources on making those processes as efficient as possible. They take the same critical eye to product and service quality as well. The winners deliver offerings that consistently beat customer's expectations, and they're very clear about the standards they have to meet. But they don't necessarily strive for perfection unless perfection is explicit in their strategic value proposition as it is at Federal Express. Only one-third of the winning companies offered only average product quality that goes to show that many consumers don't care about a

level of quality that goes behind their needs and desires. They won't necessarily reward a company for exceeding their expectations. They will however, punish a company if it doesn't meet their expectations. Companies tumble quickly when they fail on execution.

These organizations designed and supported a culture that encourages outstanding individual and team contributions, one that holds employees, not just managers, responsible for success. Almost 90% of the winning companies in this study tightly linked pay to performance; only 15% of the losers did the same. The leaders set specific goals, raising the bar every year and enforcing those benchmarks. They strive to make their structures and processes as simple as possible not only for their employees but also for their vendors and customers. Perhaps even more surprising, it doesn't seem to make any difference if a company excels in all four secondary practices rather than just two. It was also shown that companies do not have to choose between promoting from within and hiring outside talent. Winning companies do both showing that a talent rich environment tends to attract able people from outside company.

Certain CEO skills and qualities do better, however. One is the ability to build relationships with people at all levels of the organization and to inspire the rest of the management team to do the same. CEOs who present themselves as fellow employees rather than masters can foster positive attitudes to translate into improved corporate performance. The board members should truly understand the business, and they should be passionately committed to its success, which is best accomplished by giving members a substantial stake in the Company's financial performance.



Resources for Strategy

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