Chasing Strategic Success

…an Emerald Guide

Emerald

Build a talent strategy to achieve your desired business results

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If people really are your most important asset, then how can you ensure this is reflected across the organization? A talent strategy could just provide the answer.

Successful companies make their talent strategy part of their strategic planning process and integrate it into daily operations. They strive for the alignment of their talent with the organization's vision, goals and business strategy. When combined with the alignment of the tools and systems used by employees, these organizations are positioned to effectively compete and win in the marketplace. However, positioning your organization for success is one thing, while making it happen is quite another.

The success of business strategy execution is dependent upon people. It is people who choose to analyze the competition and put together a well-positioned business model. They formulate vision, goals and shape strategy to meet their goals. People develop, explore and convert new technologies into marketable ground-breaking products and services. They also choose to delight customers with impeccable customer service. All of these choices that people make every day directly impact on business results. The bottom line is that people are an integral part of leading a winning organization.

As further proof of how talent strategy development and execution impact on organizational results, consider the following recent research:

The whole is bigger than the sum of its parts. Companies that choose to improve their entire human capital system rather than specific components perform better. Performance indicators have included: productivity, revenue, profits, market share and shareholder value.

A few examples

Huselid and Becker studies of over 2,800 firms: companies pursuing an integrated high-performance work system (i.e. a talent strategy) had a 65 percent higher market value over those using other systems that were not holistically integrated.

Great Place to Work Institute, 2001: the 100 best places to work generated 1,289 percent total shareholder returns over ten years compared with a 372 percent ten-year return by companies on the Dow Jones.

Watson Wyatt's Human Capital Index® 2001: the five-year total returns to shareholders for companies with a high human capital index (HCI) score was 64 percent, five-year total returns for companies with a medium HCI score was 39 percent and 21 percent for those earning a low HCI score.

An organization's ability to implement business strategy impacts on organizational results more than the business strategy itself.

Huselid & Becker studies: strategy implementation has ten times greater impact on shareholder value than does strategy content.

Companies that perform better consider their employees a source of competitive advantage and this belief influences how the business is managed. It is reflected in their values, attitudes, actions, talent selection and management practices.

Great Place to Work Institute: good and great companies differ on the basis of leadership's ability to execute strategy, great place to work characteristics including high levels of trust, productive teaming, encouragement of innovations and outstanding products and services.

Prominent thought leaders who operate as the confidants to hundreds of corporate executives consistently hear that having the right people with the right skills at the right time and place focused on the right goals is one of the most pressing challenges facing executives today. This holds true in both boom and bust economies. Whether or not an organizational leader places value on people due to moral convictions or purely for competitive advantage, it is agreed that this is a critical factor.

Economics, competition, globalization, technology and other factors play a role in the design of business strategy. However, winning organizations know that in today's fiercely competitive marketplace, a well-designed and executed talent strategy, that enables people to meet business goals and organizations realize their visions, is imperative and not an optional action.

Developing and implementing a talent strategy is an art, not a science. While there are some methodologies and tools that can be used to accelerate the process, starting with an overall framework is best. The right kind of framework is adaptable and can be applied to many organizations regardless of the reason for a new or revised talent strategy.

Common definitions

The following are common definitions used in describing the overall process of developing a talent strategy.

Business strategy consists of the outcomes your organization seeks and the initiatives your organization takes on to produce those desired results.

The talent or workforce strategy is a concise action plan which outlines how you acquire, cultivate, retain and organize the talent needed to execute your business strategy. It describes the core knowledge, skills and behaviors required by the organization. The goal of the talent strategy is to ensure that an organization has the right people with the right skills and expertise available at the right time and place to achieve goals. A talent strategy reflects the varied human capital needs your organization has for both the short and long term. An effective talent strategy may focus on full-time employees, but it should also address other talent options such as: free agents, consultants, strategic partnerships and other entities to which work is outsourced.

> **" Failing to address employee wants and needs may prevent you from attracting and retaining the talent you need. "**

One great place to start is to select an internal talent champion to lead and shepherd the process of talent strategy development, implementation and measurement. Your talent champion will need to collaborate with stakeholders in order to generate a broad range of ideas and build commitment.

Having a talent strategy in place is just as important in difficult economic times as it is in good ones. Whether your talent strategy is designed for the entire company, division, business unit, department or work group, putting it into business context is a prerequisite for success. This leads us to the critical concept of organizational alignment.

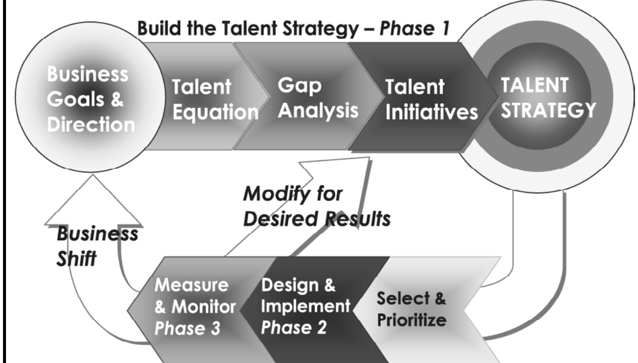
Organizational alignment is the art of getting your vision for the future; organizational goals and related business strategy to achieve that future; a prepared, knowledgeable and motivated workforce; and the systems and tools used by the workforce pointed and moving in the same direction.

The talent strategy process: build it, implement it and measure it

There are generally three phases, each of which has several steps (see Figure 1). Building the talent strategy is the first phase. Document your action plan on how you intend to get and prepare your workforce to execute the business strategy effectively. The action plan consists of a mix of projects for

Figure 1

Talent Strategy Methodology



© Copyright 2002-2003 Bergeron Associates acquiring, cultivating, developing, rewarding and organizing talent. It also includes initiatives needed to deliver a value proposition to employees. Once established, the talent strategy should be reviewed annually and more frequently if significant changes are occurring in the organization or its environment.

The first phase of the talent strategy results in a documented action plan. The next phase is to put the action plan into place. This phase is largely focused on designing and implementing the projects outlined in the action plan.

The last phase consists of monitoring performance outcomes as the mix of projects is implemented. Essentially, it is here where you determine progress made toward meeting your goals. Determine if the results produced are still the ones you want. If the results are not congruent with your goals it is critical to reevaluate the organization's needs and decide how to proceed in order to get moving in a unified direction.

Understand the business context

In building a talent strategy we must first acquire a deep understanding of the business and its interdependencies. Failing to accurately understand the business context usually results in an unconnected talent strategy, poor use of resources and less than optimal performance.

Even if you are confident that you have a solid understanding of your business, follow these same steps to re-confirm it. The printed word 20 years ago was transmitted in business by mail, then by overnight couriers, then by fax. Today the standard is e-mail. Business strategy needs to be dynamic out of necessity in today's fast-moving environment. Customer and employee needs combined with marketplace pressures may prompt changes in business direction, as will innovative leaders with new perspectives.

One of the most effective ways to achieve or re-confirm business context is to position yourself to confidently answer questions in four fundamental areas.

1. *What value does your organization deliver to its customers?* Think about the reason your company is in business; its strategic purpose and direction. Identify what you are trying to achieve and what you are aspiring to become. Determine why your customers choose to do business with you rather than your competitors.

   Assume you are in the hotel chain business. Do your guests keep coming back because of the clean, yet basic, accommodation provided for an economical price? Or do you get repeat business because your guests appreciate being pampered and are willing to pay a premium for high-end service? Both types may be in the same industry but appeal to clients for different reasons.

2. *What are the core business processes in which your organization must excel in order to deliver customer value and how do you measure the effectiveness of those key business processes?* Define the core business processes that enable your organization to deliver customer value. Determine the measures of success for the key processes. Research how you have been performing against those measures.

   Using the hotels example, the two chains may have some common core processes like making reservations, registering and checking out. The low-end hotel may design simple standard processes as a way to keep costs down. While the luxury hotel will differentiate itself by the way the same processes are performed. Its focus will be to perform the processes in a way that makes each guest feel special and well taken care of. Further, it will provide other services not found in the low-end hotel such as: a concierge, dry cleaning, restaurants, boutiques and health club amenities.

3. *What key capabilities (i.e. knowledge, skills and behaviors) must we have as an organization to deliver value to customers?* Define the knowledge, skills and behaviors needed most to execute core business processes that result in delivering value to customers.

   At the high-end hotel, in order to provide guests with that feeling of being pampered, employees would be expected to provide excellent customer service, be able to think on their feet, solve problems and respond quickly to guests' requests. In order to do that they would need to understand how far one should go to pamper guests. Compare that with an organization in an entirely different business. Consider the company that grows its business by increasing its capacity to process on-line financial transactions. The company would have greater focus on process improvement and the ability to marry and implement IT systems to support those processes.

4. *What value does your organization offer to its employees?* Given the core business processes and key capabilities that enable you to deliver customer value, determine the kind of culture, work environment and underlying value system you need. Understand why employees join and stay with your firm.

   The luxury hotel would need to clearly communicate to what lengths employees should go in responding to guest requests. If the hotel really wants employees to confidently make on-the-spot decisions then it must recognize that mistakes will be made and have tolerance for people learning from them. Recognition and rewards for doing the right thing will go a long way in creating the tolerant work environment.

It is important to recognize the relationship between the answers to these questions. The customer value proposition drives the core business processes and they drive your talent needs. The employee value proposition will help you factor important considerations from the employees' perspective into the talent strategy. Failing to address employee wants and needs may prevent you from attracting and retaining the talent you need.

In our example, the quickest way for the luxury hotel to suffer from increased employee turnover is to encourage employees to confidently and promptly respond to guest requests, fail to provide a vision of what outstanding customer service looks and feels like, then punish employees who take the initiative.

Here are some tips on how to gather relevant information. You will need to leverage several data sources to ensure you are working with current realities.

If you are new to the organization the more obvious statements about an organization's strategic direction and the value delivered to customers are found in documents such as quarterly and annual reports, press releases, marketing materials, Web sites, speeches, published articles and customer survey results. Even if you have been with the organization for a while and may have written some of the material yourself, reviewing them to ensure that they are still relevant can be critical. Equally important are the internal communications such as organizational performance measures, presentations, company newsletters and employee survey results. In some organizations, typically larger ones, these documents are easily found. In other less structured firms the information may not be readily available and may need to be gathered through conversations with other important decision makers.

Connecting with other decision makers or "stakeholders" to gather or confirm information can be rewarding, yet it is not without its challenges. Stakeholders are key players who may influence your workforce strategy and those who are affected by it. They may include leaders at all levels, employees, customers and suppliers. After you have identified the stakeholders then make use of one-on-one conversations, focus groups, and informal surveys. Pick the forum(s) that works best for your organization.

Collecting this information should lead to many discoveries. Take the time to review your findings. While you will benefit from confirming what you thought to be true, expect surprises. For instance, stakeholders may disagree on business direction, goals or the measures of success. They may have differences of opinion on the customer or employee value proposition. If this is your first time through this process you may find many areas which are incongruent. Select several of the major points and focus on achieving resolution with those first. Do not get bogged down in trying to solve too many issues at once. Highlight the areas of agreement and disagreement prior to sharing the results. Determine which disagreements are so significant that resolution is needed before moving forward.

Back to our hotel example, if not all members of the executive team of our luxury hotel agreed with the customer-value proposition of pampering guests, then the skills sought when recruiting new hires could be fragmented. Some managers would hire applicants with excellent customer service skills while others would not screen for that critical orientation. Meanwhile, employees who exhibit effective customer responsiveness on the job may be punished for doing so.

> **" Honesty is required to identify realistic talent gaps between what you currently have and what you need. "**

Carefully review your findings to capture themes and trends that answer the questions:

- What value does your organization deliver to its customers?
- What are the core business processes in which your organization must excel in order to deliver customer value and how do you measure the effectiveness of those key business processes?
- What key capabilities (i.e. knowledge, skills and behaviors) must we have as an organization to deliver value to customers?
- What value does your organization offer to its employees?

Share your findings with the leaders you interacted with through one-on-one discussions or group meetings. Devise an action plan to resolve disagreements and create a common direction. This last step will allow you to fine-tune the data you have gathered. It will help you validate the foundation on which you choose to build your talent strategy.

Identify missing organizational capabilities?

Through your discussions, distinctions will be made between where the organization is today and where it needs to be in the future in order to realize its vision. Be sure to consider all the distinctions so that your assessment is complete.

Seek to understand the connections between business strategy, the customer-value proposition, core business processes and business goals and objectives. Examine the initiatives the organization will take on to achieve the goals and objectives. Critical success factors to achieving the goals may include excellence in using new or existing systems and tools and the structures that support them. Systems may include standard practices or methodologies the organization uses to get work done, such as project management or product development methodologies. Examples of tools necessary to achieve goals may include specific technology, equipment and facilities. The support structures may include information, work or communication flow and how work is defined and assigned.

The systems, tools and structure may provide insight into the knowledge, skills and behaviors required of the people who do the work.

The health insurance industry has been undergoing major changes in how it conducts business. Never before has there been so much pressure to perform all transactions on-line while ensuring 100 percent confidentiality of patient records. Transactions are completed by many parties including patients, employers, physicians, care centers, labs and hospitals who provide health-care services and brokers. You could expect talent needs of health insurance companies to reflect increased knowledge and skills in implementing and using advanced IT systems. Much of the work is accomplished by a series of cross-functional teams with members at local and remote sites in addition to users. Thus an important system need, that impacts on talent needs, is project management capability. A knowledge management system would serve a purpose in promoting organizational learning with each completed project.

Honesty is required to identify realistic talent gaps between what you currently have and what you need for the future. In most instances, organizations that work through this process invariably recognize some deficiencies in the organization's ability to execute business strategy. They also admit that the deficiencies may not have been fully realized without thinking through the interdependencies in a methodical way.

An effective approach to identifying voids in the organization's ability to execute business strategy is through broad input with key stakeholders. This may sound familiar, as it is the same approach recommended for gaining a clear understanding of the business. A talent champion who seeks broad input into identification of problems, presents ideas to solve them and puts the ideas into action creates benefits to the organization. Those benefits include: diverse opinions, a broader range of innovative ideas and increased commitment to implementation.

Create the action plan

Once you have identified the business context and gaps in systems, tools and talent, target the most significant gaps that impede progress. Begin to brainstorm ideas on how to fill the gaps, giving consideration to the four major components of a talent strategy – acquiring, cultivating, retaining and organizing.

The acquisition component of your talent strategy has to do with how you intend to secure talented people to perform important work in executing business strategy. Your talent strategy will articulate the mix of talent acquisition that happens through internal and external hiring, full and part-time employees as well as other non-employee resources. Selecting the right people not only includes assessing the right knowledge and skills, but also includes assessing individual motivation and the alignment of individual and company core values.

The cultivation component of your talent strategy addresses the issue of continual development of your talent pool. The expertise and skills you have today may be insufficient for tomorrow. Here you will describe future needs and how you intend to go about developing your workforce to meet those needs. For example, a financial institution recognizes that it needs to accelerate succession planning since most of its current executives plan to retire five years from now. The talent strategy captures the firm's planned efforts to cultivate its next generation of executives and includes: leadership training based on a leadership competency model specific to the organization, project work where the high potential employees work together to not only get important project work done, but to develop strong working relationships with each other, and coaching to support and advance these experiences.

The retention component of your talent strategy takes into account how you intend to recognize people for their contributions, reward them for results and retain them. Typical initiatives may include: formal and informal recognition programs and the re-design and alignment of compensation and benefit plans. Do not forget the less tangible contributors to retention. These may include deliberate actions to create an environment where employees are provided continual opportunities to do challenging work and are allowed to lead and influence in valuable ways.

The organization component of your talent strategy will include setting clear company goals and cascading them through the organization right down to individuals. It will include defining the work, how the work is organized, and the assignment of roles and responsibilities to people, project teams and departments. How information and communication flows throughout the organization is also captured in the organization component of the talent strategy.

