THE TOP 25

STRATEGIC MANAGEMENT MISTAKES

What You Can Do to Prevent Them

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Michael F. Latimer

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The Top 25 Strategic Management Mistakes
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The events included in these accounts are based on actual situations in real companies. In the interest of protecting the privacy of the people and organizations involved, the details of these accounts have been fictionalized to the extent necessary to protect their confidentiality.

"While management in existing companies may have learned how to think out of the box, deep culture and process barriers render them slow to think and act on their insights. However, somewhere in each of these companies is a person who knows what strategic and operational steps must be taken to create successful growth, but the paths to development and implementation are blocked."
From: "Speed-Driven, Results-Based Change" by Ron H. Johns and William R. Bigler, Jr. Strategy & Leadership Magazine, Jul/Aug 1998

The purpose of this book is to convince those who have the power to remove these barriers to cease repairs on the crumbling constructs they have inherited – and to start construction on a future of their own making.

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INTRODUCTION

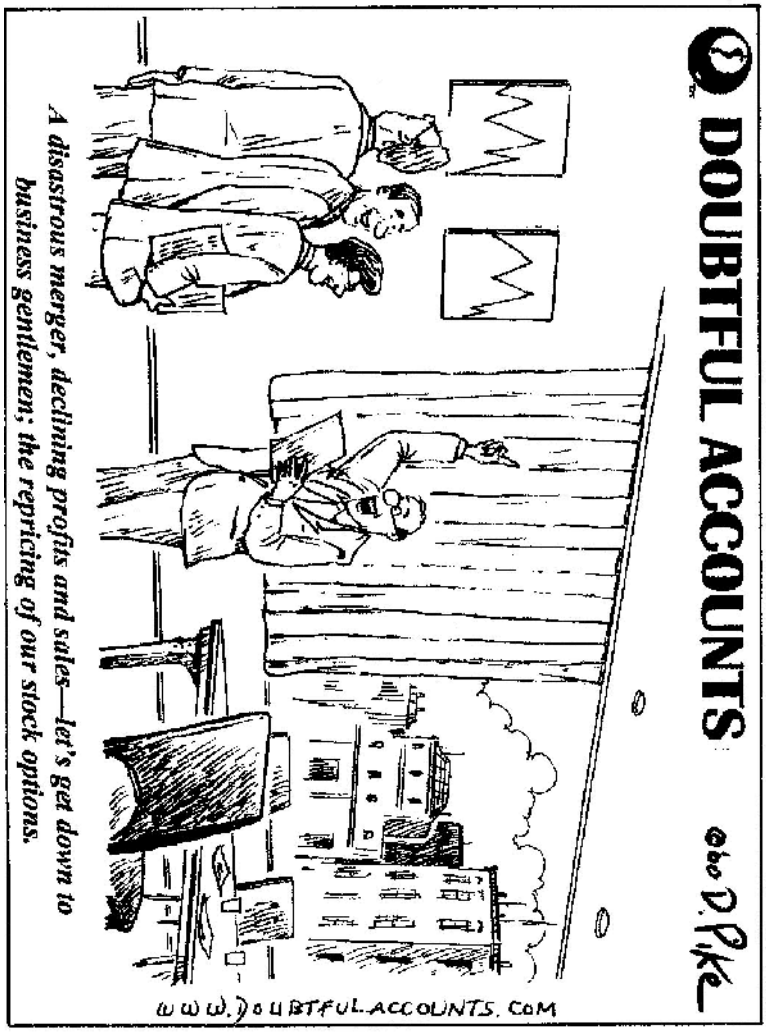
Could your business organization best be described as an outstanding underachiever?

While it would be easier to assign blame for organizational underperformance to one particular area or function of a company, the matter is not that simple. The roots that underlie the vast majority of performance problems extend throughout the entire organization.

This book is designed to trace those roots through each of the key business functions that contribute to corporate underperformance. Beginning at the top management level, where strategic leadership of the organization begins, the course addresses the causes and cures for shortcomings in Information Technology, Operations, Administration, Finance, Human Resources, and Relationship Management.

