CHAPTER 3

Strategic Management

LEARNING OBJECTIVES

- Understand the differences between the two traditional models of strategy and the strengths and weaknesses of each
- Explain the steps in the strategic management process and the interrelatedness of its sequence of steps
- Appreciate the different corporate and business unit strategies and the human resource challenges inherent with each
- Understand the different human–resource related challenges in private and publicly held organizations

Strategic Management at Costco

Costco is an international chain of membership retail warehouse stores that offers brand-name merchandise at prices lower than those of other retailers. Costco has effectively utilized a strategy that has allowed it to produce stellar financial results relative to competitors. Although Sam's Club, another warehouse retailer and chief competitor, has 42 percent more members and 70 percent more stores, Costco's annual sales exceed those at Sam's by $1 billion. This is particularly impressive, given that Sam's is affiliated with Walmart stores.

Costco's strategy involves having a lower overhead by utilizing warehouse space and buying in bulk, both of which drive their costs down. Perhaps more important, Costco only carries approximately 4,000 SKUs (stock-keeping units) of inventory as opposed to the typical supermarket, which carries about 30,000 SKUs, or the typical discount retailer, which carriers about 40,000 SKUs. Consequently, the consumer is not overwhelmed at Costco, as the organization does the comparison shopping for its customers through its buying process and selection of merchandise. Costco also employs very limited staff outside of the functions of buying and merchandising products, further eliminating unnecessary overhead.

Costco realizes a need among busy consumers who not only want value but also want convenience. Costco's streamlined operations and willingness to accept lower profit margins on merchandise than its competitors allow them to offer goods at very competitive prices. Costco also offers convenience to time-sensitive customers by offering a variety of products, including electronics, clothing, food, furniture, jewelry, and appliances, under one roof. Clearly, Costco knows its customers' needs, and its strategy is effective, as it is been rewarded with increased sales and customer loyalty, reflected in its 97percent member renewal rate.[1]

The central idea behind strategic human resource (HR) management is that all initiatives involving how people are managed need to be aligned with and in support of the organization's overall strategy. No organization can expect to be successful if it has people management systems that are at odds with its vision and mission. Many organizations suffer from the syndrome of seeking certain types of behaviors and performance from employees but have HR management programs, particularly those related to performance feedback and compensation, that reward the opposite behaviors.[2] As a prerequisite for understanding how to strategically manage HR, it is necessary to understand the process of strategic management.

Strategic management is the process by which organizations attempt to determine what needs to be done to achieve corporate objectives and, more important, *how* these objectives are to be met. Ideally, it is a process by which senior management examines the organization and the environment in which it operates and attempts to establish an appropriate and optimal "fit" between the two to ensure the organization's success. Strategic planning is usually done over three- to five-year time horizons by senior management, with a major review of the strategic plan on an annual basis or when some significant change impacts the organization, such as a merger or acquisition, or its environment.

Models of Strategy

Two major models outline the process of what strategy is and how it should be developed. The first is the industrial organization (I/O) model. This "traditional" model formed the basis of strategic management through the 1980s.[3] The I/O model argues that the primary determinant of an organization's strategy should be the external environment in which the organization operates and that such considerations have a greater influence on performance than internal decisions made by managers.[4] The I/O model assumes that the environment presents threats and opportunities to organizations, that organizations within an industry control or have equal access to resources, and that these resources are highly mobile between firms.[5] The I/O model argues that organizations should choose to locate themselves in industries that present the greatest opportunities and learn to utilize their resources to suit the needs of the environment.[6] The model further suggests that an organization can be most successful by offering goods and services at a lower cost than its competitors or by differentiating its products from those of competitors such that consumers are willing to pay a premium price.

The second major model is the resource-based model, sometimes referred to as the resource-based view (RBV) of the firm. The resource-based model argues that the organization's resources and capabilities, rather than environmental conditions, should be the basis for organizational decisions.[7] Included among these resources are an organization's HR.[8] Organizations hence gain competitive advantage through the acquisition and value of their resources. This approach is consistent with the investment perspective of HR management. It has been argued that the RBV of the firm has formed the foundation for strategic HR management as an understanding of its theoretical foundation is indispensable when attempting to implement the concepts of strategic HR management in the workplace.[9]

The RBV challenges the assumptions of the I/O model and assumes that an organization will identify and locate key valuable resources and, over time, acquire them.[10] Hence, under this model, resources may not be highly mobile across organizations because once they are acquired by a particular organization, that organization will attempt to retain those resources that are of value.[11] However, resources are only of value to an organization when they are costly to imitate and nonsubstitutable.[12]

In contrasting the two approaches, the I/O model suggests that an organization's strategy is driven by external considerations; the RBV argues that strategy should be driven by internal considerations. The I/O model argues that strategy will drive resource acquisition; the RBV argues that strategy is determined by resources. Interestingly enough, research has provided support for both positions.[13]

Sarasota Memorial Hospital

Why would a nurse pass up a job paying $2 more per hour than her current position with an employer whose facility she drives past on her way to work? For nurses at Florida's Sarasota Hospital, the answer is simple. Sarasota Hospital's strategic plan centers around a "pillars of excellence" concept, adopted after a benchmarking study that included hospitals from across the United States. Sarasota developed its five pillars of excellence—service, people, quality, finance, and growth—then did all strategic planning around them. A performance management system was designed to support the pillars; HR was given the directive to establish a strategic plan under the "people" pillar. It created a set of cross-functional team leadership development; service recovery; measurement; reward and recognition; inpatient, outpatient, and ER patient satisfaction; and physician satisfaction. Each team engaged in process mapping and eliminated duplicated steps. Next to be cut were steps that did not add value, followed by nonessential, "sacred cow" steps. The outcome? Both customer and employee satisfaction have increased dramatically, and operations have become far more efficient. Customer satisfaction rose from the 43rd to the 97th percentile in one year. During this time, staff turnover decreased from 24 percent to 16 percent, with the current rate this year further reduced to 9 percent. The culture of the organization—and the ability of each employee to see her or his contribution to it—helps explain why employees are willing to drive further to work for lower pay at Sarasota Memorial.[14]

While the I/O and RBV models present contrasting philosophies as to whether strategy should be developed from internal or external perspectives, they are not the only perspectives on strategy. Indeed, both perspectives have found support in both research and practice, but more important is the fact that strategy is a dynamic field of study with new theories, models, and perspectives constantly being advanced. Strategy itself has become somewhat ill-defined and a catch-all term for a variety of organizational activities. Reading 3.1, "Are You Sure You Have a Strategy?" presents an alternative framework for the design of strategy by considering strategy as an overarching integrative concept with five distinct components.

The Process of Strategic Management

Our examination of strategy, for the purposes of understanding the relationship between HR and strategy, will consider the premises of both the I/O and RBV models. In line with this, the process of strategic management is presented as a series of five distinct steps, as outlined in Exhibit 3.1.

I: Mission Statement

The first stage of strategic management is for the organization to establish or examine, if it currently has one, its mission statement. Virtually all organizations have a mission statement that explains in very simple terms the organization's purpose and reason for existence. Mission statements are usually very broad and generally limited to no more than a couple of sentences. Although the statement appears to be simple, it is often very difficult to construct because it serves as the foundation for everything that the organization does. It requires those formulating it to have a clear and articulated understanding and vision of the organization and to be in consensus on what the organization is all about and why it exists in the first place.

Exhibit 3.2 presents the mission statement for Solectron. Established in 1977, Solectron is the world's largest electronics manufacturing services organization, offering supply-chain management systems for many of the world's leading electronics equipment manufacturers. Solectron has

EXHIBIT 3.1 The Process of Strategic Management

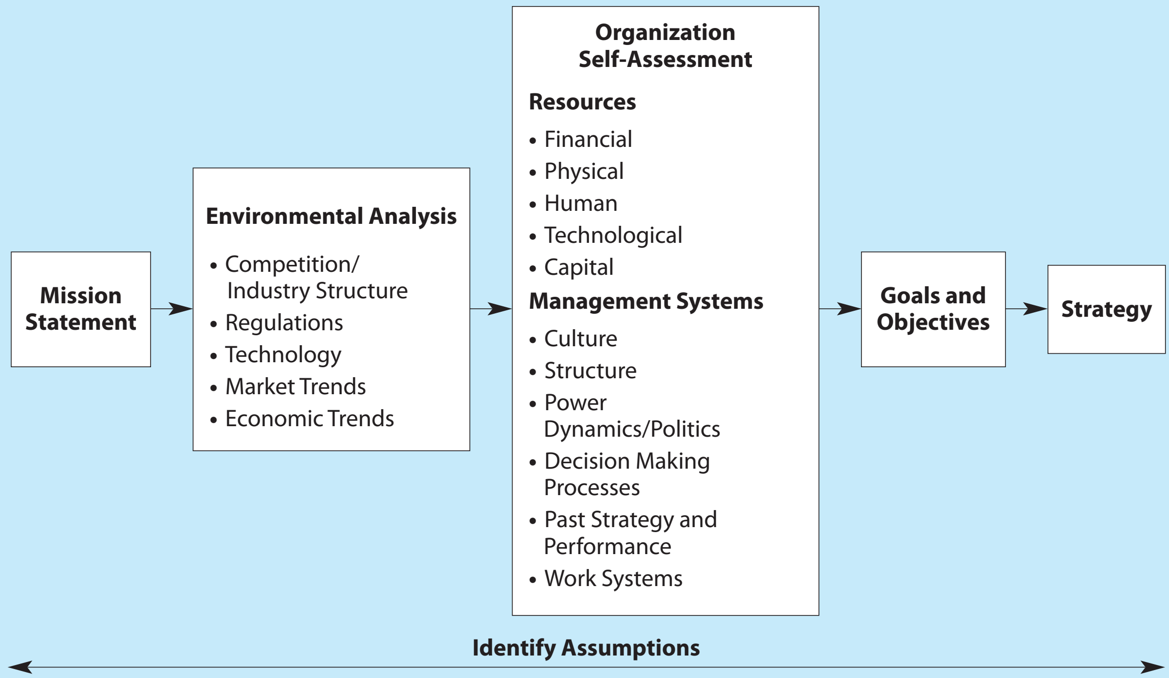

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EXHIBIT 3.2 Solectron Mission Statement

"Our mission is to provide worldwide responsiveness to our customers by offering the highest quality, lowest total cost, customized, integrated, design, supply-chain and manufacturing solutions through long-term partnerships based on integrity and ethical business practices."

Solectron Corporation

received more than 200 quality and service awards and was the first company to win the Malcolm Baldrige National Quality Award twice.[15]

Some organizations develop mission statements which are far more complex and lengthy, extended beyond a single sentence and unifying idea. Exhibit 3.3 presents the mission statement for Microsoft Corporation. Noteworthy about Microsoft's mission statement is an explicit presentation of the kinds of employees it seeks and needs to deliver its mission as well as the tenets or values which support this mission.

EXHIBIT 3.3

Who We Are/Mission & Values Delivering on our Mission

To enable people and businesses throughout the world to realize their full potential.

Delivering on this mission requires a clearly defined set of values and tenets. Our company values are not new, but have recently been articulated to reinforce our new mission.

Great people with great values	• Achieving our mission requires great people who are bright, creative, and energetic, and who possess the following values: • Integrity and honesty • Passion for customers, partners, and technology • Open and respectful with others and dedicated to making them better • Willingness to take on big challenges and see them through • Self-critical, questioning and committed to personal excellence and self-improvement • Accountable for commitments, results, and quality to customers, shareholders, partners and employees.
Tenets that propel our mission	***The tenets central to accomplishing our mission include:*** **Customer trust.** This means earning customer trust through the quality of our products and our responsiveness and accountability to customers and partners. **Broad customer connection.** This means connecting broadly with customers, understanding their needs and uses of technology, and providing support when they have questions or concerns. **Innovative, evolving, and responsible platform leadership.** This means expanding platform innovation, benefits, and opportunities for customers and partners, openness in discussing our future directions, getting feedback, and working with others to ensure that their products and our platforms work well together. **Enabling people to do new things.** This means broadening choices for customers by identifying new areas of business, incubating new products, integrating new customer scenarios into existing businesses, exploring acquisition of key talent and experience, and integrating more deeply with new and existing partners. **A global inclusive commitment.** This means thinking and acting globally, employing a multicultural workforce that generates innovative decision making for a diverse universe of customers and partners, innovating to lower the costs of technology, and showing leadership in supporting the communities in which we work and live. **Excellence.** This means excellence in everything we do to deliver on our mission.

At Microsoft, we're committed to our mission: improving the potential of our customers, and the world.

Source: *Microsoft, http://members.microsoft.com/careers/mslife/whoweare/mission.mspx*

II: Analysis of Environment

Upon establishing a mission statement, the next step is to analyze the external environment in which the organization operates consistent with the I/O model of strategic management. Decision makers need to analyze a variety of different components of the external organization, identify key "players" within those domains, and be very cognizant of both threats and opportunities within the environment. Among the critical components of the external environment are competition and industry structure, government regulations, technology, market trends, and economic trends as indicated in Exhibit 3.1.[16]

In examining competition and industry structure, critical issues that need to be identified include who the chief competitors are, the means by which they compete, where "power" lies within the industry, barriers to entry, opportunities to acquire and merge with other organizations, critical success factors within the industry, and industry "maturity level." In addition, consideration must be paid to industries that produce complementary or substitute goods or services that may impact the demand for the organization's output.

