

Rethinking Organizational Strategy

FIVE STEPS IN DEVELOPING A SUSTAINABLE STRATEGY THROUGH A VALUE-FOCUSED APPROACH

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What is the issue?

Organizations using conventional strategic planning are failing to effectively address the disruptions or the shifting demands of an increasingly diverse, volatile and competitive marketplace.

Why is the issue important?

With conventional strategic planning, organizations set static objectives without necessarily considering the value they bring to the marketplace. By defining a value proposition and adapting it to market changes, however, organizations can achieve a sustainable competitive advantage. This is the strategic-value approach to planning.

What can be done?

Adopting a strategic-value approach to planning refocuses organizations inwards to assess value and key success factors (KSFs) that contribute to increasing their competitive advantage and long-term success.

Who is this guideline for and how can it be applied?

This guideline is directed primarily at practicing CPAs in mid- to senior-level roles. The strategic-value approach can be applied by public, private and non-profit organizations; however, the primary audience is the private sector. The not-for-profit and public sectors can still use this guideline, adapting the same principles applied in the profit environment.

Overview

This guideline is intended to provide a straightforward, efficient and cost-effective methodology for CPAs to rethink how they approach their organization's strategy. This guideline will also assist senior leaders, decision makers, strategic planners, advocates, sponsors, champions and implementation teams to:

- revisit core strategy fundamentals
- discover why a conventional strategic approach is increasingly irrelevant
- develop a strategic-value planning and implementation approach

What's inside?

This guideline provides a five-step practical approach that can be used by CPAs in industry to develop and execute a successful value-based strategy. This includes: 1) determining organizational readiness, 2) formulating the strategic plan, 3) developing key performance indicators, 4) reducing risk, 5) and developing a change strategy. It shows how strategic value helps an organization to easily define why it exists, adapt accordingly to shifting market demands, align its operational strategy within dynamic environments, and implement operational requirements to maximize resource capacity.

It is worth noting that strategy is and always will remain more of an art than a science. The reader should see the steps and pointers in this guideline as *suggested* approaches – that is, the reader is encouraged to understand the steps as written and consider whether they might be modified to suit their specific circumstances, and how.

How emerging trends impact your business

Will your organization exist 10 years from now? Alarmingly, roughly 40 per cent of companies will not.¹ Since 2000, innovative disruptions and digital business models have put over half the companies on the Fortune 500 out of business.² Survival is about disrupting the market before the market disrupts you. It begins by rethinking strategy.

How can an organization position itself to remain in business 10 years from now? Market disruptors are changing the game for many longstanding, well-established companies. Think about Amazon vs. bricks-and-mortar retail, Uber vs. radio-dispatched taxis, or VRBO and Airbnb vs. large hotel chains. Successful organizations recognize the threat and know that they need to look inwards and rethink strategy.

1 A recent study from the John M. Olin School of Business at Washington University estimates that 40% of today's Fortune 500 companies will no longer exist in 10 years. Digitalist Magazine by SAP www.digitalistmag.com/customer-experience/2017/08/03/keeping-customer-romance-alive-protects-business-from-extinction-05248355

2 Digital disruption has only just begun, Nanterme, Pierre, CEO, Accenture World Economic Forum, January 2017 www.weforum.org/agenda/2016/01/digital-disruption-has-only-just-begun

Introduction to the topic

With conventional strategic planning, organizations tend to compete on external factors within increasingly fragmented markets to maintain market position. Incorporating a value-focused approach turns attention inward on the factors embedded within the businesses that will reduce competitive stress. Progressive organizations do not solely preoccupy themselves with what their competitors are doing or whether the market will make them irrelevant: they look internally to ensure their strategic approach remains distinct by leveraging their strategic value and differentiating themselves from their competitors.

What is strategy's purpose?

The purpose of strategy is to achieve a set of specific objectives identified by an organization's leadership to fill a market need or expectation. This purpose translates to a mission. Without a mission, the strategic plan serves no purpose, often leading organizations to fail in achieving their objectives.

Business leaders often take strategy and strategic planning for granted. Many believe that once a direction is set and a mission is established, everything will fall into place. Leaders are surprised when the strategy fails, and they often repeat the same strategy discussions and planning processes.



Evolution of corporate strategy

Typically, organizations compete for market share. Naturally, each believes it offers something unique. In this context, strategy is simply about taking advantage of a competitor's weaknesses and producing better products. This is a conventional strategic approach. It involves defining specific items (performance objectives) within a well-defined mission statement, conducting an environmental analysis and trying, as stated in the book *Blue Ocean Strategy*, "... to outperform their rivals to grab a greater share of product or service demand."

The more effective approach is to focus on the strategic value an organization offers. This focus is less on an external strategic assessment and more on internal organizational values to meet precise market expectations. This subtle but relevant shift in strategic perception allows an organization to leverage what it does well. This unique set of values poses a challenge for competitors to replicate. Amazon, Netflix, Starbucks, Whole Foods Market, Google and Facebook all apply a strategic-value focus. These organizations have a myopic focus on their core internal values, with little regard for their competitors' efforts. Their competitors, once dominant industry players and still applying a conventional strategic approach, now struggle to maintain market position.

Definitions – key terms

The **conventional strategic approach** focuses on applying a linear-thinking methodology to developing a strategic and implementation plan. The conventional approach begins with a focus on a broad purpose with specific performance objectives. These objectives cascade from top down throughout the organization. These objectives are similar across market segments and competitors.

A **strategic-value approach** respects and maintains fundamental aspects of the conventional approach. It significantly differs, however, as it does not focus on precise performance objectives to achieve its purpose. Even though objectives are in place, it is about identifying, developing and leveraging the organization's core value within its value chain. Leveraging this unique value proposition allows the organization to differentiate itself and distinctively align its offerings with unmet market needs and customer expectations. Doing so sets the organization apart from its competition and makes it challenging for competitors to match its offerings. Those applying this approach find themselves leading, and often disrupting, their market space rather than simply surviving within it.

What is RAISE and how does it apply to strategic value

In today's global economy, the business environment is always changing. Some changes are so dramatic that everybody notices them, but other changes slowly creep up over the years before they can no longer be ignored. Organizations can achieve a sustainable competitive advantage and meet dynamic market expectations by adopting CPA Canada's RAISE philosophy (**R**esilient + **A**daptive + **I**nnovative = **S**ustainable **E**nterprises). At its core, this approach helps organizations develop unique customer-centric strategies, allowing for the proactive identification of change so that strategic focus does not drift off course. By adopting a resilient, adaptive and innovative mindset, CPAs and organizations position themselves to capitalize on today's ever-changing business landscape and ensure viability for years to come.



Organizations must demonstrate **resilience** when facing market and business disruptions. External changes, whether competitive or environmental, no longer occur periodically but constantly and unexpectedly. Organizations with a focus on strategic value (rather than on shifting strategic objectives) can weather these changes. Resilience is about maintaining focus on what is relevant in the market and overcoming disruptions rather than keeping up with competitive changes. Strategic-value organizations drive market uncertainty, making them more resilient to competitive pressures.

