

# The Art of Strategy – Dealing with the Intangibles:

## *What CEOs need to know...*

### **Introduction:**

The business sections of bookshops are filled with books on strategy and all business journals deal with aspects of strategy on a regular basis. Strategy has pre occupied leaders since Sun Tzu wrote his treatise *The Art of War* in 2000BC.

Equally there are many schools on the subject with many divergent perspectives. These include Porters 5 forces model, Prahalad and Hamels Core Competency approach, Harvard's resource based methodology and scenario planning amongst many others.

All have their place and if selected appropriately can provide a useful guide to organisational strategy development.

However, no matter how rigorous or inclusive a strategic process or how much expertise a facilitator brings to the process, wise Executives know that strategic thinking, strategy formulation and strategy implementation are not purely rational processes. Yet little seems to have been written on the many intangible, generally human, factors that so often derail the most logical, well conceived process.


This paper aims to explore some of these intangible factors and their impact on strategy formulation and implementation.

Firstly it will identify some of the assumptions and processes that underpin strategy. Thereafter some of the intangible obstacles to strategy will be explored followed by guidelines for CEOs to mitigate against these factors will be provided.

Finally, sound strategy without implementation is of little value and implementation depends largely on the design of the organisation to give effect to strategy. Although seldom recognised, strategy and organisational design are generally 2 sides of the same coin and both are fundamentally the responsibility of the CEO.

### **Some Processes and Assumptions:**

In their simplest (thereby the most useful) form most strategy processes include the following generic process:

 **Understanding what is happening.** This is generally known as environmental scanning where changes in the environment of a business are analysed and their relevance to strategy evaluated. It is at this point that one of the most pervasive obstacles to effective strategy often intervenes. That is world view of an organisations leadership. The world view or mental models of leaders create the filters by which they determine whether issues in the environment are relevant or not. By rejecting as superfluous new information that will impact the business leaders often do not see a major threat or opportunity at the edge of the radar screen. This is one of the reasons that many large fortune 500 companies either no longer exist or have been taken over by more astute organisations. The American auto industry is a very good example

where the assumptions about US consumer behaviour were based on traditional assumptions which turned out to be false and which offered the more cognitively agile Japanese and other auto firms a great opportunity.

The other obstacle to understanding what is happening around an organisation is the inability to detect weak signals and connect the dots in respect of events in the economy or society. Few economists or Executives recognised the multiple causes that, combined, contributed to the recent financial crisis. Yet in hind sight the signals were all there.

The same psychological phenomena occur within organisations in the context of strategy. The mental models and assumptions that Executives bring to the process filter out vital information which can have a profound impact on strategy decisions.

✚ ***Understanding Possible Futures:*** there are still many companies in which the assumption is made that extrapolating the past provides a sound basis for predicting and understanding the future. Sustainable organisations recognise that the future is unpredictable and the greater the time horizon the greater the uncertainty.

Yet many organisations have to make decisions now regarding the long term such as in the resources industries. With the release of the iPad and related technology, paper producers have to consider the impact of such technology on the need for paper over a 10 – 20 year horizon.

It is here that scenario thinking becomes useful as it assists leaders to consider different possible futures and consider the kind of organisation that will be necessary for any one scenario that may emerge. This enables agile organisations to respond to change more rapidly.

✚ ***Determining Who You are and Who you want to be:*** this part of strategy is concerned with defining the mission (what business you are in), the vision (what you want to be) and often the values (how you will behave).

The obstacle that frequently occurs here is the broadness of the mission, the insipidness of the vision and the “motherhood” statements of values. In my experience in facilitating discussions on these issues there is frequently a complete lack of meaningful definition which provides stakeholders with a clear understanding the focus of the business and how it is differentiated from competitors. As a result the strategy that emerges is often equally uninspiring.

This traditional approach to defining the organisational parameters is acceptable in a low change environment but there are few organisations to which that applies in the modern economy.