In examining government regulation, critical issues that need to be identified include the scope of laws and regulations that may impact what the organization does. This involves everything from federal laws regulating the industry and the employment relationship to local zoning ordinances that may affect the size, scope, and location of operations. A significant number of strategic HR management decisions that must be made have to be done within the context of federal, state, and local labor laws. Similarly, organizations need to establish beneficial relationships with agencies that enforce these laws and legislators who propose, pass, amend, and repeal such laws.

The technological sector of the environment involves looking at automation processes, new materials and techniques for producing goods and services, and improved products and special features. It also involves an assessment of how to obtain new technology and the decision as to whether the organization wants to pioneer new technology or allow others to do so and then attempt to copy it.

Analyzing market trends involves examining who existing customers are, their needs and wants, and how well satisfied they are. It also involves looking at potential customers who do not utilize the product or service and determining how existing products and services can be adopted or modified to address the needs of different target groups of consumers and developing strategies to increase the rate or level of usage by current customers. It also involves examining demographic, psychographic, and lifestyle issues among consumers, such as family status, age, interests, residence, education, and income level and determining shifts that are taking place in society relative to these areas.

Analyzing economic trends involves forecasting the condition and direction of the national and local economy. Although it is critical to remember that any kind of forecasting isn't an exact science and that no one can accurately predict the future, organizations need to plan for what may happen in the economy that can have a significant impact on operations. Interest rates, levels of inflation and unemployment, international exchange rates, fiscal and monetary policy, and levels of gross national product (GNP) and economic growth will impact what an organization can accomplish; these need to be factored in to any assessment of future direction of the firm.

The analysis of an organization's environment can be a complex undertaking. Some organizations operate in a highly complex environment where a large number of often interrelated factors impact the organization. Some organizations also operate in volatile environments where the elements that impact the organization are dynamic and often in a state of near-constant change.

Southwest Airlines and Its Environment

When it was founded in 1967, Southwest Airlines was an anomaly in its industry. As the original discount carrier, Southwest developed a successful strategy and business model which resonated with leisure/vacation travelers and distinguished it from its competitors by offering lower fares and utilizing short-haul flights, often to secondary than major cities. However, the competitive environment in which Southwest operates has changed dramatically over the past decade. Large "legacy" carriers, such as United, Delta, Northwest, Continental, US Airways, and American, have filed for bankruptcy and emerged with new cost structures which allow them to compete more effectively with Southwest. Subsequent to these filings, the six large carriers have entered into merger agreements together, providing greater operating economies of scale and more far-reaching, seamless, global transportation networks, while Southwest has remained a domestic carrier. In addition, Southwest's business model and strategy have been successfully copied by other low-cost carriers, such as JetBlue and Spirit. Southwest no longer enjoys the significantly lower cost structure than those of the legacy carriers or the distinctive strategy of being the only low-cost operator. The dramatic change in its competitive environment mandates that Southwest re-examine its strategy.[17]

III: Organization Self-Assessment

Once an organization has scanned and assessed its external environment and identified any threats and opportunities, it then turns to the third stage of strategic management: assessing the internal environment of the organization. In this stage, the key outcome is for decision makers to identify the organization's primary strengths and weaknesses and find ways to capitalize on the strengths and improve or minimize the weaknesses, as espoused by the RBV of strategic management. This requires the organization to examine both its resources and its internal management systems as indicated in Exhibit 3.1.

Resources

Financial resources can significantly affect an organization's competitive advantage. An organization that has the ability to generate internal funds and/or borrow significant sums is able to convert these funds into other assets. Virtually all components of an organization's business can be purchased, so the presence or absence of financial resources can have a significant impact on an organization's performance.

Physical resources include the actual equipment and machinery owned or leased as well as the location of the business and its proximity to customers, labor, raw materials, and transportation. Physical location is clearly a more important resource in some industries than others. A large manufacturing facility has far different choices and considerations with its physical resources than does a small electronic-commerce business.

HR includes not only the sum of technical knowledge of employees but also their personal traits, including commitment, loyalty, judgment, and motivation. An organization is only as strong or as weak as its employees, and the skills, backgrounds, and motivation these employees bring to their jobs will therefore be a key factor in the organization's overall performance. The organization also needs to consider the kinds of obligations it has to employees in the form of contracts or agreements to continue to employ them and the extent that it wishes to enter into such agreements in the future.

Technological resources include the processes by which the organization produces its goods and services. The technology used by an organization can be a major influence on its cost structures and measures of efficiency. A large number of organizations leverage this resource to their advantage by obtaining patents, trademarks, or copyrights. The extent to which an organization is able to safeguard its production processes can be a tremendous resource.

Capital resources include all other items of value, including brand names, reputations with customers, relationships with key constituents in the environment, and goodwill. Many items that can be grouped here are intangibles that do not show up on an organization's financial statements. It has been argued that the more unobservable or intangible a resource is, the more sustainable an advantage it might supply.[18]

Management Systems

In assessing culture, an organization needs to understand the core values and philosophies that guide its day-to-day activities. Many aspects of culture are covert and not clearly articulated but are rather assumptions that individuals in the organization make about the company. As part of the strategic planning process, it is critical that elements of culture be identified and that an understanding be achieved about how these elements of culture influence behavior and impact overall performance.

No standard type of organization structure or way to draw up an organization chart exists. However, certain types of structural configurations may be more suited to certain types of conditions than others.[19] Organization structure has a significant impact on how work is carried out, how groups and departments interact with each other, and where accountability for performance lies. Certain types of structures are also most conducive to certain strategic objectives. Essentially, an organization's structure can act as a catalyst for achieving certain strategic objectives or as an impediment to performance.

Assessing power dynamics and politics allows an organization to see who *really* controls what happens in an organization. Power is not necessarily related to hierarchical position; those in low-level positions can often obtain significant amounts of power and influence the behaviors and activities of others in organizations. Politics is a process by which people utilize the power they have in order to influence outcomes in a manner that they desire. How power and politics are utilized in an organization can allow it to achieve its objectives or be self-serving obstacles to success.

Decision making processes can be a competitive advantage to an organization or a weight that inhibits timely, effective action. In assessing decision making, one needs to look at whether decisions are made by individuals or groups; who gets involved in decision making; how information is collected, distributed, and made available to which individuals in the organization; how long it takes for decisions to be made; and the information criteria that are employed in reaching decisions. These assessments can allow the organization to see whether its decision making processes promote or inhibit effective performance as defined by the organization's strategic objectives.

An examination of the organization's past strategy and performance is critical to understanding its internal environment. By looking at past strategic initiatives and measuring the organization's success in meeting them, an organization can attempt to determine how and why it was or was not successful in the past, re-examine the processes that facilitated or hindered its success, and take action that attempts to capitalize on its successes and remedy its shortcomings.

Finally, it is critical to examine the organization's work systems. Work systems involve the design of jobs and allocation of responsibilities to assist an organization in meeting its objectives. Considerations that need to be addressed include the "fit" between job requirements and employee skills and the extent to which changes in how work is done can be met by either providing current employees with further training or seeking applicants from outside the organization. The organization needs to ensure that it has designed work systems in an optimal manner to allow it to pursue its current and future objectives.

Best Buy's Turnaround Strategy

In early 2012, retailer Best Buy found itself at a critical juncture with its stock price having declined by 50% over the previous five years. With the 2009 failure of its one-time rival Circuit City in the big box consumer retail market and the 2012 failure of Borders Books, senior executive at Best Buy realized that a change was needed in how it conducted its business. Best Buy's traditional strategy, large megastores, at up to 58,000 square feet, stocked with deep and wide selections of discounted movies and music discs lured customers into stores who then shopped for (and purchased) higher-priced, higher-margin items such as flat-screen televisions and stereo equipment.

Four significant threats faced Best Buy as it attempted to stay in business. The first is showrooming, whereby customers browse and see merchandise in Best Buy stores then purchase the merchandise elsewhere, online. The second was deep discounting being done by online retailers who didn't have to assume the costs of running physical locations and were able to sell to customers without having to collect sales tax. The third was the retail operations of consumer electronics titan Apple, which contrasted to Best Buy, by offering an experience that provided a highly trained, technologically savvy sales force in an environment that encourages customers to browse and use Apple products. Finally, there was little incentive to build relationships with customers, encouraging loyalty and repeat business.

Best Buy's turnaround strategy involved a response to each of these four challenges. In response to showrooming, Best Buy plans to increase the training and customer service skills of its sales force and offer incentives to close sales while customers browse. In response to deep discounting, Best Buy plans to close 50 stores, lay off 400 corporate staff and reduce costs by $800 million, allowing it to pass these savings on to consumers. In response to Apple, Best Buy plans to remodel its existing stores and offer a broader array of the most in-demand products, such as tablet computer and smart phones, de-emphasizing the larger bulky electronics and appliances. In response to its customers, Best Buy plans to expand its existing loyalty program with free shipping and a 60-day price match guarantee.[20]

IV: Establishing Goals and Objectives

Once the organization has established and articulated its mission, assessed its external environment, and identified internal resources and management systems that affect its performance, it is then ready to establish its goals and objectives for the next time period. Goals should be specific and measurable; in fact, at the same time they are established, decision makers should also identify *how* performance toward these goals will be measured and evaluated. In the planning process, measurement of goals is often overlooked. It serves little purpose to set goals and subsequently have no means to measure performance toward them.

Goals also need to be flexible. Because the whole process of setting goals involves dealing with the future and anticipating what might or might not happen, realistic goals should *not* be "carved in stone." What will actually happen in the external environment may likely be different from that which was assumed or anticipated when the goals were set. To maintain goals that were set under assumed conditions that have not materialized is unrealistic and impractical. Goals can be adjusted upward as well as downward in response to how events in the environment have unfolded. For this reason, some organizations, particularly those that operate in highly volatile environments, rely more on a strategic vision for the organization over the longer term. Visions are generally less detailed and formal than strategic plans but can still guide managers at all levels in their day-to-day decision making.

V: Setting Strategy

Once goals have been defined, an organization is then ready to determine its strategy. Strategy, very simply, is *how* the organization intends to achieve its goals. The means it will use, the courses of action it will take, and how it will generally operate and compete constitute the organization's strategy. The close involvement of the HR function through all stages of strategic management is essential for the success of both planning and implementation efforts. The value of and unique contributions which the HR function makes to strategic decision is outlined in Reading 3.2, "Bringing Human Resources Back into Strategic Planning."

The strategic choices an organization makes then need to be incorporated into a general HR strategy, which will be discussed in subsequent chapters. Ideally, this HR strategy will serve as a framework by which the organization can develop a consistent and aligned set of practices, policies, and programs that will allow employees to achieve the organization's objectives. Ideally, HR strategy will serve to ensure a "fit" between corporate strategy and individual HR programs and policies. It is important to remember that there is no one "model" way to manage HR strategically because every organization is different. One organization should not necessarily copy the management systems of another organization—even a successful organization that operates in the same industry. Every organization is unique, and any "best practices" that are considered or even adopted should be evaluated within the context of the specific organization in which they are being implemented.

First Tennessee National Corp.

Eyebrows were raised when First Tennessee National, a bank holding company and financial service organization, hired an executive who had a background in finance to head its HR function. HR was given the directive to not only maximize financial performance but to also demonstrate to shareholders the value-added benefits of HR programs and policies. This decision resulted in a strategic partnership between HR and finance that has greatly aided the profitability of First Tennessee. Studies were undertaken that aligned the organization's reward system with business strategy. Several years of data were mined that related HR activities to employee performance, retention, market share, profitability, customer value, and loyalty. Relationships between tenure, retention, and team performance were established. As a result, more visible career paths for high-potential and high-performing employees were established to aid in retention and, ultimately, profitability.[21]

Corporate Strategies

Different types of organization strategies require different types of HR programs. In essence, there are three different generic organization strategies,[22] and each would require a significantly different approach to managing people.

The first strategy is growth. Growth can allow an organization to reap the benefits of economies of scale, to enhance its position in the industry vis-à-vis its competitors, and to provide more opportunities for professional development and advancement to its employees. Growth can be pursued internally or externally. Growth can be achieved internally by further penetrating existing markets, developing new markets, or developing new products or services to sell in existing and/or new markets. Chief strategic HR issues associated with a growth strategy involve adequate planning to ensure that new employees are hired and trained in a timely manner to handle market demand, alerting current employees about promotion and development opportunities, and ensuring that quality and performance standards are maintained during periods of rapid growth.

