Corporate Strategy

Strategic management: An Inquisitive outlook

Why and How to Create Sustainable Competitive Advantage for Corporate utilising Effective Strategic Management

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Planning and Executing Strategy

Every business leader would like to create a sound Strategy and have it executed well. Accomplishing this, however, remains an elusive goal for most business organizations. Devising and implementing new and innovative strategies to exploit opportunities in a competitive world is daunting. Clearly, no one strategy fits all companies.

As with most complex problems, the solution to planning and executing strategy lies in creating a practical, step-by-step methodology that breaks the problem into manageable components to be addressed in a logical sequence. The steps in this paper describe such a systematic process.

What exactly is strategy?

Virtually everyone in our society is touched by the strategic choices firms make about their products and services. These decisions affect the workers, customers, competitors, investors, and communities of today's businesses. The word strategy comes from the Greek word strategos, which means "a general," and is derived from roots meaning "army" and "lead." Hence, a general is the leader of an army. In both the military and business, competition typically drives organizations to find ways to best their rivals through the effective use of their resources. Strategy is often contrasted with tactics, another term with military origins. While strategy represents the big picture about "doing the right things," tactics are more about the details of "doing things right." Strategy sets the direction in which the organization will proceed while tactics determine how it will proceed. The major strategic challenges for firms encompass how to please customers, win orders, and simultaneously achieve financial objectives on an ongoing basis.

For example, a firm could have a strategy to build market share by selling the lowest-priced product in its market. After implementation of the strategy, the competitors will react, and the firm's strategy will need to adapt to meet the new challenges. There is no stopping point and no final battle. The competitive cycle continues on perpetually. An organization's strategy should evolve over time as a blend of the intended strategy and the firm's responses to events, learning from experiences, and the emergence of new information and ideas. It is an iterative crafting process of making and implementing decisions, observing, analyzing, and learning from the results, and then making decisions anew. To create, plan, and implement strategies, one should first learn to think in a way that combines the rational and the intuitive in analyzing both hard and soft data to arrive at a unique interpretation of opportunities. The steps contained in this paper will guide you through the process of formulating and implementing strategy. Regardless of their content and brilliance, though, strategies will not be successful unless they are implemented effectively and updated regularly.

"Strategy is a Process, not an Event."

Skip the Strategy, Manage Strategically

Many managers have a disdain for strategy and strategic planning, assuming that they are too theoretical for practical use. **Every successful company however, benefits from an effective strategy.** The strategy might have been developed through formal analysis, trial and error, intuition, or just luck. Regardless of its origin, a strategy was indeed executed, whether managers were aware of it or not. If a business has an excellent strategy and effective implementation, it will likely be successful. If a company has a poor strategy, however, it is probably going to fail in the long run. But what if a firm has strength in strategy formulation or its ability to implement, but not both?

We know that some businesses have exceptional strategies and succeed in spite of mediocre operations. For others, it doesn't matter how well they make or deliver their product because nobody wants it. Great implementation simply cannot compensate for a poor strategy. Having an effective strategy, though, is not necessarily more important than effective implementation. In the end, we must acknowledge that a company needs both to guarantee success. **Strategy is a long-term concept and, importantly, deals with change.** The leader of a business, in seeking a prosperous future, must consider what might lie ahead and understand the driving forces of change and their likely impact on the business. Managers must determine which actions they should be taking now to prepare for what they expect in and desire for the future. Tactics, in contrast, focus on the present. Tactics emphasize taking actions to execute the strategy, such as meeting demand, satisfying customer needs and desires, improving efficiency, and controlling quality and costs so as to make a profit and meet other short-term goals.

Evidence that a business's current strategies and operations have been effective includes current profitability and positive trends. Management must continually question whether these current strategies will continue to be successful in the future. Although some strategies last a long time, successful strategies do not last forever. Environments evolve, competition intensifies, and requirements for leadership talent shift. Strategies must transform in response. To benefit from using the strategic management process to develop and implement strategies:

i. **Use it to provide a framework:** You can use the process to face and prepare for the future. This also requires attention to the present and the short-term horizon.
ii. **Let it guide you logically while requiring creativity:** The process requires the team to generate ideas as well as consider the administrative details and functional activities that must be coordinated for successful strategy implementation.

iii. **Ensure widespread participation, which culminates in decisive plans:** As a result, the process improves communication, motivation, and execution.

"Every activity should begin with a vision, purpose, goals, and objectives. These dreams are not likely to be realized without an effective strategy."

Just Follow the Steps or Follow the Logic

The strategic management process helps you first to understand your business's current situation and trends, next to determine a direction and desired state for the business, and finally to understand and identify what must be done to close the gap between the organization's current and desired positions.

Strategic management encompasses four tasks, each building on those that precede it:

i. Strategic learning requires understanding the firm's operations and results. Learning also requires that you continually scan the environment and process the relevant information. The goal is to acquire a profound knowledge of the business and the environment in which it operates.

ii. Strategic thinking is a creative and analytical activity that builds on the knowledge developed in the learning phase. Through the strategic thinking phase, you determine what you want to do in a strategic sense and the issues that must be addressed for success.

iii. Strategic planning has the aim of determining how best to address strategic issues to achieve your strategic objectives.

iv. Strategic action involves the implementation and execution of the strategic plans. Strategic action should involve activity at all levels of the organization.

A diligent completion of the tasks and a willingness to learn—to see things in new ways—are prerequisites for an effective strategic management process. Strategic thinking requires creativity, which generates wide ranges of options to be considered. The more options you develop, the more likely you are to find the best one. Strategic thinking also encompasses a series of strategic choices that should be guided by the vision, mission, and values of the organization, including the following:

- What business do you want to be in?
- In what direction do you want to take the business?
- What are the goals of the business?
- How are you going to compete?
- What functional strategies do you need to be successful?

The functional strategies involve creating competencies throughout the organization to support the business strategy. The functions are generally considered to include marketing, production/operations, human resources, and finance. Detailed plans should be developed for various levels of the organization, all consistent with the articulated strategy. Finally, the action phase of strategic management involves implementing the strategic plans. All members of the organization are involved in this phase of activity every day, whether mindful of it or not.

As you develop your strategic management skills: Keep in mind that the strategic management process is deceptively simple: **Learn, think, plan, and do. The devil is in the implementation.** Develop a profound knowledge of your business and its environment: These initial steps of the strategic management process build a foundation for the subsequent ones.

Assess constantly throughout the strategic management process: **Continually review your implementation choices for consistency and fit. "Continuous improvement is a requisite of Competitiveness. Never let it rest."**

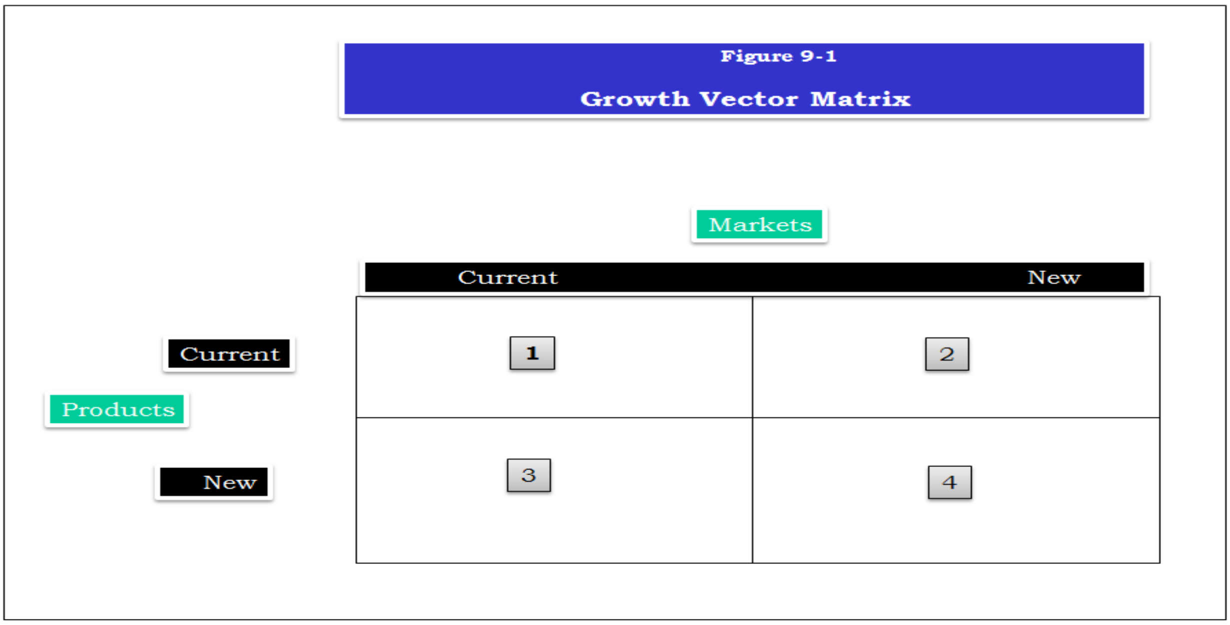
Diversification & Synergy, Blood line of Corporate Strategy

The value approaches discussed in above sections are excellent tools for sense making and to provide Strategic Vinson to the Group when the number of business units in a firm grows very large—thereby reducing cognitive overload at senior management levels—and they are excellent cash management tools when resources are insufficient to cover all opportunities and strategic requirements at the business unit level.

In essence, they treat corporate strategy as an exercise in balancing an existing portfolio of businesses. What they do not do, however, is tell the strategist how to locate and exploit synergies among existing businesses, how to find appropriate new businesses, or how to generate new strategies that expand the scope of the firm. Two frameworks can help the strategist analyze how to expand the boundaries of the firm in a way that maximizes the potential for transference of skills, or synergy, among the businesses. These are **Ansoff's growth vector matrix** and **Thomas's direct and indirect linkages approaches.**

i. The Growth Vector Matrix

Igor Ansoff outlined a simple, yet elegant, approach to generating options for diversification. (These options also are useful for generating strategic alter-natives at the business strategy level.) He proposed a growth vector matrix, also known as the **product/market matrix.** On the top of the matrix, one arrays both current and potential **(new)** markets. Along the side, one arrays current and new products (see Figure 9-1).



Source: Adapted from Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill, 1965), p. 109.

The four cells present four strategic alternatives for expansion. If a business is attempting to grow within its current product or market arena (cell 1), it will then pursue a strategy of **Market Penetration.** This strategy is easiest to pursue in the introduction and growth stages of an industry, as all competitors can grow together and the perceived level of rivalry is low. At the mature and decline stages, however, continued growth comes through taking a share from competitors. This can be costly, and, as the portfolio approaches pointed out, short term in focus.

A second strategy is to grow by finding new customers or markets for the firm's current products (cell 2). This is a strategy of **market development,** and it can be pursued in a variety of ways. For example, a firm can franchise its operations and grow geographically, as McDonald's have done. Or, it can find new uses for its products. When the baby boom ended in US, Procter & Gamble stood to lose significant profits from its Pampers disposable diaper business.

The solution was to reconstitute and rename its product as Depends and sell into the hospital and rest-home markets (for incontinent patients), where the new demographic growth is concentrated.

Similarly, Arm and Hammer employed a marketing executive whose responsibility was to discover and pro-mote alternative uses for the company's baking soda (refrigerator deodorant, toothpaste, stain remover and so on).

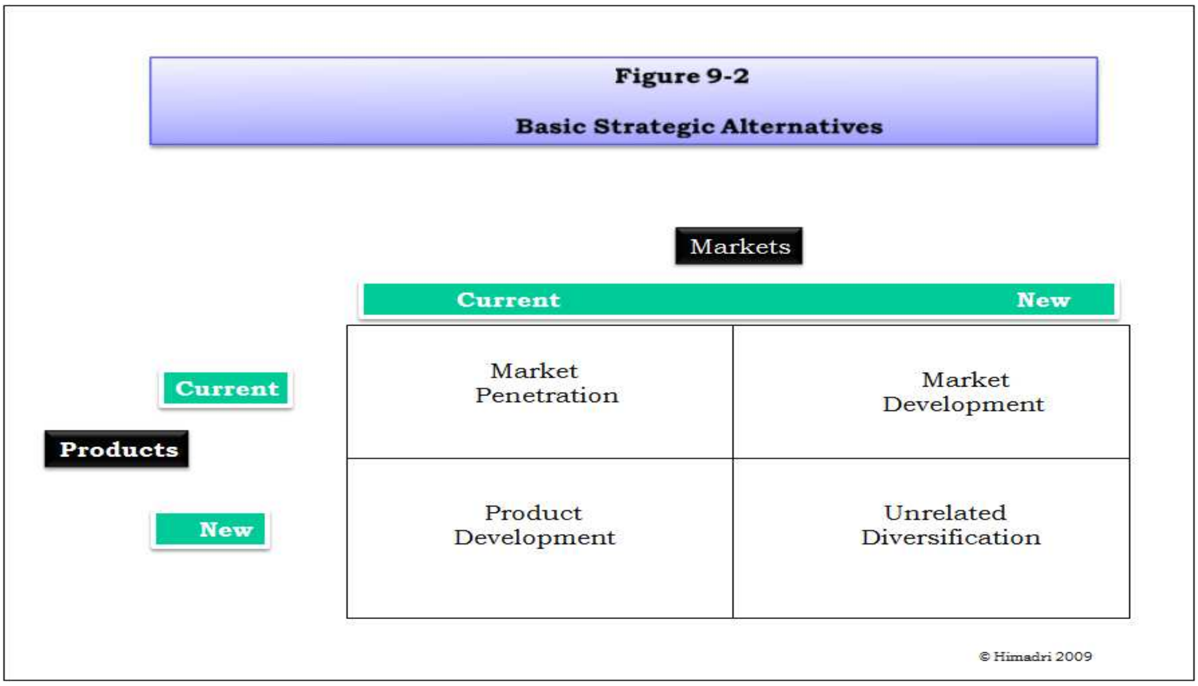
Business schools offering executive MBA (EMBA) programs for working managers at night or on weekends offer another example of taking a current product, suitably modified, to a new market. Finally, most multinational corporations initiated their international expansion through exports to (new) markets in other countries.

