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978-0-521-76980-8 - Enterprise-wide Strategic Management: Achieving Sustainable Success through Leadership, Strategies, and Value Creation

David L. Rainey

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Introduction

Businesses across the world are engaged in the relentless struggle to stay ahead of social, economic, environmental, technological, and market changes that seem to expand and accelerate as time moves forward. Business executives, strategic leaders, management professionals, and practitioners must confront the overwhelming challenges of exceeding the increasing demands and expectations of customers, stakeholders, shareholders, and other constituents, and deal with the growing complexities of the global business environment. Customers in the developed countries expect and demand customized products and services having high value, six-sigma quality, and superior performance that are affordable, reliable, and easy to use. Stakeholders want improved social, economic, and environmental outcomes from businesses and reductions in defects, burdens, and negative impacts. And, shareholders expect improved business performance, wealth creation, and sustainable success.

With globalization, increasing social, environmental, and regulatory mandates, complex economic forces, rapid technological developments, and the rising power of customers and stakeholders, the global business environment is more complicated, interdependent, and less predictable than just a decade ago. Today, customers and stakeholders have more power and influence than ever before because they have access to more information and data via the Internet and more leverage in their choices. However, these changes should not be viewed as negatives from a strategic perspective. On the contrary, they represent incredible opportunities for businesses to excel and achieve success, creating even more exciting opportunities and enhanced realities and results.

Strategic leadership and business management in the twenty-first century involve building solid foundations, creating innovative solutions, and making dramatic improvements across the whole spectrum of the business landscape and time horizon. Business success depends on having a holistic perspective on the business environment and creating an effective business enterprise

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with great solutions and solid relationships with customers, stakeholders, supply networks, producers and providers of complementary products and services, and all other contributors. Achieving sustainable success demands excellence from every perspective. Strategic leaders of today have to integrate their businesses internally and externally to ensure that all efforts are aligned and that the maximum performance and outcomes are realized. They cannot tolerate compromises, piecemeal approaches, or narrow perspectives.

Over the last few decades, large multinational corporations and small and medium-sized enterprises (SMEs) have become more adept at developing and commercializing new technologies and products, improving business operations and processes, and creating exciting marketing campaigns for inducing customers to buy their products and services. The business literature is replete with success stories like Intel, Microsoft, Wal-Mart, Apple Inc., Google, eBay, Toyota, Samsung and LG. Yet, despite all of the improvements, many businesses are struggling to maintain their market positions, financial performance, and enduring success. Many executives and strategic leaders are having difficulties adapting their businesses and strategic management systems to the changing business realities of the twenty-first century.

Too many business leaders concentrate on the inner workings of the organizations, their direct relationships with customers, suppliers, and distributors, and how to beat competitors. They are still thinking in terms of company-centric business concepts and approaches. While such thinking considers other entities such as governments, financial institutions, and the media, the connections and relationships are typically based on transactional linkages and imposed requirements (mandates) instead of having a comprehensive and inclusive strategic framework that considers all direct and indirect relationships, connections, and responsibilities.

The older, often obsolete strategic management approaches were based on twentieth-century realities, not the complexities and challenges of globalization and today's social, economic, and environmental realities. The business world has changed, but to a large extent, strategic management concepts and approaches have not kept pace with the new realities.

Most companies and SMEs still have management constructs, strategic management systems (SMSs), and organizational structures that are rooted in the past and are not in sync with the mandates, requirements, and expectations of the present, never mind the future. While managing change is difficult and necessitates ongoing strategic thinking and action, it also presents enormous opportunities for improving strategic and operational positions and performance. Higher levels of achievements can be realized by integrating the

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knowledge, competencies, capabilities, and resources of the entire business enterprise through strategic leadership, strategic direction, and value creation. While there are numerous reasons for the growing challenges associated with leading, managing, and developing large corporations, especially multinationals and SMEs, many of the main challenges and difficulties are related to the outmoded and ineffective management constructs used by strategic leaders for leading change in complex and dynamic business situations. Many of the traditional constructs and approaches focused on a narrow perspective and a relatively short time horizon.¹

