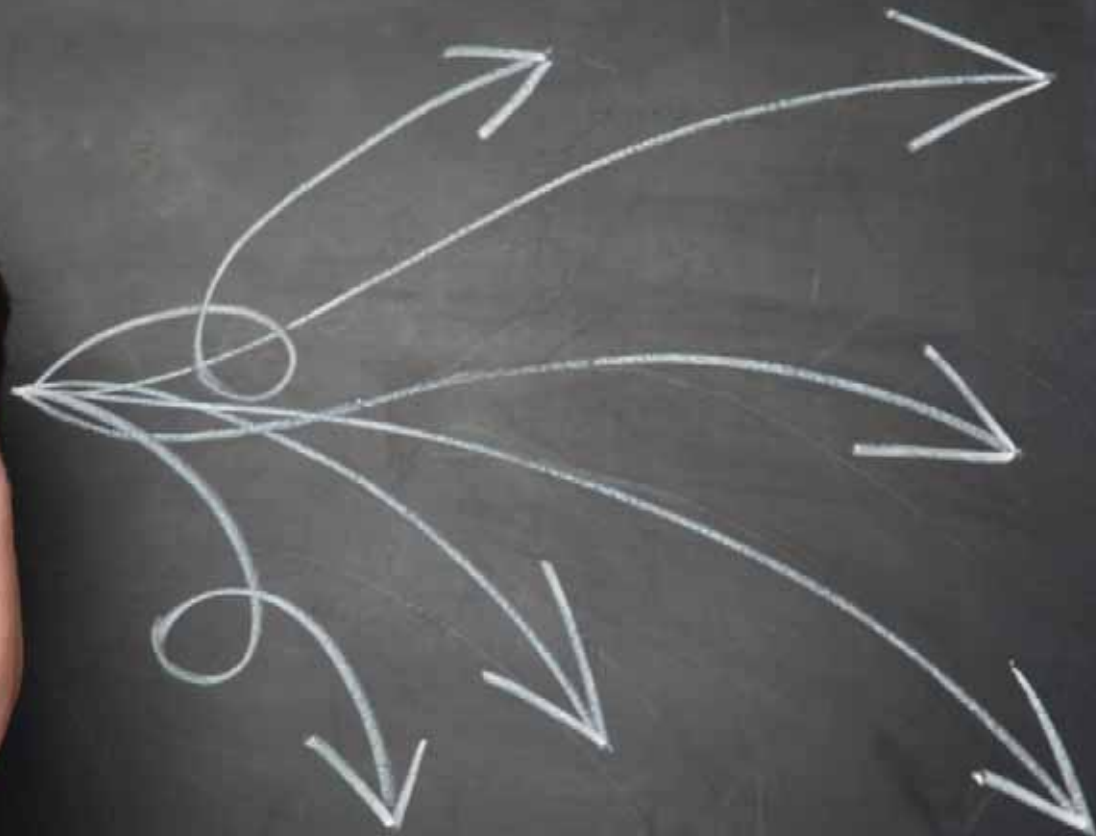


Strategy refresher

You may be facing unprecedented strategic challenges but it's a long time since you were last in a classroom learning about strategy. This taster of Jo Whitehead's recent book *What you need to know about strategy* will help refresh your thinking.

Words Jo Whitehead



You are faced with the task of preparing a strategy. As you brush the dust off your Ashridge folder marked “strategy”, you may well wonder whether the old tools and techniques are still valid. Are Porter’s *Five Forces* still relevant, is *Blue Ocean* thinking a better approach, or is there something totally new in the airport bookshop that might contain just the golden bullet you need to make your business a success? What do you really need to know?

You may be relieved to hear that coming up with a good strategy boils down to answering just six key questions, for which a memorable crib might be E-I-E-I-O! To answer those questions you can use your intuition and the thinking of the people around you – supplemented by a few basic concepts, tools and frameworks – many of which will be familiar.

The Six Key Questions

What is the external Environment?

What is the Internal situation?

How might the situation Evolve?

What is the primary Issue?

What are the Options?

Which Option is best?

What is the external Environment?

The first critical step is to segment your industry. **If you don’t know the industry you are in, it’s impossible to create a sensible strategy.** This involves dividing up an industry into sub-industries, each of which is different on one or more of the following key dimensions:

1. The growth rate
2. The inherent profitability
3. What it takes to win – also described as “sources of competitive advantage”.

Porter’s *Five Forces* can be useful in analysing the inherent profit potential of an industry or segment, perhaps supplemented by a *PESTLE* analysis (political, economic, social, technological, legal and environmental influences) to collect information on broader environmental forces.

What is the Internal situation?

Of course it is important to know both the objectives of the organisation and its capabilities. **But, what is really vital, is viewing them in the context of the external environment.** You must understand the factors contributing to how your organisation creates value for customers and how its capabilities compare with those of your competitors. In other words: “Are you winning?” Often, the real winners are those who create new sources

of value for their customers, as Apple did with the iPod and iPhone, and Google with its search engine – an idea that is central to the popular *Blue Ocean* strategy. In more mature businesses, slogging it out by gaining a cost advantage may still be the key. Strategic thinking has developed from believing that position and market share are the keys to success, to recognition that organisational capabilities in processes, knowledge, culture and leadership also play a significant role. Reading a mix of authors, from Michael Porter to Tom Peters, and Gary Hamel to George Stalk, will give you a rich view of what it takes to win. But, make sure that you don’t rely on any one author!

