acclaro
we do diligence

“Strategy” Simplified

46179 westlake dr, suite 210 potomac falls, va 20165 acclaropartners.com 703.860.3355 703.860.5155 fax

acclaro
we do diligence

We have all witnessed our fair share of off-site strategic planning meetings gone awry. There are a number of culprits. The single greatest obstacle to effective strategic planning is the concept of The Planning Meeting, per se. Planning is ideally a process and not an event.

> *After more than thirty years of hard thinking about strategy, consultants and scholars have provided executives with an abundance of frameworks for analyzing strategic situations. We now have five forces analysis, core competencies, hyper competition, the resource-based view of the firm, value chains, and a host of other, powerful, analytic tools. Missing, however, has been any guidance as to what the product of these tools should be – or what actually constitutes a strategy…A strategy consists of an integrated set of choices, but it isn't a catchall for every important choice an executive faces…[Strategy is] the central integrated, externally oriented concept of how we will achieve our objectives. (Hambrick and Fredrickson)*

Strategic planning is all about seeing options and choosing the path most likely to lead to accomplishment of corporate goals. Yet executives who rely on the strategic planning meeting to make these choices are destined to miss opportunities and fail to account for internal competencies (relative to competitors). Why? Because conducting strategic planning as an Event relies on the static, historical perceptions of managers, rather than on the current facts and realities of the market, and the company's positioning in its market.

Michael Mankins and Richard Steele correctly assert that the failure of strategic planning is attributable to its timing, and its focus on individual business units.

> [T]he process is completely at odds with the way executives actually make important decisions, which are neither constrained by the calendar nor defined by unit boundaries. Not surprisingly, then, senior executives routinely sidestep the planning process. They make the decisions that really shape their company's strategy and determine its future – decisions about mergers and acquisitions, product launches, corporate restructurings and the like – outside the planning process, typically in an ad hoc fashion, without rigorous analysis or productive debate. Critical decisions are made incorrectly or not at all. More than anything else, this disconnect – between the way planning works and the way decision making happens – explains the frustration, if not outright antipathy, most executives feel toward strategic planning.

acclaro
we do diligence

One solution involves a dedication to gaining ground truth facts before making key decisions. A *never-ending planning process* forces executives to maintain an awareness of external opportunities and an appreciation of relative internal strengths, weaknesses, and core competencies and then make decisions and choices, based on facts – not perceptions.

> Good intelligence – although essential – is only a step on the way to making a choice…The strategic planning systems of the future will have three major tasks with respect to choice: to focus the company on a few critical choices; to force the making of hard choices; and to assist with the making of choices. (Fuller)

A common scenario:

"We are comfortable with where we are today. We have no problems, per se. We know where we want to be in three years, but we are not entirely sure how to get there." If this rings true for your company, the path leading from where you are today to your vision of the ideal future is not necessarily a straight line. There may be hurdles and obstacles in the way. Are there preliminary building blocks that must be pursued that lead the company down a counterintuitive side road? You may need to put these infrastructural building blocks in place before the Company can legitimately compete in the space it wants to be in. Moreover, there may be some unforeseen obstacles impeding your path. Or, there may be a more exciting opportunity in a segment of the market you never considered before. Detailed research, analysis, and careful, continuous planning are required to successful implement an aggressive growth plan.

The Goal.

The overarching strategy statement is really a subset of The Goal. A strategy explains how to achieve the goal, which should be specific. "The Company will sustain a 15 percent growth rate per year beginning in 2013, in order to reach the desired target of $300 million by 2015."

Creating a goal occurs in a vacuum. "Regardless of internal and external realities, what do we want to achieve?" Once the goal is codified, the strategy for achieving the goal should not be developed without a clear understanding of external realities. What is occurring in the market, with regard to customer needs, and competitor intentions and capabilities that could make our job easier? This awareness should serve to “tee up” several options for achieving the goal. “We could pursue the X customer segment because they are so frustrated with the Y unmet need, which we know we can address better than any competitor.” Essentially, these options are potential tenets or tactics of your strategy. Unfortunately, many companies jump straight to the strategy formation process, without having a market intelligence process to become aware of opportunities and threats.

A Strategy is Designed to Accomplish One Goal, not Two or Three.
If your organization is in a period of transition because it wants to achieve a particular growth target, it will need a strategy designed to accomplish growth. If the transition is about profitability, it will need a strategy designed to accomplish enhanced profits.

The best strategies are focused on one commonly understood overarching metric. The reason this focus makes sense is that all of the supporting tactics can be counterproductive if some tactics are growth-oriented and some are profit-oriented, for example.

Capability assessment
Once these strategic options begin to surface, someone needs to conduct the internal reality check. “Do we really have the capabilities and competencies to carry this out?”
.
The internal capability assessment should assess core competencies (and compare internal capabilities to competitor capabilities), operational efficiencies, human capital, and the brand promise (a connection or bridge between competencies and customer needs).

Tactical action plan.

The sales, marketing, operations, human capital, IT, finance strategies all support the overall corporate strategy's efforts to attain the goal. Each functional area's strategy should include a list of initiatives, which can be further broken into tactics. The tactics should have a timeline for implementing, a champion for each initiative, metrics/measures and intended results. strategy explains broadly how to achieve a goal.

Tactics are the specific components of the strategy. Tactics describe specifically what actions will occur. A well-defined tactic can be measured, monitored and evaluated against a pre-defined metric – or performance benchmark. And, as Henry Mintzberg advocated in a 1989 *Harvard Business Review* article entitled "Crafting Strategy," there should be a grass roots approach to strategic management. "Strategies grow like weeds in a garden. They take root in all kinds of places, wherever people have the capacity to learn (because they are in touch with the situation) and the resources to support that capacity. These strategies become organizational when they become collective, that is, when they proliferate to guide the behavior of the organization at large."

