The Management Imperative at Midsize Companies: How to Use Strategy and Performance Management as Competitive Weapons

A White Paper

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Strategy \ strat·e·gy \: a plan of action encompassing the methods to be adopted from beginning to end of a task or endeavor, focusing on the methods.

Company Size Influences the Strategy Process

Regardless of firm size, effective strategy development and implementation depends on several critical success factors — good planning, reliable information, deep understanding of the strategy by decision makers, accurate and timely information, careful reading of the competitive space and purposeful execution. Why then is the strategy process different for firms of different sizes?

The answer lies in the mix of available resources and complexity of operations of different sized firms. As the sidebar “Small Company vs. Large Company” (page 4) delineates, firms at either end of the spectrum are very different. Their scale, complexity of organizational structure, marketplace touch points, and ability to implement substantial shifts in their offer, all result in substantially different management, strategy definition and process needs.

Small Company Flexibility

A small firm’s advantage typically is its ability to meet an untapped market need by focusing on niche opportunities or highly custom solutions. Small firms can use their “smallness” to out compete larger players by uniquely serving the needs of a neglected market segment — even in a crowded market space. They typically have a small, focused management team and a direct line of sight into their business and market. This line of sight enables smaller firms to act upon anecdotal insight. Their size allows them to change strategic direction with the ease of updating their Web site and printing new brochures. Simply put, at a smaller organization, the number of people you must get into a room to decide what to do is much smaller**.** Alignment is therefore more easily obtained and lack of alignment is more easily recognized and managed.

Large Company Scale

The larger firm’s advantage lies in greater scale and resources, giving it the ability to test multiple hypotheses without causing significant interruptions in their core operations or customers. While this provides many distinct advantages, it also imposes a number of internal requirements. The larger firm must have well-defined and detailed processes and policies to allow them to systematically execute in their day-to-day environment. These processes and policies are what enable effective market- and operations-focused decision making when a true line of sight is not possible for the decision makers. It also forces the larger company to struggle to learn, adapt and react to external market changes.

Small Company	Large Company
Resources While the small company has fewer resources, it typically also has less complexity. It benefits from a simpler management structure, greater focus in its operations and limited diversity in its customer base. **Decision Making and Alignment** Small firms are often built on the labor of a few star performers (often, the owners). A focused management process and concentration of decision making allow smaller firms to readily adapt to new input. Policies and processes can be more loosely defined, as there is typically a line of sight on both internal operations and client-facing activities that enable the firm to move forward effectively without strict definitions. **Ability to Adapt** Smaller firms are able to run focused market or operational experiments and incorporate the learnings into their offering relatively quickly. The combination of the ability to easily make and implement changes with clear line of sight on the market allows smaller firms to operate with an informal, often unwritten, strategy. **Custom Processes** Small firms typically lack the scale necessary to justify building custom tools and processes to keep their finger on the pulse of their market. The tools they use are typically out-of-the-box and the information sources are usually publicly available or standardized market data.	**Resources** The large company has the advantage of scale. Greater financial and human capital resources allow it to invest in robust planning processes and market research to support decision making. **Decision Making and Alignment** In larger firms, senior executives can budget sufficient time for the planning process, supported either internally or by external strategy development specialists. Scale, however, can also create complexity. The number of people involved can cause significant delays in the decision process. Alignment is neither easy to obtain nor maintain. Furthermore, the lack of alignment may be missed due to physical separation of resources involved in the decision process. **Ability to Control** The large firm's advantage is its ability to exploit its scale and drive the market via its own product or service. The ability to find or create large aggregations of like customers who can be served with a common offering enables the large firm to justify significant investments. Large firms can also set market expectations for whole categories of capability, allowing them to occasionally "win" in the market with an inferior product or service. **Custom Processes** Larger firms can take advantage of the ability to invest in custom business tools and processes that are highly tailored to their specific requirements to monitor the pulse of their marketplace. In fact, often firms must make these types of investments to remain competitive.

Small Company Characteristics vs. Large Company Characteristics

Midsize Company Scale and Flexibility

Midsize companies have the advantage of adequate scalability combined with flexibility that allows them to react quickly to serve the market. It is the midsize company's ability to act with the speed and accuracy of a small company, coupled with the added benefit of leverage from its scale of operations, that make this segment of the marketplace the fastest growing and most profitable in our economy.

These two issues — scale and flexibility — are critical for midsize companies in defining, developing and implementing a strategy.

1. *Scale*

Midsize companies have fewer resources — human and capital — than larger companies, but more resources than smaller ones.