Recognize that in creating your talent strategy you will have assumed some cause-affect relationships between selected projects and their impact on business outcomes. For example, you may have assumed a strong relationship between employee preparedness and employee turnover. Taking it a step further, unprepared employees may adversely impact on customer satisfaction which may impact on revenue.

Your talent strategy should also include the creation of a compelling employee value proposition which will likely cut across all four components. It includes: creating products and services that customers appreciate and employees can be proud of, good tools and environment conducive to getting work done well, career development opportunities, opportunity to influence, and recognition and reward programs that make employees feel their efforts worthwhile.

Turnover among customer service representatives was on the rise. The customer service staff felt inadequately prepared to service products on customer sites and under-informed on important customer business issues. Turnover was negatively impacting on the service received by customers and increasing the costs to the organization. Talent strategy initiatives included retraining current service personnel, ensuring new hires were properly trained, and redesigning communication flows so important information was transmitted to service personnel in a timely manner. Turnover decreased and customer satisfaction increased.

Be careful to manage expectations about the talent strategy. Be sure your brainstorm list is not perceived as the "final" talent strategy. This type of inaccurate expectation could taint expected results and slow or stop progress. As companies come to grips with economic realities, most recognize early on that they do not have the resources to design and implement all projects on the initial brainstorm list. Thus somewhere in the process the organization must select and prioritize those projects that are most promising. The output of this phase is the documented action plan we call the talent strategy.

Success factors

- Recognize that creating and sustaining organizational alignment is a journey and not a one-time event.
- Identify a talent champion early on.
- Develop, implement and monitor the talent strategy with broad input because it fosters better ideas, commitment and provides a basis for accountability.
- Challenge existing organizational capabilities so that implementation of your talent strategy serves to effectively fill in the gaps.
- Keep talent strategy planning, implementing and monitoring as simple as possible.
- Put some teeth into the talent strategy: give it organizational visibility and resources, and reward people for achievement.
- Communicate, communicate and communicate.
- Whether using a top-down or bottom-up approach, build momentum through relevant, small and consecutive wins.

Design and implement

A well conceived talent strategy is useless without putting it into action. Remember our earlier statement: an organization's ability to implement business strategy impacts on organizational results more than the business strategy itself. The same principle holds true for implementing the components of your talent strategy. The talent strategy consists of a series of projects that will be completed in order to fill voids in your talent so that the business strategy can be executed well. Thus the output for this phase can be effectively achieved using the tools and techniques of project management.

Start with a simple charter or definition statement for each project. This helps to establish common expectations and should reflect the expectations of the key stakeholders. Practicing proven project management techniques including planning and implementation are important. Stakeholder management must include check-ins at key milestone achievement points. It helps to maintain project visibility among stakeholders who influence the continuation or discontinuation of projects and their assigned resources. The roll-out step within project implementation is often underestimated but critical to the successful integration of the project into daily operations.

Project management calls for measurement of actual outcomes against the targeted ones. Assess how well the project was managed and completed. Minimally include: planned vs actual costs to get the project done and the planned vs actual time for project completion.

Proven project management techniques are not the focus of this article, but be aware that you may already possess the skills, tools and systems to successfully implement projects that require broad input and action.

Monitor results and revise

It is in this phase where actual solution and performance oriented results are tracked and compared with previously set targets and past performance. Variances between actual and targeted results, reasons for the variances and identified trends are explored. Revising the talent strategy and/or business strategy is the last step.

There are a variety of ways to think about organizational metrics. Consider a mix of strategic and operational measures as well as lead and lag indicators when measuring solution and performance oriented results. You will want to measure individual projects in your talent strategy, the overall effectiveness of your talent strategy and related business outcomes. A few examples are shown in Table I.

For projects in your talent strategy, include pre-project implementation measures such as how well the project is received upon initial roll-out or announcement of its roll-out. Why is this measure important? It may provide insight into why a particular project was successful or not. More importantly it may prompt you to modify your approach for implementation to improve receptivity within the organization.

During project implementation insightful metrics may include what was actually learned through the project's roll-out. For example, upon completion of designing a new hire selection tool, do the interviewers understand why the tool was designed and how to use it? Following training sessions on the new IT system, did people understand the core business process that it

Table I

Strategic measure	Operational measure
Have the right person with the right skills on the payroll at the right time	Time to fill a job requisition
Have the right person with the right skills ready to move into an executive leadership position	Number of high potential employees who finished a prescribed number of developmental job rotations
Lead indicator	*Lag indicator*
Customer survey satisfaction scores	Revenue
Customer retention rates	
New customer accounts	
Employee survey satisfaction scores	Employee turnover
Employee achievement of incentive compensation	

supports? Did they learn and retain it well enough so they can be productive on the job? Perhaps you implemented a new incentive compensation system to reward specific business results. Do the people eligible for the incentive plan understand it? What results are being rewarded and why, in relation to business direction?

Post-project implementation measures seek to measure how prevalent the new tool, system, skill or behavior is used or demonstrated. Examples include: the frequency of using the new skill, reduced cycle times or errors in getting work done. Other measures may include employee satisfaction rates and trends over time, given the newly implemented employee satisfaction survey. Some projects may warrant return on investment (ROI) calculations due to project uniqueness, amount of investment, visibility or expected impact on business results (see Figure 2).

Be careful not to select too many metrics to monitor. Pick the ones that are true indicators of business performance and be sure you have the capability to measure them. If not then decide if you should create that capability or pick an alternative measure.

Capturing measures positions you to effectively monitor results and trends. You have assumed some cause-and-effect relationships between specific talent initiatives and desired business results. When actual results are not moving in the right direction in meeting targets, we must ask ourselves why? There may be many reasons such as: our assumed cause-effect relationship was wrong, business direction, customer expectations or market conditions have changed. Other reasons may include performance standards have become obsolete, a business process is too complex, tools are inadequate to properly perform the work, the skills and knowledge of those doing the work is insufficient or perhaps proficiency in doing the work is lacking due to insufficient frequency to practice. New laws or compliance issues may have affected how we view actual results.

Figure 2

Return on Investment

Definition:
Percent measurement of benefits realized from an investment.

Formula:

$$\frac{\text{Benefit} - \text{Investment}}{\text{Investment}} \times 100\%$$

The next question is: ‘‘What are we going to do about it?’’ Perhaps the variance between actual and targeted results is insignificant since the trend is moving in the right direction. Therefore we may choose to do nothing different. Perhaps the variance is significant and causes us to exert efforts on further development of skills, the redesign of a complex business process or the addition of better tools to get the job done. Perhaps the variance causes us to better understand a change in the marketplace. That kind of assessment could prompt us to revise our business strategy and reassess the continuance of specific components in the talent strategy.

Monitoring how well your initiatives are impacting on business results is not only a regular practice of organizations that outperform their competitors but a means of fostering organizational learning. Further, those same outstanding organizations modify and adjust talent solutions and initiatives based on learnings.

Make talent strategy a priority

Like the world in which we live, a talent strategy is dynamic. Each time your business strategy changes there may be implications to specific parts of your talent strategy and thus warrant its review and revision. Failing to take this step could mean that your talent strategy becomes antiquated, stale and ineffective. Review the talent strategy and its metrics at least as frequently as you do your business strategy and its metrics. Just like any new skill, practice is a prelude to proficiency.

Become one of the growing numbers of progressively-minded executives who recognize that people are the most powerful source of competitive advantage. Develop and implement an organizationally aligned talent strategy and lead your firm to organizational excellence. ■

Build better decisions: strategies for reducing risk and avoiding surprises

Seena Sharp

Seena Sharp is president of Sharp Market Intelligence (www.sharpmarket.com), which she established in 1979 following a successful corporate career in New York City where she earned her masters degree in mathematics. SMI has developed techniques for identifying early warning signs of market change to provide *Fortune* 500 and smaller companies with logical information regarding opportunities and potential threats.

Discover more about business intelligence and how it could assist your strategic decision making.

Did you ever make a business decision without all the facts? Did you learn something after you implemented your decision that you would have changed had you known it sooner? If the answer to either question is "Yes", chances are you lost money, time, morale and the competitive advantage. All of these could easily be avoided with business intelligence.

What is business intelligence (BI)? Actually, it's a fancy way of saying it's a reality check of the marketplace. It is as a disciplined, future-focused, strategic investigation of the factors a company will face when competing. More specifically, it is the knowledge and foreknowledge about the entire business environment that leads to action.

Knowledge refers to information about the past; what is known; what has happened. Foreknowledge is information that comes from looking ahead. Entire business environment means looking beyond the industry and its direct competitors. Finally, action refers to the outcome from being better informed. Intelligence without action is a poor use of resources. The purpose of business intelligence is to assist with creating better strategy.

The bad news, the good news and the great news

The bad news: decisions are often based on poor or inadequate information. The good news: most executives operate in the same flawed environment. And, the great news: business intelligence offers an immediate competitive advantage, leading to better strategy. So, why do good companies make bad decisions? Here are some of the reasons:

- They rely on internally generated information.
- They are self-confident about what they know and don't conduct reality checks.
- They don't realize that their industry, customers, suppliers or distributors have changed.
- They're uncomfortable in dealing with what they don't know (change and external factors).
- They dismiss or underestimate changes.
- They rely on industry experts who may have the same industry blind spots.

Executives make decisions constantly, all of which are based on information. Selected information is good; other information is bad, biased, incomplete or subjective. It is simply not enough to have information; it must be the right information – the kind that triggers smart decisions the first time. Some say that with enough good information, the decision makes itself. Bottom line: the better the quality of the input, the better the decision and the better the strategy.

Today, executives have a number of options when it comes to tools that support or validate their decisions. Balanced scorecards, benchmarking and focus groups represent some of the tools that business people shouldn't be without. Business intelligence is also one of the "must have" tools.

Myths of business intelligence

To gain a clearer understanding of business intelligence as a strategy-support tool, it helps to debunk the myths that result in a lack of understanding of the direct benefits in making better decisions.

Business Intelligence is spying. Business intelligence is a legal and ethical process of obtaining information. It does not include dumpster diving, lying to get information, deception, or using proprietary information that was legally obtained (such as a competitor's strategy, price or customer lists).

Business Intelligence is the same as market research. Market research focuses on what consumers say and changes they'd prefer, but it's not as useful for revealing actual behaviors. BI focuses on the reality of the marketplace, as opposed to beliefs.

Data is the same as intelligence. Data is a building block of business intelligence, but data by itself doesn't provide insight, implications or include analysis. Business intelligence is developed by looking at many pieces of data, analyzing the resulting information and drawing new conclusions or perspectives about a business that weren't previously known or understood.

Business intelligence is not only intelligence about competitors. On the contrary, it focuses on the entire competitive (external) environment, which more accurately reflects the many forces a company faces when competing. This includes customers, suppliers, distributors, advances in technology, regulations, substitutes and competitors. Satisfying customers and improving product offerings are far more important than monitoring competitors. Focusing on competitors implies that they know something you don't or their strategy is better and you want to find out what that is. Actually, the best reason to be aware of competitors is to detect if they have identified an important change that your company has not yet recognized.

There is lots of information about large public companies and little information about private or smaller firms. The reality is that the amount of available information about a specific company is more a function of the public face the company seeks and the general interest in that industry. Some private companies receive more press coverage than public companies, and some private companies even file documents with the SEC. (US Securities and Exchange Commission). Conversely, some industries are poorly covered (by their trade magazines or associations) or are too small (usually industrial companies) to support coverage.

The business intelligence menu

Business intelligence uncovers basic information about the industry as well as information not so basic in scope. The specific areas selected, depending on the purpose of the research, can include:

- Size of market, growth trends.
- Major competitors' products and revenues.
- Product (or service) details.
- Pricing, packaging, materials, distribution channels, customer demographics, etc.
- Opportunities – to act on immediately or to monitor until ready.
- Potential problems/threats – identifying or not paying attention to a product/service that is not a direct competitor (e.g. accountants, attorneys as potential threats to financial planners) or not taking into a consideration how the growth of other industries affects the sales of products or services (e.g. sales of computer accessory products can be linked to the sale of computers).
- Alternative uses for (your) products or services – companies can easily discuss their products or services but are often unaware of alternative ways some of their customers use them. Customer views can enable a company to leverage existing capabilities (manufacturing or distribution) at a minimal cost and create a niche market. For example, Avon's Skin-So-Soft Body Lotion was rumored to be an effective mosquito repellant, and as word spread, sales soared. People who weren't Avon customers, such as men, started buying the product for this alternative use.
- Keys to success and barriers to entry when considering new market entry.
- Strengths, weaknesses, positioning of competitors.
- Strategy and sales organization structure.

The benefits of business intelligence

The benefits of business intelligence range from minimizing risk (less likelihood of having to redo the decision), to making smarter decisions, to saving time and money, to getting a jump on the competition. The probability is very high that good BI will unearth crucial information unknown to the company, resulting in better strategy and decisions and doing it right the first time!

So why isn't business intelligence utilized more often? In part, the reason stems from American's self-confidence in its abilities to know something or to figure it out. Thanks to customized newspapers, alert services and narrowly focused industry newsletters, executives have access to a considerable amount of detailed information about their major areas of interest. As a result, they have less time and interest in expanding their news sources. Unfortunately, they miss critical information as well as the broader picture.

By accepting that these are changing times, then it follows that the information upon which decisions are based is also changing. Executives can certainly be confident about their knowledge of the past – they were there and experienced it first-hand. However, the rate and complexity of change in today's marketplace rapidly decrease the value of historical information, experience and conventional wisdom.

Business intelligence reduces the element of surprise in business. ''Ninety-nine percent of all surprises in business are negative,'' according to Harold Geneen, former CEO of IT&T. Being surprised ultimately means being caught off guard by changes in the marketplace.

The time to engage in business intelligence

The purpose of business intelligence is to assist with strategic planning or other important decisions. Therefore, it's a good idea to use it during projects such as new industry introductions, product or service line expansion, customer prospecting, strategic plan preparation, pre-acquisition inquiry, and brainstorming. Here are some examples:

Entering a new industry

A company was planning to expand its training services into the popular new media training. They selected three industries to target for customers: advertising, publishing, and entertainment. Advertising turned out to be a total miscalculation because ad agencies expect their employees to have and maintain state-of-the-art skills. Agencies would not pay for their staff to take classes during or after work hours.

The client defined publishing as print publishing. This traditional part of the industry had no plans to incorporate new media into their offerings in the near future, so this wasn't a good target market. But electronic publishing, the other side of publishing, was interested and wanted to work with the client to develop and offer courses of greatest interest to them.

According to the client, TV and film businesses comprised the entertainment industry. The client hadn't factored in video, games, and software, which were part of a larger component of entertainment and also more interested. The result? The client learned which industries were most interested and why. Their limited investment in business intelligence cost them a fraction of what it would have cost them had they proceeded as originally planned.

> **“ It is simply not enough to have information; it must be the right information – the kind that triggers smart decisions the first time. ”**

Expanding line

A computer accessories company knew it had to constantly develop new products to keep up with a demanding and changing customer base. The company whittled its several dozen choices to two – both a good fit with its current manufacturing and distribution capabilities. Were both products the winners they were expected to be?

Product A appeared very promising, with sales increasing handsomely for the next three to four years. A deeper investigation revealed what the industry had not yet recognized, nor had competitors. Sales of this dedicated product would plateau and then decline because it was slowly being replaced by an off-the-shelf product that had uses in multiple industries.

Product B showed great promise, supported by sales and a very enthusiastic customer base that saw it as solving a small, but very annoying problem. The company believed that the low end of the market was the most promising, while BI indicated that growth would be far greater in the high-end, providing both a greater number of customers as well as greater profit.

Finding new customers

A company knew that its current product line would need to be replaced since manufacturing was increasingly moving to Asia. Lower prices and other solutions would only work in the short run, so they needed to find another product.

