FD THE STRATEGIC COMMUNICATIONS DIVISION OF FTI CONSULTING

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Strategic Initiatives Study

ADAPTING CORPORATE STRATEGY TO THE CHANGING ECONOMY

Overview

The latest FD/Forbes Insights Strategic Initiatives Study takes a rigorous look at corporate strategy — its creation, implementation, and what impacts its success or failure — and reveals how corporations have adapted their strategic plans to deal with the credit crisis, recession and beginning of an economic recovery over the past two years. It offers comparative data from the first study, conducted in early 2009, to again test the hypothesis that communications is a critical but underutilized tool in corporate strategy.

While the credit crisis still looms large, an evolving sentiment is breathing new life into corporate strategy. Risk aversion still dominates corporate psyche, but concerns over risk are shifting from avoidance to successful management. Executives, reflecting on lessons learned in the downturn, are at this moment concerned about the impact of failure as never before. The reasons for failure are evident both in the development and execution of corporate strategy. They range from misalignment of strategy with existing resources, to a lack of buy-in from the people most responsible for making a strategy succeed. Through identifying and minimizing the potential for failure, we can better realize the ambitions of strategic initiatives to change a market, business model or competitive position and ultimately fulfill companies' renewed aspirations of growth.

This year's study shows a striking resiliency of corporations and their management to overcome the restrictions of challenging economic conditions through new approaches to pursuing strategic initiatives. Relative to the findings of the 2009 study, the second annual study reinforces the importance of bridging strategy and communications, and of developing collaborative partnerships between those who develop strategic initiatives and those who must execute them. It reveals an increased weight placed on communications in the past and present year. A major cause of failed strategies continues to be a lack of understanding and support for them from key constituencies, indicating that communications still has a way to go before it optimizes success. The online study was completed by FD in fourth quarter 2010 with 180 completed interviews by CEOs, senior strategists, and senior communications officers.

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Key Findings

- **Commitment to growth strategies endures, even in a down economy.** Not surprisingly, efforts related to cost cutting and efficiencies such as sourcing/outsourcing, downsizing/reengineering and reorganization were regarded as more successful in recent years. However, externally oriented efforts were still considered the most strategic and were pursued at twice the rate of internal initiatives. In fact, 2010 respondents reported an increase in some key external initiatives over 2009. More companies entered new markets (12% increase) and made acquisitions and divestitures (35% increase).

- **The new mentality for corporate strategy is perfection.** Gone are the days when pre-crisis, corporate executives could spend their companies' capital on projects that only made sense because funding was freely available and inexpensive. They overpaid for acquisitions, spent promiscuously on expansion and, when the credit crisis hit, there was a shortage of money to support these efforts. Now that the economy has stabilized, sobered executives will be looking to invest, but there is a lot of scrutiny on how any capital is spent, ushering in a new era of perfection. It follows that 76% of companies have changed their approach to strategic initiatives in the past year.

- **Failure results from misjudgment in both design and execution.** When strategies fail most often it is because companies misinterpret the market opportunity (23%), launch initiatives that don't align with core competencies (20%), or because key stakeholders don't understand the strategy and don't commit or follow-through (19%).

- **To succeed, companies must gain buy-in from the constituencies that execute a strategy, and that may not currently be the case.** The vast majority of CEOs (92%), communicators (92%) and strategists (88%) say communications is critical to the success of their strategic initiatives and nearly half of respondents (46%) report that communications is an integral and active component of the strategic planning and execution process. However, when respondents say strategies fail due to lack of understanding and follow-through by the organization and its key stakeholders, nearly half say employees – including senior management down to frontline workers – are the ones least convinced of the viability of strategic initiatives. Clearly, companies need to close the gap between the developers of the strategy and those that must execute it. A large majority of companies (73%) plan to increase communications to better engage their workforces.

- **Increased communications (41%) tops the list of key changes companies are making to improve the success rate of their strategic initiatives.** As government and policy makers exercise more influence and control over business practices, the most significant shift in communications focus from 2009 is in government outreach. A majority of companies (59%) say addressing regulatory threats has become more critical. A third, up 12% over last year, say they'll use communications for conducting regulatory or legislative outreach this year. CEO thought leadership has become significantly more critical than it was two years ago (68%) as companies move to strengthen the reputation of corporations and their management.

The Big Picture

HOW THE ECONOMIC DOWNTURN HAS IMPACTED STRATEGIC DECISIONS

The latest FD/Forbes Insights Strategic Initiatives Study unearthed interesting shifts in the way companies are pursuing corporate strategy in the current economy. More than three quarters (76%) of respondents in the 2010 study say the economic downturn has caused them to change their approach to current strategic initiatives, a significantly higher percentage than the two-thirds of respondents who indicated this in the 2009 study.