Most business situations have radically changed over the last three decades. Companies have dramatically expanded the scope of their product lines and served markets to diversify their businesses, improve their financial performance, and mitigate the inherent risks associated with technologies, products, processes, and operations. They have created more sophisticated operating systems and decentralized their organizational structures as well, moving from vertically integrated structures to more horizontal ones using the constructs of the management system and process management. While the strategic leaders of most businesses believe that they are making progress, many large companies and SMEs are unsuccessful in making enhancements, improvements, and developments that are significant enough to keep pace with the demands, expectations, and realities of the global business environment.

One of the main premises of this book is that many strategic leaders and their companies are using obsolete strategic management constructs – those that are unable to realize today’s business opportunities and challenges resulting in poor solutions, inadequate outcomes, and inferior performance. The most important premise is that strategic leaders of businesses must adapt more innovative and holistic strategic management system(s) to achieve sustainable success.

Enterprise-wide Strategic Management: Achieving Sustainable Success through Leadership, Strategies, and Value Creation describes and explores how an “enterprise view” of the business environment, strong strategic management, and exceptional strategic leadership can create extraordinary business value and sustainable success. The “enterprise view” is a more comprehensive business framework that involves strategically connecting all of the driving and supporting forces in the business environment and the business enterprise with the strategic and operating management systems. An enterprise view involves more than just examining the direct production and consumption linkages; it requires strategic thinking about all of the linkages, relationships, actions, and inter-temporal effects of business strategies and

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operations and their causes and effects, especially those that have long-term impacts and consequences. For instance, an enterprise view of petroleum involves perspectives on exploration, refining, distribution, marketing, use, and depletion among numerous other considerations including increasing demand in the Pacific Rim and development of renewable energy sources. The quantity and quality of petroleum resources depend on existing reserves and the capabilities of the oil companies to explore, recover, and deploy additional resources from existing and new sources of petroleum. These factors also affect the rate of depletion of petroleum reserves. But, users rarely think about the implications of oil depletion because the effects are spatially upstream of their applications and the impacts are expected to be the most profound in the future. Moreover, the most significant concerns related to the use of petroleum products, like climate change or air pollution, are difficult to fully appreciate and understand, especially for those users who lack the knowledge to assess the impacts on the natural environment and the social world.

A modern company, whether a multinational or SME, is a complex business enterprise. It includes all of the internal management levels (the corporate, strategic business units, and operating systems) within the company and all of its external, direct, and indirect relationships with contributors and recipients. Some of the key relationships include the customers, stakeholders, supply networks, partners and allies, governments, and supporting and constraining entities that the business interfaces with directly and indirectly as it sustains its missions and achieves its vision and objectives for the future. These include suppliers of suppliers, customers of customers, logistical support entities, related industries, and those involved with end-of-life considerations. It also includes all of the critical external dimensions of the business environment that are affected by or involved in the company's strategies, action plans, and operations. All of the direct and indirect entities are the parties to the real world of business strategies, actions, transactions and outcomes. This broader perspective of business with all of its linkages is often referred to as an "extended enterprise."

To manage this extended enterprise with its broader scope and time horizons and to realize its full potential for creating and achieving sustainable solutions, extraordinary value creation, and outstanding business performance, strategic leaders must integrate the numerous disparate participants (the contributors to and recipients of the solutions) into an effective strategic management framework. This requires a new strategic management archetype, herein called enterprise-wide strategic management (ESM).