After considerable searching, the company found a new fabric that could have hundreds of applications. The company determined that they could get the biggest bang for the buck by using the fabric to make superior pizza delivery bags, solving two problems: soggy crust and barely warm pizza.

The company assumed that its customer base would comprise large and small pizza chains. Business intelligence revealed an emerging and unknown industry that had the potential to be larger in number than the number of current pizza outlets.

Surprising to all, this new customer base was the convenience store industry, of which there are 130,000 in the USA compared with 63,000 pizza outlets. More than 15 percent of convenience stores have bought pizza-making equipment, not to reheat pizza, but to make it from scratch. Further, one franchisee of 1,200 convenience stores was testing pizza delivery. Delivery represented a need for insulated bags.

As a result of this seemingly absurd discovery, the client had an opportunity to become established in an industry none of his competitors knew existed, while employing a two-pronged strategy of also trying to enter the traditional customer base.

While this example may appear unusual, most executives learn that much of today's reality includes some element of surprise – ranging from slightly different to truly off-the-wall. This applies to:

- customers which look different from the typical customer;
- alternative ways of using products or services;
- different distribution channels than are currently available or more convenient;
- competitors who don't resemble current competitors.

Accordingly, while business intelligence is valuable for all businesses, it's especially beneficial to small and medium-sized companies. Large companies usually have a financial cushion and can afford to make mistakes without going out of business.

Where is business intelligence found?

This is a trick question because business intelligence isn't found; it's created. Intelligence is not data; it's a process of looking at many pieces of data and arriving at new conclusions or insights. While it is possible to read or hear a statement that could be considered intelligence, it usually requires gathering sufficient data that are specific to a company's needs, analyzing them, and arriving at an understanding or decision that is applicable to the business.

Today, good information is available from numerous sources, ranging from the most obvious to the least likely. This includes information from printed sources as well as getting the information directly from those who are in the know.

The first place to search for information is from the industry's trade publications (magazines and newsletters), as well as the trade association. Executives usually read one or two trade publications, as these are usually the most respected trade publications. However, many industries have anywhere from 20 to 100 publications devoted to their interests, which likely contain useful information for those times when you need far more detail, depth or scope.

Information is available from a wide and diverse set of resources. The challenge is to determine where to find the specific information for a particular industry. For example, a good source of company information is the local city where companies are headquartered or have local offices. Businesses are of interest to the media in cities of every size and often receive more attention from the local papers than they receive from the trade magazines or major newspapers. In addition, companies often underestimate the readership of a local paper and may let their guard down to discuss items they wouldn't discuss with their larger counterparts.

The information a company is looking for is likely to be "hidden" in an article, as it's rare to find an entire article devoted to a company's specific area of interest. It can be found in a paragraph, a phrase, a table or quote. Intelligence is similar to writing a term paper; look for pieces of good information from numerous sources, which then need to be organized, analyzed and logically presented in a useful document.

As for information that isn't available from published and printed sources, business intelligence practitioners contact those who have the desired information directly – such as companies, suppliers, distributors, major customers, and obtain the information ethically. This is often obtained via conversations, rather than through questionnaires and surveys utilized by market researchers.

Gathering the data: is the Web the mother of all sources?

The Web is often cited as the first and best resource, which may or may not be true. It certainly contains a lot of information unavailable elsewhere, but the information is extremely limited. Only an estimated 15 percent of business information is available from the Web – and that only represents those who know how to look for it. Another 10 percent is available from fee-based commercial databases, such as Lexis-Nexis and Factiva. The remaining 75 percent is not available electronically, or the site is open to members only.

The primary sources of business information are trade publications (75,000), associations (100,000), specialized newsletters (5,000), general business sources (*Wall St. Journal, Forbes*), conference proceedings, annual reports and other financial sources, public records, research studies and industry surveys. So, it's no wonder that many people turn to the Web to filter their options and help them feel as though they have some control over the uncontrollable amount of information.

What's the cost?

It's an executive's responsibility to be concerned about costs, especially regarding investments that aren't mandatory. Business intelligence is not a cost center. Just as going to an accountant for your taxes should save more money than the fees, the same is true for BI. Companies that invest in BI will save far more money than the cost of the initiative or the department. Robert Flynn, former CEO of The NutraSweet Company, reports: "Competitive intelligence has helped us make more good decisions at Nutrasweet and fewer bad ones." You go to an accountant to save more money that the accountant charges. Similarly, BI will save companies more than it costs, so it's an investment, not a cost.

And if business intelligence serves to validate what was already known, the value will multiply as the company will proceed more aggressively, faster, and with more confidence than previously – gaining both time and advantage.

Unexpected insights learned from BI

While it's critical to know the basics of an industry, it's equally valuable to check out the other avenues that may pose challenges:

- *Industry terminology*. Over time, new words are introduced, existing definitions can change or be slightly altered, and original phrases come to illustrate specific periods. Keeping up-to-date improves marketing and selling. For example, SUVs were initially viewed as trucks; now they're beefed-up passenger cars. Quality and reliability were once considered features in better cars; now they're viewed as basics. Zero-defect cars are expected, not desired.
- *Changing competitor landscape*. At one time, direct competitors (companies that sold the exact same product or service) were considered the only competitors. The arena has enlarged to include substitute, indirect, and emerging competitors. Financial planners would describe their competition as other financial planners. Indirect and substitute competitors are companies selling similar or replacement products or services. For example, indirect and substitute competitors to financial planners include brokerage houses, attorneys, accountants, software, Internet, banks and insurance companies. Both indirect and substitute competitors are often dismissed by traditional and direct competitors as "not being as good or experienced as we are". But, if the customer or prospect purchases from a company other than yours, the company must be considered a competitor worth noting. And the reason the competitor captures your customers is rarely price. Beware of start-ups and emerging companies that may not be considered threats because they are too small, but because of their ability to capture customers.
- *Unknown customers*. Then there is the group of customers that don't match the target profile. Know it or not, this screams opportunity. By acknowledging them and learning more about their needs, companies can find others like them. Finding others like these undefined customers may merely require an adjustment in marketing and advertising positioning.

> **"Businesses are of interest to the media in cities of every size and often receive more attention from the local papers than they receive from the trade magazines or major newspapers."**

- *Alternative uses*. In almost every industry, there are those customers whose offerings are for purposes other than those for which they were designed. Opportunity knocks here to create a niche market with minimal investment. The proof of demand in the marketplace is the company's sales.
- One example of both unknown customers and alternative uses comes from Plano Molding Company, Illinois. The wildly successful Caboodles cosmetic cases were created when the company learned that teenage girls were buying its functional, gray, metal fishing-tackle boxes to store their cosmetics. Manufacturing the exact same boxes in bright fashion colors, changing to plastic, and renaming the tackle boxes to Caboodles benefited the company three-fold: significant additional revenue, greater leverage selling to existing stores (where they would now have two product lines), and the ability to enter new venues – all because they listened to a totally different type of customer.
- Paintball capsules are another example. They use the very same pharmaceutical gel caps used to contain medicines. It's the same product, but used in a totally alternative manner and targeted to an entirely different market.
- Customers sometimes see opportunities before companies see them. eBay customers were buying and selling cars even though the site didn't have a category for doing so. eBay noticed the growing popularity of this area and dedicated a category to it, and are now the largest dealer of cars and parts in the USA.
- Nutritional meals in a can, such as Ensure or Slim Fast, sell extremely well among population groups that may not be targeted customers: addicts, the homeless (who get a considerable amount of nutrition in a single product) and very sick people because it's easier to drink liquid than swallow food.
- *Clues from indirectly related industries*. Regardless of how different they are from one another, every industry

is somehow connected to others by way of vendor-relationships, business-to-business customers, etc. For example, when Americans started purchasing multiple pairs of sneakers, to fit their changing needs, Thorlo sock manufacturer noticed and took action. The company figured that if customers needed different sneakers they also probably needed different socks. A keen awareness on Thorlo's part, but not necessarily obvious to any other sock manufacturer. This simple observation transformed Thorlo from a commodity business into one of the most successful companies in the industry, a story repeated in every industry where one company separates itself from its competitors.

- *Discoveries from industries that have customers or distribution channels or structure in common*. Like the previous example, these industries may be completely different in nature, but operate with a great deal in common. For instance, variable pricing has long been used in the airline industry and on Broadway; the closer to the date of use the tickets are purchased, or the more popular the event, the higher the price. Baseball is just beginning to adopt this pricing strategy. In short, tickets for the same seats at the same stadium will vary depending upon who is in town.
- *Market reality*. Companies regularly view the market differently from reality. Second-tier companies overestimate the size and strength of their largest competitors, and the market leaders often underestimate the capabilities of smaller firms. Companies are constantly surprised by unknown customers, alternative uses and substitute competitors. The fact is, this basic industry knowledge needs to be updated frequently – at least twice a year, to avoid blind spots, make better decisions and maintain a competitive advantage.

Techniques to identify the early warning signs of market changes

In the past, companies could forecast their business with statistical models, which are most accurate in a relatively stable environment. Today business operates in a constantly changing, volatile business environment, which cannot be predicted. Accordingly, new techniques are required to identify market changes, to keep up with customers' changing demands and to stay ahead of the competition.

One of the best and easiest techniques is to pay particular attention to business matters that are surprising, unusual, challenge assumptions or bring on discomfort, because these are the early warning signs of change. A second technique is to notice successes from companies in other industries. It offers an opportunity to see how their methods for success apply to other industries and how they can be adapted accordingly. Consider American Airlines frequent flyer (loyalty) program, created over 20 years ago. Not only has every major airline, hotel and car rental agency adopted this idea, but so have dozens of other industries.

Bundling is an example of a successful technique for leveraging your existing products or services. It involves taking several related products and grouping them together for reselling. McDonald's Happy Meal includes several items that could be bought separately, but together they are less expensive. Microsoft bundles together six software programs, which increases revenues of the programs with low revenue, and shuts out the competition for selected, included programs.

A third technique is to find out what customers are doing with your product or service that is unknown to you. Ask customers for the most unusual use of your product or service. Almost every industry has some customers who use their product or service in a way that was not part of the original intent. These alternative uses may suggest an additional niche market, by leveraging existing manufacturing or distribution or sales capabilities.

Find out today what competitors will learn tomorrow

Today's changes are tomorrow's headlines. Business intelligence identifies these changes and enables a company to incorporate them into its strategy and decisions or to monitor them until sufficiently comfortable. Awareness of changes in the early stages enables a company to make small changes, which are far easier to implement and to gain support for internally.

BI, with its focus on the future, identifies changing customer needs. New competitors enter every industry daily. They gain sales or snatch customers by offering something the competition does not. What the new firm is offering is a service or product that satisfies clients' needs. After all, why would customers of Company A do business with a competitor they never heard of unless the new company is meeting needs to which Company A didn't provide the solution. Existing, established firms "give away" customers or prospects to new firms simply by not keeping up with changing needs and demands. For example, think about The Virgin Group, a conglomerate of more than 200 different industries. The Virgin executives didn't have experience in these industries, but they recognized the opportunity to provide products or services to customers who were not being well served.

Today, business is no longer conducted in a vacuum – sheltered by the walls of its industry. The ability to succeed also includes numerous factors outside the industry. In a constantly changing, volatile and unpredictable business environment, the most successful companies recognize that knowledge is the key to succeeding. Decisions and strategy based on current,

Table I

Type of competitor	Companies	Offerings/differentiators
Direct (companies with similar product or service, selling to the same or similar customers)		
Indirect (companies in related businesses or with related capabilities)		
Substitute (companies selling replacement products/services)		

targeted, objective information and intelligence minimize risk and surprises.

The market is changing and so must a company's information and perspective. Business intelligence provides a reality check that often challenges industry assumptions that are no longer true, while offering more accurate insight. As Henry Ford said, "It's what you learn after you think you know everything that really matters."

Questions to ask: capturing critical information for making the best strategic decisions

1 How often do you question if your information is valid, current and/or comprehensive?

2 How much of a future-focus does the company incorporate in decisions?

3 How adept is the corporate scorecard for recognizing the early warning signs of change?

5 How often is the company surprised by competitors introducing a new product, or a new feature that you didn't even know was desirable?

6 How often does the company explore other uses of your product/service?

7 When was the last time the company identified other users of your product/service (customers who don't fit the target profile)?

8 What awareness does the company have of alternative distribution channels that are both available and desired by your customer?

9 How well do you keep up with industry happenings? (Read publications, attend conferences, actively listen to others)

10 How open is the company to bad news and/or negative comments?

The competitive landscape

- The most useful reason to monitor competitors is to learn what they have discovered:
- Which tactics do direct competitors use successfully? (Check all that apply.)
  - offer features or services different from other companies;
  - use an unconventional marketing approach;
  - sell or distribute through a non-traditional channel;
  - target an atypical customer
- If one or more of the above is checked, what was learned from competitors' actions? Then, make a list of direct, indirect and substitute and potentially unknown/recognized competitors (see Table I). Decide why customers are buying from them. (Note: price is rarely the primary reason.) Be very specific in identifying competitor offerings that appeal to customers and why. Add as many lines as necessary. ■

Managing health care costs: back to basics

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As health care costs continue to rise in the USA, employers must develop and implement a strategy to address rising health care costs today. Here's a place to start.

The cost of employer-sponsored health-care benefits continues to increase at an alarming rate. In its *2002 Annual Survey of Employer Health Benefits*, the Kaiser Family Foundation reports an annual rate of increase of 12.7 percent for employer-sponsored health insurance costs. Kaiser's findings are corroborated by the survey findings of the large employee benefit consulting firms. Mercer Human Resource Consulting reports an annual rate of increase of 14.7 percent in its recently-released Mercer/Foster Higgins *National Survey of Employer-Sponsored Health Plans 2002*. Most industry experts agree that employers will face double-digit increases in their health care costs for at least the next three to five years.

What is fueling these increases? Unfortunately, the marketplace is experiencing a double whammy. Prices are increasing as providers have become less focused on competition and more focused on profitability. The demand for health-care services is increasing as a result of the ageing of the workforce and advances in medical treatment and technology. Prescription drug costs are also increasing at 18 percent per year, with no apparent offset in medical or surgical costs.

The predicament facing employers is how to balance their methods of addressing rising health-care costs and employee morale and productivity. Many employers have begun to increase cost-sharing through increased contributions or reduced benefits, but how many times can this be done in a five-year period before employee satisfaction begins to erode? Additionally, affordable health care is a significant concern for lower-paid employees.

The health-care marketplace is abuzz with new initiatives around consumer-directed health care. If they have not already done so, larger health plans (national and local) are unveiling their new consumer-directed product portfolio. All consumer-directed health plans include three basic elements:

1 employee choice of plan or provider;

2 financial incentives for members to use cost-effective plans or providers; and

3 decision support tools to arm members with information necessary to make their decisions.

All these elements should be part of every employer's health-care cost management strategy, but consumer-directed health plans are not a panacea.

In order to manage health-care costs, employers must adopt a broad range of tactics that are configured and prioritized based on the unique demographics, population health status, culture and objectives of each employer. These tactics include the following:

- diagnostic review of costs and utilization;
- aggressive plan benchmarking;
- plan consolidation;
- maximize network utilization;
- health and disease management;
- early risk detection and intervention;
- employer collaboration;
- promote consumerism;
- manage vendor performance; and
- aggressive pharmacy benefit design.

Let us review each tactic in detail.

Diagnostic review of costs and utilization

This should be every employer's starting point in its effort to manage health-care benefit costs. The purpose of a diagnostic review is to determine (as much as possible) the most likely factors influencing health care-cost increases. With this information, an employer is able to prioritize cost-management tactics and develop a strategy that will yield a more significant and immediate return.

We recently conducted a diagnostic review for a large manufacturing company that had a perception that its health benefit costs were out of control. The results indicated that this employer's health care strategy was working well and the company's health-care cost indicators were all within their appropriate ranges. Its high-prevalence areas were maternity, musculoskeletal conditions and behavioral health care. Using this information, we were able to make targeted recommendations for addressing these cost areas individually. The implementation of our recommendations required minimal effort; and the employer avoided a costly benefit plan redesign process.