The interconnectedness of underperformance issues will become very apparent as you study each chapter of the book. You will learn from the mistakes that others have made by reviewing explanations and examples covering the 25 most common contributors to organizational underperformance. The valuable insight they provide will help you identify and address similar issues in your own organization, and increase your value as a business advisor to top management

CHAPTER ONE



A disastrous merger, declining profits and sales—let's get down to business gentlemen; the repricing of our stock options.

CHAPTER 0NE
TOP MANAGEMENT MISTAKES

Ride a Successful Five-Year Strategy
…for Fifteen Years

"Without systematic and purposeful abandonment (of outdated products, services, policies, channels, etc.), an organization will be overtaken by events. It will squander its best resources on things it should never have been doing or should no longer do. As a result, it will lack the resources, especially capable people, needed to exploit the opportunities that arise when markets, technologies, and core competencies change. It will be unable to respond constructively to the opportunities that are created when its theory of the business becomes obsolete."[1]

- Peter Drucker

Never has the "If it ain't broke, don't fix it" mentality been less apropos than in the realm of strategic management. With virtually all of today's business competition operating on a global scale, the estimated useful life of a strategic plan is already less than five years and growing shorter. In fact, almost one-half of all company CEO's end up being replaced within five years, further escalating the need for new strategic direction in these instances.

In cases where the same leadership remains in place, the company's modus operandi tends to stay the

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[1] Drucker, P..F., "The Theory of the Business" Harvard Business Review, September-October 1994. p. 102.

same. Aversion to change locks the organization into set patterns of interpretation and behavior despite fundamental changes in the surrounding business climate. In some cases, as it did in retailing, banking, steel-making, and securities brokerage, the entire center of gravity of an industry can shift suddenly and unexpectedly, leaving its more steadfast constituents behind. Driving these changes are fundamental forces that give no quarter to companies that seek security and stability for themselves and their stakeholders.

Among these turbulent forces are:

- Technological innovations that have been reshaping the commercial landscape since the dawn of the Industrial Revolution, and are continuing to emerge at an ever-faster rate.

- Prominent changes in the age and mix of the population.

- Rapid transformations in the profile of the typical U.S. household.

Each of these three elements has undergone radical transformation over the last fifty years, and there are no signs of a slowdown in the foreseeable future.

Why, then, are organizations content to see nothing change when, in reality, nothing stays the same?

The reason is a very simple case of probability and

outcome. It draws upon the very same logic that Vince Lombardi once used when downplaying the importance of the passing game in football. He argued that three things could happen when attempting a forward pass…a completion, an incompletion, and an interception…and two of those were bad.

The same holds true when attempting forward thinking in an organization. The resulting changes can have a positive impact, no impact, or a negative impact on the business…and two of those three are undesirable.

In actuality, there are nine possible outcomes, of which four are good and five are bad. That is because the organization is not the only one trying to change things in the face of uncertainty. At the other end of the field are the company's competitors who are faced with the exact same dilemma…to change or not to change. Whether or not a company's choice of action results in one of the four favorable outcomes or one of the five unfavorable outcomes ultimately depends upon the choice(s) made by its competitor(s). The following illustration depicts how the right course of action, the wrong course of action, or no course of action can translate into nine different outcomes that range from the very favorable (F+) to the very unfavorable (U-).

MATRIX ANALYSIS OF ORGANIZATIONAL & COMPETITOR RESPONSE TO CHANGE

Organization's Course of Action	Competitors' Course of Action: Wrong	None	Right
Wrong	U	U	U-
None	F-	U+	U
Right	F+	F	F-

With the odds being 5 to 4 in favor of an *unfavorable* outcome, many top executives decide in favor of no decision. Unfortunately, this no-decision approach is equally hazardous. In choosing to make no change to its existing strategy, the odds are two out of three that the organization will be worse off than it was before. Only in those cases where the competition ends up making the wrong move will the organization come out ahead. If the competition makes the same choice as the organization, and takes no action, ongoing changes in the business environment will pass everyone by, leaving an opening for new competitors to enter the market and change the rules of engagement. That is precisely what happened when the major department store chains of the 1960's and 1970's found themselves upended by the revolutionary retailing practices of Wal-Mart. Instead of responding to the changing demographic of the average American household, the department stores

continued to rely on housewives having the same amount of discretionary time, and income, to shop in department stores for brand-name and specialty items. As the average household evolved into a two-earner couple with limited time and resources, the department store concept became outmoded. Only after years of decline had taken their toll did companies such as Sears finally abandon their obsolete theories about retailing and adjust to consumers' new lifestyles.

