

DUAL CHALLENGE OF CEOs

1. The New Ball Game

During a CEO RoundTable meeting among CEOs from homegrown enterprises in the South East Asia region in early 2002, a participating CEO shared his key experience with fellow CEOs:



CEO Experience

“I have been busy running my business, spending almost 14-15 hours a day, 7 days a week in the last 15 years. I have built a strong and loyal Management Team. Together, we have put in place improvement programmes including TQM, Cost Reduction and Reengineering in the last 2 years to respond to the hostile environment and our declining bottom line. But all these did not translate into bottom-line performance. We have lost more than S\$5 million in 2001. This is a lot of money to lose for a company of our size. For 2002, we expect to continue incurring losses.

I know something is not right. There always seem to be something going on in the environment that upsets the performance. We just do not appear to be moving on a steady growth and profitability path.

We held a weekend retreat a couple of weeks ago to specifically address the question: “What do we need to do when all hard work and operational programmes fail to produce superior performance the company used to achieve?”

Let me share with you our conclusions from the retreat:

- 1. The root cause of our problem was our failure to respond to the changes in the market environment. We focused all our efforts on improving operations while our strategy has already become irrelevant due to the rapidly rising turbulence in our external environment. Operational improvement is not the answer; we need to transform strategically to align with the new environment.*
- 2. We decided that our organization needs to transform, but on our own, we don't have the experience and methodology to go about it. We need help. To minimize risks and losses that we cannot afford, we are contemplating to engage a Strategic Consultant to partner us in the Strategic Transformation journey. I have come across other companies that have failed in their transformation attempts and learnt that it is important for the consultant to possess both the experience and methodology to help us transform successfully.”*

Facilitated by the CEO RoundTable Chairman, the fellow CEOs contributed and expanded on the CEO's experience for learning: -

1. Today's environment has become more competitive, complex and unpredictable. Companies are competing with global players with strong brands, up-to-date technology, professional management and financial prowess in a borderless marketplace trying to satisfy increasingly well-informed and demanding customers.
2. In the past, many industries operated under rather stable environments and future was largely an extrapolation of the past. Profit was a direct result of growth.

With increased discontinuities and rapid shifts in key success factors, the growth pattern today is expected to be different from that of the past. This is the 'new ball game' (Figure 1.1) confronting CEOs where future cannot be extrapolated from the past and profits do not necessarily follow growth. This phenomenon of "profitless growth" is quite common. In this new ball game, CEOs can no longer project their experiences and past success strategies into the future.