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ESM involves defining, developing, and deploying a richer, more comprehensive strategic management framework that stretches from the origins of the raw materials and the supply of externally produced parts and components to the far-flung customers, stakeholders, and providers of end-of-life solutions along with all of the complementary providers of products and support services. Although ESM takes a strategic perspective of a company, an SME, or a large multinational corporation, especially ones with many strategic business units (SBUs), it mainly pertains to strategic management at the business unit or business enterprise level. In all cases the focus is on the SMS and its extended enterprise, the strategic leaders thereof, and all of the related contributors to and recipients of sustainable solutions and success. It includes the associated internal operating systems and the external value delivery system with all of the direct and virtual relationships with customers, stakeholders, supply networks, partnerships, alliances, and other entities in the value-producing networks. It involves strategically examining all inputs, outputs, and effects, assessing and managing the impacts and consequences of production and consumption, and linking all of the participants and activities in the extended enterprise from cradle to grave.

Traditional business and economic models focus on the relationships between buyers and sellers (customers and producers). Customers want to satisfy their needs and expectations. Producers want to design, produce, and market their products and services to derive revenues and profits. Market demand for existing products and services drives producers to seek cost-effective, market-related solutions that are competitive and profitable. Supply and demand determine price levels and production volumes. The quantities demanded are functions of the value created, the benefits obtained, and the prices paid.

These traditional (supply and demand) models usually concentrate on the primary considerations of capabilities, resources, products, distribution channels, and markets. Suppliers provide inputs to the producers who create and produce products that flow through distributors to customers. Customers buy and use the products during their useful life and are responsible for the applications, use, ownership, maintenance, and disposal. The producer's responsibilities are typically limited to production and sale, contractual transactions, and products liabilities. Note that there are many variations to the general theme. For example, Amazon.com sells its goods directly to customers using the Internet. Barnes and Noble sells through the Internet and retail stores. eBay provides an information technology (IT) system that allows clients to make exchanges that would be cost prohibitive without its system.

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While this may be an oversimplification of complicated interactions, the underlying contention is that the main premise of many of the traditional management constructs (models) is to keep the perspectives simple. In attempting to reduce complexities, most such constructs only include the primary elements. The related approaches often examine the competitive landscape as the primary consideration rather than the primacy of market spaces and customers. Moreover, many strategic leaders tended to examine reality in terms of what was happening instead of exploring the possibilities of what should be happening or what might happen in the future. While strategic leaders explored conditions and trends in the business environment and markets, the focus was on the direct entities (competitors and customers) and the short-term implications. There were few attempts to determine whether the underlying management constructs and ways of strategic thinking were still relevant. While such concepts, constructs, and models were generally useful during the slow-paced realities of the early to mid twentieth century they have become less effective if not obsolete in the fast-paced world of the twenty-first century.

Today, the scope of business units and their SMSs, their operations and processes, actions and activities, flows of goods and services, information, and money must be more comprehensive and inclusive. They must also include all of the social, economic, environmental, political, technological, ethical, and market-related perspectives. Such views must include not only the primary considerations (products and services), but also the secondary effects such as the residuals of production and use (pollution, discards, and other waste streams) and broader effects, such as the long-term implications of social and environmental impacts. Social and environmental impacts are important considerations in determining the economic viability of products, services, and processes.

As a result of these driving forces, leading companies are transitioning their strategic management constructs and SMSs into more innovative, inclusive, and sophisticated frameworks that include the design and development processes, cradle-to-grave implications of inputs and outputs, supply and delivery considerations, the implications of consumption and application, and end-of-life considerations (reuse, refurbishment, recycling, and/or proper disposal of residuals). For instance, end-of-life considerations are becoming increasingly important considerations in the European Union (EU). The EU is aggressively developing legislative initiatives to address many of the end-of-life problems associated with product discards.² The new frameworks are based on the realities of the present and the expectations of the future.

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Executives, strategic leaders, operational managers, and professionals must understand and manage the whole extended enterprise and not just the company and its strategic business units, operating systems, and functional areas. They must possess broad knowledge about every facet of the business environment and market spaces, including the underpinnings and relevant factors pertaining to the social/human world and the natural environment. They must be able to craft business strategies, manage the operations, lead change, and make effective decisions that improve the prospects of their business enterprises faster than competitors are improving theirs and ahead of the expectations of customers and stakeholders.

