Strategis Partners

Eight Questions

To Review The Business Strategy

strategispartners.com.au

The framing of the right strategic questions is as important as the strategic plan itself

Jay Horton, Founder and Managing Director
Strategis Partners

TABLE OF CONTENTS

Eight questions to Review the Business Strategy

Just exactly what is strategy?

Richard Rumelt put the issue most bluntly:

Strategic planning in many companies today has little to do with strategy. It mostly involves simply three–year or five–year rolling resource budgets and some sort of market share projection. Calling this strategic planning creates false expectations that the exercise will somehow produce a coherent strategy. [1]

Resource plans and budgets are essential management tools. Take, for example, a growing business, which needs a plan to guide asset acquisition, construction, training, et cetera. This plan coordinates the deployment of resources. But it's not strategy. These resource budgets simply cannot deliver what senior management and the board wants: a pathway to substantially higher performance.

There are only two ways to get that as Rumelt points out: "One, you can invent your way to success. Unfortunately, you can't count on that. The second path is to exploit changes in the external environment—in technology, consumer tastes, laws, resource prices, or competitive behaviour–and ride that change with quickness and skill. This second path is how most successful companies make it. Changes, however, don't come along in nice annual packages, so the need for strategy work is episodic, not necessarily annual."

Now, lots of people think the solution to the strategic–planning problem is to inject more strategy into the annual process. But this is only one option. More companies today separate the annual rolling resource budget from strategy work. They operate a separate, non–annual, opportunity–driven process for strategy work.

Strategy starts with identifying changes ahead

If we could actually calculate the financial implications of such choices, we wouldn't have to think strategically; we would just run spreadsheets.

Strategic thinking helps us take positions in a world that is confusing and uncertain. You can't get rid of ambiguity and uncertainty–they are the flip side of opportunity. If you want certainty and clarity, wait for others to take a position and see how they do. Then you'll know what works, but it will be too late to profit from the knowledge.

Reviewing the business strategy

---

1 Lovallo and Mendonca (2007).

Here are eight questions that Strategis Partners uses to review a Strategy:

1. What is the intent of the Business Strategy?
2. Have all of the key issues been identified?
3. Does the Strategic Plan take on the lessons of the past?
4. Does the Strategy anticipate the inevitable surprises ahead?
5. Does the Strategy include some strategic experimentation?
6. How will performance be measured against the strategy?
7. Does the Plan make clear the fit between the strategy, the organisation model, and the external environment?
8. How persuasive is the Strategic Plan?

Let's look at these in turn.

1. What is the intent of the Strategy?

A well formulated strategy has several components: choice of goals; definition of scope; specification of how operations will support and extend the Company's competitive advantage.

A five year Strategy is not simply about best practice improvements, or restructuring or pursuing ad hoc initiatives. Instead it involves identifying the right goals and tailoring activities to fit together in an integrated way to meet those goals with a unique value proposition.

Fundamental principles of strategic positioning

Operational effectiveness means performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs. In contrast, strategic positioning means performing different activities from rivals' or performing similar activities in different ways.

1. To establish a distinctive strategic positioning, a company needs to follow six fundamental principles.
2. It must start with the right goal: superior long–term return on investment.
3. The strategy must deliver a unique value proposition to its customers.
4. Strategy needs to be reflected in a distinctive value chain.
5. Robust strategies involve trade–offs.
6. Strategy defines how all the elements of what a company does fit together.
7. Strategy involves continuity of direction, even if it means foregoing certain opportunities.

Successful Plans describe a 'cluster' of reinforcing technological and organisational initiatives; for example:

- Investments to upgrade operations, brands and product development
- Investment in 'flexibility' and 'resilience', for example to deal with specific business risks
- New capabilities which are needed to better position the organisation for the challenges ahead
- Changes in the dialogue with key stakeholders – employees, customers, suppliers, investors, policy makers and regulators
- Formation of new alliances or partnerships with external organisations.

2. Have all of the key issues been identified?

What we have found is that all too often a Strategic Plan can be an internally–driven reflection of what the organisation wants the world to look like. 'Groupthink' clouds internal perspective: excessive optimism in the organisation's ability, and under–estimation of competitors' abilities.

The Plan must also question the status quo: What important signals are we rationalising away now? What are our disaffected customers—both internal and external—telling us?

Insist on a "not–do list" as part of the Plan. For example, if the Plan aims to pursue innovation programs, clear the deck of a lot of other stuff that might work against innovation.

3. Does the Strategic Plan take on the lessons of the past, and move beyond the status quo?

The Plan must take on the lessons of the past. If the Plan is looking five years ahead, then the lessons of the past 10 years will be relevant.