The scope of a diagnostic review will include a review of the following:

- Employee and member demographic information.
- Key plan cost and utilization indicators for inpatient and outpatient care, and comparison to industry norms.
- Large claim activity, including frequency and severity.
- Paid expenses and encounter data by major diagnostic category, and comparisons to industry norms.
- Plan design to ensure that there are no gaps and overlaps in coverage and the benefit levels and covered services support contemporary cost management techniques.
- Pharmacy data to corroborate prevalence rates of certain diagnostic categories and comparison of pharmacy cost and utilization indicators to industry norms.

Every company's health plan membership is made up of four basic groups: healthy, symptomatic, chronically ill and catastrophically ill. Healthy employees are not actively seeking medical care for any condition. They are the most cost-effective group within the population. Employers' health management strategies must focus on keeping these employees healthy.

Other members (symptomatic) have ongoing health care conditions (for example, hypertension) and are taking prescription medications. They may not require additional health-care services. Employers' goals for this group include preventing deterioration, and even improving their health.

The third group, chronically ill, is frequently referred to as the "walking wounded". These people are under the regular care of a physician and need ongoing health-care services. In addition, they are at risk of health deterioration unless their conditions are aggressively monitored and managed. For this membership, employers should focus on targeted disease management programs.

The catastrophically ill group comprises people who need consistent and extensive health-care services including inpatient hospital care. Some may be at or near the end of their lives. Employers' strategies for managing these expenses should focus on proactive large case management and networks with centers of excellence.

Employers must develop strategies for addressing the health management needs of each group and the population as a whole. The diagnostic review should reveal the primary health factors for each group.

The results of a diagnostic review will be a useful tool for prioritizing the remainder of the cost management tactics presented below and for estimating a financial impact for certain initiatives.

Aggressive plan benchmarking

In many industries, there is intense competition for talent, and employer benefit programs can play a pivotal role in tipping the scale. Many employers actively benchmark their plans against industrial and regional peer organizations. Historically, many employers have used readily-available survey data to benchmark their plans. This has becoming increasingly difficult due to large-scale movement to shift more cost to employees. According to the Kaiser survey, 43 percent of all firms and 78 percent of large firms (200 or more employees) indicate that they will "likely increase what employees pay for coverage in 2003."

Employer attitude surveys are becoming increasingly popular as benchmarking must be done against predicted, future plan designs rather than historical or contemporary designs. Employers who benchmark in the traditional manner will have dated plans before they are actually implemented.

Plan consolidation

Employers have been moving toward plan consolidation in recent years to mitigate the impact of adverse selection. Historically, many employers have offered one or more local HMOs (health maintenance organisations) in many of their locations in addition to their core plan (e.g. preferred provider organisation, point of service plan or indemnity for the few hold-outs). Over time, the HMOs attracted most of the healthier employees, leaving a small, expensive population in the core plan. The result was anti-selection, and it cost many employers a significant amount of money with no return on investment.

As the HMO marketplace matured, the differences in provider networks diminished and the national health plans got into the game, resulting in more options, alternative funding methods and a more competitive market. In response, employers have begun to reduce the number of HMOs, self-insure them, or eliminate them entirely. This is an effective way to generate savings, eliminating adverse selection, without changing benefit design or employee contributions.

Maximize network utilization

The goal of this tactic is to maximize utilization of a network of providers (hospitals, physicians and others) who have agreed to discount their services. They should ideally provide excellent geographical coverage and aggressive discounting of services. The plan design should be structured to encourage use of network providers through substantial financial incentives.

As many of today's health plans operate nearly identical provider networks, many employers are taking a more detailed approach to health plan evaluation. It is clear that a fundamental employer cost-management strategy is to contract with the health plan that offers the lowest unit cost for services rendered. This information, however, is not always readily available.

One approach is to develop a "market basket" of services that the competing health plans can use to demonstrate the cost basis for their provider networks. The basket should include inpatient, outpatient and professional services by diagnosis

" Collective purchasing of prescription drug benefits has been the rage for the past couple of years. "

related croups (for inpatient services) and current procedure terminology (for outpatient services). In addition, where possible, hospital care should be categorized as community hospital or teaching hospital (as the latter is typically more expensive).

Health and disease management

Effective health and disease management programs can offer a significant return on investment if implemented effectively. In order to maximize ROI (return on investment) from these programs, employers must consider three factors. First, because the return is not immediately realized, employers benefiting from these programs should have low turnover; employers with high turnover should look at other tactics. Second, an employer must use its own cost and utilization data to pinpoint the top two or three most prevalent disease categories and should focus health and disease management efforts on those conditions only. And third, because these programs are voluntary, employers should provide incentives to encourage participation.

Many health plans (national and local) have implemented health and disease management programs for their entire membership. For the most part, these programs focus on asthma, diabetes, heart disease and fitness and nutrition. Employers have the ability to supplement these core programs at their own cost. It is critical that supplemental programs are effectively coordinated with the health plans to ensure maximum return.

When selecting these programs, employers should review results from a diagnostic review (as described above) to prioritize them. In addition, a comprehensive health and disease management program should address the four groups described above with varying health care utilization patterns. Leaving any of these groups out of the picture may place an employer at risk for cost escalation if individuals within this group are not properly managed.

Early risk detection and intervention

Early risk detection is a relatively recent managed care tactic and has been enabled principally by advances in technology and the need for more aggressive and proactive care management. The principle behind early risk detection and intervention is the old "80/20" rule, or the fact that (roughly) 80 percent of an employer's health plan expenses are generated by 20 percent of its population. Early risk detection and intervention focuses on the 20 percent who generate the claims.

Early risk detection – also known as "predictive modeling" – uses state-of-the-art software to scan an employer's detailed claim data (medical, lab and prescription drug) and identify plan members who are at risk for potential future deterioration in their health status.

With the information, the health plan or member's attending physician can work proactively with the member to mitigate the risk of his/her health deterioration. Many national and local health plans have recently redeployed their clinical staff and have implemented a "health coach" program using the nurses to aggressively "coach" the at risk population to reduce the risk of higher claim costs.

Employer collaboration

Employer collaboration may not have a direct impact on health-care costs, but it is an effective means to exert pressure on the health plans to develop new products, continuously improve their program management and share data. Collaboration is prevalent in the small-group marketplace for the purposes of collective purchasing. It is not common today to see larger employers collaborating on purchasing.

Like with everything else, there is one exception. Collective purchasing of prescription drug benefits has been the rage for the past couple of years. Several large geography-specific or industry-specific pharmacy purchasing coalitions have sprung up recently. Employers who self-fund their medical programs, are willing to "carve-out" their drug programs, and are willing to take the chance on joining a pharmacy purchasing coalition can save up to 10 percent of their pharmacy plan costs (depending on their size).

Promote consumerism

Everyone is talking about consumer-directed health care. Some are promoting it as THE answer to managing health-care costs. Although real consumer directed health plans might be a passing fad, their two key elements are likely to become a permanent feature of most plans. First, many employers are promoting the use of health education and decision support tools. The Internet has enabled many organizations to develop rich health information and decision support sites. Health care consumers may visit these sites – free of charge – and research their conditions, treatment alternatives and (limited) provider quality data. They can then use the information to work with their doctors to develop treatment strategies and make the necessary decisions regarding their care.

Second, many employers are also modifying their health-benefit design to encourage consumerism through financial incentives. This began a few years ago with encouraging the use of preferred drugs. Now employers are re-introducing co-insurance for all health-care services so that members can better understand the cost. The theory is that if employees feel the pinch of rising health-care costs, they will use the Web information and decision support tools and make informed decisions about their health-care services and the providers they use.

There are some employers who believe consumer-directed health plans are the silver bullet of trend mitigation strategies, i.e. cost management which will result in voiding cost increases. The published data to support this hypothesis are incomplete and/or biased. What the data do suggest is that plans with high deductibles result in a lower cost per capita than traditional plans. Employers should take a close look at these plans to be sure that there is more to them than cost-shifting to employees. In order for any plan to manage cost, it must include the following:

- Aggressive discounting of services.
- Effective management of care.
- Broad access to participating providers.
- Sophisticated information systems to monitor the use of services.
- A plan design with proper incentives to encourage desired behaviors.

Manage vendor performance

The success of any of these tactics is dependent upon their execution and strong service delivery from the vendor partners. As part of a long-term plan management strategy, many employers routinely audit their health plan administrators to ensure that performance targets are being met and service to their employees meets expectations.

An effective vendor management program should include the following:

- At least quarterly meetings to receive claim experience updates, review key utilization statistics, receive updates on product and network changes and strategize about how the plans should be modified to maximize cost-savings opportunities.
- Formal schedule for receiving management reports.
- Claims administration and clinical reviews every three years.
- Periodic customer service reviews.

Effective vendor management will generate direct cost savings through error avoidance and indirect cost savings by minimizing employees' time resolving claim disputes and getting accurate information from the health plan on the first inquiry.

Aggressive pharmacy benefit design

The prescription drug marketplace has been in a high-paced evolution for the past several years. Increases in total drug spend for most employers have been 17 percent to 20 percent for the past several years, and most experts agree that this trend will not diminish soon.

Employers' response to the rising cost of prescription drugs has been aggressive plan management, including some or all of the following:

- Plan design incentives to use cost-effective drugs.
- Carving out pharmacy benefits from the medical plan.
- Aggressive clinical/utilization management techniques.
- Close monitoring of marketplace developments (e.g. new-to-market drugs and drugs losing patent protection) and quick implementation of design changes.
- Specialty pharmacy program for injectable drugs.

Employers will only avoid unnecessary claims expense by staying ahead of the market and working in close partnership with their pharmacy benefit managers (PBMs). Today's PBMs have very sophisticated systems for managing employers' drug costs and utilization as well as tracking new-to-market drugs, drugs coming off patent, and manufacturers' progress in introducing new drugs.

Employers who currently carve-out their pharmacy programs should solicit competitive bids every three years. The pricing of these programs has improved over time and will continue to improve as the PBMs vie for market share. It is not uncommon to save 5 percent (based on employer size) in total pharmacy spend from a bid solicitation effort, even if the plan was competitively bid within the past several years.

“ The predicament facing employers is how to balance their methods of addressing rising health-care costs and employee morale and productivity. ”

Conclusion: the future

Although the future is uncertain and there are many variables out there that could influence health-care costs over the longer term, we are likely to see the following:

- Sustained double-digit health-care cost inflation for the next three to five years.
- Further cost-shifting to employees.
- More employee choice; growth of catastrophic-level (e.g. high-deductible) plans.
- Advances in technology will have a significant impact on the delivery of care and the health plans' ability to manage utilization of services.
- Prescription drug cost management opportunities will exist as many blockbuster drugs lose their patents and more biotech drugs enter the market.

What this means is that employers must develop and implement a strategy to address rising health care costs today. Here's a place to start:

- *Know what you have*: summarize plan costs and determine primary cost drivers.
- *Know where you stand*: benchmark plan costs, design and cost-sharing against the marketplace.
- *Know where you're going*: solicit management's objectives for cost increases, employee relations and risk exposure.
- *Know how you're going to get there*: identify and prioritize opportunities for further cost management.
- *Know when you've arrived*: evaluate marketplace alternatives and potential impact; continuously monitor; start your journey again. ■

Strategic reframing in view of a business upturn

Willy A. Sussland

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The economic cycles are like the weather, largely unpredictable. After an extended period of rain, most likely the sun will shine again. After a long and damaging downturn, some economists are now forecasting a recovery. Of course, economists are at their best when they predict the past, and caution may still be in order. Be it as it may, crisis management is like antibiotics; it can be very effective, but it cannot be prescribed for an extended period of time. So, the time has come for the leadership to assess the impact that the slump has had on the organization and to take a fresh look at the strategic options.

The crisis, according to economist Joseph Schumpeter, is an agent of "creative destruction". It prunes certain excesses, and it purges weak competition so as to give those remaining a better chance to prosper. However, there has been destruction and few survivors have emerged completely unscathed.

If management looks at the results it will probably see that the profitability, and maybe also the competitiveness, of the company have been impaired by the business downturn. However, looking deeper at the enablers of those results, management may find that the strengths of the organization have also deteriorated and that the robustness of the business model has eroded.

Struggling with the crisis, it is likely management had to make some changes on the four management levers that drive the business model, i.e. the strategies, the systems, the structures, and the style of leadership. Under time and monetary pressures, decisions may have been taken solely on the grounds of short-term financial results. Overlooking their effects on intangible assets such as the morale of the troops and the goodwill on the market place may bear serious consequences on future performances. Quick fixes and drastic cost-savings programs can end up costing a bundle. All in all, as a result of diverse tactical or strategic adjustments, the enterprise may now find itself operating a distorted business model, which proves to be as uncomfortable as ineffective.

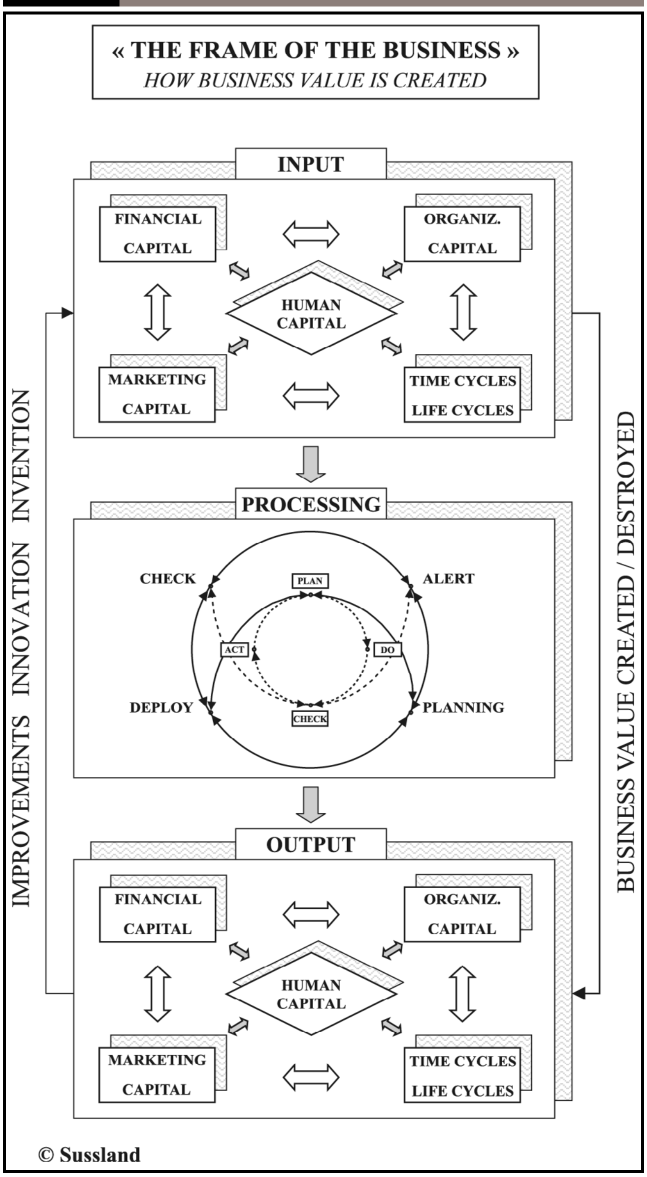
Whether times are good or bad it is critical for businesses to continuously re-evaluate their strategic frameworks.

Yesterday's palliative solutions can become tomorrow's problems! Hence, they cannot be retained indefinitely. Moreover, trying to fix individual problems without looking at the whole business system is like rearranging the tables on the sinking Titanic. Therefore, regardless whether the coveted economic recovery is here or just near, management should initiate a program of strategic reframing that assesses the strengths and weaknesses of the organization, and re-evaluates the opportunities and threats on the markets.

