



## Strategic Thinking

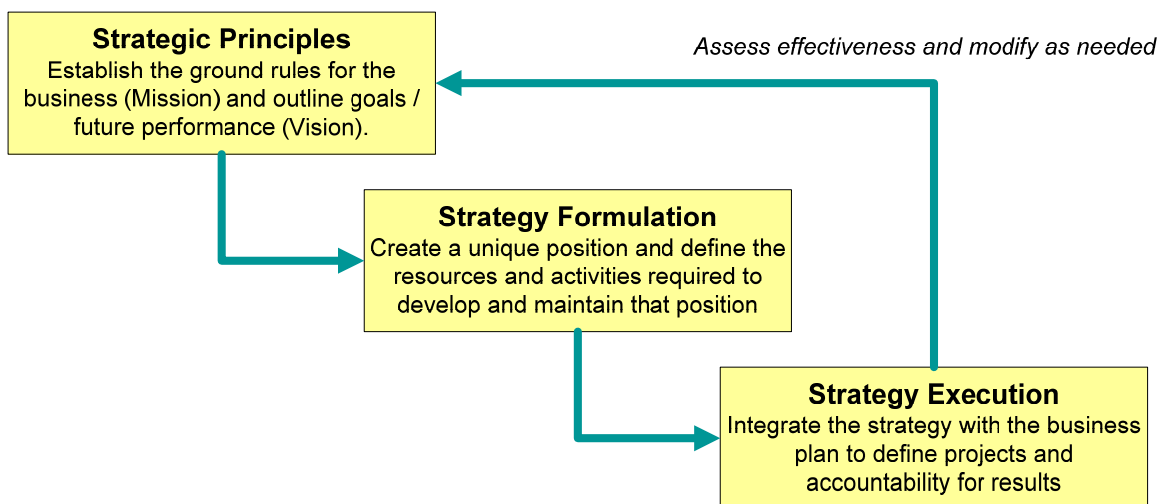
### The Role of Formal Planning versus Organizational Learning

Strategy is the subject of numerous books, papers and discussions – yet in many ways it remains an enigma. There are so many experts, buzzwords, processes and critics that it's often not clear how to proceed. To the extent that the jargon and debate obscure the underlying value of developing a strategy, many smaller companies don't bother with any formal process. For larger companies that do run strategy sessions, the execs often find that all the analysis, brainstorming and time offsite has done little to change their business model, priorities or behavior. So how does anyone make sense of the various approaches in order to craft<sup>1</sup> an effective strategy and get meaningful business results?

To attack this problem, strategy can be divided into 3 elements:

1. Strategic Principles - ground rules on where and how the business will compete (Mission) and a description of the desired future state (Vision).
2. Strategy Formulation – defining the mechanisms to gain competitive advantage based on a unique market position plus the requisite skills, processes and resources to develop and support that position.
3. Strategy Execution – the translation of strategy into action via assigned owners, projects and reviews.

It's tempting to think of strategy development as a linear, sequential process – the classic Mission/Vision, Analysis and Planning methodology. Using the 3 elements above, this might be represented as:

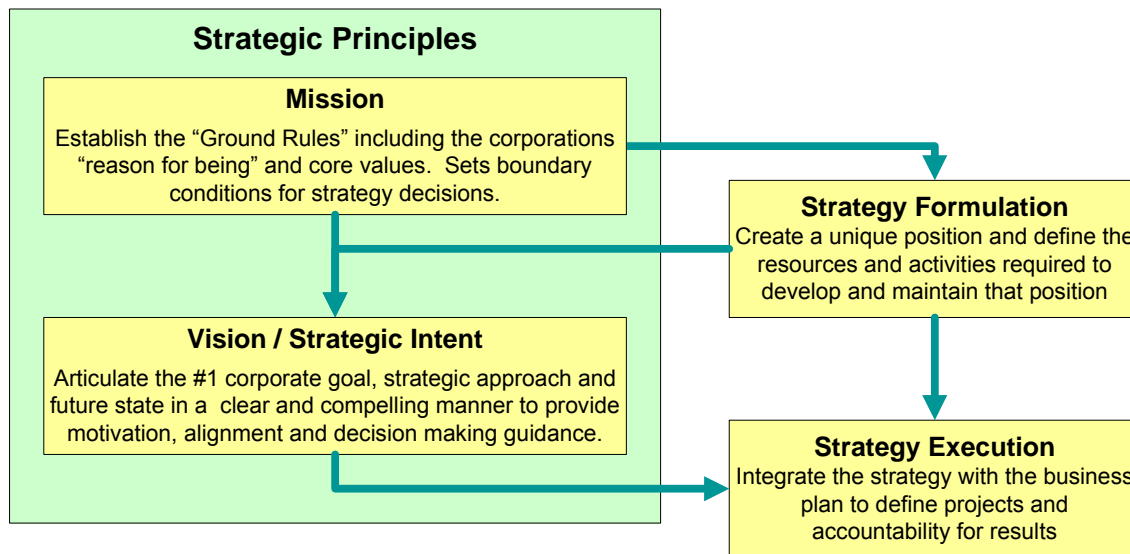


1 – I'm using the word "craft" to suggest that strategy development is more than just analysis and planning. It also requires an intuitive understanding of the business, inclusion of multilevel organizational learning and the synthesis of both analytic and experiential elements. The concept was introduced by Henry Mintzberg in the Harvard Business Review article "Crafting Strategy", July-Aug 1987.



### **Strategic Principles**

The linear model captures the basic approach but fails to recognize that Strategic Principles come in two flavors: (a) those that are relatively permanent and define the core business and values and (b) those that are subject to change and evolve with the business - addressing major goals, aspirations and future expectations for the organization. While the Mission Statement serves as the foundation for the business, the Vision Statement is largely derived during Strategy Formulation and serves as an important element in communicating the strategy and motivating the team during Strategy Execution. Incorporating this into the model yields:



### **Strategy Formulation**

Strategy Formulation is also more complex than the linear model would suggest. There is an ongoing debate about whether formal strategic planning sessions actually help develop strategy or simply serves as a mechanism to align priorities and budgets with a pre-existing strategy. This is based on the observation that strategic planning is an exercise that focuses on short term (days or weeks) of analysis with a group of senior managers and/or specialists. Strategy, on the other hand, requires an element of creativity combined with insight into the market and business processes. This requires more extensive organizational learning – much of which exists with the people closest to the customer and operations. Some perspectives on this include:

“Planning has always been about *analysis* – about breaking down a goal or set of intentions into steps... Strategic thinking, in contrast, is about *synthesis*. It involves intuition and creativity. The outcome of strategic thinking is an integrated perspective of the enterprise ...”<sup>2</sup>

“Strategic planning isn’t strategic. Strategizing is not a rote procedure – it is a quest. Any company that believes that planning can yield strategy will find itself under the curse of incrementalism while freethinking newcomers lead successful insurrections.”<sup>3</sup>

2 - Harvard Business Review article “The Fall and Rise of Strategic Planning”, Henry Mintzberg, Jan-Feb 1994.

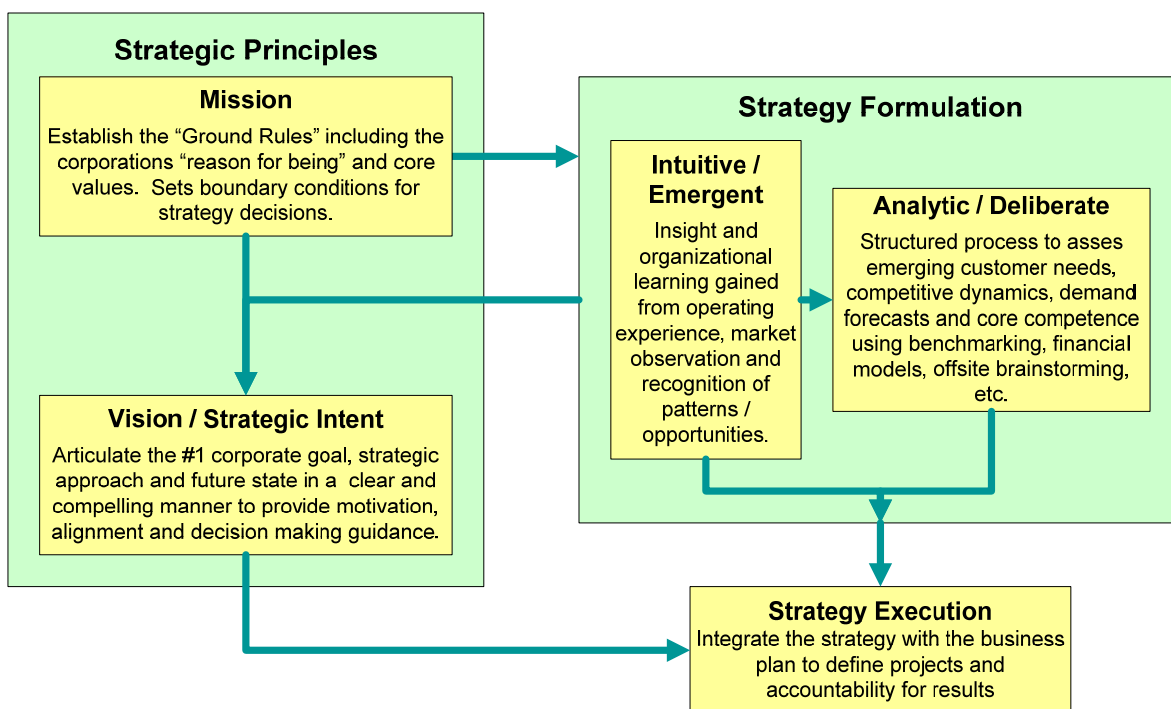
3 - Harvard Business Review article “Strategy as Revolution”, Gary Hamel, July-Aug 1996.