External growth comes from acquiring other organizations. This is commonly done with competitors or with other organizations that might supply raw materials or be part of the organization's distribution chain (called *vertical integration*). There are two key strategic HR issues associated with external growth. The first involves merging dissimilar HR systems from different organizations. It is probable that two different systems existed for staffing, compensation, performance management, and employee relations, and the appropriate new system may or may not be one of the previous systems or even a hybrid of such. The process may involve starting from scratch and establishing an entirely new HR strategy for the "new" organization. The key factor to be considered here is whether the organization's overall strategy has changed as a result of the merger or acquisition and how this strategy changes.

The second strategic HR issue involves the fact that mergers and acquisitions usually result in the dismissal of employees. Critical decisions will need to be made concerning who is retained and who is let go, and a well-developed retention program should be developed that is cognizant of all legal obligations to employees that the organization might have.

The second organizational strategy involves stability or simply "maintaining the status quo." An organization pursuing this strategy may see very limited opportunities in its environment and decide to continue operations as is. The critical strategic HR issue for this type of organization would be the fact that an organization that is not growing will also be limited in the opportunities it is able to offer to its employees. There may be fewer opportunities for upward mobility, and employees may decide to leave and pursue opportunities with other employers. Hence, it is critical for the employer to identify key employees and develop a specific retention strategy to assist in keeping them.

The third type of overall strategy is a turnaround or retrenchment strategy. Here, the organization decides to downsize or streamline its operations in an attempt to fortify its basic competency. Often, a large organization will grow to the point where it becomes inefficient, particularly relative to smaller competitors, and finds itself unable to respond quickly to changes in the marketplace. Decision makers may see the environment as offering far more threats than opportunities and the organization's weaknesses as exceeding its strengths. Therefore, the organization tries to retool itself to capitalize on its existing strengths and remain solvent. In a retrenchment strategy, a key issue that needs to be addressed is cost-cutting; in many organizations, particularly service organizations, payroll is the chief expense. As with an acquisition strategy, the organization must be careful to adhere to all laws that regulate the employment relationship in selecting individuals to be terminated.

At the same time, the organization also needs to develop a strategy to manage the "survivors." This is, without question, one of the most neglected aspects of downsizing in organizations. It is often assumed by managers that those whose jobs are spared will be relieved that their employment is maintained and will consequently be grateful and return to their jobs motivated and productive. However, the opposite is often true. Many organizations announce the intention to lay off employees well in advance of the actual notification of individually affected employees. As a result, many of these "survivors" may have been working for several months in fear that their employment was in jeopardy. When their jobs are retained, they then find many friends and coworkers, with whom they may have worked alongside for many years, gone. They are often asked to assume additional job responsibilities of those who have departed, generally without any additional compensation. Furthermore, they may feel that during any subsequent layoffs, they may not be as "fortunate" and lose their jobs. Boosting the morale of these employees is a significant HR challenge. Many are demoralized, depressed, significantly stressed, and less loyal to their employer. However, the organization now depends on these employees for high performance more than it ever did. Consequently, these individuals will directly affect whether the organization stays in business.

Business Unit Strategies

There is a significant and growing trend for larger organizations to break their operations into smaller, more manageable, and more responsive units. Subdivisions are often established by product or service, customer group, or geographic region. In addition to the general, corporate-level strategies explained earlier, many individual business units or product, service, or customer divisions develop a more specific strategy to fit the circumstances of their marketplace and competitive environment. Consequently, there are three different business unit strategies that require correspondingly different strategic approaches to HR.[23]

The first of these business unit strategies is cost leadership. An organization pursuing this strategy attempts to increase its efficiency, cut costs, and pass the savings on to the consumer. It assumes that the price elasticity of demand for its products is high—or, in other words, that a small change in price will significantly affect customer demand. It also assumes that consumers are more price sensitive than brand loyal—or, in other words, they see the product or service of each organization as being nondistinguishable. Suave has successfully utilized this strategy in the shampoo market. Knowing that a large segment of consumers are price sensitive in shampoo purchase decisions has allowed Suave to compete quite successfully in a very competitive industry.

This type of organization would center its HR strategy around short-term, rather than long-term, performance measures that focused on *results*. Because efficiency is the norm, job assignments would be more specialized, but employees might be cross-trained during slack or downtime periods. Cost-cutting measures might also result in developing incentives for employees to leave the organization, particularly higher salaried managerial employees.

The second business unit strategy is differentiation. An organization pursuing this strategy distinguishes its product or service from those of competitors or, at least, attempts to make consumers *perceive* that there are differences. This allows the organization to demand a premium price over the price charged by competitors and attempts to gain the loyalty of consumers toward a particular brand. Nike has successfully utilized this strategy to gain tremendous loyalty among its customers. Whether there are actual or perceived performance benefits for athletes or some status identification with the brand name, many consumers will not wear any other brand of athletic footwear.

With this type of strategy, creativity and innovation in product design or service delivery are important in developing such a distinction. Consequently, this type of strategy would involve the organization offering incentives and compensation for creativity. Measures for performance might be more long term in establishing and building brand names. Staffing may focus more on external hiring and recruiting individuals who bring a fresh, unique, outside perspective to the organization rather than being bound by existing ways of doing things.

The third business unit strategy is a focus strategy. An organization pursuing this strategy realizes that different segments of the market have different needs and attempts to satisfy one particular group. For example, this might involve a restaurant that targets families, a clothing store that targets larger individuals, or a retail business that targets a particular ethnic group. Big 'N' Tall clothing stores for men and Dress Barn for women have successfully used this strategy to gain a loyal following among an often-neglected group of consumers.

The key strategic HR issue here is ensuring that employees are very aware of what makes the particular market unique. Training and ensuring customer satisfaction are critical factors in this strategy. An organization often attempts to hire employees who are part of the target market and therefore are able to empathize with customers. A large woman would probably be more comfortable dealing with a salesperson in a clothing store who was also large than one who was slim and svelte.

Another framework developed for examining business unit strategy depicts strategies by "logics of control" and identifies three separate strategies: an investment logic, an inducement logic, and an involvement logic.[24] An investment logic is adopted by organizations concerned with adaptability to changing market conditions. Consistent with the I/O model, it bases strategic decisions on external considerations and utilizes very loose control of day-to-day operations. A minimum of formal rules and procedures facilitates adaptability and change in response to the organization's environment. Jobs and responsibilities are broadly defined, and compensation programs encourage and reward initiative and creativity.

An inducement logic is adopted by organizations concerned largely with cost containment and efficiency. Day-to-day management decisions are governed by tight control mechanisms in the form of budgets and special reports. Job responsibilities are narrowly defined to promote maximum efficiency in operations. Loyalty and commitment are rewarded to discourage excessive amounts of turnover.

An involvement logic is adopted by organizations that have a dual strategy of cost containment and innovation. This type of organization tends to adopt management practices that have some consistency with both the investment and inducement logics, as illustrated in Exhibit 3.4. Some systems are consistent with those of the investment logic, while others are consistent with those of the inducement logic.

Innovation and Creativity as Components of Strategy

One theme that often cuts across many of the strategies noted above is innovation. Indeed, innovation is one of the drivers of growth and can even be a critical component of a turnaround or retrenchment strategy as the organization attempts to find new ways of conducting its business in order to survive. Cost leadership, differentiation, and focus are all strategies that can involve if not mandate innovation. Innovation is often referred to as a strategy itself, yet it tends to be more of a driver or means of carrying out one of the previously mentioned strategies. Indeed, Procter & Gamble, which is known for producing a large number of innovations in its various businesses, considers innovation to be a competency that it seeks and attempts to measure among its new employee recruits.[25] One leading management consultant has argued that in the future, "no company is going to be able to opt out of business innovation," given the pace of change in our world.[26]

EXHIBIT 3.4 Dyer and Holder's Typology of Strategies

Logics			
Goals	**Investment**	**Inducement**	**Involvement**
Contribution	High initiative and creativity; high performance expectations; some flexibility	Some initiative and creativity; very high performance standards; modest flexibility	Very high initiative and creativity; very high performance expectations; high flexibility; self-managed
Composition	Comfortable head count (core and buffer); high skill mix; moderate staff	Lean head count (core and buffer); low skill mix; minimal staff	Comfortable head count; protected core; high skill mix; minimal staff
Competence	High	Adequate	Very high
Commitment	High; identification with company	High; instrumental	Very high; strong identification with work, team, and company
Practices			
Staffing	Careful selection, extensive career development; some flexibility; minimal layoffs	Careful selection; few career options, use of temps; minimal layoffs	Very careful selection; some career development; extreme flexibility; minimal (or no) layoffs
Development	Extensive; continuous learning	Minimal	Extensive, continuous learning
Rewards	Tall structure; competitive, fixed, job-based, merit, many benefits	Flat structure; high, variable, piece rate; profit sharing; minimal benefits	Flat structure, high, partially variable, skill- and competency-based; gain sharing; flexible benefits
Work systems	Broad jobs; employee initiative; some groups	Narrow jobs; employee paced; individualized	Enriched jobs; self-managed work teams
Supervision	Extensive, supportive	Minimal, directive	Minimal, facilitative
Employee relations	Much communication; high voice; high due process; high employee assistance	Some communication; some voice; egalitarian	Open and extensive communication; high voice; some due process; egalitarian, some employee assistance
Labor relations	Nonissue	Union avoidance or conflict	Union avoidance and/or cooperation
Government relations	Overcompliance	Compliance	Compliance

Source: *Dyer and Holder (1988, pp. 1–21).*

Innovation at Whirlpool

Whirlpool Corp, the Michigan-based industry leader in the home appliance industry, has always embraced risk taking and innovation as a means of maintaining its dominant position in the marketplace. Employee teams—consisting of engineers, industrial designers, and marketers—conduct field research by going into homes and observing how consumers live and use their products. These observations have resulted in numerous product innovations with greatly reduced development time. Because innovation is a core competency for Whirlpool, all company employees are required to be trained and company-certified at an appropriate proficiency level in innovation. The level depends on the individual employee job. HR is centrally involved in developing training and proficiency measures for certification as well as developing a compensation program that reflects the organization's commitment to innovation. The organization maintains an intranet to view all ideas currently in the "idea pipeline" at any given moment so employees can contribute to development.[27]

A critical question related to innovation is how it can be promoted and nurtured within an organization. Clearly, an organization's culture and reward system can either encourage or discourage creativity and risk taking. One of the world's most successful creative organizations has developed a blueprint for encouraging creativity among its workers, which can be applied to any organization.

Creativity at Cirque du Soleil

Cirque du Soleil, the world-renowned troupe of performance artists, began in 1984 as a small group of street performers in Montreal. Using a circus tent provided by the Quebec government, the group began performing in Quebec and Ontario. In 1987, they began touring the United States and secured a permanent performance space in Las Vegas in 1992. Cirque du Soleil has produced more than a dozen full-length feature shows and currently employs more than 4,000 employees.[28] To entice creativity within the organization, the company employs seven different tools, which it calls "doors": (1) setting expectations that tap into the creativity that everyone has within them; (2) encouraging employees to trust their senses and intuitions; (3) seeking open-minded risk takers who feel no boundaries or constraints in their lives; (4) creating and maintaining a nurturing environment to encourage productivity, creativity, personal growth, and teamwork; (5) acknowledging constraints and using such constraints to fuel further resourcefulness and creativity; (6) enhancing risk tasking through acknowledging employee credibility gained through learning from mistakes; and (7) encouraging continuous feedback through the value of shared creativity.[29]

The Privatization Decision as Part of Strategy

Although not a strategy, one critical strategic business decision that many organizations are currently facing is the decision whether to remain a publicly held company or revert to private ownership. This question actually reverses the typical evolution of the majority of for-profit organizations. Starting out as privately held entrepreneurial endeavors, successful organizations usually reach a critical point in their development when they decide to provide an initial public offering (IPO) of stock for sale. At this point, the owners seek a significant infusion of outside ownership capital to fuel the continued growth of the organization. IPOs are often greatly anticipated and significant newsworthy events for both the financial community and the general public.

More recently, there has been a pronounced trend in reversing this process whereby publicly held and traded organizations are taken private. There are a number of reasons for this. In some instances, executives and board members tire of attempting to gain the support and goodwill of Wall Street analysts and feel that reports on the organization's stock have it undervalued. Second, the significantly increased costs of compliance associated with the Sarbanes-Oxley Act (discussed in Chapter 2) have lessened the desirability of maintaining public status. One estimate puts the cost of post Sarbanes-Oxley compliance at double that incurred prior to its passage and implementation, with the greatest costs increases incurred from director and officer liability insurance.[30]

Third, corporate governance and disclosure requirements for publicly traded companies can be significant and provide information that the organization would prefer to keep from its competitors. Finally, long-term strategic initiatives can be pursued more easily in a privately held organization that is not under pressure for short-term quarterly results sought by Wall Street and the investment community. This latter issue was a key factor in the decision to privatize Dole Food, Co., the world's largest producer of fruits and vegetables, in 2003.