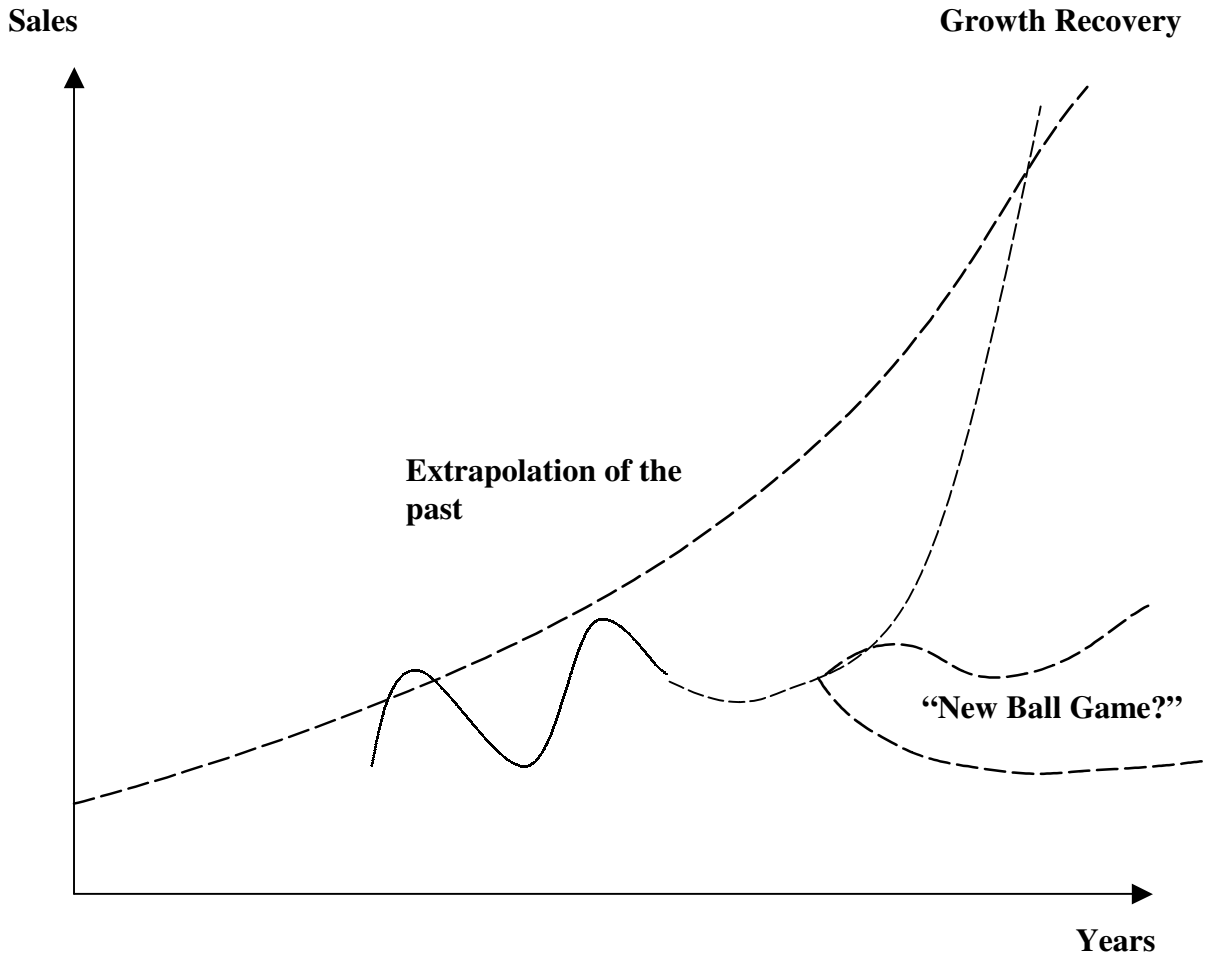
3. When operational improvement gains fail to translate into sustainable profitability, CEOs have to re-examine the relevance of their strategy.

When the strategy is no longer relevant, no operational improvement initiatives will bring back the superior performance. Strategic Transformation is necessary to develop and implement a new strategy to stay relevant.

4. Providing strategic leadership to transform the company strategically is the single most important challenge for CEOs.

Strategic Transformation in the discontinuous environment is more difficult and requires the support of a knowledge-based methodology.

Figure 1.1
Growth & Profitability Pattern
for the New Ball Game



2. CEOs' Dual Challenge

The CEOs have to sustain profitable growth year after year to enhance the value of their organizations. This was not an issue in the past where organizations operating in a stable and growing environment, need only to excel in operational management to achieve profits and growth.

However, many organizations struggle to 'stay above water' in today's turbulent environment, let alone to sustain profitable growth. The new ball game has caused past success strategies and business models to lose their relevance. In addition, it also creates the problem of dual challenge where CEOs have to balance short-term profit making with long-term growth enhancement.

Near-Term Profit Making

The first challenge is to take the products/ services to the target markets to make a profit for today.

The successful organizations continuously ensure superior value by delivering more benefits to the customers at the lowest possible cost. In a competitive market, organizations are constantly challenged by both traditional and non-traditional competitors who are trying to offer more benefits and/ or lower price. Organizations need to leverage on existing capabilities and network partners to improve the operational effectiveness of their present business to deliver superior value to customers profitably.

In a stable environment, as long as the operations are well managed to make a profit, the growth in the industry automatically ensures both profitability and future growth. This is not so in a turbulent environment. The fast pace of change causes the value strategy to become irrelevant. If the strategy is no longer relevant, organizations focusing on operations alone will find it difficult to remain profitable.

Long-Term Profit Potential

Organizations are confronted with the additional challenge to keep pace with changes in the environment to ensure long-term growth and profitability.

Markets in the world are undergoing structural changes. Global competition and well-informed customers enabled by new technologies such as the Internet are changing the way business is conducted.

