A STAKEHOLDER APPROACH
TO ENGAGING WITH STRATEGY

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No strategy can be viewed as meaningful if it has been formulated without consideration of the needs and desires of stakeholders. Every strategy is associated with stakeholders, those who have an interest in the successful outcome of that strategy.

Stakeholders fall into two main groups: those who work within the organisation and/or who own it, such as staff, management, contractors and shareholders; and those external to the organisation, but who have a vested interest in its success, such as suppliers, customers, government and communities. Different stakeholders can have very different needs of an organisation.

Many CEOs are inclined to short-circuit this essential stakeholder consideration of effective strategy formulation. They focus first, and sometimes exclusively, on their most demanding stakeholder group: shareholders.

It is refreshing to consider a CEO perspective that takes stakeholders into account. Mark Lamberti, CEO of Massmart (and a WBS MBA graduate with distinction), addressing a WBS Strategic Retail Marketing programme in Cape Town in 2005, indicated that he considers the various needs of stakeholders in strategy formulation, and considers how best to *share the pain* through compromises so that all stakeholder groups are fairly considered. This allows the same strategic message to be communicated to all stakeholders. It may be more complex, but this approach improves transparency and increases buy-in. It is also probably the best and only way to maximise shareholder value.

A stakeholder approach to strategy engagement need not be overly complex. This article describes a five-step, process-orientated way of engaging with strategy, and identifies twenty-five essential questions that need to be answered in relation to these five steps.

It also requires that the strategist works actively on updating strategy as an **ongoing process**.

Strategies become outdated quickly in the face of market innovation and change. There are fewer barriers to entry in most market-places today than ever before, and the rate of market innovation, given the relentless pace of technology advancement, continues to rise. Customers, an important stakeholder group, appear to be increasingly demanding of organisations, particularly when there are many competing offerings.
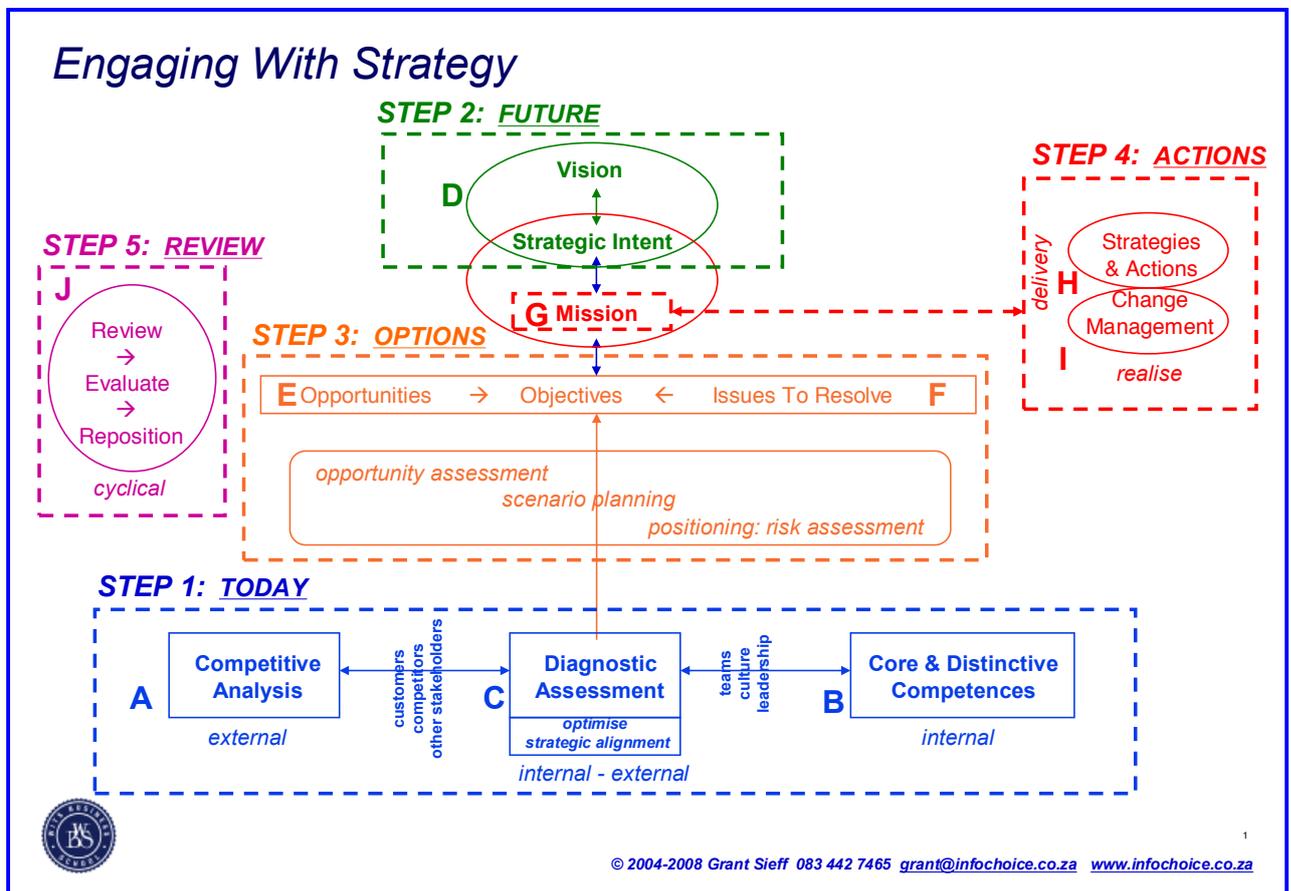