The four steps of strategic reframing

Strategic reframing means reviewing the whole business system within which the enterprise operates in order to improve or to change its frame. When we start putting together a puzzle, we usually start with the frame. So, when reviewing the business, we start by looking at the business frame. Figure 1 shows our concept of the business frame. It throws into relief the interplay between the strategic resources and the management processes, which is the key to determine the strengths and weaknesses of the organization and, more importantly, to understand how the enterprise generates profitability and competitiveness. Let us dwell a moment on this important point.

Figure 1



In order to achieve the strategic objectives and to create value for the organization and for its key stakeholders, the enterprise makes available the appropriate strategic resources, inputs these resources in the apposite management processes, where they are transformed and value is added (or destroyed) on the outputted resources. In other words, management leverages the profit and competitive potential of the enterprise by investing the right resources onto processes where they are rightly deployed.

Periodically, or as soon as it can see the light at the end of a business slump, management should evaluate the effectiveness of the strategic resources that have been invested, and the efficiencies of the management processes that deployed them. For this purpose, we advocate that the strategic reframing be done in four steps, following a logical sequence of senior management's tasks, namely: check, alert, planning, deploy.

The first step features a reality check of the strengths and weaknesses of the company. We start with the organization's internal environment because we believe that, to a large extent, it is up to the leadership to shape the destiny of the enterprise and to endow the organization with the appropriate means. The second step features alertness to what is changing in the external environment, as well as envisaging the opportunities and threats that the future may hold in store for the enterprise. The third step incorporates in the strategic planning the insights gained in the previous two steps. As a result, management should be able to decide whether to restore the strengths and the original business model or then to change the business model and to ensure the timely availability of the necessary resources. The fourth step features the organizational and strategic deployment throughout the whole organization. We will outline the process of organizational and strategic deployment that we use.

Throughout the process of strategic reframing, we must center our attention on how effectively the strategic resources and the processes work together. Hereafter, we will share our concepts of strategic resources and of vital or management processes, and then see how they apply to the four steps of the strategic reframing process.

The strategic resources and the management processes

We focus on the strategic resources, those that can markedly contribute to the success of the enterprise. These resources form an interdependent web that combines tangible and intangible assets. It is essential that we pay particular attention to the intangible assets. While they are the most dynamic factor, these assets are not shown in the balance sheet. Often they are given short shrift in the management reporting. Thus, it is up to the leadership to ensure that the so-called intangibles are put in the driver's seat.

Our model, illustrated in Figure 2, provides a comprehensive array of the resources and their components with several levels of detail that, for space reasons, cannot be discussed here. Breaking down the resources into their components helps the leadership select, on a case-by-case basis, the right configuration of resource components to support the strategies of the enterprise.

Every enterprise operates a large number of processes, some physical, others psychological, some material, some mental. For all their variety, all processes serve one and the same purpose, namely to deploy the resources. We concern ourselves here only with the "management processes", i.e. the ones that concern critical decision making by senior and operative management.

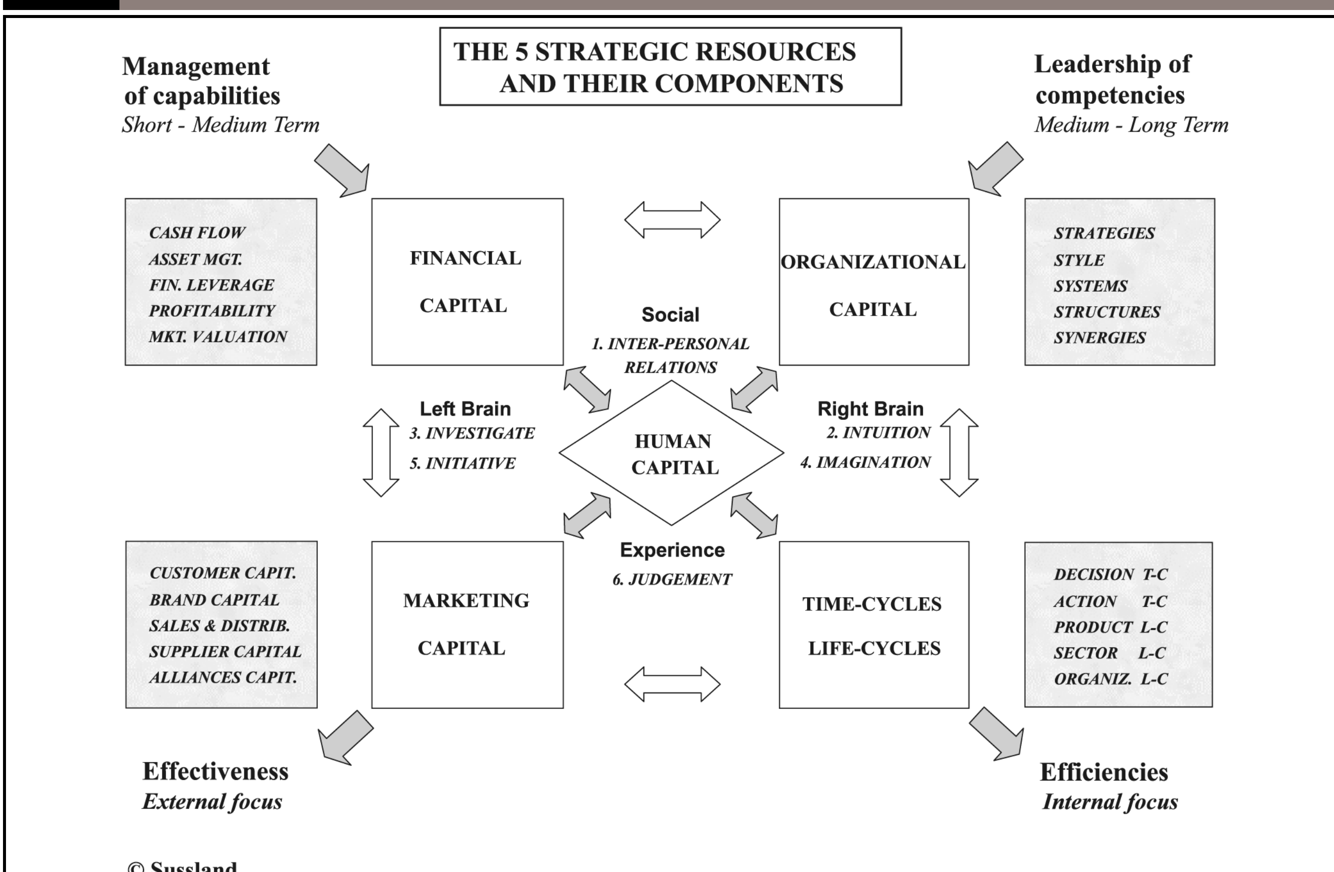
Senior and operative management have different perspectives and different prerogatives. They bear responsibility for different tasks. The organizational dilemma that many companies face is how best to ensure that each level concentrates on its own tasks, and that the cooperation between the two levels be efficiently focused on clearly defined topics.

Inspired by the Deming wheel, we developed the "model of the two rings" or M2R and placed it at the center of our model of the business frame, already shown in Figure 1. We featured on the outer ring of this model the four key tasks of senior management, and on the inner ring the four key tasks of operative management. The two rings are interactive and structure the orderly sequence of key tasks assigned to each level. Our model helps the senior and operative management to focus on the critical issues they are primarily responsible for and the junctions where the two levels should work together. The M2R is a powerful motor that helps drive and coordinate the key decision-making processes of senior and operative management.

The first step: the reality check of the strengths and weaknesses

Our concepts of resources and processes can help management evaluate the strengths that can be leveraged from the resources and from their processes, but also the weaknesses that constrain the potential of the enterprise.

Figure 2



Different evaluation methods can be used depending on the required sophistication. The methods used for the evaluation of the performance of processes are well established. As for the evaluation of the effectiveness of the resources, we outline hereafter two simple approaches.

Management can compare the potential of each of the resources at the end of a period vs at the beginning of that period. In this context, it can determine, first, to what extent have the resources been weakened or reinforced by the crisis, second, the effectiveness of the deployment of the resources, and last but not least, whether the currently available resources are strong enough to support the strategies of the original business model.

It may sound a bit odd to speak of resources that have been reinforced by the crisis. However, good leadership may take advantage of this kind of situation to harmonize structures and systems; it may reinforce the commitment and cohesion of the remaining personnel; it may strengthen the customer and distributor capital as these partners may appreciate the efforts the company is making in spite of the difficulties. Good leadership knows how to make the best out of any situation and, as the old saying goes, when the going gets tough, the tough ones get going.

Another approach to evaluation of the effectiveness of the resources, which can be used in the frame of executive workshops, requests the participants to analyze and list for the period considered "what went really well"; "what went really wrong"; "what was different, unexpected, and too early to tell". These inputs can then be related to the different resources and processes.

Beyond evaluating the current strengths and weaknesses of the organization, the reality check should provide essential insights for future resource allocations. Of course, estimating the potential that has been leveraged from the resources is as difficult as it is important. There are no standards, and every enterprise must find its own ways about it. However, every go-around of the evaluation process will help refine the approach. Johann Wolfgang von Goethe, the German poet and philosopher, said: "The first sign we don't know what we are doing is an obsession with numbers". In other words, approximate facts are more useful than precise figures that do not lead to actions.

The second step: alert

The future is not what it used to be! We know that things change, and we can safely suppose that the crisis has been an agent of change, including of permanent change. Sometimes, senior management allows itself to be bogged down in the daily operations and cannot find the time to remain alert to changes in the external as well as in the internal environment. However, neglecting the trends in the business environment can have dire consequences.

" Yesterday's palliative solutions can become tomorrow's problems. "

We published in *Connected* (International Thomson Publishing, 2000) a model that helps visualize the interactions between the mega trends that affect all industries; the macro trends that affect the market life cycles and the industry structure within a given sector; and the "strategic thrust". The strategic thrust, or the driving force, as Dr B. Tregoe called it, refers to a particular set of resources that the leadership focuses on. Research has revealed that, as part of the covert corporate culture, the vision that senior management has for the enterprise leads them to allocate generous resources to support the strategic thrust, while letting other competencies suffer from inadequate support.

The crisis may have led senior management to depart from the original strategic thrust and to modify the policy concerning the allocation of resources. However, more often than not the leadership clings to their strategic thrust in spite of the fact that the market conditions no longer warrant it. The strategic thrust must be supportive of the business model in place or it becomes a serious policy constraint.

The third step: planning

The "planning" step on the outer ring of the M2R is where senior and operative management consolidate, coordinate, and prioritize the objectives for the business breakthrough and those for continuous business improvement. With the benefit of hindsight, management can judge whether the strategic objectives that had been set were optimal.

Taking into account the insights obtained in the "reality check" and in the "alert" steps of the strategic reframing, senior management should consider whether the business model the company has espoused before and during the crisis is still valid and capable of generating superior profit and competitive potential. Should this be the case, senior management will review the assessment of the strengths and weaknesses made in the "check" step. Should the potential of the resources turn out to be insufficient to support the strategies of the business model, then corrective actions need to be planned and implemented.

Most likely, as a result of the slump, the configuration of opportunities and threats relevant to the enterprise has changed. Senior management can now revisit the various options. It can pursue the original business model and restore the required strengths. It can uphold the original business model but change the focus on the value chain and on the resources to be deployed. Alternatively, senior management can consider more or less profound changes in the business model and in the configuration of the resources. Combination of different strategic alternatives should not be overlooked.

Should management decide to implement substantial changes to the present situation, be it in the frame of restoring or reframing, we suggest that the M2R be used to review the adequacy and to drive the synergies of the management processes shown on the two rings of this model.

The fourth step: the organizational and strategic deployment

In the frame of the M2R, we have developed the process of organizational and strategic deployment (POSD). Unlike conventional methods of strategic deployment, our approach emphasizes the interactivity of the different levels and functions. Furthermore, we intermesh the organizational with strategic deployment. POSD implies a fairly comprehensive methodology. Therefore, we can only sketch how this process highlights how value is created in the business.

In the "deployment" step, the two management levels work out the alignment of the strategic and organizational deployment throughout the organization in order to reach the strategic objectives.

The strategic objectives are translated in key strategies, each of which is assigned key performance indicators (KPI) and critical success factors (CSF). The CSF are scheduled to be supported by the allocated resources and implemented with the appropriate processes. Operative management composes the configuration of resources and the architecture of the processes and then comes up with a deployment plan that involves the different levels and functions.

In the process, the cost, the timing, the quantity, and the expected performance of these resources are estimated. Since intangible resources are part and parcel of these transactions, the relevant valuation criteria must be standardized pretty much company-wide.

The different organizational nodes that are called upon to contribute resources or to operate processes will be more willing to do so if they get fair credit for what they deliver. Since units seldom dispose of all the required means, this practice should leads to fruitful negotiations across the organizational divides in order to secure the necessary means.

The analysis of return on resources and of the key performance indicators for the processes should bring out disconnects and dysfunctions, which, unless eliminated, will end up choking the enterprise. Senior management, which approves the deployment plans, should compare at the end of the business cycle the estimated cost of the resources invested vs the estimated return that obtained.

Conclusions

Schumpeter cited crises as an agent of creative destruction. In order to be creative after the destruction, management needs to revisit the frame of its business and determine how the downturn has affected the balance of strengths and weaknesses. However, the crisis has most likely also left its marks on the external environment, and altered the picture of relevant opportunities and threats. With these insights, the management can decide whether to restore the original business model and the appropriate resources, or then to reframe the business model and the configuration of resources in order to take advantage of the evolution in the market place and in the industry structure. ■

Strategy gone bad: doing the wrong thing

Sydney Finkelstein and Scott Borg

This article is based on the book *Why Smart Executives Fail* (Portfolio, 2003) by Sydney Finkelstein, Professor of Strategy and Leadership, Tuck School of Business at Dartmouth College, Hanover, New Hampshire. More information is available at www.whysmartexecutivesfail.com. Scott Borg is a well-known researcher and consultant.

Find out how others got it wrong when it came to implementing effective strategies and learn from their mistakes.

What is strategy? Countless books, MBA programs, executive education initiatives, and consultants are available to answer this question in excruciating detail. But let's cut to the chase. Strategy is what a company does, or doesn't do, to fulfill its vision in a competitive marketplace. Dell's strategy is to deliver directly to customers a built-to-order personal computer (and more recently, other computer-related products). The strategy at Southwest Airlines is to provide world-class customer satisfaction to flyers that value high-frequency low-cost flights. There are three things you really want to know about strategy.

1 *If you know the "who, what, and how" you know strategy*. Who are you selling to? (People who value ease of customization and speed of delivery at Dell; customers who value low prices at Southwest.) What are you selling? (Dell – reliable computer products; Southwest – convenient travel.) How are you selling it? (Focus on logistics and execution at Dell; customer service and speed of airplane turnaround at Southwest.)

2 *Strategy is just as much about what you decide not to do, as it is what you do*. If you do everything, then you don't really have much of a strategy. Dell doesn't sell branded products via resellers; Southwest doesn't offer first-class cabins. This is one of the toughest things for executives to get their hands around. Sometimes you have to say no.

3 *Not all strategies are created equal*. Strategies should be based on real internal competence that customers value enough to pay for and that competitors cannot easily replicate. H-P knows how to make personal computers, but it loses against Dell because it can't easily switch from a reliance on channels and resellers to a direct-to-customer model (resellers tend to get a tad upset when you try to bypass them to go directly to end users). Many established airlines have been unable to weather the post-September 11 storm precisely because their standard operating procedures make it so difficult to take on attributes of the Southwest business model.

Yes, we know strategy can be complicated, much more complicated than this, but there's real value in focusing on first principles, especially when much of what passes for strategy is just an elaboration of these basic ideas. What's more, these principles will go a long way in helping us understand what goes wrong when companies let their strategies go bad. In this article we focus on a set of companies that undertook destructive strategies, and search for the critical lessons we can all learn from those experiences. While the companies we unveil come from many different worlds – varying by industry, time, and location – the commonalities stand out to provide powerful lessons for executives and investors alike.