To cope with such changes, CEOs need to provide strategic leadership to formulate and implement new strategies to transform the organization to stay relevant. Organizations that do not transform and renew themselves to fit in the new environment will face the fate of extinction.

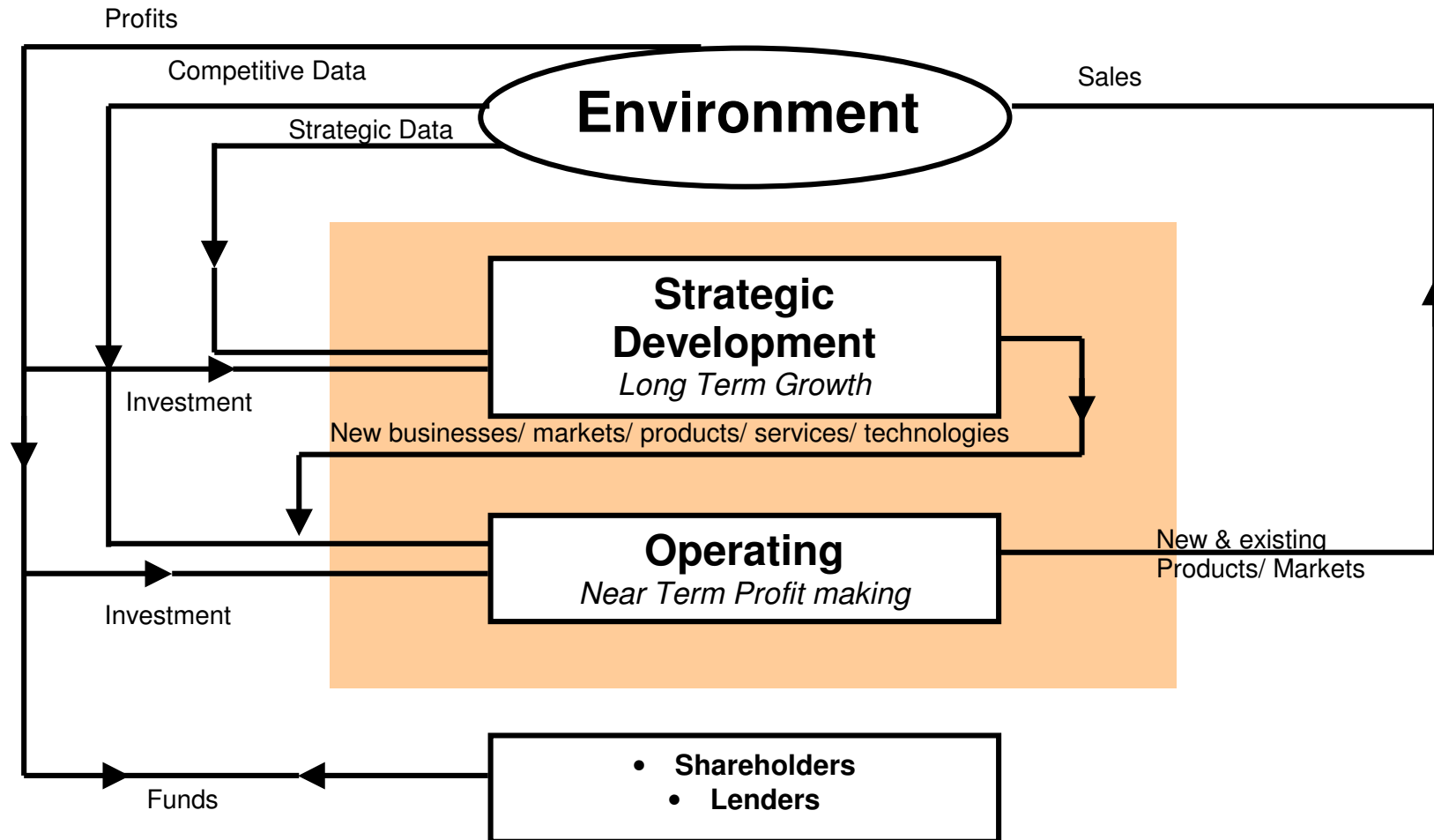
In essence, organizations need dual strategies to respond to the dual challenge:

- (1) Profit making strategy to align functional and supply-chain activities to deliver superior value to customers to make profit.
- (2) Strategic development strategy to define and position future opportunities to ensure sustainable and profitable growth.

