New rules for strategic engagement

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Strategy pundits and practitioners alike have long focused on two main questions. First, what is strategy? In other words, what constitutes a legitimate statement of strategic direction? Second, how do you go about setting and implementing strategy?

There is a third, critically important question that is frequently overlooked by those more interested in conceptual sport than in moving strategy from the drawing board to business results: what organizational conditions must be in place to ensure that strategy is effectively set and implemented?

Increasingly, the big-bang approach to strategy is being discredited. The scenario is familiar: the top team heads up to the mountaintop for a strategic retreat and descends with the new tablets, which are then foisted on an unsuspecting organization. Nowadays, strategy is viewed more as a dynamic, continuous organizational process than as a one-time event; the focus is on continuous update, refinement, and enhancement. This new orientation requires a fresh set of rules for creating the organizational conditions that promote, at every level, an ongoing strategic dialogue.

In working with organizations across the industrial landscape, we have identified five rules that can position an organization for strategic takeoff.

Rule 1: make strategy a collective effort

At a $300 million environmental testing company, the new CEO of a major division met for the first time with his management team to discuss the division's overall business strategy. He led a detailed planning discussion, tested the team's understanding as he proceeded, and even probed for commitment from time to time.

Yet, less than 12 hours after the session, one of the most talented members of the management team got down to work – looking for another job! And it was not long before other members of the division's top team began to question the CEO's judgment and leadership ability.

By the old rules of strategy, the new leader took pretty much the right approach. He presented a compelling long-term vision for the company and a realistic step-by-step plan. He asked his team to commit to a few realistic but challenging growth objectives. Every executive nodded in agreement. So what went wrong?

As the departing executive explained ''our new CEO's vision and plan were good; parts of it were even brilliant. But that's not the point. The vision was his, not ours.''

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The disgruntled executive was, of course, right on target. The new CEO’s style was about giving orders and expecting compliance rather than engaging his team’s brainpower and sharing ownership of a jointly crafted strategy.

We are not suggesting that setting strategy is an exercise in plebiscitary democracy. But even for CEOs who come to the strategy table with their own ‘‘pre-vision’’, there is ample opportunity to engage the minds and hearts of executives on the top team.

Strategy is about the future and thus requires making certain assumptions about upcoming product, market, technological, governmental, and competitive trends. Such assumptions are worthless, and maybe even deadly, unless they are tested and validated. While formulating assumptions is a legitimate task for the top team, its members rarely possess the first-hand knowledge needed to confirm or deny the validity of those assumptions.

In most large organizations, valuable information required to make sound strategic decisions typically resides below the top team. Mining the input of executives closest to the action – where the strategy will be implemented – before accepting an assumption as gospel provides an important reality check for top management’s thinking.

For example, a mid-size chocolate manufacturer decided to break with tradition and expand into the pastry business. Top managers assumed that chefs in large hotels, frustrated by the wildly fluctuating and unpredictable quality of available baked goods, would provide a sizeable market for fresh, individually packaged pastry. The company hired a world-renowned pastry chef to develop a sumptuous line of baked goods and desserts and to help launch the new business.

Top management’s assumption proved to be wrong. The cost of selling the new line of baked goods directly to hotels was simply too high, given the low volume per customer. Fortunately, in the first few weeks after the launch, mid-level sales managers spotted the trend and reported back to corporate. Acting on the information provided by sales, senior managers moved quickly to adjust the strategy. They refocused their efforts on a different market: retail grocery chains. This new customer base purchased both chocolates and pastries in larger lot sizes per customer, yielding sales efficiencies and, eventually, a highly profitable new product line.

Strategic assumptions, even those developed by experts, can be dead wrong. By making key assumptions explicit and then testing them with those who are closest to the market action, risk management can be planned as part of strategic initiatives.

Rule 2: make sure the organization is aligned

Strategic misalignment can cost an organization its future. A few years ago, a major oil company’s Canadian operation was floundering. Amid fierce competition, sales were down. The profits needed to fund exploration had evaporated. Each time the president met with his senior team, sparks flew. Each executive VP viewed his or her function as the key to the organization’s future strategic success. Not surprisingly, debate raged around resource allocation as each VP argued long and loud for a bigger piece of the action.