Organizations must become **adaptive** in their ability to adjust to ongoing shifts in the competitive landscape. Some consider strategy as a method to offer stability. Stability once implied consistency. The meaning has now evolved to imply adapting to continuous market changes while ensuring operational focus. Organizations must be flexible and able to quickly adjust to constant competitive or market changes. The strategic-value approach employs methods to allow organizations to be adaptive.

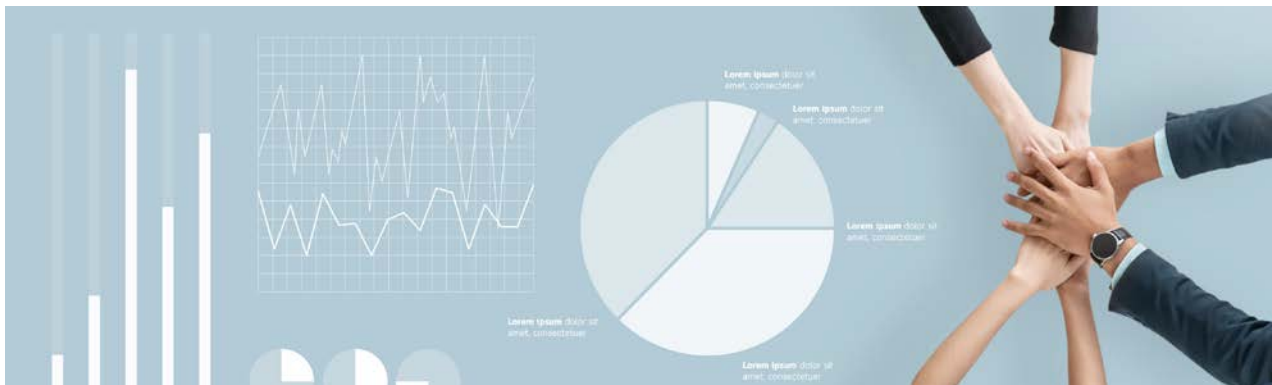
Strategic value inherently drives **innovation**. Organizations embracing strategic value do not see innovation as break-through moments but rather opportunities to continually improve processes and offerings. They are adamant about finding ways to address customer or stakeholder needs and fulfilling unmet market expectations. Furthermore, their innovative aspiration does not focus solely on external requirements. They also look internally to make their processes more effective and efficient.

Embracing these three key elements make these organizations **sustainable** over time. Strategic value sustainability shifts focus to what the organization must do to further reinforce its market position rather than worrying entirely about competitors.

Using a value-focused approach to strategy does not guarantee success; however, it delivers on the RAISE philosophy, which lessens the chance of business failure. Rethinking strategy is not about eliminating fundamental strategic concepts. It is about revisiting and applying them within an unstable and disruptive environment, making the strategy resilient, adaptive, innovative and sustainable.

How CPAs add value

CPAs promote the RAISE philosophy by assisting an organization to realize the benefits described in this guideline. CPAs draw on their skills and expertise in several ways to help organizations successfully implement value-focused strategic plans.



Leveraging competencies

- **Problem-solving and decision-making:** A CPA brings strong analytical and prioritization-management skills, using these abilities to observe and connect strategic pieces broadly and arrive at optimal courses of action.
- **Teamwork and leadership:** The ability to organize, collaborate and manage processes positions a CPA to be adept at goal setting, planning and implementing in a team environment.
- **Communication:** A CPA uses superior communication skills (e.g., active listening, understanding, speaking and writing) to clearly communicate complex matters like rethinking strategy to all levels of the organization.

Value generation

- **Formulation of strategic outcomes:** A CPA works as a facilitator with the executive management team in defining and formalizing a clear set of strategic opportunities, and in contributing to the direction of the organizations strategy value focus.
- **Operational and tactical involvement:** CPAs are major contributors in evaluating strategic direction and then translating the strategy into tactical activities that are executed by departments or operational functions.
- **Ongoing assessment:** Strategy is no longer a static or periodic process. It requires continuous monitoring and maintenance and must adapt accordingly to internal and external changes. A strategic-value focus requires critical information indicating the degree of strategic and operational success - A CPA will play an instrumental role in this effort.

Process

There are five steps that can serve as a framework in guiding an organization toward successfully creating a value-focused strategic plan (Figure 1).

