The Paradox of Strategy

Opportunities and Obstacle

Robert Davis
Robert Davis & Associates
202-302-3606

I hear the word strategy often these days. While the word is commonly used, it has different meanings to different people. Depending on where an employee has worked, they may have participated in a structured strategic planning exercise. Often, these exercises have common elements and outcomes. Does strategy refer to vision, mission, management direction, analytical process, transformation schema, planning exercise, focus, or market positioning?

Most people have a strategic planning process in mind that they consider to be a valid approach meaning the 'right way'. A seminal book on strategy, *Strategy Safari: A guided tour through the wilds of strategic management* (Mintzberg, Ahlastrand, and Lampel, 1998) identifies ten different schools of thought concerning strategy formulation. Each of these approaches address how differing organizations might embrace strategy formulation e.g. as a formal process, visionary process, process of negotiation, or reactive process. One strategy development framework does not fit all.

When I use the term strategy, I am referring to strategic thinking, strategy formulation, development, implementation, transformation, strategic metrics and feedback. All of these activities are elements of strategy. This is why strategy has different definitions and has different meanings to employees.

The emphasis on the need for strategy seems to depend on how well the company is doing. An unexpected external event can occur that creates the perceived need for a new strategic direction. When things are not happening according the Plan or a senior executive's expectation, there is a call for 'strategy'. Might be time for an off-site meeting!

My primary message is that strategy is not a project; it is a culture! Successful strategy is an ongoing process embedded within a company's culture. It is a corporate life-style that involves creativity, innovation, willingness to take risks, having resources to execute the proposed Plan, and objectivity from management.

One of the reasons external consultants have limited effectiveness guiding strategic planning exercises is because they do not know the company's culture – its traditions and mores. Additionally, there are other factors that underpin the success or failure of strategy development and implementation, which I will explain later. But first, let us consider who should drive strategy development.

Who Owns Strategy as a Business Function?

Many strategy textbooks assume top management recognize the need for and drive the strategy development process. This view makes sense; since they own 'vision', see the big picture, how the company and some competitors are doing, and most importantly have the budget to hire a strategy consultant.

Other sources believe that strategy is owned by and should be led by marketing as in strategic marketing. After all, they are supposed to monitoring trends in the industry, competition, customers, technology, and more. Operations, who work deep in the trenches, see day-to-day

victories and struggles. They also have strongly grounded opinions about what must be done to achieve success.

There is no set answer to this question. Successful strategy requires conceptual thinking skills and an ability to perceive the industry and market beyond the company's eyes, hopefully leading to an informed vision. It requires resources and top management endorsement. Strategy should be communicated clearly to employees when the strategic direction has been decided and why. It surprised me to learn that in companies I have worked for, employees below the level of VP were seldom allowed to read the company's strategic plan.

Where is the Board of Directors or Advisors in terms of this discussion? It is their responsibility to ensure that the company has a long-range plan to ensure its viability i.e. success in an ever changing market. What do they expect the CEO/President to present to them? How often? In one company, the Board pressed the President, over a period of time, to present a strategic plan for the company, which this person eventually did. Board members were given a copy of the Plan and questions were asked and answered. This Plan was not implemented.

The Paradox

Companies that want to execute a new strategy usually have issues that kept them from maximizing the success of the 'old strategy'. Until addressed, these issues or obstacles will not allow successful implementation of the new strategy! This is why most strategic planning and implementation exercises are considered to have limited success months later.

After quarters of experiencing flat revenues, a new CEO is hired, a merger is imminent, a hot product from a competitor is announced, there is pressure from an antsy Board, or a restructuring is on the horizon, a senior executive comes perceive it is time for a new strategic direction. Somehow immersion in a 'new strategy' will launch new thinking and release employees' untapped potential.