HR plays a critical role in the success or failure of any decision to take a publicly traded company private. From the perspective of recruiting, prospective employees might be less attracted to an employer whose stock is not publically traded on a stock exchange because of lessened perceptions of the prestige of the organization. On the other hand, a privately held company may be less susceptible to a buyout or takeover, which could result in layoffs. Compensation issues can be affected dramatically in a decision to take an organization private. Without the performance-based incentives of stock grants or options, employers need to devise a way to allow employees to fully share in the financial success of the organization once it becomes privately held. This is particularly true when the employer previously offered those forms of compensation that were lost with the decision to go private. Many younger workers still dream of initially working for a small, private startup with a low salary but generous stock options that could make them wealthy in the event of an initial public offering. In addition, stock options are a relatively low-cost form of compensation, so any substitute form of performance-based compensation is likely to be more costly because of direct out-of-pocket expenses for employers. In attempting to address these issues in retaining top performers during a privatization decision, HR has at least as critical a role in the success of the initiative as any other department or function within the organization.

Conclusion

Many organizations have difficulty achieving their strategic objectives because employees don't really understand what these are or how their jobs contribute to overall organizational effectiveness. Less than 50 percent of employees understand their organization's strategy and the steps that are being taken toward fulfilling the organization's mission. Furthermore, only 35 percent see the connection between their job performance and their compensation. Effective strategic management requires not only that the organization's strategic objectives be communicated to employees but that there be a link between employee productivity—relative to these objectives—and the organization's reward system, as is discussed in Chapter 10. Organizations that communicate their objectives to employees and tie in rewards with objectives-driven performance have much higher shareholder rates of return than organizations that do not.[31]

A critical lesson to be learned is that the development of an organization's strategy is a process unique to every individual organization. The factors identified in Exhibit 3.1 can vary dramatically from one organization to another. Even organizations in the same industry can have radically different strategies.

The process of setting an organization's strategy should be the driving force in the establishment of all HR policies, programs, and practices. A strategic approach to HR provides an organization with three critical benefits: (1) It facilitates the development of a high-quality workforce through its focus on the types of people and skills needed; (2) it facilitates cost-effective utilization of labor, particularly in service industries where labor is generally the greatest cost; and (3) it facilitates planning and assessment of environmental uncertainty and adaptation to the forces that impact the organization, as is further discussed in Chapter 4.

Critical Thinking

1. Compare and contrast the premises and assumptions of the I/O and resource-based models of strategic planning. What benefits does each model offer that aid in strategic planning?
2. Identify the HR challenges associated with each of the three major corporate strategies.
3. Identify the HR challenges associated with each of the three major business unit strategies.
4. Critique the model presented in Exhibit 3.1. What benefits can be gained from this process? What shortcomings exist within the model?
5. Examine your current organization's process of strategic management. How effective is this process relative to the organization's performance? What factors contribute to its effectiveness or ineffectiveness?

Reading 3.1

6. Explain how the five elements of strategy portrayed in the reading relate to either the I/O or RBV traditional models of strategy.

Reading 3.2

7. What role does the HR function play with the strategic planning process? What unique value and perspectives does the HR function bring to strategic planning?

Exercises

1. Obtain a copy of a publicly held organization's most recent annual report. To what is its performance for the past year attributed? What strategy does it seem to be following and how integrated with this strategy do the operating units appear to be?
2. Select an organization of your choice and apply the five major elements of strategy from the Hambrick reading to explain its success, failure, or stagnation.
3. Apply the I/O and RBV models of planning to your college or university. What are the key factors in the environment that impact the school's performance? What are its key resources, and how can they best be deployed?
4. Select a particular industry (i.e., pharmaceuticals, shipping, auto, or manufacturing) and identify at least three major competitors in that industry. Visit their Web sites and identify key strategic issues within the industry as well as key strategic issues for the individual firms.

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READING 3.1

Are You Sure You Have a Strategy?

Donald C. Hambrick and James W. Fredrickson

Executive Overview

After more than 30 years of hard thinking about strategy, consultants and scholars have provided an abundance of frameworks for analyzing strategic situations. Missing, however, has been any guidance as to what the product of these tools should be—or what actually constitutes a strategy. Strategy has become a catchall term used to mean whatever one wants it to mean. Executives now talk about their "service strategy," their "branding strategy," their "acquisition strategy," or whatever kind of strategy that is on their mind at a particular moment. But strategists—whether they are CEOs of established firms, division presidents, or entrepreneurs—must have a strategy, an integrated, overarching concept of how the business will achieve its objectives. If a business must have a single, unified strategy, then it must necessarily have parts. What are those parts? We present a framework for strategy design, arguing that a strategy has five elements, providing answers to five questions—arenas: where will we be active? vehicles: how will we get there? differentiators: how will we win in the marketplace? staging: what will be our speed and sequence of moves? economic logic: how will we obtain our returns? Our article develops and illustrates these domains of choice, particularly emphasizing how essential it is that they form a unified whole.

Consider these statements of strategy drawn from actual documents and announcements of several companies:

> *"Our strategy is to be the low-cost provider."*
>
> *"We're pursuing a global strategy."*
>
> *"The company's strategy is to integrate a set of regional acquisitions."*
>
> *"Our strategy is to provide unrivaled customer service."*
>
> *"Our strategic intent is to always be the first-mover."*
>
> *"Our strategy is to move from defense to industrial applications."*

What do these grand declarations have in common? Only that none of them is a strategy. They are strategic threads, mere elements of strategies. But they are no more strategies than Dell Computer's strategy can be summed up as selling direct to customers, or than Hannibal's strategy was to use elephants to cross the Alps. And their use reflects an increasingly common syndrome—the catchall fragmentation of strategy.

After more than 30 years of hard thinking about strategy, consultants and scholars have provided executives with an abundance of frameworks for analyzing strategic situations. We now have five-forces analysis, core competencies, hypercompetition, the resource-based view of the firm, value chains, and a host of other helpful, often powerful, analytic tools.[1] Missing, however, has been any guidance as to what the product of these tools should be—or what actually constitutes a strategy. Indeed, the use of specific strategic tools tends to draw the strategist toward narrow, piecemeal conceptions of strategy that match the narrow scope of the tools themselves. For example, strategists who are drawn to Porter's five-forces analysis tend to think of strategy as a matter of selecting industries and segments within them. Executives who dwell on "co-opetition" or other game-theoretic frameworks see their world as a set of choices about dealing with adversaries and allies.

This problem of strategic fragmentation has worsened in recent years, as narrowly specialized academics and consultants have started plying their tools in the name of strategy. But strategy is not pricing. It is not capacity decisions. It is not setting R&D budgets. These are pieces of strategies, and they cannot be decided—or even considered—in isolation.

Imagine an aspiring painter who has been taught that colors and hues determine the beauty of a picture. But what can really be done with such advice? After all, magnificent pictures require far more than choosing colors: attention to shapes and figures, brush technique, and finishing processes. Most importantly, great paintings depend on artful combinations of *all* these elements. Some combinations are classic, tried-and-true; some are inventive and fresh; and many combinations—even for avant-garde art—spell trouble.

Strategy has become a catchall term used to mean whatever one wants it to mean. Business magazines now have regular sections devoted to strategy, typically discussing how featured firms are dealing with distinct issues, such as customer service, joint ventures, branding, or e-commerce. In turn, executives talk about their "service strategy," their "joint venture strategy," their "branding strategy," or whatever kind of strategy is on their minds at a particular moment.

Executives then communicate these strategic threads to their organizations in the mistaken belief that doing so will help managers make tough choices. But how does knowing that their firm is pursuing an "acquisition strategy" or a "first-mover strategy" help the vast majority of managers do their jobs or set priorities? How helpful is it to have new initiatives announced periodically with the word strategy tacked on? When executives call everything strategy, and end up with a collection of strategies, they create confusion and undermine their own credibility. They especially reveal that they don't really have an integrated conception of the business.

Many readers of works on the topic know that strategy is derived from the Greek *strategos,* or "the art of the general." But few have thought much about this important origin. For example, what is special about the general's job, compared with that of a field commander? The general is responsible for multiple units on multiple fronts and multiple battles over time. The general's challenge—and the value-added of generalship—is in orchestration and comprehensiveness. Great generals think about the whole. They have a strategy; it has pieces, or elements, but they form a coherent whole, Business generals, whether they are CEOs of established firms, division presidents, or entrepreneurs, must also have a strategy—a central, integrated, externally oriented concept of how the business will achieve its objectives. Without a strategy, time and resources are easily wasted on piecemeal, disparate activities; mid-level managers will fill the void with their own, often parochial, interpretations of what the business should be doing; and the result will be a potpourri of disjointed, feeble initiatives.

Examples abound of firms that have suffered because they lacked a coherent strategy. Once a towering force in retailing, Sears spent 10 sad years vacillating between an emphasis on hard goods and soft goods, venturing in and out of ill-chosen businesses, failing to differentiate itself in any of them, and never building a compelling economic logic. Similarly, the once-unassailable Xerox is engaged in an attempt to revive itself, amid criticism from its own executives that the company lacks a strategy. Says one: "I hear about asset sales, about refinancing, but I don't hear anyone saying convincingly, 'Here is your future.'"[2]

A strategy consists of an integrated set of choices, but it isn't a catchall for every important choice an executive faces. As Figure 1 portrays, the company's mission and objectives, for example, stand apart from, and guide, strategy. Thus we would not speak of the commitment of the *New York Times* to be America's newspaper of record as part of its strategy. GE's objective of being number one or number two in all its markets drives its strategy, but is not strategy itself. Nor would an objective of reaching a particular revenue or earnings target be part of a strategy.

Similarly, because strategy addresses how the business intends to engage its environment, choices about internal organizational arrangements are not part of strategy. So we should not speak of compensation policies, information systems, or training programs as being strategy. These are critically important choices, which should reinforce and support strategy; but they do not make up the strategy itself.[3] If everything important is thrown into the strategy bucket, then this essential concept quickly comes to mean nothing.

We do not mean to portray strategy development as a simple, linear process. Figure 1 leaves out feedback arrows and other indications that great strategists are iterative, loop thinkers.[4] The key is not in following a sequential process, but rather in achieving a robust, reinforced consistency among the elements of the strategy itself.

The Elements of Strategy

If a business must have a strategy, then the strategy must necessarily have parts. What are those parts? As Figure 2 portrays, a strategy has five elements, providing answers to five questions:

- Arenas: where will we be active?
- Vehicles: how will we get there?
- Differentiators: how will we win in the marketplace?
- Staging: what will be our speed and sequence of moves?
- Economic logic: how will we obtain our returns?

This article develops and illustrates these domains of choice, emphasizing how essential it is that they form a unified whole. Where others focus on the inputs to strategic thinking (the top box in Figure 1), we focus on the output—the composition and design of the strategy itself.

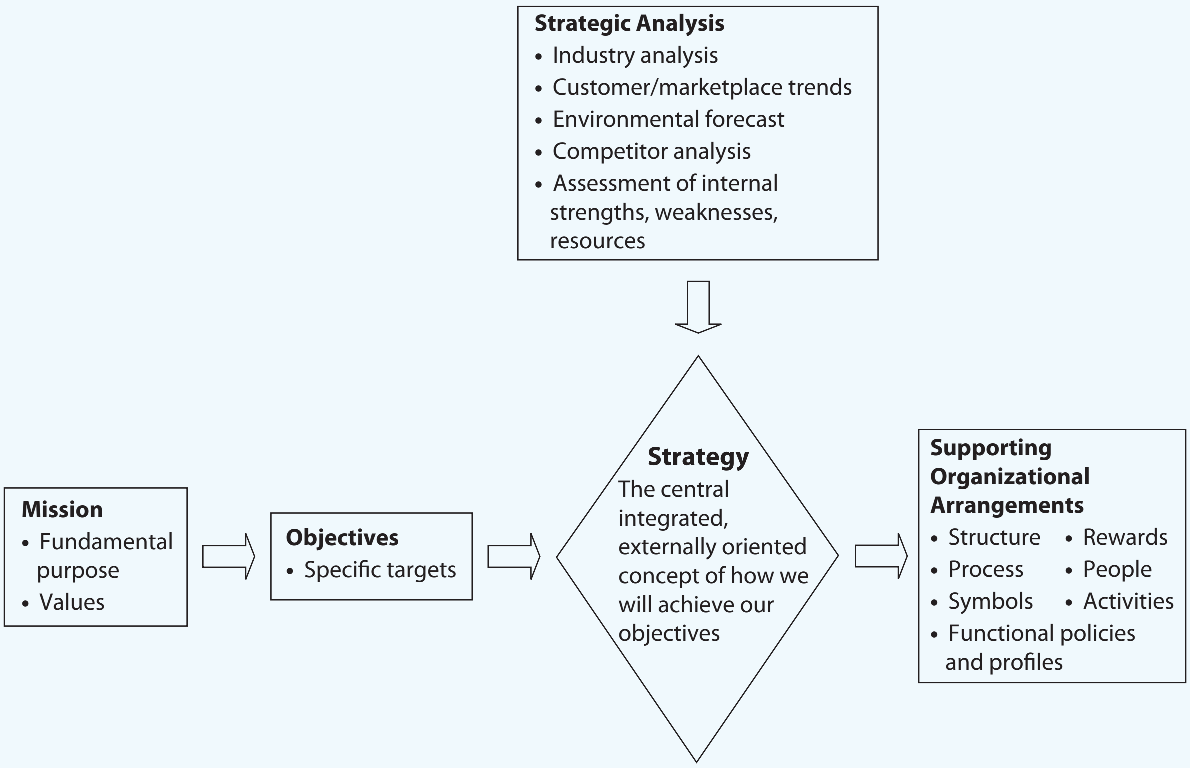
Arenas

The most fundamental choices strategists make are those of where, or in what arenas, the business will be active. This is akin to the question Peter Drucker posed decades ago: "What business will we be in?"[5] The answer, however, should not be one of broad generalities. For instance, "We will be the leader in information technology consulting" is more a vision or objective than part of a strategy. In articulating arenas, it is important to be as specific as possible about the product categories, market segments, geographic areas, and core technologies, as well as the value-adding stages (e.g., product design, manufacturing, selling, servicing, distribution) the business intends to take on.