A third strategy is to grow through **product development** (cell 3), by selling additional products to current customers.

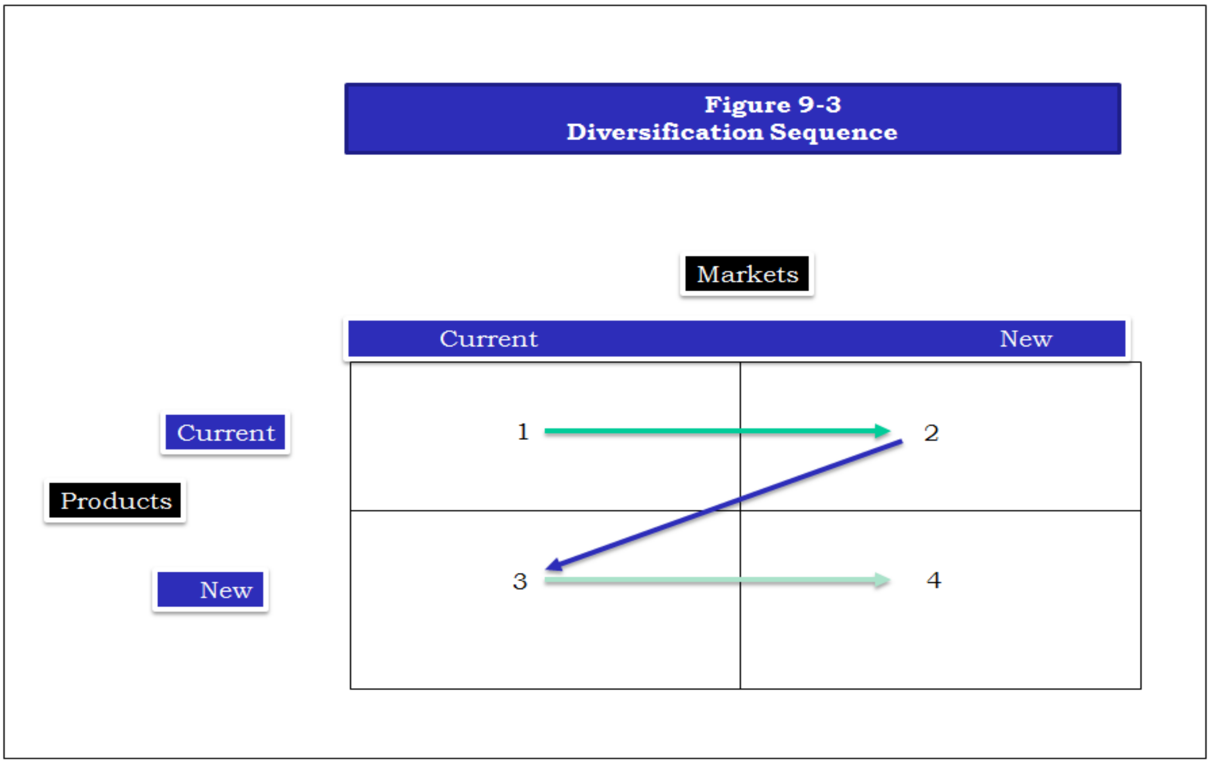
Examples include salads at Pizza Hut, software and laser printers from Apple Computer, tax planning and management consulting from auditing firms like Deloitte, and amplifiers from Fender Guitar Company. Whereas market development requires marketing and selling skills, product development requires technical and research and development skills. *(An alternative approach to new products for current customers is to use licensing agreements with other firms to provide their products under one's brand, such as IBM's Canon-produced printers. This requires strategic alliance skills.)*

The fourth strategy, new products to new markets (cell 4), involves the greatest risk. Ansoff calls this an **unrelated diversification** strategy. Dan Thomas calls it the "**suicide square**" because of the risks associated with moving simultaneously into unfamiliar markets, products, and, possibly, technologies. These risks are amplified if the **unfamiliarity causes management to divert its attention from the core business in order to learn the new business.**

They are further compounded if a fundamental change takes place in the core business while management is distracted by the new one. The four strategies are summarized in **Figure 9-2.**



Most companies progress through these strategies in sequence, as illustrated by the diversification sequence "Z" in Figure 9-3.



Source: Adapted from Igor Ansoff, *Corporate Strategy* (New York: McGraw-Hill, 1965), p. 109.

ii. Direct and Indirect Linkages

A shortcoming of a Corporate Group, where Strategies are left to be formulated at Business Unit is that that they treat each business unit as if it were totally independent of every other unit. That is, recommendations to grow a particular business or to divest another frequently failed to take into account the fact that two businesses might be closely related and have a strong dependence on each other. For example, the two businesses might share manufacturing facilities, raw material sources, or a distribution channel or sales force. To reduce the activity in one business might result in increased costs for the sister business, given that a lower overall volume would be realized in the shared resource.

In addition, some academic research completed in the mid-1970s indicated that corporations consisting of closely related businesses per-formed better economically than corporations composed of unrelated businesses. This led to the development of some concepts concerning the degree to which businesses in the corporation are linked to each other, forming a basis for synergies. Specifically, the works of Professor Richard Rumelt and later that of Dan R. E. Thomas, founder of **Focus** (a strategy-process consulting firm) introduced one of the more modern theories of corporate strategic management. That theory relies on the concept of direct and indirect linkages.

Direct linkages exist to the extent that businesses share a common resource, knowledge, or experience base that is specific to markets, technologies, or product characteristics.

Indirect linkages are those with *no* specific market, technology, or product relationships.

For example, for GE to state ***"We will be number one or number two in any business in which we operate"*** is to declare that an *indirect* linkage is the basis for corporate strategy. The research evidence indicates that companies characterized primarily by *direct* linkages among their businesses tend to secure a higher degree of economic return. There are three kinds of direct linkages: market, technology, and product linkages.

a. Market Linkages

A market linkage exists when a company uses its current customer base to sell new products. One example is the expansion of Sears, Roebuck and Co. into such areas as insurance (Allstate) and income tax services (H&R Block). Once consumers are under the Sears roof to purchase merchandise, Sears's personnel can presumably sell them these and other services. Restaurants in hotels and movie theatre concession stands are other examples.

Another type of direct market linkage is exploited when a company uses the same distribution channel to distribute different products. For example, McDonald's hamburger outlets were sitting vacant during the early-morning hours, so the company introduced breakfast foods: same distribution channel, new products. Similarly, Bic exploited synergies in distributing disposable cigarette lighters and safety razors through the same outlets that it had developed to sell its highly successful disposable ballpoint pens.

A third type of direct market linkage is the use of brand identification to develop and market totally unrelated products. A vivid example in recent times is the broad line of products tied to the immensely popular *Star Wars, Krishh* films: toys, clothing, comic books, and so on. The success of the Head metal tennis racquet can be directly attributed to the successful, high-quality brand image gained by the original Head skis. Similarly, Porsche sunglasses and polo shirts capitalize on the Porsche image.

b. Technology Linkages

A second kind of direct linkage occurs through technology. **A company experiences direct technology linkages when it uses the same operations technology to manufacture a variety of products or render a variety of services.** For example, **TATA Motors** manufactures not only automobiles but also trucks and locomotives. The Bic Pen Corporation applied the same plastic-injection moulding technology to the manufacture of a variety of products—the same skills, assembly processes, and raw materials were used for each of its disposable pen, cigarette lighter, and safety razor product lines. Another type of technology linkage occurs when corporations find that they can sell by-products to an external market. For example, the chemicals that were originally a waste by-product of the petroleum refining process formed the foundation for today's petrochemical industry. **Reliance Petroleum** is a major player in this market and represents a technology linkage to the original refining Company, which refined gasoline and kerosene products.

c. Product Linkages

A product linkage occurs as a company extends its product line to new markets. This happens, for example, when the company provides the same products or services to buyers in new geographic locations, as do most franchises and many multinational corporations. E.g. **Microsoft, India** when experiencing the reduced bottom line due to current Economic recession of 2008-09, which resulted in decreased performance by Sales force in Indian IT sector in Urban markets it focussed on Two markets at the same time i.e. Govt. Sector in Urban and Rural and retail markets in Rural India utilising one source for each other i.e. utilising the Govt. post offices located in villages to penetrate and rural markets.

Another product linkage occurs when a vertically integrated company experiences excess capacity at different points backward or forward along the product flow chain and can market these products or services externally. For example, General

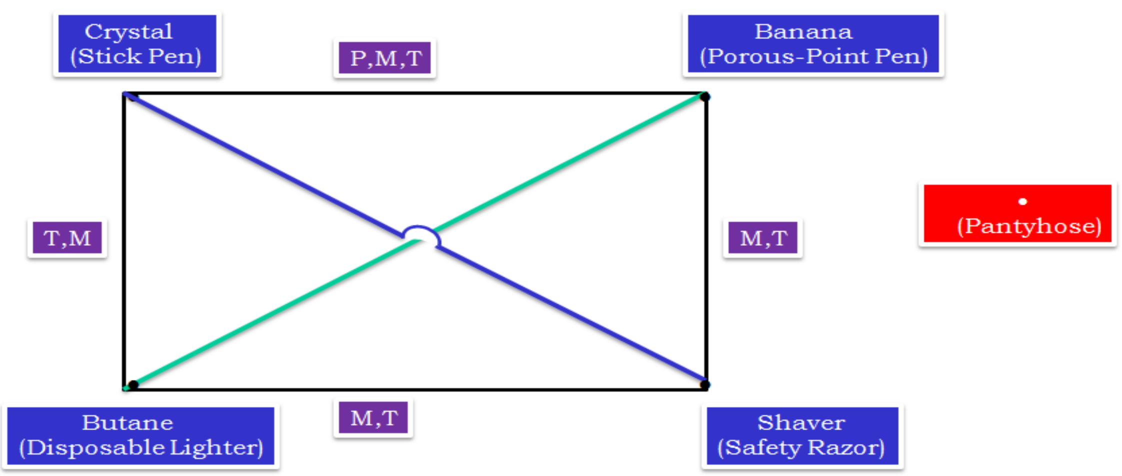
Motors can market its Delco radio products independently of its automobile dealerships.

Why is it important to understand direct linkages in a company? For one, it is a convenient way of identifying the company's corporate strategy and isolating which parts of the corporation are closely, or loosely, related to the rest of the corporation. Second, it can provide clues to high-potential expansion opportunities.

A useful way of conducting a linkage analysis is to diagram the direct linkages within a company. For example, I have created an imaginary Company called **Himadri Corporation** and Figure 9-4 illustrates the direct link-ages among Himadri Corporation's businesses. Where my analysis shows that direct linkages exist between any two businesses, we draw a line. Next to the line we draw a *T, P,* or *M* wherever there is a technology, product, or market linkage, respectively.

As illustrated in the diagram, the ballpoint pen, felt-tip pen, disposable cigarette lighter, and disposable safety razor businesses all have very solid, direct linkages between them. In contrast, the disposable pantyhose business was one in which there was no shared sales force or distribution channel (the pantyhose were sold in supermarkets, whereas most HC pens were sold in drugstores), the production technology was different—textiles versus injection-moulded plastic—and the function of the product was totally unlike that of the previous products. Correspondingly, diagram shows no direct linkages between this business and the others. Not surprisingly, Himadri Corporation's any attempted entry into the pantyhose business will have grater probability of failure. The above example is one of a relatively simple and uncomplicated corporation.