Here are questions to understand the lessons of the past:

- Over the past 5–10 years, what surprised you most about your industry?
- What were the forecasts three years ago, and five years ago? How right or wrong were they? What did the organisation learn from those experiences?
- What's one thing you were sure would happen in the industry, but didn't?
- What must the organisation forget?
- What must the organisation remember?
- A useful Plan displays courage. It questions conventional thinking within the organisation, addressing questions such as: What must your organisation forget? What must it remember?

4. Does the Plan anticipate the inevitable surprises ahead?

Strategy starts with anticipation of changes ahead. Use trusted techniques such as scenario planning to identify key futures. Conjectures about the future are the essence of strategic thinking; they are the starting points to help us take positions in a world that is confusing and uncertain. You can't get rid of ambiguity and uncertainty—they are the flip side of opportunity.

A few possible, yet compelling scenarios can help explore the unexpected, and challenge current approaches in a constructive way.

5. Does the Plan include some bold experimentation?

Today's central managerial challenge is to inspire and enable knowledge workers to solve, day in and day out, problems that cannot be anticipated. That is why strategic experimentation is so important to help increase the rate of organisational learning; for example to stimulate creativity and innovation.

The Plan should describe how the 5 year Strategy can push the boundaries of corporate knowhow in a clever way. A suggested approach is that the Plan should focus on one or two issues—new technologies, new markets, growth—and identify initiatives to push the envelope.

Use the Plan to open up the organisation to new thinking. No single strategic initiative can guarantee success, but much can be done to increase the odds of success.

6. How will performance be measured against the strategy?

Although the development of strategy is ostensibly a long–term endeavour, companies typically emphasise short–term targets—such as annual revenue growth—as the metrics to gauge the performance against the Plan. So look to include new purpose–designed metrics as part of the Plan.

For example, if the Company aims to enhance its innovation and service–development capabilities, measure a variety of input metrics should be considered. They could include such aspects as the quality of available talent and the number of ideas and projects at each stage in development, in addition to pure output metrics such as growth in patronage from new–services.

Strategic performance management systems should also assign accountability for initiatives and make their progress more transparent.

7. Does the Plan make clear the fit between the strategy, the organisation model, and the world outside?

Companies are most successful if they establish the right fit between the strategy, the organisation model, and the external environment in which it operates.

There are unavoidable trade–offs involved in simultaneously achieving internal integration and external adaptation. Internal integration and external adaptation can often be at odds as large organisations attempt to deal with change on both sides. Effective organisations are those that are able to resolve these contradictions without relying on simplistic trade–offs.

For example, it is our experience that organisations which are well integrated are often the least responsive to external change. They usually have a hard time adapting to a changing environment. On the other hand, organisations that are market–focused and opportunity–seeking often have problems with internal alignment.

The standardisation of processes such as IT and maintenance in every industry means that it's feasible to outsource more and more of these processes.

8. How persuasive is the Strategic Plan?

Does the Strategic Plan correspond to our understanding of the emerging competitive environment? What are the key messages? Does it sound plausible? Will the audience buy the key messages?

A great deal of Strategic Planning is directed at human persuasion, not making PowerPoint bullets. When people can understand their role in the story, their sense of commitment and involvement is enhanced. By conveying a powerful impression of the process of winning, the strategic plan can motivate and mobilise the entire organisation.

References

Dan P. Lovallo and Lenny T. Mendonca, 2007. "Strategy's strategist: An interview with Richard Rumelt." The McKinsey Quarterly, August 2007.

About the Author

Jay Horton, Founder and Managing Director of Strategis Partners, is a leading adviser to Companies and Governments in Asia and Australia on strategic management issues, including scenario planning, capital investment decision making and real options analysis, and corporate strategy.

During his twenty year management consulting career, he has worked with clients in Australia, Canada, China, Japan, Hong Kong, New Zealand and South East Asia.

Jay has played a number of leadership roles, including as a Partner of PricewaterhouseCoopers, McKinsey & Company, and Managing Director of management consultancy ORG Pty Ltd.

Jay is a regular guest lecturer at the Australian School of Management, the Sydney University School of Business & Economics, Australian School of Business at the University NSW, and the Macquarie Graduate School of Management.

Jay's qualifications include Master of Arts from University of Sydney, Master of Economics from Australian National University, a Bachelor of Engineering from James Cook University, and Fellow of the Australian Institute of Company Directors.

Contact us

Sydney:
Level 57, MLC Centre
19-29 Martin Place
Sydney, NSW 2000
Phone: +612 9238 6886

info@strategispartners.com.au
www.strategispartners.com.au