U.S. business leaders recognize the increased volatility associated with the post-crisis economy and are approaching their companies' most strategic initiatives with more discretion than ever before. These more stringent expectations are attributed to several factors, including:

- **Less funding available** as new initiatives compete with a greater emphasis on preserving cash;
- **More pressure** from clients to produce greater results;
- **More scrutiny** from investors;
- **Uncertainty** in the regulatory environment and the tax environment

How has the economic downturn caused you to change your strategic initiatives?

Respondents Say

"Spending is a lot tighter and investor expectations are tremendously high."

"We are reconsidering our markets and the value of our products and services."

"We are adding to the marketing plan a more global vision…and finding new innovated ways to produce and distribute products."

There is appetite for offensive strategies, but caution engendered by the credit crisis and recession is apparent. Specifically, it is most obvious in executives' deliberate attempts to execute fewer initiatives and the heightened expectations of perfection that follow. One respondent said that to improve the success of strategic plans, the company has "decreased the scale and number of strategic initiatives undertaken to a critical few."

This no margin-of-error environment creates a need for increased stakeholder engagement and alignment as a critical insurance policy to ensure each and every strategic initiative is designed and executed properly.

With that said, the strategic initiatives study also uncovered overall optimism that well-considered plans can still yield productive initiatives. Respondents believe there is room for growth, but they are being more selective and taking careful steps to be more informed and better prepared than in recent years.

Detailed Findings

The broad implication of this new attitude toward corporate strategy is three-fold — to be successful, firms will need to:

- Subscribe to a more cautious approach of “measure twice and cut once”;
- Ensure that strategy is aligned to both internal and external perceptions; and
- Effectively communicate to internal stakeholders to gain understanding and commitment.

DEFINING “STRATEGIC INITIATIVE”

Most respondents agree that a strategic initiative has the ability to impact a market, competitive position or business model. When undertaking strategic initiatives, CEOs (37%) and senior strategists (38%) maintain the view that they should involve multi-year commitments of resources to new markets and new ventures. Figure I below shows the 12 most strategic corporate initiatives for 2010 as ranked by respondents.

Figure I: Most Strategic Corporate Initiatives

Strategic Initiative	2010 Total (N=180)
New market entry	**69%**
Acquisitions or divestitures	65%
Repositioning or rebranding	61%
Business model transformation, e.g., pricing	58%
Reorganization	43%
New product launch	40%
Channel entry/exit/consolidation	31%
Recapitalizations	22%
Sourcing/outsourcing	22%
Front office/back office technology platform replacement	21%
Downsizing/reengineering	21%
New measurement and compensation models	15%

The impact of the economy is clear when respondents are asked about the success rate of strategic initiatives, as they are significantly more satisfied with the outcomes of their defensive efforts related to efficiencies and cost cutting. Downsizing/reengineering was considered the most successful strategic initiative to be completed in the last five years by both 2009 and 2010 respondents. With that said, and consistent with the 2009 study, respondents maintain that offensive initiatives such as new market entry, acquisitions/divestitures and repositioning or rebranding, are still considered the most strategic and are more frequently pursued than defensive and less strategic initiatives. For the past two years, external initiatives were pursued at twice the rate of internal initiatives. Perhaps a sign of optimism in an improving economy, an increased number of companies reported that they were pursuing more new market entries (12% increase) as well as acquisitions and divestitures (35% increase) in 2010 than in 2009.

Figure II below lists 2010 respondents' current strategic initiatives, from most common to least common.