FIGURE 1: A FIVE-STEP STRATEGIC PLANNING PROCESS

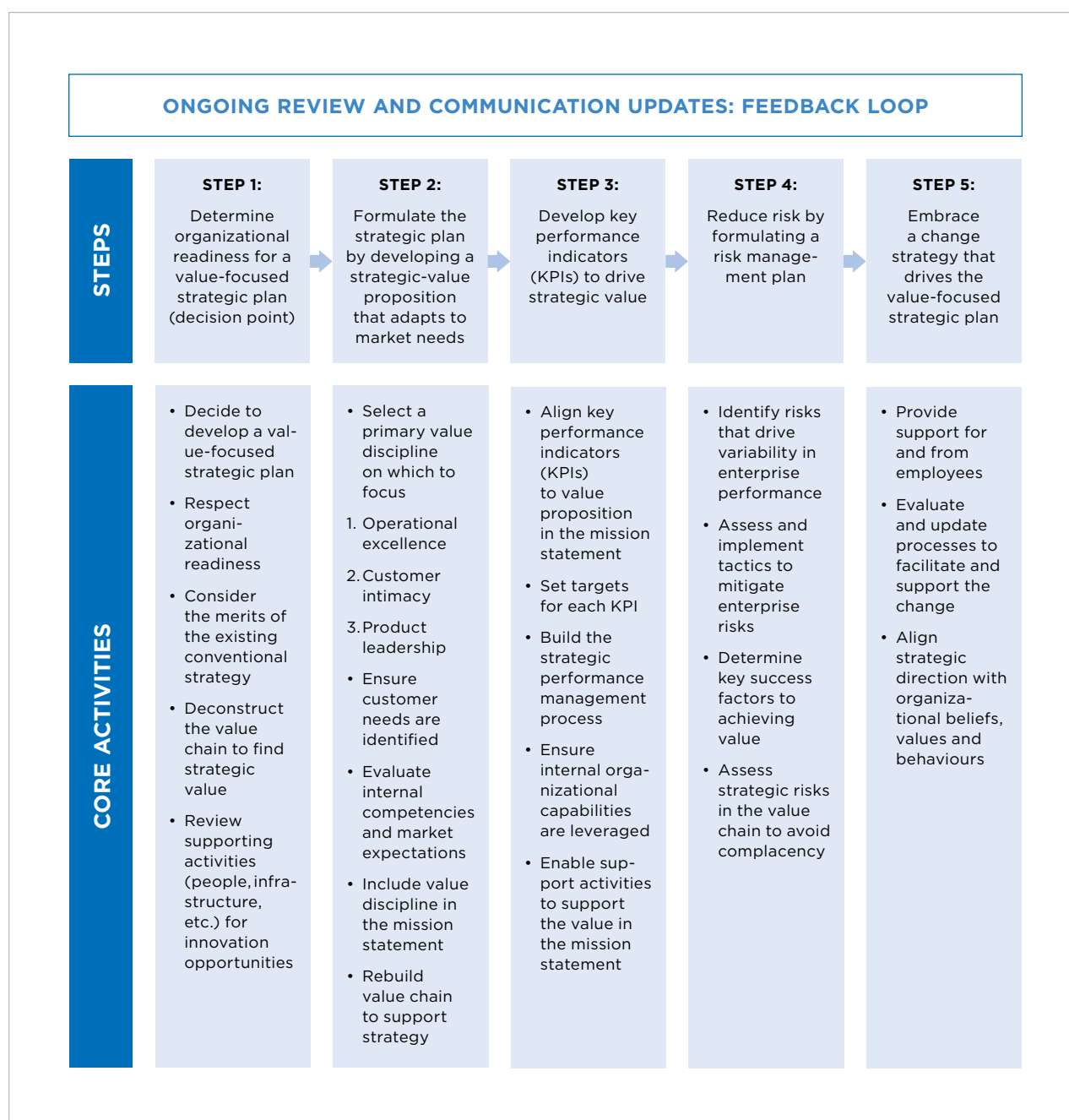
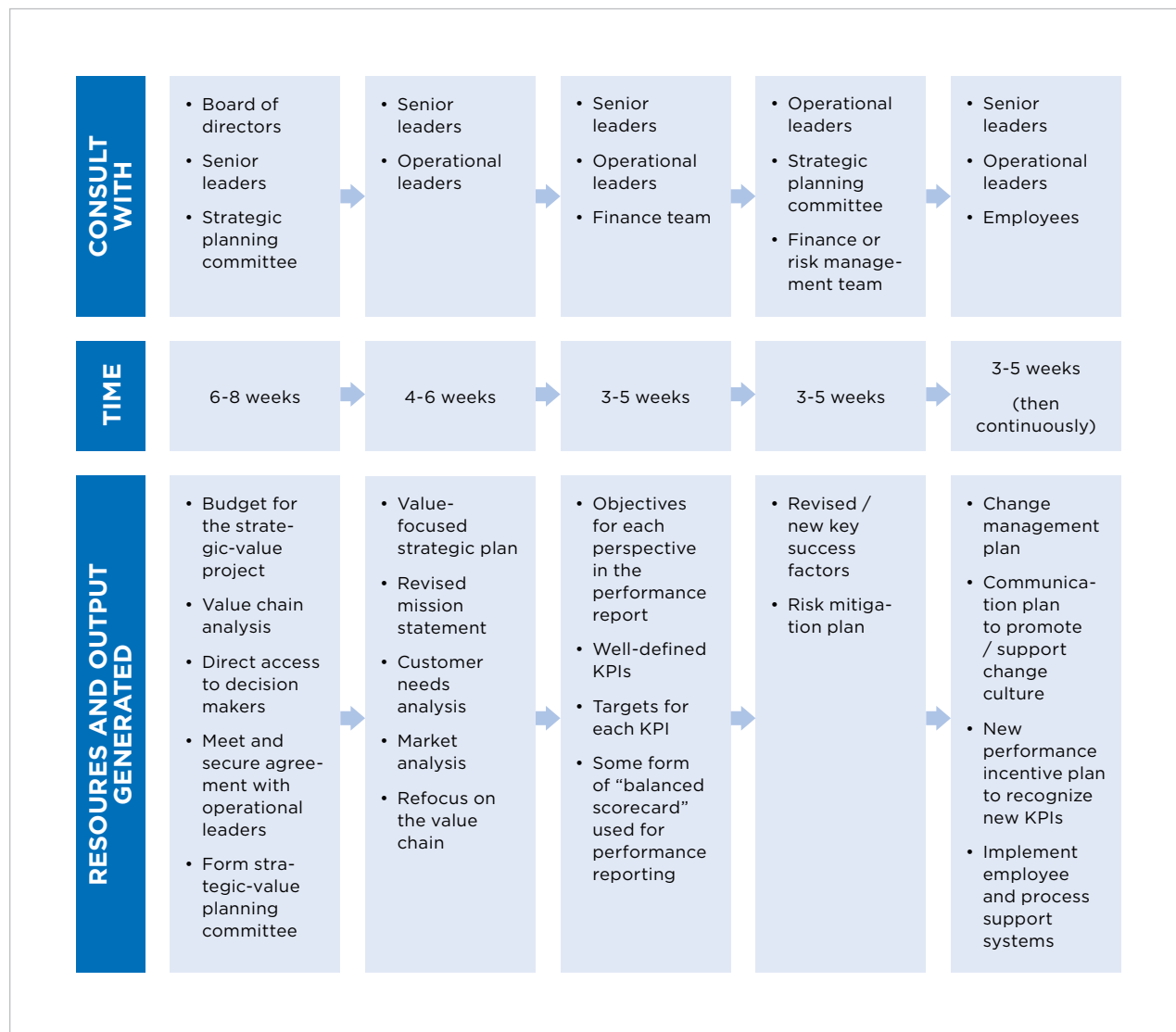


FIGURE 1: A FIVE-STEP STRATEGIC PLANNING PROCESS (CONTINUED)



Applying the topic to your organization

STEP 1:

Determine organizational readiness for a value-focused strategic plan (decision point)

Step 1: Determine organizational readiness

The decision to remain with a conventional approach demonstrates a high degree of inflexibility to adapt to dynamic market changes. This is not to say that the conventional approach is invalid. Some markets have limited competitive factors affecting an organization, and/or the products remain relatively unchanged. The issue is that these stable markets may eventually be displaced by innovative approaches that significantly disrupt the market. Disruptive organizations that embrace innovative insights within their value chains want to gain market share.

An example is Tesla's announcement to launch electric long-haul trucks. Established organizations such as Peterbilt and Mack Trucks pursued a conventional approach by improving current product offerings. Rather than competing directly with established offerings, Tesla consciously eliminated the primary concerns regarding current trucks (e.g., inefficiencies and environmental concerns) by leveraging its unique approach for applying green energy to conventional applications, ensuring benefits for potential customers. As a result, many major retailers (e.g., Walmart and Loblaw) placed significant orders for Tesla trucks, with established manufacturers losing major customers permanently.

Step 1a: Rethink the organization's strategy

As competition increases, the prospects for an organization's profits and growth decrease. Products become commodities (or niche) and competition turns cutthroat.³ Conventional strategy wisdom says industry defines and accepts specific boundaries and the rules of competitive markets.⁴ In turn, companies attempt to outperform rivals to take a greater share of the market. This usually leads to profit and market erosion and even organizational demise. This situation requires a new perspective of strategy.

