

Understanding Strategy ©



Why is “Strategy” Important?



- Rapid changes to the business landscape
- Rapid changes to the talent landscape
- Rapid changes to the client landscape
- Rapid changes to the economic landscape
- Complex organization structures
- Rapid globalization
- New regulations
- Struggle to be creative
- Imperative to innovate

“Strategy” – One View

“Strategy is the *direction* and *scope* of an organisation over the *long-term*: which achieves *advantage* for the organisation through its configuration of *resources* within a challenging *environment*, to meet the needs of *markets* and to fulfil *stakeholder* expectations.”

Johnson, Gerry and Scholes, Kevan. Exploring Corporate Strategy: Text and Cases. New York: Financial Times/Prentice Hall, 2006.



“Strategy” - Another View



The word "strategy" has been used implicitly in different ways even if it has traditionally been defined in only one.

Explicit recognition of multiple definitions can help people to manoeuvre through this difficult field. Professor Henry Mintzberg, of McGill University provides five definitions of strategy:

- as a Plan
- as a Ploy
- as a Pattern
- as a Position
- as a Perspective

Henry Mintzberg, "Five Ps for Strategy" in [The Strategy Process](#), pp 12-19, H Mintzberg and JB Quinn eds., 1992, Prentice-Hall International Editions, Englewood Cliffs NJ.

“The 5 Ps of Strategy”

Strategy as a Plan

Some sort of **consciously intended course of action**, a guideline (or set of guidelines) to deal with a situation. By this definition strategies have two essential characteristics: they are made in advance of the actions to which they apply, and they are developed consciously and purposefully.

Strategy As a Ploy

As a plan, a strategy can be a ploy too, really just a **specific manoeuvre** intended to outwit an opponent or competitor.

“The 5 Ps of Strategy” (cont’d)

Strategy as a Pattern

If strategies can be intended (whether as general plans or specific ploys), they can also be realized. In other words, defining strategy as a plan is not sufficient; we also need a definition that encompasses the resulting behaviour: Strategy is a pattern - specifically, a pattern in a stream of actions. **Strategy is consistency in behaviour**, whether or not intended. The definitions of strategy as a plan and a pattern can be quite independent of one another: plans may go unrealized, while patterns may appear without preconception.

Plans are intended strategy, whereas patterns are realized strategy; from this we can distinguish **deliberate strategies**, where intentions that existed previously were realized, and **emergent strategies** where patterns developed in the absence of intentions, or despite them.

“The 5 Ps of Strategy” (cont’d)

Strategy as a Position

Specifically a means of locating an organization in an "environment." By this definition **strategy becomes the mediating force**, or "match," between organization and environment; that is, between the internal and the external context.

Strategy as a Perspective

Its content consists not just of a chosen position, but of an ingrained way of perceiving the world. Strategy in this respect is to the organization what personality is to the individual. What is of key importance is that strategy is a perspective shared by members of an organization, through their intentions and/or by their actions. In effect, when we talk of strategy in this context, we are entering the **realm of the collective mind - individuals united by common thinking and/or behaviour.**

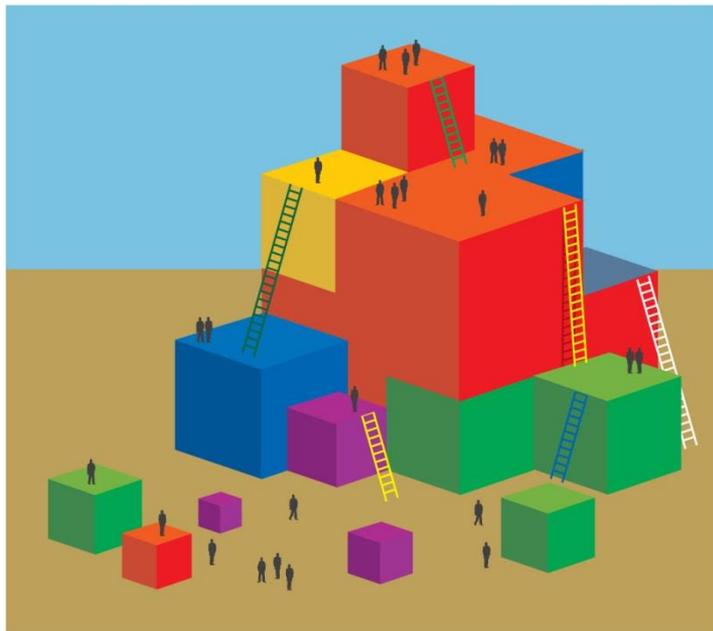
The Nature of Strategy

- A continuous, adaptable, often deliberate yet sometimes emerging process.
- It is about “choices” which affect outcomes.
- Dependant upon rapid and effective decision making.
- Requires a clear link to organization vision and purpose.
- Subject to interpretation and requires regular communication, alignment and updating.
- Requires strategy leaders with seasoned and diverse business experience, as well as a reach and an influence across and beyond the entire organization.