Figure II: Most Common Strategic Initiatives

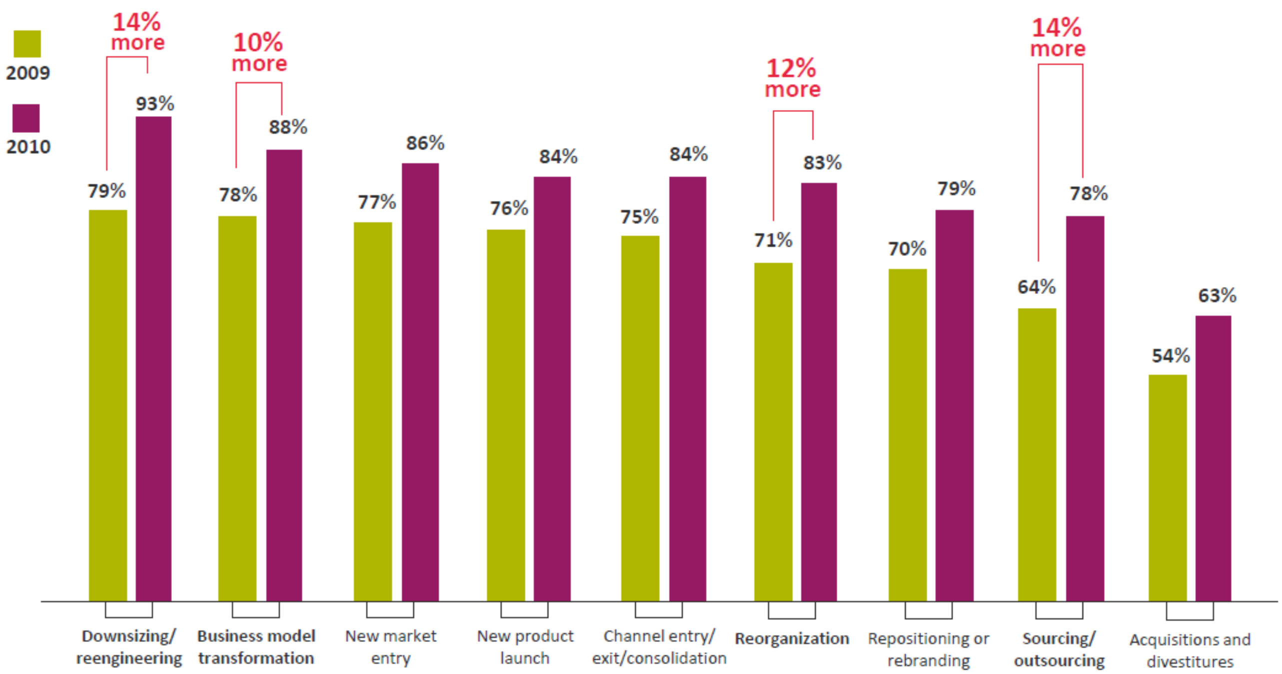
Current Initiatives	2010 (N=180)
New market entry	**44%**
New product launch	35%
Repositioning or rebranding	31%
Business model transformation, e.g., pricing	28%
Acquisitions or divestitures	23%
Reorganization	22%
Sourcing/outsourcing	17%
Front office/back office tech platform replacement	15%
New measurement and compensation models	15%
Recapitalizations	13%
Channel entry/exit/consolidation	13%
Downsizing/reengineering	11%
We are not currently undertaking any of these	10%
C-level leadership training	7%

Respondents also reported other efforts they believe are currently important to a company's success (though these initiatives are not strategic by study definition). A majority (68%) of respondents say that CEO thought leadership is decidedly more critical today than it was two years ago — as are addressing regulatory or legislative threats (59%), engaging in sustainability programs (56%), corporate social responsibility (43%), and elevating the corporate profile with policymakers (33%) — all likely a result of heightened scrutiny of corporate leaders, and more sweeping and significant government involvement in the private sector.

FACTORS OF SUCCESS AND FAILURE

Respondents are generally satisfied with the amount of effort required of strategic initiatives and their outcomes. The year-to-year ranking of success rates by strategic initiatives remains unchanged from early 2009. As previously noted, respondents say downsizing/reengineering (93%) is the most successful strategic initiative to be completed within the past five years, while the least successful strategic initiative is acquisitions or divestitures (63%). See Figure III for a further breakdown of success rates.

Figure III: Success Rate by Strategic Initiative



Respondents say the most important factors contributing to the success of strategic initiatives are having the right strategy (40%), and solid understanding, commitment and follow-through by key internal decision-makers and team members (35%). This year the impact of the economy was seen in respondents attributing nearly a quarter (23%) of failed strategies to unforeseeable external circumstances. Among the other top reasons why strategic initiatives fail to meet expectations are a poor match between strategy and organizational capabilities (20%), where the lack of alignment occurs with core competencies as opposed to hard assets like facilities and distribution networks; and a lack of understanding of strategy, commitment and follow-through by the organization and key stakeholders (19%). Also, companies do get strategies wrong. Respondents report that happens 15% of the time.

A full one-fifth of respondents believe initiatives fail due to a lack of buy-in and understanding from key stakeholders. Those unconvinced and ill-informed stakeholders are often precisely the ones who must execute the strategic initiatives. Indeed, nearly half of respondents who say uncommitted stakeholders are the cause for strategic failure say these stakeholders are employees, including senior management, middle management/supervisory and front-line employees.