A facilitator will be identified, usually an external consultant, and employees are given homework assignments days before the off-site meeting with the intent of bringing new ideas to the meeting. Teams are formed at the meeting, the old vision is pondered, ideas are debated and collected, poster sheets are taped to the walls, more debate is held concerning the proposed new strategy, priorities will be set, commitments made, and follow-up tasks will be assigned to the attendees. Eventually a written Strategic Plan emerges for some to see.

(I wonder if the President and CFO of the company did not attend this first off-site meeting, what results might emerge? What ideas or comments might arise that the meeting participants would otherwise keep to themselves? Would there be a different outcome?)

Based upon the strategic Plans I have read, *something big is missing*, which I will address shortly. Let us first consider factors that can make or break strategy implementation.

Friends and Foes of Successful Strategy

Successful strategy requires understanding the company's external environment, which has several dimensions, and having a vision – a sense of where the company is headed. Ideally, successful strategy formulation will help hone the company's vision.

Eventually after the management off-site session, a new Plan emerges that is normally written at a 'high-level' without particular operational details. The higher level the Plan is written, the harder the Plan is to implement. Without containing particular details the Plan is not executable. Employees who did not participate in the strategy development meetings and had no input into the creation of the Plan are expected to embrace and implement the Plan in many cases. This is why the follow-up effort after most off-site meetings fizzles out months down the road.

The Plan must provide 'linkages' internal to the company, across the organization, providing guidance and metrics to the functions and entities necessary for successful execution of the Plan: Finance, Operations, Marketing, Employees and even factoring in Customers' expectations. Establishing realistic internal performance linkages requires consultation with mid-level managers responsible for Operations before the Plan is set in concrete. How does the new Plan connect Operational performance and excellence with employees' actual work?

The book, *Strategy Maps: Converting intangible assets into tangible outcomes*, Kaplan and Norton, 2004, provides a dynamic and visual tool to describe and communicate the stated strategy to all employees and its connection to their work. This process presented by Kaplan and Norton may entail a lot of work but it ensures that a chosen path can be executed.

There are five areas that can be a friend or foe of successful strategy execution:

Culture – Are there shared values and goals across company functions? Do cross-functional departments share common metrics? Can employees speak candidly with all levels of management? Does the existing culture embrace change? Does senior management regularly communicate the company's status and market posture so employees understand the purpose of having a 'new direction'? According to research, employees do not mind change per se; they mind change that occurs too frequently.

Financial – Does the company have the financial means to execute its newly developed strategy? Are managers allowed to actually manage and commit their own budget? Is the CFO committed to supporting growth?

People – Are employees' skills and knowledge up-to-date, in line with what the market is buying? What are employees' attitude towards the company and management? Do they understand how their work contributes to the company's success?

Process – Do the existing procedures, tools and infrastructure allow effective management of business activities and attainment of goals? Do repositories exist that organize knowledge, training information, and marketing collateral so they can be accessed by employees that need them, not just some employees?

Structure – A new strategy might include the development and launch a new line of business, which usually require a new go-to-market framework, channel relationships or customer focus.

When this happens, the company's existing functional structure can easily be unresponsive. The new strategy may be doomed from the start.

Is the internal structure centralized or decentralized? Are functions and departments aligned with the market(s) served by the company or based upon a rigid hierarchy created by the company's accounting system? Does the company's go-to-market framework communicate Thought Leadership to web site visitors? Does the company's structure facilitate knowledge sharing and collaboration?

If the company has broken processes, the wrong people in certain jobs, an incorrect go-to-market framework or a lack of competitiveness, as examples, the new strategy may not be successful. Before implementing a new strategy, no, before the off-site meeting, clear the decks of known problems or at least try to minimize their effects. This activity requires performing an internal assessment to assist management and employees in understanding how their jobs and departments connect to the entire company.

The information gleaned from this assessment will help management perceive the company's strategic readiness. Strategic readiness is the degree to which the company's assets and employees are prepared to support and execute the company's stated strategy.