On the other hand, formal strategic planning does have a role in providing senior leaders with information required to develop business insight and make informed decisions.

“... real strategy is made in real time. It follows, then, that the goal of a formal strategic planning process is to make sure that key decision makers have a solid understanding of the business, share a common fact base and agree on important assumptions.”  
“When repositioned as a learning process, formal strategic planning can help managers make solidly grounded strategic decisions in a world of turbulence and uncertainty.”<sup>4</sup>

Rather than extending the debate on analytic versus intuitive methods to developing strategy, it's clear that both approaches have value and should be integrated into corporate thinking. This can be modeled as:



Successful strategy formulation should embrace both the continuous organizational learning perspective and more traditional analysis.<sup>5</sup> Strategic Planning sessions alone are not adequate to fully develop corporate strategy but neither are they a waste of time. Although you are unlikely to leave an offsite meeting with a new strategy, the team should have a new appreciation of the competitive landscape and underlying issues for the business.

### **Strategy Execution**

As you might have guessed, Strategy Execution is also more complicated than the original linear model. For one thing, it involves both planning activities to define the tasks and assignment of accountability to execute. More importantly, however, a broader spectrum of employees must be engaged to translate strategic objectives into actionable tasks – testing

4 - MIT Sloan Mgt Review, “The Real Value of Strategic Planning”, Sarah Kaplan & Eric D. Beinhocker, Winter 2003.

5 - Assuming that you set realistic expectations for the formal planning process.

