

Show Them the Way. Design from the 'Inside Out'

Developing an effective strategy to create value occurs from within the company, but it starts outside by focusing on **Why** it needs to be done and **What** outcomes are to be achieved. Then, the process moves inside to determine **Who** will work on building the strategy, establish an exacting time frame required to be successful, and understand **How** the strategy is to be accomplished. That critical last step centers on the management team and employees. Russell Redenbaugh and Natalia Davis outline a course of action managements can adopt to bring out the best in their employees. Bottom line: People produce the numbers that make investors happy.

In the previous article in this series, "Show Them the Money: CEOs Fail When Investors Defect," in the March/April issue, we argued that the half-life of corporate strategy and the tenure of CEOs grows shorter and shorter. Failure in strategy implementation increasingly leads to punishing declines in share price, as well as to defections of customers and key employees.

We introduced the "Holy Trinity" to show that there are three constituents to satisfy by corporate strategy — customers, shareholders, and employees. Due to changes in the marketplace, technology, and the economy, each group now has many more choices and has become increasingly volatile.

We presented Geoffrey Moore's distinctions of GAP (level of excess profitability compared to that of the competition) and CAP (the durability or sustainability of excess profitability relative to the competition). We emphasized that long CAPs, not high GAPs, cause high P/Es, earnings growth, and the increased company valuations sought by CEOs on behalf of their stakeholders.

We concluded by citing the exemplary management of Jack Welch at General Electric. Welch has increased shareholder

value from \$13 billion in 1981 to about \$500 billion today. Welch's attention to the concerns of customers, shareholders, and employees, or the "Holy Trinity," has been a keystone of his success.

In this article, we go beyond the usual incantations of the necessity of having a good strategy to speak about the pragmatic business of strategy creation and, most impor-

About the Writers

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tant, its implementation.

A good strategy deals with the Why, What, Who, and When. Strategy implementation, in turn, deals with the How, with all the usual limitations companies and investors face — short time, insufficient resources, inadequate money and finite employees who work at earth time, not warp speed.

Get Clear First

In our first article, we observed that good strategy must be developed from the outside in — from understanding customers and shareholders, not from executives talking with each other. Now, with implementation, we reverse the view: Design implementation from the inside out. Start with the employees and the resources in place.

Before tackling the How, it's important to focus on "outside in" questions of Why, What, Who, and When. The Why of strategy refers to the underlying business problem to be solved. In the case study below, the Why includes declining market share, rapidly gaining competitors, falling customer satisfaction, and rising costs that can't be passed through to customers.

The What refers to the outcome sought. In our case below, the What is "cycle time down, accuracy up." The concrete specification of the What and the ability to state it succinctly are critical. Furthermore, the What must be

specified in unambiguous metrics or indicators that precede or predict financial results. Measure time, not money. As the only nonrenewable resource, time is scarcer and dearer than capital or raw materials.

The Who doesn't mean departments. It refers to the specific individuals, groups, and roles that will produce the What. This usually starts with a preliminary group, a small band of heroes that grows or changes as implementation progresses.

The When is a date certain. This imposes a limitation on grandiosity and "scope creep," requiring management to focus on what can be accomplished. Here, the perfect is the enemy of the good. The bumper sticker for When is "Progress, not perfection."

For the How and the invention of the actual project plan, engage your employees. They are usually organized as skilled groups or teams, often slightly misdirected and needing focus. They can and will move to action once they know what is required.

Don't Do This!

Before dissecting the How, there are lessons from proven, popular recipes for failure.

- Craft elegant strategies that are designed by geniuses. Unfortunately, mere mortals can't make them work.
- Forget the relationships. Work happens in relationships

Actions define the process. Brainstorm with the people involved. Frame the problem and brainstorm for solutions. Bring in **experts** if necessary.

between specific people. People must work together, not departments — different people with their own priorities, incentives, constraints, and styles of working. Those of an engineer differ widely from those of a salesperson.

- Develop the perfect strategy. This generally takes so long that market conditions sail past the strategy before it has a chance to work. This is often referred to as the “fish that got away” or the “if only” strategy. Often, such strategies assume the impossible, such as offer the best product, be the low-cost producer, own all the patents, and monopolize the market.

