The keys to superior strategy: process design and competence in strategic thinking

Produced by Alan Little, as part of the Crelos Change Mastery Series

Abstract

In this, the second article of the Crelos Change Mastery Series, Alan Little presents the findings of our new study on strategic thinking, based on interviews with CEOs and strategy directors from a range of organisations. It highlights the paradox that many businesses express disappointment with their strategy process in spite of all of the academic development and management education over half a century or more. It identifies the critical requirements for effective strategic thinking, especially design of an effective process and development of competence in strategic thinking behaviours and concludes that the cost-benefit of investment in superior capability in this area is compelling.

Strategic Thinking Context

In the last 50 years an enormous number of books have devoted themselves to corporate strategy, strategic management and related themes. A web search reveals thousands of business schools, from Harvard and Wharton at the apex to Dongguk, Thiagarajar and Kibit, all teaching their students and clients strategy in MBA and other management programmes. In the USA alone, a thousand establishments offer MBAs and 156,000 MBA degrees are awarded annually. So the cumulative investment in strategic thinking is enormous, even before we take account of the much greater volume of 'strategic education' that takes place in organisations, and consider the accumulated experience of success and failure on which managers have to draw.

Of course, no amount of education can remove the risk in strategic decision-making. The future is unpredictable. Yet, given the enormous investments that major organisations make in talent, data and management processes, it seems strange that we see so many debacles in which flaws in strategic thinking lead to the demise of, or to significant destruction of value in, a previously powerful concern.

Paradox

In recent times, herd mentality and a lack of critical challenge to strategies appear to have been major factors in the systemic global banking crisis. Ford and GM were almost brought to their knees by the conservatism and centralisation of their thought processes. Major mergers and acquisitions failed spectacularly to deliver value, some because they were conceived in haste or hubris, some because cultural factors were not adequately considered. The RBS acquisition of ABN-Amro; the shotgun marriage of Lloyds-TSB and Halifax and the Mercedes-Benz/Chrysler merger are cases in point. Major airlines, with huge fixed cost structures and perceived IR straitjackets, still struggle to find responses to the changed business models in their industry except for agglomeration and the 'advantages of scale'. BP, despite its long international experience, has looked naive in operating effectively in the different cultural context of Russia and its Rosneft venture is in disarray, with competitors waiting in the wings to seize advantage.

These examples of strategic failure seem **paradoxical**. All of the organisations involved had no shortage of managerial talent, were well-resourced and had powerful management processes and databases. Further evidence of the paradox can be seen in a recently published McKinsey research paper, 'The Case for Behavioural Strategy'[1]. Based on a survey of over 2000 executives the paper reported that an uncomfortably large proportion of executives perceive their strategic decision-making process as inadequate and error-prone. Only 28% felt that in their companies decisions made were 'generally good', 60% 'as often bad as good', and the remaining 12% rated decisions as 'infrequently good'. This squares with our own consulting experience that leaders and their teams often feel that they lack capability in this area, particularly in respect of engaging people, harnessing their enthusiasm and talent and providing a springboard for execution.

Our study of strategic thinking

A significant part of our work here at Crelos is to help clients with strategic thinking. We therefore decided to undertake a study of how businesses view the challenges in this area and of their own approach to strategic thinking and decision-making. We interviewed senior executives from a range of sectors in order to gather insights on those factors that they see as differentiating 'effective' strategic thinking and decision-making from 'ineffective'.

The organisations, roles and people who took part are shown in the table below. As can be seen, our sample includes both line managers and functional strategy roles, experienced consultants in the strategy arena, and executives responsible for organisation effectiveness. We were particularly interested to get the views of private equity participants also, who have corporate backgrounds themselves together with a perspective across diverse businesses, from start-up to mature turn-round.

Organisation	Sector	Name	Role
Balfour-Beatty	Construction and Services	Marc Barone	Strategy Director, Balfour Beatty Servcies
BValco	Board Consultancy	Brian Quinn	Chairman
Dunedin	Private Equity	Giles Derry	Director
Emprise	Cleaning and Security Services	Craig McGilvray	Chief Executive
Lloyds TSB	Banking	Sarah Clark	Head of Organisational Effectiveness
Manasian & Associates	Brand Management	Kate Manasian	Managing Director
Mitsui-Sumitomo	Insurance	Andrew McKee	Chief Executive
Terra Firma	Private Equity	Dean Brown	Business Director, Portfolio Businesses

Strategic Challenges are greater than ever before

Arguably, the challenges for strategy development have never been greater. Most of our organisations must deal with the impact of globalisation and the flow of products, knowledge, and capital across boundaries. New market opportunities arise from this but also potent new sources of competition. Technological development changes the competitive landscape also, creating discontinuities and negating past competitive advantage. New communications technologies collapse space and time and accelerate the pace of change. All of these factors may dramatically alter the economics of whole industries and render established business models obsolete. As this is being written, the acquisition of Motorola Mobile by Google threatens to tilt the axis of the whole mobile telecommunications business and pose a strategic problem to all the players.

The need to be responsive to diverse markets makes top-down strategy less likely to succeed. Also boundaries are blurred by 'virtual' forms of organisation where partners may be both competitors and allies, or activities once thought to be core competences may be outsourced. These factors influence the shape of the strategy process and ask new questions about trade-offs between control and responsiveness, stakeholder involvement and translation of strategy into operational reality. Against this background, we cover the observations made by those interviewed.

