GENERAL MANAGEMENT

"BUILDING COMPETITIVE STRATEGY AND ALIGNING STRATEGY WITH THE EXECUTION"

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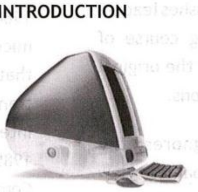
INTRODUCTION



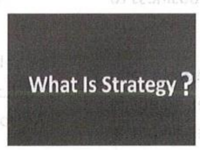
I'd like to begin with a story of a company that many of you are probably familiar with, Apple Computer. Apple was a pioneer in the personal computer market entering in the late 1970s.

Apple was a small player in the personal computer market commanding only about a 3% market share, but a few years ahead it posted significant losses, and then Apple made a very interesting strategic innovation as a consumer-electronics company. And, they introduced a product that many of you are probably familiar with. They've grown now to one of the most admired companies in the world.

So what happened hither? What was the change in strategy in the foreground that led to a company that was about to fail?

It's these types of questions that we'd like to explore in this article.

WHAT EXACTLY IS A BUSINESS STRATEGY ?



Now, there are as many definitions of strategy, as there are a number of strategy professors, or even strategy pundits.

The strategy is different from vision, mission, goals, priorities, and plans. It is the result of choices executives make, on where to play and how to win, to maximize the long-term value. However, it is most important in today's world to abandon the long-held view of strategy as a linear process, in which managers sequentially draft a detailed road map to a clear destination and thereafter implement the plan.

This linear approach of strategy suffers from following fatal flaw :

- It hinders people from incorporating new information into action. First, the linear approach splits the formulation of strategy from its execution. (Indeed, many business schools still teach formulation and implementation as separate courses.) Thus, planners craft their strategy at the beginning of the process, precisely when they know the least about how events will unfold. Executing the strategy, moreover, generates new information – including the responses of competitors, regulators and customers – that then becomes difficult to incorporate into the prefabricated plan.

- Second, an additive view of strategy pushes leaders to escalate commitment to a failing course of action, even as evidence mounts that the original strategy was based on flawed assumptions.

- Third, an additive approach ignores the importance of timing. When companies view strategy as a linear process, they sprint to beat the rivals. Nevertheless, rushing to execute a flawed plan only ensures that a company will get to the wrong place faster than anyone else.

SUCCESSFUL STRATEGIC TRANSFORMATION

Even so, very few companies decide to shift from old strategies without being forced to buy financial trauma. It is not easy to abandon the long-held view of strategy as a linear process, but Apple Computer went ahead with strategic transformation, and they moved from Computer business to Consumer-Electronics Business.

MOTOROLA

Let us look at Kodak, Motorola and Nortel. Kodak co-founder George Eastman had a vision: One day, the camera would be small enough so everyone would carry one in a shirt pocket. The Gavin of Motorola had an equally vibrant vision: One day, we would all be connected without wires. Nortel's vision was that voice, data, and images would extend to every person and device in the world. And all three visions were correct. It happened pretty much just as they visualized–except that Kodak, Motorola and Nortel failed in their strategic implementation, and the new companies on the block or the attackers took this business from them. They saw the rivals coming. They all tried to react but late. The problems with Kodak, Motorola and Nortel were they always considered strategy as a linear process. There are thousands of such case studies.

On the other hand, let us look at Intel. Since its founding in 1968, Intel's strategy has been centered on technological innovation and leadership. At Epoch I, Intel was a broad-based semiconductor supplier that primarily focused on developing and selling memory products, which lasted from 1968 until about 1985. In Epoch II, Intel became a focused microprocessor company at the center of the PC revolution that eventually came to drive the PC industry. The transformation between Epoch I and II clearly changed Intel's substantive corporate strategy that lasted from about 1985 until today, Epoch III "Intel the Internet Building Block Company", which is now beginning to unfold. In addition, we can look at Reliance Industries Ltd that moved the polyester business to petrochemicals. De Beers' Multifaceted Strategy Shift is another classic example of how to reorganize your business model.

TYPES OF INNOVATION AND THE STRATEGIC CHOICES EACH ONE REPRESENTS

- **Business Model Innovation** is the changing the way business is done in terms of capturing value. Example is Dells build to order personal computer.

- **Marketing Innovation** is the development of unknown marketplaces or selling methods with improvement in product design or packaging, product promotion or pricing. Example is Nike's Air Jordon.

- **Process Innovation** is an implementation of a significant unknown or improved production or delivery method.

- **Product Innovation** is the innovation of a fresh product or services that is unused or substantially improved.

Example is on Apple's iTunes.

- **Supply Chain Innovation** occurs in the sourcing of the input products from suppliers and the delivery output product to customers. Alibaba web based supplier directory comes under such innovation.

