

iProCon Insight

White Paper: Streamlining organisations whilst retaining competitive advantage – Strategic Agility

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Strategic Agility: Driving business efficiency without eroding competitive advantage.

iProCon HCM ...

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With the state of the economy making headlines on a daily basis, many businesses are considering new waves of cost cuts. Even those businesses not directly affected by the current climate will benefit from regular drives to increase business efficiency.

The traditional response to deterioration in the economic climate was to drive through headcount reductions and cut costs across the board. These arbitrary cuts are at best a short-term solution, as they do not address underlying causes of cost expansion; research suggests that costs that are cut arbitrarily tend to have a habit of growing back.

A better way of cutting costs lies through Strategic Agility. This paper outlines the concept of Strategic Agility, and demonstrates how organisations can make the transition from structural rigidity to agility.

“We have to communicate to the entire organization that speed and agility are not about job elimination, but job creation”

Bob Nardelli (Chairman & CEO, Chrysler)



“The focus of all business leaders should be on the creation of shareholder value”

Cutting Costs – The Choices

Whilst economic turmoil is not a new phenomenon, the turmoil currently unfolding in markets across the globe holds some particular challenges for organisations.

In the first instance, globalisation means that many companies are, more than ever before, likely to be balancing different realities in different regions across the globe. In addition the ever increasing links between economies lead to contagion where shocks in one region can spread quickly across others.

As a result of these factors many companies are struggling to balance the need to cut costs in one region against the need to service growing demand in others. Other companies may be watching the economic storm clouds gathering, and be preparing for an efficiency drive that keeps them ahead of their competitors. Regardless of economic conditions, all companies can invariably benefit from regular drives to increase efficiency. The question is what is the best way to go about driving costs from the business?

When faced with an economic

downturn top management focus often shifts from investment in people, technology and innovation to cutting costs. The simplest way of cutting cost is through arbitrary cuts, where all discretionary expenses (for example biscuits at meetings and consultants) are cut, as well as requiring headcount reductions across the board. In some contexts indiscriminate cost cuts may be a means of survival, however in times other than when in the midst of a crisis it often leads to the erosion of shareholder value.

The focus of all business leaders should be on the creation of shareholder value. Badly conceived cuts are at best no better than uninformed stock market speculation as a means of creating shareholder value; at worst, they actively destroy value that in many cases has been built up over considerable periods of time. Particularly the case in knowledge economies where people are a prime source of competitive advantage, mass redundancies are a sure-fire way to significantly decrease the pool of knowledge and best practice that the organisation has built, either through redundancies themselves or via the morale-sapping effect it has on those that

Strategic Agility is a focus of the iProCon HCM Change Practice



“We can't know what the future's going to look like. We have to be agile enough to be able to respond to that uncertainty.”

Linton Wells II

remain.

So, given that arbitrary cuts are not the most effective way of increasing shareholder value, what other alternatives remain? If your organisation does need to deliver savings in times other than a crisis, how can you use the exercise to create a competitive advantage over your competition? Keep in mind that your competitors can easily cut their own costs to match yours in the short term (think of a supermarket price war), however it is near impossible to replicate the processes and human capital that deliver sustained cost advantages.

Business Nirvana – Agility

A cost cutting exercise can only deliver real shareholder value when the opportunity is taken to deliver a more agile organisation.

Strategic Agility defines the ability to adapt the strategic direction of the core business in response to changing circumstances, and create not just new products and services, but also new business models and innovative ways of creating value. It requires the ability to identify core businesses processes and capabilities, and enable them to meet the challenges of today and tomorrow. A company becomes strategically agile when it can maximise the value of its core strengths in a seamless way. The greater the agility, the more options a company has to produce what's needed at the right time and the right margins for its customers. It's the ability to think and act differently, depending on the situation that presents itself.

The key dimensions of strategic agility are:

- Strategic Sensitivity: the awareness of the organisation's strategic context, and the attention afforded to understanding it

(continued)

‘The greater the agility, the more options a company has’

- **Change Capability:** the capability of the organisation to redeploy resources and reconfigure business systems rapidly
- **Commitment and Engagement:** the ability of the top team to make big decisions fast, and belief and willingness of the organisation to follow

Strategic Agility is not about small entrepreneurial firms challenging large incumbents. Nokia, a one hundred and forty year old conglomerate was transformed into a highly profitable telecommunications powerhouse during the 1990s predominantly through strategic agility. The emergence of mobile phone technology was seen by Nokia as a consumer product, as opposed to its larger competitors (Ericsson and Motorola) who viewed mobile telephony as a professional service. As Jorma Ollila, Nokia's Chairman (now with Royal Dutch Shell) who oversaw the development at the time said: "The 'planetary alignment' was right, a unique combination of trends and changes created a massive opportunity, but no one else saw it, or was able to capitalise on it". Nokia was able to seize the opportunities presented to it primarily because of:

- An organisational flexibility that gave it the capability to change rapidly
- A global approach to business building, avoiding the requirement for large national silos
- An emphasis on globally integrated business processes

So whilst business leaders may not have control over all of the opportunities that present themselves, they most certainly can control the ability of the

organisation to seize the very best.

