Strategic Chronicle™

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Strategic Readiness

The competitive advantages found in modern corporations, non-profit organizations, and even governmental agencies are increasingly determined by the strategic readiness of their intangible assets.

Typically, an organization's physical assets, such as machinery, finished goods inventory, or cash are immediately deployable in most situations. However, intangible assets present new challenges in terms of how responsively they can be deployed for business purposes.

While many leaders and executives may recognize this fact in theory, fewer can assert with confidence that the intangible assets of their organization are fully activated, integrated with their corporate objectives, and ready for effective deployment on the competitive landscape.

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The Importance of Strategic Readiness

All intellectual assets are knowledge-based entities that are anchored in ideas and concepts. Some intangibles assets, such as brands or intellectual property, are easier than others to command and fully leverage. These assets were the first identified, and received the greatest attention during the rise of intellectual capital in the early 1990s. As well, these assets are often discipline-specific within an organization, and traditionally are supported by an executive and his or her department or organization. This is certainly true with brands and such intellectual property as valuable patents.

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For instance, the marketing and brand management that leverages the intellectual capital of a brand has received significant attention in both theory and practice since the late 1980s. Similarly, the management and leveraging of intellectual property assets, such as patents, copyrights, and trademarks, has become increasingly commonplace within the corporate world and is often well-supported by dedicated internal management organizations. Thus, these intellectual assets are more frequently at a state of strategic readiness and are constantly optimized and deployed

However, knowledge or informational capital, organizational capital or culture, and human capital received less attention and formalization during that same period of time. Thus, while the Chief Marketing Officer may turn somewhat on a dime to reposition or build the corporate brand by deploying it into new markets or against new constituencies, the Chief Executive Officer may be heavily challenged to deploy the intelligence, talent, information, and culture of an entire organization against a new corporate strategy with the same facility and effectiveness. His or her path forward is not so well laid down as that of the leveraging of a valuable patent.

Thus, these assets, information capital, organizational capital, or human capital, often lack strategic readiness. Strategic readiness, in this sense, refers to the ability to marshal and deploy intangible assets, in a timely manner, and at their full and optimal strength within the operational and strategic dimensions of an enterprise. Achieving this strategic readiness with the organization's intangible assets is the next challenge facing those organizations that already recognize the strategic importance of their intellectual capital.

Achieving Strategic Readiness
How do we achieve strategic readiness with all of an organization's intangible assets such that we can fully deploy and leverage its intellectual capital to create the greatest value for the organization?

Strategic readiness is achieved by aligning and integrating intangible assets with enterprise strategy. Such alignment is in place when such assets are used to fulfill organizational objectives, and are directly linked with the measures of strategic success, such as revenues, gross margins, profitability, return on investment, market share, and the like.

Intangible assets are only assets when they are ready for deployment. If they cannot be used effectively, their strategic readiness is reduced and their value to the organization is impaired.

For example, Walt Disney World has entirely aligned and integrated their organizational capital and culture with their strategic goals of delivering superior customer service to secure customer loyalty, promote repeat purchase, and fulfill their corporate mission. Few who have visited Walt Disney World would dispute the fact that the "cast" (the Disney name for employees who are "on stage" doing their work) is entirely infused with serving their customers. This is a prime example of organizational capital alignment with corporate goals.

Similarly, as the entertainment and media industries move affirmatively to stem copyright piracy by employing comprehensive digital rights management software systems, they align their informational capital with their strategic need to institute new business models that ensure due revenues, royalty payments to artists and content creators, and the restoration of viability to digital and online media delivery systems. This is an excellent example of informational capital alignment with absolute business needs.

Human capital and the ability for individuals to perform and effectively leverage knowledge and talents in fulfillment of enterprise strategies is evident in the creativity of the ever-increasing stream of new patents filed with the U.S. Patent and Trademark Office. From the first, and single patent issued in 1836, to the 6,334,220 patents issued during 2002, human capital has leveraged its unique capacity to create and innovate to found enterprises, drive substantial streams of revenues, and further the entire global economy. Companies like IBM, NEC, Canon, and Micron Technology, who top the annual list of patenting organizations year after year, generate thousands of patents annually that drive the innovation upon which capitalism is based. This creativity, aligned in this case with social and political goals, demonstrates an admirable deployment of human capital.

Each of these examples evidences intangible assets in a state of readiness and deployment. As organizations become increasingly aware of the value of such assets, aligning them against their strategic objectives will become essential to unpack their value. Intangible assets are only assets when they are ready for deployment. If they cannot be used effectively, their strategic readiness is reduced and their value to the organization is impaired.

In closing, achieving strategic readiness with intangible assets is a formidable challenge that requires tremendous mental energy, focused attention, and sophisticated levels of knowledge management.

Much as it took years for intellectual capital and its related concepts to work their way into the daily management of enterprises, we may now expect it will take time and expertise to make these many assets ready for strategic deployment.