✚ ***Determining the Playing Fields:*** this phase of a strategy process should feed the mission, vision and values. It is about deciding what business the organisation is in and what it is not in (the products and services). It is about customer segmentation and deciding where the organisation wishes to position itself. Finally, it is about determining the geographical footprint.

One of the key obstacles during this phase is emotional attachment to what has been the scope of the business as well as concern about venturing into new territory. This is also driven by mental models and pre conceived ideas about what can and cannot work.

A good example is the banking industry which for many years was unwilling to find innovative solutions to enable the “unbanked” to access banking products. Since then organisations with different mind sets have entered that market and thrived. A particular example of new strategy based on new management with new mindsets is the shift of Nedbank from a focus on the financially “elite” to the mass market.

✚ **Setting goals, targets and managing performance:** this is an area where most Executives and managers are comfortable. It is largely the implementation phase of strategy.

This is an essential phase but where things often go wrong is in the communication of strategy and the monitoring of performance.

Simply sending out a brief about the business strategy is not sufficient to enable people at all levels to engage with the strategy and understand what it means for them and what their direct contribution to the strategy is. People at all levels need to feel that they have a role to play in the achievement of strategy and they need feedback on progress as well.

Where problems occur in monitoring performance is when the processes, normally in the form of reports and progress meetings, becomes so focused on the operational targets that the strategy behind these gets neglected or ignored. Many leaders complain that once the strategy is set they never have the opportunity to evaluate the “big picture” and fine tune strategy where things have changed. The focus is on quarterly results and not the thinking behind the strategy. Such reports and meetings become sterile where there is no opportunity to engage with key issues and the implications of strategy.

A useful approach to implementing strategy is through the use of broad project or action learning teams that also have a learning goal and comprise high potential future leaders. This involves managers at many levels in engaging with the strategy and contributing to implementation. At the appropriate point project teams ensure the strategy becomes part of the operations of the business.

The above problems occur at each phase of a typical strategy process. In most cases these obstacles occur, not because of problems with the rational process and strategic decision making, but rather as a result of the less tangible, yet equally important, context in which strategy is set.

There are, in addition, a number of assumptions about strategy that will influence the effectiveness of strategic thinking and the choices a firm makes.

✚ Like the Greek God Janus, strategy requires the ability to look forward and behind simultaneously. The history of the organisation plays a huge role in what it has learnt from the past and how it will see and respond to the future. There is a continual tension between the organisational memory and the future vision. Prahalad and Hamel said “great organisations die when they are unable to let go of the past or create the future”. The role of the CEO is to harness the experience of the organisation yet challenge the assumptions that its history embeds in it.

✚ Another tension is the balance between an internal and external focus. On the one hand strategy is externally focused in terms of positioning the organisation in its environment; on the other hand the extent to which it is able to do that is dependent on the internal capabilities and

strategies of the business. In my experience the two should be iterative conversations but in reality they frequently result in confusion in a variety of ways. Ideally, the business strategy is externally positioning the organisation in a market. What is then required are strategies to ensure that the organisation is designed and resourced to achieve the strategy. Organisational design, including total resourcing, is the opposite side of the strategy coin. The two should be inseparable.

