making sense of

strategy

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CONTEXT

The purpose of a leader is to create a context in which people will perform to their potential. This "mental space" is where they discover and test themselves and where they reveal (or conceal) their magic. Context is a product of conversation.

Organizations, then, are *managed conversations*. People inside them talk to each other all day long about what they must do and how they do it. They also talk to a variety of outsiders – customers, suppliers, government, and so on. If the right people are involved and if these conversations are open, honest, constructive, and positive, good things happen. But if key people are left out, and if the conversation is blocked, devious, destructive, or negative, trouble is assured. "Nourishing conversation" is vital to success. "Toxic conversation" guarantees failure.

In shaping their context, strategists must do three things:

1. **Make choices**. You have to decide which customers and markets to chase, what products or services to offer, and how to apply your resources.
2. **Win "votes."** You have to exist in harmony with many stakeholders, and you have to persuade some of them (especially your people, your suppliers, and your customers) to *volunteer* their imagination and spirit to your cause.
3. **Build capacity**. You have to develop your organization's "strategic IQ" so your people can think and act appropriately as you head into a surprising future.

The 227 words you've just read tell you why some companies win and others lose. They explain why so many change efforts fail to deliver the expected results and why firms struggle to survive and grow. And they highlight what leaders must do to make a difference.

Choices, commitment, and capacity are not the products of machines. All result from people talking to each other. All come from that everyday activity – *conversation* – that we mostly take for granted and often use carelessly because it's such an integral part of our lives.

Much of our daily conversation is a *default* activity: it just sort of happens. By contrast, "strategic conversation" is no accident. It's a *deliberate* process and the No. 1 leadership tool. All else rests on it. So you need to think about it systematically, craft it carefully, and use it purposefully.

The first task of a leader is to provide a clear point of view – "There's the hill we're aiming at … these are the results we want … this is how we should conduct ourselves … here are our priorities … this is what we'll do to get where we want to go." This is the context in which people work.

The ongoing task is to focus and inspire them. We all know that "what gets measured gets managed." But we conveniently forget that it's only what is *spoken* about – constantly, passionately, consistently – that will be either measured or managed. Talk about the right *issues* in the right *way* to the right *people*, and extraordinary things happen; but get the conversation wrong and you're sunk.

When a leader speaks constantly about customer service, that's what people pay attention to. If he or she speaks fanatically about costs – or productivity, teamwork, innovation, or whatever – then those are the things that count.

Just as language influences the way a society works, so does it impact on the behaviour – and the bottom line – of a company. But when last did you hear managers say, "Let's talk about what we need to talk about" or, "Let's think about the words we use around here"? Probably never. After all, they have better, cleverer things to do. (And maybe there's a communications manager who handles communication!)

Management tools come and go with mostly disappointing results because the strategic conversation that should be their base is missing or ineffective. Executives work on "superstructure," when their foundations are weak. They call on sophisticated concepts when the basics are not in place.

If you were to ask almost any top executive to list their three most critical concerns, you'd probably hear: strategy, leadership, and change management. If you then looked for answers to these issues, you'd find little common ground between them. They're treated as three distinct challenges. Yet they interlock and overlap so tightly it's virtually impossible to deal with them separately and still be effective.

The language problem in business begins when you ask people what they understand by strategy. Here are some common answers:

> "It's a plan for taking your company into the future."
> "Vision, mission, values, and action plans."
> "A long-term view of where you're headed."
> "A SWOT analysis."*
> "The analysis you do to make sure you hit the numbers."

Now ask whose responsibility it is, and the answer is almost always the same: "Top management!"

Strategy, it seems, is something that a few smart and powerful people think about. Then they pass their wisdom down the line in the form of instructions, and the drones get busy.

Or that's the theory.

In real life, the folks at the top might indeed think about "the big issues." They might agree on "big, hairy, audacious goals." And they might produce terrific documents and slide shows, and make stirring speeches. But then something goes wrong.

Things change in the world around them. There's a surprise a minute – and not all of them pleasant. Their people don't do what they're told. Their great plans produce mediocre results. Even if by some miracle they manage to do what they intended, it turns out to be wrong.

