Lean Strategy

How to focus your strategy work on what really matters

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Lean Strategy: *How to focus your strategy work on what really matters*

A strategy is not a budget

In many organisations executive officers treat strategy as a precursor to the annual budgeting process. The problem with this approach is that strategy is not a linear process and organisations should de-couple the link between strategy and planning.[1] By being flexible about the type of strategy work you undertake, you can radically improve your organisation's strategy and ultimately its performance. In this article I set out:

- The four phases of strategy and the outputs from each

- How to focus your strategic efforts around these four types to maximise your performance

The four phases of strategy

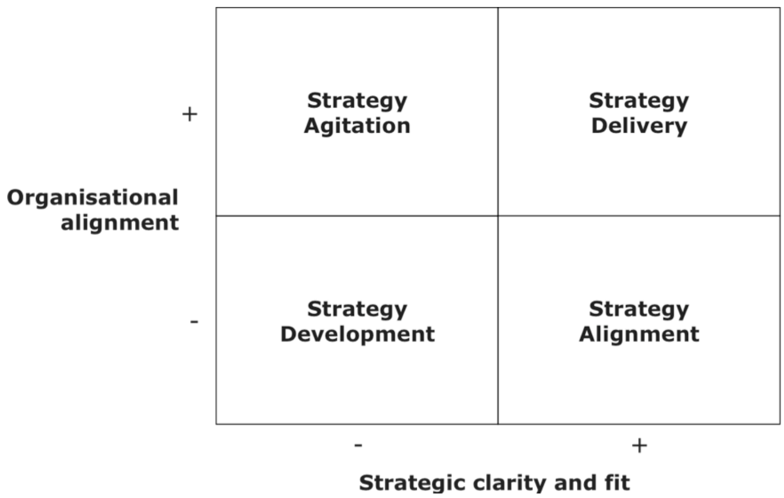
There are four phases of strategy work. Most strategy articles and books focus on either Strategy Development or Strategy Delivery. Far less attention is paid to Strategy Management and even less to Strategy Agitation, yet the four phases are equally important to successful strategy execution and the delivery of long-term performance.

The effectiveness of your company's strategy work is dependent upon understanding what strategy phase is required. The Strategy Focus Matrix provides a structure for identifying the phase on which you should concentrate, based on an assessment of two criteria (see Exhibit 1):

1. The degree to which your strategy is clear and is likely to win in your market. Is your current strategy going to get you the results you desire? If not the key effort of your leadership team should be to create a great, winning strategy.

2. The level of organisational alignment and commitment. Effective delivery requires strong alignment and commitment, yet, counter-intuitively, great strategy development requires a lack of alignment and commitment. Only then will the dynamics enable you to have a critical and honest appraisal of your company's situation and identify the best way forward. One of the most important roles of company leaders is to manage the tensions between different opinions during the strategy development phase, and then ensure that there is alignment and commitment once the strategy has been decided upon.

Exhibit 1: Creating focus for strategy work – The Strategy Focus Matrix



Phase 1: Strategy Agitation

Nothing fails like success, and even once-successful strategies erode over time. If your strategy is no longer helping you achieve your goals, and yet there is little apparent concern across the Executive team, the focus must be on *Strategy Agitation*. The work required is to highlight the potential issues, opportunities and consequences that are facing the business, and to establish a burning platform for change.

In a previous role I spent the first six months of my tenure as Strategy Director working with the Executive team to help them understand the longer-term consequences of the current strategy, and to create commitment that something should be done. I did this through a series of Executive sessions where I:

- Obtained their assumptions about the future of the market
- Documented their assumptions over likely business performance over the next 5 years in terms of prices, volumes, market shares, margins, costs and capital spend requirements
- Mapped the results of these assumptions into a financial forecast and discussed with them the outputs

I don't claim this to be the absolute best way, but it is essential to get organisation's leaders involved in diagnosing their own situation. Previously, I had witnessed consultants telling the Executive that they needed to change - without any success. What was required was a process that enabled the team to understand the company's situation themselves, and to avoid any defensiveness created from their reaction to external assessments and opinions.

The result of successful strategy agitation will be:

- Broad executive realisation that the current strategy no longer fits the current or future market realities
- Executive agreement that a new or refreshed strategy is required
- A view on possible or likely changes to the company's markets and competitive position
- Identification of the key issues and opportunities facing the business

Phase 2: Strategy Development

Where there is acceptance that the current strategy is not working, but no agreement on the best way forward, the focus must be on *Strategy Development*. Only by creating clarity about the way ahead can you organise to deliver it. Strategy Development is often seen as the beginning and end of strategy work, and is commonly and mistakenly linked to the annual planning process.

In my experience busy executives dislike this phase of work for one of two reasons: (1) It ends up as endless form-filling rather than real strategy development; or (2) It is difficult and exercises brain muscles that they are not used to exercising. Strategy forces choices and requires that people really understand their own and their colleagues' assumptions and preconceptions.

Strategy development should be an ongoing activity, not a one-off annual event. Periodic sessions should be established to identify and assess major changes in your markets, and craft responses to market changes that will advantage your organisation.