- Order different fiefdoms and cultures in the organization to work together seamlessly. They may never have in the past, but maybe this time. Sales will coordinate with Manufacturing, Product Development will meet the needs of Marketing, and Finance will work well with everybody. But even King Arthur failed. There is no Round Table, and there is always a Mordrid, the Skeptic.

- Take people out of their jobs to train them to do their jobs. People often don't have enough time to do their jobs in the first place.

Getting Started

After identifying a strategy that your customers will value, shareholders will endorse, and employees can, in fact, implement, the company is ready to get started with the hard work of implementation. The first step is to identify key success variables for metrics for each member of the “Holy Trinity.” Now the How to accomplish them is the difficult task for executives and managers.

Fundamental to all successful implementations are what we call “the three Rs” or “R-cubed”— Relationship, Results, and Repetition. Relationship is the easiest to overlook and the most important to get right. Results are the measures of success. Repetition is the ability to capture and repeat the process.

Steps for Moving Forward

Implementation starts with investigation, including interviewing where appropriate. Keep in mind that work happens between people, not departments or companies. Do instant anthropology. Observe without critiquing: How do customers actually use the product, and how do employees interact with customers, with one another, and between departments? Locate the costs and frustrations that are embedded in the present implementation. Follow the pain. Focus on the handoffs between individuals, departments, and companies. These borders between an “us” and a “them” are the frontiers where failure happens. For example: “Engineering can only design that which cannot be manufactured.” “Manufacturing is always late.” “Sales always overpromises.”

Be sure to understand the existing structure of incentives, because it may need to be changed. For example, many software companies give incentives to their engineers to release products swiftly, while they offer incentives to their customer service staff to produce customer satisfaction. This sets up a conflict, with customer service imploring for “bug fixes” and engineering driving for the next product release. Engineering won't necessarily see that “bug fixes” are opportunities for designing better products and securing customer loyalty.

The first interviews focus on relationships between departments, employees, and customers. Next, draft preliminary targets that include clear and specific results, i.e., draft what success will look like. (Note: the How must always connect clearly and directly to the What.) Strive for progress, not perfection. Example: “We will reduce the cycle time for configuration by improving accuracy and reducing cycle-time of handoffs between sales and manufacturing by third quarter end.” We don't know how much yet, but we know Who, What, Where, When. Now, the How begins in earnest.

Actions define the process. Brainstorm with the people involved. Frame the problem and brainstorm for solutions.

Bring in experts if necessary. Turn to other industries for ideas. Read books., Visit other companies. Don't let the critics be a deterrent; there is a solution. What's important is to get started. Always remember, progress not perfection.

Next, design initiatives leading to solutions. Some will fail. All will need to be adjusted. Begin to implement. If you hit a roadblock, brainstorm again, readjust, and begin the newly designed implementation. It will take several iterations. Just keep the momentum going.

For managing the process, build a reporting system that flags exceptions. Since it is impossible to manage everything, just manage the exceptions. Find the roadblocks, and brainstorm for solutions.

Brought to Life in a Case Study

We can use a composite case study to show how to best apply all this advice. It is taken from our engagements. A division of a manufacturer of highly engineered, long-lead-time products was experiencing rising levels of customer dissatisfaction and defection and excessive employee turnover. Everyone was working longer and harder, yet delivery times were increasing and accuracy in specifying and building custom orders was declining. The firm's stock price was falling.

The executive team had developed a strategy of lowering costs and increasing market share in this segment. This strategy worked perfectly well in PowerPoint, but four attempts to implement it failed, producing a and deepening resignation that the situation would never improve. Sales, marketing, and manufacturing each blamed one another for the recurrent failures.

Interviews we conducted revealed two categories of major problems. The first category included inaccurate orders of complex, highly engineered custom products. These flawed orders led to building unsellable goods. To be sold, these misfits had to be reworked and remanufactured, at great cost of time and money. Second, customers were forced to deal with long lead times. Products that

could be built in weeks were not available for months.

Armed with this insight, we did not focus on areas of cost. Rather, they we looked for areas of employee dissatisfaction, low morale, and frustration, as employees determined where cycle time and accuracy were sacrificed.