Engaging With Strategy

STEP 2: *FUTURE*

D Vision

Strategic Intent

STEP 4: *ACTIONS*

delivery

H Strategies & Actions

I Change Management

realise

STEP 5: *REVIEW*

J Review → Evaluate → Reposition

cyclical

G Mission

STEP 3: *OPTIONS*

E Opportunities → Objectives ← Issues To Resolve **F**

opportunity assessment
scenario planning
positioning: risk assessment

STEP 1: *TODAY*

A Competitive Analysis
external

customers competitors other stakeholders

C Diagnostic Assessment
optimise strategic alignment

teams culture leadership

B Core & Distinctive Competences
internal

internal - external

Fig 1. A Five-Step Process for Engaging with Strategy

These are not five linear, sequential steps for engaging with strategy. The external and internal environments are continually changing, so the steps need to be addressed almost simultaneously, in an ongoing manner. The fifth step, *Review* brings this process-orientated imperative into focus.

A good starting point is to review the current environment, identified as the first step in the Strategy Engagement Model above, labeled *Today*. Here the focus is on how the current environment addresses stakeholder needs.

An alternative starting point is to engage with the organisation's Vision, a future orientation that is step two in the model, although a focus on today's environment is a useful initial reality check. Step two invites questions about the Vision of the organisation, and explores the organisation's aspirations and purpose. A full appreciation of the future state of the organisation requires consideration of the future needs and aspirations of each stakeholder group.

The five steps for engaging with strategy consider stakeholders, and are enhanced with the assistance of a number of strategy models and tools, as indicated, below.

Step 1: Today

There are three key components to an assessment of the current environment. First, review the external environment within which the organisation currently operates. Second, focus on the current core and distinctive competencies that exist within the organisation for it to be competitive and serve customer needs. Third, consider the current state of strategic alignment between the needs of external stakeholders and the competency of the organisation to meet these needs.

In an analysis of the external environment, it is useful to identify the organisation's key competitors, suppliers and customer groups. It is also necessary to consider what current and emerging external forces may impact upon the organisation. Porter's Five Forces Analysis (Porter, 1985) and a PESTEL / SWOT analysis are useful tools.

It is also useful to gauge relative influence of each stakeholder group on the organisation and its strategic direction. A number of tools may be able to be applied to map stakeholder influence (Bourne and Walker, 2005; Polonsky and Scott, 2005).

In reviewing the competencies within the organisation used to deliver strategy to meet the needs of external stakeholders, take care to clearly define competency areas. For example, it is not helpful to define 'people' as one of the core competencies of the organisation, because this description does not indicate how to allocate resources to maintain this area of competence.

The definition of the competency area needs to be specific enough so that it is known what (often scarce) resources are required to maintain and develop this competence. A more appropriate definition here could therefore be 'successful salespeople with good relationships with target customer groups'.

Useful models for assessing and prioritising core and distinctive competencies can be found in 'Competing for the Future' by Gary Hamel and CK Prahalad (1994).

The third component of an assessment of the current environment requires a detailed consideration of strategic alignment. How well aligned is the organisation today with the needs of external stakeholders? How effective is the organisation's business model in locking competitors out?

In any assessment of strategic alignment the significant customer / external stakeholder groups need to be identified, along with their dominant needs. In this exercise there is an invaluable opportunity for the strategist to assist the organisation to improve the alignment of the current strategy to better meet current stakeholder needs, and thereby improve customer satisfaction.

A strategic alignment assessment is a powerful process, particularly if it is done at the right level of detail. We know from our own experience as customers that our needs of an organisation differ at different points in the value delivery process. A strategic alignment assessment considers each of these value delivery points with each stakeholder or customer group.