How frequently do strategy development sessions need to take place? Well, it depends. Amazon.com, for example, operates in a high-growth, high-change market, and has established weekly sessions for the Executive team. Other businesses may operate in more stable environments and find that quarterly sessions are adequate. I have recently been working with a division of a major professional services firm, where I helped them establish bi-monthly sessions to build their strategy.

The outcomes of successful strategy development will include:

- A clear, compelling strategic intent, highlighting how the company will succeed in the future
- The distinctive advantages the company has or needs to deliver the strategic intent
- A set of high-level performance goals that the leaders of the business are seeking to achieve
- A pipeline of ideas and initiatives to drive the strategy and the organisation's performance
- A refined list of key strategic issues that must be addressed as part of the delivery process

Phase 3: Strategy Management

It takes a photon of light a little over 8 minutes to reach the earth after it leaves the sun's surface, but over 10,000 years to travel from the core of the sun to its surface. The density of the sun simply means that the photon cannot escape quickly. Similarly, many business leaders highlight the need for pace when they mean they want the organisation to do more.

Yet driving pace without focus creates an organisation that is like the photon unable to escape the sun. As one strategic initiative hits all the other initiatives they inevitably lose momentum and slow down. An unfocused agenda typically has three negative consequences:

1. Leaders can't lead. As the adage goes, 'if everything is a priority, then nothing is a priority.' Even the best leaders in the biggest organisations can only focus on a few priorities at any one time. If they try to focus on too many simultaneous objectives not only will they confuse themselves, but they will also confuse the rest of the organisation.

2. Managers can't manage. Strategic initiatives follow the law of organisational complexity; as the number of initiatives grows the effort required to deliver them increases geometrically, not arithmetically. Managers are faced with excessive demands on their time and resource, multiple inter-project linkages and dependencies, and unclear connections to their own performance objectives.

3. Front-line teams become confused. In 2004 when Stuart Rose became CEO of UK retailer, M&S, he quickly became aware of the problems created by the company's 31 strategic projects. As he wrote in the Harvard Business Review in 2007, *"There was constant change. The company was lurching from one strategy to another. If a strategy didn't work by Friday, a new one was initiated on Monday. The staff became demoralised by the onslaught of ever-shifting, unclear messages and strategies. It was a rapid downward spiral."*

The purpose of the *Strategy Management* phase is therefore to focus the business on the few things that will create the biggest benefits. The first task is to engage with leaders across the organisation to integrate and gain alignment to the overall direction, to agree an approach to determine resource allocation, and to set performance objectives and key business milestones.

Clear, consistent communication is critical to effective strategy management. From in-depth strategy dialogues between the executive team and the senior line managers to individual shop-floor conversations, the executive team should be using each opportunity to spell out the top priorities.

When Richard Baker became CEO of Boots the Chemists he spent the first three months developing the company strategy and identifying his priorities for action, which he called the six growth pillars. In the rest of his tenure as CEO Baker focused all his interactions on discussing these growth pillars. Baker never "came out of character" - it did not matter to whom he was talking he knew that he needed to repeat the same message continuously.

The outputs of an effective strategy management process include:

- The translation of the strategy into a set of performance and operational objectives
- A focused agenda of initiatives and programmes for delivery of the strategy
- Clear accountabilities, at the front-line, for delivery of the strategy and performance objectives
- Team and individual performance objectives which reflect the new accountabilities, objectives and the overall strategy

Phase 4: Strategy Delivery

The purpose of the *Strategy Delivery* phase is to execute the agreed agenda brilliantly. The specific focus will depend on the type of strategy pursued - particularly whether growth is to be delivered organically or through acquisitions - and the proposed scale of the change to the organisation.

In truth, the first three stages can be achieved relatively quickly. In most organisations, a new strategy for growth can be developed that has broad, top-level support and alignment within a 3-6 month period. It is the delivery of the strategy that becomes a lifelong work requiring a relentless persistence. As McKinsey's former Managing Director, Al McDonald, said about strategy delivery, *"Never forget about implementation, boys. It's what I call the last 98% of the client puzzle."*

The issue is that without the clarity gained from the initial three phases the delivery will be slowed by competing objectives, unclear accountabilities, and irrelevant initiatives. It is essential therefore that there is alignment around the strategy at the executive and senior management level.

The three critical steps for effective delivery are to

1. Establish operational objectives. Strategic objectives must be broken-down into meaningful operational objectives for front-line delivery. Only then can your people incorporate your vision into their everyday work.

2. Assign accountabilities. There are three key elements to effective accountabilities: (1) Each objective should have a specified individual responsible for delivery, not a group, team or committee; (2) Play to your people's strengths and give them objectives that will allow them to succeed; and (3) Give people the leeway to work out their own route to success.

3. Create a system for ongoing management of delivery. Procter & Gamble's corporate goals are translated into individual and team actions through their OGSM system (Objectives, Goals, Strategies, Measures). These plans are then used as the basis for team, project and individual management, allowing managers and individuals to track progress and results.

The bottom line

By understanding where you sit on the Strategy Focus Matrix you will be able to bring greater efficiency and effectiveness to your strategy work. Instead of ritualistic form filling you can focus on generating and executing objectives that will enable your organisation to deliver great results.

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[1] *See the article* 'Don't let planning kill strategy' *by Stuart Cross, as published in European CEO, March-April 2008*