Rethinking strategy and developing strategic value are not about setting aside fundamental strategy concepts. Rather, this requires a shift in strategic thinking. The objective is not to compete but to respect the fundamentals while evolving the strategic playing field to make competition irrelevant.⁵ In this context, strategy provides stability as well as raising and creating value for the market by opening new and uncontested market space.

³ Ibid.

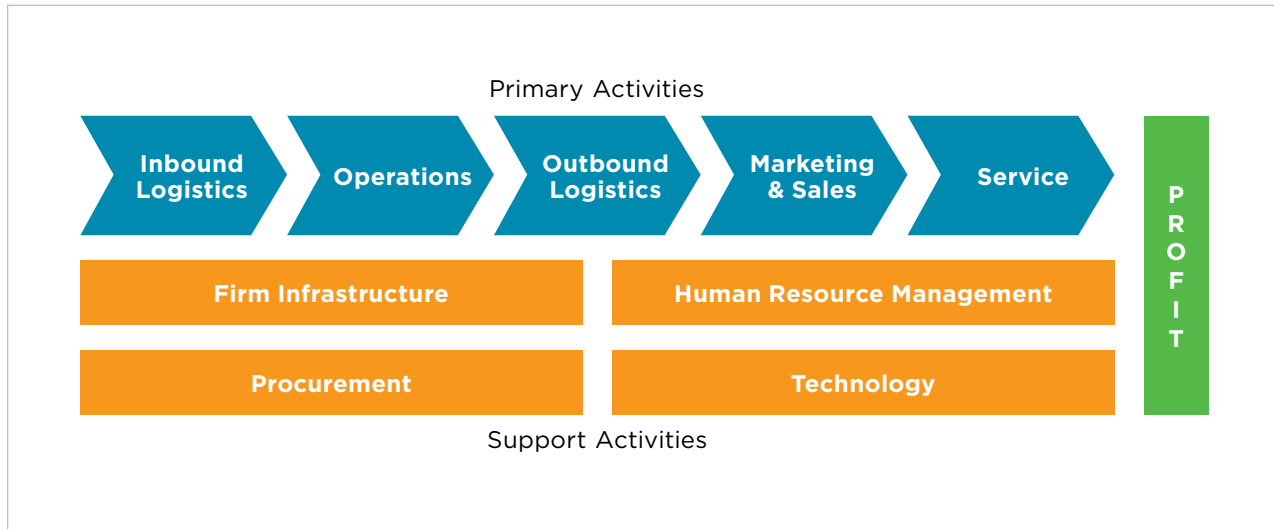
⁴ Creating New Market Space, W. Chan Kim, Renee Mauborgne; Harvard Business Review, January–February 1999 Issue.

⁵ Value Innovation: The Strategic Logic of High Growth, W. Chan Kim, Renee Mauborgne; Harvard Business Review, July–August 2004 Issue.

Step 1b: Align the value chain with strategy

Michael Porter introduced the value chain to illustrate the internal activities an organization requires to produce goods and services (Figure 2). The idea is that an organization's primary activities directly add value to its final product and customers.

FIGURE 2: PORTER'S VALUE CHAIN MODEL



Conventional value chain analysis includes primary and support activities that actually add value to an organization's final product. Leaders typically focus on primary activities at the expense of supporting ones. The goal is to reduce costs and/or increase product or service differentiation.

Progressive organizations, however, do more than value chain maintenance. They periodically deconstruct their value chain to determine how to align and operationalize an adaptive strategic approach. These organizations view their supporting activities as equals to primary activities (i.e., the value chain model is flipped). Support activities (e.g., information systems, research and development, and human resources) are not after-thoughts but rather drivers for innovation and sustainable differentiation within increasingly competitive environments.

Amazon's support activity, for example, is technology. People and knowledge are the support activities behind Tesla. Walmart leverages its supply chain. Whole Foods differentiates its procurement process from competing grocers.

STEP 2:

Formulate the strategic plan by developing a strategic-value proposition that adapts to market needs

Step 2: Develop a strategic-value proposition

Rethinking strategy around a value proposition helps organizations achieve stability and adapt to change (rather than fighting against change) within volatile environments.

Adaptive organizations focus on discovering the unique value they possess that will address an unmet market need. They refer to this as *establishing strategic value*, not *developing strategic objectives*. Value-focused organizations apply this methodology to ensure stability and consistency. Companies such as Tesla, Facebook, Google and Apple focus and leverage their value chain support roles to find balance between strategic value and strategic stability, allowing them to quickly adapt to market changes.

Step 2a: Assess the strategic-value proposition

To succeed in the marketplace, highly focused organizations embrace one of three competitive strategies or value disciplines:⁶

1. operational excellence
2. customer intimacy
3. product leadership

Organizations must choose – and then achieve – market leadership in one of these three disciplines while also performing adequately in one of the other two disciplines.⁷ Refer to CPA Canada's, "Strategy Mapping: A Six-Step Process – Guideline" for more information on how CPAs can help organizations achieve their strategic objectives.

Operational excellence aims to achieve cost leadership. It seeks efficiencies throughout the organization's value chain, streamlining work procedures and operational processes to eliminate errors and achieve cost savings. Organizations typically strive for operational excellence in markets where customers value cost over choice. Walmart, McDonald's and FedEx are known for operational excellence.

Customer intimacy is the personalization of service and/or customization of products to meet specific customer needs and offer a unique range of experiences. Organizations recognize and quickly adapt to unmet customer expectations and market gaps. Often, customer-centric companies are decentralized, allowing them to learn and then adapt to customers' needs. Familiar examples of companies pursuing this strategy include IBM, Lexus and Starbucks.

Product leadership strives to bring superior products or services to the market. Product leaders achieve premium market prices in exchange for the experience they create for customers. They excel in creativity, problem-solving and teamwork; and they master their business, relying

⁶ Customer Intimacy and Other Value disciplines; Treacy, Michael; Fred Wiersma; Harvard Business Review; Jan 1, 1993.

⁷ Ibid.

on knowledge and talent, and investing considerably in research and development. Examples of companies pursuing a product leadership strategy include Apple, BMW and Pfizer.⁸

Step 2b: Adapt the organization's value proposition

Strategically adaptive organizations are resilient primarily because they recognize changes in market expectations and adapt their strategy accordingly. Starbucks, for example, initially positioned its coffee as a premium product, pursuing a product leadership discipline. This was a prudent value proposition decision by Starbucks when no premium coffee offering existed in the market. This is a good example of filling a market need and mastering a product leadership discipline.

As Starbucks fulfilled the market need, it adapted its strategy to mitigate market saturation and fatigue. Starbucks evolved its product offerings to provide customers with unique (i.e., intimate) product experiences. Starbucks established itself as a strategically resilient and adaptive organization because it recognized changes in market expectations as a direct result from applying a strategic-value approach.