* Strengths, weaknesses, opportunities, threats. An exercise that forms part of just about every planning workshop and fills lots of flipchart pages, yet seldom leads to radical thinking. More often, the same issues get recycled year after year and never go away.

Most companies have a shorter life than most people. For all the time, energy, and money that goes into making them survive and thrive, the results are disappointing. Reengineering cuts costs … but kills employee loyalty. Customer service improves … but customers think it's worse. You spend fortunes on change and improvement … but three out of four change efforts don't work as they should. You think you'll put your company on steroids with a new strategy … and the damned thing shrivels up and dies on you!

WHAT'S GOING ON?

John Lennon put it perfectly when he said, "Life is what happens when you're busy making other plans."

Life doesn't wait for your market analysis, your consultant's advice, or your 500-page plan. Nor does it stop while you rethink, reengineer, or reorganize. It's a dynamic, complex, surprising, exhilarating, wonderful – and sometimes shocking – process that sweeps you along … or sweeps you away.

This gives you a simple choice: either you deal with things as they *are*, or you close your eyes to reality and plan for things as you'd *like them to be*.

If you think that's a no-brainer, ask yourself why so many companies get into trouble so quickly, and so few enjoy a long and happy life. It can't be because most executives are dimwits. It has to be that:

- They have their heads in the clouds, from where they happily ignore what's going on around them.
- They interpret environmental signals to suit their own mental models, rather than looking the facts and the future right in the eye and doing what they must to adapt and survive.
- They fail to build the internal organizational capabilities that fit changing external realities, so though they may be successful for a time, their performance sooner or later slumps.
- They can't get things done.

In theory, corporate evolution is a tidy matter that's taken care of by Head Office. In practice, it's a messy process. A lot of it happens way out at the edges, far from the planners, the scenarios, and the spreadsheets, where "low-level people" serve customers, make stuff, fix things, punch buttons, sign documents, interpret events, and otherwise do their own thing.

People at the top don't have "line of sight" to the real world. The rest don't have "line of sight" to the reasoning behind their organization's strategy. This blindness makes both groups less effective than they might be.

The bosses think they're firmly in charge. In fact, they're bounced around by issues and events. Hard as they try to shape strategy, it's to a great extent shaped for them. While they imagine themselves as being all-powerful, the world around them goes on with its business – and moulds the context for their business decisions and actions.

Two of the hottest business themes in recent years have been core competence and chaos theory. Volumes have been written about both and they're favourites on the conference scene. Yet all you need to know is this:

- *You have to be exceptionally good at something.* You have to build strengths today for tomorrow. And since all capabilities hinge on the "mind of your organization," it's your most valuable asset and your best weapon. The ability to anticipate, imagine, and innovate is the most critical competence of all. The more widely spread this competence, the better. And the best way – possibly even the *only* way – to develop and leverage it is through strategic conversation.
- *You don't have to know everything.* The world is inherently unpredictable. Control freaks get hurt. You cannot get to the future in a straight line. But you *can* take advantage of surprises by involving your people in a rich, robust strategic conversation that makes every one of them the eyes, ears, and brain of your organization. When you're all alert and learning, when you're sharing and testing ideas, and pushing and inspiring each other, chaos becomes fuel for growth. Serendipity becomes a spark for change. Surprises energize you.

Perhaps the most difficult thing for any leader to accept is the tension between freedom and control. Disregarded, it causes awful problems. Embraced, it brings remarkable results.

Strategy demands discipline. Leaders need to be firm and clear about what they expect. But beware of strangling your organization. The context you create will imprison or liberate people. It'll either give them courage and confidence, and build their competence, or it will convince them that ordinary is OK. It'll either empower them to do roughly the best thing most of the time, or it will ensure that they under-perform constantly and screw up regularly. (Which means that you have to keep them on a short leash and waste your own time mopping up behind them.)

REMEMBER LIFE CYCLES?

By now, every executive knows about life cycles. Yet for some reason, most forget about them or pretend they apply only to someone else. But they affect all of us and we ignore them at our peril.

Every living thing goes through a fairly predictable process of birth, growth, maturity, decline, and death. Nothing is forever. Companies are no exception. But whereas other organisms – people, animals, plants – age and die no matter how well they adapt to their external environment, the lifetime of organizations can be extended. Those that adapt best will outperform and outlive their competitors.