IMPROVING SUCCESS AND THE ROLE OF COMMUNICATIONS

CEOs (92%), communicators (92%) and strategists (88%) say communications is critical to the success of their strategic initiatives. Nearly half of total respondents (48%) use communications as a means of team/employee feedback through strategic development and execution and (46%) say communications plays a vital and active role in the strategic planning process throughout the lifecycle of an initiative.

On the flip side, as noted above, they recognize that strategic initiatives often fail due to a lack of understanding, commitment and follow-through by key stakeholders. To improve outcomes, respondents most frequently increase emphasis on communications (41%). They also involve the communications function to drive more internal understanding and support (23%).

Respondents overwhelmingly report that, in this economy, they plan to use communications as it relates to strategic initiatives to better engage their workforces (73%) and market to customers (68%). What's more, the most significant increase in communications focus from early 2009 is in the area of government/legislative outreach (12% increase).

What have you done to improve success in implementing strategic initiatives?

Respondents Say

"Understand the informal organizational culture and realize the value of the human infrastructure."

"Increased effort at defining initial assumptions on which to base strategy."

"Reviewed and revamped to become leaner and more efficient."

"Make objectives perfectly clear with no wiggle room."

Other common measures to improve success include instituting formal change management efforts (34%), adding dashboards or tracking mechanisms (30%), and bringing in consultants to support change efforts (28%).

Figure IV: Improving Success

Improvement Measure	Total
Increased emphasis on communications	**41%**
Instituted formal change management efforts	34%
Added dashboards or tracking mechanisms	30%
Brought in consultants to support change efforts	28%
Involved the communications function as a means to drive organizational understanding and support	**23%**
Increased emphasis on formal project management tools	22%
We have not taken any official or codified steps to alter our implementation process	20%
Other (please specify)	11%
Established a PMO	7%

Recommendations

FOR STRATEGY AND COMMUNICATIONS

The recession may have forced companies to limit spending and set no-fail standards for strategic initiatives, but resourcefulness has prevailed and ushered in a new era of practices. Well-considered strategic initiatives, delivered meaningfully, can be successful.

Firms are well served to do less, but do it more effectively, and employ multi-stakeholder communications as a means to help ensure flawless execution of strategic initiatives.

To gain more traction with the strategic initiatives process, we recommend the following steps to enhance the effectiveness and drive ultimate success:

STRATEGY

1. **Conduct market scan**
   Evaluate the competitive landscape of new markets (or new products in existing markets) and assess the economics of market entry.

2. **Assess brand permission**
   Determine how competitive strengths are perceived by key stakeholders to assess the alignment between the opportunities and those who must buy into them to inform the development of strategies.

3. **Convene a strategy session**
   Host a strategy session with management, strategists and communicators to understand the views among all constituencies, and reach consensus on competitive strengths and an ideal path toward completion.

4. **Gauge optimal use of cash**
   Determine optimal capital allocation strategy and compare strategic initiatives against alternatives with the highest risk-adjusted return.

5. **Soft sound strategy before it is launched and announced**
   Poll key stakeholders to gauge receptivity toward the strategy and likelihood of success. It's easier to manage mid-course corrections based on feedback than risk late stage failure when the strategy is announced and management credibility is on the line.

6. **Align leadership and establish roles and responsibilities**
   Enlist leadership commitment to champion change and demonstrate ongoing support; make cross-functional teams accountable for results.

COMMUNICATIONS

1. **Articulate a well-defined business case and vision**
   Ensure that the rationale for and expected benefits from strategic initiatives are clearly communicated to all stakeholders inside and out of the organization.

2. **Initiate formal communication and engagement programs early**
   Earn internal buy-in and support for strategic initiatives to establish and maintain momentum, with extra effort made to engage management and employees responsible for implementing strategic initiatives.

3. **Leverage the CEO**
   Develop a thought leadership platform and visibility program for the CEO that complements the organization's growth plan and reaches the entire spectrum of stakeholders inside and outside the organization.

4. **Foster an environment of involvement and collaboration**
   Break down organizational silos to improve success.

5. **Employ two-way communications**
   Allow for feedback from all stakeholders to confirm understanding of the strategy, address issues and opportunities and ensure follow-through.

6. **Commit to more clarity and transparency**
   Clearly articulate assignments and responsibilities, deadlines, timing of initiatives and phases of completion, as well as associated costs of development and implementation of strategic initiatives.

7. **Increase the overall volume of communications**
   Err on the side of over-communication to both internal and external stakeholders about rationale, benefits, approach and milestones toward success.

For Further Information

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