Does Your Strategy Need Stretching?

As the future becomes increasingly less predictable, some believe we’ve come to the end of strategy. After all, if prediction is increasingly difficult, shouldn’t management’s focus inevitably shift from insight to speed? Isn’t time spent on strategy time wasted?

We don’t think so. If visibility is reduced, the reward for foresight is increased. Competing on responsiveness alone implies a neck-and-neck race with little differentiation among players, as well as thinner margins and lower returns. Strategy—because it can offer a head start in the race and even define a new course—remains essential to gaining an advantage, but it needs to adapt to the current environment.

Too often, executives equate “strategy” with the rigid, template-driven, top-down planning approaches that prevail in most corporations. Executives commonly describe these processes as ossified and bureaucratic rather than insightful, focused on unquestioned extrapolation of the past instead of on future competitive advantage, and ill suited to identifying and mobilizing the organization around important opportunities. Furthermore, they worry that the goal is often a paper “plan” rather than the strategic preparedness needed to prosper in uncertain times.

Increasingly, though, leading companies are realizing that strategy is more important than ever. And they’re beginning to change their strategy-development processes to match the global competitive reality. These new processes create great strategies, of course. But the focus is just as much, or more, on developing great strategists—individuals who are prepared enough to spot shifts early on, and agile enough to do what it takes to seize or retain leadership.

So what are companies doing to get or stay in condition? On the basis of our recent study of strategy development processes, which included interviews with more than 100 executives from 20 leading companies, we think that the answer is stretching—along three mutually reinforcing dimensions:

- Stretching time horizons to give the short, medium, and long term each its due
- Stretching the thinking to boost creativity and insight
- Stretching engagement models to build preparedness and alignment
Does Your Strategy Need Stretching?

- Stretching the thinking with new techniques to boost creativity and insight
- Stretching engagement models to foster dialogue, preparedness, and alignment across the organization

**Stretching Time Horizons**

When asked about their “strategy development” process, executives in our study described many things. Some talked about a vision exercise they’d done several years ago, while others cited the annual strategic reviews linked to their budget process. Interestingly, only a few had processes that considered business strategy at three distinct time horizons: long, medium, and short term. Yet being explicit about all three time frames is critical for gaining superior strategic insight.

If a company’s strategy-development process focuses only on short-term imperatives, there’s a danger of myopia. The chance of missing a strategic turn because no one sees an important sign in the distance increases. We’ve seen many casualties of this sort in the last ten years: highly successful companies knocked off their stride by unforeseen developments. Long-term strategy does matter.

Conversely, companies that concentrate predominantly on the long term suffer from a disconnect between their aspirations and day-to-day activities: they see the finish line but not the course that gets them there. We’re all familiar with many examples of this as well.

Strategizing across three time horizons can enable a company to see opportunities and risks that competitors miss. Trying to address multiple time horizons with a single process just doesn’t work. Each horizon calls for different skills, techniques, and deliverables—and should involve different people on different schedules.

**Long-Term Vision and Aspirations.** This time horizon has two objectives. One is to envision and prepare for macro changes 5, 10, or 20 years out and to establish a plan to shape the future competitive environment to the company’s advantage. The other is to define both the company’s long-term aspirations and the high-level business models that will support them. Thinking through possible moves in likely and less likely futures enhances preparedness. For example, Shell was among the first to practice scenario planning in the late 1960s and one of the few companies ready when the oil crisis hit in 1973. More recently, a major industrial-goods company has benefited from convening a large number of executives to explore the strategic implications of key megatrends. This effort has already yielded substantial alignment around specific long-term growth platforms.

**Medium-Term Business Strategy.** Here the focus is on defining the path to value creation. What major initiatives, guidelines, controls, and incentives will enable the organization to realize its aspirations and meet or exceed the market’s expectations for growth, profitability, and asset utilization? When A.G. Lafley took the helm as Procter & Gamble’s CEO in 2000, for example, he redefined the medium-term business strategy by issuing clear rules of the game: focusing on core brands, opening up R&D, and establishing operating TSR as the primary performance metric.

**Annual Business-Review Cycle.** This time horizon focuses on building bridges both to the other time frames and to the budgeting process. What detailed action plan best realizes the medium-term strategy? Are there any weak signals that challenge core strategic assumptions? This horizon respects budgetary realities but doesn’t allow them to drown out strategic ones. Cumbersome template- and budget-driven “strategic planning” is replaced with constructive strategic dialogue between the center and the business units guided by well-articulated questions. This dialogue-based approach also leads to a shorter process in which better and more timely decisions are made.

**Stretching the Thinking**

The traditional approach to strategy development—combining an external perspective (analysis of markets, competitors, channels, and economics) with an internal perspective (assessment of resources)—is useful but not sufficient. After all, tools frame the thinking. Using the same strategic tools year after year is likely to result in strategies that are incremental and that may be blind to emerging opportunities or changing competitive patterns. There is a need for new methods that foster lateral thinking and enhance strategic creativity.