How might the situation Evolve?

Your strategy will play out in an uncertain future. **It is vital to project how things might evolve and identify the greatest sources of uncertainty.** It is possible to think about uncertainty in a systematic way – for example by considering whether your industry might deconstruct, or by creating alternative scenarios for the future environment. Then, think through which ones need to be addressed by your strategy. In addition to the analysis, there is a need for intuition and creativity. Your strategy should be robust and adaptable enough that it does not automatically fail in the face of

unforeseen events (for example, see Stephen Bungay's article on *The Art of Action*¹.) One of my favourite quotations is Seneca's "Luck is what happens when preparation meets opportunity". Expect the unexpected and make sure you then get lucky! This is one of the great challenges of strategy: you place big bets when you do not fully know the odds.

What is the primary Issue?

Successful strategies tend to result from resolving a difficult issue in a way that is novel and hard for competitors to copy. **Doing so often occurs only after the issue has been reframed several times.** For example, for Honda in the US motorcycle market, the initial issue was how to sell big, fast bikes in competition with US and European competitors. Later, it was redefined as how to develop

the market for small motorbikes – but only after a long period of failing to build market share in the initial target segment.

What are the Options?

Once the issue has been properly defined, options need to be identified. Different views have been taken about how to do this. Chris Zook suggests that the most viable strategy options are often incremental expansions that build on the core business. Edward de Bono holds that new ways of thinking are the best way to generate new ideas and options, whereas Clayton Christensen favours "disruptive" innovations.

Which Option is Best?

Make sure you evaluate the options from multiple perspectives – including strategic and financial attractiveness and feasibility.

You should go round the cycle of framing the issue and generating and evaluating options several times in an iterative way. This cycle – which will probably involve a degree of messiness – might well lead to some options being abandoned and others emerging, plus a lot of learning as the strategy evolves!

Recent developments

Overall the old frameworks and concepts are still perfectly sound and can be used to answer the six basic strategy questions – albeit with some new twists and ideas. What else, if anything, is new? That depends on when you last updated your views on strategy. Here is my personal view of what else has changed in the last decade. The internet has accelerated the deconstruction and reconstruction of industries, contributing to the emergence

of competition between networks or organisations rather than individual firms. There is more thinking on how to manage the biases that influence strategic decisions. Ashridge Strategic Management Centre has developed parenting strategy, demonstrating how critical is the role of corporate and divisional layers in adding value to the businesses under their control.

Important areas where the answers lie are disputed, murky or emerging include: the merits of cooperation versus "hardball" competition, how to organise to stimulate profitable growth (many different solutions are proposed); the link between strategy and organisation (there is agreement that it is important – but no generally accepted approach to addressing the issue) – and, how to be agile (nice idea – but how to do it in a cost effective fashion?)



The strategy process

Many experienced directors and managers will be inclined to come up with answers to the questions very quickly, their strategic analysis having become fused with “gut feel” based on experience and industry knowledge. That’s not wrong, but just two warnings might be helpful here.

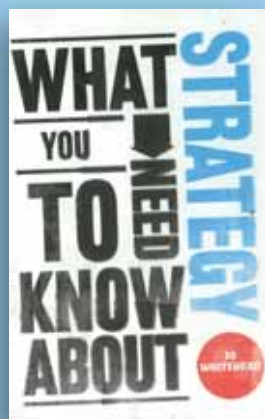
First, differentiate between what you really know and what you are not so sure of. Thinking of a “T” approach might be useful: the stuff you know might be represented by the horizontal bar – needing to be checked with only some relatively shallow analysis. However, you must be prepared to do a “deep dive”, as represented by the vertical bar – drilling down where you are unsure, in order to gain the extra knowledge you need. Beware of wrongly held assumptions: some challenge might result in a deep dive into areas you now realise you didn’t really know well after all!

Second, be aware that good leaders can make bad decisions.

Irrational thinking, bias, poor judgment and self-interest can creep into the strategy decision making process, even with the best intentions. These are best avoided by bringing in the right processes and people that will provide a system of checks and balances. A well-designed process should include safeguards of data and analysis, debate and challenge, governance and monitoring. These will enable greater objectivity and ring alarm bells if things aren’t working (See the article on *Think Again*² for more ideas).

The process also needs to ensure that those with valuable insights and those who will have to implement the strategy are emotionally involved, through collaborative engagement. You can read how over two thousand people worldwide across the Cochrane Foundation were engaged in the development of its strategy, in Ashridge Consulting’s *Converse* magazine³. The more people involved, the greater the diversity and innovative thinking. It is also likely that an organisation across which there has been real collaborative engagement, is better able to respond effectively when the unexpected strikes. More people thinking strategically, more of the time, will really enhance the strategic capability of the organisation. **After all, strategy is not rocket science: it’s just being able to answer six questions!**

To comment on this article, or find out more about strategy programmes at Ashridge, contact jo.whitehead@ashridge.org.uk



Jo’s most recent book was published earlier this year, and is available from the Ashridge bookshop.

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Jo Whitehead is director of several of Ashridge Strategic Management Centre’s executive development programmes, including *Strategy Tools*, *Strategy and Finance* and *Strategic Decisions*.