In cases where an organization's competitors depart from their existing strategies and take a more appropriate course of action, an organization that elects to take no action will be even worse off than before. Not only will it have fallen behind in terms of its position in the changing marketplace, it will have fallen behind competitors who did the math and realized that staying still was not a viable option.

<u>What you can do to prevent this</u>:

Organizations that struggle the most when making decisions under conditions of uncertainty are generally concerned about their effect on the competition. New ideas and initiatives tend to be viewed through "competitors eyes" to see whether or not they will upset the competition, rather than being allowed to stand on their own merits. Managers in these companies prefer the security of peacetime and are reluctant to disrupt the status quo by shaking up the industry. They adhere to the notion that such problems should either be avoided or promptly

resolved, so that things can get back to the way they were.[2]

Companies that are able to act in a more strategic fashion do not view themselves as being in business to outperform their competitors. They view themselves as being in business to outperform themselves. While the impact on competitors is considered, it is considered secondary. Their objective is not to find ways to put competitors out of business; it is finding ways to put themselves out of business. Unwilling to be content with their past accomplishments, these companies are constantly challenging their entire workforce to uncover ways to make the product or service more desirable and affordable. This dispassionate view of their relative position in the market is in stark contrast to their passionate view of the customer. They acknowledge the fact that customers are always in need of, and in the market for, a better deal. They acknowledge that fame in the eyes of the customer and the investment community is fleeting. They maintain control over their own destiny by resisting the urge to repeat themselves for any length of time.

These organizations possess a number of unique and dynamic characteristics:

- Even though the same chief executive remains in place, their organizational (power) structure

[2] Bardwick, J. "Changing Culture" Executive Excellence Magazine. August, 1998. p.10.

frequently shifts in order to engage new talent in new areas of opportunity.

- Within six months of a successful product launch, the company begins looking for ways to improve on it.

- The chief executive is both willing and able to function as the company's "customer barometer," spending as much time with the company's patrons as (s)he does with investors and other stakeholders.

Leaders in these dynamic organizations continually re-examine the tension between the creation of alignment (balance) that is necessary to support efficiency and effectiveness, and the disruption of alignment necessary to foster innovation and change. Their strategic thinking creates a gap in the minds of managers between today's reality and a more desirable future, a gap that precludes unsafe satisfaction with the status quo.[3]

[3] Liedtka, J.M. "Linking Strategic Thinking with Strategic Planning" Strategy & Leadership. September/October 1998. p.33-34.

Cater to Your Strengths; Downplay Your Weaknesses

Permeating the multitude of corporate horror stories that have emerged over the last fifty years has been a remarkably common theme. Solid, successful enterprises with long histories of success in their industry have inexplicably stumbled and fallen when the business landscape that they once defined and dominated suddenly began to crumble beneath their feet.

The casualty list has included venerable names such as PanAm, US Steel, Westinghouse, Wang and Digital. A number of major industry players such as Ford and Chrysler narrowly escaped extinction. Many of those that did manage to remain in business nonetheless lost control over their own destiny, and were subsumed by larger and stronger organizations.

What was behind this unprecedented shakeout during the 1970's and 1980's? There were actually a number of culprits, such as the over-influence of the quantitative school of thinking on business management practices during that timeframe. Capital markets and top managers became overly preoccupied with the bottom line and the various means and measures for regulating it. MBA graduates poured into critical decision making roles, elevating their penchant for accounting, finance, data processing, linear modeling, securities analysis and operations research to the forefront of the corporate agenda. Business decisions were increasingly based on financial calculations and assumptions. Executives

were no longer interested in the fine arts of manufacturing or selling. They were interested in the profit management sciences and portfolio theories that favored leveraged buy-outs and diversification strategies over product/process enhancement or quality initiatives.[4]

This fixation with bottom-line profit strategies has contributed to an ongoing lack of emphasis on innovative activity in established business enterprises. In many cases, entire industries blind themselves to technological developments and other potential new business opportunities within their own sphere of influence. It is also the reason why the principal venue for innovation continues to be new ventures and startups where success or failure rests with the commercial viability of a new business concept or product offering.