1. Clarity and simplicity

- Strategy hierarchy and definitions
- Scope and terms of engagement
- Roles and accountabilities
- Level of 'hover'
- Behavioural ground-rules
- Required Outcomes

In spite of all of the accumulated experience, a number of those interviewed felt that there is still a basic problem of **confusion** around what 'strategy' is exactly[2]. Brian Quinn says: "*A problem is that often terms are confused. There is a need to distinguish Goals and Objectives (to be the biggest.....) from Strategy on the one hand, and Tactics for accomplishing Strategy on the other. This is a clear hierarchy goals; strategy; tactics*". Giles Derry of Dunedin agrees that people often confuse strategic thinking with tactical and operational thinking and both he and Andrew McKee of Mitsui-Sumitomo observed that 'good' strategy can be expressed economically. As Andrew said "*Strategy is the high level blue print. It's the glue between the vision and the tactics pulling together the overall direction of the business*". Giles spelled out the requirements clearly, "*Strategy needs to be short, pithy and easily understood by all. Strategies are not realised because they get over complicated; messages and priorities get fuzzy or diluted. A great strategy will focus on just a few (3-10) critical initiatives or drivers, with flexibility to build on them in the future, and then devolve into rigorous operational planning to ensure delivery*".

Clearly, sorting out terminology and a 'thinking hierarchy' is a prerequisite for effective strategic thinking. And rigorous focus on the essentials is vital for strategy to be communicable, motivating and achievable. There is a danger that a lot of work goes into the whole panoply of 'Mission', broad goals, vision, values, corporate responsibility statements and employment brands without real resolution of strategy or that 'strategy' attempts to accommodate too wide a range of issues and objectives.

Other commentators felt that there are additional areas in which greater clarity is often needed for strategic effectiveness. Sarah Clark of Lloyds Banking Group, for example, laid stress on some of the organisational issues: "*There needs to be clarity on the remit and terms of engagement of any group brought together to think 'strategically'. What is the focus? What is the desired outcome? What are the boundaries? Is it big picture thinking about overarching themes or iterative planning? Secondly, clarity is needed about who is in* *the room and why: what accountability does each person have? Thirdly, an explicit construct is required from the beginning of the process about how power/hierarchy is handled otherwise seniority is often heard louder and longer"*. Marc Barone of Balfour-Beatty expanded some of these themes, commenting on the possible danger of role conflicts where participants wear multiple hats: "*The role of a person in the Boardroom has to be clearly separated from their other roles. Similarly, an operating company MD, competing for resource allocation at Divisional level, must 'own' the larger role. Equally, the organisation's measurement, reward and career progression systems must shape behaviour and reinforce that level of contribution, not just reflect 'delivery of results' in the day job*".

Marc commented that Goold and Campbell's work[3] on corporate parenting styles (see below) had proved helpful in establishing the different thinking horizons expected at Corporate, Divisional and Operating Company levels. This is significant in setting the right expectations for contribution from participants in the strategy process. Equally, the way that businesses are segmented (e.g. markets v services; divisions v, operating companies) influences synergies, resource allocation and strategic options powerfully because it is difficult not to be mentally constrained by existing structures and boundaries in scoping out the future.

Parenting style	Strategic Theme	Role of 'centre'	Role of business units	Strategic Diversity
Financial Control	Portfolio management	Financial control-superior investment performance	Develop autonomous strategies against central financial targets	Diverse businesses that stand or fall on their financial contribution
Strategic Planning	Linkages and synergies	Coordinates, sets parameters for and reviews strategy. Seeks competitive advantage through building and leveraging synergies.	Develop strategies within central market, service or consumer priorities	Groups of businesses with complementarity in terms of markets, service type or technology
Strategic Control	Core competence	Sets strategy and operational delivery model. Strong coordination and homogeneous models and processes across business units.	Focus on delivery and implementation with some input to strategy	Very similar businesses within a small number of areas of competence

Within our sample, we included examples of all these styles, the venture capital organisations epitomising the first; companies in the construction and services sectors broadly representing the second and Emprise, focused on cleaning and security services, or Manasian Associates in brand consulting, the third.

Those interviewed provided helpful illustrations of how clarity about strategy horizons is handled in their businesses. Brian Quinn referred to the arrangement at Celtic FC of having a Club Board and a Plc Board with partial overlap. The Plc Board looked to overall economic and financial performance and global positioning of the business, and all of the commercial matters concerning audiences, pricing, sponsorship, media, income streams and investment. The Club ambit was team management and infrastructure, transfers, players, tactics and professional development.

Similarly, Marc Barone described Balfour-Beatty's approach, with an overall 5 year 'Strategic Road Map' agreed centrally then an analysis at Divisional level of Market Attractiveness and Competitive Strength of the aggregate of businesses grouped together, with Operating Companies then sub-segmenting further into individual business entities and priority markets. 'Road map' was a phrase used by several other commentators in preference to the earlier terminology of 3-5 year 'plans' that implied something more fixed and linear. The model now seems to be more about maintaining directional clarity, but with more flexible implementation, driven by opportunity and economic conditions.

2. Strategy process and tools

So successful has been the penetration of familiar tools that they are in almost universal use, including in all the organisations studied for this paper. These techniques have proved durable aids to analysis. Yet their focus is precisely that – analysis rather than creativity or consideration of discontinuity. In a business environment hungry for data, they are often seen as the key elements in determining strategy. An underlying concern was expressed about this by several of those interviewed.

First of all, there was a worry that "Business School" thinking and a **common tool kit** drive companies to normative solutions; to the middle ground and away from more distinctive strategies. Superficially, at least, this seems to be true of examples like large banks, the power industry, food retailing and scheduled airlines, where brands are more distinctive than substance and even brand differentiation is not dramatically different.