We discovered nine handoffs between the customer and manufacturing functions, requiring endless engineering reviews and approvals. So many people were responsible that, in fact, no one really was. Many of these handoffs were not to specific people, but from somebody in engineering services to somebody over in manufacturing scheduling, or role-to-role. Clearly, no relationship existed between the people involved.

The implementation of this strategy for increased accuracy and shorter delivery started and ended with a focus on people — their relationships, and how they worked together, especially cross-departmentally. They developed a common set of metrics for time and accuracy so that all could agree on what success would look like.

Results

The accuracy of products built was increased 90% percent by reducing the handoffs from nine to four, and by cutting the number of engineering approvals from twelve to six. This alone lessened the manufacturing load and shortened manufacturing cycle time. By making each order visible and trackable, every order was managed and delivery lead times were reduced from three months to four weeks.

Customers, finding it much easier to do business with this division, bought more products, thus increasing market share, which began to climb back to previous levels. Employee turnover and "burnout" dropped dramatically, as employees now experienced the satisfaction of being on a winning team rather than being on a failure caused by lateness and inaccuracy. Shareholders were pleased when this turnaround eventually had a favorable effect on stock price.

Please note that our case study is not based on General

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Electric, which under Jack Welch is famous for this kind of strategy implementation. GE clarifies what must be accomplished for whom, by when, in order to succeed, right down to the worker level.

Lessons from Real Life

To help other companies, here is a summary of the lessons learned.

- **Follow the pain.** This will lead to areas of greatest frustration, and these will be the areas of greatest opportunity.
- **People tend to work at or near capacity.** Identify the things that no longer matter and stop people from doing them. Focus their capacity.
- **Focus on what the company has been doing or did right to generate its success.** Don't fall into frustration. Don't drink the local Kool-Aid. Keep moving forward.
- **Change only about 10–15%.** All organisms and organizations practice a conservation of adaptation. Change is always painful and costly.
- **Keep coming back to the people, their relationships, and how they can they work better together.** Motivate them appropriately. Support them with tools and expert assistance. Celebrate success. Before moving on to the next "fix," reward people.
- **Let the local managers and employees come up with the How after specifying the Why, What, Who, and When.** They have the pragmatic experience and know the cost of failure.
- **Adopt it, don't perfect it further.** With an implementation that works, namely hits the metrics, just do it. Remember: progress, not perfection. A good strategy implemented this year is better than the best strategy implemented in two years.
- **Learn from the experience.** At the end of every successful implementation, capture what worked and what didn't.
- **Start the next cycle of strategy development.** Reflect and ask, How long will this strategy grant an advantage? What will competitors do to erode that this advantage,

and when? All strategies have a lifecycle. Change is inevitable, even for Microsoft.

Managing Wall Street

Next comes the thorny issue of managing Wall Street. The Street seems unmanageable, particularly these days. Analysts have become addicted to "guidance" and companies, for their part, have become addicted to "beating the number." In recent times, the play of the market has been dominated by momentum — that is, investors and traders piling in or out of a stock based on whether it has hit or missed its number.

It is an unpleasant fact of life that a stock cannot act any better than its shareholders. Company management, however, can do far more to recruit and retain the class of desired shareholders. Management can also discourage those investors not wanted by the way they shape and manage their communications to them.

Change is afoot in the investment business. The traditional financial analyst, or stock picker, is being replaced by what some have labeled the business analyst. To be effective, analysts can no longer dwell mainly on the company's financials. They must focus on the whole enterprise, its future cash flows, and how investors will value that cash flow. They become business generalists rather than industry-specific financial specialists.

At institutions, the role of Chief Investment Officer (CIO) is undergoing change as well. The sensibilities and skills required for this role have changed as the world has changed. A new kind of CIO is emerging, with different skills and with an orientation toward assessing the effectiveness of corporate strategy. Superior CIOs can:

- Understand and interpret the high-level policies that impact the economy and the stock market;
- Comprehend the technological and demographic forces that change the possibilities for specific companies and industries; and
- Evaluate company strategy and its ability to be implemented.

We will explore these and other ideas further in our next article, which will focus on investors as customers and on new approaches to satisfying them. 