The Capitalist Business Model – Efficiency and Innovation

During the 1980s and 1990s, America followed a national strategy of competitiveness that was based upon promoting R&D across all sectors of the economy, improving education and training, and keeping the cost of capital low to encourage business development. During that period of time America created over 35 million new jobs, spawned an entirely new information technology sector, produced the longest period of economic expansion in its history, and spread a higher standard of living throughout much of the world.

Today, after seeing so much good emerging from the technologically driven new global economy, we find ourselves pausing for reflection over the relative merits of outsourcing white-collar service jobs abroad. It seems that many nations in the developing world have themselves been investing in R&D and education and are now driving their own periods of economic expansion, resulting in increasingly knowledgeable work forces that can compete for jobs that were once limited to the United States and the developed world.

Much of the present debate over outsourcing is driven by focussing only on a portion of the entire capitalist business model ... greater profitability leads to enhanced innovation, training, and education which drive the creation of higher paying new jobs, which drive the next wave of economic growth.

Simultaneously, as America companies continue their pursuit of the enhanced efficiencies, reduced costs, and higher quality that came with outsourcing manufacturing, now white collar jobs in call centers, computer programming, or medical services are being sent abroad to deliver efficiency gains previously limited to outsourcing manufacturing.

Outsourcing abroad was good for America and the world when manufacturing went abroad. At that time, entirely vertical operations manufactured hard goods, such as automobiles, from beginning to end under one roof, under the strategy of economies of scale. But outsourcing manufacturing changed all that, and manufacturing efficiencies, quality, and productivity have all increased. Today, it takes fewer workers to output more work than before the outsourcing revolution occurred in manufacturing. As well, quality has increased through specialization.

It appears that the service sector may now be reshaped as well by developments within the global economy. Assuming it follows the same path as manufacturing, the service sector will go through similar stages of increasing efficiency, reducing costs, enhancing quality, and improving productivity, thus presumably netting increased educational levels and rising living standards abroad.

The benefits derived from outsourcing per se are unquestionably good, delivering increased profitability that can be invested in innovation and shareholder value – until we see friends and associates who are displaced by their job being sent abroad. Then we pause, hopefully, to think and reconsider the business model of modern capitalism.

Much of the present debate over outsourcing is driven by focusing only on a portion of the entire capitalist business model. The cost efficiencies and higher quality gained by sending jobs abroad lead to production efficiencies, enhanced value, and greater profitability. But that is where much of the analysis ends, only half way through the capitalistic model. The other half of the model is necessary to grasp the big picture – greater profitability leads to enhanced innovation, training, and education which drive the creation of higher paying new jobs, which drive the next wave of economic growth.

As some white collar jobs head offshore, we are at the beginning of the next cycle of capitalism which drives the future benefit of higher paying, more fulfilling work as the world simultaneously becomes increasing efficient.

Economically our faith has to be with capitalism, and politically our commitment has to be with the engines of innovation and education that allow workers to move up the ladder.

Alan Greenspan, the Chairman of the Federal Reserve in Washington, D.C. recently commented that while globalization is making it hard for the least skilled American workers who are facing competition from abroad, new jobs in expanding and new industries will replace those in declining industries.

This is the so-called "free trade axiom," which states that when a rich country sends lower-paying jobs abroad, it creates opportunities back home with the economic benefit gained for workers to move up the ladder to higher paying opportunities. Economically our faith has to be with capitalism, and politically our commitment has to be with the engines of innovation and education that allow workers to move up the ladder. This keeps all boats, both at home and abroad, rising with the tide of economic success.

As we watch friends and associates experience displacement our fears can become overblown and our concerns for others may cause us to forget that other opportunities exist, and that new ones are emerging in R&D, in higher-level IT, management, marketing, consultation, accounting, finance, law, education, medicine, services, retail, and government.

The real question is whether higher-level jobs can absorb all of the displaced workers. Some would say it always has before. New jobs are the consequence of innovation. We need to do what it takes to remain innovative and create the next waves of wealth-creating ideas, while improving educational opportunities at all levels. This is what globalization really means, and it should remind us of how important innovation and entrepreneurial activity are to the effective handling of the transitional problems created by the march of capitalism. American's are capable of climbing the ladder toward better-paying and more fulfilling roles. It is important that both corporations and public policy drive innovation and establish the educational opportunities that make climbing the ladder possible.

Ethical-Regulatory Compliance

Recent ethical, regulatory, and legal responses to enterprise wrong-doing is driving a sea change throughout organizations in the United States. There are many new regulatory guidelines in place, evidencing the imperative to drive ethical behavior and establish integrity across both public and private organizations.

