

STRATEGIC FACTORS

DEVELOP AND MEASURE WINNING STRATEGY

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In spite of all the books and articles written over the past three decades, organizations still confuse process activity with strategic success.

Ask any manager what makes his or her organization successful and you'll get a description of internal activity rather than the precise results of this activity. And you know, that manager would be wrong!

Take, for example, the private hospital that lists, as its critical success factors, "capital development, responsible financial management, developing key partnerships, quality models of care, efficient systems and working together." What we have here is a catalog of *internal processes* and, as praiseworthy and as well-performed as they might be, they are *not* what determines the success of the hospital. They are *not outcomes*.

Or, as another example, take the electricity-generating organization that lists key result areas as what makes it successful. These KRA's include "resource management, environmental responsibility and people." Again, we have internal processes and *vague domains of activity* that are not the keys to the electricity organization's success, are not *outcomes*.

OUTSIDE IN, NOT INSIDE OUT

Why are managers so clearly unable to identify the essential ingredients of their organization's success? The answer is that they insist on looking at their performance from the *inside out*, rather than the *outside in*. It's that simple!

We're like the fly in the honey. We become entrapped by our own organization. We become weighed down by policies, procedures, systems, processes, practices and they become our world. What's worse, they become *the* world. And, like the fly in the honey, we can't escape. If we're not careful, we become blinded to reality, the reality of what it takes to be successful.

So just what are those few things around which organizational activity must focus and which lead to success? The

answer is Strategic Factors! They're discovered by looking at your organization's (or business unit's) performance from the *outside in*. By seeing yourself as your customers, suppliers, employees, owners and others see you, and asking:

We insist on looking at our performance from the inside out, rather than the outside in.

how do *they* evaluate our performance? What do *they* look for from us?

That's when you move from the inner realm to the outer. That's when you take *their* perspective, not yours.

That's when you stand in their shoes, not your own. And they are very different shoes!

So what are Strategic Factors?

DEFINING STRATEGIC FACTORS

Strategic Factors are those things that your organization or business unit needs to get right in order to succeed with your key stakeholders, that is, your customers, suppliers, employees, owners and any other organization, business unit or individual that you depend on for success. The stakeholders use these criteria to evaluate you.

Examples of Strategic Factors. Chapter 3 onwards offers numerous examples of these Strategic Factors. For customers, the Strategic Factors are customer service, product quality and the like. With employees, they are items such as rewards, company reputation and job security. For owners in a public company, the Strategic Factors include dividends and capital growth.

Strategic Factors as Common Currency. Strategic Factors provide not only a pathway to success but also a common currency that links the way in which strategic planning and performance measurement are undertaken. The key word is *link*, and Strategic Factors form that link.

Strategic Factors across Sectors. Strategic Factors also provide the tools to be able to address the needs not just of private sector profit-seeking organizations, but also of non-

profit organizations from both the public and private sectors. Here again Strategic Factors act as integrators because all organizations have them at their core.

Strategic Factors for Business Units. Strategic Factors also provide the way to move across the terrain from corporate to department, from organization to business unit. Because they apply just as well to a unit's relationship to key stakeholders, they make it easy to link the unit's strategic plan to the organization's.

Strategic Factor System. Finally, Strategic Factors supply us with a system for streamlining strategy development and its measurement, a system for tying all the diverse strategy concepts and activities together. We call it the Strategic Factor System.

Strategic Factors supply us with a system for tying all the diverse strategy concepts and activities together.

RESULTS FROM EMPLOYING STRATEGIC FACTORS

Figure 1.1 lists the results you'll achieve by reading this book and applying its ideas.

Perhaps in reviewing the column on the left-hand side, you may identify some of the problems you've been experiencing in your own organization or business unit. Have you, for instance, experienced confusion in defining competitive advantage? Have you found difficulty in developing strategy for all your key stakeholders? Are you able to differentiate and position your organization or business unit effectively? Have you found that your key performance indicators are rarely strategy-driven?

Now run your eyes down the right-hand column. Wouldn't it be great to be able to avoid the problems on the left and achieve the results on the right? On the completion of this book, you will.

As Figure 1.1 suggests, you'll be able to connect strategic analysis and strategy formulation. You'll be able to write

Figure 1.1 Results of Employing Strategic Factors

Without Strategic Factors	With Strategic Factors
Connecting strategic analysis and strategy formulation	
Ranges from poorly connected to completely disconnected	Connection clear and streamlined
Defining competitive advantage	
Gets mixed up with internal capabilities	Defined outside-in, not inside-out
Conducting competitive assessments and assessing competitive advantage	
Lacks focus on external factors	Focuses squarely on external factors
Establishing clear and quantified objectives	
Generally a jumble of statements	Clear statements built around measurable outcomes
Writing clear and focused strategy	
Lacks focus, as methods are confused	Clearly focused, as method is clear
Developing strategy for key stakeholders	
Tends to focus on customers to the exclusion of other key stakeholders	Encompasses <i>all</i> key stakeholders
Developing strategy for non-profit organizations and for business units	
Difficult, as most techniques are designed for profit organizations and not for business units	No difficulties, as the techniques can apply across all organizations and business units
Defining value	
Mixes cost with “value added”	Value clearly defined
Defining differentiation and positioning	
Imprecise and not well related	Linked and complementary
Developing strategy for lobbying, acquisitions, strategic alliances and innovation	
Frequently seen as “add-ons” and are poorly integrated	Clearly linked to competitive advantage

Linking strategy formulation and performance measurement

Hazy linkage or no linkage at all	Intimately linked
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Developing key performance indicators

Rarely strategy-driven	Always strategy-driven
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clear and quantified objectives. You'll be able to define competitive advantage clearly and conduct an effective competitive assessment. You'll be able to write clear and focused strategy for all your key stakeholders — not just customers, but suppliers, employees, owners and all those who make your organization a success. If your focus is a non-profit organization or a business unit, you'll be able to develop strategy easily. You'll be able to explore the full range of strategic options, such as lobbying, acquisitions, alliances and innovation. You'll be able to link strategy formulation and performance measurement.