Successful strategy implementation requires: (1) removing the obstacles that kept the old strategy from being successful, (2) having top-down and bottoms-up validation, and (3) communicating the purpose and goals of strategy development to all employees. The 'top' of an organization has visibility into the company's external environment, knows the strengths and weaknesses of the company's operations, sets performance targets, and allocates resources. The 'bottom' of the company knows customer's expectations and hot buttons, knows where there are resource and employee skills gaps, and see opportunities and problems within day-to-day operations.

Successfully implemented strategy is not derived from wisdom that comes from high. Employees know the company and have a direct stake in the success of the company. Will they embrace the new strategy? If not, why not? Have they been allowed to review the draft strategic plan? Have they been asked for their candid input?

Communicate the planned strategy to all employees excluding the financial details or pro forma statements. Include management's assumptions and perceptions of the market. Seek input early on from your company's most important stakeholder group – your employees. Mid-way between the top and bottom of the company there is experience that brings practical wisdom to the proposed Plan plus greater employee buy-in.

Successful strategy requires: (1) having a long-view of expected results, (2) having metrics that balance quantitative and qualitative objectives, and (3) patience to the extent possible. Yet, there are clues that can help focus the company's direction during the strategy formulation process.

Hidden Indicators

There are indicators, which are below most management's radar, which can provide significant clues to engendering a company's strategy formulation. Situations and tactics exist that can offer insight into new strategies and market direction: product/service misapplication, account relationship mapping, customer interviews, intellectual capital, and *direct* customer feedback. These exercises, once performed, can help management better understand the company's (1) real discriminators and (2) the strength of the Brand. These tactics will identify areas that merit further analysis and that may be growth avenues. This information, once gained, can lend credence to the proposed strategy formulation exercise.

Product/Service Misapplication – Some employees may witness a customer using their company's product/service in ways other than intended. The customer may be excited about using their vendor's product/service in an unintended manner. Why is the customer excited about their novel use of your company technology?

This situation is not supposed to occur in the world of government contracting, which has detailed project plans and formally defined deliverables. I have seen products and services used by customers in ways not perceived Day 1 of a project. Services, for example, were used to extract obscure information from legacy systems to create new insights, not foreseen by the program manager, which has high value to the customer. Employees at all levels of the team may witness these occurrences.

Government contractors should ensure that all members of the project team have a feedback mechanism to be heard. Contractors must get past the I-send-you-timesheet-you-send-me-paycheck relationships with employees and consultants to gain insight into these situations.

What benefit is the customer gaining from their novel application of your product/service? Could it help other customers? If so, how? Do these situations represent anomalies or are they important outliers? Management should have methods in place to acquire this kind of information, which normally never surface.

Account Relationship Mapping – Most companies do not have a clear picture of what customers *really* think of the company contrasted with the services/products they provide to customers. Management meetings with a customer often vary between low-key, relationship building chats or dealing with fix-the-problem-now crises. I have never heard a project manager (PM), who has primary responsibility for the customer relationship say, "The customer does not like us". In fact, during the re-compete exercises that I have participated in, I have heard the PM chant the mantra, "The customer loves us". (Many months later, after the re-compete is lost, we found out that the customer did not love the company.)

There is an exercise that when performed can present a visual picture of the company's real account relationships so that management can see the company's strong versus weak customer relationships, strengths versus discriminators in terms of the company's offerings, and where to focus finite marketing and business development resources. Greatly simplifying, the company's customer contracts are placed at the top of a spreadsheet, one to a column. The company's real and aspirational services and expertise are placed down the rows of the spreadsheet, one to a row.

Next, color codes are placed in each cell where the company performs this kind of specific work for that customer on this contract. The color coding schema is: blue – we are a trusted advisor to this customer for the kind of expertise in this row; green – we are a respected contractor but not a trusted advisor; yellow – we are just another contractor in this account, no special relationship exist with decision makers; orange – we are not a visible/respected contractor, or work will be ending soon; and red – we have potentially serious issues and problems with this customer.