Step 2c: Embed sustainable value within mission objectives

The mission statement's primary intent is to communicate how an organization will deliver on their vision of who they want to be to employees and the market. Progressive organizations, however, continually dissect their mission to determine where they can best provide strategic value to their customers. Amazon is an excellent example of this. Amazon's vision and mission state the following:

Vision: To be Earth's most customer-centric company, where customers can find and discover anything they might want to buy online.

Mission: We strive to offer our customers the lowest possible prices, the best available selection, and the utmost convenience.

Amazon's vision – aiming to become the world's leading e-commerce and retail company – underscores its product leadership value discipline. Amazon alludes to customer intimacy when it identifies that it wants customers to be able to “find and discover anything they might want to buy online.” It also alludes to meeting customer expectations through operational excellence, offering “... the lowest possible prices, the best available selection, and the utmost convenience.”

Amazon combines its internal core competency, leveraging technology, to meet an external market need for increased selection and less expensive and more convenient access to products. This is what makes Amazon's strategy resilient and adaptable.

⁸ The value disciplines descriptions are sourced from:

The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market.; Treacy, Michael; Fred Wiersema (1997), Massachusetts: Addison-Wesley.

While Whole Foods Market does not have an official mission statement, it expresses its strategically adaptable and value-focused mission in its core values:

At Whole Foods Market®, “healthy” means a whole lot more. It goes beyond good for you, to also encompass the greater good. Whether you’re hungry for better, or simply food-curious, we offer a place for you to shop where value is inseparable from values.

Furthermore, Whole Foods is quite succinct when it comes to the aspirational goals it communicates to its employees and to customers:

Vision: *Whole Foods, Whole People, Whole Planet.*

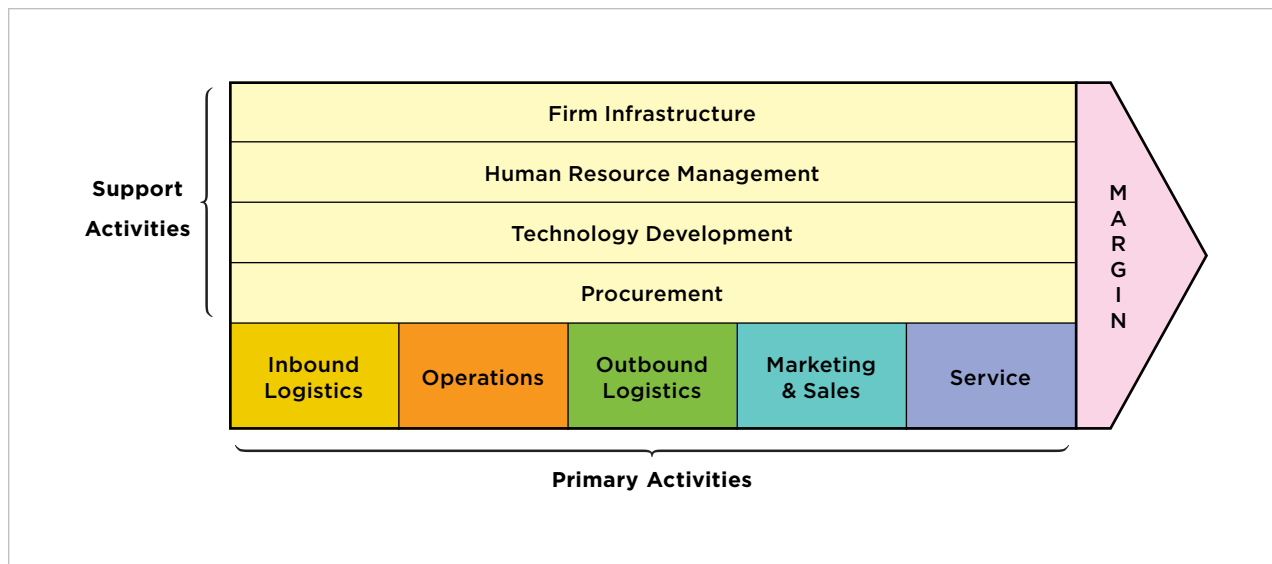
Mission: *We satisfy, delight, and nourish our customers.*

The company’s strategic value emphasizes product leadership in its vision (“Whole Foods, Whole People, Whole Planet”) and in its mission (“...‘healthy’ means a whole lot more. It goes beyond good for you, to also encompass the greater good”). Whole Foods also identifies a customer intimacy approach (“We satisfy, delight, and nourish our customers”).

Step 2d: Rebuild the value chain

Progressive organizations go to great lengths to deconstruct and rebuild their value chains to support their strategies (Figure 3). This ensures the organization remains focused on what is relevant and adapts to changing market requirements.

FIGURE 3: VALUE CHAIN PRIMARY AND SUPPORT ACTIVITIES



Both Amazon and Whole Foods derive their respective competitive advantages from the supporting activities that deliver their innovative products.

Amazon is now synonymous with online retail, but there was a time when many believed the company would not survive in a market dominated by well-established retailers. Furthermore, no one actually believed that Amazon would do so using Internet technology.

While major retailers focused on strengthening their primary activities, using the new Internet technology to gain market share, Amazon took a different approach, leveraging the technology as its primary activity to serve a market need.

After carefully assessing the types of products people would purchase through the Internet, Amazon chose books because of their low cost and universal demand.⁹ Fast-forward to today, and Amazon's strategic foundational elements remain firmly in place. The company continues to focus on how it uses technology, specifically the Internet and web algorithms, to differentiate itself. This has made its infrastructure, technology and procurement efforts core competencies. Even though Amazon did not ignore what established competitors were currently offering and what made them successful at the time, it did seek out to capitalize on existing market gaps to develop its strategic value. Deconstructing, rebuilding and cultivating these three support activities led to success in Amazon's primary activities. This has made Amazon a retail leader while competitors struggle to emulate its distinct strategic value.

Whole Foods differentiated itself through a unique value chain perspective. In order for Whole Foods to deliver on its mission for natural and healthy products, it worked with local agricultural and food vendors to create a sustainable food source. Vendors committed to honest and timely communication, creating transparency from farm to table in an effort to bring in goods of the highest quality.¹⁰ This is Whole Foods' strategic value.