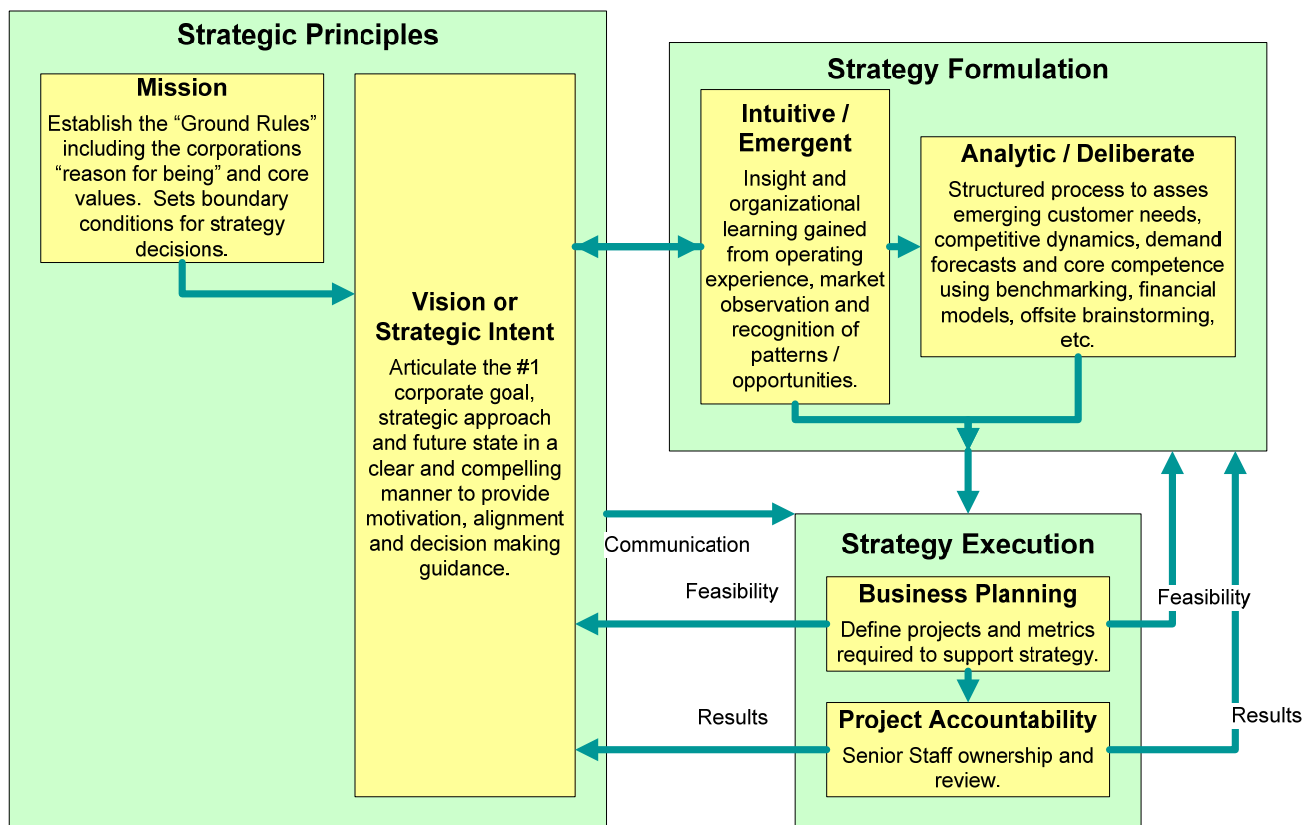


the logic and feasibility in the process. Ideally these people were included in the strategy formulation phase – but they certainly must be engaged here. The logic of incorporating a broad spectrum of employees in the process is:

“First, separating strategy formulation from implementation generally is not a good idea. Most of the insights important for strategy formulation reside in the heads of the operating managers. Second, tactics are not only about implementing today’s strategy but also about discovering tomorrow’s strategy. Tomorrow’s insights arise from today’s operating experiences.”<sup>6</sup>

“The capacity to think creatively about strategy is distributed widely in an enterprise. It is impossible to predict exactly where a revolutionary idea is forming, thus the net must be cast wide.” “In the traditional model of strategy creation, the thinkers are assumed to be at the top and doers down below. In reality, the thinkers often lie deep in the organization, and senior managers simply control the means of doing. To achieve diversity of perspective and unity of propose, the strategy-making process must involve a deep diagonal slice of the organization.”<sup>7</sup>

Thus, the vision aspect of strategy must be extended even further in the model since it is vitally important to communicate, align and motivate. It is also influenced by the feasibility assessment that occurs during planning and by the actual results obtained during strategy execution. A fully integrated model then becomes:



6 - HBR article “What’s Wrong with Strategy”, Andrew Campbell & Marcus Alexander, Nov-Dec 1997.

7 - Harvard Business Review article “Strategy as Revolution”, Gary Hamel, July-Aug 1996.



## **Practical Applications**

In practice, most companies follow a variation of the original linear model and the process starts with analysis conducted over a relatively short time period. By definition, this does not address the intuitive / emergent / organizational learning elements of strategy formulation. In addition, traditional strategic planning only engages the CEO, top executives and senior staff functions. Much of the insight required for effective strategy development, however, is down where the action is happening with customers, suppliers and manufacturing. It also lies with people who have not yet been indoctrinated into industry behavior and are willing to challenge established ways of thinking about the business. As eloquently put by Gary Hamel:

“The bottleneck is at the top of the bottle. Where are you likely to find people with the least diversity of experience, the largest investment in the past and the greatest reverence for industrial dogma? At the top. Unless the strategy-making process is freed from the tyranny of experience, there is little chance of industry revolution.”<sup>8</sup>

Reserving a bigger room for offsite planning meetings won't solve this problem. Large meetings are OK for communication but not for getting honest feedback or creative alternatives. The existing chain of command is also poorly suited to this task. Using the reporting hierarchy leads to (1) dilution of the strategy setting charter and priority, (2) a tendency to narrowly focus within functional silos and (3) no assurance that the right people are engaged or are free to speak their minds.