Wang laboratories – classic Greek tragedy?

The classic Greek tragedies often involved a deep-seated defect in the protagonist that led to his eventual downfall. Tragically, this "self-inflicted wound" – whether hubris, arrogance, or a need for power and control – was an accompaniment to genius. In the classic tradition, some of those very characteristics that enable greatness are at the heart of denouement, a theme that at its most basic level explains the story of An Wang and Wang Labs.

An Wang was an exceptional man, an inventor and innovator, a true business creator. He came to America with little money, earned a doctorate in applied physics in 1948 from Harvard University, and went on to invent the magnetic pulse memory core, a technology that would be essential in computers for the next two decades. He was the first to develop and realize the potential of the calculator market, and Wang was personally responsible for numerous patents and product ideas. This quest for breakthrough technologies was not only his driving force, but it was also embedded in the culture of the company he created – Wang Labs – which grew to become a $2 billion powerhouse.

The early years of the company were prophetic. As the Gods would have it, Wang Labs was intertwined with IBM right from the start. The design for Wang's magnetic pulse memory core was sold to IBM in 1956, but not before four years of arduous negotiations. It did not go unnoticed that this deal closed just weeks before Wang was awarded a patent on this technology. Years later, he would suggest that IBM had challenged his patent claim as a means of closing the sale.

By the late 1950s, Wang had added such inventions as a transistor-based angular encoder to measure cloud cover (for the US Air Force), and an automated control system for machine tools (the "Weditrol"). Wang also developed and patented a semi-automated phototypesetting device that increased the productivity of newspaper printing but, in a bungled licensing agreement, Wang lost exclusive rights to manufacture these machines. In need of additional capital, Wang grudgingly sold 25 per cent of the company to a machine tools company for $150,000. Wang later wrote that he regretted giving up so much control for such a small price.

The next two decades were good years for Wang. The introduction of the LOCI electronic scientific calculator in 1965 literally began the desk calculator market, which Wang dominated for the next five years. Riding the wave, Wang Labs went public under much fanfare in July 1967, with Dr Wang personally retaining control of over 50 per cent of the company. The Wang 2200 minicomputer and the cutting-edge 1200 BASIC word processing machine debuted in 1973, but it wasn't until the company introduced a cathode ray tube-based word processing minicomputer in 1976 that Wang had his next big hit.

Over the next four years, Wang introduced VS (virtual storage) computers, its Office Information series, and its Integrated Systems line, all cutting edge products aimed at the lucrative office-automation market. By 1978 Wang Labs was ranked as the 32nd largest computer provider, and cocky enough to launch an aggressive television advertising campaign aimed directly against number one, IBM. An Wang proudly proclaimed his company would replace IBM as the dominant computer company in the world by the mid-1990s. As one former manager told us: "He had two suits, both gray, and in the breast pocket he always kept a little chart showing how Wang Labs would one day surpass IBM. This at a time when sales at Wang were around $3 billion and IBM was at $47 billion."

Arrogance + hatred and disrespect of your competitor = disaster

Momentum can keep you going for some time, but strategic breakdowns will eventually catch up with you. The story of the word processor and the IBM PC highlights this as well as anything. Rather than see the word processor as a product, An Wang fell head-over-heels in love with it. While an innovating company must truly be in love with the process of creating new products, loving an actual product is much more dangerous. So when, as the story goes, son Fred points out that IBM's PC is a real threat to the word processor, An Wang says: "The PC is the stupidest thing I ever heard of". Then, akin to Apple's resistance to licensing its technology because no one could be allowed to share in the aesthetic of Apple and later Macintosh, Wang was not only slow to market with a PC, but when the company did enter the market it chose to use its own non-IBM compatible proprietary system.

With one part arrogance bred on past success, and one part attempted defiance of the emerging IBM hegemony in PCs, An Wang's blind hatred of IBM created an unwinable strategy. Ever since he sold his rights to the magnetic core memory, he felt cheated and exploited by the giant computer company and he would be damned if he would let that happen again!

If you want to understand strategy, study the strategists

The story of An Wang and the PC – almost a fable – provided a window into the closed world of Wang. Right from the beginning, An Wang had served concurrently as president, CEO, and director of research, creating a "benevolent dictatorship" where he retained ultimate control over every facet of the company. In a touching story told to us by his son Fred, An's desire for control even extended to the IPO process:

> At night he'd read an Agatha Christie mystery before falling asleep. He'd usually read a page or two before he would just fall off and the book would just plop off to the floor. During the summer of 1967 just before the company went public he had gotten hold of some handbook on taking companies public – one of these coffee table size books – and he'd take that to bed at night, read a couple of pages and then you'd hear the book fall because when that thing fell the whole house shuttered. He basically read through that during the course of the summer and was able to question and direct the investment bankers who helped us. He knew more about some of the things than they did just by having spent the time reading through materials.

Where did this pre-occupation with control come from? While there were almost certainly psychodynamic attributes that contributed to An Wang's actions, there is also a history at the company that is revealing. An Wang always thought that he gave up too much control when the company first went public. He may well have felt that he was taken advantage of by IBM. And he lost control of exclusive manufacturing rights because of a slipshod licensing agreement. Much of what happened subsequently to Wang can be seen as an attempt to avoid the mistakes of the past, but each solution turned out to be more toxic than the problem it was meant to cure. These three events – all centered on the theme of loss of control – drove Wang to make decisions that destroyed his company.

Two decisions were most critical. Dr Wang never gave up his passion for researching breakthrough technology, but by the early 1980s, Wang Labs was too big for him to manage alone. The first person Dr Wang elevated to the top job – an experienced executive with strong credentials – lasted only three years as it became apparent that An intended to promote his son, Fred, to the top position. When Fred did take over, in 1986, many people wondered whether he was the right man for the job.

While continuing a line of family members as CEO is hardly unique to Wang – Schwinn, Coors, and Barneys also place a high value on continuing the family traditions – for Dr Wang it may well have been more about himself than the family. If Fred were the CEO, it would in effect perpetuate and confirm for all the legacy that An Wang had created. It was not that this was a family-run company in the way that Schwinn, Coors and Barneys were, it was more that Fred's ascension to the throne was an affirmation of An Wang's professional and personal success. Even on his deathbed in 1990, An Wang scribbled a note, sealed with hospital tape, to CEO Richard Miller asking him to keep the company's name intact no matter what the future should hold.

With the market having shifted from word processors to PCs, and Wang's entry stalling, the company was in trouble. The sales force didn't want PCs – Wang was an also-ran in PCs, and besides, they made much more money on word processors. The only problem was the word processor market continued to dip, eventually going the way of centralized word processing pools in companies. Losses mounted, and their effect was concentrated because of a decision An Wang had made during the years of growth.

> **“ Strategy is just as much about what you decide not to do, as it is what you do. If you do everything, then you don't really have much of a strategy. ”**

Dr Wang was never happy that he had to give up so much of the company when he went public, and he subsequently refused to dilute his holdings to raise additional capital. Well, with limited opportunities for equity, there's always debt, and Wang had managed to accumulate over $1 billion in debt, including $575 million in bank loans by 1989. While the company struggled through several more years, by 1992 it was over. Wang Labs – for years one of the most innovative companies in the computer industry – filed for Chapter 11 bankruptcy protection.

Wang Labs died of self-inflicted wounds. That which made the company great – an obsessive desire by a benevolent and brilliant dictator to control every aspect of the company – led to its downfall. Wang Laboratories is a remarkable example of an entrepreneurial start-up that never matured. Driven to control as much of his personal environment as he could, and riding a wave of success that made him a very wealthy man, An Wang made a series of fundamental mistakes that eventually cost his company the longevity, and him personally the legacy, he so desperately wanted.

Isn't it remarkable how powerful an influence one man can have? But strategists don't only live at the very top of organizations. In the next case history the locus of influence is not only at the top, but also in the middle, and in both companies the middle rises to do great harm. They could not do so without the implicit or explicit acquiescence of their respective CEOs, so the resulting strategies are really an amalgam of leader and acolyte. This next story has one more thing in common – it is a tale of seemingly irrational behavior by rational executives.

Snow Brand Milk doesn't learn from its mistakes

On March 1, 1955 nine elementary schools in the Tokyo area reported a major outbreak of food poisoning affecting more than 1,900 people, and two days later, Tokyo officials announced they had found *staphylococcus* in low-fat milk produced by a company called Snow Brand Milk. The company – founded as a farmers' cooperative in Hokkaido in 1925, the northernmost island in Japan and a region known for agriculture and dairy production – was shocked when the contamination was traced to Snow Brand's Yagumo factory in Hokkaido, where a temporary blackout and problems with new equipment caused the problem.

Snow Brand's reaction was swift. CEO Mitsugi Sato immediately ordered a product recall and halted all sales. He took out advertising space in all the major newspapers to publish a public apology, and rushed off to the factory himself to investigate the matter. Several changes emerged from this incident. Responsibility for quality control and testing was consolidated in an independent division and multiple layers of quality testing were integrated into the production process. Sato also set out to instill quality into the culture of Snow Brand, distributing regular messages to all employees about the importance of quality and elevating quality to a central position in the company's credo.

These efforts were successful, and Snow Brand went on to become one of the most trusted names in Japan. By 2000, the company was the largest producer of milk and dairy products in the country, and a major player in other segments of the food industry, including meat products. So powerful was the brand that consumers in blind taste tests preferred a competitor, but favored Snow Brand when the labels were left on the product packaging. Snow Brand employed 15,000 people and had consolidated sales of about $10 billion.

The story of the Tokyo food poisoning was kept alive for years. The importance of quality was reinforced via continued distribution of company literature to employees. Somewhere along the line, however, memories started to fade and the practice of sending out quality reminders was stopped. In addition, by the 1990s market conditions began to shift. Deregulation enabled supermarkets to become larger and more consolidated, shifting bargaining power from producer to retailer.

Even well-known brands like Snow Brand were pushed to lower prices as retailers filled shelves with their own private label store brands. Seeking to meet profitability targets in this tough market, plant managers looked to cut costs wherever they could. Factory production was stepped up, not only to keep up with demand, but also to squeeze maximum capacity from existing facilities.

The pressure to cut costs came up against the traditional Japanese consumer preference for product freshness. Japanese food producers historically labeled perishables with the production date instead of the expiry date. Milk production followed what was known as a ''D-1'' schedule – milk was delivered one day after it was produced. Product testing actually took place while the milk was already on route to stores; even though the test required 16 hours. If problems were discovered there was still time to recall the product. As pressure grew for product freshness, milk producers even began a ''D-0'' delivery schedule that brought the product to stores the same day it was produced. Critically, the ''D-0'' schedule prohibited timely testing of product quality, increasing the risk of food poisoning. While the Ministry of Agriculture, Forestry and Fisheries in Japan advised manufacturers not to deliver within the ''D-0'' window, some companies chose to continue the practice, including Snow Brand. There was no margin for error.

Disaster strikes

Sometimes it is the little things that go wrong. At Snow Brand, it wasn't. The pressure for results ran right into a world of dramatically increasing retailer power and consumer pressures for highest quality and freshness. Something had to give, and it was quality. The Osaka factory started producing 100,000 tons of milk, far above its 60,000-ton capacity. Production dates were disguised, milk that was returned from stores was reused in other products unbeknown to customers, numerous breakdowns in cleanliness occurred (e.g. machine valves were not washed or sterilized properly), and operational records were falsified.

The public knew nothing of this – until June 27, 2000. That morning the customer service center for Western Japan received a complaint that milk produced by the Osaka factory was causing some people to become nauseous and sick. The first complaint was quickly followed by dozens more, but Osaka took no action. They didn't contact head office in Tokyo either, and ''D-0'' deliveries continued for two more days.

The next day, June 28, the Osaka public health office received a report from a doctor concerning food poisoning apparently due to Snow Brand's low-fat milk. Public health officials quickly started investigating the Osaka factory. The tainted milk continued to sit on store shelves. As it turned out, June 28 was also the day of Snow Brand Milk's shareholder meeting. The Osaka factory did not report any of this to either the Western Japan branch office or corporate headquarters.

Snow Brand top management was finally informed that milk from the Osaka factory was causing food poisoning on the morning of June 29. Later that day, at 4 p.m., the City of Osaka announced that Snow Brand milk was responsible for the outbreak that had sickened more than 200 people. Finally, at 9.45 p.m., some 60 hours after the first reports had come in, the President of the Western Japan branch of Snow Brand Milk held a press conference where he admitted that the company's products were responsible for the food poisoning. During this entire time, Snow Brand milk remained on shelves and in customers' refrigerators, exposing additional people to the tainted product.

By July 1, more than 6,000 people had become sick, and consumers and the media were outraged that top executives in Tokyo had not even acknowledged the incident, let alone taken responsibility. Finally, Snow Brand Milk President Tetsuro Ishikawa held his own press conference, fully two days after the initial press conference in Osaka and four days after the first complaints about food poisoning had been received. Additional information about the bacteria was revealed at this press conference for the first time, reinforcing doubts on the company's ability to handle the crisis.

The demand for information and accountability continued. At a late night press conference three days later, Ishikawa abruptly stopped answering questions and rushed off to the elevator. Pursued by reporters who demanded that he continue the press conference, he yelled out at them from the elevator: "I haven't slept!"

A reporter responded: "So what? We haven't slept either! Have you ever given thought to the poor children who are suffering in the hospital?"

Ishikawa had no response and quietly agreed to continue the press conference. Captured on camera, this scene was broadcast on national television over and over again, not only enraging consumers in Osaka, but consumers, distributors and even Snow Brand employees all over Japan. Ishikawa announced his resignation two days later.

The unsanitary and ill-conceived practices in the Osaka plant came to light in subsequent investigations. In all, 13,000 people became ill in this incident, the worst in Japan since World War II. Sales of Snow Brand milk declined 88 per cent in July compared with the previous year. Market share dropped from almost 40 percent in June to less than 10 percent. The company swung from a net profit of 3.3 billion Yen in fiscal 1999 to a loss of 51.6 billion Yen in fiscal 2001.

Could it happen again?

Snow Brand Milk consisted of several subsidiaries besides the large milk business, one of which was Snow Brand Foods – a major Japanese producer of beef, chicken, and pork. In September 2001 the Japanese beef business was hit with Bovine Spongiform Encephalopathy (Mad Cow disease). The Ministry of Agriculture, Forestry and Fisheries reacted quickly to protect the beef industry and started a program the following month to buy back domestic beef that had to be destroyed for fear of contamination.

With rapidly declining sales, and the same pressure to meet targets we saw earlier with Snow Brand Milk, the temptation to cut corners re-emerged. Here's the scam Snow Brand Foods came up with. Japanese beef is considerably more expensive than imported beef, creating an illegal opportunity for the company. Buying cheaper imported beef from Australia and

> **" While an innovating company must truly be in love with the process of creating new products, loving an actual product is much more dangerous. "**

labeling it as Japanese beef, Snow Brand Foods submitted the beef to the Ministry's program and pocketed the difference. Unfortunately for Snow Brand Foods, the government inspected one of the company's processing centers the following January and found 13.8 tons of mislabeled beef. Under pressure from the government and consumers, the company voluntarily stopped selling beef and processed beef three days later. Follow-up investigations revealed that the company had not only engaged in similar practices in other processing centers, but had also been disguising the origin of beef and pork for some time to enable higher selling prices.

It didn't take long for the hammer to come down. On February 1,2002 the government brought charges of fraud and police raided headquarters and other offices to gather additional evidence. After the milk poisoning disaster, the company had essentially depleted its goodwill and actually ended up closing down the entire Snow Brand Food subsidiary just three months later. Snow Brand Milk looked for ways to isolate the damage and spun out some business operations to joint ventures, including the manufacture and sale of powdered milk for babies. In addition, the immediate aftermath of the scandal resulted in key asset sales and emergency capital infusions from banking partners.