Figure 9-4
Direct and Indirect Linkages: Himadri Corporation



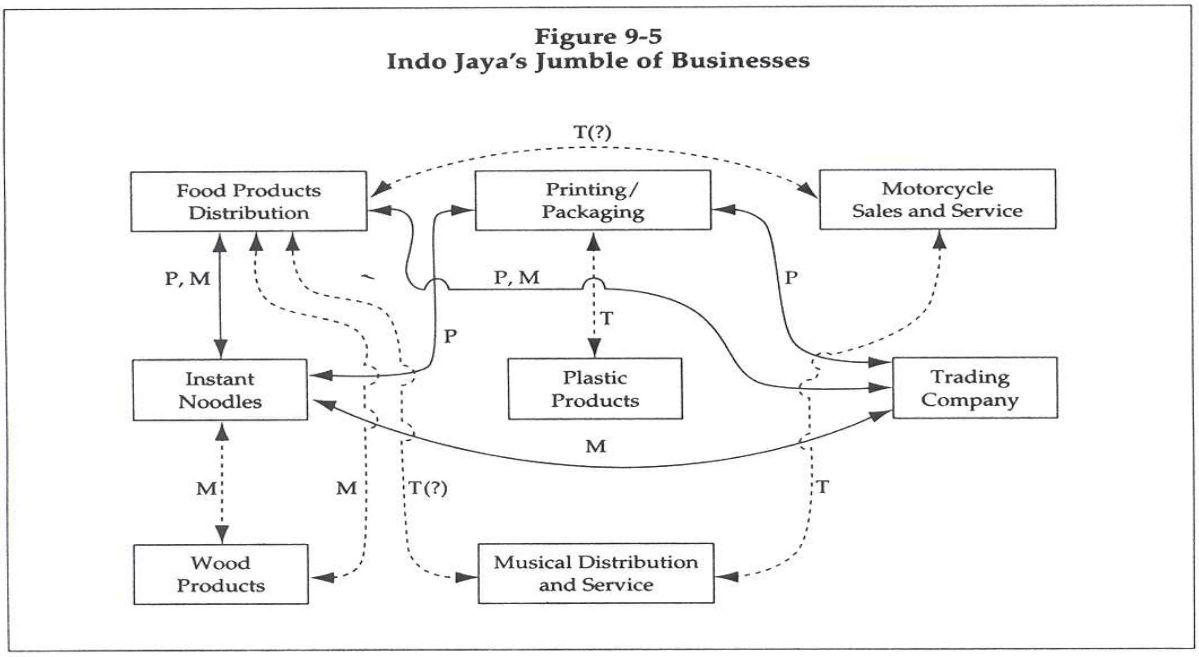
Linkage analysis becomes particularly useful when a company consists of a variety of businesses and grows to a level of considerable complexity.

For example, consider the Indo Jaya Corporation in Southeast Asia. Indo Jaya is a large producer of instant noodles in one of the fastest-growing regions of the world. The corporation was built by an aggressive entrepreneur who started a variety of companies in different lines of business (see Table 9-1).

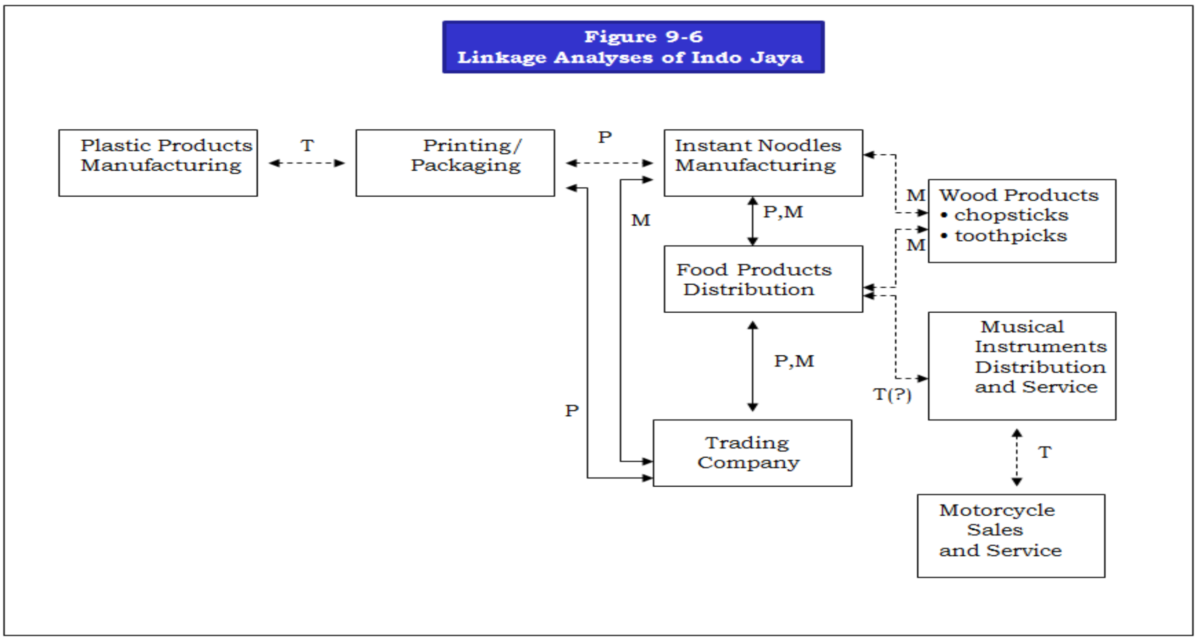
Table9-1
Indo Jaya Corporation

DISTRIBUTION COMPANY (IMPORT/EXPORT)	**PLASTIC PRODUCTS MANUFACTURING**
Noodles	Fishing line
Beer	Fishing net
Confectionery	Polyester
Printing inks	Polyethylene sheets
Office supplies	Polyethylene bags
INSTANT NOODLES MANUFACTURE	**IJ MUSICAL AND DISTRIBUTION**
	Pianos
WOOD PRODUCTS MANUFACTURE	Band instruments
Toothpicks	Guitars
Pencils	
Rulers and yardsticks	MOTORCYCLES
	Yamaha distributorship
PRINTING & PACKAGING CO.	**TRADING COMPANY**
Offset printing	Cooking oil
Flexible packaging	Spices and condiments
	Toiletries

Although some of these businesses were originally set up to complement the manufacture of noodles—for example, the plastics packaging firm provided retail packaging for the noodles—many of the businesses, such as the motorcycle dealership, were started as a means of investing the cash flow from the original business. When the entrepreneur wanted to make greater sense out of the collection of businesses he had assembled and to build an integrated corporation, he applied a linkage analysis. At first glance, his business seemed to be a rather jumbled collection, as diagrammed in Figure 9-5. After going through the logic of linkage analysis, however, the picture of his corporation was clarified and resulted in the diagram shown in Figure 9-6 in the next page.



Notice how Figure 9-6 "**cleans up**" the depiction of the relationships among the different parts of the Indo Jaya businesses. As a result of this analysis, the firm's executives gained a clearer understanding of their corporation and could then make critical strategic decisions about which parts of the business should be emphasized and which might be candidates for divestiture. (The musical distribution business was eventually divested through a leveraged buyout to the division general manger.)

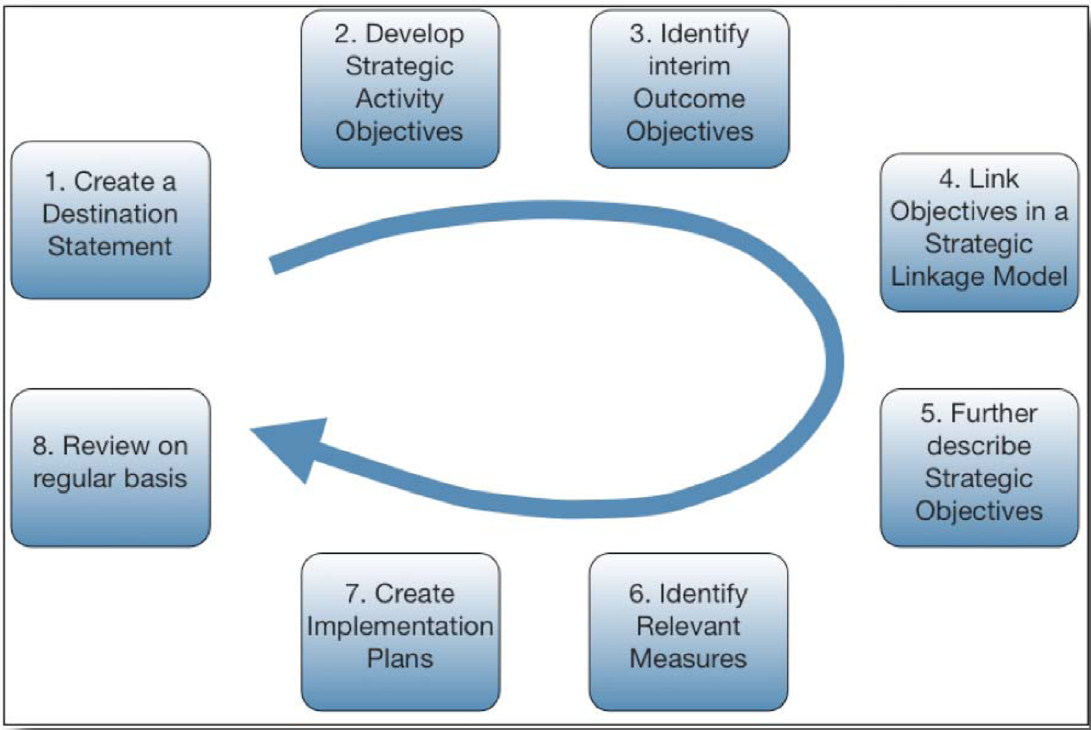


Creating Strategic Framework

As every individual working in our firms is different, similarly two Business Units have components of dissimilarity. Any Corporate Strategy which does not take account of details and prepares only Functional Strategies bound not to achieve the Strategic intents. This has been proven many times and if we look around us we might be experiencing the same. The Strategic initiative is to Bring Business closer and makes them profitable not vice versa by imposing a **so Called A Plan on Business Units or Businesses.**

A detailed frame work must be prepared and discussed with clear goals defined and responsibilities fixed. It must take care of **PESTLE** factors (P: political, E: Economical, S: Social, T: Technological, L: Legal, E: Environmental).

I have provided below a Strategic Framework which can be utilised as guideline to a Strategic Initiative.



i. Create a Destination Statement

You should start with the articulation of and agreement to a Destination Statement - a fairly detailed description of where the company, business unit or department is expected to be 3 to 5 years later, provided current plans are successfully implemented. It is unlikely that all aspects of the Destination Statement will be subject to immediate action. Destination Statements can be large documents, and the idea that a management team should address all aspects at once can be overwhelming. Further, some Destination Statement elements will be dependent upon the completion of others. Some prioritisation across the elements of the Destination Statement may be necessary.

ii. Develop Strategic Activity Objectives

Next think about what your organisation needs to do next (i.e. In the next year to 18 months) if it is to achieve the outcomes described in the Destination Statement elements. Summarise these in the form of a set of priority Strategic Activity Objectives. Focus on a limited number of objectives - aim for fewer than ten. One way to reduce the number is to combine several activities into common programmes.

iii. Identify interim Outcome Objectives

The strategic activity objectives developed in step 2 will provide a basis for selecting measures of whether strategically relevant activities are being carried out. However, you also need to have some feel for whether these activities are moving the organisation in the right direction - towards achieving the Destination Statement: you can't wait 3 to 5 years to decide whether the actions you are carrying out are delivering the results required! To this end, it is necessary to identify some "Outcome Objectives" that can be used as a basis for selection of outcome measures.

In best-practice Balanced Scorecards you see approximately the same number of Activity and Outcome Objectives (e.g. 10 of each is a good target).

iv. Link Objectives in a Strategic Linkage Model

If your thinking so far has been 'joined up', then you should be able to show how the activity objectives will link to the delivery of the outcome objectives. Clearly if you have an activity that has no link to any of your chosen outcome objectives, or an outcome objective that none of your priority strategy activity objectives will deliver, there is a weakness in your Balanced Scorecard design. Being able to create a Strategic Linkage Model that incorporates your objectives is a good way of demonstrating how joined-up your thinking is. Some find these visual representations of your Balanced Scorecard good communication devices too.

Avoid having too many links between objectives - this just makes the model hard to follow. Include just enough links to reassure you that your understanding of how the two sets of objectives link together is valid.

v. Further describe Strategic Objectives

Write down clear statements that describe each objective chosen, and how they think it might be measured. Not only will this help subsequent communication of the Balanced Scorecard design, my personal experience is that the design team will quickly forget the fine detail of their thinking if it is not recorded. If you choose the objectives in a workshop process, ideally you want to record these descriptions within the workshop itself.

vi. Identify Relevant Measures

For each objective you should aim for one or two measures that will track organisational progress towards the objective over time. This is a good time to think to think about setting targets too. Measure selection is normally strongly influenced by the availability of appropriate information. It is usually better to choose measures that can be quickly and cheaply obtained and can be updated fairly frequently (at least four times a year).

vii. Create Implementation Plans

Having a Balanced Scorecard is not enough – the objectives and overall vision will only be achieved if someone actually does something to cause them to happen. A core part of the Balanced Scorecard development process is to work out how the organisation will be mobilised to deliver the selected objectives – an activity that involves communication, resource allocation, and project prioritisation. A good way is to do the planning while all the ideas fresh in your mind – i.e. as part of the Balanced Scorecard development process. Having a plan also helps in subsequent communications about what needs to happen when.

viii. Review on regular basis

Using the Balanced Scorecard or, similar tools can create a reference point for management discussions that can promote more objective and analytical discussions based on a shared view of what needs to be done: it provides factual information about what is happening, enabling management teams to become more efficient and effective at implementing strategy. The best way to use of this type of review tool is for the responsible management team simply to agree to review it on a regular basis. As part of these review meetings, improvements to the overall strategic vision and goals must be identified, and changes to the measures used to track performance should be requested. The review meetings can then become a forum for continually updating and refreshing the Strategic focus.