Making Agility a Reality

In the context of football, the very best athletes have very little fat when compared with the average couch potato, but retain the strength, endurance and flexibility to allow them to excel at their sport. The same is true in the business sense – businesses should shed excess weight, but retain the capability to adapt to the ever-changing nature of the game. The question is "How do you go about it?"

Across the three dimensions of strategic agility, it is important to understand the sources of your present success, as well as to define which parts of your business should be changed first. Several well-defined tools and methodologies can help during the transition.

Strategic Sensitivity is concerned with understanding the competitive context in which an organisation operates. Questions that should be addressed include:

- What is the source of your existing success? Tools such as a causal analysis help uncover the hidden reasons for success, as quite often the real reasons for success are not those that are initially identified.
- What are your core capabilities? Which processes, activities and people are responsible for creating value? Organisations should allocate resources to those activities that are responsible for growing, reshaping or enhancing its core capabilities, on the basis that they are the source of competitive advantage. Detailed knowledge of core

"Costs that are eliminated arbitrarily have a nasty habit of growing back"

competencies will also help inform your selection of strategic targets – amongst all of the opportunities that present themselves, you should only select those for which you have an edge over your competition.

- How well do you know your clients? What do they value, and why do they value it?
- Similarly, how well do you know your competitors? How do they create value, and which clients may prefer your competitor's offerings?

Once you have identified where your organisation should focus, it is important to create the ability to change focus quickly, and with a minimum of wastage. Change Capability deals with several key areas related to this ability to react:

- How large is the change required? Is it a change to a single function, or does it span business units?
- What are the dimensions of political resistance? Are there likely to be large groups of stakeholders that perceive themselves as losing out as part of the process?
- How far is your desired culture different from the existing culture? Does your existing culture promote process rigidity over agility? How do your performance metrics support the desired culture? The Culture Web supports this analysis.
- Does your organisation have the capability to manage the change process? Have they managed something similar in the past, or is this an entirely new experience? Do they have the bandwidth to effectively manage the change programme?

- Does your existing Human Capital have the capabilities required to deliver your vision? Do you know where your Human Capital sits on the spectrum of capability excellence, and where they need to be? Tools such as the iProCon Human Capital Capability Excellence Model (HCCEM™) help answer this question.

The final dimension of Strategic Agility relates to Commitment and Engagement:

- Does your organisation understand your vision and how they can help to realise it?
- Are your people committed to the vision you have set out? How are they going to respond to the inevitable bumps that are encountered along the way?
- Are your people empowered to help deliver the vision? Does this empowerment extend throughout the organisation?
- Is your top team committed to the vision of a more responsive, agile organisation?

The answers to the questions posed above will drive your actions: Which business unit or functions should be divested or outsourced? Where should you focus your cost cutting, and where should you

seek to retain (and even increase) your capabilities? Whilst cutting costs and maintaining (or even increasing) competitive advantage through strategic agility is not easy, evidence suggests that the returns in the medium to long term far outweigh the implementation costs.

Long-Term Change, Increasing Shareholder Value

The transformation to a strategically agile organisation is not a one-off step change; it is a way of life. Agile companies must continually scan both the internal and external environments to ensure they are identifying opportunities, mitigating risks, and evolving their business practices and capabilities to deliver what their customers are going to want to purchase tomorrow. Performance metrics should change to reflect the importance of agility to the strategic direction of

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the company, and all business units should be able to clearly tie their investments and activities back to the support of the business strategy. Those initiatives that do not directly support the strategy should be modified so that they do support it, or eliminated as a form of unnecessary waste.

Alongside its clear focus on the creation of shareholder value through targeted cost cuts, strategic agility also has human capital advantages over traditional methods of driving cost from a business. This approach implicitly involves human capital at all levels of the organisation in the decision-making process, leading to increased engagement. If redundancies are required it is easier to re-engage those that remain, because the reasons for the cuts are more logical than when arbitrary cuts are made. In addition, a strategically agile organisation has a clear vision and communication, increasing the ease with which people can identify with and support your business strategy.

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