For example, as a result of an in-depth analysis, a biotechnology company specified its arenas: the company intended to use T-cell receptor technology to develop both

FIGURE 1

Putting Strategy in Its Place



diagnostic and therapeutic products for battling a certain class of cancers; it chose to keep control of all research and product development activity, but to outsource manufacturing and a major part of the clinical testing process required for regulatory approvals. The company targeted the U.S. and major European markets as its geographic scope. The company's chosen arenas were highly specific, with products and markets even targeted by name. In other instances, especially in businesses with a wider array of products, market segments, or geographic scope, the strategy may instead reasonably specify the classes of, or criteria for, selected arenas—e.g., women's high-end fashion accessories, or countries with per-capita GDP over $5,000. But in all cases, the challenge is to be as specific as possible.

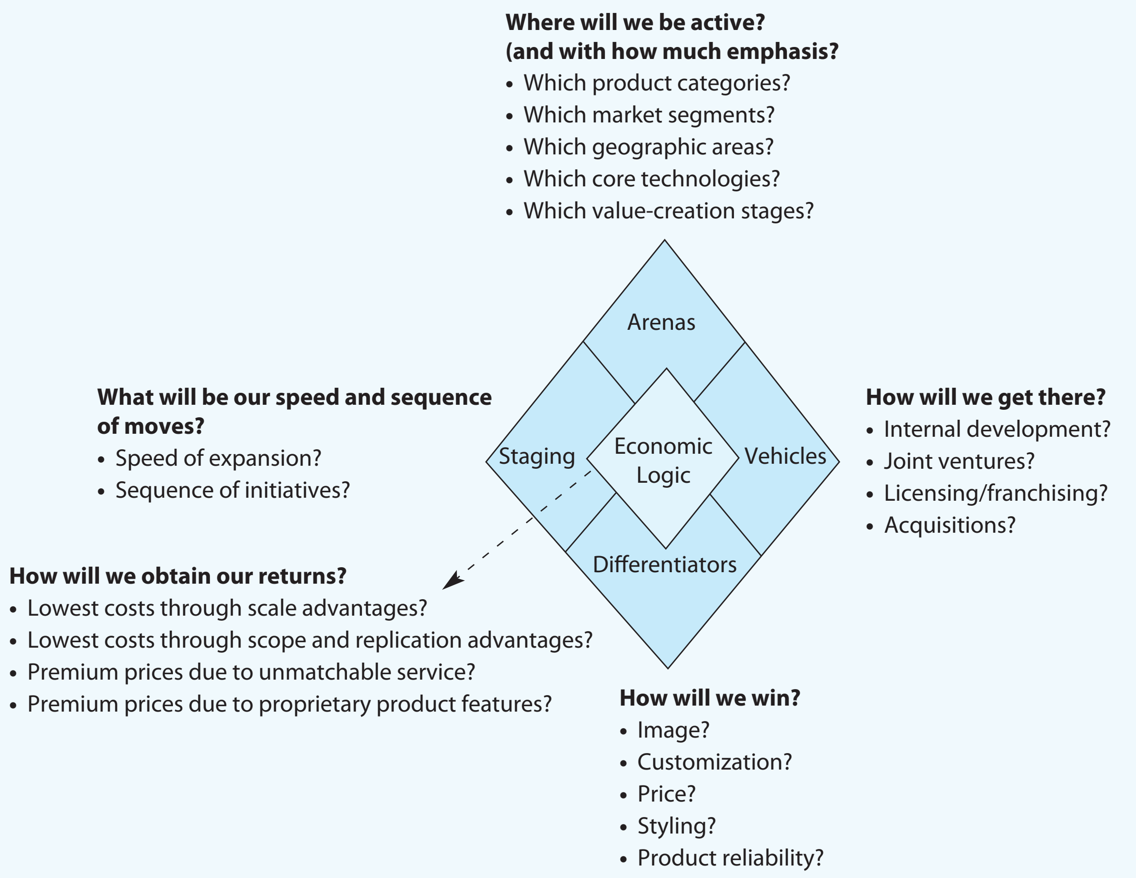
In choosing arenas, the strategist needs to indicate not only where the business will be active, but also how much emphasis will be placed on each. Some market segments, for instance, might be identified as centrally important, while others are deemed secondary. A strategy might reasonably be centered on one product category, with others—while necessary for defensive purposes or for offering customers a full line—being of distinctly less importance.

Vehicles

Beyond deciding on the arenas in which the business will be active, the strategist also needs to decide how to get there. Specifically, the means for attaining the needed presence in a particular product category, market segment, geographic area, or value-creation stage should be the result of deliberate strategic choice. If we have decided to expand our product range, are we going to accomplish that by relying on organic, internal product development, or are there other vehicles—such as joint ventures or acquisitions—that offer a better means for achieving our broadened scope? If we are committed to international expansion, what should be our primary modes, or vehicles—green-field startups, local acquisitions, licensing, or joint ventures? The executives of

FIGURE 2

The Five Major Elements of Strategy



the biotechnology company noted earlier decided to rely on joint ventures to achieve their new presence in Europe, while committing to a series of tactical acquisitions for adding certain therapeutic products to complement their existing line of diagnostic products.

The means by which arenas are entered matters greatly. Therefore, selection of vehicles should not be an afterthought or viewed as a mere implementation detail. A decision to enter new product categories is rife with uncertainty. But that uncertainty may vary immensely depending on whether the entry is attempted by licensing other companies' technologies, where perhaps the firm has prior experience, or by acquisitions, where the company is a novice. Failure to explicitly consider and articulate the intended expansion vehicles can result in the hoped-for entry's being seriously delayed, unnecessarily costly, or totally stalled.

There are steep learning curves associated with the use of alternative expansion modes. Research has found, for instance, that companies can develop highly advantageous, well-honed capabilities in making acquisitions or in managing joint ventures.[6] The company that uses various vehicles on an ad hoc or patchwork basis, without an overarching logic and programmatic approach, will be at a severe disadvantage compared with companies that have such coherence.

Differentiators

A strategy should specify not only where a firm will be active (arenas) and how it will get there (vehicles), but also how the firm will win in the marketplace—how it will get customers to come its way. In a competitive world, winning is the result of differentiators, and such edges don't just happen. Rather, they require executives to make upfront, conscious choices about which weapons will be assembled, honed, and deployed to beat competitors in the fight for customers, revenues, and profits. For example, Gillette uses its proprietary product and process technology to develop superior razor products, which the company further differentiates through a distinctive, aggressively advertised brand image. Goldman Sachs, the investment bank, provides customers unparalleled service by maintaining close relationships with client executives and coordinating the array of services it offers to each client. Southwest Airlines attracts and retains customers by offering the lowest possible fares and extraordinary on-time reliability.

Achieving a compelling marketplace advantage does not necessarily mean that the company has to be at the extreme on one differentiating dimension; rather, sometimes having the best combination of differentiators confers a tremendous marketplace advantage. This is the philosophy of Honda in automobiles. There are better cars than Hondas, and there are less expensive cars than Hondas; but many car buyers believe that there is no better value—quality for the price—than a Honda, a strategic position the company has worked hard to establish and reinforce.

Regardless of the intended differentiators—image, customization, price, product styling, after-sale services, or others—the critical issue for strategists is to make up-front, deliberate choices. Without that, two unfortunate outcomes loom. One is that, if top management doesn't attempt to create unique differentiation, none will occur. Again, differentiators don't just materialize; they are very hard to achieve. And firms without them lose.

The other negative outcome is that, without up-front, careful choices about differentiators, top management may seek to offer customers across-the-board superiority, trying simultaneously to outdistance competitors on too broad an array of differentiators—lower price, better service, superior styling, and so on. Such attempts are doomed, however, because of their inherent inconsistencies and extraordinary resource demands. In selecting differentiators, strategists should give explicit preference to those few forms of superiority that are mutually reinforcing (e.g., image and product styling), consistent with the firm's resources and capabilities, and, of course, highly valued in the arenas the company has targeted.

Staging

Choices of arenas, vehicles, and differentiators constitute what might be called the substance of a strategy—what executives plan to do. But this substance cries out for decisions on a fourth element—staging, or the speed and sequence of major moves to take in order to heighten the likelihood of success.[7] Most strategies do not call for equal, balanced initiatives on all fronts at all times. Instead, usually some initiatives must come first, followed only then by others, and then still others. In erecting a great building, foundations must be laid, followed by walls, and only then the roof.

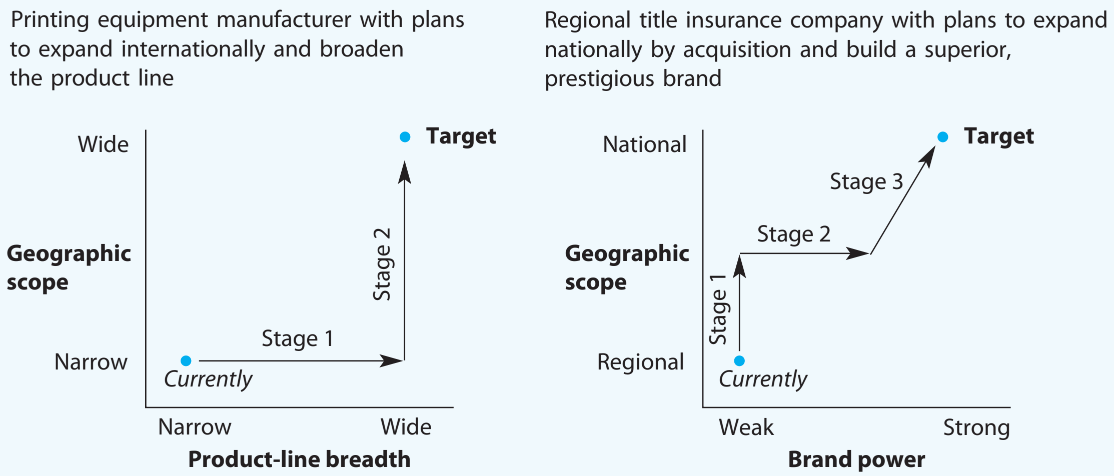
Of course, in business strategy there is no universally superior sequence. Rather the strategist's judgment is required. Consider a printing equipment company that committed itself to broadening its product line and expanding internationally. The executives decided that the new products should be added first, in stage one, because the elite sales agents they planned to use for international expansion would not be able or willing to represent a narrow product line effectively. Even though the executives were anxious to expand geographically, if they had tried to do so without the more complete line in place, they would have wasted a great deal of time and money. The left half of Figure 3 shows their two-stage logic.

The executives of a regional title insurance company, as part of their new strategy, were committed to becoming national in scope through a series of acquisitions. For their differentiators, they planned to establish a prestigious brand backed by aggressive advertising and superb customer service. But the executives faced a chicken-and-egg problem: they couldn't make the acquisitions on favorable terms without the brand image in place; but with only their current limited geographic scope, they couldn't afford the quantity or quality of advertising needed to establish the brand. They decided on a three-stage plan (shown in the right half of Figure 3): 1) make selected acquisitions in adjacent regions, hence becoming a super-regional in size and scale; 2) invest moderately heavily in advertising and brand-building; 3) make acquisitions in additional regions on more favorable terms (because of the enhanced brand, a record of growth, and, they hoped, an appreciated stock price) while simultaneously continuing to push further in building the brand.

Decisions about staging can be driven by a number of factors. One, of course, is resources. Funding and staffing every envisioned initiative, at the needed levels, is generally not possible at the outset of a new strategic campaign. Urgency is a second factor affecting staging; some elements of a strategy may face brief windows of opportunity, requiring that they be pursued first and aggressively. A third factor is the achievement of credibility. Attaining certain thresholds—in specific arenas, differentiators, or vehicles—can be critically valuable for attracting resources and stakeholders that are needed for other parts of the strategy. A fourth factor is the pursuit of early wins. It may be far wiser to successfully tackle a part of the strategy that is relatively doable before attempting more challenging or unfamiliar initiatives. These are only some of the factors that might go into decisions about the speed and sequence of strategic initiatives. However, since the concept of staging has gone largely unexplored in the strategy literature, it is often given far too little attention by strategists themselves.