Strategic Case Study: How Public Sector is dealing with the Financial Crisis

There is no magic strategy that will turn the present global financial crisis into an unalloyed positive. However, governments around the world can find the seeds of long-term advantage in the decisions they make now. The world's governments are not all dealing with the crisis in the same way, although there are several common responses: Through innovation, re-examination of operational models, and thoughtfully directed support of key public- and private-sector institutions, they and the economies under their leadership can emerge as more efficient, competitive players in a post-crisis environment. This section strategically explores the following questions:

- How is the public sector going to deal with the financial crisis?
- Expanded role for governments after the financial crisis
- How is the public sector going to reduce costs?
- What are the challenges for the public sector?
- Improvement of operational efficiency
- Who will pay for it?
- How can the public sector benefit from this financial crisis?

i. Extended accountability for the public sector

Looking inward, governments will have to respond to this crisis the way many of them have responded to past crises – by discovering new ways to do more for less. These short-term efforts to save money can grow into long-term models for sustained efficiency. Looking outward, governments must be willing to expand certain commitments – on a deficit basis, if necessary – if they offer the promise of lasting value, not merely short-term stimulation. In fact, as in other historical periods of crisis, the role of the public sector is likely to expand. In this respect, governments are extending their reach on the financial and manufacturing sectors. But bigger is too simple an answer to the current challenge. Governments must be smarter.

ii. Enlarged global interdependence

Two important forces are currently at work. One is increased global interdependence. The spread of credit difficulties from nation to nation, and the concerted effort in some quarters to erect firebreaks, finally puts to bed the idea that any nation is an island. Evidence of this is seen in recent efforts by the British and French governments to spur pre-emptive action by the International Monetary Fund (IMF) on behalf of threatened currencies and stocks in Eastern Europe. Commerce across borders may suffer as a result of the crisis, but international planning and cooperation will likely increase, not decrease. The other is a renewed tendency toward devolution of state power from the center to the edge – from the national government to regional and local governments, and to key private-sector industries. What may appear at first glance to be a concentration of power is in fact a distribution of capital, putting resources on the ground in sectors and communities where it can be put to the greatest use.

iii. Demand sparks innovation

Demand and pressure leads to innovation. It's as true in the public sector as it is in the private. In flush times, governments are like everyone else – fat around the edges and slow to tighten controls. Lean times demand new efficiency, while at the same instant, a public under pressure is demanding more from its government. Where innovation is able to reconcile these conflicting demands, the result can be new approaches that remain applicable long after the crowded hours of their inception.

iv. Consolidation and other effects

Solutions of this sort may lie in consolidation, shared services, or integration of service provision models into combined storefronts that make use of common needs and new delivery methods. Contracts with private organizations that provide public services are under the same pressure as everyone else, and governments will find them more willing to consider not only cost concessions but more contract models that peg rewards to the quality of service delivery.

The relationship between public and private sector operations may also change as a result of the crisis. Public resources that currently return little value, such as abandoned land and buildings, may blossom into productivity under the contractual stewardship of private entrepreneurs. At the same time, an expanded public sector may be more attractive to investors, especially in comparison to faltering private equities, and better able to negotiate financing terms.

v. Spend, but sensibly

Governments under pressure to inject value into their economies need to make strategic decisions and need to improve controls. Some short-term stimuli can evaporate without doing any lasting good. Others may have the effect of slowing an economy's adaptation to a more sustainable footing. For example, pure cash stimulus packages coupled with appeals to increase consumer spending may exacerbate the reliance on consumption and credit that led to the current crisis. And subsidies that protect antiquated jobs don't do anyone any long term good – they delay the inevitable and make it harder for industries to achieve lasting competitiveness. By this logic, a no-strings bailout to an existing domestic auto manufacturing industry may not have the benefit that could be realized from a public investment in new fuel-efficient technologies. An economy in peril also calls for more investment in government's core function, the direct delivery of value-added services to the public. As with economic stimulus, however, there are right and wrong ways to proceed with service enhancements.

Governments that expend scarce resources to mask problems and maintain the status quo will eventually face a reckoning. Governments that spend on ways to ease the pain of permanent economic transition and clear barriers to innovation will most likely find their money well-spent.

vi. Infrastructure and workforce improvement

In the United States in particular, infrastructure was already in need of significant investment even before the crisis added new impetus for public spending. The American Society of Civil Engineers estimated in 2005 that it would take $1.6 trillion merely to bring the nation's overall infrastructure up to "good condition." Even when infrastructures don't suffer headline-making failures, they still have a braking effect on the economies they support. For example, America's most populated urban highways have become capacity-constrained chokepoints for millions of daily commuters.

Globally, the need to revamp infrastructure is just as keen as in the United States. Canada's local governments face a $60 billion annual infrastructure deficit, according to the Federation of Canadian Municipalities. The European Commission estimated in 2006 that it needs to spend an estimated $1.2 trillion on its energy sector alone. Latest research reports that East Asia needs to spend $165 billion a year on infrastructure.

In India, only 2 percent of roads are National Highways, spends only 6 percent of its GDP on infrastructure, compared to China's 20 percent. According to the World Bank, Latin American exporters are finding that poor transport facilities hamper their competitiveness abroad. Perhaps the only thing that the world's national and regional economies have in common when it comes to infrastructure is that no one appears to be allocating enough to it.

Governments trying to keep pace with growth may find that innovative financing strategies, such as public-private partnerships (PPPs), provide a useful alternative. And in the particular case of roads, strategies like user charging, variable tolling, and other demand management policies, implemented with new technology, can be effective in reducing congestion and getting the most value from existing capacity.

When the need is for innovative management and technology, the answer often lies in a PPP. The relationship between public and private sector operations may also change as a result of the crisis. PPPs often encounter grassroots resistance. This as a factor, for example, in the recent failure of a deal that would have brought private management to the Pennsylvania Turnpike. Despite this resistance, however, PPPs remain an attractive upgrade and repair funding option for many types of infrastructure, because they provide immediate revenue without new taxes or debt and shift costs to the private sector. PPPs are also being used to fund infrastructure utilization technology implementations under which private entities manage the use of infrastructure, or sell data derived from managing it, and pay government for the opportunity.

Directing a government's crisis-era spending on projects of lasting infrastructural value seems to be an easy decision. But it's not that simple. That spending leaves behind not one legacy, but two: the projects, and the workforce that creates them. The kind of workforce that builds roads and schools is not necessarily the highly skilled workforce upon which a nation can sustain a 21st-century economy over the long term. In the example of the New Deal, the United States side-stepped this problem by moving from a government-subsidized recovery footing to a government-subsidized war footing. Today, spending on steel and concrete, while necessary, must be balanced with investments in more advanced endeavours that stimulate the creation of an educated, globally competitive cadre of knowledge workers.

vii. Globalism, if not agreement

The effects of the financial crisis don't respect national borders, and so the response to the crisis has been international in scope. However, a new age of interconnectedness does not mean a new age of unbroken harmony.

Governments have already begun to show differences in the way they approach the new reality, including some outright disagreements. For example, according to the *New Zealand Herald*, both parties in New Zealand's recent national elections voiced support for direct government assistance to individuals who lose their jobs as a result of the crisis, a path few other nations appear willing to follow as of this writing. In Europe, French President Nicolas Sarkozy is leading the call for greater government intervention in key private industries, but he has faced resistance from German leaders who consider the plan too "interventionist."

Germany, for its part, has proposed relaxing European Union (EU) emissions taxes in order to help the transportation industry weather the storm, which has not been a popular stance among the continent's green advocates.

The value in these disagreements is educational. Over time, observers will be able to see how the competing approaches work out, identify best practices, and draw lessons they can put to use at home.

viii. Something has got to give

If government spending is likely to increase in response to the financial crisis, the obvious question is who – or what – pays for it. The answer appears to be long-term aspirational goals, even ones that would promise lasting benefits if funded in full.

Corporate responsibility, education and environmental protection are some examples. Canada, a signatory to the Kyoto agreement on greenhouse gas reduction, unilaterally suspended its observance of the treaty's limits in 2006 under the new government of Conservative Prime Minister Stephen Harper because the new ruling party felt the restrictions were too great a drag on the economy. This decision has recently withstood a court challenge. Germany's position on emissions controls can be seen in a similar light. Projects that don't offer economic value and making a distinction between those that do versus those that are aspirational in nature may be blurry than in the past.

ix. Transforming public service and attracting talent

If the nature of government investment is changing as a result of the financial crisis, the nature of government service is also evolving. As part of an overall commitment to cost efficiency, public sector organizations need to be careful about their pension commitments and the other benefits that government workers in many countries have taken for granted over many generations. Put simply, public service will offer more challenges with fewer guaranteed comforts. This makes public service recruitment and management another example of the do-more-with-less challenge that characterizes most elements of the global financial crisis – and also makes it a transformative opportunity.

The emphasis should be on value – getting the best work and thinking from public servants from the most efficient investment in their talent –rather than on absolute savings realized over the short term. After all, these are the people working hard on solutions to the crisis.

Governments across the globe may emerge from this shift with a new generation of public servants at the helm, people who come to the profession with plans and expectations that differ from those of their predecessors. Their approach to playing a part in government will change:

Instead of looking for stability and long term benefits, they will be entering the government with the desire to make an impact on things that matter to them, such as energy issues. Their influence will be felt for years to come.

x. The special non-cyclical nature of government

The present situation illuminates that the public sector is neither cyclical nor countercyclical. It is non-cyclical. The demands placed, the resources it commands to meet those demands, and the managerial methods with which it makes key decisions follow their own rhythms.

Government, unlike private enterprise, has both the opportunity and the responsibility to look past the problems of the moment to focus on the distant horizon. Heads of state don't file quarterly earnings reports, and their actions are ratified (when at all) by a public whose demands are more complex than debits and credits. The actions taken now by farsighted governments will come with a cost. It isn't easy deciding to expand spending when everything else is contracting. However, with intelligent planning, governments can make investments today that not only ease the immediate burden of the economic crisis, but lay the foundations for stronger economic performance once it's over.

Shaping Strategy in a World of Consistent Chaos

Redefining the terms of competition for a market sector, an industry or an entire global ecosystem is a tall order. It means attracting thousands of participants, galvanizing their efforts and retaining their commitment for the long haul.

Harvard Business Review article, "Shaping" (October 2008), authors John Hagel III (director, Deloitte Consulting LLP and co-chair, Deloitte LLP's Center for Edge Innovation), John Seely Brown (independent co-chairman, Deloitte LLP's Center for Edge Innovation) and Lang Davison (director, Deloitte Consulting LLP, and executive director, Deloitte LLP's Center for Edge Innovation) provide a road map for the daunting task of shaping strategy as technology-driven infrastructures constantly change.

This section explores a unique opportunity for companies to mobilize global ecosystems to dramatically transform industries and markets. Emerging strategies can redefine the terms of competition for markets, sectors and industries, while creating benefits for both shapers and participants. The section provides a detailed outlook on how organisations can:

- Assess their organization's ability to be a shaper
- Determine the relative strengths of the shapers they might support, plus define their own roles within the shaper's ecosystem
- Rethink the process of strategy development

Almost any company will benefit from an attempt to shape strategy, but not every business is ultimately a "shaper." By participating in other firms' shaping strategies, a company may find plenty of opportunities to create value.