Nevertheless, it appears that many consumers have sworn off the brand and refuse to go back. All this has been reflected in a stock price that sank to as low as 150 Yen in May 2002 (from 600 Yen a year earlier) before recovering slightly. Snow Brand Milk may yet survive, but the damage is done.

How could this happen?

In looking back on what happened, it was almost as if Snow Brand management was operating in a vacuum. Delivering milk on a "D-0" schedule is about as risky a strategy as you can imagine in an industry where 100 per cent safety and reliability is required. One mistake is one mistake too many. In contrast to other high-reliability organizations such as the military, nuclear power plants, and aircraft manufacture, the lack of production controls seems extraordinary. At Snow Brand, there was a willful attempt to avoid and bypass controls that had historically been in place. Why?

There are three primary reasons. First, the pressure for results had built up to such an extent that plant managers found themselves increasingly unable to extricate themselves from riskier, and over time unethical and illegal, actions. At what point does a drive for efficiency go over the line? How do managers in high-pressure environments know where to draw that line? This is probably why revelations of wrongdoing, or at least cutting corners, kept dribbling out from Enron, WorldCom, and Tyco long after the initial "scandal" story broke. For example, months after Tyco CEO Kozlowski resigned, we were still reading stories in the *Wall Street Journal* about how the company's ADT subsidiary accounted for cancelled security alarm contracts. And for a while it seemed like the totality of WorldCom's accounting "mistakes" would seemingly increase week by week. When the culture is wrong, it permeates the entire organization and leaves a mark so far down that it can take years to hear the other shoe drop.

Missing throughout the Snow Brand story is senior executive leadership – people who not only can raise the profitability stakes, but can also set unimpeachable ethical standards and provide a guiding light to help meet those aggressive targets. In the absence of clear guidelines on what is appropriate and inappropriate, some people might push the envelope too far. Coupled with a tough competitive environment and intense pressure for results, others might join them. Throw in a traditionally loyal workforce, and there is little expectation of dissent or censure that might provide perspective and distance. Snow Brand management was caught in a powerful centrifugal force from which it could not extricate itself. Yes, it is true it did something that was wrong, but where was senior management?

Second, Snow Brand's was not a culture where it is was OK to make or admit mistakes. This was a successful company, a star company really, and one that had built a reputation for excellence. When the milk poisoning hit, Osaka was shocked. You can almost see them saying to themselves – for few would openly talk about it – that this wasn't really happening. Rather than acknowledge that something had gone wrong, very wrong, Osaka created the fiction that it could solve the problem itself. Its resistance to even informing head office about mass food poisoning speaks volumes about its confidence in containing the problem and its incredible fear of admitting that its milk was bad.

It is remarkable that Osaka believed it could keep head office in Tokyo off the case; the notion that the corporate office was preoccupied with the shareholder meeting was simply an excuse to avoid informing their bosses. But while Osaka tried to figure out how to deal with the disaster on its own, its products remained on grocery shelves and refrigerators, infecting additional people that need not have been hurt.

Finally, in both the case of milk, and beef, illegal practices and activities were going on for some time before they were discovered. In fact, they might still be going on if not for the milk poisoning, or the government inspection of beef plants. These were not one-time transgressions, but a steady pattern of inappropriate behavior. These practices could not have had such longevity if managers doubted what they were doing. But, in dramatic contrast, it never occurred to Snow Brand management that they could get caught! They were simply too good. This was a company with a stellar brand name, a terrific reputation among customers. It could do no wrong – so it did. The company's response to announcements of milk poisoning says a great deal. No admission of responsibility, no formal investigations, and a CEO who makes the ultimate public relations blunder by demonstrating a lack of compassion. Meanwhile, none of this sinks in with executives at Snow Brand Foods, who proceed to virtually repeat the disaster in the beef business just a few months later.

Strategy redux: a search for the lessons

When does strategy go wrong? There are fundamental fault lines that reside just beneath the surface of many companies that can rise up to shatter strategic initiatives. Mistakes in strategy can be boiled down to two things: a wrong idea and bad stewardship of that idea. An idea that is "wrong" is not just a bad idea, but an idea that is wrong-headed. It should never have come up in the first place, but it did, usually because of a fundamental misreading of the competitive landscape.

In many ways, the idea is almost nonsensical and the stewards of that idea (who include not just CEOs but the managers who are charged with making the idea come to life) put themselves in an even worse place when they try to make the nonsense come true.

That's why Wang Labs is such a classic story of strategy gone bad. The idea that Wang could control every aspect of its existence while it developed a strategy that could destroy IBM was wrong-headed; it is not only unattainable, it also misdirects attention away from what the market and customers are demanding. The stewards of that idea – An Wang and his benevolent dictatorship – followed a logic of action that hindered rather than helped the company compete. Misreading what the customer wanted, relying on proprietary systems, and restricting equity ownership all exacerbated the effects of a bad idea to the point that Wang's strategy just broke down. Companies like Snow Brand, General Motors in the 1980s, Mattel, and Schwinn all experienced analogous breakdowns in strategy by relying on wrong-headed ideas and ineffective stewardship. Let's look at the lessons that emerge from stories such as these.

Misreading the competitive landscape

Wang Labs underestimated the power of the IBM PC and placed too much emphasis on the importance of proprietary systems (it was not alone in this mistake – see Apple Computer circa 1980). The Red Sox didn't see how efforts by other teams to integrate were actually improving the quality of those teams. They retained an old view of integration dominated by a racist doctrine that consigned black ballplayers to the sidelines, and could not break out of that dogma to see the clear strategic imperative that other major league competitors did.

One of the most damaging examples of a company misreading competition, and hence, developing a strategy that should never have been adopted, was General Motors in the 1980s. Although the decline of GM is a familiar story, the extent to which the damage stems from this fundamental misreading of the competitive landscape hasn't been sufficiently appreciated.

There were two facts of life that GM faced in the 1980s. First, low-cost, higher quality Japanese imports were starting to gain a foothold in the US market. And second, GM's labor relations were horrible. What to do? The questions Roger Smith asked himself aren't hard to reconstruct. What was the biggest expense on GM's balance sheet? Workers. Who prevented operation speeds from being increased by threatening to strike? Workers. Who made the production line errors that resulted in defective cars? Workers. Who made life difficult for managers by refusing to do just what they were told? Workers.

Roger Smith's solution was bold, brilliant in its simplicity, and, in retrospect, more than a little loony. He would solve all his problems at once by eliminating workers. The vision that inspired him was one of a factory running at high speed, day and night, with no need to pay wages, no complaints, no strikes, and no worker errors. What would make this possible? Robots! Roger Smith would eliminate GM's workers by replacing them with robots! That was how GM would win.

It wasn't completely crazy. Robotics had been improving rapidly. The most advanced management thinking generally advises that if you can automate a process effectively, you should do so, saving your workers for the tasks machines can't do as well. The Japanese were already using robots extensively. Companies like GM need to be anticipating the effects of new technologies on their operations, not playing catch-up. The idea of getting ahead of the Japanese, when it came to installing robots, sounded like a good one. Most of all, Roger Smith's vision of the factory of the future sounded to automobile executives like the Promised Land. They were desperately eager to have Smith lead them there.

The problem was that the automation strategy was predicated on a false assumption – that replacing people with machines could turn back the Japanese attack and bring GM back to dominance in the global auto industry. Rather than adopting the lean manufacturing techniques that still define the Toyota production system today, a virtual obsession with robotics took over. In some ways this was no different than the companies today that jump on the latest fad without really understanding the underlying processes and inter-relationships that make the

> **" There are fundamental fault lines that reside just beneath the surface of many companies that can rise up to shatter strategic initiatives. "**

whole thing work. That was certainly the case with GM and automation in the 1980s. By not understanding how people and machines could be effectively integrated, GM missed the essence of Toyota's low-cost production success. Former Ford president Phil Benton put it this way: "Automation would not make the list of major problems facing the auto industry in the 1980s." Consistency of manufacture must come before automation. Toyota is not as automated as Nissan, for example, but it is more successful. "Everything goes back to management. What you need to do is engineer the product to the skills of your work force."

The Japanese also excelled at the other fundamental components of lean manufacturing, including just-in-time inventory, supply chain integration, and quality management. "[Automation] didn't save the company very much because GM still needed people," explained Charles McElyea, a factory automation engineer. By simply using the technology without the prepared workforce, "all you can do is to automate confusion." Robert Lutz, someone who has witnessed first-hand many of the changes in the auto industry over the years as a senior executive at GM, Chrysler, and most recently Ford, gave this assessment:

> The thought was if we can do a fully automated factory and get rid of all the labor, we would have plants that run day and night fully automatically. But with these totally automated facilities you lose all flexibility and they are extremely capital intensive. The only way you can hope to make a return is to run pedal to the metal at all times. They were prisoners of the great North American manufacturing cost accounting system that says, as you eliminate labor, your costs goes down. But what they forgot was they were getting rid of direct labor but replacing it with indirect labor and huge capital costs. These costs were high because the technicians and other people needed in an automated plant were much more expensive than the hourly laborer. You need to look at every worker. You look at his value added time versus his wait time and you arrange the production flow in such a way that you maximize the value added time of each worker and reduce the waiting time. You concentrate on the worker not on the machinery. Use automation only where necessary.

In the end, General Motors invested more than $45 billion in automation during the 1980s, a sum that would have been enough to purchase both Toyota and Nissan. Research by Marvin Lieberman and Rajeev Dhawan of UCLA, who studied productivity trends in the auto industry from the mid-1960s to the 1990s, confirm the story: GM's plant productivity, which had lagged Toyota's for years, actually declined further from 1984 to 1991, a period that should have reflected the gains from GM's automation push.

Blinded by the light: true believers in trouble

Sometimes we come across people and organizations that are so confident in what they are doing that we can only sit back in awe. Maybe we even secretly wish that we had such a strong handle on what was going on in our own organizations. We are driven by a natural desire to avoid uncertainty, so when we see certainty in direction and action – certainty in strategy – we are impressed. But certainty is not all it is made out to be.

How many times have we seen executives and organizations fully ensconced in a world of their making . . . while the rest of the world goes off in another direction? The strategies of the companies outlined in this article all have this one attribute in common. They are true believers in trouble.

Wang, like some other founder-controlled companies, broached little opposition in his world. As long as his instincts and actions were on target – as they were in the early years of the company – everyone prospered. As industry dynamics became more complicated, the Wang style no longer worked so well.

At GM, the problem of vigilance was two-fold. On the one hand, Roger Smith was so powerful that few other independent voices could be heard. At the same time, however, the board of directors was ill-suited to oversee the feasibility of major initiatives, such as the $45 billion push for robotics.

Snow Brand was so concerned about meeting its profitability targets that managers felt bound by no constraints. Cutting corners was seen as acceptable behavior, and senior management had little interaction with what was going on in the production plants. Even after the milk scandal was well-established, Snow Brand's CEO let other executives take responsibility without stepping up himself.

Each of these cases is a cautionary tale for all who seek a world of certainty. There is real danger in the status quo, and the risk is highest when true believers take over the organization.

The mind of the strategist

One of the most fascinating aspects of the stories in this article is how the flawed preferences of key leaders derailed their competitive strategies. An Wang was driven by a hatred of IBM and an intense desire to retain control over all aspects of his company, biases that moved Wang to first deny the IBM threat, and then belatedly adopt a proprietary operating system that market dynamics could not favor.

People within Red Sox management were blinded by their attitudes to such an extent that they refused to adapt to a major industry-wide trend – integration of African-American baseball players – until every other team had already done so. This in spite of the apparent negative effects on team performance.

Roger Smith at GM was the classic imperious leader who transformed a very complex competitive arena to a relatively simple world where people were the problem, and anything GM could do to cut the people out of making cars, the better.

When we talk about strategy, it is clear we must also talk about the strategists! Much of what passes for strategic analysis in companies is based on an assessment of contextual factors such as competitor attributes and actions, economic, demographic, and technological developments, and internal strengths and weaknesses. How often do we also consider who the key strategists are? How often do we evaluate competitor moves by paying attention to who is sitting in the driver's seat? Despite these omissions, has any of us seen an organization that is devoid of people making or not making decisions? When strategists make choices, they do so on the basis of their experience, values, and personality, and the more you know about that the more you can understand why companies do what they do.

Desperation management

You're walking along a path that has emerged from the bush and you follow it. Where is home? You're not sure, but you continue going in the same direction you've been going. Other paths appear, some of which you see and others that you don't, but you continue as before. Occasionally you come across someone who may be going where you are, but has chosen another path; you stay committed to your own course.

After some time it dawns on you that you may be in trouble, but you don't see any better trails to follow. Darkness begins to fall, and you now know you're in trouble. Desperate to find your way home, you move abruptly off the path and into the surrounding bush. Within minutes you are lost. As the bush closes in on you, your last thoughts always start with the words "what if . . .?"

The parable of the lost path tells of missed opportunities and escalating commitment. It also speaks to something else – almost desperate actions to right the ship before it sinks. This happens most often when the markets turn against you with a vengeance for missed targets and erratic strategy. Desperation management can be costly. Under Jill Barad, Mattel went shooting for huge targets on revenue growth and market share that just were not attainable. When the bill of goods sold to the market came due, Barad turned to the Learning Company to make the numbers work. Unfortunately, an expensive acquisition of the Learning Company only served to exacerbate the impending disaster as the software concern was barely treading water when it was acquired.

Desperation management can lead companies to jump from one solution to another, never getting it right in the process. For example, Kmart shifted from diversification (Office Max, Sports Authority, etc.) to IT in an attempt to out-Wal-Mart Wal-Mart. Assuming a company can execute effectively, a fast follower strategy sometimes works, but not a slow follower strategy. And let's not forget AT&T's attempt to remake the company once again in the late 1990s, first investing big in cable, then selling at a loss. Not only do these flip-flopping strategies never have time to take hold, they send a worrisome message to the market on what's really going on in a company.

While markets and customers are often accessories to desperation management, it is leaders that pull the trigger. This was true at Tyco and Mattel, and it was true at Bristol-Myers Squibb when they acquired a stake in biotech ImClone in 2001. BMS CEO Peter Dolan took over a company that was under great pressure to find the next blockbuster. He overlooked numerous warning signs – ImClone CEO Sam Waksal's troubling track record, and questions on whether the FDA would actually approve ImClone's cancer drug Erbitux – to pay a premium price for ImClone.

At WorldCom the old formula of debt and acquisitions couldn't make it any more once the telecom bubble burst. Perhaps it was the desire to avoid impending disaster that led some people in the company to book billions of dollars in regular expenses as capital expenditures, boosting earnings.

At Snow Brand, managers, desperate to find the cure, ended up creating more damage by not informing authorities what they had uncovered. What all of these examples have in common is a strategy made worse by falling so far behind that "hail Marys" were seen as the only way out. Two lessons are apparent: for CEOs, don't become so wed to a strategy that you ignore opportunities to adjust course, and for boards of directors, don't let the CEO go to bat in the bottom of the ninth when he has struck out every day for the last four months.

Sometimes it just spreads too far

The desire to rid oneself of all that is wrong in one fell swoop is overwhelming. The usual method is to fire the CEO, and boards have increasingly turned toward this rather coarse tactic to effect a turnaround.

A remarkably diverse and well-known set of companies have removed their CEOs in the last five years of so. They include Mattel, Snow Brand, McDonald's, Ford, Bristol-Myers Squibb, CMS Energy, Webvan, ImClone, Gap, Deutsche Telekom, AOL Time Warner, Bertelsmann, and Lucent Technologies, among others.

Whether or not a turnaround ensues after the scapegoat CEO is gone is far from a foregone conclusion. In some instances, the damage to the organization is so deep, or the extent to which adherence to a flawed logic has spread so wide, simply replacing the CEO is not going to do the trick.