Whole Foods focuses on the following support activities,¹¹ emphasizing a product leadership discipline:

- procurement (selecting appropriate vendors and food sources reflecting a healthy approach)
- infrastructure (through honest and timely communication and transparency with vendors and customers)
- human element (educating employees and consumers on Whole Foods' healthy lifestyle approach)

The company's second value discipline (which reinforces its human resource support activity) is customer intimacy. Whole Foods achieves this through:¹²

- decentralizing interrelated store systems and establishing self-directed teams to freely decide on their own ideas to manage stores
- motivating staff to exceed customers' expectations with vast product knowledge and passion in their work
- developing staff knowledge to educate customers about organic food, nutrition, health and the environment, generating customer loyalty

9 Amazon Startup Story; www.fundable.com/learn/startup-stories/amazon Copyright © 2017 Startups.co.

10 The Whole Foods descriptions are sourced from: wholefoodsmarket.com, 2009.

11 Ibid.

12 Ibid.

Focusing on the support activities within the value chain provides an opportunity to adapt operational activities to the needs of the market and adapt to the evolving competitive challenges. Such progressive organizations are often, in fact, responsible for the market changes (i.e., resetting what customers expect in the marketplace). Their strategic decisions were not based on a set of objectives but rather on searching for value from their market (i.e., the value that defines the organization, the one its customers relate to).

STEP 3:

Develop key performance indicators (KPIs) to drive strategic value

Step 3: Develop key performance indicators

Leaders who revisit strategic planning processes often ask, “We created an effective strategy, but why didn’t we achieve our objectives?” This common refrain is something that speaks less about planning and more about the failure of strategy development execution.

The effective execution of strategy begins by aligning the primary and support / enabling activities with performance expectations. These performance expectations, represented by key performance indicators (KPIs) correlate with specific value process areas in the organization’s mission.

Simply, strategy is about where the organization wants to go and how it will get there. Managing strategic performance is about what is done and how well it is done. Strategic performance management includes communicating strategy throughout the organization and ensuring everyone understands, recognizes and meets the objectives. By communicating simple, realistic and appropriate expectations through the use of KPIs, employees will adopt and nurture the organization’s goals.¹³ This is typically accomplished by creating a strategic performance management framework, often in the form of a balanced scorecard.

Step 3a: Align performance expectations with the strategic-value proposition

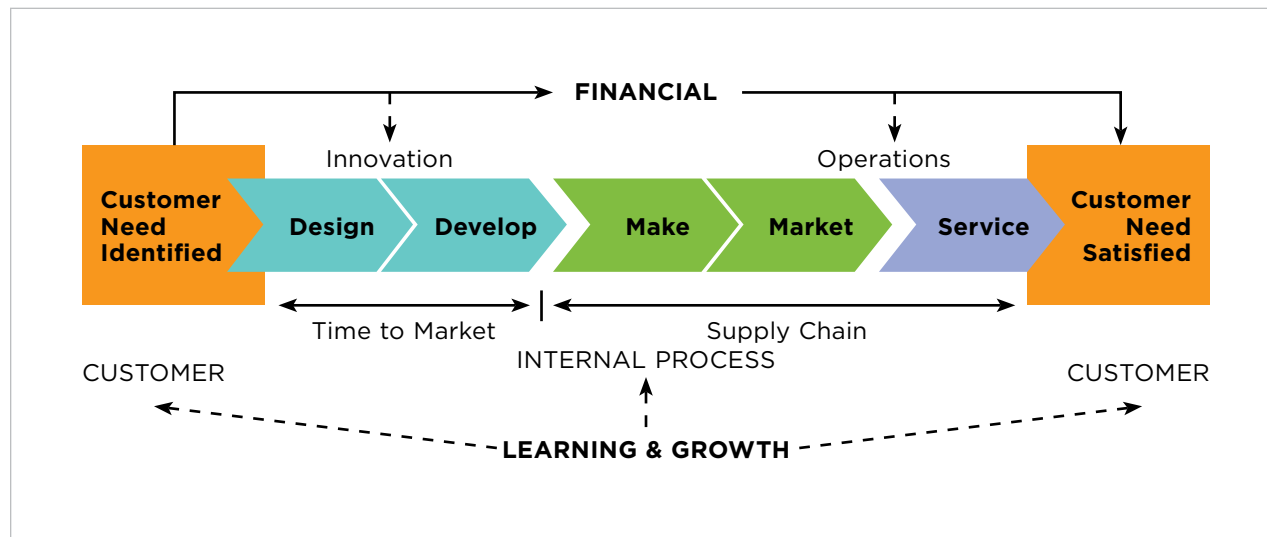
While there are several different strategic performance management frameworks (the most common being the Balanced Scorecard), each encompass the same four foundational elements (Kaplan & Norton):

1. financial perspective
2. customer perspective
3. internal process perspective
4. learning and growth perspective

¹³ What Is Strategic Performance Management & Why Should I Care? Ted Jackson; Clear Point Strategy; February 26, 2015; www.clearpointstrategy.com/strategic-performance-management

Figure 4 demonstrates the necessity of supporting / enabling activities in deriving value from primary operational activities and implementing a company's mission. Organizations, therefore, must identify the relationships between its primary and support activities as well as the ways in which this interdependence ultimately flows up to the mission.¹⁴

FIGURE 4: VALUE CHAIN AND PERFORMANCE¹⁵



Take Costco's implied vision and stated mission for example:

Vision: A place where efficient buying and operating practices give members access to unmatched savings.

Mission: To continually provide our members with quality goods and services at the lowest possible prices.

Costco, with its succinct and direct mission statement, recognizes its identity and what the company does best. Competing in a highly competitive retail space with major players (e.g., Walmart, Loblaw and Amazon), Costco differentiates itself through consistent “non-sale” low prices available only to members, not customers. This provides direction to the company's strategic financial objective: to minimize costs and continue to offer lower prices that attract customers. Costco operationalizes its mission through highly focused supply chain performance metrics that support cost minimization (operational excellence) and high-quality performance expectations.