For example, consider getting your car serviced. Typically, on the day of the service, waiting in line to check the car in, your dominant need is for *speed*, for the line to move quickly. Once you reach the mechanic who is about to take your car-keys our dominant need is likely to change, perhaps to one of wanting *accuracy* and thoroughness. You don't want a careless, shoddy service, and don't want the mechanic to rush the job. When you are called in the mid-afternoon to be told that the car is ready and that the bill will be larger than you expected, your dominant emotion in relation to the service centre is likely to be different again!

The organisation needs to anticipate and respond in a strategically aligned way to the dominant need that the customer has at each of these points of value delivery. If as a customer you want speed, action and results, then the organisation had better not keep you waiting. If your dominant need is for accuracy and detail, then the organisation would be well advised to know and respond accordingly.

A useful framework for strategic alignment can be found in Norman Chorn's book, titled 'Strategic Alignment' (Chorn, 2004)

Strategic questions

1. Who are the organisation's stakeholders? Consider all groups who have an interest in the organisation.
2. What needs do each stakeholder group have of the organisation?
3. How well does the organisation satisfy these needs currently? What are the shortfalls at this point in time?
4. Why is the organisation not currently satisfying these particular stakeholder needs?

Step 2: Future

When working on the aspirations of the organisation, a stakeholder focus is particularly valid. The Vision of the organisation is its desired aspirational future state. To strategise effectively on the organisation Vision, it is useful to start by asking about the various needs and desires of the organisation's stakeholders.

A stakeholder emphasis in the Vision statement helps to clarify and define a meaningful organisation purpose. Simply saying that the Vision is to maximise shareholder value is unlikely to create enough of a sense of meaning for those internal stakeholders (staff) to develop a sense of loyalty and commitment to help realise that Vision.

Purpose can be framed in terms of the contribution that the organisation aspires to make to a larger entity – a community, the country, or the planet. The organisation purpose should be meaningful for staff, and ignite passion amongst all stakeholders.

Another important Vision statement component is the detailing of the organisation's distinctive competencies. What does the organisation do or

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have that is better than any other organisation? Do the key stakeholders of the organisation value these unique and distinctive competencies?

A third element in the Vision concerns the business definition. What business is the organisation in? Who are its customers and stakeholders, and which of their needs does it meet with what products and services? Getting the business definition right in the Vision can help with organisation focus. Too narrow a business definition and the organisation may miss out on transformational change. Too broad a definition and the organisation may lose focus.

An example of a business definition that was too narrow can be found historically in now defunct railroad companies that saw themselves as being in the railroad business rather than the transportation business. When road transport grew in relation to railroad transport, these companies did not have sufficient focus on the competencies required to compete in a transportation environment dominated by roads.

Vision statements often gather dust on walls. Most employees in most companies cannot articulate the organisation Vision clearly.   Vision statements tend to be for the long term; staff are more inclined to focus on current priorities.

A shorter-term future view can be defined as a statement of Strategic Intent, a summary of the top four or five organisation goals over a defined period, such as a year.

One of the more creative and engaging statements of Strategic Intent came from FNB Corporate a few years ago, in the form of a numeric code, '10150', a shared intent for all staff over one financial year. There were four key stretch goals in this code: in order, '1' was about an aspiration to be rated number one in peer ranking surveys; '0' concerned a desired culture of a

zero-tolerance for errors; the next '1' addressed a desired increase in profitability; and '50' concerned decreasing the cost-to-income ratio.

A short-hand code like '10150' can be easily remembered and help direct focus. For most organisations, it is equally important to be clear about the longer-term plan, despite operating in environments that are constantly changing.

In 2008, a combination of Vision and Strategic Intent, as well as flexibility and agility is needed to chart a secure strategic path over time. There are many sources for guidance on Vision Statements. Peter Senge's work on the learning organisation, 'The Fifth Discipline' (Senge, 1990), is recommended.

Strategic questions

5. How does the current organisation vision consider stakeholders needs?
6. Does the current vision need to change to better incorporate stakeholders?
7. What areas of competence (capability, assets, resources, know-how) does the organisation need to realise its vision and deliver on stakeholder needs?
8. Are there any specific competencies that still need to be acquired?
9. What current and/or ongoing funding or investment requirements are needed to maintain these competencies?

Step 3: Options

Having engaged with steps 1 and 2, a gap between the current reality of the organisation and the desired future state may emerge. A number of

corrective steps may allow for some quick wins. There will hopefully also be a creative tension drawing the organisation forward on a strategic path.

A variety of strategic tools can now be applied to assist in developing a robust future view, and generating ideas and opportunities that can become viable strategies.