FIGURE 3

Examples of Strategic Staging



Economic Logic

At the heart of a business strategy must be a clear idea of how profits will be generated—not just some profits, but profits above the firm's cost of capital.[8] It is not enough to vaguely count on having revenues that are above costs. Unless there's a compelling basis for it, customers and competitors won't let that happen. And it's not enough to generate a long list of reasons why customers will be eager to pay high prices for your products, along with a long list of reasons why your costs will be lower than your competitors'. That's a sure-fire route to strategic schizophrenia and mediocrity.

The most successful strategies have a central economic logic that serves as the fulcrum for profit creation. In some cases, the economic key may be to obtain premium prices by offering customers a difficult-to-match product. For instance, the *New York Times* is able to charge readers a very high price (and strike highly favorable licensing arrangements with on-line information distributors) because of its exceptional journalistic quality; in addition, the *Times* is able to charge advertisers high prices because it delivers a large number of dedicated, affluent readers. ARAMARK, the highly profitable international food-service company, is able to obtain premium prices from corporate and institutional clients by offering a level of customized service and responsiveness that competitors cannot match. The company seeks out only those clients that want superior food service and are willing to pay for it. For example, once domestic airlines became less interested in distinguishing themselves through their in-flight meals, ARAMARK dropped that segment.

In some instances, the economic logic might reside on the cost side of the profit equation. ARAMARK—adding to its pricing leverage—uses its huge scale of operations and presence in multiple market segments (business, educational, healthcare, and correctional-system food service) to achieve a sizeable cost advantage in food purchases—an advantage that competitors cannot duplicate. 6KN Sinter Metals, which has grown by acquisition to become the world's major powdered-metals company, benefits greatly from its scale in obtaining raw materials and in exploiting, in country after country, its leading-edge capabilities in metal-forming processes.

In these examples the economic logics are not fleeting or transitory. They are rooted in the firms' fundamental and relatively enduring capabilities. ARAMARK and the *New York Times* can charge premium prices because their offerings are superior in the eyes of their targeted customers, customers highly value that superiority, and competitors can't readily imitate the offerings. ARAMARK and 6KN Sinter Metals have lower costs than their competitors because of systemic advantages of scale, experience, and know-how sharing. Granted, these leads may not last forever or be completely unassailable, but the economic logics that are at work at these companies account for their abilities to deliver strong year-in, year-out profits.

The Imperative of Strategic Comprehensiveness

By this point, it should be clear why a strategy needs to encompass all five elements—arenas, vehicles, differentiators, staging, and economic logic. First, all five are important enough to require intentionality. Surprisingly, most strategic plans emphasize one or two of the elements without giving any consideration to the others. Yet to develop a strategy without attention to all five leaves critical omissions.

Second, the five elements call not only for choice, but also for preparation and investment. All five require certain capabilities that cannot be generated spontaneously.

Third, all five elements must align with and support each other. When executives and academics think about alignment, they typically have in mind that internal organizational arrangements need to align with strategy (in tribute to the maxim that "structure follows strategy"[9]), but few pay much attention to the consistencies required among the elements of the strategy itself.

Finally, it is only after the specification of all five strategic elements that the strategist is in the best position to turn to designing all the other supporting activities—functional policies, organizational arrangements, operating programs, and processes—that are needed to reinforce the strategy. The five elements of the strategy diamond can be considered the hub or central nodes for designing a comprehensive, integrated activity system.[10]

Comprehensive Strategies at IKEA and Brake Products International

IKEA: Revolutionizing an Industry

So far we have identified and discussed the five elements that make up a strategy and form our strategy diamond. But a strategy is more than simply choices on these five fronts: it is an integrated, mutually reinforcing set of choices—choices that form a coherent whole. To illustrate the importance of this coherence we will now discuss two examples of fully elaborated strategy diamonds. As a first illustration, consider the strategic intent of IKEA, the remarkably successful global furniture retailer. IKEA's strategy over the past 25 years has been highly coherent, with all five elements reinforcing each other.

The arenas in which IKEA operates are well defined: the company sells relatively inexpensive, contemporary, Scandinavian-style furniture and home furnishings. IKEA's target market is young, primarily white-collar customers. The geographic scope is worldwide, or at least all countries where socioeconomic and infrastructure conditions support the concept. IKEA is not only a retailer, but also maintains control of product design to ensure the integrity of its unique image and to accumulate unrivaled expertise in designing for efficient manufacturing. The company, however, does not manufacture, relying instead on a host of long-term suppliers who ensure efficient, geographically dispersed production.

As its primary vehicle for getting to its chosen arenas, IKEA engages in organic expansion, building its own wholly owned stores. IKEA has chosen not to make acquisitions of existing retailers, and it engages in very few joint ventures. This reflects top management's belief that the company needs to fully control local execution of its highly innovative retailing concept.

IKEA attracts customers and beats competitors by offering several important differentiators. First, its products are of very reliable quality but are low in price (generally 20 to 30 percent below the competition for comparable quality goods). Second, in contrast to the stressful, intimidating feeling that shoppers often encounter in conventional furniture stores, IKEA customers are treated to a fun, non-threatening experience, where they are allowed to wander through a visually exciting store with only the help they request. And third, the company strives to make customer fulfillment immediate. Specifically, IKEA carries an extensive inventory at each store, which allows a customer to take the item home or have it delivered the same day. In contrast, conventional furniture retailers show floor models, but then require a 6- to 10-week wait for the delivery of each special-order item.

As for staging, or IKEA's speed and sequence of moves, once management realized that its approach would work in a variety of countries and cultures, the company committed itself to rapid international expansion, but only one region at a time. In general, the company's approach has been to use its limited resources to establish an early foothold by opening a single store in each targeted country. Each such entry is supported with aggressive public relations and advertising, in order to lay claim to the radically new retailing concept in that market. Later, IKEA comes back into each country and fills in with more stores.

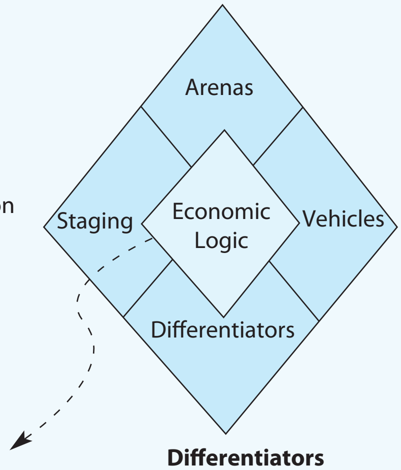
The economic logic of IKEA rests primarily on scale economies and efficiencies of replication. Although the company doesn't sell absolutely identical products in all its geographic markets, IKEA has enough standardization that it can take great advantage of being the world's largest furniture retailer. Its costs from long-term suppliers are exceedingly low, and made even lower by IKEA's proprietary, easy-to-manufacture product designs. In each region, IKEA has enough scale to achieve substantial distribution and promotional efficiencies. And each individual store is set up as a high-volume operation, allowing further economies in inventories, advertising, and staffing. IKEA's phased international expansion has allowed executives to benefit, in country after country, from what they have learned about site selection, store design, store openings, and ongoing operations. They are vigilant, astute learners, and they put that learning to great economic use.

Note how all of IKEA's actions (shown in Figure 4) fit together. For example, consider the strong alignment between its targeted arenas and its competitive differentiators. An emphasis on low price, fun, contemporary styling, and instant fulfillment is well suited to the company's focus on young, first-time furniture buyers. Or consider the logical

FIGURE 4

IKEA's Strategy

Arenas
- Inexpensive contemporary furniture
- Young, white-collar customers
- Worldwide



Staging
- Rapid international expansion, by region
- Early footholds in each country; fill in later

Vehicles
- Organic expansion
- Wholly owned stores

Economic Logic
- Economies of scale (global, regional, and individual-store scale)
- Efficiencies from replication

Differentiators
- Very reliable quality
- Low price
- Fun, nonthreatening shopping experience
- Instant fulfillment

fit between the company's differentiators and vehicles—providing a fun shopping experience and instant fulfillment requires very intricate local execution, which can be achieved far better through wholly owned stores than by using acquisitions, joint ventures, or franchises. These alignments, along with others, help account for IKEA's long string of years with double-digit sales growth, and current revenues of $8 billion.

The IKEA example allows us to illustrate the strategy diamond with a widely familiar business story. That example, however, is admittedly retrospective, looking backward to interpret the company's strategy according to the framework. But the real power and role of strategy, of course, is in looking forward. Based on a careful and complete analysis of a company's environment, marketplace, competitors, and internal capabilities, senior managers need to craft a strategic intent for their firm. The diamond is a useful framework for doing just that, as we will now illustrate with a business whose top executives set out to develop a new strategy that would allow them to break free from a spiral of mediocre profits and stagnant sales.

Brake Products International: Charting a New Direction

The strategy diamond proved very useful when it was applied by the new executive team of Brake Products International (BPI), a disguised manufacturer of components used in braking and suspension systems for passenger cars and light trucks. In recent years, BPI had struggled as the worldwide auto industry consolidated. Its reaction had been a combination of disparate, half-hearted diversification initiatives, alternating with across-the-board expense cuts. The net result, predictably, was not good, and a new management team was brought in to try to revive performance. As part of this turnaround effort, BPI's new executives developed a new strategic intent by making critical decisions for each of the five elements—arenas, vehicles, differentiators, staging, and economic logic. We will not attempt to convey the analysis that gave rise to their choices, but rather (as with the IKEA example) will use BPI to illustrate the articulation of a comprehensive strategy.

For their targeted arenas, BPI executives committed to expanding beyond their current market scope of North American and European car plants by adding Asia, where global carmakers were rapidly expanding. They considered widening their product range to include additional auto components, but concluded that their unique design and manufacturing expertise was limited to brake and suspension components. They did decide, however, that they should apply their advanced capability in antilock-braking and electronic traction-control systems to develop braking products for off-road vehicles, including construction and farm equipment. As an additional commitment, executives decided to add a new service, systems integration, that would involve bundling BPI products with other related components, from other manufacturers, that form a complete suspension system, and then providing the carmakers with easy-to-handle, preassembled systems modules. This initiative would allow the carmakers to reduce assembly costs significantly, as well as to deal with a single suspension-system supplier, with substantial logistics and inventory savings.

The management team identified three major vehicles for achieving BPI's presence in their selected arenas. First, they were committed to organic internal development of new generations of leading-edge braking systems, including those for off-road vehicles. To become the preferred suspension-system integrator for the major auto manufacturers, executives decided to enter into strategic alliances with the leading producers of other key suspension components. Finally, to serve carmakers that were expanding their operations in Asia, BPI planned to initiate equity joint ventures with brake companies in China, Korea, and Singapore. BPI would provide the technology and oversee the manufacturing of leading-edge, high-quality antilock brakes; the Asian partners would take the lead in marketing and government relations.

BPI's executives also committed to achieving and exploiting a small set of differentiators. The company was already a technology leader, particularly in antilock-braking systems and electronic traction-control systems. These proprietary technologies were seen as centrally important and would be further nurtured. Executives also believed they could establish a preeminent position as a systems integrator of entire suspension assemblies. However, achieving this advantage would require new types of manufacturing and logistics capabilities, as well as new skills in managing relationships with other component companies. This would include an extensive e-business capability that linked BPI with its suppliers and customers. And finally, as one of the few brakes/suspension companies with a manufacturing presence in North America and Europe—and now in Asia—BPI executives concluded that they had a potential advantage—what they referred to as "global reach"—that was well suited to the global consolidation of the automobile industry. If BPI did a better job of coordinating activities among its geographically dispersed operations, it could provide the one-stop, low-cost global purchasing that the industry giants increasingly sought.

BPI's executives approached decisions about staging very deliberately. They felt urgency on various fronts, but also realized that, after several years of lackluster performance, the firm lacked the resources and credibility to do everything all at once. As is often the case, decisions about staging were most important for those initiatives where the gaps between the status quo and the strategic intent were the greatest. For example, executives decided that, in order to provide a clear, early sign of continued commitment to the major global auto manufacturers, a critical first step was to establish the joint ventures with brake manufacturers in Asia. They felt just as much urgency to gain a first-mover advantage as a suspension-system integrator. Therefore, management committed to promptly establish alliances with a select group of manufacturers of other suspension components, and to experiment with one pilot customer. These two sets of initiatives constituted stage one of BPI's strategic intent. For stage two, the executives planned to launch the full versions of the systems-integration and global-reach concepts, complete with aggressive marketing. Also in this second stage, expansion into the off-road vehicle market would commence.

BPI's economic logic hinged on securing premium prices from its customers, by offering them at least three valuable, difficult-to-imitate benefits. First, BPI was the worldwide technology leader in braking systems; car companies would pay to get access to these products for their new high-end models. Second, BPI would allow global customers an economical single source for braking products; this would save customers considerable contract administration and quality-assurance costs—savings that they would be willing to share. And third, through its alliances with major suspension-component manufacturers, BPI would be able to deliver integrated-suspension-system kits to customers—again saving customers in purchasing costs, inventory costs, and even assembly costs, for which they would pay a premium.