Hammered by relentless technological change, many companies take a reactive stance: They focus solely on keeping up, protecting their existing markets, and improving their performance. But a few companies take a proactive stance by executing shaping strategies:

They use technology changes to create new business ecosystems that benefit themselves *and* other participants. Take Google's AdSense: It has reinvented the advertising business by enabling advertisers, content providers, and potential customers to connect with one another quickly, easily, and cheaply. To succeed, a shaping strategy needs a critical mass of participants; say Hagel, Brown, and Davison. Shapers can attract them by:

- Convincingly articulating opportunities available to participants
- Defining standards and practices that make participation easy and affordable

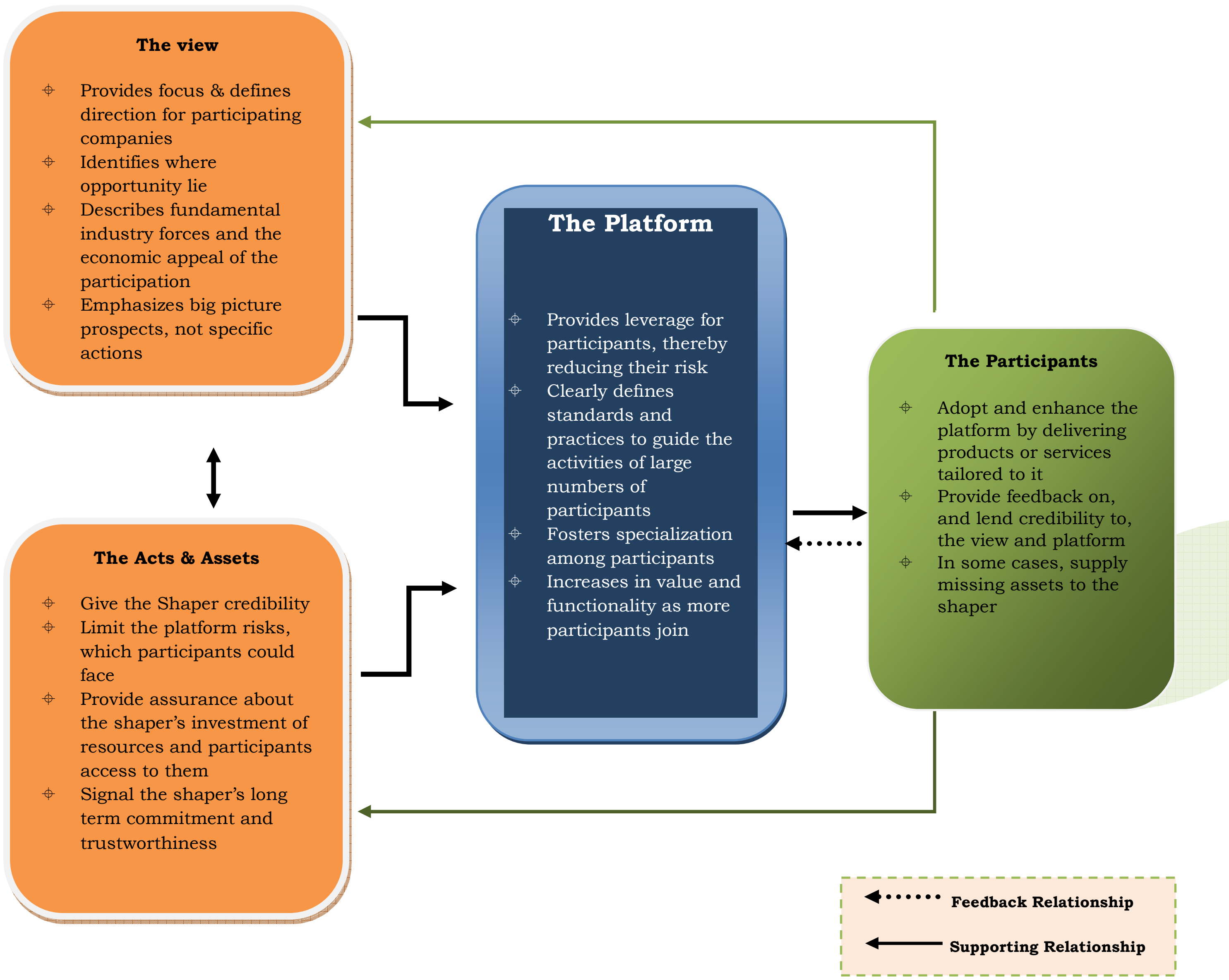
- Demonstrating they have the conviction and resources for success and won't compete against participants

Well-executed shaping strategies mobilize masses of players to learn from and share risk with one another—creating a profitable future for all.

i. How to Formulate a Shaping Strategy

A company's bid to rally an industry ecosystem around a new competitive view is an uncertain gambit. But the right strategic approaches and the availability of modern digital infrastructures improve the odds for success

All three key elements of a shaping strategy influence, directly or indirectly, the perceptions and responses of potential participants. Use the elements to mobilize a critical mass of participants and you're on your way to a winning strategy.



Recent announcement by Google grabs headlines by announcing forays into the telecom space, prompting competitive responses from AT&T, Verizon, and other leading network service providers. At the same time, Google continues to help shape the advertising business through Ad-Sense. And Facebook and Salesforce.com—each in very different parts of the high-tech world—reveal they are opening up platforms for third-party developers.

These initiatives are examples of *shaping strategies*, which mobilize global ecosystems and transform industries and markets—often dramatically. A shaping strategy is no less than an effort to broadly redefine the terms of competition for a market sector through a positive, galvanizing message that promises benefits to all who adopt the new terms.

What Bill Gates did with Microsoft in the early 1980s is a classic example. In essence, he said that computing power was moving inexorably from centralized mainframes to desktop machines. Companies that wanted to be leaders in the computer industry needed to be on the desktop.

It's one thing to coin a persuasive slogan— "The desktop is the future!"—and something else entirely to get others to invest in fulfilling its promise. In reality, shaping strategies are built upon deep structures, which I am describing in this paper. I will also explain why the moment is ripe for pursuing and benefiting from shaping strategies, thanks to pervasive changes in the global digital infrastructure. And we show why players in a growing array of markets and industries (not just high-tech companies) can and should consider making the attempt.

Shaping strategies are not new. Indeed, the Medici family deployed successful shaping strategies in Renaissance Italy, most notably in banking. More recent examples can be found in industries as diverse as shipping, financial services, and apparel. What is new are powerful enabling infrastructures, which can strengthen the hand of shapers while reducing their exposure to risk. These relatively recent developments take the prospects for shaping success from the realms of the improbable and rare into the zone of the merely difficult. At one level, of course, all successful strategies can be viewed as shaping strategies. Some corporate leaders reshape markets and industries using M&A-driven roll-up strategies, tapping into previously unseen economies of scale and scope.

Disruptive innovation also reshapes markets, typically through negative incentives that say, in effect, **"Change your ways now or else become marginalized, even die."**

The classic icons of recent strategy literature—companies like Dell and Southwest Airlines—exemplify successful disruptive innovation. These strategies can be very powerful when they work, but they also concentrate risk on the shaping company and thus become bet-the-ranch initiatives. By contrast, the shaping strategies outlined in this article mobilize legions of other players through positive incentives: Participants in the shaper's broad ecosystem can use the strategy to create and capture enormous value as they learn from—and share risk with—one another.

Let's look at the changes in infrastructure that are making these strategies more viable and attractive. Then we'll explore the key elements that must come together to execute positive shaping strategies. Finally, we'll examine how to develop these strategies using a pragmatic migration path that builds capability rapidly.

ii. From foundation to Plasma — the Changing Infrastructure

We live in an era of profound and accelerating change; keynoted by what historian Carlota Perez calls a new "techno-economic" paradigm.

In her book *Technological Revolutions and Financial Capital*, she offers a compelling view of the role infrastructures play in shaping business activity. Major technological innovations like the steam engine, electricity, and the telephone brought forth powerful new infrastructures. Inevitably, these disruptive innovations transformed industry and commerce, but eventually they became stabilizing forces, once businesses learned to harness their capabilities and gained confidence in the new order.

That historical pattern—disruption followed by stabilization—has itself been disrupted. A new kind of infrastructure is evolving, built on the sustained exponential pace of performance improvements in computing, storage, and bandwidth. Because the underlying technologies are developing continuously and rapidly, there is no prospect for stabilization. Businesses and social institutions constantly find themselves racing to catch up with and learn the steadily improving foundational technologies.

This process creates ever-shifting eddies that reshape institutions, identities, practices, and relationships, making equilibrium a distant memory. The core technology infrastructures that once formed the bedrock have turned into plasma. No wonder executives around the world feel deepening stress as they survey the mutating business landscape. Their natural reaction is to focus on core markets, capabilities, and geographies; to seek more control over the assets and activities that are most valuable to that core; and to emphasize the short term and become more reactive. But these actions often compound the stress instead of easing it.

Today's new digital infrastructure in fact gives relatively small actions and investments an impact disproportionate to their size. To use a boxing metaphor, companies can now punch above their weight class. That shift would seem to favour new entrants over incumbents—but big companies can play this game, too. After all, they have enormous assets that can make them very credible shapers. To get there, executives will need to rethink their approaches to business strategy and embrace new management practices.

iii. Rethinking the Substance of Strategy

Conventional wisdom holds that, in the absence of equilibrium, adaptation is the best strategy. According to this view, executives will succeed if they can sense and respond quickly to what's changing around them. However, as important as adaptation is, it misses the real opportunity. Consider these examples, widely separated by time and by market: Malcolm McLean's efforts to evangelize containerized shipping in the 1950s and 1960s; Visa's redefinition of the credit card business in the 1970s (now called the "payments business"); Microsoft and Intel's turbo charging of the personal computer marketplace in the early 1980s; and more recent influences by Google on the advertising business, by Facebook on social networking, and by Salesforce.com on enterprise software. In each case, as we explore later, the company aspired to do something far bolder than simply shape the performance of its own enterprises—it strove to shape global ecosystems and thereby fundamentally alter industries and markets.

Looking more closely, we can see that each exemplar's strategy successfully upended prevailing perceptions of risk and reward. That's no easy feat, particularly in uncertain times. Confronted by rapid change, executives instinctively magnify the apparent risks and discount potential rewards, a tendency documented in the behavioural economics literature, including Dan Lovallo's work on cognitive biases in strategic decisions (see, for example, *"Deals without Delusions,"* HBR December 2007). This calculus often leads to timid action or to inaction. The challenge for a would-be shaper is to rejigger the calculus by diminishing perceived risks and maximizing perceived rewards. In emotional terms, successful shapers reduce fear and magnify hope.

Executed well, the approach motivates a large number of players to make significant investments and take aggressive action in order to accelerate movement toward a preferred outcome. It also provides the focus and incentives necessary to unleash distributed innovation as thousands of specialized participants experiment to meet shifting and; emerging customer needs and business opportunities.

While some strategies rely on the participation of many other companies (as with Apple's iTunes network), shaping strategies uniquely seek to provide the incentives and capability for large-scale distributed innovation.

iv. The Three Elements of a Shaping Strategy

Changing the risk/reward calculus as you shape strategy in a time of rapid change involves three interrelated elements: a *shaping view*, which helps focus participants; a *shaping platform*, which provides leverage to reduce the investment and effort participants need to make; and specific *shaping acts and assets*, which persuade participants that the shaper is serious and can pull off the shaping initiatives. (See the exhibit "How to Formulate a Shaping Strategy.") The three shaping elements combine to help shapers quickly attract and mobilize a critical mass of participants.

That unleashes powerful network effects, making shapers difficult to stop. Yet, as many failed shaping efforts reveal, reaching a critical mass can be extremely challenging. We'll use these three elements as a lens through which to scrutinize successful shapers, both past and present. Shaping strategies have played out in a broad range of industries, as our examples show. Going forward, these strategies have particular value in industries with lots of potential participants and widespread uncertainty about the future, usually stemming from disruptions related to technology, public policy, or both. Health care, electronic payments, alternative energy technology, and media are industries that appear to be especially ripe for shaping strategies. Success in pursuing a shaping strategy requires risk taking and unique insights, at both the micro and macro levels, regarding the changing business landscape. Shaping companies also need managers, who can evangelize shaping views (internally *and* externally), bootstrap robust shaping platforms, and coordinate relationships with large numbers of third-party participants.

Not a Shaper? Be a Participant.

Not every company is cut out to be a shaper. Playing the shaper's role requires the right aspirations, mind-set, risk profile, and management capabilities—not to mention a powerful, farsighted CEO and board of directors. But many roles are available to companies that participate in other firms' shaping strategies. These participants must be able to assess the relative strengths of the shapers they might support, plus define their own roles within the shaping opportunity.

Specifically, they need to determine which of three main roles—influencer, hedger, or disciple—best suits them.

Influencer Commits early and prominently to one shaping strategy

- **Benefit:**
  An influencer increases asset efficiency, builds capabilities, and gains a strong market position by influencing the shaper.
- **Risk:**
  The supported platform may not become the industry standard.
  Example: Bank of America's early influence on the Visa shaping platform

Hedger Develops its products or services to support multiple shaping platforms

- **Benefit:** A hedger's eggs are spread across several baskets—in several competing platforms.
- **Risk:** Higher costs can be incurred if effort is duplicated to meet multiple platform standards.
  Example: Advertisers that participate in both Google and Microsoft advertising platforms.

Disciple Commits exclusively to one shaping platform

- **Benefit:** A disciple has a clear strategic focus and direction; it does not invest in competing shaping strategies.
- **Risk:** The supported platform may not be adopted. If the exclusive bet fails, an investment in another shaper must be tried.
  Example: Dell's exclusive commitment to the Wintel platform.

Before You Decide Not to Be a Shaper…...consider that nearly any company can benefit from the attempt, even if unsuccessful. That's in sharp contrast to other strategic approaches. M&A-based shaping strategies often require huge capital outlays and can rise or fall on the accuracy of assumptions about economies of scale or scope. Disruptive innovation strategies often require significant investment at the outset and confidence that one company can deliver the full breadth of innovation. Although options exist to mitigate the risk of such strategies, incorrect assumptions about the timing or scope of adoption can leave losses in their wake.