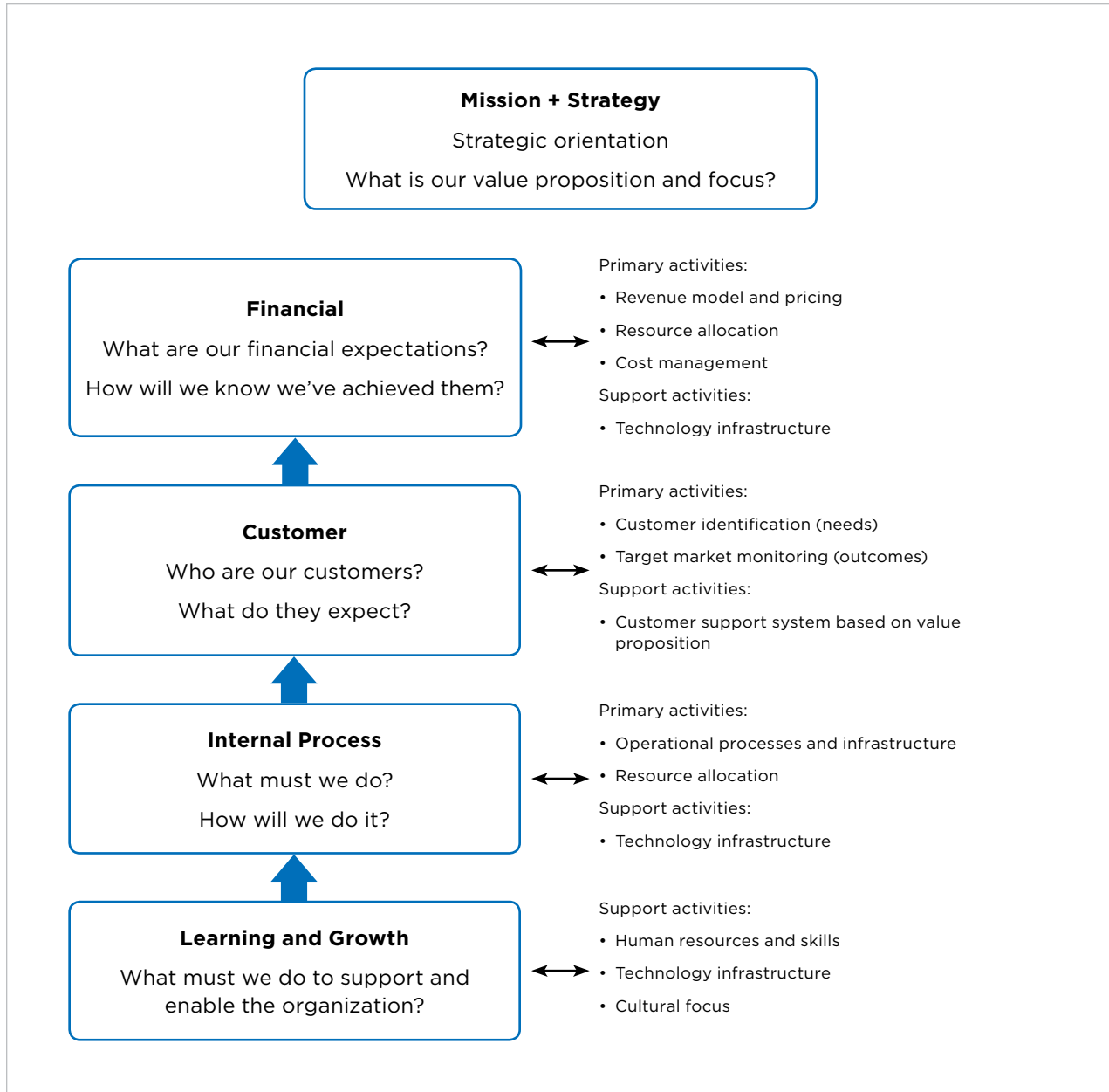
¹⁴ Ibid.

¹⁵ The Trainer's Balanced Scorecard: A Complete Resource for Linking Learning to Organizational Strategy; Pangarkar, Ajay M.; Teresa Kirkwood; Wiley & Sons; 2009.

Step 3b: Identify key performance metrics

Figure 5¹⁶ illustrates the relationship between value proposition and value chain, which is central to the success of strategically progressive organizations. Figure 5 is also a useful framework to assist in identifying appropriate KPIs.

FIGURE 5: RELATIONSHIP BETWEEN VALUE CHAIN AND VALUE PROPOSITION



NOTE(*): There are no primary activities to L&G. This diagram correlates the BSC to the value chain. The first three elements correspond to the value chain primary activities whereas L&G corresponds to the value chain's support activities. So, the L&G is an enabling perspective and drives results in the primary operational activities.

KPIs are measures – qualitative or quantitative – that reflect primary strategic-value drivers. These value drivers flow from the mission and, when executed properly, show if the organization is moving in the right direction (i.e., toward fulfilling its strategic objectives).

KPIs must be specific and tied to precise value drivers. Too often, leaders define KPIs generically (e.g., “improve customer service”). What exactly about customer service must improve? How might this affect other KPIs?

KPIs can cascade through the organization, becoming more precise at different operational levels. This allows employees to focus on performance objectives as part of their daily activities.

KPIs must be simple and limited, focusing on organizational performance aspects that are critical for current and future execution of strategy.¹⁷ Peter Drucker once said, “The fewer data needed, the better the information ... anything much beyond what is truly needed leads to information blackout.”

KPIs must remain relevant to the company’s strategic value. Performance can fade over time. KPIs may initially motivate employees; but, as time goes by, the emphasis on KPIs may dwindle. This is why it is important to periodically review and audit KPIs to maintain their relevance. Irrelevant KPIs should be revised or discarded in favour of more suitable indicators.

STEP 4:

Reduce risk by formulating a risk management plan

Step 4: Formulate a risk management plan

Strategic risk is about focusing on the right elements and decisions.

Operational risk, on the other hand, is about carrying out activities correctly.

In the 1980s, Sony’s innovative Walkman laid the groundwork for the eventual popularity of MP3 players and now music streaming. At the time, Sony dominated the market and did everything it could to meet market demand. However, Sony overlooked the market shift to digital and streaming music. Sony believed strategic value came through selling the Walkman, whereas companies like Apple found strategic value in the accessibility of music.

Strategic risk arises when a company fails to anticipate a market need or makes a shift too late to be able to adapt. To mitigate this risk, organizations must consciously position themselves as innovators, followers or drivers. In Sony’s case, focus on the device moved it from being an innovator to a follower.

Innovative organizations (e.g., Apple, Starbucks and Tesla) take market risks. The risk is that customers won’t necessarily follow the company’s value offering or product innovation. These organizations mitigate such risks by using insights gathered about customers to generate innovative product ideas that appeal to customer needs and create strategic value. This strikes a balance between internal core competencies and market expectations.

17 Ten Mistakes to Avoid When Implementing Business Performance Management by Karen Degner.

Follower organizations (e.g., Samsung and Microsoft) do have moments of innovation, but ultimately, they recognize they are followers. They build strategic value and mitigate risk through incremental innovations to existing products. The risk for these organizations is that they may be left behind or miss crucial market opportunities.

Driver organizations (e.g., Facebook and Google) look internally to guide their strategic value. They leverage their unique value chain support activities, specifically technology, to develop products and services. This is very much a core competency strategic approach where the expectation is that they will meet the unrealized needs of their customers. The risk is that they may not fully address a customer's unconscious needs.

For driver organizations, risk also arises from challenges like leveraging internal capacity and navigating shifting customer desires, volatile economic landscapes and ongoing product innovation. Strategic-value organizations monitor these issues internally and externally to mitigate risk. They do not look at risk as something to simply avoid. Leaders of these organizations make an effort to reframe potential risks as opportunities. This conscious shift in perception allows these organizations to embrace unique and innovative opportunities conventional competitors would instinctively avoid.

Step 4a: Operationalize strategic value to reduce operational risk

Developing strategic value is only the first step to mitigating competitive risk. Actual differentiation comes about when strategic value flows through to operational activities that reflect the unique strategic direction.