You'll be able to connect strategic planning to performance measurement as never before.

THE BOOK FROM HERE ON

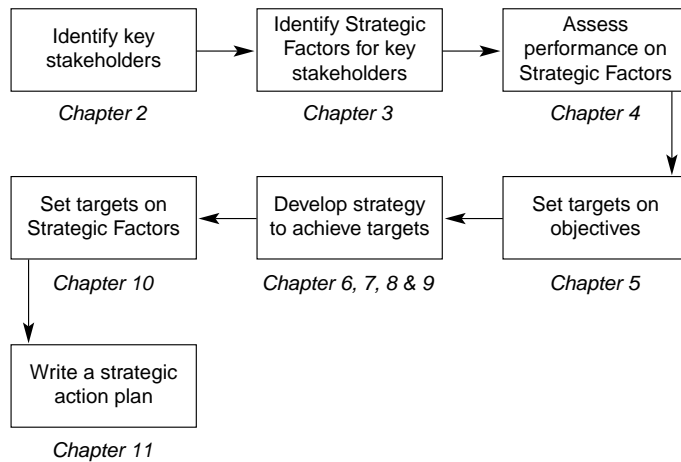
The chapters are organized around a series of steps. These are illustrated in Figure 1.2.

Chapter 2, “Your Foundation Stones,” shows how to identify the key stakeholders of your organization or business unit and distinguish between stakeholders and *key* stakeholders. The chapter gives examples from a variety of industries.

Chapter 3, “At the Cutting Edge,” contains a detailed definition of Strategic Factors and provides examples for customers, again from a variety of industries. This chapter forms the basis for the rest of the book.

Chapter 4, “It's Wise to Analyze — Strategically,” extends

Figure 1.2 Sequence of Steps and Chapters



the identification of Strategic Factors to *all* key stakeholders, outlining steps for undertaking strategic analysis and explaining each in detail. It provides you with five ways of identifying Strategic Factors for your organization or business unit. Two specific tools, the Competitive Assessment Matrix and the Competitive Advantage Profile, are detailed. There are also lists of key strategic issues from a number of organizations, derived from strategic analysis.

Chapter 5, “Where Are You Going?” shows an innovative way to set objectives classified by key stakeholder. The chapter also shows how to quantify these objectives by setting key performance indicators on them and then establishing targets for these indicators.

Chapter 6, “The Fatal Flaw,” provides an expanded definition of the term “competitors,” and a new way of defining “competitive advantage,” based on Strategic Factors. It is distinguished from internal capabilities. The concepts *value*, *differentiation* and *positioning* are also shown to be based on

Strategic Factors and are demonstrated through a number of examples. The chapter shows how competitive advantage, value, differentiation and positioning are linked, and how each concept can be employed in developing strategy.

Chapter 7, “Doing What You Do Better,” demonstrates how to design winning strategy by following Scale Strategy, one of what we call Strategy’s Three S’s. The chapter also demonstrates the importance of developing competitive advantage at key points in the value chain of your industry.

Chapter 8, “Why Diversification Is Not a Strategy,” tackles the second of our Three S’s, Scope Strategy. It shows that while most organizations are lost when it comes to diversification, it needn’t be this way — so long as diversification is approached via knowledge of Strategic Factors.

Chapter 9, “Avoiding Naive Strategy,” elaborates the third S in our Three S’s, Structure Strategy. Here we discuss four options: lobbying, strategic alliance, acquisition and innovation — all linked to Strategic Factors. Also presented are examples of organizations employing these options.

Chapter 10, “Tracking Strategy in Real Time,” shows that while we are able to track strategy by the extent to which it delivers results on objectives (the subject of Chapter 5), there is an extended way of measuring the success of strategy: producing leading indicators by tracking results on Strategic Factors.

Chapter 11, “The Need for Action,” provides guidelines to follow in developing your strategic plan and discusses seven common mistakes. In providing remedies, special emphasis is placed on the importance of action planning.

Chapter 12, “Outside Looking In,” stresses the importance of taking an outside-in view of the performance of your organization or business unit. Only when you do this, the chapter concludes, can you take your key stakeholders’ perspectives. The chapter summarizes the major steps in this book and provides examples of the benefits clients tell us they receive from following these steps.

There are three appendices to round out the book. These are concerned with the difference between strategic and operational plans, board involvement in strategic planning,

and competitive advantage along value chains.

Finally, there is a glossary. As in all management fields, terms abound. It has been the aim in this book to limit their number to those that are essential.

TRY THIS

Position your organization or business unit on the twelve results listed in Figure 1.1. If you find yourself on the right hand side on all twelve, please get in touch — we should talk! If, on the other hand — and this is the more likely result — you do some of those things reasonably well and others either poorly or not at all, then this book is for you.

The exercise will also help you determine which chapters most need your attention.

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