Companies are born into a changing world, and it keeps changing. The conditions that exist when an entrepreneur hangs out his or her shingle don't last for long. So the challenge is to extend the time between a firm's first breath and its last gasp (Figure 1-1).

The only way to do this is to continually reinvent your organization so it "fits" the emerging conditions around it. To create new "S-curves" that keep your sales and profits on an upward path, defying the gravitational pull of "more of the same" (Figure 1-2).

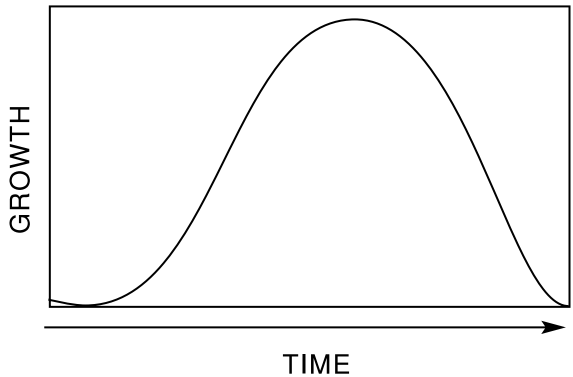

FIGURE 1-1 *Every living thing goes through a fairly predictable life cycle. Most companies die shortly after birth. On average, those that survive will last about 30 years. A few last well over 100 years.*

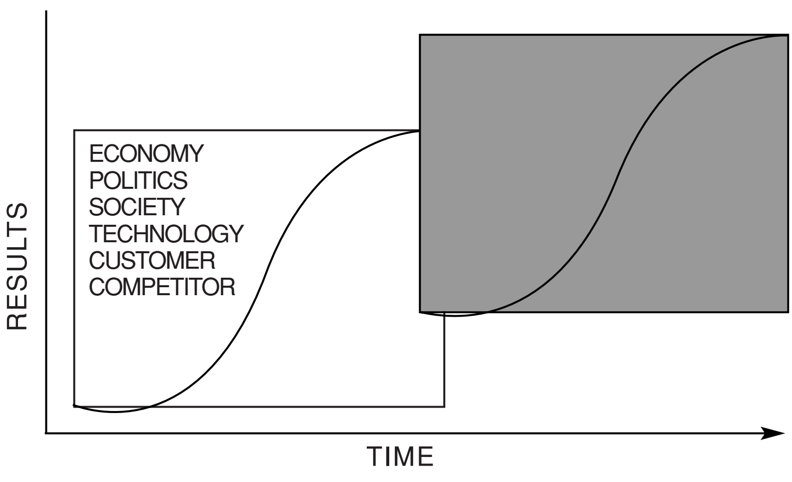

FIGURE 1-2 *Organizations can rejuvenate themselves through improvement and innovation – by doing the same things better and by doing different things. But they must at all times live in harmony with the world around them.*

Survival and success depend on *innovation*. So strategy has to be about:

1. Being alert to change **(ANTICIPATION)**.
2. Seeing opportunities to offer something different and new **(INSIGHT)**.
3. Dreaming up new ways of doing it **(IMAGINATION)**.
4. Doing it consistently and to the highest standards **(EXECUTION)**.

The question, of course, is *when* and *what* do you change? (*How* comes later.) These are always risk decisions. Much of what your company does today might have great value for a long time yet. To drop some of your products now could be daft. To add bells and whistles to your services might add costs but bring no immediate benefits. To reengineer your processes might cause more problems than it's worth. To change your advertising campaign might be a sure way to destroy your brand in the marketplace.

Change for the sake of change is stupid. There has to be a business case for it. But when the case is clear, don't resist or even *hesitate*. (It's insane to do more of the same while expecting different results!) However strong your inclination may be to hold your course, there comes a time when you have to act. Often a window of opportunity opens for only a brief moment. Seize that moment, and you gain advantage; miss it, and you may never recover.

For some firms, the smartest thing to do is to strive constantly and aggressively for disruptive strategies – to change not just the rules of their game, but the game itself. In other cases, the best way forward is to stay with the basics, to hone them continuously, to execute meticulously, and to make substantial changes rarely.

