



Book From Strategy to Execution

Turning Accelerated Global Change into Opportunity

Daniel Pantaleo and Nirmal Pal
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Recommendation

Editors Daniel Pantaleo and Nirmal Pal offer a comprehensive examination of strategy and execution in a rapidly changing world. The contributors to their book identify the primary factors driving change, the most important kinds of innovation for today's businesses, the essential elements of innovation strategy and the issues likely to emerge as challenges or obstacles. The book is well-organized and systematic, though at times densely written and difficult to follow. Its discussion of knowledge workers is particularly useful, because it exposes and debunks common myths about these increasingly important professionals. *BooksInShort* recommends this book to knowledge workers and their managers, and to executives and others who must manage change.

Take-Aways

- The global economy is changing rapidly.
- Centers of economic value creation are multiplying worldwide.
- Innovation in business models is more important for success than innovation in products and services.
- Strategies based on analytics are proving their worth.
- Small and medium enterprises depend on knowledge and technology for growth.
- Knowledge workers, whose ranks and costs are swelling, are indispensable to economic growth.
- Developing countries are becoming more important as sources of both products and labor.
- Innovation succeeds when it is oriented to customer needs rather than to internal performance standards.
- Align the entire organization with the strategy.
- Perquisites such as nap rooms and cappuccino bars do not affect knowledge workers' performance.

Summary

Quick Change Artistry

The world is quickly changing, and managers must respond to seven new phenomena:

1. **Globalization** – Globalization is dispersing the centers of economic power. Brazil, Russia, India and China, often called the BRIC countries, are rapidly becoming as important as the U.S., Japan and Europe – and eastern European, South American and Asian countries will soon follow. Already, the creation of economic value by a single company depends on interconnections that span several continents.
2. **Innovation** – Two critical management concerns are emerging: innovation in products and services, and innovation in business models themselves. Companies must learn to understand their value chains, identify their markets and manage their relationships with suppliers and distributors in new ways.
3. **Strategic analysis** – Using analytics is a powerful way to drive business strategy. Sophisticated analytical technologies are indispensable to dealing with the deluge of information confronting corporate managers.
4. **Corporate social responsibility (CSR)** – Good corporate citizenship has become a strategic imperative. Corporations need to convince the public that they are not only producing high-quality products and services but are also making positive contributions to the community. CSR strategy is at least as challenging as any other business strategy and merits equally thorough planning.

5. **Accessible knowledge** – Enterprises increasingly depend on knowledge work and knowledge workers. These workers may be inclined to work alone and to keep information to themselves. However, recent research indicates that stereotypes about knowledge workers are wrong. They do not need cappuccino machines or nap rooms to function. Companies must learn what really motivates this population, and encourage communication between them and the rest of the organization.
6. **Alignment of business and information technology (IT)** – Formerly a world of its own, IT is now a business tool. The new measure of IT performance is the effectiveness with which it supports business strategies and achieves business goals. Firms increasingly demand real-time, action-oriented information from their IT departments.
7. **Emergence of small and medium-sized enterprises (SMEs)** – Technologies that make information easily accessible have contributed to the proliferation of SMEs. Small companies staffed with knowledge workers can participate in a worldwide value chain.

“Beyond product and process innovation, the innovation of business models is a major focus of corporate leadership.”

These businesses have changed in response to the seven factors:

- **Kimberly-Clark** – Kimberly-Clark was in the paper-manufacturing business, until its CEO dispensed with that to concentrate instead on selling Kleenex, Huggies and other consumer products.
- **IBM** – Formerly focused on the manufacturing and sale of computers, IBM now focuses on “business performance transformation.”
- **Dell** – Unlike other computer vendors, Dell does not sell through retail stores but rather directly to customers. Its innovative go-to-market strategy built a \$40 billion business.
- **Starbucks** – With innovative marketing, Starbucks convinced its customers to pay a premium for its coffee drinks.

The Next New Economic Thing

Six economic trends are changing the competitive playing field:

1. **Customer power** – Increasing transparency and access to information is putting more power in the hands of customers. In some cases, consumers help determine not only how businesses design and deliver products, but also what business models they use. Often those customers are located in developing countries.
2. **Ascendancy of information and services** – Manufacturing and agricultural work are waning as the primary means of value creation in the global economy, while services and information are waxing. Information workers are in short supply, and most of them are, or will soon be, located in developing nations.
3. **Compliance pressures** – As regulations become more stringent, executives are going beyond the requirements and emphasizing their CSR credentials.
4. **Capital market integration** – The integration of global capital markets is increasing the availability of capital; however, it is also a source of unanticipated risk. Industry consolidation threatens small and medium-sized enterprises, which tend to become overly dependent on just a few customers.
5. **New business models** – Many companies are changing their business models. In some cases, such as in entertainment and media companies, innovative technologies have made their traditional business models obsolete. In others, companies are trying to dodge the bullet of commoditization by adopting new models.
6. **Business-driven IT** – A growing number of chief information officers have backgrounds in non-IT areas. IT is not merely about lowering costs but about developing new business models.