Breene, R. Timothy, Nunes, Paul F., and Shill, Walter E. “The Chief Strategy Officer.” Harvard Business Review. October 2007.

Role of the Strategy Leaders

Building and Sustaining a Dynamic, Balanced, & Integrated Leadership Practice



- Create shared alignment, such that all employees understand the details and how their work contributes to the bigger picture. Tell the strategy story so that people “get it” and “buy into it.”
- Balance strategy formulation with execution, placing the emphasis on the latter... The primary focus almost always quickly evolves to driving the ensuing change effort.

Breene, R. Timothy, Nunes, Paul F., and Shill, Walter E. “The Chief Strategy Officer.” *Harvard Business Review*. October 2007.

Role of the Strategy Leaders

Building and Sustaining a Dynamic, Balanced, & Integrated Leadership Practice

- Drive decision-making that sustains organizational change... Continually reinforce the strategy and bring focus and discipline to the decision process.
- Challenge the thinking and raise for discussion the “elephants on the table” no one else wants to touch, so that these issues no longer serve as barriers to agreement and action.



Breene, R. Timothy, Nunes, Paul F., and Shill, Walter E. “The Chief Strategy Officer.” Harvard Business Review. October 2007.

Role of the Strategy Leaders

Building and Sustaining a Dynamic, Balanced, & Integrated Leadership Practice



- Pay proper attention to the various time horizons: short, medium, and longer term.
- Exert influence appropriately: through direct authority, the implicit support of the senior leader, the explicit support of the senior leader, moral suasion, influence – all depending upon the circumstances and situation.

Breene, R. Timothy, Nunes, Paul F., and Shill, Walter E. "The Chief Strategy Officer." *Harvard Business Review*. October 2007.

Example 1: Blue Ocean Strategy

- Despite a long-term decline in the circus industry, Cirque du Soleil profitably increased revenue twenty-two-fold over the last 10 years by reinventing the circus.
- Rather than competing within the confines of the existing industry or trying to steal customers from rivals, Cirque developed uncontested market space that made the competition irrelevant.
- Cirque created what the authors call a blue ocean--a previously unknown market space. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid.

Kim, W. Chan and Mauborgne, Renee. 2005. Blue Ocean Strategy: How to create uncontested market space and make the competition irrelevant. Boston: Harvard Business School Press.



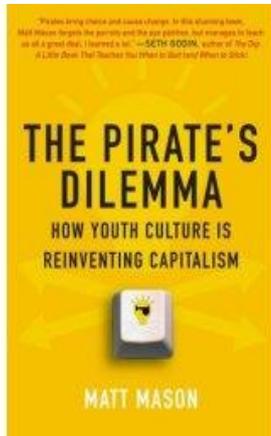
Example 2: “Wicked” Problem Strategy



- Defined as problems that cannot be definitively resolved: poverty and terrorism are classic examples.
- They have innumerable causes, morph constantly, and have no correct answer; however, can be tamed with the right approach.
- Traditional linear processes--identifying the issue, gathering data, studying all the options, choosing one strategy--don't work with wicked problems.
- It is impossible to tell which options for resolution are appropriate, so, executives should stop analyzing them and start experimenting with actions.

Camillus, John C. "Strategy as a Wicked Problem," in the Harvard Business Review, Article Number R0805G, May 1, 2008

Example 3: The Pirate's Dilemma



- We all know the system doesn't work quite the way it's supposed to, yet continue to think of this inefficient system we have as “the free market.”
- Pirates upend inefficient systems – they take order and create short-term chaos, but often the long-term result of piracy on a large scale is a better system - a more efficient way of doing things.
- Can't shut down progress: Disney/CBS – Grey's Anatomy & Lost availability
- New technologies: Scrabulous on Facebook
- Third World Drug Availability Protests here: Novartis & their new leukemia drug in Thailand

An Interview with Matt Mason in the Toronto Star, Saturday May 24, 2008: “If you can't beat 'em, just ape 'em.” Based on Mason, Matt. The Pirates Dilemma: How Youth Culture is Reinventing Capitalism. New York: Free Press, A Division of Simon & Schuster.