Progressive organizations are able to define strategic value, but it is how they manage strategic risk that determines whether or not they are successful. These organizations execute two steps in their strategic planning and implementation to reduce risk effectively:¹⁸

1. **Identify risks that drive variability in performance.** These are the unknowns (e.g., future customer demand) that determine results.
2. **Establish key risk indicators (KRIs) and tolerance levels for critical risks.** KRIs include KSFs, market threats, and competitor advantages an organization does not (or is unable to) meet. Tolerance levels serve as triggers for action.

Strategic risk represents the greatest danger (and opportunity) a company faces. By taking these two steps, companies can shape their future success while minimizing downside risk. This may often mean integrating the results of an organization's enterprise risk assessment into its strategic plan.

18 5 steps to effective strategic risk management; Mike Rost; Feb 14, 2017, 2017 Workiva www.workiva.com/blog/5-steps-effective-strategic-risk-management

Step 4b: Leverage strengths to build strategic value

During the strategic planning or review processes, leaders will outline the organization's current and future strengths, weaknesses, opportunities and threats. The focus is often on internal weaknesses and external threats. Internal strengths (in relation to potential market opportunities) are frequently overlooked.

Progressive organizations are judicious and methodical in identifying what they do well, leading to their strategic-value offering. They further triage these strengths to identify KSFs and competitive advantages.

In order to not only exist but succeed in a market segment, organizations must strive to meet the KSFs they have identified. Progressive organizations establish new KSFs that effectively become competitive advantages (i.e., things the organization does better than competitors).

After meeting existing retail KSFs, Amazon proactively established a new KSF rather than continuing to measure itself against the original ones. Now Amazon's competitors are racing to establish their online retail presence in an effort to survive.

Defining strategic value helps an organization identify its unique competencies, which facilitates strategic decision-making and direction. Whole Foods, for example, uses its unique competencies to ensure market growth, build competitive strength and maintain profitability. Rather than chasing every market segment, Whole Foods attracts customers that fit a certain profile (e.g., healthy, progressive and affluent urban lifestyle), with a longer-term aim of attracting non-targeted audiences.

Step 4c: Adapt strategy to limit strategic complacency

Progressive organizations make every attempt to avoid strategic complacency. Conversely, strategically conventional organizations are akin to greyhound dogs in a race, chasing a mechanical rabbit around the track. At different points during the race, different dogs will take the lead. The lead dog believes it is succeeding, but in reality, all the dogs are simply chasing the same rabbit. The strategic-value organization, however, has removed itself from the race.

Conventional organizations see themselves actively managing strategy that will put them ahead of competitors. But all companies in that group are stuck in an ongoing cycle of marginal strategic improvements. They forget Porter's approach of "starting with the right goals." In reality, goals become clouded or convoluted. Without clarity, leaders chase what their competitors are doing rather than, as Porter states, "choosing what not to do."

This is strategic complacency.

A strategic-value approach mitigates potential strategic leadership myopia and allows organizations to address relevant strategic risks.

STEP 5:

Embrace a change strategy that drives the value-focused strategic plan

Step 5: Embrace a change strategy

Progressive organizations integrate change within their strategy, making them responsive to stakeholders' needs and continually evolving markets.

Step 5a: Manage Incremental or transformational change in strategy

Leaders are not impervious to change but are often unable to discern the differences in change elements. Most strategic leaders typically encounter one of two types of change: transformational or incremental. The strategic-value approach involves both.

Transformational change is about moving from a conventional strategy to pursuing strategic value. Progressive leaders prepare to seamlessly integrate a new direction by providing the following:

- **Support for employees:** Significant change will cause anxiety and worry among employees. Not addressing these issues leads to resistance and possible attrition. These leaders cultivate open and bilateral communication well ahead of change. They communicate how the transformation will impact each role while accepting suggestions from employees.
- **Processes to facilitate and support change:** A common mistake is assuming that current systems are sufficient to integrate a new strategic direction. Prior to implementing a strategy, current processes must be carefully assessed to determine which should be changed to provide appropriate and continuous support.

Incremental change refers to making minor adjustments. For conventional organizations, incremental change does not place significant stress on existing processes or alter current methods. These organizations react to change rather than making change themselves.

Progressive organizations see opportunities for improvement and *provoke* incremental change. They obsess about enhancing operational aspects or investigate new ways of doing things better. These incremental changes become transformational changes for competitors. Think about Tesla or Amazon. Think about the impact of their strategies on their competitors.

Strategic complacency will lead to strategic extinction. Blackberry, albeit innovative for its time, went from a strategic-value organization to a strategically conventional one. It became complacent, reacting to attacks on its strategy rather than seeking out ways to increase value. Apple, on the other hand, continues to make incremental improvements, driving strategic value and causing transformational shifts for competitors.

Step 5b: Align the culture with strategic value

Strategic “plans themselves do not capture value; value is realized only through the sustained, collective actions of the thousands – perhaps the tens of thousands – of employees who are responsible for designing, executing, and living with the changed environment.”¹⁹

When it comes to influence on strategy, one factor stands above all others: culture. Culture is about the human component, the alignment of strategic direction with beliefs, values and behaviours. Unlike their conventional counterparts, progressive leaders do not define what culture is or should be. Often, they do not speak to culture at all. Their culture exists as a result of their actions exemplifying the culture they want to see.

Elon Musk, CEO of Tesla and SpaceX, for example, demonstrates cultural commitment with clear communication and supportive structures and processes. Most importantly though, he leads by example. His actions demonstrate commitment to the strategic-value systems.

Here are core elements to develop a culture that embraces change:

- **Initiate an organic belief system.** Getting people to believe in the strategic value requires open minds and transparent communication. Employees must be allowed to contribute to building a value culture.
- **Involve all levels and those directly impacted.** Strategic value is about complete operational alignment. The strategic-value message must relate appropriately to each operational area. Setting performance objectives within each area will have a cascading effect throughout the organization.
- **Assess and address culture before, during and after strategic change.** It is crucial to evaluate the current culture and build upon positive traditions.

Once the strategic change is comfortably in place, employees may begin to take culture for granted. Progressive organizations continue to stoke their culture, entrenching it as a belief system and making it pervasive throughout the organization.

¹⁹ 10 Principles of Change Management: Tools and techniques to help companies transform quickly. by John Jones, DeAnne Aguirre, and Matthew Calderone Published: April 15, 2004 (originally published by Booz & Company)
www.strategy-business.com/article/rr00006?gko=643d0

Key learnings

While strategically conventional leaders view uniqueness as a risk, strategic-value leaders see it as an opportunity for sustainable market differentiation.



Many leading organizations revisit these steps regularly to reassess the value they provide to their market and whether their strategic value remains valid. Ideally, CPAs in business would partner with business leaders to apply the steps outlined in this guideline systematically, but this is not usually the case. Many organizations are anchored to dated strategic conceptions.

Ultimately, adopting a strategic-value approach enhances an organization's ability to meet precise performance expectations, adapt to market or internal change, and mitigate strategic and operational risk. Strategic value provides definitive reassurance for stability within unpredictable environments.

Resources

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