Instead, the organization needs a mechanism to identify and directly engage those people who combine first hand knowledge of the market and internal processes with the ability to recognize, articulate and think creatively about business problems and opportunities. One effective method is to create problem solving teams or focus groups that are both cross functional and span multiple levels. These teams need to be both independent and democratic. They cannot be under the thumb of a control oriented manager within the hierarchy. Key characteristics are:

- Each team has a leader chosen from middle or lower level management who has a passion for the topical area – be that customer service, operations or next generation products.
- Each team has both formal and informal reporting channels. The formal link is to the executive strategy committee. The informal link is to a senior management advisor with expertise in the topical area. This person does not sit on the team but is a resource and mentor for the team leader.
- Meetings are held with the strategy committee on a routine basis – monthly being typical. Since many executives tend to be highly critical of new ideas (which kills initiative in junior people), the entire team should be present and the agenda controlled so that all findings are presented without interruption. Subsequent discussion must be controlled by the CEO or a facilitator to keep executive authority from inhibiting constructive debate and creative problem solving.<sup>9</sup>

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8 - Harvard Business Review article “Strategy as Revolution”, Gary Hamel, July-Aug 1996.

9 – See the Harvard Business Review article “How to Have an Honest Conversation About Your Business Strategy”, Michael Beer and Russell A. Eisenstat, Feb 2004 for an excellent description of how to engage employees in strategy.



- The teams operate as autonomously as possible within the bounds of problem definition, assigned resources and timeframe set by the strategy committee. These constraints are not absolutes, however, and the team should present any new requirements or “out of bounds” conditions at each meeting.
- Functional managers within the chain of command must be aware and supportive of both the charter and resource requirements for the teams. It is most effective if team activities and success factors are included in the personal goals for both managers and team members.

The trick with such teams is to find the best people and keep them highly motivated through both the creative problem solving and subsequent implementation phases. When searching for talent, senior management needs to get recommendations from several levels within the organization. They also need to recognize that what seems like subversive behavior by an employee may actually be a sign of someone who is highly motivated and creative. These may be the best people to recruit for team participation.<sup>10</sup> In order to keep the team motivated, there needs to be:

- A clear, broadly communicated charter.
- Frequent, positive interaction with senior management.
- Allocation of required time and resources (senior management should be clearing obstacles not creating them).
- Public recognition of progress and measurable results.
- Clear linkage between successful team participation and personal growth and promotion opportunities.

While not a panacea, the use of long term strategic teams is an important element that brings new perspectives and creativity to the process – thereby incorporating organizational learning and emergent / intuitive elements into strategy development.



Strategic development activities can be broken down into three categories – strategic principles, strategy formulation and strategy execution. Traditional “Strategic Planning” tends to organize these activities into a short term, linear process at the executive level – missing key elements of how strategy actually evolves.

Once we recognize that strategy involves both scheduled (planning) activities and evolutionary (organizational learning) aspects – we begin to see “Strategic Thinking” as the real objective for a robust corporate strategy process. Strategy creation is no longer an

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10 - This is an area where the relatively new medium of social networks (blogs, discussion forums, etc) may become very effective. The very nature of social networks supports a democratic, meritocracy of ideas. It promotes participation by passionate volunteers, more critical thinking and almost immediate peer review of new concepts. The use of a secure, company sponsored forum can be used to (1) communicate the vision down and across the organization, (2) get honest feedback and creative ideas up from the working level and (3) identify radical thinkers who can bring new ideas to the table.

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annual event but a long term process that has both non-linear and re-entrant elements. Once we recognize that strategy is not the exclusive domain of senior executives – we see the need to incorporate the best business intelligence (from those closest to the information source) and the most creative minds (those not yet biased by established industry practices).

In order to harness the insight and creativity of a broad cross section of employees – the technique of strategy focus teams has proven effective. This requires, however, a unique mix of strong executive support yet minimal executive influence. The CEO in particular must endorse a more democratic and inevitably more critical approach to understanding the business and creating new approaches. For those executive teams that have sufficient discipline and self-confidence, the application of a broad “Strategic Thinking” process can yield exceptional new insights.

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