Amazon continues to be the world's best example of a serial business model innovator. Its core e-retailing model, with its hyper-efficient supply chain, turned the retail world on its head. It has subsequently launched three successive disruptive business models. Its Prime subscription model now provides close to $1 billion of revenues. With its Kindle e-reading platform, the company happily sells low-cost devices and makes money on content. And through its Amazon Web Services business, it has built a multibillion-dollar business by turning its internal technology prowess into a powerful cloud-computing service.

Under Marketing Innovation, Baidu is a classic case study that kicked Google's butt out of China in the business of Search Engine. The company has a 73 percent share of the world's largest Internet market by users, and has the fifth-largest market capitalization ($38.3 billion) among the world's pure-play Internet companies—and with significantly brighter prospects. To the best of my grasp the failure of Google is not able to comprehend the China Search Engine Market. If you go onto Google's China page, you'll find an almost identical search box to the one you'd find on Google's U.S. page, which poses a big problem considering that it doesn't fit Chinese characters very well. Google didn't bother changing much of anything, expecting China to adapt to it instead of it to China. Google also didn't bother learning that typical Chinese Internet users spend most of their online time on entertainment as compared to Europeans and Americans, who use it more for work-related purposes. Further, Google ignored free music downloads - an element that just happens to make Baidu extremely popular - until last year. Mr. Robin Li, founder of Baidu, knows the local preferences better than Google, and hence they number one in China.

Let me present here a case study of PT. Prefash. Number of Indonesian garment companies that closed their business in the year 2003 topped over 150 for the first time. Well-known brands such as Nike, Macy, Levis, and others started moving the orders from Indonesia to other low countries. I was assigned to assist the management team of our associate company in their revival effort.

Our first aim was to remove the company quickly from any immediate danger of going into liquidation, and to focus on activities and tasks that restore confidence of stakeholders. It required

- Understanding of the business
- Engaging management in the turnaround process
- Reviewing of WHAT product is sold; WHO it is sold to, and HOW it is being sold.
- Identifying underperforming areas in the customer value chain.
- Establishing clear long-term goals for the organization and agree on achievable, measurable annual targets, which must be communicated throughout the organization.
- Establishing a performance measurement infrastructure.
- Ensuring that there are appropriate incentives to reward performance.

I first focused on the core business and reviewed best-performing products and services. I analyzed what is worth building upon and what had to be changed. I began by talking to customers and front line employees. Customers told me not only, what was not working, but also told me what their expectations were? Front line employees told me which management policies were keeping them from meeting customer expectations. From there I moved to build a framework rapidly to address the issues and reacted fast to them.

I needed to raise the sense of urgency in the organization and started the change rather quickly. Making something happen and showing the will for action was more important. I figured out who needed to go because they were not ready to change. There were a few individuals (management and front line employee alike) who was bringing down the whole organization - so getting rid of them was important to move on.

Then I needed to build a team of change coalition. I had a solid (yet flexible) 30-60-90 day plan to accomplish the turnaround objectives and create the foundation.

Turnarounds are challenging, but is also exhilarating.

MORAL OF THE STORY

Understand what the situation is, what the challenges are, diagnose the disease(s) that is ailing the company. I refrained from trying to do excessively much also soon. When you have figured it out, act decisively... chances are your team will be on board with you if they see an substantial analysis followed by real solutions. As you are starting in this role, make sure that you have a disciplined communication strategy so that the organization has a clear and concise understanding, and appreciation, of the stated goals, objectives and results. Great time to appreciate the value that employees bring to solve the problem of producing results. This conversation strategy must contain a document, such as a balanced scorecard, that reports the key success factors and how well you are achieving the strategies and tasks. This will help lay a foundation of integrity and solidarity to tackle the most difficult challenges ahead.

ALIGNING STRATEGY TO EXECUTION

Strategy execution is a hot topic in management today. In fact, the Conference Board's recent survey of CEOs revealed that chief executives are so concerned about strategy execution that they rated it as both their number one and number two most challenging issues. For anyone who's tried to execute strategy, this finding should come as no surprise: it's estimated that more than 60% of strategies are not successfully implemented.

Here's a look at some mainstream approaches to strategy execution:

Strategy execution of a process. Strategy Execution is a "systematic way of exposing reality and acting on it." They explain that "the heart of execution lies in three core processes": People, Strategy, and Operations.

In 2008, Harvard Business School Professor Robert S. Kaplan and his Palladium Group colleague David P. Norton wrote The Execution Premium: Linking Strategy to Operations for Competitive Advantage. They outline six stages in this system:

- Develop the strategy
- Plan the strategy
- Aligns the organization
- Plan operations'
- Monitor and learns
- Test and adapts

Through detailed sub activities—26 in total— Kaplan and Norton explain how organizations have successfully executed strategy via application of their management system. Both models outlined above are important and anyone serious about the practice of strategy execution should be familiar with them, but the process doesn't contain enough detail to help managers construct the three processes within an organization. Conversely, the systems view contains so many sub steps that it can be overwhelming to managers.