The bottom line: Even if you think you're not a real shaper, trying to undertake a shaping strategy still might make sense.

These strategies can therefore present special design and execution challenges. In fact, very few companies have successfully put together all three elements of a potential shaping strategy. If your firm is truly not cut out to be a shaper, you can benefit by participating in other companies' shaping strategies. (See the exhibit "Not a Shaper? Be a Participant.") Whether you shape or just participate, it pays to understand the three key dimensions of a shaping strategy:

Element 1: A Shaping View

The first step in shaping an industry or market to one's advantage is to change the way potential participants perceive market opportunities. By altering mind-sets, shapers can materially influence the perceived economic incentives to participate. They start with a clear and compelling long-term view of the relevant industry or market. The view makes sense of the fundamental forces at work, helps participants envision the rewards and act accordingly, and reduces perceived risk by making the positive outcomes appear inevitable. The shaping view is never very detailed; it leaves much room for refinement. But it is clear enough to help participants make difficult choices in the near term.

The classic shaping view articulated by Bill Gates in the early 1980s motivated many executives to make the trek to Redmond, Washington, during a time of great turmoil and uncertainty in the computer industry. They came away reassured that someone had a compelling view of the industry's direction. Even more important, Gates's shaping view helped these executives understand where to invest. At a time when many options were competing for investment, an invitation to focus clearly on the highest-return opportunities proved extremely valuable. For Microsoft, this shaping view was incalculably important to the company's early success. **Microsoft's experience emphasizes an important distinction between a shaping view and the way businesses conventionally use the word "vision." Corporate visions tend to be too narrow—they describe only the direction of the company articulating the vision.**

Shaping views instead start with a clear perspective on the direction of the relevant market or industry and articulate the value creation implications for all companies involved. Gates's shaping view certainly applied to Microsoft, but it also extended to anyone seeking to succeed in the computer industry. The creative acts in a shaping view are to imagine what an industry or market could look like and to challenge conventional assumptions about what success requires. Corporate visions also tend to be too broad—they describe the future in terms so vague as to accommodate virtually any choice or action. While shaping views must be at a high-enough level to account for general business uncertainty and leave room for experimentation and innovation, they should also focus more tangibly on where to invest energy, attention, and capital.

Salesforce.com provides a relatively recent example of an effective shaping view. When founder Marc Benioff launched his company in 1999, he used speaking engagements at industry conferences not, as you might expect, to pitch his new business but to describe the fundamental forces he saw transforming the enterprise application arena. Two themes dominated his early talks:

First, customers were gaining power, and companies that were becoming more responsive to them and better at managing customer relationships would win out as markets grew increasingly competitive.

Second, the applications to support these customer-centric imperatives would best be delivered as network-based services, not as discrete software packages installed in the enterprise. By accessing the software as a service, companies could reduce their own investment in IT infrastructure and far more easily upgrade as new functionality became available.

At a time when the business model of incumbent application vendors was to install large enterprise software systems at customer sites, Benioff's outlook was startlingly different. When many wondered about the future of the enterprise software business, he pointed the way for specialized players to enter the market and gave existing players a new focus for their investments. It didn't hurt that Salesforce.com—which achieved an $8 billion market cap in less than a decade - just happened to have a new online service that supported sales force automation. But anyone who heard Benioff speak understood that it wasn't just a sales pitch. He had imagined a divergent view of the future, and he became a tireless evangelist on its behalf.

In those early talks, Benioff discussed at length the competitive dynamics of the broader business landscape and the underlying developments in the digital technology infrastructure that were reshaping the software business. Executives left believing that the future Benioff described was not merely provocative but inevitable. Uncertainty dissolved, perceptions of risk diminished, and the rewards for participating became far more tangible. The only question was whether to hop on the bandwagon right away and share in the early rewards, or wait and potentially find it harder to carve out an attractive position.

Element 2: A Shaping Platform

The second component of a shaping strategy is the shaping platform, a set of clearly defined standards and a practice that helps organize and support the activities of many participants. Shaping platforms provide leverage; they enable participants to do more with less. Leverage is always valuable in times of high uncertainty because it reduces the investment and effort required to target potential rewards, and it often accelerates returns, thereby reducing risk.

Shaping platforms typically offer one of two forms of leverage. Some provide *development leverage*—often derived from new technologies — that reduce the investment required to build and deliver products or services. For example, Salesforce.com has a platform (Force.com) that enables third party developers to easily create application services for the enterprise market; Facebook .com provides tools that permit developers to launch mini-applications, or "widgets," to engage the Facebook audience. Note that, in contrast to AdSense, other Google initiatives such as Google Earth offer development leverage and mobilize developers but lack an explicit and aggressively communicated shaping view of a broader market or industry. As such they are better characterized as platform strategies than as shaping strategies.

The second type of shaping platform provides *interaction leverage* by reducing the cost and effort required for a diverse array of participants to coordinate their activities. Although such a platform may have a technology component, the key value lies in a set of standardized protocols and practices designed to facilitate interaction. Google's AdSense platform, for example, uses technology to connect advertisers, content providers, and potential customers, but its real power resides in the protocols and practices that govern how ads are submitted, priced, presented, and paid for. It allows even the smallest advertisers and websites to invest minimal time and effort, with little oversight from Google, and still generate value for one another, thereby increasing the long tail's rewards for niche players.

The genius and power of this shaping platform is that its scalability makes specialization by participants more and more economically attractive—AdSense can connect a maker of a product that appeals to the smallest of niches with the largest imaginable pool of prospective buyers of that product. Malcolm McLean, the founder of Sea-Land and a successful shaper of the global shipping industry, achieved interaction leverage through a very different kind of shaping platform. By developing an innovative design for four-corner fittings and twist-lock mechanisms on shipping containers—and by making the design available industry wide—he encouraged a broader set of investments by port authorities, shippers, and crane companies that sped the adoption of containerized shipping.

Li & Fung provides an extreme example of a shaping platform that, to this day, relies primarily on telephone and fax—simple, low cost technology easily available to its approximately 10,000 partners. A rich set of protocols coordinates complex supply chain activities across a global network that L&F configures and reconfigures to serve apparel and other consumer goods companies.

Sometimes a shaping platform can offer both development and interaction leverage, as Visa did in the early days of the payments business. One part of Visa's platform involved providing back-office credit-card-processing services for participating banks, using technology to link large numbers of participants. This significantly reduced the investment required for banks to enter the credit card business and freed them to focus on product design and marketing while the capital intensive processing activities were performed by specialized third parties.

Another part of Visa's shaping platform supplied interaction leverage by defining a governance structure that allowed large numbers of banks to jointly own the new business entity while Visa still preserved its ability to move rapidly and flexibly. Within 90 days of its development in 1970, Visa had recruited 2,700 banks; within seven years, its cards were generating $20 billion in transactions and reshaping the emerging payments business in the process.

Shaping platforms provide powerful leverage, both for the shaper and participants. From the participants' perspective, a good platform increases functionality, decreases adoption costs, and accelerates revenue generation—effects that are amplified as participation grows. By encouraging distributed innovation among participants, platforms can assemble a rich ecosystem of diverse niches, allowing participants to specialize in the areas they know best and avoid head-on competition with everyone else on the same platform.

Such diversity tends to emerge from platforms offering a wide range of functionality that can be accessed by large numbers of users with highly specific needs. For example, SocialMedia Networks, an emerging shaper within the broader Facebook ecosystem, is pulling together a network of specialized application developers and advertisers. By aggregating performance data, SocialMedia offers its participants insight into how the structure of an application can enhance appeal to advertisers.

As an illustration, by varying the sequence of what a user does and sees at different points while navigating an application, the developer can significantly increase the odds that the user will click on an ad. At the same time, SocialMedia helps to educate advertisers about how, in general, social media provide rich contexts for delivering messages to relevant audiences. In high-uncertainty environments, privileged access to such knowledge flows can become a major advantage—and a significant enabler of and catalyst for distributed innovation.

SocialMedia's experience also demonstrates the fractal nature of shaping: Secondary and tertiary shapers can arise within environments that are being shaped more broadly.

Element 3: Shaping Acts and Assets

The shaping company's acts and assets themselves constitute the third element of a shaping strategy. Even the most compelling shaping view and most robust shaping platform can be undercut by would-be participants' lingering concerns that the shaper may lack the conviction or capability needed for success. Conversely, participants are also likely to worry that their own business niches might become vulnerable to competition from a powerful shaper. Selected bold acts by the shaping company and careful use of its assets can assuage those concerns. Such acts irrefutably define the shaper's intentions.

Consider the computer networking company Novell, which pursued a shaping strategy by selling off the hardware business that generated 80% of its revenues. Novell saw an opportunity in the early 1980s to shape the local area network business. LANs were an extremely important new technology category that emerged as PCs rapidly penetrated businesses and needed to be connected to one another and to the applications and information housed on corporate mainframes and servers. Novell had developed a robust operating system for local area networks and made its dramatic divestiture decision to accelerate adoption of that system.

The message to the rest of the emerging industry was clear: Novell was so committed to its network operating system that it was prepared to walk away from a significant portion of its revenue. This dramatic act communicated to other network hardware manufacturers that they could adopt Novell's system without worrying that Novell would compete with them in their core business. It effectively positioned Novell as a very successful shaper of an important technology arena, and its network operating system became the defacto standard for over a decade. The company ultimately diversified into other business areas, draining focus from its core operating system business. As a result, it lost its leadership position in local area networking—**a cautionary tale to aspiring shapers that successful shaping requires tight commitment for the long term.**

Malcolm McLean made a similar striking move in his effort to accelerate adoption of his shaping platform for the containerized shipping industry. In the 1960s he released the patents to his four-corner fittings and twist-lock mechanisms—royalty-free—to the International Organization for Standardization.

McLean could afford to be magnanimous with the intellectual property from his shaping platform because as the major shareholder of Sea-Land, he stood to profit handsomely from broader adoption of standards in that arena. The assets of the shaping company also become a significant factor in persuading potential participants to invest in the shaping strategy. In this domain, large established companies have a potential advantage as shapers. Their massive assets can attest to the credibility of the shaping view and platform. Few would doubt that these companies have the resources to support a shaping strategy. On the other hand, a smaller new entrant faces a significant challenge on this front. Anyone considering investing in its strategy will understandably wrestle with the concern that it may not have the necessary assets. The risk of stranded investment becomes very real.

A smaller new entrant can gain access to needed assets through strategic relationships with larger, better-known companies. For example, Microsoft in its early days enhanced its credibility by negotiating an important relationship with Intel, the leading manufacturer of microprocessors. Somewhat later, Microsoft's deal with IBM to provide the PC operating system let the world know that this small company was a force to be reckoned with. More recently, Microsoft has played the reverse role with Facebook, giving credibility to the much smaller aspiring shaper by making a significant minority investment. In another recent example, Google—an established company but with minimal experience in the telephone industry—has gained credibility for its mobile phone platform, the Android operating system, by announcing the Open Handset Alliance. This consortium has enlisted such well-known telecommunications players as Sprint Nextel, T-Mobile, Motorola, and Samsung.

A shaping company can demonstrate to would-be participants its ability to successfully execute a shaping strategy in the following ways:

By achieving critical mass quickly When executed well, shaping strategies aggregate a critical mass of participants that then unleashes powerful increasing returns. The challenge, of course, is getting to that critical point rapidly. Many efforts at shaping have foundered during this challenging initial phase. Strategic relationships with major incumbents in a market can accelerate the aggregation of participants. For example when Reliance a traditional petrochemical and textile giant when forayed into telecom through its massive initiative executed the strategy of gaining critical mass though its launch sales scheme, which provided it a market capitalisation and enabled it to negotiate better with the partner companies.

By mobilizing the multitudes Shaping companies need to develop the institutional arrangements and management practices that attract and mobilize masses of participants. To be sure, all firms work with partners to deliver more value to the marketplace. However, during the past couple of decades many companies have reduced the number of participants in their supply-chain and distribution operations in a quest for greater efficiency. This poses a nontrivial challenge to potential shapers as they focus on large-scale mobilization. As the examples of Visa and Google's Ad-Sense show, significant institutional innovation is needed to support successful shaping strategies—but it need not always take the same form. Visa created a scalable network that encompasses thousands of business partners to deliver performance-intensive financial services in high-security environments. AdSense designed a much looser economic web that relies primarily on financial incentives to attract advertisers and content providers, and which mobilizes hundreds of thousands of business participants on a global scale.

Rethinking the Process of Strategy Development

Shaping strategies might, at first blush, appear intimidating. But they needn't require massive organizational change. A series of relatively straightforward steps can get you headed in the right direction and help determine whether a compelling shaping opportunity exists for your enterprise, industry, or marketplace. Your company's executive team should think **FAST.**

F → **Focus.**

Imagine what relevant markets and industries might look like in five to 10 years. Borrowing from scenario planning, consider plausible alternative futures, estimating the likelihood of each scenario and projecting potential implications for the company and other participants. Engage in creative exercises and hold off-site retreats to explore initiatives that will improve the odds of realizing a future more favourable to your company.