Midsize firms have sufficient scale to begin exploiting the advantages of serving like groups of customers, defined processes and policies for managing operations, and a defined decision-making process. At the same time, they benefit from the fact that their decision makers have a more direct line of sight on the marketplace and internal operations than larger firms. While this line of sight is better than that which is typically found in larger companies, the risk and impact of an inaccurate reading can be significant. First, observations are still subject to some "translation error" as they work their way to the decision maker. Second, the decision process may be distributed, requiring several individuals to gain a common understanding of the issues and reach a well-formed decision. And, third, unlike the situation in smaller companies, neither internal nor market-facing decisions are easily reversed. The impact of these missteps can create opportunity for large, small or other midsize competitors.

2. *Flexibility*

Midsize companies must remain nimble in order to compete with both larger companies and smaller ones, as either can wreak havoc on a midsize company's product, market position and/or service model. Therefore, clearly-defined strategy and purposeful execution are critical short- and long-term success factors for a midsize company. The presence or threat of competition by both large and small firms requires that midsize companies:

- Clearly define their business strategy
- Accurately and expediently execute against their strategy
- Readily communicate changes of direction and priority to the organization

Failing to meet these requirements, midsize companies expose themselves to an unnecessary and potentially dangerous level of business risk. Meeting these requirements enables the midsize company to capitalize on its advantageous attributes of flexibility and emerging scale.

The Real-World Challenge

If good strategy and implementation processes are so critical for midsize companies to achieve breakthrough performance, successfully deflect aggressive moves from large firms and death by a thousand cuts from small firms, why then do many midsize companies invest only minimal time and capital on their strategy and management processes? Hypotheses vary, but we believe the reason many midsize companies inadequately invest in performance management lies in the combination of three factors:

- They have grown from smaller companies and believe they maintain a small company's line of sight on the market and internal operations, and therefore do not need a formal strategy
- They have limited financial and human resources to dedicate to such an activity
- They do not know where or how to begin

A Road Map for Success

Midsize companies must subscribe to four priorities in their strategy process to ensure proper levels of investment that will drive appropriate returns.

Priority 1: Align the organization with the strategy

Priority 2: Keep their finger on the pulse of internal operations and market-facing outcomes

Priority 3: Drive fact-based decision making to allow accurate small company speed and realize midsize company scale

Priority 4: Enable rapid evaluation of hypotheses for potential improvement or fundamental change

These priorities provide a road map midsize companies can follow to drive discipline and focus in their strategy processes.