As a general principle, every company should aim for both improvement *and* radical change. This is hard to do, but it's also hard for competitors to match. When you present a constantly moving target, they're pressed to keep up with you. And the *more things* you change, and the *faster* you do it, the better your chances of staying out front. In a street fight, a surgical strike may save your life; but a "flurry of blows" keeps your enemy off balance, and sets you up for the big hit.

BEATING THE ODDS

Business is always a gamble. It involves a lot of guesswork. There are few certainties and many possibilities.

While there's plenty of information about most things today, the future is a mystery. No one knows what's going to happen an hour from now, let alone in six months or ten years. The best you can do is make some assumptions *based on what is already going on*.

Beware, however, of then assuming that events will unfold in a straight line to the future. Current trends may signal future ones, but do not guarantee them. So although you may gather reams of documents, listen to dozens of experts, or commission tons of research, you sooner or later have to do what *feels* right. Put bluntly, you have to go with your gut.

Some people seem to have an inborn ability to make the right calls (or they're just luckier than most). Experience does hone judgement (though it may just stop you taking a lot of chances that might have paid off). But the fact is, we all wind up guessing.

In the real world, success in most fields involves a lot of bumbling. You might say that we fall (and fail) our way into the future. So picking yourself up fast – recovering, learning, and moving on – is the real gift. Action is a surer way to the future than endless analysis. Surviving to fight another day is smarter than committing suicide with a single stroke.

Yesterday's strategic planners dreamed about big S-curves with five- or ten-year horizons. In some industries this still makes sense, because you have to invest hefty sums and the payoff is way off. Besides, laying big bets may bring big wins – in fact, may be the only way to the jackpot. And macho leaders are admired for their boldness – which may inspire valuable confidence. So obviously you should have a long-term view of where you want to go. And obviously you should aim for the single S-curve that will assure leadership. But be aware that one "visionary" move can sink you.

For most companies, the way to win is by trying more things faster – by "hustling with a purpose" (Figure 1-3). By laying lots of small bets, you can afford the losses and learn from the wins. And with luck, the incremental changes you make will add up to a meaningful difference.

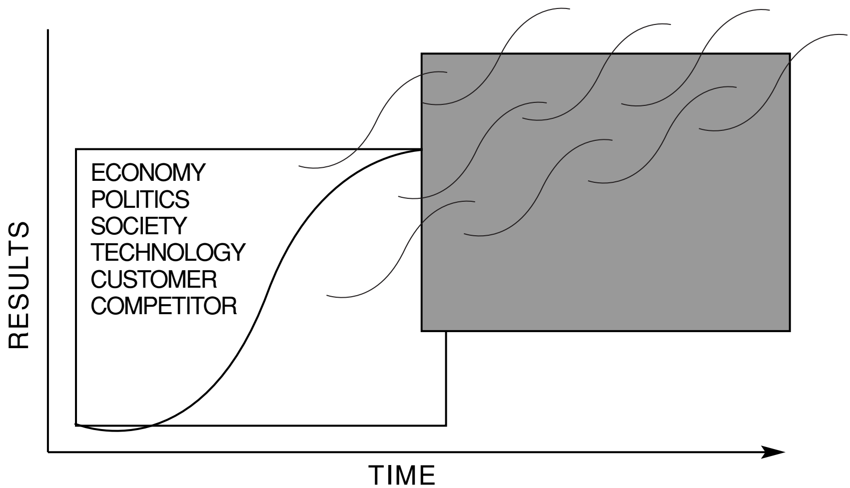

FIGURE 1-3 *Laying one big bet on a future you can't quite see is dangerous practice. It's much safer – and smarter – to lay lots of small bets and to "experiment your way into the future." This way, you can apply new insights and ideas as you go, so you get the most from each new move.*

Many companies treat strategic planning as an annual ritual, a calendar-driven activity tied to the budget cycle. Some do it even less often and less regularly. Between stabs, life goes on and issues that screamed for attention yesterday are forgotten by the next planning meeting. Today's boldest, bravest intentions take so long to turn into action that people laugh them off and keep busy with stuff that really matters. But worst of all, this stop-start, quantum-leap approach ensures that you wind up having to change too much, too fast, and usually when it doesn't suit you. When you defy reality, you make nonsense of strategy.