So, how can we find a solution that is "just right"? While there is no easy answer, the best of both approaches can be synthesized into 10 steps outlined below. These steps provide both high level directions as well as the detail necessary to capture the lion's share of strategy execution success.

- Step 1

Visualize the strategy. One of the most pressing challenges in all about strategy is simply understanding what a strategy is. An effective way to improve this understanding is to visualize the strategy via an illustration that shows both the important elements of the strategy and how each relates to one another.

- Step 2

Measure the strategy. Key elements of the visualized strategy should be assigned an easily understood performance measure. The full set of strategic performance measures can be organized into a dashboard, a Balanced Scorecard, or some other framework so the reader can determine that progress is being made toward completion of the strategy.

- Step 3

Report progress. In the same way that a budget is reviewed monthly to ensure, financial commitments are being kept. The strategy should be reviewed regularly, but with more of an eye toward determining if the strategy is producing results, versus controlling performance.

- Step 4

Take decisions. Strategy execution is much like sailing a boat toward a planned destination. As part of the regular reporting process leaders must make ongoing important decisions to keep the tactics current and on course.

- Step 5

Identify strategy projects. Organizations may have scores, if not hundreds, of projects ongoing at any point, but they rarely have a firm grasp on the type and range of these projects. The first step in improving project-oriented strategy execution is to capture and organize all projects—strategy projects, in particular—that are underway in throughout an organization.

- Step 6

Align strategy projects. Once projects are captured, they must then be aligned to the strategies or goals for the organization. This step entails comparing each project, either proposed or ongoing, to the strategic goals to determine if alignment exists. Only those projects that directly impact the strategy should be resources and continued.

- Step 7

Manage projects. Organizations must develop a capability in project management if they are to execute strategy effectively.

- Step 8

Communicate strategy. It is difficult to execute strategy when the strategy itself isn't well understood, or performance relative to it is not communicated. Leaders must communicate their visualized strategy to the workforce in a way that will help them understand not only, what needs to be done, but why.

- Step 9

Align individual roles. Employees want to know they are making a meaningful contribution to their organization's success. It's up to senior leaders to ensure that employees at all levels can articulate and evaluate their personal roles toward achievement of specific strategic goals. This is perhaps one of the most critical aspects of the execution process.

- Step 10

Reward performance. In strategy execution, as in any other area of management, what gets measured gets done. Taking this one step further, what get measured and rewarded gets done faster. After explaining the strategy and aligning the workforce to it, senior managers Institute the incentives that drive behaviors consistent with the strategy.

Strategy execution is difficult in practice for many reasons, but a key impediment to success is that many leaders don't know what strategy execution is or how they should approach it.

ALIGNING STRATEGY WITH BUDGET

The design of a successful strategic planning is shaped by two issues: (1) the need for cross-business integration; (2) the linkage of a long-term process (strategy) with a short-term process (budgeting).

Strategy, by nature, requires the integration of money, people, customers, suppliers, processes, and so on into activities that cross the entire business. For example, a strategic initiative typically requires the simultaneous development of training programs, information systems, fresh products, and brand new partnerships. Resource allocation, on the other hand, tends to be organized around functions like Finance, HR, IT and/or around such divisions as products or regions. If silo functional resources cannot be allocated around holistic important directions, then tactics cannot be executed. It herein lies the first structural challenge. Strategic planning is a future-oriented, visionary, and proactive process. Budgeting is a conservative process, oriented to the present and the past; accuracy and currency of information are of primary importance. The two processes are structurally different and must be managed separately, yet they must also be synchronized. So the second design challenge is creating an effective structural linkage between the two systems.

We achieve this by firstly creating the strategy maps and themes. Themes are building blocks of the plan that form the basis for the organization's business model. They are part of the strategic planning work of building a balanced scorecard. Every tactics map contains between three and five themes. For example, the tactics map for major customers may contain these significant themes like Growth through innovation, increasing demand from customer partnerships, building loyalty through operational excellence. Significant themes provide the architecture for an integrated planning/budgeting system.

Therefore, executing a strategy requires implementing a group of complementary initiatives, including a mix of IT systems, training programs, incentive programs, change programs, and more. Next Step has integrated functioning plans with the strategy. For that reason, members of the functioning departments should serve as members of the same teams that both design and monitor the strategy. Then we need to establish funding: create a special budget category—important expenditures—to separate key investments from operational investments.

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