That "Vision" Thing.

Not that it needs to be a formal, written document, but there does need to be a well-communicated description of what the company aspires to be in the future. It should serve as a rallying cry for the troops, a common mantra for all stakeholders to grasp. "We are going to be the leading X in the Y market by 2015." The Vision statement does not have to be terribly specific. It does not have to address "how" or "why" questions; it simply needs to be powerful, meaningful, and understandable by all.

Description of the situation.

Taking an audacious vision and breaking it down into manageable action steps to get there is not always easy. Sometimes getting from here to there requires a fairly detailed assessment to determine:

- Where are we today?

- What are our truly unique skills and competencies? Will we need to develop new skills to achieve our vision?
- Whom will we need, in terms of human capital, to achieve our vision?
- Can we support the accomplishment of the vision from a growth capital standpoint?
- Do we understand enough about customer needs and purchase decision behaviors to enable us to achieve our vision?
- Should we reposition ourselves to take advantage of competitor weaknesses or strengths and intentions?
- Will the market dynamics support or hinder our accomplishment of the vision?
- Are we looking at wildcard opportunities and threats that may change our fundamental assumptions about the business model?
- Have we effectively conveyed our unique value proposition and brand promise to the customers who value it most?
- Do we have an ongoing strategic planning process to help us anticipate, execute, and make decisions as the need arises?

Case Study.

A large manufacturer of audio equipment had a very specific goal, but no plan to get there. It had several ideas and options of some initiatives that it could undertake. Some of these initiatives were already underway. Yet there was no systematic prioritization of these ideas. The Company was going in a lot of different directions and lacked focus. It had not considered some of the implications, requirements, and unintended consequences of some of these potential initiatives.

It recognized a need for an objective third party to accomplish three distinct steps which would significantly reduce anxiety, provide direction, and align management on the same agenda:

1. Prioritize external opportunities.
2. Recalibrate these opportunities given internal competencies and the degree of difficulty of implementing against each opportunity.
3. Develop a tactical plan for each functional area to keep everyone aligned

The result of collaborating with a third party on a detailed, actionable plan for growth was a clear set of tactics for each functional area manager, along with a timeline, a set of metrics and measures, and intended results. Pursuit of these tactics throughout the organization guaranteed adherence to the overall strategy. **The** Company's senior management team had a fundamentally understandable dashboard of activities and performance metrics during the period of transition. As the Company was developing its strategic planning process, it recognized a need for certain types of external data, and it also recognized that it was weaker, relative to similar sized companies, in some areas of external execution that it had not previously acknowledged. The result was a slightly altered strategy for the functional areas in question, and some specific, new initiatives for those individuals in charge of those functional areas.

Conclusion.

Executives who base strategic planning decisions only on the perceptions of the current management team, no matter how seasoned, are doomed to miss opportunities and to develop strategies that they may not even realize they will be unable to execute. It is not the fault of the management team. They each have several pieces of the puzzle – grains of truth that they have observed from their own experiences. Yet, together, the management team has so few pieces of the puzzle that they cannot possibly see the big picture. And, unfortunately, the picture is always changing, while the puzzle pieces held by the management team may not. Therefore, management may not see the external opportunities and threats around which they should be basing strategic decision-making.

Moreover, for the same reasons, management may not completely understand its internal competencies. Unless there is a process for evaluating the company's internal capabilities relative to changing competitor capabilities and intentions, customer needs, and market dynamics, management is merely wishing that their competencies are as they perceive them to be. The alternative? An ongoing process for evaluating internal capabilities and searching for the opportunities and threats presenting themselves externally.

After developing an ongoing process for gathering, analyzing, and incorporating objective ground-truth facts into the strategic planning process, business leaders should see tangible improvement in bottom line growth.

Sources and Suggested Reading:

Collis, David & Ghemawat, Pankaj. "Industry analysis: Understanding industry structure and dynamics". *The Portable MBA in Strategy*, John Wiley & Sons, Inc. (1994).

Fahey, Liam. "Strategic Management: Today's Business Challenge". *The Portable MBA in Strategy* , John Wiley & Sons, Inc. (1994).

Fuller, Mark; "Strategic Planning in an Era of Total Competition"; Strategy & Leadership; May/June 1996

Hambrick, Donald and Fredrickson, James; "Are You Sure You Have a Strategy?"; *Academy of Management Executive*; 2001 Vol. 15, No 4

Hamel, Gary and Prahalad, C.K.; Competing for the Future; Harvard Business School Press; 1996.

Jenster, Per & Hussey, David. Company Analysis, Determining Strategic Capability. John Wiley & Sons, LTD, (2001).

Johansson, H.J., McHugh, P.,Pendlebury, A.J. and Wheeler, W.A. Business Process Reengineering, Chichester, Wiley (1993).

Kaplan, Robert and Norton, David; The Balanced Scorecard: Translating Strategy Into Action; Harvard Business School; 1996

Mankins, Michael and Steele, Richard; "Stop Making Plans Start Making Decisions"; Harvard Business Review; January 2006.

Mintzberg, Henry; "Crafting Strategy"; Harvard Business Review; July-August 1987.

Porter, Michael; “What is Strategy”; Harvard Business Review; November-December 1996

Prahalad, C.K. , Fahey, Liam, and Randall, Robert M. ”A Strategy for Growth: The Role of Core Competencies in the Corporation”. *The Portable MBA in Strategy*, John Wiley & Sons, Inc. (1994).