> **" There is real danger in the status quo, and the risk is highest when true believers take over the organization. "**

We see this in major league sports, where the coach of a poorly performing team is sacked in an attempt to shake the players out of their downward spiral. The evidence on the success of this approach is not particularly inspiring, yet the tactic persists because it is impractical to change the entire team. Still, there is considerable risk in relying on the CEO's replacement to fix a company's problems, particularly when those problems have not only spread throughout the organization but have actually been generated by people and the corporate culture they live in.

The Snow Brand story illustrates this trap perfectly. When the milk poisoning scandal hit, it was clear that the CEO was something less than an effective leader in a crisis management situation. Unethical and illegal behavior did not stop with the CEO's removal, yet many observers expected that it would.

Does all this mean that you can never dismiss the CEO and expect a turnaround? Of course not! There are numerous instances where exactly this type of tough decision needs to be made by a board of directors. However, the key takeaway point here is that sometimes firing the CEO, even if warranted, does not solve the problem and we should be careful not to assume that it does.

Key lessons about strategy and managing competitive threats

- Competition is nothing more than a group of people in another company that believe they can offer something to customers that is superior to what you presently offer. Paying attention to what those competitors are doing to your customers is critical.
- There are many ways to assess your strategic position in a marketplace, but something as simple as the "who, what, how" framework can be powerful. Who are you selling to, what are you selling to them, and how are you selling it?
- To understand the strategy of a company, you need to understand the strategists. Without knowing about An Wang's history, could you really understand why his company made the decisions that it did?
- Do you view your competitors as worthy opponents? Beware of the overconfidence that can come with being a

market leader. There are too many examples of industry leaders losing position to newcomers who weren't accorded the adequate respect.

- Listen to all the sources of information you can find in deliberating on strategy, especially sales people who are in daily contact with customers. Access to diverse sources of information is valuable to avoid becoming a company of true believers that disregard data that might tell another story.
- Executives who run into trouble tend to rely too much on their own personal preferences that are not backed up with sufficient supporting evidence.
- Pay special attention to struggling CEOs trying to turn around a desperate situation with one well-timed initiative or decision. Often the result will be even worse.
- Don't assume that managers left to implement a senior executive's strategy will actually do what was originally intended. ■

Why good strategies fail

Roger Wery and Marc Waco

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Creating a good strategy is only half of the battle; this article looks at the factors responsible for strategic failure.

From lack of focus to competency gaps and other causes, good strategies can be saved with preventive actions. The business news is filled with stories of corporate failure. From the recent dot-com busts to the once-powerful companies whose fortunes have slipped, these unhappy endings are often the result of one thing: good strategies gone bad. And the underlying cause is usually poor execution.

Strategy formulation, though critical, is only the beginning of a process. Without an executable plan – and the resources needed to implement that plan – even the most innovative strategy is merely words on paper.

Yet too often a good strategy fails because the conditions for success were never put in place. The inability to execute is typically due to one of five factors.

Lack of focus

When it comes to strategies, it is possible to have too much of a good thing. Ideally, a clearly drawn strategy becomes a compass that guides all of a company's efforts. But what often happens instead is that competing strategies and sub-strategies scatter attention and dilute a company's focus. Although these sub-strategies may seem to make perfect sense individually, taken together they may not support and move the overall strategic vision forward.

In other situations, management may not realize the complexity involved in executing a particular strategy – have the bandwidth and resources to properly manage the multiple initiatives needed to drive it forward.

The main resource constraint that organizations face is management time. A company can juggle only so many initiatives until it risks losing sight of the forest for the trees. Symptoms of a lack of strategic focus include:

- Executive meetings always run out of time, invariably failing to address key topics and making decisions without enough information.
- The same set of gating and review procedures are used for both major and minor strategic initiatives.
- A general sense of churning priorities and perpetual fighting for resources pervades the organization.
- Key staff members are frustrated and stressed out from permanent work overload.

- The number of strategic initiatives increases, without a corresponding increase in resources.
- Trade-offs are handled effectively at a functional level, but not cross-functionally.

Lack of strategic focus is a common problem across a broad range of industries and companies. A leading construction and engineering firm began pursuing an aggressive growth strategy to offset a slowdown in its traditional core markets. But management underestimated the complexity involved in orchestrating the multiple growth initiatives that the strategy called for – penetrating new geographical markets, hiring new people with needed skills, and forming alliances with companies in new target markets. Individually, each initiative made sense, but combined they represented a daunting task, and quickly fragmented resources and management attention.

Well into implementation, the leadership team recognized that momentum had stalled and a growing malaise pervaded the organization. Most of the growth initiatives were behind schedule, and many had yielded disappointing results. The multiple initiatives involved in the aggressive growth strategy had literally clogged the company's "execution engine".

To maintain the strategic focus needed for successful execution, companies must put in place a disciplined process for systematically reviewing, evaluating, prioritizing, sequencing, and managing strategic initiatives – and clearly communicate this process to the management team. The tools needed to make this process work include phase reviews, decision-making forums, resource management templates, and metrics for monitoring resource allocation and usage. This disciplined approach will help keep management focused, and execution on track.

Unfortunate market timing

The success of a strategy is directly related to its timeliness and to the relative stability of the business environment. Even a brilliant strategy can become irrelevant if the market conditions have changed by the time the strategy is implemented. A warehouse filled with Betamax tapes is useless in a VHS world.

The fixed wireless segment of the telecom industry knows what it feels like to come to the party late. Although new fixed wireless technologies are a viable, cost-effective, high-performance option for consumers seeking voice and data services, fixed wireless providers are finding that their target customers – wireless Internet service providers (ISPs) – have been reluctant to buy. Why? The timing is off. The telecom market is still recovering from a sharp pullback in spending on high-speed connections to the home, and from the promises of other access technologies that delivered bandwidth but at an unsustainable cost per subscriber, assuming realistic penetration rates.

Adding to the woes of fixed wireless providers is the dramatic pullback of the capital markets, which makes financing more problematic. Although fast and effective broadband access to the home was and still is a sound strategy, the business environment isn't co-operating at the moment – for even the best fixed wireless companies.

Timing issues are most often associated with late-market entries, but they can also be caused by prematurely releasing a product into a market that is not fully developed. One well-publicized example is Microsoft's Xbox, an interactive, online gaming platform. When Microsoft developed its X-box strategy, the company expected that homes would upgrade to broadband Internet access – cable or DSL – at a faster rate than they actually did. But instead of the projected 20 percent penetration rate, home broadband barely reached 10 percent, even in markets with the highest broadband penetration. As a result, Microsoft's online gaming strategy has fallen short of its revenue targets and remains an ongoing challenge.

To avoid such missteps, companies must closely monitor market conditions, and be ready to respond quickly to competitive moves and market changes. The inability to stop or redirect a strategy is often rooted in financial planning and governance processes. At many companies, an annual plan is the main driver of strategy. Annual plans are an exercise in functional budgeting, and strategies evolve incrementally. But in a world of increased competition, ever-shortening product life cycles, and rapid macroeconomic shifts, the annual strategic plan breaks down, and may lead a company to implement what was the best strategy a few quarters back.

The good news is that not all companies are equally affected by shifting environmental factors; some have more time to adapt – depending on the clockspeed of their industries. But the bad news is that a company's response time is usually fixed in the past. If the pace of change accelerates, most companies have a hard time adapting to the new reality.

Fortunately, we see more and more companies working diligently to develop "iterative", "just-in-time", or "proactive" approaches to strategy. Whatever the name, there is a common goal – to increase the frequency with which management assesses the marketplace, develops strategic options, and readjusts strategic direction if needed. The important enablers for agile planning are faster reporting methods and tools, performance feedback loops, and market sensors. Groups with the most external interaction – sales, business development, and product management, for instance – are best suited to act as a company's sensors. In successful organizations, market insights systematically loop back to key functional areas, either through regular communications or advanced customer information management systems.

Impatience for results

In cultures of instant gratification, companies can abandon a sound strategy too quickly, before it has had a chance to realistically take root and yield results. But how tolerant and patient should the executive team be, especially in today's fast-forward business climate?

Unfortunately, there's no magic formula for deciding how long is long enough to wait. Some companies admit to churning through strategies so fast that none has an opportunity to bear fruit. By constantly shifting course, these companies are killing strategies that could yield valuable results if given a bit more time. Symptoms of a potential impatience problem include:

- Overly optimistic time-to-results in the business case.
- Extreme pressure to deliver results.
- Resource constraints that may hinder execution – or cut it short.

One of our clients calls it the "75 percent syndrome". After making 75 percent of the effort and investment, the company pulls the plug before seeing any meaningful results – even when early indicators show an encouraging trend. The client, a medical devices company, did an ad-hoc review of its product launch programs over the last five years and found that nearly 30 percent of new products were killed either in the final, pre-launch phase of development or within the first year post-launch. Further analysis, along with market insights after the fact, revealed that half of these late "kills" should not have been funded to begin with, but the remaining 50 percent had a reasonable chance of success. Some companies are unable to kill products. This particular company – and others as well – do it too often.

The root of this particular problem is poor planning – an issue that's usually easier to identify than to fix. Here are some practices to consider:

- Clearly identify and document strategic objectives, metrics, and interim targets.
- Hold specific individuals accountable for executing a strategy and for being its advocate with the rest of the management team. But don't penalize them if market conditions drive a change of direction.
- Minimize impatience by regularly sharing progress reports, accomplishments, and emerging issues with the decision-making team.
- Don't confuse a delay in achieving results with a major disruption in the marketplace that requires a complete change of strategy. Track key leading indicators to determine whether the issue is one of timing, or related to a fundamental change in the environment.

> **" A warehouse filled with Betamax tapes is useless in a VHS world. "**

A clear link between a company's strategic vision and each project that makes up the operational plan is critical to success. This linkage provides a holistic view of the strategy, clearly defining where the company is going, how it will get there, and how long it will take.

Major competency gaps

A company may need seismic skill shifts to execute a new strategy, but may not have access to the right people – or may not realize the extent of the changes needed or the time it will take to get up to speed. Most companies know that a new strategy may require either training their people or hiring the needed skills from outside the organization. But too often, management underestimates:

- the timing, cost, and complexity of adapting or adding to the talent pool to bridge the identified competency gaps; and
- the changes that must be made to the management team itself – or worse, doesn't even recognize the need for these changes.

A large wireless service provider decided to shift its focus from the consumer market to the business market, where it hoped to reduce churn and boost revenues per subscriber. The management team identified the major changes to functional areas such as sales, delivery, and customer support that would be needed to support the new "wireless enterprise solutions" strategy. Clear action plans were designed to hire new sales people, train the existing sales force, acquire several small solutions providers, and aggressively partner with system integrators experienced in the needed wireless applications.

But the management team significantly underestimated the time it would take to build an enterprise sales and delivery capability and scale it up to the size needed to really capitalize on the opportunity. Management planned on having the new capability in place within six months, but more than a year later, only 40 percent of the intended headcount had been recruited. Partnerships had been formed, but were not yet fully operational. Even the few acquisitions of small solutions providers created unexpected and time-consuming integration challenges.

Failing to recognize needed changes in the management team can be equally problematic. A telecom equipment vendor with thousands of call center customers worldwide decided to expand into the consumer and retail markets. To support this strategic move, the company added significant staff with the needed skills – retail merchandising, supply chain, packaging, and consumer marketing.

But the company failed to make additions or changes to the leadership team itself, despite its limited retail and consumer product expertise. It took more than four months to hire a general manager with the appropriate retail expertise, and another six months to fully train him on the company's product offerings. To date, the company has no board member with consumer marketing or retail experience, making the dialogue with implementation teams and leadership teams challenging.

Getting the right people in place may involve several parallel efforts ranging from training, hiring, and firing to targeted acquisitions. While planning for the new strategy:

- Create a competency map that clearly defines the skills, experience, and performance levels needed to support the strategy, along with the number of people needed to fill the new roles.
- Conduct a thorough skill-set assessment, candidly evaluating the skill levels of your people and the extent to which training could bridge any competency gaps. Include the leadership team and the board of directors in this evaluation – especially if the change in strategic direction is dramatic.
- Dedicate management time to planning, prioritizing, and sequencing the actions needed to bring people up to speed, or to recruit needed talent.
- Be wary of quick fixes. Although acquisitions and partnerships can speed up the skill-building process, they have their own challenges and can end up increasing time to results.
- Define a realistic timeline to acquire new skills. If the timeline doesn't support the strategy, then the strategy may not be right for your company at this time. Be ready to abandon it – or scale it back.

People are a company's greatest asset. That's why it's so critical to have the right people and skills in place when executing a new strategy. Careful planning during strategy formulation can identify competency gaps early in the process – and allow for the time and actions needed to bridge those gaps.

Misaligned operations

Even the best strategy can stall miserably if a company's operating model – its structure, processes, technology, or culture – doesn't support it. The risk of this is particularly high when a new strategy is a clear departure from a company's traditional approach to business. The further a strategy strays from the historical core, the greater the risk that the company won't be fully prepared to work differently.

For example, a company with streamlined, low-cost operations focused on offering customers a no-frills, discounted service would be greatly challenged to adopt a high-touch, highly customized service. The cultural and process changes would be enormous. But too many companies fail to fully realize the challenges involved with a major change in strategy, and the operational ramifications. Several factors lead to failure in this category:

- *Insufficient planning*. If the degree of organizational readiness is underestimated during the strategy formulation phase, the execution plan will fall short on actions needed to align a company's operations with the new strategy. Key processes may need reworking, or new IT systems may be needed. Poor anticipation of these changes can send a sound strategy into a death spiral.
- *Poor communication of the new strategy*. To align your company's culture and mobilize your people in support of the new strategy, communication must be clear, consistent, and frequent across all levels of the organization.
- *Inadequate management processes*. Budgets and operating plans must support the new strategy, of course. But it also must be clearly linked to the day-to-day work of the enterprise. Employees may fail to deliver without a clear line of sight from their daily tasks to the strategic vision. New performance measures, goals, and incentives must be structured to support the new ways of working.
- *Insufficient monitoring*. To make sure that progress is on track, set up a set of metrics and targets linked to key areas of operation – and monitor them closely. If organizational changes and results aren't on track, management can make timely course corrections before the new strategy is permanently derailed.

The experience of a leading industrial equipment vendor illustrates the challenges of operational alignment. The company had found success with a single-product strategy and a functionally driven organization, and was a market leader in several related but independent product segments. The management team believed that the time was right to reposition the company as an "integrated solutions" provider, offering one face to the customer. But management did little upfront planning to prepare the company for this major strategic shift. Old, deeply entrenched ways of working became barriers to the company's planned evolution into a multi-product, integrated solutions vendor. A range of problems related to account ownership, product platform development, and customer service emerged. The strategy was finally scrapped.

One of our clients had a legacy of serving large, datacom OEMs as a cost-effective component vendor. The company's management decided to pursue a more lucrative on-demand, custom derivative design strategy – a dramatic departure from its traditional approach to business. At first, the company applied its old product planning and development process to the new customized products. The result? Major delays, slower sales responsiveness, and distracted product management teams. Once a redesigned process was introduced for the customized products, the company was able to achieve the responsiveness and cost effectiveness needed to compete in the new market.

Of all the strategy execution challenges, organizational alignment is perhaps the greatest – and the most frequent cause of failure. Often, senior managers are so consumed with functional operations, performance management, budgets,

> **“ Some companies admit to churning through strategies so fast that none has an opportunity to bear fruit. ”**

and processes that they have little time for thinking about the impact of strategic change on the organization. Yet these very people who keep the operations going are the ones needed to change course. Organizational alignment must become a priority, even if it means assigning dedicated resources to create a detailed blueprint of the changes to processes, systems, and infrastructure required by the new strategy.

At the end of the day, strategies are more than just words on paper. Real strategic leadership involves being at once visionary and tactical – having both the creativity to develop an innovative, workable strategy and the wherewithal to execute it. ■