The Strategic development strategy provides direction to enter new businesses, new markets, introduce new products/ services and create/ acquire new technologies.

This places demand for a new business model that addresses both near-term profit making and long-term growth and profitability. It consists of two interconnecting parts: Operating part to address near-term profit making and Strategic Development part for long-term growth and profitability (Figure 1.2).

Figure 1.2
Business Model to Address the Dual Challenge



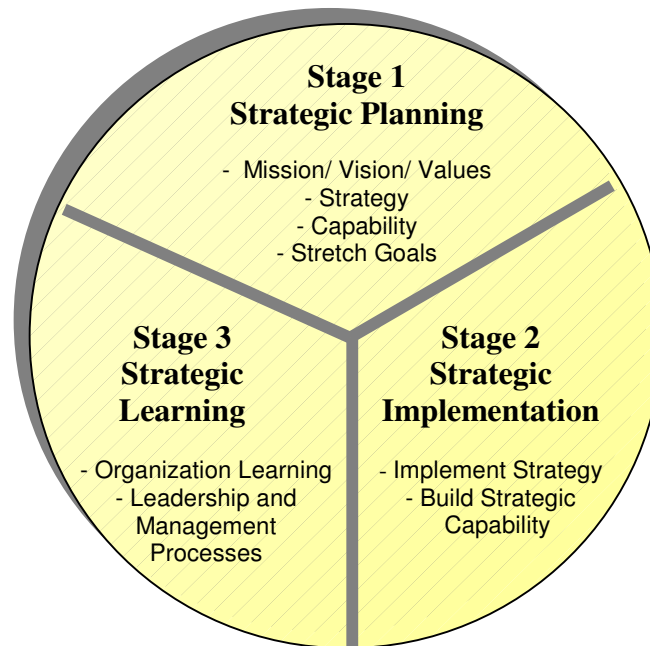
Strategic Development and Operating parts are interdependent. The Operating part needs a continual stream of new products from the Strategic Development in order to renew the organization' s product lines. Strategic Development needs investment of resources, which are made possible by the profits from Operating part.

The next section describes the three typical stages of a Strategic Transformation journey.

3. The Three Stages of Strategic Transformation

Strategic Transformation comprises the three main stages of (1) Strategic Planning, (2) Strategic Implementation and (3) Strategic Learning. Each of these stages presents a different set of challenges for the CEOs.

Figure 1.3
The Three Stages of Strategic Transformation



In Stage 1 Strategic Planning, organizations go through a rigorous Strategic Planning process to develop their strategies to grow and create competitive advantage. Management and functional capabilities are also designed as an integral part of the Strategic Planning process.

The problem of dual challenge imposes additional challenge in developing Strategy and Capability. The Strategy must be sufficiently robust to guide a balanced allocation of resources to leverage today's capabilities and network partners including suppliers and customers to maximize near-term profit while developing new Capabilities to ensure long-term profit potential. The Organizational Capability needs to be expanded to include network partners and Dual Capability: Operating and Strategic Development, to support profit making and long-term growth.

In Stage 2 Strategic Implementation, organizations go through the process of implementing their strategies as well as building necessary organizational capabilities based on the Strategic Plan developed in Stage 1.

Building the Dual Capability: Operating and Strategic Development, is a key challenge in this stage. Another challenge is the “parallel” implementation of strategy and building of organizational capability. An Accordion approach was introduced to build organizational capability just in time to implement the strategy.

Stage 3 Strategic Learning enhances and institutionalizes strategic capabilities to evolve as a learning organization in a turbulent environment.

At the strategy level, it introduces real-time response system to complement Strategic Planning to cope with rapid discontinuities that surface in between planning cycles.

At the implementation level, building the Leadership and Management Processes to help CEOs and Key Managers to guide, empower and energize the Teams to speed up the achievement of strategy is another challenge in Stage 3.

Note: This article is based on a chapter from an internal publication of Ansoff Associates Asia.