Another outgrowth of the profit management approach has been the widespread popularity of the resource-based view of the firm. This approach to strategic planning became popular beginning in the 1990's. Firms were encouraged to leverage what they perceived to be their unique strengths, i.e. core competencies, when choosing a strategic course of action. A 1994 survey of nearly 50 corporations from a variety of countries and industries revealed that the most popular strategic planning technique was core

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[4] Lynch, Robert G., The Origins of American Management: Strategies and Structures; Principles and Values. Forthcoming.

competencies analysis (72% usage).[5] Core competencies came to be viewed as the proven vehicle for achieving and sustaining competitive advantage. The approach proved popular with top executives who were seeking a strategic change of pace, but were hesitant to undertake radical change in order to accomplish it. Companies that chose to leverage their strengths and core competencies found that they had less to gain in terms of breakaway success, but they also had less to lose in terms of their current profitability and industry standing.

What led to the application of core competencies to strategic planning was the extensive use of situational analysis, otherwise known as SWOT (Strengths, Weaknesses, Opportunities and Threats). SWOT became what is now the foundation for practically all strategic planning exercises in U.S. companies. The resource-based view of the firm has steadily transformed the first component of SWOT (Strengths) into the foremost component of strategic planning.

The bias towards organizational strengths that the combination of SWOT analysis and the resource-based view has created is at the root of the problem with innovation. The following "strategic positioning" matrix helps illustrate how this bias has "cornered" management thinking into a control mode, instead of a creative one.

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[5] Hunger, David J. and Wheelen, Thomas L., Strategic Management; Seventh Edition (Upper Saddle River, NJ: Prentice Hall, 2000).

Opportunities	**S/O** Strengths/Opportunities	**W/O** Weaknesses/Opportunities
Threats	**S/T** Strengths/Threats	**W/T** Weaknesses/Threats
	Strengths	**Weaknesses**

This matrix is the type used by strategic planners to match specific strengths and weaknesses of an organization with its identifiable opportunities and threats.

Strengths/Opportunities (S/O)
In this quadrant, opportunities to increase the value of the firm are paired with strengths that can capitalize on those opportunities.

Strengths/Threats (S/T)
In this quadrant, threats that have the potential to decrease the value of the firm are paired with strengths that can help counter them.

Weaknesses/Opportunities (W/O)
In this quadrant, opportunities to increase the value of the firm are paired with weaknesses that could potentially (and inadvertently) limit the firm's ability to capitalize on them.

Weaknesses/Threats (W/T)
In this quadrant, threats to the value of the firm are paired with weaknesses that potentially (and inadvertently) limit the firm's ability to counter them.

The implications of this matching of strengths and weaknesses with opportunities and threats are quite significant. Each quadrant denotes a different competitive posture for the organization, and suggests the need for a different strategic orientation.

In the S/O quadrant, the combination of existing strengths and available opportunities typically supports an aggressive growth posture.

In the S/T quadrant, existing strengths and imminent threats suggest a somewhat more conservative approach that favors stability of market position and performance.

In the W/O quadrant, existing weaknesses and available opportunities create a situation where competition along existing lines may not be feasible for the long term. This condition suggests the need to break away from existing products and practices and

take the company and the competition to a different level.

In the W/T quadrant, the combination of existing weaknesses and threats places the organization in a defensive posture that requires a restructuring of operations and a relinquishment of market power and position.

Opportunities	**S/O** **Growth Posture** **Expansion of market share**	**W/O** **Breakaway Posture** **(Re)Creation of market share**
Threats	**S/T** **Stable Posture** **Preservation of market share**	**W/T** **Retrenchment Posture** **Relinquishment of market share**
	Strengths	Weaknesses

In this context, very few organizations are willing to concede that they have a shortage of strengths or a preponderance of weaknesses. Even fewer are prepared to admit the existence of bona fide threats to their continued existence. To admit to either one would constitute an admission of failure on the part of management.