Speeding Innovation

Innovating is important; doing it quickly is even more so. Choose between these two approaches to increase the pace of innovation:

1. **Addressing time to launch** – Focus on developing and releasing new services and products before your competitors do, and on reacting rapidly to their actions. Create an autonomous, responsible team with the authority to make decisions and change processes to achieve its goals. Funding of such teams should be lean. The team should feel pressure to attain its objectives before running out of money.
2. **Addressing market acceptance** – Concentrate on gaining market share for your product. For example, MinuteClinic met a need for economical and convenient access to treatment for common illnesses such as strep throat. Initially, MinuteClinic accepted cash only, not insurance. Recognizing that this policy prevented some potential customers from using its services, MinuteClinic adapted to the market.

Disrupting Traditional Business Models

When Amazon.com made its debut, observers assumed its strength would be its inventory, which no brick-and-mortar bookstore could equal. However, Amazon’s real power comes from a business model that doesn’t depend on profit from what it sells. The company collects money from buyers before it makes payments to suppliers. Like a financial institution, it earns interest on the float.

“At base, every business relies on people.”

Radically innovative business models have disrupted the retail and airline industries. The inventors of warehouse stores discovered that by focusing on high-volume product lines and relying on consumer self-service, they could minimize costs and increase the flow of customers enough to allow them to undercut department store prices. Southwest Airlines challenged the conventional business model in its industry by slashing overhead, eliminating middlemen and simplifying its operations (for example, by flying only one type of relatively low-cost aircraft).

“To make money ‘feel welcome,’ governments around the world have recognized the importance of integrity, transparency and predictability.”

Provide value to the customer and make a profit doing so. First, learn what customers want. The furniture retailer IKEA targets consumers who are sensitive to both cost and design. But providing value to the customer is not enough. You must also be able to make a profit. Grameen Bank, the pioneering microlender, relies on low

overhead and high recovery rates to remain profitable while making tiny loans to impoverished people in Bangladesh.

How to Develop Creative Business Models

In the past, successful business strategies could be linear and incremental, focusing on small improvements to existing, well-accepted performance dimensions. For example, a manufacturer of minivans would determine whether its new van had as many cupholders as the competition's. A chipmaker would make sure its product had more memory than anyone else's. However, today's approach to product and service innovation strategy asks a different set of questions:

- What job are customers trying to do with this product or service?
- How effectively does this product or service deliver what customers want?
- Could the product or service enable customers to reach their objectives at a lower cost, a higher speed or a better level of quality?
- Can customers get what they want more easily with this innovation than without it?

“The best way to rapidly develop a product or service offering and get it out into the market is to set up a heavyweight team, grant it operational autonomy and task it with complete responsibility for the project.”

Here, the guiding star of innovation is the customer's goal. Therefore, your objective is not to build a product or service that does an existing job better than anything else in the market, but rather to find a way to meet customers' needs more effectively than anything else in the market. For example, Netflix made renting movies convenient and inexpensive by offering a subscription service to its vast inventory. Redbox, a Netflix competitor, meets the same need instantly, by providing a selection of popular movies in vending machines at retail outlets.

The Rise of the Knowledge Worker

Your entire organization must get behind your business strategy. As the Chinese general Sun Tzu said, “He will win whose army is animated by the same spirit through all its ranks.” Alignment does not mean issuing precise instructions but rather ensuring that everyone in the organization reacts to the unexpected in ways that help the company achieve its goals.

“The ultimate measure of the success of a talent management initiative is what happens with the talent and what happens with the business.”

Alignment is particularly important with respect to knowledge workers, who constitute as much as a third of the entire population of workers in developed economies. Their ranks are swelling – as are their costs. Manufacturing and agriculture are moving to low-labor-cost countries, so knowledge workers are becoming ever more important to developed countries. These are the four broad categories of knowledge work:

1. **Transaction work** – Relatively simple, routine labor that people often do alone, for instance, working at a call center.
2. **Integration work** – Systematic, repetitious work based on processes or standards that employees perform across functional borders. Computer programming is an example.
3. **Expert work** – Complex work that depends on judgment, education and experience, such as that of a primary care doctor. It requires little collaboration or integration.
4. **Collaboration work** – Complex work that requires a high degree of collaboration and interdependence, such as that of investment bankers, attorneys and consultants. It is improvisational and dependent on judgment, education and experience.

“Because knowledge work has become the key to growth and differentiation in today's economy, the differential in cost and value between knowledge work and management has decreased.”

By and large, companies do not yet understand how knowledge workers use technology. They haven't figured out what kind of physical environment these workers need. Managers must change the focus of their work in these eight ways:

1. Not simply supervising but rather doing the work.
2. Organizing communities rather than establishing hierarchies.
3. “Recruiting and retaining” rather than “hiring and firing.”
4. Developing knowledge capabilities rather than manual or physical ones.
5. Evaluating knowledge rather than products.
6. Constructing a culture that welcomes and encourages knowledge rather than letting other factors define the culture.
7. Keeping the bureaucracy at bay rather than keeping it in power.
8. Reaching for sources of knowledge beyond the company rather than enforcing reliance on internal resources.

“An adaptive architecture can be built by explicitly specifying in the architecture what the organization implicitly does: integrating a number of processes to create larger processes.”

The logic of the 20th century does not apply to the 21st. Three principles should guide business-model innovation:

- This type of innovation is fundamental, radical and indispensable.
- IT must serve business objectives and business model transformation.
- Business model innovation should center not on the firm but on a network of partners who may be suppliers, investors, customers and others.

About the Authors

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