The largest organizations are creating new executive roles such as Chief Compliance Officer or Chief Ethics Officer that report directly to corporate Boards and ensure corporate-wide compliance across a wide range of ethical-regulatory mandates. Smaller organizations are bringing in ethical-regulatory consultants to help achieve compliance within mandatory regulatory timeframes and to establish executive and management training programs that keep personnel up to speed with new laws and behavioral standards.

These evolving corporate governance matters deal with issues that are common to all organizations in all industries, such as transparency, accountability, and integrity. Sarbanes-Oxley and the new rules issued by the New York Stock Exchange and NASDAQ require the immediate attention of all public companies from the biggest to the smallest. Compliance with these new initiatives requires demonstrable change within organizations from top to bottom, including ethical-regulatory training, monitoring, and reporting across a broad spectrum of ethical-regulatory matters.

The number of ethical-regulatory issues that must be addressed within modern organizations has become increasingly complex and non-intuitive. It was once the case that employers could expect employees to know intuitively what was right or wrong based upon their individual ethical sensibilities. However, executives, managers, and employees can no longer be assumed to be abreast of all the various issues, nor do they necessarily know how to respond to them without timely training and education.

It is for this reason, for example, that the stock exchanges are requiring all listed companies to establish Codes of Conduct, policies, and ongoing training programs that provide the guidance necessary to act ethically and legally in our complex world. More sophisticated education is required for board members, officers, and higher-level executives. These individuals must have a current understanding of conflict of interest, anti-trust, insider trading, confidentiality, unfair competition, price fixing, discrimination, harassment, cronyism, environmental responsibility, international business regulations, and social responsibility issues to keep both themselves as individuals and their organizations free of risk.

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Violations of laws and regulations can lead to expensive and punitive regulatory or legal sanctions, loss of employment, the payment of restitution, and jail time. The U. S. Sentencing Guidelines dictate severe fines and imprisonment in most cases. Here are a few recent examples:

1) WorldCom, Inc., responsible for possibly the biggest corporate accounting scam ever instigated, is a case in point. Top executives cooked the books to hide $11 billion in expenses and inflated profit and revenues over a period of years. Bernard Ebbers and Scott Sullivan were ousted and now face securities fraud charges. To date the company has been fined $500 million in cash and $250 million in stock.

2) John J. Rigas, the founder of Adelphia Communications Corp., was indicted on fraud charges, civil charges, and securities fraud. The government is seeking forfeiture of $2.5 billion in illegally gained proceeds. Adelphia investors lost $3.5 billion.

3) Arthur Andersen LLP, famous for destroying evidence in the Enron probe, has been fined $60.5 million and still faces innumerable lawsuits from creditors and shareholders.

4) Samuel Waksal, co-founded and CEO of ImClone Systems Inc., has been sentenced to 87 months in prison, $4 million in fines and back taxes, and was banned for life from leading a public company, all for securities fraud.

Ms. Martha Stewart has been indicted on obstructing justice, making false statements to federal officials, and conspiracy for her role in selling her ImClone shares. While asserting her innocence, she could face up to 5 years in prison and $1 million in fines for her purported $50,000 gain.

5) Under new corporate crime laws and theories of unjust enrichment, ill-gotten gains are being recovered from unethical ex-CEOs and executives who were forced out for alleged fraud or poor performance. The NYSE itself, now under new leadership, is after $120 million of Mr. Dick Grasso unconscionable compensation.

6) Microsoft Corp. is presently facing the prospect of fines ranging up to $3.2 million, or 10% of their global revenue, in an antitrust case over their Media Player software.

7) At HealthSouth Corp., Richard M. Scrushy, the former Chairman, and other key executives are presently facing possible jail time and fines over massive accounting fraud.

8) In a recent international price fixing episode, Odfjell Seachem of Norway was fined $42.5 million and their Chairman was fined $250,000 and sentenced to four months in jail.

9) A former executive vice president of Grey Worldwide was recently sentenced to 70 months in prison and fined $247,000 for taking kickbacks, rigging bids, and overbilling clients.

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10) Quick & Reilly was fined $175,000 by the NYSE for failing to exercise reasonable supervision in business activities while conducting accounting activities and failing to report customer complaints.

One need only consult the "Legal Briefs" in the Wall Street Journal to see a constant stream of white collar fines and imprisonments each week. In most cases, heading off one episode of individual or corporate wrongdoing would pay many times over for the expense involved in teaching employees upstanding behavior and building corporate character.

Among the deeply serious consequences of such lapses are the damaged and devastated reputations of both individuals and their organizations. These ethical-regulatory changes make it imperative for organizations to staff or retain consultants to take meaningful steps toward establishing an ethical culture that builds organizational character sooner rather than later.

Building America's integrity won't be accomplished overnight. Even then, there will still be those who succumb to the temptation of illicit gain and greed. But, surely we can already see the truth of the proverbial sayings that "honesty is the best policy" and that "good ethics equals good business."

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