Stretching the thinking is about multiplying the viewpoints through which you evaluate your business. Consider the following approaches:

**Invest in the art of questioning.** This approach is based on the Socratic practice of asking the “right” questions to stimulate thinking. Few companies in our research believe that they spend enough time and attention on articulating the questions their strategy should address.
Yet when they do, teams come back not only with the answer but also with a higher level of understanding and ownership of the chosen course.

**Turn issues upside down.** Instead of asking how to grow the business, ask how to kill it. A well-known example is the destroy-your-business.com initiative led by Jack Welch to prepare General Electric for the digital world. Instead of asking how to increase resources (a typical budgetary debate), ask how to operate without them.

**Deconstruct your business.** Mentally break the business into pieces along the value chain and determine in which ones the company has a superior competitive position, which should be outsourced, and which must be defended against capture by external players.

**Take an owner’s perspective.** Model the key drivers of the share price (using such tools as EVA, CVA, and CFROI) and then assess how operational plans will—or won’t—contribute to the desired level of growth in long-term shareholder returns.

**Bring in external perspectives.** Many leading companies are too inward looking. They may be linked with suppliers for electronic data interchange, or EDI, but few invite outsiders to help shape strategy and challenge internal beliefs. The exceptions include S.C. Johnson & Son and Toyota, both of which involve key suppliers in designing aspects of their strategy. Others invite professional investors and even unions to be part of the dialogue.

### Stretching Engagement Models

In our study, few executives described their strategic processes as fun, motivating, or engaging for the organization. At best, they described them as “beauty contests” with rosy PowerPoints; at worst, as bureaucratic, time-consuming, and insight free. Yet few would disagree that an engagement model that inspires people at different levels of the organization to think and act strategically—that eliminates the outmoded distinction between corporate “thinkers” and business unit “doers”—would give the company an edge. After all, an organization that has had a robust dialogue on how the market might evolve is both more aligned to pursue opportunities and more prepared to see shifts in the basis of competition.

The best strategies result from collaboration across levels—between staff and line managers, for instance, or among line managers, the executive committee, and the strategy department. To get there, companies need to stretch their engagement model in three ways.

**Alter the tone.** Replace the profusion of templates with real, no-holds-barred strategic dialogue. The idea is to focus on the hard questions. At L’Oréal, over the past decade, there was a place at headquarters called the “confrontation room” to which even junior managers were invited to discuss their strategies with the executive committee. This challenging and dynamic process nurtured strategists. After all, most great strategists are mentored, not born or book taught. And it also brought the executive committee a rich and current perspective on market signals.

**Change the rhythm.** Increase the frequency of reviews, but focus on a small number of issues. While the traditional annual three-day off-site seminar still prevails in many corporations, we see a trend toward speeding up the organization’s “body clock” with more frequent, more focused, and shorter business reviews. At Nokia, for example, the process is continuous, enabling frequent reviews of the existing strategy.

**Expand the forums.** Multiply the opportunities to discuss and debate strategy. Strategic conversations should occur at different levels throughout the organization, each with its corresponding format and resources. Involvement of people at multiple levels allows strategies to be better thought through, internalized, and implemented. The primary responsibility for fostering a productive environment for this dialogue falls to the executive committee and the strategy team. Alternative forums to discuss strategic issues are special project teams or standing strategic committees with high-profile staff. For example, ING has chartered teams to explore new territories. (ING Direct was born in this way.) Others have set up permanent strategic committees staffed with high-potential managers from across the organization to study critical strategic issues.

Although no single company in our research was at the forefront on all three “stretching” dimensions, some leading companies are making good progress on one or more. Stretching empowers the organization to shape its destiny through shared strategic aspirations, to enhance preparedness and agility, and, by developing and engaging people, to foster affiliation and enthusiasm.
And the stretching must not stop. If it does, today’s revolution inevitably becomes tomorrow’s routine. And routine is the enemy of the kind of fresh perspective from which strategic insight springs.

Just as athletes cannot predict how a match or a race will turn out, companies in today’s markets cannot fully anticipate the outcome of the competitive battle. But those better trained to capture and shape opportunities have a decisive advantage.

Does your strategy need stretching?

Nicolas Kachaner
Michael S. Deimler

Nicolas Kachaner is a senior partner and managing director in the Paris office of The Boston Consulting Group. Michael S. Deimler is a senior partner and managing director in the firm’s Atlanta office.

You may contact the authors by e-mail at:
kachaner.nicolas@bcg.com
deimler.mike@bcg.com

To receive future publications in electronic form about this topic or others, please visit our subscription Web site at www.bcg.com/subscribe.

All rights reserved. #439  2/08