Secondly, there was recognition that many strategy concepts are rooted mostly in description of the status quo. Market share, scale advantage, barriers to entry through sunk investment and 'core competences' run the danger of providing comforting reassurance about the ability of businesses to defend and consolidate their leadership positions. More nebulous, but dangerously seductive, is rhetoric about our 'unique' corporate culture. Of course, in a service economy, values, style and service quality do constitute an important part of perceived value but there will always be new sources of competition who conceive a different way of doing things.

Tools and data are necessary but insufficient to cope with markets and industries where changes in the regulatory, competitive or technological environment can result in the obsolescence of historically successful strategies. As Brian Quinn put it "*Strategy is a way of **thinking**, not simply a process or diligent completion of a corporate 'strategy pro-forma'. There is a need to stimulate that thinking and the essential dialogue that goes along with it. People need to be taken out of their normal thinking mode; otherwise they can get tramlined by day to day pressures. Also, some people have real difficulty in 'thinking outside the box'. They draw comfort from numbers but good analytics are not enough if there is inadequate debate about the logic of future strategy*".

Brian speaks of ‘the exogenous factors’ that can change the game- the need to take a dynamic view. What new circumstances can erode or create our advantage? What vaunted strengths are now more vulnerable than we like to admit? From what directions might new competition arise? Sarah Clark agrees that analysis and data can be deceptively comforting to executives and goes one further: “*I think that it is critical that models and approaches used are tailored to the situation. Often, I feel that things are over-complicated such that groups that cannot handle all the analysis and data and that this leads to a quagmire*”.

In other words, assuming that the full toolkit is required can actually obscure the thinking process, as opposed to being more selective and starting with ‘what questions do we need to address and how can we be helped to do so (what data do we need?)’ . Sarah also referred to the danger of ‘**analysis paralysis**’ having the same effect – squeezing out clarity and original thinking. Certainly, in our consulting projects we have seen many examples of beautifully executed ‘strategy templates’ which contain little more than a plan based largely on target markets, services and clients and focus primarily on financial outcomes, with the ‘how’ dealt with almost as an afterthought. Effective strategy needs to anticipate the possibilities of tomorrow not merely extrapolate from today.

- Thinking, not just analysis
- Asking the right questions and selecting the right tools
- Combining analysis with divergent methods of thinking
- Sticking with Situation Analysis to generate common view
- ‘Out of the box’ possibilities and weak signals
- Challenge and toleration of dissent
- All participants have equal input –listen to minorities
- Iteration
- Effective facilitation
- Process designed to surface and counter biases and vested interests
- Explicit processes for developing agreement, commitment and unity
- Generation of alternative strategies
- Road-testing of strategies

More and more powerful IT platforms make data cheap and easy to interrogate, but can create an illusion of advantage because, broadly speaking, the same capacity is available to other competitors. For all these reasons, specific attention in the process may be required to stimulate ‘**out of the box**’ thinking. Part of this is to look for phenomena that may be weak now but could have a major impact in the future. What can be learned from developments at the periphery of big business? Changing social behaviours, technologies still in development, demographic trends, minority consumer groups who may be ahead of the change curve, entrepreneurial start-ups with new business models, even if they do not scale, all may give powerful insight into possible futures. How can these be used to look at different options if trends mature, new opportunities for growth and investment and changes that might be demanded to business models, services and financial dynamics?

On orchestration of the strategy process itself, whether as part of a regular cycle or focused on a particular strategic initiative or problem, almost all agreed that it is now **iterative**. Marc Barone says:”*Boards need to wrangle and tussle over issues – to get the right mix of facts v judgement*”. Brian Quinn comments “*I strongly support ‘Away days’ to develop strategy. There is a need for the process to be challenging but in a spirit of enquiry, not of confrontation, especially so far as the relationship between the Board and the executive is concerned. Confrontation is counter-productive and prevents clear or original enquiry*”.

Even in a business where strategic thinking is quite closely held at the top of the organisation, Craig McGilvray agrees: *“We built our straw man in short, sharp workshops at which we addressed focused strategic questions through simple analyses, e.g. ‘why isn’t service X performing? ’ ‘How do we position ourselves against the scale advantage of the big players?”.*

There was wide agreement, too, on the need for the process to be deliberately designed to encourage and elicit **diverse perspectives**. This reduces the likelihood of some of the common strategic thinking biases (see later) influencing outcomes and builds greater insight into, and ownership of, the results. Kate Manasian talked of ‘being real’ and ‘tolerating dissent’ whilst Brian Quinn highlighted the importance of “*Listening to minorities of one - unusual people who may question conventional thinking or tools - not just to the herd mentality*”.

Sarah Clark believes that to facilitate this “*An independent facilitator is important to look after process. This could be internal – someone from a different function or business, or maybe an identified high potential person for whom the exposure would be valuable. I also think a second ‘content knowledgeable’ person who can make substantive interventions is valuable*”.

The process must help groups and individuals to see different perspectives, to understand how different stakeholders may see the same ‘facts’ in different ways and to propose alternative hypotheses to explain those facts and suggest future possibilities. This may require some specific ‘re-framing' exercises such as asking for divergent not convergent answers or putting themselves in the shoes of the customer or competitor.