If this exercise is performed correctly and objectively, management will have a clear visual picture of the company's real market strengths and weaknesses. This insight will provide valuable grounding for strategy formulation. It will identify important gaps in terms of what the company thinks it offers, actually offers and should offer for a changing market base.

Customer interviews – Larger-sized companies often utilized customer interview mechanisms to truly understand where they stand with a specific customer and the larger market. These interviews may be performed by the company themselves or by a marketing consulting services company. The interviews can be 'blind', where the real identity or objectives of the interview are not evident to the interviewee. This tactic is used by larger companies especially when they are facing an important re-compete opportunity.

A visit by a senior executive, *by their self*, to speak informally with the customer's senior decision maker can reveal some of this information or not. The point is that customers often have opinions, sometimes strong, about a company's strengths, weaknesses, market posture, and options to stay competitive. Customers have a vested interest in their vendors staying viable. Has anyone asked the customer for their candid input using the right approach? Government employees will share an unofficial opinion when asked the right way in the right forum.

Intellectual capital – There are two categories of intellectual capital: human and structural (Edvinsson and Malone, 1997). Human capital entails knowledge, expertise, reputation and values. Interestingly, human capital is not owned by the company. Structural capital includes company structure, patents, service marks, customer relationships and intellectual property. Companies have employees or consultants i.e. subject matter experts (SME) and knowledge workers who are the foundation of the company's success. They provide the knowledge base that customers pay for and that creates the company's competitiveness.

As assets, these SMEs have value far beyond what is evident to management. Some have credentials or expertise that is highly valued in the market today and will be in the future. Does the company understand their SMEs' expertise and knowledge, and their true market value? Does management perceive how these SMEs' input can enrich strategy formulation?

Technology services companies may write tailored software for a client (including the government market notwithstanding rights in data issues), deploy middleware in a unique way, or create a new process to solve an intractable customer problem, as examples. When do these occasions have market value beyond the customer at hand?

A survey and assessment of the company's intellectual property (IP) may uncover a hidden gem. Who is actively looking to identify and assess IP that might be financially exploited: sold, licensed, or co-developed with a partner for other uses/markets?

Direct customer feedback - There are companies that have asked senior executives in their top three customer accounts, in confidence, to informally review a synopsis of the company's proposed strategic plan without financial data of course. I assume the candid feedback obtained by these discussions were eye opening to the respective companies. Imagine asking your number one external stakeholder what they think of your proposed Strategic Plan?

Take-Aways

There are three fundamental approaches how a company views their market: resource based, market based, and adaptive. The resourced based view means that the company knows what it has to offer customers, will identify customers that are buying what the company sells and will focus on selling what the company offers to these new customers. The market base view asks what the company's targeted customers will be buying in two to three years and what the company must do to sell to these customers. Gaps that exist, within the company, between what customers will be buying and what the company can actually offer are identified. The company then puts a plan in place to address the identified gaps to ensure its responsiveness to a future market.

The adaptive approach assumes that companies do not know what the market will be demanding in two to three years so the company deliberately structures itself to be flexible i.e. adaptable to customers' needs and wants as they arise. Ideally, a company will consider these three perspectives as they formulate new strategy and their go-to-market framework.

Each company should establish a 'Strategy Development Team' comprised of executives and employees, at different levels in the company, whose members have vision, constructive ideas, think conceptually, are passionate about generating growth and ensuring the long-term viability of the company.

The readers can gauge for themselves if their respective companies have a culture of strategy – a culture of success. Have the proper preparations been performed before the management off-site meeting? If not, consider what existing obstacles might be resolved before the meeting? Many strategic planning and implementation exercises fizzle out months later. Without the proper preparation and participants, the strategic planning and implementation exercise will be like putting a new paint job on a car that needs lots of maintenance.