The president was a veteran oilman whose idea of growth was to just keep digging and find as much oil as possible and sell it at the highest price the market would bear. The VP of production had a different idea of how to grow the company – and power his own career. His hopes centered on petrochemicals, and he envisioned himself at the head of an empire of chemical plants. The VP of marketing and sales argued that, with its superior distribution network, the company could easily move a variety of products, in addition to oil, into the marketplace.

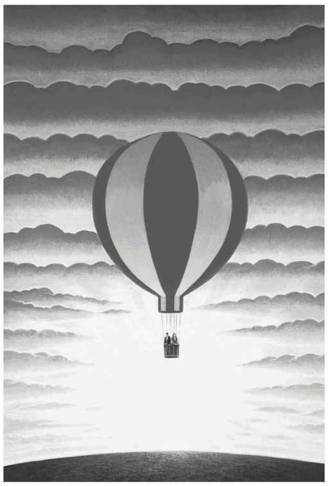
Predictably, the senior team's confusion about the company's strategic thrust cascaded down through the organization. The competition for resources at the top was mirrored in similar firefights among the functional and regional directors, with each lobbying for the lion's share. There was constant clawing for the company's top talent, with department heads literally raiding one another's functions for the best people. Priorities were defined not by an overarching business strategy, but by the self-interest of those heading up the silos.

With no clear direction from above, support functions were unable to prioritize their services.

The uncontained internal conflict migrated beyond the company's borders. Relations with the national and provincial governments became strained as regional executives issued contradictory statements about the company's short- and long-term intentions.

Eventually, the company did achieve a turnaround, but it was not until it had developed a clear strategic direction and an aligned top team that it moved from a fragmented environment to become an integrated, competitive force.

Top management plays a pivotal role in ensuring that alignment is organization-wide. For example, Philip Morris USA's senior management team focused everyone in the company around a clearly stated mission: ''To be the most responsible, effective, and respected developer, manufacturer, and marketer of consumer products, especially products intended for adults. Our core business is manufacturing and marketing the best-quality tobacco products available to adults who choose to use them.'' The team then translated this mission statement into specific, achievable strategic and key operational goals.



Alignment enables both the senior team and teams at every level to speak with one voice, to channel directional discord and operational disagreements into honest and open discussion, and to allocate resources and act within an agreed-upon strategic framework.

Rule 3: strategic success hinges on rapid issue resolution

Sustainable competitive advantage – it is a terrific goal, but do not count on it. Not too long ago, companies could rely on their products, relationships with customers, technology, natural and financial resources, and the like to provide at least some period of homeostasis before the next round of disruption and change.

No more. Product life cycles have shortened; the pace of technological invention and advance has quickened. Cell phones, computers, Internet access, broadband, just-in-time inventory systems, robotics, mass customization, genomics – these gains and many more have cleared away the entrenched competitive advantage of companies not nimble enough to adapt to changing times.

One of the least recognized but most insidious drags on an organization's strategic response time is unmanaged conflict at the top.

A large pharmaceutical company located in the northeast sought to eat away at its rival's market share by making a bold strategic move to launch a new product in the feminine health category. The time frame was tight given anticipated competitive moves. But external competition paled compared to the internal cross-pressures.

The vice presidents of marketing and research both agreed that a new product was a must for future growth, but the question was, ''Which new product to launch?'' Each argued strenuously for a different pet alternative, and they became increasingly intransigent. Valuable time was

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lost, and finally the president stepped in to play Solomon. He split the product launch in half, with 50 percent of the advertising dollars and other resources going to each product. His move quelled the conflict, but with insufficient resources neither product could be brought to market ahead of the competition. Market share declined, and the organization's franchise in feminine health care took years to rebuild.

A company that does not manage internal conflict will not be able to keep up, regardless of its efforts to formulate a compelling strategy, reengineer processes, or spike growth through acquisitions or new product development. When conflict is ignored – especially at the top – an enterprise begins to compete more passionately with itself than with its competitors. The resulting gridlock puts an organization's strategy at grave risk.

Rule 4: build high-performance teams throughout the organization

The one competitive advantage that cannot be easily bought, imitated, or made obsolete is superior management of people and processes. In our experience, the best way for an organization to achieve this competitive advantage is by creating and nurturing high-performance teams from the top down.

