

IMPLEMENTING STRATEGY AT THE RIGHT LEVEL

Sustained Double-Digit Growth At Specialty
Chemicals Co.

When Tony Stark took Specialty Chemicals – a division of Conglomerate, Inc. – the group had had 0.2% growth over the last seven years. So how did it turn into sustained double-digit growth the year after he arrived?

It was perhaps not perhaps the best of moments for Tony Stark to rejoin Specialty Chemicals Co.* Stark had been with the company previously, before it got gobbled up by Conglomerate, Inc. Conglomerate folded the multiple-market business into a larger unit that had little in common with what Specialty did, so he took off to work for a more focused company.

By the time they asked him if he would take over running his old employer, Conglomerate had become embattled as a former executive was indicted for fraud. Specialty, a long-time industry leader producing specialty chemicals for the pharmaceutical, laboratory and electronics industries, had fallen on slow times, showing only a 0.2% growth rate over

* All names have been changed.

the last seven years.

“That's little better than zero,” said Stark, “so basically zero growth for seven years.”

Being different from any other business Conglomerate had, Specialty had limited interaction with the corporate support functions. While this meant that Human Resources support was limited to passing along policies and initiatives, the isolation also meant that they could make changes without attracting attention from the corporate offices.

His new bosses were clear on what Stark had to do: either move this organization into a growth mode, or whether or not to spin off pieces of it or keep pieces of it. Stark had worked with RO principles in three different organizations. He was sure that if aligned with a new strategy, the organization would find its new path to success. He had recently been measured as a Stratum 6 capacity in a consulting project run by Glenn Mehlretter of PeopleFit in Raleigh, NC, USA. He reckoned the job to be a Stratum 5 position. The difference would allow him to see things in a new way and take the organization in a new direction.

Of course, that was just his opinion going in. He and his team, whomever that would be, would have to pull it off. And the first thing to do was to determine what that new direction should be.

“Get the Strategy Right First”

“The first real issue was to get the strategy right.” said Stark. “In other words, look at the businesses, see where the potentials for growth were.”

He knew that whatever he did had to show results to his management at Conglomerate, and show it quickly. “It's important in a large corporation to get some early success,” he said.

Specialty focused its energy on its traditionally biggest lines, commodity types of products that it sold in a broad offering in a one-stop shop catalog. The business spent most of its energy on maintaining this tight-margin market even though half of their income came from a proprietary product. Specialty had a patented process and product for the electronics industry so advanced that it required a technical staff to help customers implement it in their processes. Unlike their other sales, which amounted to little more than ordering from a catalog, this proprietary product required intensive expertise of the service engineers. Stark's outgoing predecessor assured him that it had little prospects. Shut it down or spin it off, he suggested. Ironically, that was the business that he saw the greatest opportunity for early success.

“That was the one that seemingly would be the one that would move quickly,” he said. Making the strategic direction fit this electronics focused market also opened the door for a totally different business model. Stark worked with his team to develop a strategy for a technology-based business, delivering chemistry solutions to customers rather than the “me-too” commodity-type products.

“We made that fundamental shift in the business model,” he said, “and then we began

to rethink the structure.”

He realized that implementing this new strategy would require a higher level of thinking within his executive team. Stark believed that if he could get a core team of Stratum 5 executives from within the existing organization, they would get that thinking. The team would need to be Stratum 5 to take the new strategic direction and create a powerhouse organization. He knew that Conglomerate's corporate HR function would not be a direct resource. For the most part, they restricted themselves to passing down policies that were counter to what he wanted to achieve. But Stark knew that he could move faster with a partner, so he called once again on Mehlretter of PeopleFit. With his help, Stark evaluated his current direct reports and, over time, a level beneath them.

“I brought in PeopleFit, and they evaluated my direct reports and, over time, a level beneath that. We found some Level 5 people in the organization. Some we brought up from Level 4 and even one in Level 3.

“So we had, for the first time, Level 5 type thinking in charge of the P&L implementing this approach.”

Getting Immediate Results From Raising the Reporting Level

Stark got immediate results simply by raising the level at which some of the operations worked. Specialty's international organizations, for example, previously reported to a level below him. The executive team decided that these were Level 4 operations, currently reporting to a Level 4 executive in America. They removed the excess layer and had the international organizations report directly to Stark. The productivity of the international organization jumped up to double-digits within the first year.

How Long It Took

While the work was hard and is hardly done, Specialty saw results the year after Stark came in and started reorganizing the company along requisite lines. He first moved his executive team into appropriate places.

“There was only one person who reported to in the same place as when I started,” he said. But no one was terminated, although a couple chose to leave the company.

He and his executive team took one year to work out the objectives and strategy. They began putting the top layers of Specialty into the right place but did not reorganize the factories.

The next year, Specialty started double-digit growth, which has lasted for three years in a row.

Personal enjoyment on the leadership came back, too. Specialty's head of R&D had been scheduled to retire. He told Stark after the reorganization that he decided to put it off. He had

begun to enjoy work again after years of boredom. "I'm enjoying getting up in the morning and going to work," he told Stark.