A useful starting point is to review the organisation's business model. Two tests for a viable business model can be made by asking: '1) how well does the organisation lock its customers and stakeholders in?', and '2) how well does the organisation lock competitors out?'

To strengthen the organisation's business model, revisit Porter's Five Forces Analysis. Consider which of these five forces can be best leveraged to strengthen the business model, and should therefore receive focus and benefit from existing resources.

More on the business model can be found in Gary Hamel's book, 'Leading the Revolution' (Hamel, 2002). This book and his earlier work, 'Competing for the Future', written with CK Prahalad (Hamel and Prahalad, 1994), provide excellent tools for identifying ideas to take the organisation forward.

Ask if there are other potential customers for your products and services. Explore how you may be able to leverage distinctive competencies. Can resources and assets be differently configured? Remember, for example, that Caterpillar was first a heavy earth-moving equipment company before it leveraged its brand and work-wear into the fashion business!

Importantly, consider the extent to which your organisation can innovate, to steal a march on the competition and set new standards in your industry. Refer to Hamel on 'The Future of Management' (Hamel, 2007), for more perspectives on innovation.

It may also be useful to consider electronic communication channels for stakeholder involvement that facilitate an easy and more fluid exchange of information, particularly on environmental and social issues (Adams and Frost, 2006; Rivera-Camino, 2007). Consider, too, if there are opportunities for innovative collaboration between the organisation and external stakeholder groups that cement alliances or serve the interests of both the organisation and the stakeholder (Holmes and Moir, 2007).

Once you have engaged with stakeholders to identify a compelling set of strategies, you need to prioritise. Rank these strategies in order of importance against the organisation's most current strategic objectives.

Strategic objectives may be obvious, like 'positive impact on the bottom-line' and 'easy to implement'. It is worth thinking carefully through possible strategic objectives, and ensuring that they are aligned with the organisation Vision and with stakeholder needs.

Strategic questions

10. Are there organisations that provide world-class benchmarks?
11. What do these organisations do that could be improved in relation to stakeholders?
12. What new strategies should be considered in the next strategic planning period to address stakeholder needs?
13. How do you prioritise these strategies against each of the strategic objectives?
14. Which are the top-ranking strategies worthy of implementation?

Step 4: Actions

You are now ready to recommend a way forward that considers stakeholders and that is aligned with the Vision and the organisation's strategic objectives.

Before taking action, first check for and address issues that may get in the way, and consider resources and competencies that may be required to implement effectively.

It is valuable to prioritise issues in terms of their urgency and impact, to optimise the allocation of resources required to address these issues. Also review the competencies and resources required to implement each of your preferred strategies. If the organisation does not have the required competency or resources, what action needs to be taken to acquire them?

Lastly, consider the issue of change management. For effective change to happen, there need to be four key elements in place: pressure for change; a clear shared vision; capacity for change; and actionable first steps. If any of these are missing, the implementation of strategies to bring about change may be impeded.

<u>**Strategic questions**</u>

15. What issues get in the way of the organisation implementing its strategies?
16. How do you rank these issues in terms of their urgency and impact?
17. How should the organisation resolve these issues, considering stakeholders?
18. What funding or resources will be needed to implement the high priority strategies? Is there a relationship between funding and stakeholder groups?
19. Where can funding and resources be found? Review stakeholder roles.
20. What new competencies need to be developed to execute the strategies?
21. How well does the organisation deal with change?
22. Are any of the necessary elements for change missing?
23. Have you identified implementation plans for your strategies?

Step 5: Review

In reviewing the changing internal and external environment, 'radar screens' can be used. The radar screen is a simple device for monitoring changing trends, issues and possible shocks that may compromise the ongoing viability of the organisation. It can be constructed on a flip-chart with the aid of a key team of knowledgeable participants.

Draw a radar screen to represent the following three areas of concern over the strategic planning horizon (typically 1 to 3 years from now): 1) current trends and issues that are expected to diminish in significance over this period; 2) current trends and issues that are expected to be constant through the period; and 3) emerging issues and trends, not yet current, that may appear at some point during the period.

The strategist's challenge is to identify which of these many elements of change are worthy of focus. The key to meeting this challenge is to give priority to considering stakeholders and their needs.

Strategic questions

24. What factors need to be considered in the strategic planning process, based on your radar screen analysis?
25. How should you modify your recommended strategies and competency requirements, giving consideration to stakeholder needs?

About the author

Dr Grant Sieff is CEO of the IC Growth Group, a research, strategy and leadership development consultancy. He teaches at leading business schools as a visiting professor and senior lecturer. Grant has worked as a vice-president for Citibank in Australia and a partner for Accenture. He consults to leaders at the top levels of organisations across African continent and abroad.

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