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# The underperformance review

What's the secret of success? Companies need to develop a strategic plan to reach their competitive potential and stay ahead of the pack

We are in the middle of a strategy crisis. Or, I should say, a lack-of-strategy crisis. Ian Thorpe wouldn't settle for achieving a quarter of his competitive potential, yet our research shows that most organisations are achieving only 24% of their potential.

Competitive potential can be based on obvious markers, such as shrinking profits, contracting revenues and loss of market share. But these results are muddled by economic cycles and industry-specific downturns – businesses could maintain market share and still be under performing.

Competitive potential has to be addressed more fundamentally, not by looking at the residual effects but by looking at how competitive potential is created and whether it's successfully implemented.

We define competitive potential as the extent to which statements of strategy have the capacity to deliver competitive advantage; that is, take a position superior to competitors on strategic factors.

But writing competitive strategy is only one half of competitive advantage. The other is implementation.

Implementation is the extent to which strategies have been put into effect. For example: "Has the competitive strategy for improving customer service occurred?"

An organisation achieves its competitive advantage when it implements competitive potential. So, what do organisations tell us about their achievement of competitive potential? Firstly, they report that only 40% of their competitive strategies have



any chance of yielding competitive advantage. The rest concern internal activity such as methods and procedures. Secondly, organisations report that only 60% of these strategies are implemented. The rest disappear through under-resourcing or lack of attention.

These two figures together – 40% and 60% – lead to a 24% achievement of competitive potential (as assessed by the organisations themselves).

Applying this figure to an actual business translates to highly significant dollar amounts. The loss is an opportunity cost of foregone revenue and profit. This becomes magnified in large organisations where the strategic-planning process cascades down – corporate to division, division to department and so on. The opportunity cost could be in the millions.

Organisations that do not write a strategic plan achieve less than 24% of their competitive potential.

We suggest that the lack of a truly strategic plan is a major cause of business failure because it relegates the organisation to a largely operational entity, positioned as the recipient of other businesses' competitive strategy. So what should be done by accountants, managers and organisations to remedy this situation?

- ▶ **Organisations must train their staff:** there's an assumption that managers, especially those with MBAs, know how to create and write competitive strategy. This assumption is misplaced.
- ▶ **Managers need to follow a system:** organisations need a business system, eg linking strategic planning to performance measurement.
- ▶ **A glossary of terms:** to assist managers, each organisation needs to develop its own glossary. People can't talk to each other about strategy if there is no agreed definition.
- ▶ **Implementation of competitive strategies:** every organisation should ensure that its competitive strategies are implemented. This requires at least two things – a detailed action plan and key performance indicators.

Australian organisations are really no better or worse than their United States and European counterparts. A wonderful opportunity therefore exists for Australian organisations to lead the world out of the strategy crisis in which we find ourselves. [CA](#) *Graham Kenny is also the author of the book Strategic Factors: Develop and Measure Winning Strategy.*