BPI's turnaround was highly successful. The substance of the company's strategy (shown in Figure 5) was critically important in the turnaround, as was the concise strategy statement that was communicated throughout the firm. As the CEO stated:

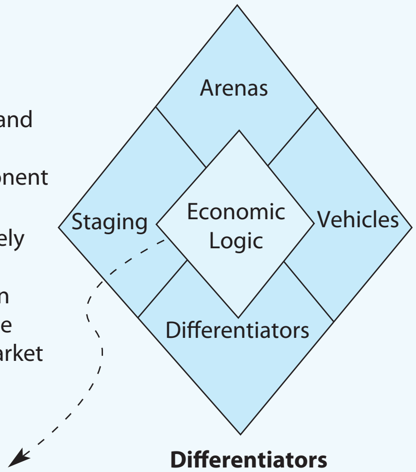
> *We've finally identified what we want to be, and what's important to us. Just as importantly, we've decided what we don't want to be, and have stopped wasting time and effort. Since we started talking about BPI in terms of arenas, vehicles, differentiators, staging, and economic logic, we have been able to get our top team on the same page. A whole host of decisions have logically fallen into place in support of our comprehensive strategic agenda,*

FIGURE 5

BPI's Strategy

Arenas
- North American, European, and Asian passenger-car and light-truck makers
- Brakes and suspension-system components
- Suspension-system integration
- Braking systems for off-road vehicles

Staging
- Stage 1: Asian JVs and alliances with suspension-component companies
- Stage 2: Aggressively design and market systems-integration offering; commence off-road vehicle market



Vehicles
- Internal development of new, leading-edge braking products
- Strategic alliances with suspension-component manufacturers
- Joint ventures with brake companies in Asia

Economic Logic
- Preferred supplier status and premium pricing, due to leading-edge technology
- Preferred supplier status and premium pricing, by providing customers global solutions
- Premium pricing by providing customers integrated kits

Differentiators
- ABS design technology
- Electronic traction control technology
- Systems integration capability
- E-business capability with suppliers and customers
- Global reach

Of Strategy, Better Strategy, and No Strategy

Our purpose in this article has been elemental—to identify what constitutes a strategy. This basic agenda is worthwhile because executives and scholars have lost track of what it means to engage in the art of the general. We particularly hope to counter the recent catchall fragmentation of the strategy concept, and to remind strategists that orchestrated holism is their charge.

But we do not want to be mistaken. We don't believe that it is sufficient to simply make these five sets of choices. No—a business needs not just a strategy, but a *sound* strategy. Some strategies are clearly far better than others. Fortunately, this is where the wealth of strategic-analysis tools that have been developed in the last 30 years becomes valuable. Such tools as industry analysis, technology cycles, value chains, and core competencies, among others, are very helpful for improving the soundness of strategies. When we compare these tools and extract their most powerful central messages, several key criteria emerge to help executives test the quality of a proposed strategy. These criteria are presented in Table 1.[11] We strongly encourage executives to apply these tests throughout the strategy-design process and especially when a proposed strategy emerges.

There might be those who wonder whether strategy isn't a concept of yesteryear, whose time has come and gone. In an era of rapid, discontinuous environmental shifts, isn't the company that attempts to specify its future just flirting with disaster? Isn't it better to be flexible, fast-on-the-feet, ready to grab opportunities when the right ones come along?

Some of the skepticism about strategy stems from basic misconceptions. First, a strategy need not be static: it can evolve and be adjusted on an ongoing basis. Unexpected opportunities need not be ignored because they are outside the strategy. Second, a strategy doesn't require a business to become rigid. Some of the best strategies for today's turbulent environment keep multiple options open and build in desirable flexibility—through alliances, outsourcing, leased assets, toehold investments in promising technologies, and numerous other means. A strategy can help to intentionally build in many forms of flexibility—if that's what is called for. Third, a strategy doesn't deal only with an unknowable, distant future. The appropriate lifespans of business strategies have become shorter in recent years. Strategy used to be equated with 5- or 10-year horizons, but today a horizon of two to three years is often more fitting. In any event, strategy does not deal as much with preordaining the future as it does with assessing current conditions and future likelihoods, then making the best decisions possible today.

Strategy is not primarily about planning. It is about intentional, informed, and integrated choices. The noted strategic thinkers Gary Hamel and C. K. Prahalad said: "[A company's] leadership cannot be planned for, but neither can it happen without a grand and well-considered aspiration."[12] We offer the strategy diamond as a way to craft and articulate a business aspiration.

Source: D. Hambrick and W. Fredrickson, "Are You Sure You Have a Strategy?" Academy of Management Executive*, 2005, Vol. 19, No. 4, © 2001, p. 51. Reprinted by permission.*

Table 1

Testing the Quality of Your Strategy

Key Evaluation Criteria

1. **Does your strategy fit with what's going on in the environment?**

   Is there healthy profit potential where you're headed? Does your strategy align with the key success factors of your chosen environment?

2. **Does your strategy exploit your key resources?**

   With your particular mix of resources, does this strategy give you a good head start on competitors? Can you pursue this strategy more economically than competitors?

3. **Will your envisioned differentiators be sustainable?**

   Will competitors have difficulty matching you? If not, does your strategy explicitly include a ceaseless regimen of innovation and opportunity creation?

4. **Are the elements of your strategy internally consistent?**

   Have you made choices of arenas, vehicles, differentiators, and staging, and economic logic? Do they all fit and mutually reinforce each other?

5. **Do you have enough resources to pursue this strategy?**

   Do you have the money, managerial time, and talent, and other capabilities to do all you envision? Are you sure you're not spreading your resources too thinly, only to be left with a collection of feeble positions?

6. **Is your strategy implementable?**

   Will your key constituencies allow you to pursue this strategy? Can your organization make it through the transition? Are you and your management team able and willing to lead the required changes?

Acknowledgments

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READING 3.2

Bringing Human Resources Back into Strategic Planning

Robert A. Simpkins

When was the last time that you can recall senior leadership in your organization asking for the HR department's help in creating an organization's strategic plan? For that matter, when was the last time that the HR organization even knew that a new or revised strategic plan was being created?

If your HR organization is like most others, informative consultation takes place only after the plan is constructed to ensure that HR will be able to provide the right number of people, in the right place, with the right training. At this point, the contribution of the HR department will be too little, too late—too little because you lack adequate information about why personnel with specific or generalized capabilities are required and too late to meet the requirements in the necessitated time frame. Unfortunately, this sequence of events has become commonplace in too many organizations. Why is this trend occurring, why does it need to be reversed, and what can HR executives do to make sure it is reversed in their organizations?

In today's increasingly fast-paced and competitive environment, a troubling mindset has begun to unfold among senior leadership. It doesn't matter whether we are focusing on private enterprise, not-for-profit, government, or military organizations; leaders are becoming, either by choice or through carelessness, more and more isolated from the daily operational realities of the very entities they are charged with guiding. There has never been a time like the present when those given the top responsibility in organizations actually know so little about what is happening operationally on a day-by-day basis in their own organizations.

There are two primary reasons for this challenging occurrence. First, if your leaders are developed from talent within the organization and internally promoted up the ranks, it is very likely that remarkable changes have occurred since they last performed the frontline functions themselves. In other words, when they performed the operational jobs, the world was a very different place. Technology and processes have undoubtedly changed many times, and the way that employees interact with the newer technologies has also changed. What customers value and why they prefer one organization's products or services over another organization's are also in constant shift. The competition's market position and capabilities probably changed frequently. And something in the general operational environment (global, regulatory, economic, psychological, and demographic issues, etc.) changed in a dynamic way every day. Most importantly, and something that is critical to all HR professionals, organizational associates' attitudes and opinions change more often than in the past as to whom they wish to work for and why they wish to perform a particular job.

The second reason for this senior-management disconnect occurs when leaders are brought in from outside the organization. The result is a deficiency of contextual understanding. They often lack an appreciation of what is actually taking place in the new organization and what it will take to move it toward renewed, improved, or sustained success. Don't get me wrong—organizations need an occasional infusion of new thinking from intelligent leaders who have a successful track record, albeit sometimes in very different organizations. Over and over again, however, organizations have paid huge sums of money to successful leaders who have achieved great results in other organizations, industries, or environments only to watch them become incapable of leading the new organization. This is most often due to their lack of operational familiarity and initial ignorance of the indigenous and deeply ingrained thought process behind problem solving in their new organization.

When these imported leaders realize their deficiencies, they frequently ask operational heads to provide them with archival *activity-based counts*. In other words, they want to know how many times something has been, or is being, done so they can benchmark it against some other more familiar organization's best practices, even when the bench-marked organization is in a completely different environment. The result is that these new leaders, in very short order, become overwhelmed with information when, in fact, what

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they really need is *performance-based measurements* that determine where the organization currently is and how fast it is moving toward a specific goal. More activity-based counting leads to more confusion. More confusion leads to more activity-based counting. In no time at all, the employees of the organization will find themselves spending a larger percentage of their time filling out count sheets than they do on the functional role for which they were hired. This is not an effective foundation for creating an actionable strategic plan.

It's time for HR, with its knowledge of which employees possess operational expertise, to take back the role as primary process managers to any strategic planning initiative. To put it in a more straightforward way, the HR department must become an organization's visibly recognized authority about the strategic-planning process and its experts in overcoming the obstacles that often prevent planning success. This does not mean the HR department should do the strategic planning for an organization; rather, it should be the conduit for subject-matter contribution and the linchpin that sustains and holds the process together.

Stepping back for a moment, let's take a look at a sadly typical strategic planning sequence of events. In most cases, an organization has an ill-defined process that cycles something like this: (1) excitement for a hot new-fad planning model; (2) deployment of a fluffy, imprecise, and foundationless strategy; (3) frustration with the slow pace and poor quality of implementation resulting from varying levels of resistance; (4) disillusionment with the whole effort; and (5) abandonment in favor of the next fad planning model. If a final strategic plan is ever rolled out, the employees often express amusement because, based on past experience:

- They don't believe the organization really means it because they've seen far too many previous examples of a lack of sustained leadership commitment.
- They know the organization doesn't have a chance of achieving it because they know the realities of the operational environment and availability of resources (people, time, tools, and money).
- They don't see how it relates to their functional work because the plan is too high level and neglects to make a connection to each person's accountability for the success of the plan.

Steps To Creating A Strategic Plan

To build their own expertise, HR leaders must be knowledgeable about the primary and elemental steps to creating a *successful, actionable, and measurable* strategic plan, not just another pretty binder that collects dust on a workplace shelf until the outer shell is needed for some other project. Successful and valued strategic planning consists of specific steps or stages. These are outlined below with a description of how HR can contribute toward ensuring the success of any planning effort. We also take a look at real-life organizations who probably fell short in integrating HR into a specific stage, as well as look at some of the *very few* (sadly) who have recognized and integrated the strength of the HR department into their planning process.

Understand the Planning Legacy

First, there is a need to review and understand the historical *legacy* of strategies and strategic planning in an organization (even newly merged ones). Answers to the following questions can help in getting a picture of the type of planning that has been undertaken previously:

- What's been done before?
- What was the result of any previous work?
- Where were the successes and failures?
- How have employees been affected?
- What is the organizational attitude, at all levels, toward the strategic planning process and the resulting plans?

Without this knowledge, strategic planning teams will often repeat the same mistakes of their predecessors. Human resources departments have the ability to conduct this type of research at all levels of the organization. HR must proactively assure that they have access to key senior leaders, middle management, and operational personnel and be recognized by various vertical and horizontal departments as an entity that can effectively and efficiently gather pertinent information. In other words, HR must gain knowledge of, and become skilled at, strategic planning's best practices and drive the acceptance of their knowledge across the organization—not when senior leaders decide to create a new strategy, but prior to any initiative.

Going back a few years, consider the merger (or acquisition) of America Online and Time Warner. AOL was created during the earliest upswing in the new world of the Internet. Dynamic and innovative, they represented the extremely rapid growth in the need for information management and manipulation. Their employees were young, flexible, and had a whole lot of new ideas about a newly emerging marketplace. Time Warner, itself a product of many, many mergers and acquisitions, represented the old-line diversified media powerhouse. Bureaucratic and rigidly structured, their growth was starting to slow down as they searched for new markets. Their employees were more middle and older age, conservative, and searching for new ideas. Although it would be easy to blame one or the other for the lack of the initial harmonious integration, I suspect the fault lies with both. In AOL's case, the planning environment was populated with individuals who had no experience with setbacks and challenges and knew only rapid growth with no end in sight. In Time Warner's case, strategic planning was done by a high-level team reporting to senior leadership. Do you think the legacy of strategic planning would be very different in each firm? A proactive, combined HR team could have evaluated and adjusted for these legacy differences.