A → **Accelerate.**

Identify the two or three operating initiatives that, if carried out over six to 12 months, would most accelerate the movement toward your preferred future. Specify and agree on the resources essential to these two or three operating initiatives, and on the metrics of success.

S → **Strengthen.**

Ask what major organizational objectives might prevent you from moving even further toward achieving your operational goals. Specifically, identify the two or three organizational obstacles that, if addressed, would most effectively speed the process.

T → **Tie it all together.**

Integrate all the preceding activities and refine them based on what you learn along the way. The FAST approach favours incrementalism, but above all it values an alignment between near-term performance and long-term direction. Without the long view, surefooted small steps won't take you far.

A company need not be a shaper to adopt the FAST technique. A non shaper can appropriate its long-term direction from a relevant shaper, bearing in mind that every company needs to be deliberate about the long-term role that it will play in the business landscape being shaped.

Senior management teams need to be alert to the variety of available ecosystem models, the criteria for selecting the most appropriate type, and the best management practices for each. (See the exhibit "Rethinking the Process of Strategy Development.")

By shaping again and again Once unleashed, increasing returns have traditionally been a powerful force, leading to virtually unshakable market positions and disproportionate generation of wealth relative to competitors. That was certainly the case in yesterday's world of punctuated equilibrium, where relatively long periods between disruptions allowed shapers to lock in a competitive advantage. However, in the sustained disequilibrium of today's business environment, a paradox emerges. Although it's now easier to develop and deploy shaping strategies, it's also more difficult to protect them once they're established. Successful strategy now requires a series of shaping initiatives over time, rather than one disruptive big-bang effort to be exploited thereafter.

Turbulent times demand that we learn how to shape the turbulence around us by creating an effective management ensemble that moves beyond adaptation to a shaping aspiration. More fundamentally, we need to understand how we can turn the instability created by digital infrastructures to our advantage by mobilizing many other participants to shape a more rewarding future.

Strategic Innovation: Asset Intelligence

Executives love to talk about strategic innovation, but that doesn't mean they're good at making it happen. Especially when it comes to sweeping new opportunities like Asset Intelligence — technologies that can transform a business model almost overnight. Should you rely on applications engine ers and designers to drive your Asset Intelligence agenda? Or is a mandate from executive leadership the right way to go? Put another way, would iTunes have transformed the world of digital media without Steve Jobs on point?

When it comes to innovation around Asset Intelligence, should you drive change from the top, or let things bubble up from the front lines?

In this section of paper, we will analyse both the views and also will provide a brief outlook for sectors such as Consumer and Industrial Products.

	Point	Counterpoint
Drive innovation from the top *"Asset intelligence can transform almost any business model. The C-suite has to make it happen"*	Shifting to a services-based business model is a critical evolution for many companies. Individual operating units usually don't have the capacity to drive that transformation.	Services are over-rated. Focus instead on being the low-cost provider. Do that right in the short term, and everything else will take care of itself.
	A neutral operating platform is one of the only ways to exploit the real power of Asset Intelligence. Siloed technologies sprinkled across the business won't cut it.	People on the ground know best how to make innovation happen. There's no good reason for executives to get in the way of experts doing their jobs on the front lines
	Many teams are too busy to worry about how their innovations connect — or don't connect — to one another.	Advanced Asset Intelligence solutions are still on the drawing boards. Better to plug in point solutions now. Who knows when the Holy Grail will arrive?

	Point	Counterpoint
Let innovation bubble up. ***"Bottom-up point solutions are the right way to diffuse innovation across the enterprise."***	The business case for sweeping innovation isn't there. Sustainable progress comes from taking small steps.	Small steps create a complex patchwork of solutions that probably won't deliver the benefits you really want.
	It's nearly impossible to get the cross-functional teams in place to take this on.	The network effect for distributed assets is a powerful force. But it requires cross-functional teaming. Take a look at the real upside. You'll see that it really is worth the trouble.
	There's too much risk — both institutional and personal. Who wants to go out on a limb to test bleeding-edge technologies?	Energy savings alone can fuel the business case for Asset Intelligence investments. But that's just the beginning. Moving to a neutral operating platform can drive sustainable competitive advantage, with very little risk.

My Take:

With OEMs (Original Equipment Manufacturer) and other asset-heavy companies struggling to maintain their market positions, many are shifting toward services-based business models. For some, that requires building intelligencer into their products — and the potential applications are limited only by the imagination. From automating the replenishment of a vending machine to managing the performance of a remote pumping station, Asset Intelligence is at the front line of innovation today.

Clearly, machines and physical assets need to communicate with one another. The magnitude of value to be gained from reducing human, asset and information failure is enormous. That said there's plenty of disagreement about how to do it, resulting in a kind of **decision paralysis** that carries significant risks.

My view is clear: **The winning innovation strategy requires a neutral operating platform perspective — anything-anywhere** — that can drive a network effect for distributed assets. Siloed solutions for individual slices of the Asset Intelligence pie will not deliver the innovation value most companies want. Even worse, the piecemeal approaches can actual y increase operating costs.

Working across scores of industries to analyze root causes and demand, I've learned that it's possible to apply intelligence to almost any asset class. If it's important, it can become intelligent. And if it's intelligent, it can transform business models, shifting the value proposition from reactive to proactive to predictive. Products themselves become drivers of services and potential competitive disruption.

Many Asset Intelligence investments today focus on single elements such as location tracking. We all know there's a lot of buzz around GPS, which certainly has value. But in comparison to the broader potential, tracking the location of assets can seem almost trivial.

Here's an example: Instead of simply knowing where a dumpster is located, why wouldn't a waste management company build real intelligence into every container and truck? Using a neutral operating system, the company would not only know where the dumpster is and confirm the customer status, it would also know when the dumpster gets emptied and how much garbage it contained. That knowledge would be used to automatically bill the customer, with no manual intervention. By combining weight, motion and location sensors, the waste management business model could fundamentally shift — in a direction that rewards conservation.

Socially conscious businesses might quickly embrace this idea. But keep in mind, **Asset Intelligence is a strategic opportunity — not just a technology choice.** Counting on applications engineers or product designers to evaluate its potential is a mistake too many companies make. That approach leads to the proliferation of point solutions that don't add up to sustainable enterprise value. Capturing more data is not the goal of Asset Intelligence. The goal is to drive down costs; improve performance, quality, and safety; satisfy customers; and create new revenue streams. Big difference.

Point solutions rarely yield truly sustainable innovation. And in the area of Asset Intelligence, it's clear that a neutral operating platform model is essential for extracting maximum value. The only real question is how many proprietary systems companies will burn through before they reach that important conclusion.

A view on the consumer/industrial products sector

Leaders in consumer and industrial products have long complained that they don't have the technology to truly innovate around asset management. That's not to say some improvements haven't been made — they have. Plenty of money has been spent on forecasting tools, new applications to manage innovation, and a never-ending stream of new products.

But have things actually improved? Have inventory turns accelerated? Not really. Is the success rate of new product innovation increasing? Nope. Most "new" consumer packaged goods are simply line extensions or resized packages.

Why aren't things getting better? The easy answer is technology — and oddly enough, the hard answer is technology, too. Until recently, the technology used to improve decision-making relied on historical data and advanced analytics. That's like a wizard looking into a hundred crystal balls trying to predict the past, hoping it will mirror the future. The data that fed these tools was anchored in the past, and didn't facilitate real-time decision-making.

With Asset Intelligence, especially a live intelligence platform, we now have real-time decision-making. Which means supply chains can be synchronized — with true demand models put into place. Real-time reaction to products can be measured to determine market receptivity, unclouded by the homogenization of time and POS data. And that means no more excuses.

Growth Strategy: Organic / Inorganic?

On regular basis I participate in the discussions, some formally and some not so formally which have a common subject line i.e. Despite it all — the economic murk, strangled credit markets, slumping consumer demand — can you formulate a strategy to maintain profitability and even potentially nudge revenue upward to create some value for shareholders? Whether Inorganic growth is a faster way to create value for share-holders and improve bottom line? Whether organizations which do not create enough NEWS on TV channels and Business Magazines on multi million (or, billion) dollars Merger & Acquisitions are loosing opportunity and hence a cost to be paid at later that. Well, I do not think so…

The odds don't look good on the M&A side either. Just a few months ago, some observers were thinking that savvy strategic buyers and a few nimble private equity players might seize the opportunity to snag some bargains. The ongoing turmoil seems to have spooked all but the most stout-hearted. According to the ZEPHYR quarterly M&A report, published by Bureau van Dyke Electronic Publishing (BvDEP), the deal numbers and dollar volume for companies based in the United States and Canada tumbled in the third quarter of 2008. Deal values fell by 16 percent over the three months, while the number of transactions reached a low for the year at 2,480.

That's probably just as well. The evidence that mergers and acquisitions actually destroy shareholder value keeps mounting. Earlier this year (2009), consulting firm A.T. Kearney analyzed 175 mergers and found that while return on sales increased slightly, sales growth and EBIT growth slowed by 6 percent and 9.5 percent, respectively. In addition, shareholder value creation, as measured by market cap, declined by 2.5 percent. In December 2008's issue of *Business Finance*, a feature exploring trends in mergers and acquisitions shared data from a study of 33 large M&A transactions in Europe, Canada, and the United States from 2002 to 2007. According to the article, these mega deals destroyed value more than 60 percent of the time, and they raised acquirers' risk profiles, resulting in a higher cost of capital.

Cost synergies are the traditional focus of M&A projects. But they can be hard to realize, notes Alan Gallo, CFO, global consumer business, American Express. While some potential merger synergies, such as back-office savings, are straightforward, others are ***"famously elusive, such as the ability to leverage each other's customer base or intellectual property for incremental revenue. History suggests that there's good reason to be sceptical, and finance professionals should play that role, stepping back to compare purchase price to realistic estimates of incremental revenue, earnings, customers, and market share***."

With debt financing likely scarce for the foreseeable future, the only way forward for most growth-minded organizations is via internally generated profitable revenue expansion — **the organic route**.

It's not as glamorous as M&A, and stakeholders may not perceive it as transformative in the way that they might perceive an acquisition (although companies that routinely generate organic growth usually find that they generate plenty of resources for transformative initiatives in other areas). And organic growth has the rather daunting reputation of being dependent on charismatic leadership and the ability to create a “culture of innovation.”

But success in generating growth internally may be less dependent on exceptionally skilled managers than on the careful optimization of a portfolio of growth options.

What's more, companies that succeed in managing organic growth efficiently create, rather than destroy, shareholder value. This, in a way, is not surprising; organic growth is the hallmark of true managerial excellence. It's prized by the markets, and there's much to be learned from companies that excel at it.

Why to Go Inorganic, Peer Pressure?

A glance at the literature on organic growth reveals a heavy emphasis on managerial style and the personal qualities of leaders.

An example: Reengineering Guru Jim Champy, in a recent post on TheStreet.com about his new book *Outsmart! How To Do What Your Competitors Can't* (FT Press, 2008), wrote that the high-growth companies he describes are characterized by “an inclination to action — similar to the Nike **‘Just Do It’** mantra. Managers don't spend lots of time debating or planning what needs to be done. They act mostly on intuition, doing what the business needs, when it is needed.”

There's no doubt that companies need agility and speed to exploit growth opportunities, and they need an informed, insightful understanding of their markets to predict where the next big win will come from. But is planning really so marginal to the process? And is it always clear exactly what the business needs?

Dissatisfaction with the qualitative emphasis of many organic growth studies was one motivator for a new study from Brilliont that maps the links between organic growth efficiency and shareholder value. The firm looked at results for all companies in the S&P 500 from 2002 to 2007 by industry by determining how much organic revenue was created in each year and how much investment was required to generate that revenue. The first move was to strip out, for each company, the revenue growth attributable to the sector's overall expansion.