There are 4 other important requirements for an effective process. Firstly, the need to devote a significant amount of time to thorough **situation analysis** before moving on to strategic options. The ‘bias to action’ that managers learn throughout their ascent up the career ladder can have its downside. If the situation is not well-defined then subsequent problems with strategy can be traceable to that inadequate analysis and disagreements among stakeholders may be rooted in different perceptions of ‘the presenting set of problems’ more than the strategic options themselves. At Crelos, we have found it important in facilitating management groups to hold them in the situational analysis stage to the point of discomfort before moving on to the ‘red meat’ and to ensure that common understanding of and commitment to the ‘picture’ is just as solid as that to the subsequent strategic direction.

Secondly, ‘a strategy’ is seldom an adequate outcome in today’s turbulent conditions. Rather, the process should generate a **range of strategic options** to embrace the certainty that the future will be uncertain and thus anticipate the need for adaptive behaviour, for having thought about Plan B if the assumptions on which Plan A was based do not materialise. A section is devoted to this important consideration below.

Thirdly, as Marc Barone says: *“Conviction is the key to realising strategy”*. For hard-headed managers to be convinced and united behind a strategic direction, the principal strategic options must be ‘**road-tested**’ before they can be accepted and the bridge made to implementation. This means consideration of all the factors that could derail or sub-optimise the chosen strategy(ies). An engaging phrase to describe this activity is the “pre mortem” described in “Strategic decisions: When can you trust your gut?” by the psychologist Gary Klein[4]. Klein describes this as “Imagining yourself in a future where your decision turns out to have been mistaken and identifying why that might have been so”. The other important component of a road test is to agree at least at a high level what are the performance indicators that need to be tracked to determine if strategy is being realised and to adapt as appropriate to new realities and insights as they occur.

Fourthly, adequate time and an explicit process is required to achieve ‘**buy-in**’ from all who are important stakeholders in taking matters forward. The need to modify past assumptions and to invest intellectually and emotionally in the new situation cannot be taken for granted. One of the wisest business clichés is that “a strategy is only as strong as its weakest supporter”. Lack of unity transmits itself down the organisation with viral efficiency. The strategy process should also explicitly confront the necessity to validate that potentially damaging differences and vested interests have been reconciled and that accountability for success is accepted. And that commitment needs revisiting and consolidating regularly to be sustained.

3. 'Capability Out' Perspective

Some of our commentators felt that the question of 'what can we do with our competences?' often gets less attention than the dynamics of the market place and competition. This can be fundamental, as Giles Derry pointed out for his own business: *"Strategy can be '**competence out**' or 'opportunity in'. In our case, relationship skills and ability to work with management teams are very important and we are distinctive in style compared to many others. Management teams with promising businesses select their preferred partner on the basis of 'who will make me richest?' but also 'which guys will we like working with?'* Marc Barone spoke of the search for "*........adjacent markets – a 'capability out' perspective. For example, we are highly skilled in, say, transcription services to deliver long-term public sector contracts. Could those skills be of high value to a different marketplace, like the legal community?"*

On the issue of 'winning culture', Kate Manasian observed from her work on strategic branding that "*Companies talk about their cultures as strategic assets but more often than not pay lip service and put them 'in a box' rather than leveraging them*". It is also easy to be glib and optimistic about the power of such 'soft assets'. The proposition that competences and culture give a protagonist competitive advantage is important to address, but in a spirit of healthy scepticism in order to back up such a proposition with compelling evidence. Sometimes, the self-perceived 'specialness' arises from other, more basic, factors like scale or association with marquee clients. For example, clients do not appear to view the big accountancy firms as having the cultural differentiation they would claim. The same is true of boasts about 'superior customer service'. It may figure a lot in advertising campaigns but for most consumers they would not put a cigarette paper between any of the big energy providers or banks, for example.

4. Biases in Strategic Thinking

A substantial literature documents typical biases that afflict strategic thinking and decision-making. Good process design takes these into account and tries to counter them, or at least surface them and see them for what they are.

Our commentators referred to many of these. '**Herd mentality**' is an obvious one that was viewed as being quite prevalent in many industries. Banking, energy, telecommunications, computers and food retailing were cited as examples. In part, this clustering around very similar business models, services and business processes reflects the search for 'best practise', driven by benchmarking against competitors, which became a consulting bandwagon. The danger is that this drives competitors towards homogeneous solutions and a loss of focus about where there is real competitive advantage, whilst appearing to be rigorous and challenging. The real breakthroughs – and threats - come from different cultures or newer organisations that are prepared to consider very different business models. Simply trying to get on equal terms with an acknowledged 'industry leader' through emulation is seldom successful because companies capabilities are often rooted deep in their own history and mythology and are not easily replicated. Philipp Nattermann (2000)[5] points out that "clustering around the strategy of the most successful company actually destroys value..........products

- Herd mentality – cluster round common reference points
- Silo thinking – blinkered by expertise or by vested interest
- Instrumental thinking: 'what do I get rewarded for?'
- Champion bias – easy convergence on the ideas of the powerful; persuasive or expert
- Saliency bias – over-emphasis and halo on recent successes, what made us great in the past
- Stability bias – weighing downside risk more heavily than opportunity
- Executive bias to optimism; 'can do'
- Action bias – too little time and effort spent on really drilling down and testing propositions
- Effective process design is essential to recognise and minimise these biases

and services become increasingly commoditised, and margins fall (as companies compete on the same ground for the same customers and resources)".

Another common bias is "**Silo thinking**" in which organisational units promote their own interests to the exclusion of the wider perspective. When managers find it difficult to get on the same page it often points to unsurfaced vested interests that will undermine strategy unless exposed and dealt with by an effective process. Where reputations, promotions and pay are involved conflict is inevitable and must be dealt with.