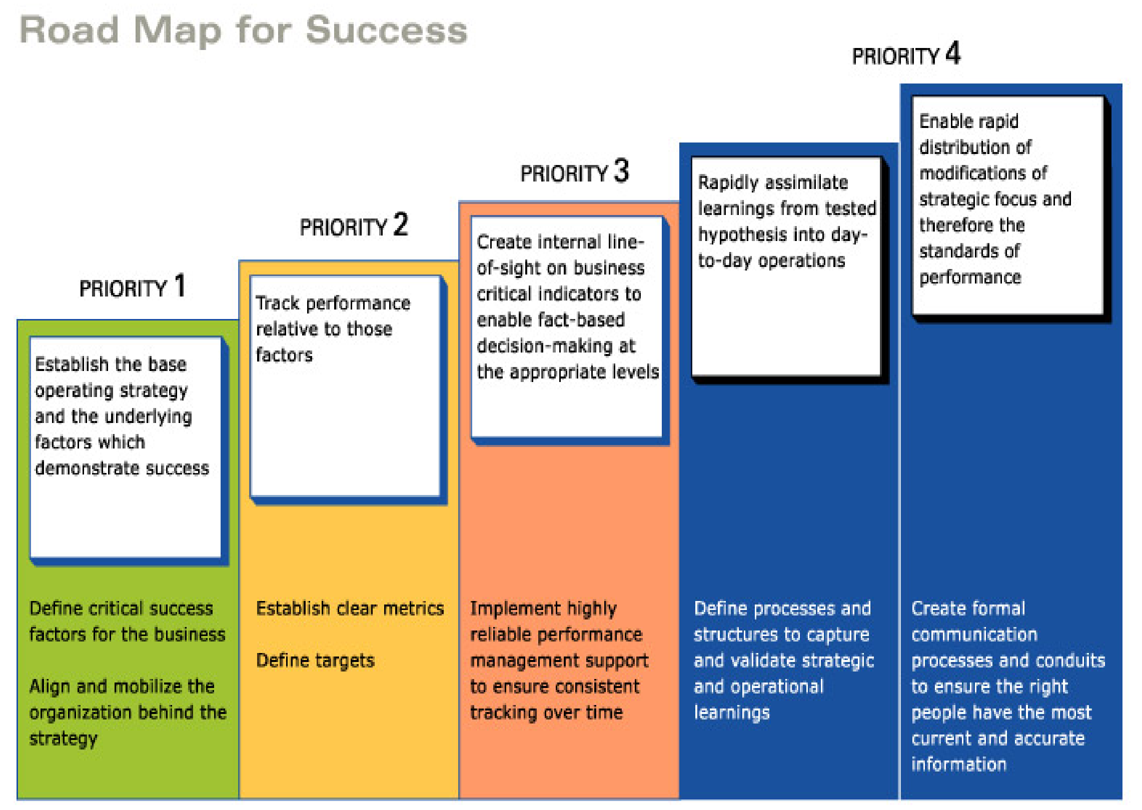

Figure 1: Strategy Road Map for Midsize Companies

Steps 1, 2 and 3

Successful strategy implementation requires leadership to translate strategic goals into relevant operational targets that in turn provide both direction and autonomy for employees to ascertain how they can best achieve those goals. The goal is to both create clear direction and align the organization with that direction. Both elements are critical for success. Tracking performance provides critical context to support accurate decision making as ready access to critical business indicators enable individuals to know where and when to intervene.

Steps 4 & 5

Strategy is not static. To prevent the “death from a thousand cuts” from small companies and out compete larger companies, midsize companies must be able to adapt and learn. If steps 1-3 are managed effectively, the midsize company needs only to create the additional ability to quickly communicate and implement changes of focus and standards of performance to the organization to drive the appropriate changes in behavior. The ability to rapidly and effectively communicate business drivers, expected outcomes and performance standards will enable the midsize company to innovate with the speed and accuracy of a smaller company.

The Midsize Imperative: Managing the Strategy Process to Drive Performance

While the chief operating officer (COO) role is defined differently at many organizations, the COO is generally responsible for aligning externally-facing functions with internal to effectively support the market-facing activities of marketing, sales, and service. A recent study shows that chief operating officers cite managing costs and *developing corporate strategy* as their highest priority and *implementation and execution* as a cause for high concern.[1]

Successful leaders realize that strategy must evolve in real time; organizations must move forward before the strategy is complete or the design ‘perfect.’ Strategy must be crafted as an integration of core elements, each of which also evolves and comes into focus as the organization moves forward. As shown in Figure 2, the strategy process must therefore weave together the design, development, implementation, adaptation *and* management elements into an integrated process.

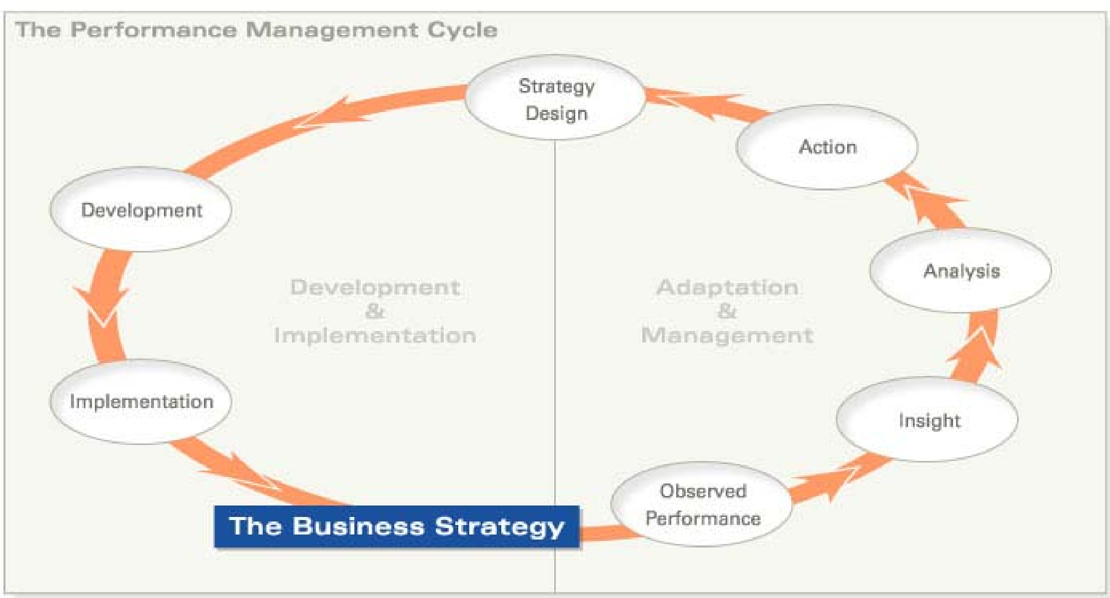

Figure 2: The Performance Management Cycle

Leadership’s ability to communicate **strategy** with appropriate focus and promote **accountability** at every level drives strategic alignment across the organization. Performance management solutions create and sustain strategic focus for executives; operational focus for management; and tactical focus for individuals; enabling a line of sight on their market,