High-performance teams are in effect pools of synergy, designed to leverage talent by bringing together diverse viewpoints, experiences, judgment, and capabilities, along with essential information needed to resolve business issues. Diversity can open the floodgates of dysfunctional conflict, but not in high-performance teams, where conflict is open and direct and characterized by dynamic tension.

High-performance teams subvert traditional hierarchical organizations. The old top-down model, with its silo thinking, gets swept away. Employees are asked, often for the first time, to assume individual and collective responsibility for business results. In effect, high-performance teams become mini boards of directors. The compass points of team members are more oriented to the customer than to their bosses and more toward ''we'' than toward ''my function''.

We have worked with cross-functional brand and product teams, market teams, customer teams, product-development teams – the list goes on. Masterfoods USA, for example, makes a number of brands of candy, including M&Ms and Snickers, as well as Uncle Ben's Rice and Pedigree, Whiskas, and Sheba pet foods. To support the company's product-focused strategy and brand structure, senior management has set up brand teams. Each team is responsible for solving problems and making decisions related to its particular brand. Another organization, the New Zealand Dairy Board, is also product focused but sells all its products under one brand name. Each of its cross-functional teams represents a single product line – milk, cheese, butter, yogurt – within that brand. On the other hand, Sara Lee Intimate Apparel, which sells numerous products to Wal-Mart, K-Mart, and other giant retailers, has organized into customer-business teams in accord with its customer-centric strategy.

Such teams are able to move at lightning speed to resolve key issues, making them a superior force for turning a company's vision of itself into reality.

High-performance teams, wherever they may be lodged in the organization, share eight key attributes which equip them for strategic decision making. Think about strategic project teams in your organization and ask:

1. Are their missions, goals, and priorities clear?
2. Do they comprise the ''right'' players?
3. Do those players have clear roles and responsibilities?
4. Are the members committed to winning as a team?
5. Do they have an agreed upon decision-making process?
6. Is there a shared sense of ownership for team results?
7. Are they comfortable dealing with team conflict?
8. Do they self-assess progress periodically?

The more of these questions to which you answered ''no'' or ''I'm not sure'', the more your company's strategy is in trouble.

Rule 5: rethink leadership requirements

When asked to enumerate the traits that are essential in a business leader, people frequently use words such as ''visionary'', ''strategic thinker'', ''mover and shaker'', etc. But, in most lists of leadership qualities, one essential trait is notably absent: the ability to manage conflict.

Yet, unmanaged conflict is one of the greatest deterrents to the successful formulation and implementation of strategy. No matter how innovative or carefully thought out or clearly expressed the leader's vision is, if others do not embrace it and make it their own, it will never become reality. Surely, this was the hardscrabble lesson learned by the divisional CEO cited earlier.

Lew Frankfort, CEO and chairman of Coach, a premier retailer of leather accessories, is a good example of an effective strategic-conflict manager. In the early 1990s, Coach's continued rapid growth was in question as it faced stiff competition not only from traditional rivals but from a number of high-energy upstarts. Frankfort knew that continued growth depended on strengthening the company's ability to bring new products to market more quickly and with greater consistency. The bottom line: Frankfort had to inject more design and merchandizing muscle into his manufacturing-driven organization.

To do this, Frankfort brought on board new senior-level design and merchandizing talent. It was a terrific move, but the entrenched manufacturing group thought otherwise. The VP of manufacturing was not only change averse, but there were glaring cultural differences between the forces of creativity and those responsible for getting things produced on time and cost effectively. This led to the typical arguments and fingerpointing.

Frankfort confronted both groups and told them, in effect, to ''get your act together''. He asked the warring executives and their respective teams to sit down together to honestly and openly identify the issues that divided them and to develop a plan for resolution. In addition, Frankfort asked his VPs of manufacturing and design to meet together on a weekly basis and then jointly produce a report for him, outlining progress on issues and highlighting areas of disagreement. Commented Frankfort, ''This gave me a platform to intervene only when it was absolutely necessary''.

As a result, both groups began to realize that without continued collaboration the success of their company – and their jobs – were at risk. The silos were broken down and the bickering stopped. Best of all, new styles began to hit the shelves at regular intervals. Coach was able to maintain its rapid growth in the face of much tougher market conditions.

Make no mistake: there is no substitute for a clear, incisive strategy that captures an emerging competitive advantage. Smart executives are also realizing that turning competitive advantage into strategic success requires an understanding of the new rules for strategic engagement.

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