Sometimes, disconnects between business processes, exacerbate bias. A surprisingly common example is where managers are exhorted to be 'corporate' but their incentives are almost entirely linked to success in their 'patch'. Here, redesign can help to motivate changed behaviour.

Effective strategy must also avoid the well-known **champion bias** in which others defer to the most powerful, the most expert or the most confident and convincing. Without a rigorous process there can be a flight to converge on plausible ideas and then find the data to support them, rather than interrogating the data to challenge them and throw up equally viable alternatives.

Saliency biases are driven by placing too great an emphasis on some kinds of data to the exclusion of others. For example, too much importance can be attached to historic successes when the context has changed, creating a **halo effect** and a belief that they will be replicated.

Conservative businesses often weight the '**downside**' and avoidance of risk at the expense of progressing their thinking on potentially lucrative opportunities. A particular variant of this is a bit like the famous 'gambler's fallacy'. It might be called the '**sunk investment fallacy**' – "we have invested so much that we cannot afford to pull out now". The famous case of Marks and Spencer's entry into US retailing via the acquisition of Brooks Brothers is such an example. The business was on the handcart and the destination was hell long, long before it was eventually unloaded at a fraction of the purchase price.

Just rehearsing the most common biases at the beginning of strategy processes can be helpful but we have found that the process itself also needs to be robust and provide for focused questioning. War stories, gripping examples, 'borrowed' ideas all merit hard scrutiny. Also, by nature, executives tend to be selected for being 'positive' so that there is a danger of **over-optimism**, especially if the ideas are their own or those of a highly respected protagonist with a glittering reputation.

Drilling down to the consequences of proposals is essential to counter bias – What would happen if? How would competitors respond? How would that look 5 or 10 years hence? If we did the opposite what would happen? What would our customers think? What would we need to do organisationally? How will emergent technology impact on that? - are the kinds of questions that help to probe beyond the surface of attractive notions and sufficient time needs to be allocated for that to happen.

Reinforcement of the proposition that process and behaviour are critical to effective strategy – and business results- comes from the McKinsey Behavioural Strategy study of 1048 business decisions referred to earlier in this paper. They found that: "…..process mattered more than (the quantity and detail of) analysis by a factor of 6. This finding does not mean that analysis is unimportant, as a closer look at the data reveals: almost no decisions in our sample made through a very strong process were backed by very poor analysis. Why? Because one of the things an unbiased decision-making process will do is ferret out poor analysis. The reverse is not true; superb analysis is useless unless the decision process gives it a fair hearing……….We also assessed the ROI of decisions characterised by a superior process……..raising a company's game from the bottom to the top quartile improved ROI by 6.9 percentage points…………**Good process, in short, isn't just good hygiene; it's good business**"**.**

5. The 'Curse' of Maturity

Several interviewees felt that large, mature companies have special problems with strategic thinking. First of all, the sunk investment in 'what has made us successful in the past' is a drag on imagination of alternatives. Secondly, many corporate cultures reward **conformity** and discourage 'difficulty stating'. A confident, 'can do' behavioural profile is reinforced that underplays future uncertainty. Kate Manasian observed "*Mature businesses really need a trigger for renewal. This can be a change of CEO; entry of new competitors; trading problems or merger and acquisition to create new positioning. Mature companies don't think out of the box until then. They are too big and have too many bureaucratic issues to stay bold*". Dean Brown agreed "*Mature businesses tend to be consensual, collaborative and slow to change the status quo. They have no burning platform. Mature companies need crises otherwise they simply won't get out of their comfort zone and think radically. There is too much vested interest. Indecision and a lack of risk-taking rule*".

I tested whether the inherent complexities of mature businesses meant that there were genuinely more trade-offs to consider: growth v profit, maintaining the dividend, balancing investment across multiple competing priorities, for example. Also, that they were much more exposed to the investment community and the media and less able to be 'experimental'. Dean saw these issues as excuses: "*Many businesses are simply in denial: they can't or won't change and prefer to stick with the current formula, assuming that past successes were because of genius, not luck……they die rather than change".* If mature businesses tend to focus on control and consistency rather than **empowerment**, arguably they need to build specific processes or mechanisms into their strategy development to counter this and to include as participants those who can bring a different perspective.

6. The Business Environment Demands Adaptability

A significant theme in our discussions was adaptability. Whilst almost all participants still embrace a 3-5 year perspective, they emphasised the importance of remaining flexible. Brian Quinn observed: "*Strategy is a road map to the future but it must be kept flexible because the future is increasingly event driven – by 'exogenous factors'. A major innovation or an external shock in regulation, demand, or technology, for example, can drive a rapid industry transition. Different possibilities must be revisited as circumstances change. Increasingly, organisations need to be light-footed and agile, encouraging new ideas, and gathering feedback on progress, events and trends so that strategy becomes a continuous cycle*". Giles Derry and Marc Barone both reinforced this view and talked about the need to maintain different options whilst keeping a focus on the broad strategic objective. Giles commented "*You have to hold in mind the 'end game '– there may be 5 or 6 different ways of getting there – you keep your eyes on the prize but with regular rechecks on whether the current initiatives are helping or different decisions are needed*".

Marc referred to "*The need for both options in strategy and options in execution*". His important point was that these must be driven by the financials so that investments are proportional to ambition not just 'equitably allocated around the portfolio'. "*Otherwise we are just talking pipe dreams*". Commitment at the end of the day is determined by where resources are deployed (……and where they are withheld or even assets are disposed of).