While the traditional strategic management focus has been on competition, markets, operations, and financial outcomes, today's business leaders must also focus on discovering and exploiting opportunities to create extraordinary value, achieve sustainable advantages, and ensure enduring (sustainable) success. They must think outside of the normal purviews of markets and customers and discover new opportunities in the broader social, economic, and environment underpinnings of the business world. This requires extraordinary leadership capabilities, outstanding management skills, exceptional competencies and knowledge, and innovative strategic thinking. Strategic leaders must have a mindset for accepting challenges, thinking more holistically, dealing with uncertainties, crafting outstanding strategies and solutions, and developing outstanding SMSs. Today's strategic leaders have to welcome complexities and hard work, and enjoy opportunities and challenges for creating value for everyone, building solid relationships with all of the essential entities and people, and achieving sustainable success.

Successful business leadership and superior strategic management focus on achieving outstanding business performance and financial results in both the short term and the long term and across the whole extended enterprise. The overarching goals are the creation of extraordinary value for shareholders of the company and everyone else involved in the extended enterprise and to sustain success over time. It is folly to maximize profits in the present and give the gains back through poor strategic performance in the future.

The concept of an extended enterprise is still in its infancy. The strategic management of the whole extended enterprise, ESM, is an evolving management construct. In many cases it is an informal system yet one that is gaining importance. For example, Mercedes' automobile-related business unit in Stuttgart, Germany has linked its IT systems with all of its suppliers and suppliers of suppliers seven tiers deep in the supply networks.³ It has linked

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most of the upstream side of the value delivery system into a fully integrated supply network.

ESM provides a strategic management framework that includes all of the essential external and internal dimensions and elements and ensures that they are covered in the analyses of the business environment and the formulation and implementation of business strategies. It sets the stage and provides the means and mechanisms for a descriptive, analytical, and structural understanding of the needs, expectations, requirements, and specifications of the business environment, the market spaces, and the extended enterprise and how to realize the opportunities and meet the challenges. It specifically involves crafting, selecting, and implementing the business strategies and action plans of the business unit whether an SBU, an SME, or a single line of business or company.

The focus of the book is on strategic management in the context of a definitive business or an SBU and how strategic leaders develop and execute their strategic roles and responsibilities and lead change. The emphasis is on how business unit leaders formulate and implement business strategies and action plans. Moreover, the overarching perspective is on achieving sustainable success through enterprise-wide strategic leadership (ESL) and value creation. SBUs are generally the business units of large corporations. For example, United Technologies Corporation (UTC) is a \$30 billion multinational corporation with many semi-autonomous business units that have their own strategic leaders and SMSs. UTC's SBUs include Pratt & Whitney, Hamilton Sundstrand, Sikorsky Aircraft Carrier Corporation, Otis Elevator, and Chubb. Each SBU is responsible for formulating and implementing business strategies and action plans and achieving sustainable results.

A fully articulated ESM framework may take several decades to come to fruition. It represents the next wave in developing business strategies and action plans that reflect a more comprehensive view of the realities of the business world. ESM focuses on finding innovative solutions that create extraordinary value, exceeding customer and stakeholder needs and expectations, and achieving sustainable success in the future. The power of ESM lies in how strategic leaders think innovatively, contemplate possibilities, and invent new solutions that may not be highly profitable in the short term, yet are desirable and worthwhile in the long term. Such strategic leaders think in terms of what is necessary, desirable, and sustainable. They carve out their own unique perspective on leadership, strategies and value creation instead of simply following the pack or the prevailing views. The number of financial institutions that lost billions of dollars in the "sub-prime"

mortgage debacle is a testament to the lack of wisdom in following rather than leading.