Although it might make sense to get your team together from time to time to review where you've been, or to brainstorm new possibilities, strategic management is an ongoing process. It needs daily attention. If you're not engaged in a *constant* conversation about what lies ahead, what it means, and what you should do about it, the world will pass you by. (You might find that radical change isn't necessary; constant improvement could be just what's needed to preserve your competitive edge for ages.)

This brings us to a question – or an argument – that bedevils organizations: should you talk *strategy* or *tactics*? But does it matter? Who cares what label you apply, as long as you do the sensible thing!

TWO SCHOOLS OF THOUGHT

For all that's written and said about strategy, it remains a fuzzy activity. Partly, this is because it embraces everything a company does. Partly, it's because the gurus don't agree on the best way to approach it.

However, when you cut through all the pet theories and buzzwords, you come to the fact that there are essentially two schools of thought about the subject:

1. **The outside-in school.** This lot believes that an organization is a "prisoner of its environment," and can only do what the world around it allows. The task of managers is to create the best possible fit between their organization's internal strengths and weaknesses, and whatever external opportunities and threats there may be.
2. **The inside-out school.** To this group, the greatest constraint on a firm's performance is its own mindset. With enough ambition – or "stretch" – and with the right core competencies, just about anything is possible. Aggressive, creative companies can take on all comers and conquer the world.

So which is right? Which is best?

The answer, of course, is both.

The environment in which you compete does influence what you can and cannot do. It may help, hinder, or hurt you. But its effect is determined to a great extent *by the way you choose to deal with it*.

Some industries seem to be inherently more profitable than others. But the profitability of companies *within* any industry varies widely and there are winners and losers in all of them. So firms obviously differ in the way they respond to their circumstances.

Growth is possible in many seemingly hopeless industries. To be depressed that you're in a so-called "sunset industry" is as ridiculous as being over-excited because you're in a "sunrise industry." Life is what you make it. The future is a matter of choice, not chance. You may face exceptional challenges, but it's how you think and act that matters.

Corporate growth is not a gift. Nor does it happen by accident – and certainly not in the long run. Luck helps, and it may be a huge factor in a firm's success, but you can't rely on it. So best you create the circumstances in which things are mostly likely to go your way.

To be a leader in your particular domain, you need to know as much as possible about conditions outside your company's walls. You need to see not only the problems, but more especially the opportunities. And to take advantage of them, you need the "right stuff" – not just *hard* assets like cash, factories, technology, systems, and tools, but also *soft* assets like reputation, brands, and patents. And even more important, soft *human* assets such as attitude, imagination, knowledge, skills, and spirit.

Executives in poorly performing companies are quick to blame external factors for their plight. It's everyone's fault but their own; they are victim to forces or events around them. Their unspoken cry is, "In the face of these realities, I'm helpless!"

What nonsense! The fact is, you have a huge amount of influence over your own fortunes. No matter how you're performing today, and no matter what conditions prevail around you, you can probably change things dramatically. You can fix your company if it's sick. You can grow your sales and profits. You can improve your customer satisfaction rating. You can make your organization a better place to work, a better citizen, a better investment.

How? By getting the basics right. By having a "fingertip feel" for what's happening in your business arena, creating an appropriate value proposition and business model, applying the First Principles of Business Competition,* and executing effectively.

When you're not doing these things, your company will be undervalued. You'll think it's a dog and so will others. So you might be suckered into carving it up, selling it, or even closing it; customers and suppliers will spook; investors will be jumpy or will take their money and run. The business media won't help either, because when they sniff trouble, they have a story.

My advice to companies that are in this dangerous spiral: *Slow down … and hurry up!* Slow down and take careful stock. Then hurry up and do something.

Do your homework. Get the facts. Look critically at what you're doing and why you're doing it that way. Question your assumptions. Put your "best practices" under a spotlight and work them over. Systematically develop a new strategy based on reality and focused on high-leverage issues. And drive aggressively forward. *Fast*.

You don't need a magic wand. You don't need miracles. You don't need a fairy godmother. What you do need is common sense, a toolkit of critical concepts, a way to put a rocket under your organization – and the leadership strength to do it.

Information + imagination + inspiration + action = results.

Let's start the journey to growth by looking at some key concepts that underpin the work of strategists.

* The First Principles are discussed on page 32.