From his background in retail and consultancy, Dean Brown tempered this perspective a little, suggesting that "*I am not sure that horizons and pace of change have changed as much as is claimed for many companies. Consulting firms did play up the increasing pace of change as a means of drumming up more business, but the reality is that you cannot reset your direction with such frequency – to get the buy-in the strategy needs it must be long lived. Globalisation, too, is less significant than one might assume as in very many industry sectors it is local market share that is important, not global*". On Dean's analysis, although Brian's 'transforming exogenous shocks' have been clearly in evidence in some sectors recently, the opposite also applies elsewhere – that many trends emerge fairly slowly and as a result companies may fail to respond until profits are affected, at which point they are unprepared to respond strategically. It's a case of too little, too late. Obvious examples are in the music industry, retail in general but especially white and brown goods, books and travel services where the waiting game on internet penetration has led to the demise or serious illness of many iconic high-street names and consumer brands.

These discussions suggest that each business unit needs a spectrum of strategic options so that it has the ability to move quickly and flexibly in new directions rather than find itself tramlined or simply building on the past. The need is to challenge assumptions and identify innovative ways of creating value, new business models and reallocating investment. An effective strategy process, therefore, must provide for surfacing **several options** and evaluating them against common criteria rather than a rush to enact the most convincing or least disruptive.

The need for continuity and **iteration** in the strategy process is illustrated in the world of Private Equity by Giles Derry's remarks on executive agendas, "*One in every three of our monthly Board is about strategy, not delivery. The Executive Committee drives the shape and balance of the total portfolio; the size of deals; our sector focus; the size of our funds and our market positioning. Each of the business managers drives interesting strategies for their own portfolio of investments*".

An important element of adaptability is about **timing** not just strategic focus and content. Often realisation of strategy hinges on events and opportunities that can only be partially foretold. Both early over-commitment and being too late involve high risk. Thoughtful timing enables businesses to invest when the risk/return trade-off appears to be most attractive. For example, Marc Barone referred to a patient timescale of six years – longer than the strategy horizon itself - to make the critical consulting acquisition that became the cornerstone around which one 'leg' of the corporate strategy could be built. An obvious example of early over-commitment might be the dot com bubble for many participants, driven by fear of being left behind, whilst the transformational power of the web was seen too late by many industries as described above that struggle to formulate responses when so much ground has already been taken from under their feet.

7. Action Planning is not Detachable from Strategy

Many promising strategies fall short in implementation because of unsurfaced dissent or lack of conviction, as discussed earlier. One way of cementing commitment more securely and also 'road-testing' the viability of the strategy is to ensure that the thinking process continues far enough into **implementation** considerations before pushing detailed operational planning downstream. As Kate Manasian says "*Strategy effectiveness is not just overarching strategy but downstream strategies, process and functional; an interlocking jigsaw of strategies that need to be mutually reinforcing to deliver overall*".

Giles Derry pointed to the need to think through **measures of success** in the same way "*Measurement is critical – you only do the things on which you are measured – and measurement drives reward, praise, celebration of success and teamwork that reflects and entrenches effective implementation*".

Marc Barone places a lot of emphasis on **alignment of resource allocation** to strategic thinking outcomes. If the right people and investment are not placed behind a strategic priority it will fail or underperform. If strategy changes significantly, so must investment budgets. In many companies, there is a lag effect where the lion's share of resource goes to today's businesses whilst new ventures are asked to progress on a shoestring relatively speaking.

8. The Right Skills and Stakeholder Mix

- Left-brain and right-brain
- Breadth of experience
- Functional and business experience mix
- 'Big thinkers' and operational realists
- Injection of specific expertise/market knowledge, as necessary
- Inclusion of stakeholders with impact on success
- Exclusion/control of energy sappers

Large organisations select and promote on analytical prowess to a significant extent. Therefore their strategic thinking is often dominated by rational, '**left brain**' thinkers. In contrast, innovators and entrepreneurs often have more intuitive modes of '**right brain**' thought that are not so easy to deconstruct and explain. They may have insights or make connections that open up new ways of seeing situations and throw up new opportunities. Although they may be rarer birds in corporate life, our commentators were in agreement about the need to embrace both kinds of input into strategic thinking. Kate Manasian commented "*Strategic thinking needs creatives, who can see fundamentals; who are liberal, irreverent and open to new ideas. Such people are in short supply – business is dominated by people who are good at analysis but sometimes miss the point*". Giles Derry, Andrew McKee and Brian Quinn expressed similar views. Giles Derry thought that "……….*reviews should include as broad a range of leadership experience as possible: increasingly, familiarity with specific businesses is less important than the ability to develop more, and more creative, responses*". Andrew said that "*In an industry not noted for innovation, the primary competitive advantage in the future will come from people who can think differently – we need to think ourselves ahead of the game and create value-added services. It's easy to replicate things in this industry so speed of implementation is also vital – but that isn't enough in its own right. We look for people who can both think and implement – people with a reputation for driving change*".

Giles also spoke in the PE industry of the value of finding industry experts to make specific inputs to the thought process and to help with the detail, whilst Brian argued that "*Effective strategy requires a good blend of operational experience together with a wider perspective, an ability to think further ahead. People are* *often too narrow and analysis & modelling takes over. It's important but insufficient: you need the capacity to look ahead, to factor in multiple changes, to envision alternative scenarios*".