Getting Strategy At The Right Level

The first place to start in any organization, Stark feels, is to get the strategy right. Know where you want to go and you can organize the company to accomplish those goals. The strategic objectives had to then be

As they began to install management processes, such as a stage-gate review process for new products, a strategic deployment process where they went through several stages to understand where their strategies needed to be and at what level.

"We were able to see that strategies had to be implemented at a certain level," Stark said. "With a Level 3 strategy you have to have Level 3 people implementing it.

He made the mistake of keeping the strategy too complex, at too high a level for the organizational level that had to implement it.

"We struggled early on because I had very high level strategies that I was handing off to people at lower levels and they never saw the connection. We had to continue the process of moving the strategies down to a level that the organization could grasp."

"The organization has responded to those strategies because we were able to put them into context," Stark said. "We did 'strategic deployment', which is a layering of strategies."

Executive group sets objectives.

Asked next level down, "What's it going to take to deliver on those objectives?" They then deliver what we call "Strategies".

Next level down, "What is it going to take to deliver on those Strategies?" They deliver what we call Tactics.

The following level, we ask everyone in order to deliver these tactics, what do we have to do at a personal level. We put those in as personal objectives that are tied to a performance management.

"The key is to work with the process to get those strategic deployment levels matched up to the worklevels of the organization. If you do that effectively, you're going to have tremendous implementation."

"These more robust strategies are only going to be effective if we have the right structure in place and do it at the right levels."

Going Requisite Causes Big Problems In Production

Stark got the increase in sales that he had wanted. Unfortunately, he hadn't planned for the impact on his manufacturing plants. Although they could theoretically handle the

increased demand easily, the reality was that they were backward, slow and barely keeping up with their old production schedules. Back-orders started piling up.

“What was unusual was not that we had systems and equipment that were antiquated and not updated, and couldn't handle the higher sales rate,” Stark said. “I don't consider that very unusual. The problem was that it took us eighteen months to get out of backorder.

“In other words, the organization had no ability to solve problems.”

The solution took work at every level. The problem only got resolved after the Stratum 5 level managers met with the groups tasked with solving the back-order problem. The executives put the problem-solving process into context, assigning the groups smaller tasks to work on. This happened because the situation required systemic approaches but was being led by Level 3 managers and engineers, who were unable to thinking systemically. The Level 4 plant managers did not understand their jobs requisitely, failing to provide the proper context for the problem-solving groups. Last, some of the problems dealt with the inter-relations of systems, requiring Stark to provide a Level 6 context to the executive team.

But the problem worried Stark and his team. They knew that they would have to do something about the back-orders quickly: the competition would be sure to jump on this opportunity. When it started to stretch into a year, Stark began to worry about Specialty's competitors crushing the new sales growth.

Except that they didn't.

“My competitors must be morons!” Stark joked. His competitors, locked into the same mindset that he had been in, couldn't take advantage of the moment. Even one that lasted eighteen months. Specialty's double-digit growth continued in spite of the back-orders.

Selling Requisite By Example

Although Stark could not explicitly advocate requisite principles for Conglomerate's corporate functions, some of them became interested after seeing Specialty's results. The head of the Quality Assurance function within Conglomerate came into contact with PeopleFit's Mehlretter during the problems with production back-orders. Mehlretter remembers being surprised at the ease with which she grasped the concepts and restructured her organization to get people in the right place.

The Quality group had spearheaded several quality assurance initiatives in the past, with few successes. Then, when the department went requisite, everything suddenly seemed to fall into place. It was as if the new structure and clear accountabilities unlocked the potential already existing within the group. The Quality head impressed even Mehlretter, an old hand at Requisite implementations, with her quick grasp of the Requisite ideas and concepts.

“I don't think I've seen anyone get it so quickly,” he said.

"I'm Absolutely Dumbfounded"

"I'm absolutely dumbfounded that it has been so quick and so dramatic," Elroy said. "Normal specialty chemical companies are performing well if they're at five percent annual growth. For us to be at ten percent is amazing. For us in our third year to be seeing across all three businesses a thirteen percent increase in sales and a twenty-three percent increase in profit, it's hard to even believe."

The increase in profit came from unleashing the existing potentials within the organization and reorganizing the executive layers and processes along requisite lines. Stark knows that maintaining the growth levels requires further hard work.

The manufacturing facilities still have to be reorganized along requisite lines. The solutions to the backorder problems and the increased enjoyment of relationships with their now requisite executives has won interest from the normally conservative plant managers. Still, implementing requisite principles in the plants' organization and processes will require a great deal of hard work.

Stark also knows that he has to focus on the long term after getting his quick successes. The sustained double-digit growth will be driven by the new technology model strategy. To be in that market requires disciplined execution, the underpinnings of which is supply chain management. Stark has less knowledge and experience with that. It will require study and learning.

Specialty is only halfway to what it could be by Stark's estimate. That's a lot of growth left.