

Strategic Factors

Develop a winning strategy.



by Graham Kenny

WE CREATED THE *Strategic Factor* system for developing effective strategic plans and linking key performance indicators.

It all started when, as general manager, I was asked to turn around a company that made timber trusses and frames for houses (frames are the pre-fabricated walls of houses, and trusses are the triangular sections that sit on top of the frames and hold the roof up). The company's customers were mainly professional builders, many of them large home-building companies. We started to make some significant changes. But then I had my *moment of truth*.

We'd been making changes to staffing numbers, stock levels, product lines, closing the milling operation, and so on. But it was important that I could clearly articulate on the fingers of one hand the elements of success in the industry. The changes made sense to us, *as managers*. But how well did we know what our customers really wanted? And, what would it take for us to meet those needs in such a way as to beat our competitors?

This required us to think *strategically*. So I put some work into discovering what could lead a business like ours to having a *competitive advantage*. The answers came back that our customers, the builders, wanted us to do well on:

- *price, trade terms* (when they had to pay, and discounts for early payment);
- *product quality* (consistently meeting specifications);
- *range of products* (a one-stop-shop);
- *customer service* (dealing with inquiries, complaints and advice); and
- *delivery* (orders in-full and on-time).

Much of what we'd been focusing on as a management team was concerned with cost cutting and cost containment—in short, *operations*. This was good for the company's survival, but of no *direct* benefit to the customer. In fact, cutting costs could *impair* our competitive advantage by narrowing our product range and lessening our customer service.

This realization helped to re-focus

our thinking—and, although I didn't appreciate it at the time, it was the birth of what we now call *strategic factors*.

Strategic factors

The concept of strategic factors is different from 'critical success factors' and 'key result areas'. With these, management thrashes out a *single* set—it's *management's view* of what's important. With strategic factors, there's a set for *each* key stakeholder—one for customers, employees, shareholders, and so on. And the factors are validated by *stakeholders*, not by management.

Stakeholders

In developing our method, the pieces started to take shape—initially as four steps: 1) identify an organisation's or business unit's *stakeholders*; 2) choose those that are really *key*—that have or will have a major impact; 3) identify the *strategic factors* for each key stakeholder, such as customers and employees; and 4) develop *positions* on one or more of these strategic factors for each key stakeholder to produce a competitive advantage—these positions are the organisation's strategies for *achieving the targets on objectives*.

Perfect! We thought—and it was good for a few years. But there was a difficulty in directly tracking the success of *each set* of strategies, that is, for each key stakeholder. How does an organisation *directly* trace its strategies for customers, employees, and so on? Sure, you might see the effect on *overall* financials, but that's very *indirect*.

How to do it *directly* came by looking at lists of objectives. These are usually numerous, ranging from the broad (to achieve sustainability), to the specific (to increase sales by 10 per cent per annum). But the more we looked, the more we saw a basic pattern in these lists—it was in the relationship of objectives to *stakeholders*. Revenue-related objectives belonged with customers, productivity and innovation-related objectives belonged with employees, supply-related objectives belonged with suppliers, and funding-related objectives belonged with owners.

We also observed that objectives were what an organisation wanted *from* a key stakeholder—for example, revenue from customers; and strategic factors were what a key stakeholder wanted *from* an organisation—for example, product quality. The concepts

'exchange', 'transactions' and 'power-dependence' seemed highly relevant.

So, we added a fifth step—straight after the previous second step: develop quantified *objectives* classified by key stakeholder.

Now we were looking at both sides of the stakeholder situation—and this is how we work with organisations to develop strategies today.

Lessons Learned

Here are a few lessons learned about bringing stakeholders into strategy:

- identifying key stakeholders isn't easy and can chew up several hours;
- competitors are *not* stakeholders—they're the antithesis of stakeholders;
- stakeholders can be subtle—in practice we identify a much broader range, customers *and* non-customers, regulatory bodies and a government minister whose role is a policy-making one;
- we don't distinguish between *external* and *internal* stakeholders—to us they're all involved in exchanges and transactions;



- everything we do from analysing an industry, developing and writing strategy, to designing scorecards of key performance indicators is built on a clear identification of an organisation's *key stakeholders*;

- measuring performance is measuring *relationships* with the key stakeholders of an organisation—this leads to a focus on outcomes;
- there are two sides to *outcomes*—outcomes for key stakeholders *and* outcomes for an organisation—any effective measurement system must track both sides;
- stakeholders take on multiple roles—not recognising these multiple roles leads to incomplete strategies and performance measures.

We need a fresh start in strategic management. What we have is 'business strategy management', as most of the tools and techniques are specific to business. The field of strategic management must address the needs of government and not-for-profit organisations as well through a stakeholder framework. Our *Strategic Factor System* has taken the field forward. Strategy can now be developed effectively. LE

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ACTION: Use the strategic factor system.