Hidden Flaws in Strategy:

Insights from Behavioural Economics

- **Overconfidence** – Our brains are programmed to make us feel overconfident, so we need to test strategies under a much wider range of scenarios, add 20-25% more downside to the most pessimistic scenario, build more flexibility and options in strategy, and be skeptical of strategies premised on certainty.
- **Mental Accounting** – is the inclination to categorize money differently and scrutinize expenditures depending on where it comes from, where it is kept, and how it is spent. So, we need to make sure that all investments are judged on consistent criteria, and be wary of spending that has been reclassified to make it acceptable.

Roxburgh, Charles. 2003. Hidden Flaws in strategy: Can insights from behavioural economics explain why good executives back bad strategies? London: McKinsey & Company.

Hidden Flaws in Strategy:

Insights from Behavioural Economics

- **The status quo bias, the aversion to loss and the endowment effect** - People (a) have a tendency to leave things as they are, (b) are more concerned with the risk of loss than they are with the prospect of gain, and (c) have a strong desire to hang on to what they have – all of which contribute to poor strategy decisions. So, we need to distinguish between what is genuinely the right course and one that is deceptively safe because of an innate bias.
- **Anchoring** – Present the brain with a number and then ask it to make an estimate of something related or unrelated and it will anchor its estimate on that first number. For example, in sales negotiations, naming a high sale price can help secure an attractive outcome, as the buyer's offer will be anchored around that figure. So, we need to remain unswayed by anchoring tactics and take a much longer historical perspective, say 25 years versus 3 years.

Hidden Flaws in Strategy:

Insights from Behavioural Economics

- **The sunk-cost effect** – is known as “throwing good money after bad,” which may be attributed to the loss aversion or anchoring phenomena. So, we need to apply the full rigor of investment analysis to incremental investments, looking only at the incremental prospective costs and revenues, be prepared to cancel strategic experiments early, and use gated funding for strategic investments.
- **The herding instinct** – The desire to conform to the behaviour and opinions of others is a fundamental human trait and accepted principle of psychology. While some actions may be necessary to match competition, usually the best strategies break away from the trend. So, we need to look to the periphery for innovative ideas as well as outside one’s own industry.

Roxburgh, Charles. 2003. Hidden Flaws in strategy: Can insights from behavioural economics explain why good executives back bad strategies? London: McKinsey & Company.

Hidden Flaws in Strategy:

Insights from Behavioural Economics

- **Mis-estimating future hedonic states** – People are bad at estimating how much pleasure and pain they will feel if their circumstances change dramatically. People tend to adjust quickly and their level of pleasure ends up, broadly, where it was before. Research has shown that their lives are typically neither as bad nor as good as they had expected when people undergo major changes in circumstances. This is often the case with takeovers or with the loss of independence. So, we need to adopt a dispassionate and unemotional view (difficult when there is longevity, loyalty and personal stake involved), as well as keep things in perspective.

Roxburgh, Charles. 2003. Hidden Flaws in strategy: Can insights from behavioural economics explain why good executives back bad strategies? London: McKinsey & Company.

Hidden Flaws in Strategy:

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- **False consensus** – People tend to overestimate the extent to which others share their views, beliefs, and experiences because we tend to seek out opinions and facts that support our own beliefs and hypotheses (confirmation bias), we have a habit of remembering only facts and experiences that reinforce our assumptions (selective recall), quickly accept evidence that supports our view while subjecting contradictory evidence to rigorous evaluation and usually rejection (biased evaluation), and the pressure to agree with others in team-based cultures (groupthink). So, we need to create and sustain a culture of challenge (value open and constructive criticism), ensure that strong checks and balances control dominant or domineering individual leaders, and ask for both a validation of a strategy as well as a detailed refutation by establishing a ‘challenger team’ to identify flaws in the strategy being proposed.

Roxburgh, Charles. 2003. Hidden Flaws in strategy: Can insights from behavioural economics explain why good executives back bad strategies? London: McKinsey & Company.