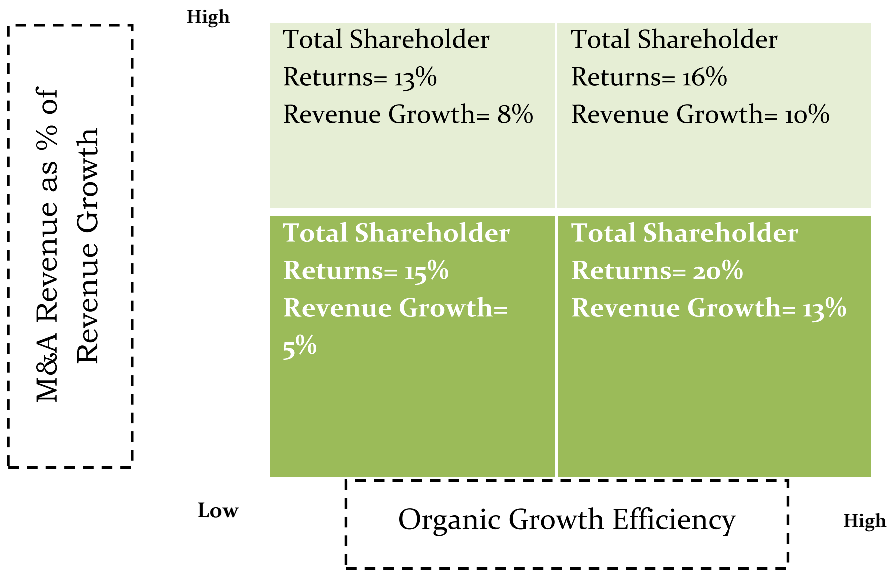
A rising tide lifts all boats, and 2002 to mid-2007 was certainly that. But not all industries or companies rise equally. “If an industry is growing at 10 percent and you are able to grow at 10 percent, it is not appropriate to take credit for the tailwind that maybe helped you to achieve that,” says Anand Sanwal, managing director, Brilliont. “However, if you're able to grow at 15 percent, then that increment can rightfully be claimed to be due to your management prowess and your decisions to invest in the company.”

Next, Brilliont examined M&A transactions for each S&P 500 company — more than 10,000 of them in aggregate — to filter out revenue those companies gained from acquisitions (or that they forfeited from divestitures). What was left was organic revenue, which is the revenue the company generates by funding internal projects and investments.

But organic revenue by itself is of limited value as a gauge of success. After all, one company might decide to pour money into, say, developing new channels, and yet achieve only a 1 percent increase in organic revenue. Another might make a much smaller investment and generate a 3 percent increase. Clearly, what's needed is a measure of the efficiency of organic revenue creation — in other words, organic revenue per dollar or INR (for Indian companies) invested in projects such as marketing, operations, sales, R&D, advertising, and capital projects.

Brilliont looked at the expenses for each company and, by using benchmarks and publicly available information such as earnings releases and presentations, determined the portion of expenses that were discretionary. Dividing organic revenue by this figure for discretionary expenses yields a metric that the firm's research unit has dubbed the **organic growth multiplier** (OGM).

So does organic growth efficiency, as measured by the newly-minted OGM, create shareholder value? Apparently so. An analysis of the data found a strong positive correlation between the firm's newest metric and shareholder returns. What's more, the correlation held good for each individual sector of the S&P 500, with the sole exception of the highly regulated and commoditized utilities and telecom industry.



Why Consistency Matters?

Note: Data presented for S&P financials

Since the firm's data covered five years, the researchers wondered whether consistency of organic revenue growth creation over that period had implications for shareholder value. Again the answer was positive. Companies with a consistently high organic growth efficiency achieved higher annual shareholder returns than organizations in which the OGM was more erratic (see chart above "Why Consistency Matters").

Brilliont next looked at the mix of M&A revenue and organic revenue and how this affected **total shareholder return** (TSR). Sure enough, when the proportion of M&A-derived revenue in overall revenue growth was high, TSR was low. The companies that saw the best shareholder performance were those with high organic growth efficiency and a low percentage of revenue growth from mergers and acquisitions 0% chart below "Shareholder Returns: Organic Growth vs. M&A").

While the researchers focused mainly on sector-by-sector analysis — it wouldn't have made much sense to compare, say, Exxon Mobil with Kraft — they did compile a list of the Top 10 performers overall in the S&P . (See table below "Where Organic Growth Has Paid Off").

WHERE ORGANIC GROWTH Has Paid Off

Top 10 Companies for Organic Growth Efficiency*

Company	Sector	Revenue
Celgene Corp.	$2.0 B	Healthcare
CVS Caremark Corp.	$85.3 B	Consumer Staples
Gamestop Corp.	$8.1 B	Consumer Discretionary
General Mills Inc.	$14.1 B	Consumer Staples
Gilead Sciences Inc.	$5.0 B	Healthcare
Google	$20.9 B	Technology
Intuitive Surgical Inc.	$833 M	Healthcare
Procter & Gamble	$85.3 B	Consumer Staples
Robert Half International	$4.83 B	Industrials
Wells Fargo	$32.5 B	Financials

Note: This list of Top 10 companies was derived by advisory firm Brilliont from the S&P 500 listing of companies. *Brilliont measures organic growth efficiency by dividing a company's organic revenue by its discretionary expenses.

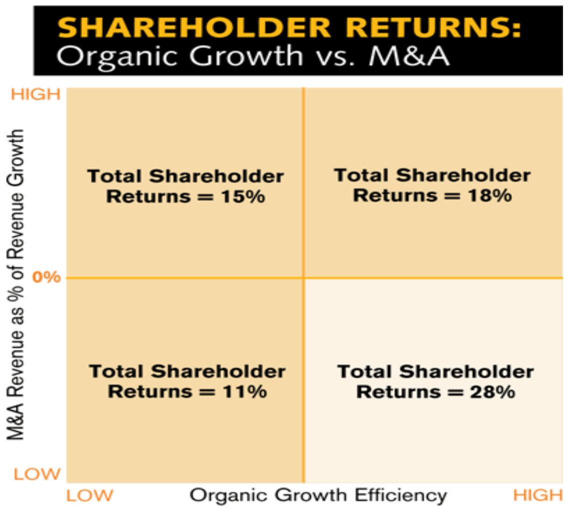
It's worth noting that three of the Top 10 hail from the consumer staples industry — not a sector that necessarily leaps to mind as providing easy pickings for an **organic growth strategy**.

Organizations like Procter & Gamble, under Chairman and CEO A.G. Lafley, have demonstrated that internally generated growth is achievable even in “mature” markets.

Many observers attribute the long rise in P&G's stock price since 2001 largely to the company's relentless focus on sustainable organic growth, which Lafley describes as **“less risky than acquired growth, and more highly valued by investors”** in his book, with co-author Ram Charan, *The Game-Changer: How You Can Drive Revenue and Profit Growth With Innovation* (Crown Business, 2008).

Heavyweights like P&G can devote enormous sums of discretionary cash to organic growth efforts (the company's ad budget alone is $6.7 billion, the world's largest, according to *Fortune* magazine). But in my humble view, any organization can learn to punch above its weight by pursuing organic growth through incremental changes, modifications, and improvements.

Remember, what's crucial for shareholder **value creation** is not the level of spend on organic growth; it's the efficiency of that spend. A company that makes each dollar of investment go further can, over time, start to encroach on a larger competitor's turf. Or, if it's already an industry leader, it can accelerate even further beyond its peers.



Success is a matter of constantly improving your investment selections to increase their efficiency. Through a disciplined evaluation process and the careful use of data, you may be able to squeeze a little more revenue and profit out of every dollar you invest in marketing, for example. Perhaps you can spend a bit less on every IT project or pull funds out of an underperforming operations project. The benefits to revenue and profitability may initially be incremental, but **such systematic improvements to investment selection and performance, year after year, will have a very material impact on your results.**

It is well documented based on past performances of many companies like P&G, L&T, Reliance, GE etc. that, “It's entirely possible for an organization to improve its organic growth efficiency by 10 percent over a period of a few years. For the companies in my research, this translates to millions of dollars of incremental revenue and profit. The best part is that you don't have to invest more to get this benefit; you just have to do more with the same resources — or even with fewer resources, given today's conditions. You're not going to be lauded in the press for these continuous improvements, but they'll be welcomed by shareholders.”

ORGANIC GROWTH To-Do strategy

Best practices for internally generated growth have received much less attention than those for M&A projects. Following five guidelines can act as a catalyst for facilitating an Organic growth for Corporates:

i. Make organic growth a hot topic

Critical though it is, organic growth can all too easily slip from the top of the agenda, especially since a phalanx of investment advisors and bankers are constantly pushing companies toward M&A ventures. These players have no interest in promoting organic growth, which is something that companies can manage on their own.

Winners make sure that loss of focus doesn't happen. General Mills, a Top 10 OGM performer, has a formal strategy process that's centered “almost entirely on organic growth,” reports Dan Malina, senior vice president, corporate development. “We have discussions at the senior most level; we have presentations by each of our business units and functions, and then we roll it all back into our long-range plan. We don't include acquisitions. We see those as very important, but opportunistic.”

Senior championship can help to ensure that discussions of organic growth don't fizzle and that they remain grounded in reality. “Because CFOs sit at the crossroads of so much information in the company, they're probably among the best-positioned leaders to measure organic growth effectiveness,” says Sanwal. “Finance leaders can provide a lot of insight and a dispassionate view of what the data says.”

ii. Understand your organization's capabilities

Winners know which divisions, products, and geographies offer the best opportunities, and they allocate resources accordingly.

Measurement technology giant Agilent Technologies looks for organic growth options that leverage a distinctive and sustainable competitive advantage. “We're focused on measurements, not a bunch of other related or unrelated activities,” says Adrian T. Dillon, EVP, finance and administration, and CFO. “It's a $45 billion sandbox, which is plenty big enough for a $6 billion company and one where we can really leverage our strengths.”

By applying the competitive advantage test, he adds, companies can build up “a portfolio of investment opportunities — some near-term, some mid-term, even a few longer-term ones. But obviously you apply the probabilities, and you very carefully gauge progress so that you don't end up throwing good money after bad when the criteria for success are no longer satisfied.”

General Mills pays close attention to opportunities for channel expansion, especially in new markets such as greater China, where net sales have been growing at more than 30 percent annually over the past three years, according to Malina. This has been driven primarily by organic growth initiatives.

iii. Treat your resource allocation options as a portfolio

Companies that routinely generate organic growth view their investments as a balanced portfolio that takes account of the potential strategic and financial benefits as well as risk.

It's an approach that can bring rigor and discipline to the task, but one that few businesses have mastered, according to Sanwal. “To truly manage something as a portfolio means that you're looking closely at how its components perform, and then you're willing to allocate your resources differently based on past performance. In many instances, this type of dynamic resource allocation doesn't occur,” he says. “A company may say that it has a portfolio of businesses, but in terms of actually moving money across businesses because one business has a better opportunity set than another, this rarely occurs. Within a business division it may happen more, but still not as frequently as you would imagine.”

It's important to recognize that not all of your bets are going to pay off, notes Dillon. Three years ago, Agilent set up 10 new organic growth initiatives, knowing that only a few would likely succeed. “We just couldn't tell you which ones,” he says. “You go through it, you take your shots, and you shoot the losers so that you can double down on the winners.” Today, the four initiatives that remain are doing very well.

Companies need “a consistent process and measurement system for evaluating organic growth investments before they're launched and for measuring them after the results are in,” says Alan Gallo, CFO, global consumer business, American Express, which maintains a list of current investment proposals, ranked by return, and a waiting list of projects that can get the go-ahead if the dollars become available.

iv. Balance analytical and intuitive decision-making

Organic growth leaders can access the data that they need to make investment decisions, and they couple the use of this information with creative ideas and new insights into their markets.

However innovative an idea might be, it needs careful scrutiny from the CFO. “It's up to finance professionals to make sure that their business partners are making realistic assumptions,” notes Gallo. “Compare the assumptions to what's going on in the economic environment, the marketplace for your product or service, and what your competitors are doing or how they will react. Often, you'll find that some assumptions imply levels of performance that are optimistic — better than you've ever done before or better than any competitor has done — or they imply a dominant market share.”

At Agilent, new product ideas are carefully assessed within a perspective provided by clear, consistent, fair metrics, Dillon reports. “Otherwise, it becomes a question of patriotism and loyalty, as opposed to everybody getting a fair shake and being measured by the same yardstick.”

v. Free your organic growth projects from annual budgets

Consider creating dynamic resource allocation processes that are not hindered by annual budgets. In this way, says Sanwal, "you're not stuck with a decision you made last November until the next cycle comes around."

Achieving that kind of flexibility is perhaps the biggest challenge for organizations that are serious about ramping up organic growth. "One could argue that the second hardest thing to do in any company is to start something that isn't already going — and the hardest is to stop something once it's started," observes Dillon. But companies that break out of once-a-year mode gain the ability to constantly invest in the best organic growth initiatives, reacting to market pressures and opportunities as they arise.

Organic growth strategy is an area in which CFOs can and should expand their support for their CEO.

In IBM's 2008 Global CFO study, 71 percent of respondents said that providing input into identifying and executing growth strategies was a critical or important area of responsibility for the finance function. But when asked how effective they thought finance was in this area of responsibility, only 40 percent said that it was effective or very effective.

Finance executives who are resolved to be the CEO's junior partner should build relationships with leaders across the organization, including the CMO, who are involved in growth projects. "They should be learning as much as they can about how **strategic marketing** works," says Dillon. "What are the buying criteria of the customers? Is it pure cost, in which case you're selling a commodity? Is it magical technical capabilities? Reliability?"

Sorting out these types of things and adjusting not only the R&D portfolio but also the business model at times can be an enormous area of contribution, and the CFO has a unique perspective to bring, "For me, being involved in that makes the job a lot more fun."

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