Create a Diverse Planning Team

Next is *team formation*—the formation of an intelligent strategic-planning team. This includes two critical issues: diversity of thought and diversity of skills. Diversity should encompass, as any HR manager knows, more than just gender and race. Although these two areas are very important, diversity regarding age, experience, knowledge, skills, regionalism, culture, education, and personality should also be valued. Each of these categories, with all their subsets, brings varying perceptions and understanding of realities and events to the planning table. If an organization doesn't recognize the value of diversity, and incorporate it into the strategic planning team, there is little likelihood of success. Skill requirements are also critically important to planning success. In addition to having knowledge about a particular organizational process or function, a team must be formed with a variety of strategic-planning-required skills that include, but should not be limited to, team management, project management, interviewing, critical analysis, collaboration, negotiations, time management, scenario or simulation planning, trend analysis, market analysis, perspective analysis, supply-chain analysis, research, value-proposition analysis, competitive analysis, finance and accounting, regulatory research and compliance, and communications (oral and written). It's not that everyone on the team must possess all these skills, but the capability must be present somewhere on the strategic planning team. Note that if you are a global or globalizing organization you should include team members who have a strong understanding of civilizations, values, and cultures.

It would be wrong to assemble a strategic planning team from only one hierarchal level in your organization. In my most recent book, *Not Another Pretty Binder: Strategic Planning That Actually Works* (HRD Press, 2008), I described three typical scenarios often found in team formation:

1. *The overpowered team.* This consists only of senior leaders and is often found assembling a plan behind some secretive closed doors. The plan won't work because it is, typically, too vague and rests heavily on only long-term visionary thinking.
2. *The underpowered team.* Here, the team consists of only middle or lower management. The plan will come out too tactical and short-term in its perspective, and so it will likely meet with resistance from senior leaders.
3. *The tow-truck team.* In this case, the charter to develop a strategic plan is given to individuals who don't have a lot to do because they are nearing retirement or in transition between assignments. The resulting strategic plan will never work because the developers of the plan have little or no vested interest in its outcome because they won't be around to see the consequences of its full deployment.

Here again, the HR department is the key to a successful strategic-planning process. HR is not only the "owner" of the physical bodies within the organization, but also the coordinator of intellectual details that knows exactly where a specific knowledge or functional expertise resides. Proper selection and usage of these aptitudes in the planning process can best be managed by personnel professionals. HR knows each employee's capabilities at the point of being hired, what new skills the employee acquired through training and practice, and his or her success at applying the skills while on the job.

During the next steps in the strategic-planning process, operational expertise will be required to interpret and clarify data from *all* parts of the organization. Members from the law department can provide critical information about legal, regulatory, and contractual issues. Production personnel can provide knowledge about the realities of the daily operational requirements. Marketing can provide intelligence about changes in the targeted markets and competition. Sales and the customer service representatives can provide intimate knowledge about customer values. Members of the finance department can provide important details about cash flow and availability. Quality staff and research can also bring great expertise to the planning process. There is no part of your organization that can't provide some intelligence to a strategic plan. Remember, though, as you select contributors to the planning team, they must have enthusiasm, time, and knowledge to be a part of any strategic planning effort.

A great example of this step would be Southwest Airlines, probably the only airline making a profit during these difficult times. Of course, as all its publicity correctly states, Southwest likes to make sure its employees have fun at work. But, when it comes to planning, Southwest's approach can best be summed up by Colleen C. Barret, retiring president of the airline and the one primarily responsible for employee and customer satisfaction over her rise from secretary to head of the airline. A close partner to Southwest's legendary founder, Herb Kelleher, she once said "When it comes to getting things done, we need fewer architects and more bricklayers."

Align Planning with Leadership Goals

The next step in strategic planning is leadership *alignment.* What is the direction of the organization, as envisioned by the organization's highest-level leadership, and what are their personally important issues? In this stage, a comprehensive examination must be made of leadership's vision and mission statements, plus any other visionary thoughts they might have. If the eventual strategic plan does not integrate and support their directional perceptions, the plan will be treated as a failure and tossed aside.

HR, once again, must set the stage for access to the senior leaders and help facilitate effective and well-structured interviewing sessions that will uncover their thinking. It should be noted, though, that HR should not be the only department responsible for actually conducting the interviews with senior leaders. Additional selected team members, with their specific operational expertise, should be in on the interviews to help bring clarity to statements and dialogues.

I have had the privilege of working for several years with the U.S. Army National Guard in almost every state and territory. The deliverable was to create a strategic plan. Sadly, in most states and territories, there was an absence of visionary communications from the Office of The Adjutant General (TAG; the top person in each state and territory). The greatest successes, though, came from those where the TAG was willing (and able) to convey a clear understanding to the team about the short, intermediate, and long-term vision of the specific Guard. The incentive for doing so was always based on the HR officer clearly conveying the rationale and benefits for doing so to the most senior leadership.

Analyze Current Realities

Moving on through the strategic planning process, it would now be time to *analyze the organizational realities*. The planning team is in possession of the legacy experiences to know what has and hasn't worked in the past, a full and diverse team, and an understanding of the senior leader's perceptions. The planning team must compare the organization's history with its current status and determine the aspects of the organization and its environment that can be leveraged to move it forward and support the visionary and mission direction, as well as identify the aspects that will present obstacles and pitfalls to moving forward. This is typically done with the SWOT process (which analyzes strengths, weaknesses, opportunities, and threats). This is a great tool for planning teams, where every relevant piece of information (hard and soft) is categorized into one of four boxes. Identifying the organization's internal strengths and weaknesses will determine the organization's ability to achieve its shorter-term purpose and mission. Determining the organization's future external opportunities and threats will clarify the thinking behind the longer-term vision and suggest what could prevent the company from achieving it. To complete a SWOT analysis with any degree of accuracy, specific functional expertise must come from those who know what the organizational reality is at the current time, where it's been, and what is the trend.

The HR department is very essential to this stage. HR managers help select the subject-matter experts who can best determine the realities. Although they may not have enterprisewide knowledge of the organization, they know their specific operation or processes better than others. Also, HR helps coordinate with the managers of the experts the time necessary to participate on the planning, conduct the research, and make a successful contribution to the initiative, avoiding departmental distractions that can undermine team efforts. In addition, by being part of the team, HR professionals can provide expertise about laws and regulations affecting existing and potential employees, plus any information gleaned from employee surveys. Finally, HR professionals can help structure, coordinate, align, and distribute any and all communications about the strategic plan (with senior leadership approval, of course) before initiative development, during plan creation, and after the rollout.

If you want to emulate an organization, look to Nordstrom, the high-end department store. When its HR leader was asked how the company trained employees to be so good, he said it didn't train them. Nordstrom hired the best people and let them develop their own ideas about providing the best customer service.

Develop Alternative Performance Options

Once the realities of the organization are clear, to the point, and measurable, the planning team must work on *alternative development options*—to determine how to fix current performance-improvement problems and address future transformational issues. Any good strategy planning team knows that there is always more than one way to fix a problem, so they evaluate multiple solutions. They do this by determining where the organization needs to be changed, the priorities of change, and what requirements are needed to achieve the desired change. Weighing these options will establish prioritized action plans.

This may be, in addition to the team-building activity, one of the most important stages for HR involvement. Human resources is the *only* department that can determine, with any degree of accuracy, what resources (people, time, tools, and money) realistically exist in the current organization, which ones can be acquired from outside the organization, and which ones can be redistributed around the organization to achieve any alternative options. Until this knowledge is applied to the strategic planning process, alternative solutions have a potential for being meaningless.

It always amazes me when I hear that an organization has lost its direction because of changes in reality. I was once with a group from NASA, the famed governmental space organization, and asked them how their customers (the U.S. taxpayers) viewed NASA's value. They told me "wonderful—they think we are one of America's greatest assets." I asked them how they knew that, and they answered that they had conducted a survey and that was the answer that those over 40 years of age gave. I asked them about the responses from those under 40, and they told me that they generally considered NASA to be inconsequential. I asked them whether that answer bothered them, and they said it didn't "because

NASA's budget came from Congress and they were all over 40!" These were rocket scientists, and yet they couldn't see the need for assessing alternative realities that would inevitably arrive down the road when those under 40 grow older and become the budget makers for Congress.

Measure Progress

The next stage of strategic planning is to construct a *scorecard* that clearly identifies specific improvement actions that are being taken to measure progress and communicate success. There's been a lot of talk in the popular media about a balanced scorecard, but, if the previous stage was done correctly, organizational priorities will actually be given different weights from less important activities.

The reality is that strategic plans will end up unbalanced, and that's OK. Any organization will always be constrained by availability of resources, and therefore the deployment of these resources will, by necessity, be in areas that will achieve the greatest organizational improvement.

The recommendation for HR's involvement in this stage is, first, to make sure that the scorecard language and the associated measurements are clear and understandable to all personnel in all departments at all levels. If this doesn't occur and individuals in the organization don't recognize the language or how it addresses their specific needs, the plan will be written off as "fluff." Also, HR, once again, needs to make sure there are the necessary human resources to complete whatever actions have been designed.

Over and over again, I've been called into an organization because the senior leadership can't figure out why their strategic plan is not being implemented well or not at all. Upon an exhaustive analysis, it becomes clear the vision is bigger than the realities. Think of it like this: have you ever tried to carry more bags of groceries than your arms could hold? The result is disaster.

Once the strategic planning team has a solid scorecard based on the comparative analysis between the vision/mission/purpose and the organizational realities, it will be able to measure near-term and long-term performance. The scorecard will prescribe some immediate performance-improvement activities, as well as long-term transformational activities.

It is also important at this juncture to assign a person to be accountable for each planned action, including assuring that the action is being performed and progress toward a goal is being measured, recognizing any deviations from the plan, and reporting progress back to the planning team. HR departments help facilitate this aspect of planning by assuring that those individuals selected to manage the action actually understand their *accountability* and have the capability to sustain and complete the actions. HR can also help by making sure that all the strategic-initiative timelines are realistic, considering the requirements of the regular production schedule.

Perhaps an example, and one that was very close to me personally, was when the original AT&T bought NCR in a very hostile takeover. The visionary rationale for the acquisition was sound—NCR had an international presence and AT&T did not. If AT&T was to globalize, something they'd been wanting to do since the spin-off of ITT in 1958, then they needed someone with experience and infrastructure. There were so many things that went wrong with this acquisition that it's hard to know where to start. But one of the most visible was that no existing strategic business unit's president had the slightest idea of how to integrate NCR into a complementary operational model. No one knew what their accountability was for making the merger work.

Deploy the Strategic Plan

One of the final steps in strategic planning is to *deploy,* or roll out, the new or revised strategy. Although there are several components to this activity, perhaps the most important is to develop effective communication models that make sure enthusiasm and positive attitudes are maintained. Nothing succeeds like success, and it's important that the team demonstrate, as quickly as possible, improvement, even if it is only for a small component of the plan.

HR, once again, must play a visible role in the creation and distribution of all communications related to a strategic plan. The HR team must prepare an information-sharing plan that recognizes the variations in the informational needs of different departments and how best to deliver information to them. Once a unique model is in place, HR must assure clarity by testing the understanding of the communicated message and make proper and continuous adjustments to improve it. Remember, it's not what's said but what people hear that drives employee opinion.

Think about how often you have heard a senior leader in business or government say he or she had been misquoted. Organizations abhor an absence of communications. If real knowledge isn't available, rumors will quickly fill in the empty spaces. When Airbus, a major competitor to Boeing, began to have some problems with development of new planes, the communications became a catastrophe. Unions, suppliers, financial partners, investment analysts, and customers began to question their strategic plan. Only after a change of leadership resulting in improved communications did the organization get back to doing what it does so well—producing aircraft.

Develop Contingency Plans

Although we consider this the final step, the reality is that strategic planning is a continuous process. *Contingency plans* help sustain the process. It's very easy for a strategic plan to melt away when the urgent replaces the important. Remember the old, but true, saying: "What can go wrong will go wrong." For every short- and long-term improvement action shown on the strategy scorecard, a team must work proactively to develop a contingency plan—alternative approaches to achieving the goal if realities change and the developed action is no longer feasible. If team members wait for the engine to derail before they consider how to get the train back on the track, precious time will be lost that will, most likely, negatively affect the perception and results of the strategy.

Human resource team members must make a major contribution to this stage by assuring that a contingency plan is created for every action, by helping determine the true cause-and-effect relationship for any deviations or anomalies in the measured progress or results, and by preparing team members to approach any problems with critical-thinking capabilities.

This past summer, as the home-mortgage crisis reached a critical point, the White House stated that it had gathered a group of financial minds together to come up with a contingency plan for the mortgage-landing institutions of Fannie Mae and Freddie Mac if they failed. Having worked several years ago with both of these fine institutions, I know how valuable they are to our country. The only problem was that the White House team was not working on a contingency plan, but a disaster-recovery plan. Contingency plans must be done during the development of a strategic plan and not "when the train falls off the track." I know a lot of people at the two firms, and I know they know the difference!

As this strategic-planning process demonstrates, HR can, and must, play a proactive and premeditated role in the development of the planning process. From the legacy to the contingency, HR professionals are uniquely vital to the success of each stage, as well as the overall strategy attainment. If an organization needs outside assistance, it should be from those who recognize the intricacies of strategic planning and the role that HR can play in it. Educate your senior leadership early about your contributing value and become the driver of strategic change in your organization.

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