Dean Brown thinks that good strategic thinkers are "………*unencumbered by the finer points of detail and practicality (who don't first seek reasons why something cannot work). They are also bold enough to challenge the status quo; and smart enough to understand what within the current organisation really makes a difference and what has no bearing on the company's success".*

In Brian's view, Board composition should focus on building the **right blend of skill-sets** and he views excessive specialisation as potentially dangerous – strategy needs broad, open-minded perspectives. He observed that adverse conditions such as those we are experiencing are the acid-test of whether such capability exists – "can you reshape the company?" His broad experience also led him to observe that "*Some (successful) people are inimical to formulation and or realisation of new strategy and need to be excluded from the process, or, indeed, the business to which they may have contributed a good deal in the past, if progress is to be made*". Dean Brown also talked about the negative impact of "*Senior managers who are comfortable with the status quo and have no interest in a new world (for which they may not be fully suited)".*

Nor is finding the right mix of people for strategic thinking just a matter of combining the hemispheres. The matter of having the right – sufficiently **diverse - range of stakeholders** was discussed also, including external perspectives from elsewhere in the business or from the outside world. Similarly, the need to have a **mix of management roles and functional expertise**. Marc Barone spoke of the fact that people may genuinely see issues from very different perspectives related to their own 'lenses' or filters of role, expertise or hierarchical level. Surfacing such differences explicitly in a process which is open and encourages challenge helps to avoid the danger that prevalent skill-sets, silo thinking or vested interests dominate.

Inclusion, ownership and commitment are also vital. Andrew McKee said "It isn't just about the killer idea, it's also about improvements. People can be fearful of innovation and think that they're not creative and that strategy is someone's else's job but my view is that strategy is collective effort – we need everyone involved. It's as much about culture change".

9. Good Leadership Catalyses Strategic Thinking

Another area of substantial agreement was that the behaviour of the leader sets the tone for effectiveness of strategy processes. So important is this contribution that it was questioned whether it is possible to have 'good strategy' without 'good leadership'. Good leaders were seen as shaping management behaviour to create teamwork and cohesion without suppressing challenge. They **role model** the ability to listen to others and encourage new thinking, **sponsoring processes** and structures that stimulate it. They do not settle for easy consensus but push their teams to think beyond the obvious. If the CEO is viewed as unwilling to contemplate alternative futures, then imaginative ideas will not surface and, ultimately, those able to contribute them will self-select themselves out of the business and further weaken its overall strategic capability.

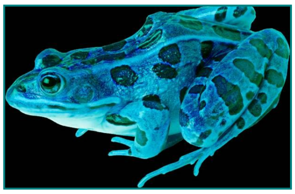
10. The Contribution of Strategy Consultants

All of our contributors had experience of working with strategy consultants. Some had also been strategy consultants themselves in 'a previous life'. The general view was that strategy houses seldom offer breakthrough thinking and that basically they have much the same tools as businesses use themselves. Giles Derry expressed this well "*Strategy consultants can be good at facilitating conversation and asking open questions to drive different thinking. Their toolkit is useful but universal. The pros are that they can provide lots of grunt in a short time by offering resources who are good at collecting, analysing and crunching data and that they can offer a sense check on strategy and direction but they rarely deliver blue-sky thinking or 'a blinding flash of insight'* ". As a CEO, Andrew McKee also uses consultants very much in this way "*We use them to find evidence to support or challenge the ideas we come up with – to provide validation. It is helpful to have consultants with a broader view, especially in pressurised times when we are internally focussed and are constrained by time*".

Marc Barone felt that quality can be quite elastic and that sometimes getting the lead players from a smaller boutique added more value than getting the whole consulting pyramid from one of the big guns. He cited a recent experience where there was massive focus on analysis, including overnight data-mining in India, but where the senior people did not really understand source data, only high-level summaries. Kate Manasian felt that consultancies could be prone to promotion of 'bandwagon' ideas and also more driven by market opportunity than client capability in postulating strategic options that are more theoretical than realistic. Giles also felt that they could be dangerous if they did not have a strong understanding of the sector concerned and promoted 'generic' ideas. Like universal tools and business school received wisdom, the argument also came up that consultants in strategy drive competitors towards common ground and normative industry thinking.

Brian Quinn has a lot of respect for the big name players with whom he has worked quite closely, for example on strategy for Singapore to develop its financial sector. In a proper relationship, he says, management makes up its own mind but the consultants open up important areas and issues and stimulate thinking about options. Brian was firm in his view that "*Working with a blue-chip consultancy is not a security blanket any more, as it may have been in times past. Boards are accountable and exposed regardless of what support they engage*".

11. Developing Strategy Skills



Most commentators said that there was not a specific developmental effort around strategic thinking. Dean Brown's view was "*I don't know if 'developed' is the right word – I reckon there are plenty of people who could do this well but they often don't because they fear the consequences. I think the right question is how these skills can be "released" – which is more to do with the CEO and other senior sponsors having the confidence and providing the support/protection so that if anyone involved in strategy formulation upsets the old guard then he/she doesn't suffer as a result*."

Marc Barone agreed that in general managers learn strategy by doing and from senior role models and that there were not training activities per se but elements on strategy in more general leadership programmes. Like Dean, his view was that, in the past at least, "*People do not get praised promoted or incentivised for strategic thinking skills*".