Plato discussed such outrageous ideas in the context of a dream of the perfect answer of which reality is an imperfect copy. In the same way, ESM is about what should or could be instead of what is. ESM focuses the aspirations of strategic leaders and their dreams about exciting opportunities, unrealized possibilities, and new business solutions as well as making dramatic improvements to the prevailing realities.

To get there, the dreamer (strategic leader) merely has to think about what could or should be done without limiting his or her thinking with existing constraints and realities. One of the most famous examples is John F. Kennedy's goal of going to the moon by the end of the 1960s. In William Manchester's book, *The Glory and the Dream: A Narrative History of America 1932–1972*, Manchester discusses President Kennedy's address to Congress on May 25, 1961 and the "urgent national needs" that the President identified. In that address, Kennedy made the following comment: "I believe that this nation should commit itself to achieving the goal, before the end of this decade is out, of landing a man on the moon and returning him safely to earth." Surely Kennedy realized that the US did not have the means to get to the moon in 1961. In reality, his address was intended to reinvigorate a sense of national pride and change the temper of the political debates at that time. Still, the idea of going to the moon might have been viewed as an impossible dream. The US did not have the rockets, the guidance systems, or the technology to land on the moon and return to Earth safely. Thousands of technologies, products, processes, and new capabilities would have to be developed to transform the idea into a new reality. Nevertheless, the dream was realized on July 26, 1969 when Neil Armstrong took "one small step for man and one giant leap for mankind."

For a growing number of global businesses, ESM can be the dream and the means, providing insights about managing today and ways for discovering the great promises of tomorrow. ESM has to be very clearly understood by everyone in the organization and the extended enterprise(s) based on fully articulated goals and strategies that are embraced by everyone – the dream of getting a man on the moon was something everyone could understand and get behind. It united people and gave them a sense of purpose and direction.

ESM necessitates business leaders with an entrepreneurial mindset – strategic leaders with the willingness and commitment to create great solutions, to develop the requisite means and mechanisms, to improve the systems and

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structures, to develop and exploit the opportunities, and to exceed expectations. It includes the traditional concepts of efficiency (doing more with less), effectiveness (doing the right things), and social and environmental consciousness (exceeding expectations and eliminating waste and harmful impacts) and also the broader management constructs of being inclusive, open, innovative, and sustainable. More efficient approaches reduce costs, save resources and money, and create opportunities, thereby mitigating risks and negative impacts. Enhanced effectiveness improves business performance and reduces problems and defects. Being socially and environmentally conscious also saves time and money by reducing resource utilization, lessening environmental impact, and making outcomes more valuable.

Whereas ESM builds upon traditional concepts, it also moves strategic thinking from the older paradigms of “supply and demand” and “production and consumption” into a new world of value creation, enterprise-wide strategic leadership, balanced and innovative solutions, enduring relationships, and sustainable success. ESM focuses on crafting and implementing powerful strategies and initiatives, the sustainability of investments and performance, and most importantly, the elimination of non-value added activities and effects, and the reduction of the related economic and environmental wastes. It focuses on creating value for the greater good and success of the business, and the primary and indirect contributors and recipients.

This book examines how strategic leaders can take better advantage of their opportunities by having a broader perspective of their business world. It discusses the principles, philosophies, perspectives, processes, and practices of ESM and how businesses and strategic leaders can create extraordinary value and exceed expectations using strategy formulation and implementation. It defines and explores the importance of creating and using more effective and innovative business frameworks for companies and SMEs in the twenty-first century. It examines the relationships of SBUs with their enterprise partners, customers, stakeholders, and constituencies. It offers insights into what leading companies are doing to create extraordinary value and how they provide benefits for their customers, shareholders, employees, stakeholders, and other constituents. It includes many examples of how leading businesses are integrating their business units with their enterprise partners.

The book includes practical and achievable ESM constructs and business strategies and action plans for leading change and achieving sustainable success. It avoids being prescriptive and instead explores the formulation and implementation of leading-edge management constructs and SMSs, and the creation, development, and deployment of business strategies, processes, and