[1] 2003 Deloitte Global COO Survey and COO Confidence Index, Research International

customers and operations. The speed and accuracy with which critical management information flows through these processes can mean the difference between success and failure. Effective performance management solutions[2] provide software infrastructure that enables the chief operating officer or other leaders to create and manage this cycle for the success of the organization.

If midsize companies implement performance management solutions originally designed for larger companies, they are forced to fit their processes to the software, rather than the other way around. Alternately, they have to build one-off solutions from multiple technology components — a costly effort requiring unrealistic and unachievable returns to warrant the investment. On the other hand, tools designed for smaller companies either lack the breadth of capabilities or the scalability to serve the needs of the midsize company, yielding either too costly an approach or too simple a solution.

Midsize companies have sufficient scale to realize a large return on investment from performance management, but are not so large that they must drive a level of commonality across their business which requires them to act and react like a large company. Performance management solutions let midsize companies do what they do best — only faster and with greater precision — exploit their size to outmaneuver larger companies (speed of adaptation) and outservice smaller companies (scale without rigidity).

Conclusion

Large organizations struggle to wrap their arms around their market information, management information and customer information issues. This has driven significant growth in their use of performance management tools, which allow them to draw insight from this confusing array of information. Their resulting performance management solutions, however, are typically large, complex and require considerable time to design and implement. Smaller companies, on the other hand, often lack sufficient scale to warrant investment in a sufficiently robust performance management framework and are usually better served financially by the use of desktop tools. Of course, small companies must guard against continued reliance on these tools as they grow, because the tools typically lack more sophisticated analytical capabilities.

Midsize companies have sufficient scale and complexity to warrant investment in robust performance management solutions, but lack the troublesome complexity (i.e., organizational structure, distributed decision making, need for greater standardization, etc.) large organizations face in implementing such solutions. *Well-designed* performance management solutions enable the midsize company to become even more nimble and their employees even more aligned. As a result, they can outperform the smaller niche players at their own game and outmaneuver larger competitors with speed and accuracy. It is incumbent upon COOs or other appropriate leadership of the midsize company to fully assess the value of driving focus and timely implementation of the strategy with an aligned and robust performance management approach versus the risk of not doing so. A formal performance management solution can enable leadership to drive both speed and accuracy in implementation and adaptation and therefore serve as a foundation for competitive advantage for the midsize company.

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2 *Performance management solutions* are defined as "[solutions which] create additional value for the company by leveraging assets to better understand, optimize, and align strategies and processes to improve effectiveness throughout the enterprise." Performance Management: The Business Imperative for this Decade, An Open and Modular Approach, Ventana Research

About Mark Friedman

Mark Friedman has eleven years of experience advising companies on managing change and improving performance. His consulting engagements have spanned financial services (banking and insurance), telecommunications, entertainment, healthcare, media/content and manufacturing industries. This work has spanned product and service issues in both consumer and industrial settings in the U.S. and Europe.

Mr. Friedman founded Real Time Strategy where he focuses on time-critical business issues ranging from strategy development and executive alignment to operational improvement. His clients range from NYSE public companies to small firms seeking to position their strategy or operations for strong growth or improved profitability. Friedman is an expert practitioner of the Balanced Scorecard and, where appropriate, uses it as a tool for strategy development and implementation. He has worked with the Balanced Scorecard since the early 1990s. Friedman has personally worked with and been trained by David Norton, co-creator of the Balanced Scorecard). He also led the knowledge management practices of Gemini Consulting and Emergence Consulting, focusing on the integration of strategy, process, technology and content in strategy implementation.

Mr. Friedman was a founder of Emergence Consulting and member of its Executive Committee. He served as its COO for 2 years. As part of Emergence Consulting, he was part of the Value Innovation Network formed under Chan Kim and Renee Mauborgne of INSEAD in Fountainbleu, France.

Mark holds a MSIA (MBA) from Carnegie Mellon University with high distinction and a BA in Economics from the University of Virginia