Reflections on Strategy

Strategy 101

I am often asked to work with senior management team on improving their effectiveness. After an initial round of interviews with team members, what usually surprises me the most is the lack of clarity on, and/or familiarity with, the company's strategic objectives which usually stems out of real confusion about the company's mission, vision, values and so on.

In this short article, my aim is to review some of the basic elements of business strategy, including the vocabulary and the main approaches, and share some pearls of wisdom!

The vocabulary of strategy

What I find most useful is to start by distinguishing between commonly used words such as mission and vision often used in company statements.

A mission statement answers the question 'why we exist, what is the purpose or reason for being?' Google's mission is 'to organise the world's information and make it universally accessible and useful'.

A vision statement answers the other important question 'What do we want to become?' and usually is an image of the future we seek to create (at least 3 years out). Microsoft's vision is 'every household with a personal computer running its software'.

In my experience, a common mistake made by senior teams once they have defined their mission and vision is to jump straight into defining their strategy before having a serious discussion on the values. Values are all important because they are what we believe in and define how we will behave. Companies who fail to achieve their strategic objectives, and hence their vision, often find out that it is because their values are not aligned with the vision.

Once the values have been agreed (and ideally disaggregated into behaviours), it then makes sense to highlight the strategy or strategies. A strategy statement usually highlights what the competitive game plan will be and a balanced scorecard is often then used to monitor and implement the strategic plan.

What is the right strategic approach?

The answer is 'it depends!' In my experience, the two most common approaches are:

- The structuralist approach, which assumes that the operating environment is given; is often shaped by the organisation's own corporate culture and the dominant industry logic whereby players often pursue strategies that are becoming ever closer to those of competitors (e.g. Hertz & Avis) - in this approach, structure shapes strategy.

- The reconstructionist approach (commonly referred as Blue Ocean Strategy), which seeks to shape the environment; whereby players often pursue strategies that are redefining their industries (e.g. Zara, South West Airlines, Dell) - in this approach, strategy shapes structure.

The following 3 factors need to be considered when choosing which approach to follow:

The structural conditions in which an organisation operates;
Its resources and capabilities; and
Its leadership and strategic mindset.

The analytical tools I have used the most frequently in helping to decide which approach to follow are Porter's Five Forces* when analysing the environment, SWOT (Strengths, Weaknesses, Opportunities & Threats) when analysing resources and strategic capability and Stakeholder Mapping when analysing culture and stakeholder expectations.

Strategy development success criteria

When I look back at some of the successful organisations that I have worked with over the years, they all have built their respective strategies around a clear value proposition for the customer and have developed the strategy from the outside in; that is based on what customers, partners and investors have to say and how they behave, not on gut feeling or instinct. GE's innovative products immediately come to mind. Furthermore, the strategy is fine-tuned continually based on changes in the marketplace (e.g. a social trend or a new technology) and is communicated clearly to all stakeholders. Also, the strategy is focused over time and has helped develop their core business.

In my view, strategy development is a dynamic process which is adaptive, holistic and open minded and not a set solution.

Strategy execution success criteria

I often work with organisations on the back of a merger and I am amazed by how often, when the merged organisation fails to execute its strategy, the first thing its senior managers think to do is to restructure. This usually involves redrawing the 'org chart' and, unsurprisingly, this fails to deliver the goods time and time again! What is overlooked is the existence of networks (both formal and informal) and how information flows.

Research shows that the fundamentals of good execution start with clarifying the decisions and actions for which employees are responsible and making sure that information flows where it needs to go. If you get those two right, the correct structure (and motivators) often become obvious.

It sounds easy but often successful execution of strategy is also inhibited by falling in other traps. One of these traps is the synergy mirage. Capturing synergies often drains management time and energy because of clashes of culture, skills or systems. Think AOL-Time Warner!

Another trap is what John Kotter argues is a 'false sense of urgency'. A classic example is IBM in 1993 whose sales started to fall for the first time in its history. The conventional wisdom at the time was that IBM had grown too big and needed to be broken up. Fortunately Lou Gerstner's (the new CEO) first major strategic decision was to keep IBM together and make the breadth of its products, services and skills its most potent competitive advantage by providing end-to-end computer solutions; hence defying the conventional wisdom!

Yet another trap worth mentioning here is the one that Eastman Kodak fell into, that is stubbornly sticking to a strategy that has worked in the past (i.e. print) in the face of a blatant danger (i.e. digital photography), or delaying any reaction until it is too late!

Note:

* Porter's Five Forces: These include:

1. The threat of substitute products or services
2. The threat of the entry of new competitors
3. The intensity of competitive rivalry
4. The bargaining power of customers (buyers)
5. The bargaining power of suppliers

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