Giles Derry pointed to the fact that in his industry, the more natural model of leadership is the entrepreneur rather than the data-driven rational manager. "*We look for people with a singularity of vision that others don't have and with the energy and determination to knock over hurdles in pursuit of it and inspire others. We want people for whom there is no such thing as 'no' and our skill is to put support networks around them for others to pick up the leg-work and thereby maximise their distinctive contribution".*

Sarah Clark spoke of not viewing ‘effectiveness’ in strategic thinking narrowly, “*It is as much about addressing behavioural issues and confronting unhelpful behaviour. This can apply equally to those knowledgeable about strategy as those who are not – to people who are confident about their ability to make a big contribution, not just those who may be diffident, negative or over-protective of their own vested interests*”. Amusing but clearly heartfelt was her comment “*Beware people back from Business School who have been ‘re-programmed’*” *to think strategically*”.

Specific organisational initiatives rather than ‘training’ were seen as helpful in creation of a more strategic and innovative culture. As a new CEO, Andrew McKee, for example, explained how he “......*set up an ‘innovation committee’ consisting of about 30 people from across the business*”. In Balfour-Beatty, Marc Barone described “*Seed corn initiatives. For example, each director has an ‘associate’ – a bright high-flyer, typically under 30 who could take a strategic role in, say, 5 years time”. Secondly, we have "… ‘BBLink’ – a network of like-minded people across the business that has spread like a viral campaign and shares wacky ideas and cross-fertilises experience in parallel with getting their day jobs done*”. Giles Derry referred to “*Periodic workshops with industry experts, technology leaders and others that stretch people’s thinking and provide alternative and thought-provoking scenarios*”.

In Crelos client Electrocomponents, the global electronics and equipment distributor, the far-sighted CEO, Ian Mason, is investing in strategic development through a workshop-based cascade process in which groups work together on real strategic business problems and present strategies to the Executive for consideration. Over time this builds and consolidates **a management culture in which strategic thinking becomes pervasive** and develops a common process, discipline and language that helps to maximise the leverage from good initiatives, combats the familiar thinking traps and promotes innovation and teamwork.

Relative to the size of the potential **payback from effective process and behaviour** it is obvious from a large body of management literature, including the recent McKinsey study on ‘behavioural strategy’ referred to earlier, that the investment cost of these types of initiatives is very modest.

Conclusions

The main conclusions from this study are:

- **Strategy is an area in which a good deal of confusion still exists**, as well as dissatisfaction with quality of strategic decision-making.
- **Strategy processes now need to be less linear, more iterative and more adaptable then in the past.** Options are required to deal with surprise and discontinuity in the environment.
- The quality of strategy processes and of strategic thinking and decision-making itself can be vastly improved through **design of effective and disciplined processes and behaviour.**
- This starts with **clarity about language and terminology, scope and outcomes**, roles and accountabilities and behavioural ground rules.
- **Effective processes then focus on the quality of thinking, not just tools and protocols.** Specific attention is given to thorough situational analysis; framing strategic questions and selection of the appropriate tools and data to address them; mechanisms for identifying and combating a range of biases and distorting factors many of which are inherent in organisational life; methods for involving all participants in an open, challenging process and for generating shared commitment to thoroughly evaluated analyses and strategic options.

- Attention is needed to **combine a wide range of skills and thinking styles in the process** so as to accommodate diverse perspectives, and also to involve stakeholders accountable for the success of chosen strategies. Good strategy without 'good leadership' is hard to accomplish.
- **Strategy consultants are mainly valued for providing help in analysis and in validation of strategic thinking and options, not for breakthrough thinking**.
- Historically, development of strategic thinking skills has occurred 'by osmosis' as managers careers develop. **Enlightened organisations are now investing in activities that catalyse development of such skills and create more pervasive cultures in which they are valued.**
- The payback from thoughtful investment in strategy process and competency development is attractive.

References and Further Reading

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If you are interested in this paper and would like to discuss the issues raised further, please contact Alison Gill on +44 (0)7770 668776 or via email at Alison.Gill@crelos.com. Our work in strategic thinking has been carefully designed to deal with the requirements discussed in this article and has helped clients to develop powerful strategies, develop executive capability in this area and create cultures in which strategic thinking becomes embedded.

We brand our work in this area '**Think-IN**'. It is based on the use and development of behaviours proven by research to be fundamental to superior thinking and decision-making: Seeking Information, Concept Formation and Conceptual Agility.

Seeking Information - creating a broad, rich and shared set of data on all relevant aspects of the strategic issue, both in the external environment and internal capability;

Concept Formation - recognition of patterns, trends and salient features in analyses and evaluation of the information, using relevant models, frameworks and tools;

Conceptual Agility – ability to build and evaluate multiple, alternative concepts, scenarios and solutions, and to explore the benefits of each, against a set of criteria for a successful business outcome.

Situations in which our approach has been successful include those where:

- Strategy capability is patchy across divisions or business units or is recognised as a more systemic weakness in an operational environment
- A CEO wants to build a culture of openness, trust and shared accountability in the top team and/or the next layer of the business
- A critical event creates the need for swift, thorough and motivating generation of strategic options and decisions
- 'More of the same' or 'Me too' strategies will not provide the results to deliver future shareholder value
- Analysis paralysis is a syndrome: the business is high on data but weaker on insight and the ability to break through into powerful, confident solutions
- A strategy set at the top of the organisation is not fully understood or translated by business units downstream
- There is confusion, conflict and politicisation of strategic options and resource allocation decisions
- Team unity and ownership of solutions and accountability for their execution is critical
- External strategic exercises have delivered blueprints that have been difficult to implement and achieve the promised returns

Crelos consult in organisational development and change. Our expert team works in partnership with clients to understand their strategic business agendas and develop solutions that achieve improved business performance.