- ✚ Strategy does not occur in a vacuum. It is a snapshot in time of a series of rolling conversations that culminate in key decisions at the annual strategy workshop. This is because many of the strategic issues that an organisation needs to deal with are not initially clear and begin to appear at the edge of the radar screen before they can be defined and their impact assessed. The opportunity for, and quality of, ongoing strategic conversations is an essential component of strategic thinking which leads to strategy decisions. Agile, sustainable organisations recognise this and hence the strategy “bosberaad” is a snapshot in time of processes which continue on an ongoing basis.
- ✚ Strategy has many functions and speaks to many stakeholders. It provides direction to managers and employees but it also provides insight by which external stakeholders, often with competing interests, evaluate the organisation. These include investors, customers, suppliers, unions, communities, competitors, the press and many others. Hence a strategy document needs to talk to a variety of such influential stakeholders and they need to see their interests accommodated. The days of a strategy being hidden in the drawers of the CEO and CFO are long gone. In public entities particularly, they will be open for public scrutiny.
- ✚ Experience shows that strategy formulation and strategic thinking are both an art and a science. It is both rational and intuitive. It is the wisdom to manage the balances and tensions implicit in strategy that distinguish the astute CEO from others.
- ✚ Internally the strategy setting process is often as much a political process as it is rational. Strategy determines resource availability to managers in the organisation and this in turn determines status and influence. By nature people will perceive strategy with their functional or divisional hats on and will find ways to justify additional resources for their area of responsibility. In this situation the (very difficult) role of the CEO is to be impartial on the effects of strategy on departments and to optimise the allocation of resources rationally and for the good of the greater whole without fear or favour. This again illustrates the view that strategy does not stop with the decisions that are made but must be followed up by effective high level organisational design.
- ✚ Another common obstacle to effective strategy is the often profound effect of the “elephant in the room” or “ghost voices”. These are issues that are sacrosanct and cannot be challenged or even publically discussed. Yet everyone is aware of them and they strongly influence behaviour. All too frequently they are determined by the CEO or other powerful Executive and no-one has the courage to risk their careers by putting the issues on the table. Often they are “softer” issues such as transformation and leadership which have strong emotional connotations for one or more Executive.
- ✚ One major threat to rational strategy is the Executive ego. Particularly in times of high growth Executive egos can propel organisations on a trajectory that they cannot hope to achieve and which filters out any consideration of obstacles to growth. During these times contrarian voices have very limited careers and everyone believes what they want to believe (or what they think is expedient to believe). This is known elsewhere as the hubris before the fall.

- ✚ The dangers of “group think” are well documented. However, there are still many organisations which suffer from this problem and are unable or unwilling to accommodate diversity, especially at management levels.

All of the above are relatively intangible factors which influence the strategy process in organisations. As such CEOs need to recognise that strategy is not a purely rational process.

### **Guidelines for CEOs:**

In light of the above, what should CEOs do to ensure that the strategy process is rigorous in respect of both the tangible and intangible factors?

- ✚ *Recognise your own assumptions and that of your Executive team.* Everyone sees the world from a particular perspective. What is important is to recognise possible blinkers and consciously find people to challenge your assumptions, particularly as regards strategy. Leading companies frequently arrange for external speakers to work with the Executive team who are counter culture and challenge the way people think.
- ✚ *Make sure that strategy is in fact a rolling process and not an annual “bosberaad”.* Make sure that the big business “problems” are openly discussed and explored throughout the year and that candid conversations create understanding of the issues.
- ✚ *Recognise the political nature of strategy; avoid being naive.* Be able and prepared to draw the line when competition for resources by parts of the organisation damages the value of the healthy, optimal whole.
- ✚ *Involve as many people as possible in the formulation and, particularly, the implementation of strategy.* Ensure that strategy is the centre of gravity for all organisational projects and change initiatives.
- ✚ *Hire a good consultant / advisor.* It is often difficult for a CEO to find anyone who is non partial to discuss sensitive issues with. Someone who is able to see the “big” picture and provide honest feedback regarding the process is often invaluable. Such a person needs to have credibility with the Executive and have some knowledge of the organisation and its dynamics. However, they need to have an external perspective with no vested interests combined with personal wisdom.

### **Conclusion:**

This paper set out to demonstrate that strategy formulation and implementation is not a purely rational process and that there are many intangible factors that will influence the outcome of the supposedly “rational” component of the process.

In the final analysis the CEO of an organisation is responsible for crafting and implementing the strategy just as he or she is responsible for designing the organisation in its totality.

AG Lafley, CEO of Proctor & Gamble, in the Harvard Business Review May 2009 says: *“the CEO has a very specific job that only he or she can do: link the external world with the internal organisation”*. That is largely what strategy and organisational design is about. It is as much an art as a science and it is not for the feint hearted.

**Terry Meyer; June 2010**

Terry Meyer is an independent consultant, academic, author and presenter. He runs his own advisory business, Leadership SA [www.leadershipsa.com](http://www.leadershipsa.com)