

DOES STRATEGY REALLY MATTER ANYMORE?¹

The golden era of long range planning has long since vanished into the mists of time. Yet few companies worth their reputation these days are without a strategy document filled with numbers which purport to describe a (sometimes remarkably) distant future. The paradox continues to challenge and confuse even the brightest boardroom brains. Has the recent dot-com episode, and have the terrible events of September 11th, somehow changed the rules of the game? Is the idea of strategy founded on an illusion of rationality and the possibilities of control? Is there a geographical context to strategy making that somehow informs those who do business in Europe? Are 'visions' and 'missions' now more appropriate ways of thinking about corporate navigation? These and other questions were addressed in European Business Forum Winter 2001/2002 debate, "Does strategy really matter anymore?" This is a summary of some of the key themes.

What is strategy?

In his opening essay Valter Lazzari, an associate editor of EBF and Professor of Banking and Finance at the Università Commerciale Luigi Bocconi (CEMS member school) and Università Cattaneo LIUC, Italy, contrasts the 'emergent' school led by Henry Mintzberg and the 'rationalist' school (ex ante long term strategic planning) championed by Igor Ansoff and Peter Drucker. On the whole Lazzari sides with Mintzberg, having shown the pitfalls of translating strategic concepts as understood by individuals and armies into a corporate context.

For Lazzari the firm is "a nexus of contracts among different stakeholders" with strategy the form taken by the subset of contracts in the nexus that are not legally binding. "The self-enforcing feature of the implicit contracts that define the strategy of the company is highly sensitive to changes in the environment and to shifts in uncertainty. As time goes by, old uncertainty is resolved and new uncertainty arises. As soon as an implicit contract collapses, a new round of strategic negotiations between stakeholders has to take place whose outcome is a new nexus of implicit contracts shaping the new strategy of the firm."

The proper justification for a formal process of strategic planning and for an established corporate vision lies in the recognition that the nexus of contracts defining a company is necessarily incomplete. It is impossible to define all possible future states of the world and, therefore, to contractualise the behaviour expected of stakeholders. In this context, the writing of a strategic plan and the affirmation of a corporate vision (strategic intent) can serve as focal points for implicit contracting among those stakeholders, or even for reaching simple decisions.

Why improvisation and ambiguity matter

The idea of 'emergent' strategy is pursued by Rosabeth Moss Kanter, a professor at Harvard Business School. Based on the experiences of companies interviewed in a recent research project (including Williams-Sonoma, Sun Microsystems and Reuters) she promotes the 'improvisational' model, named after the techniques of improvisational theatre and to be distinguished from the 'scripted' model of traditional planning (akin to traditional theatre). The improvisational model does not rely on a full script, brings in the audience, and trusts the actors to be unpredictable to produce innovation. Improvisers invent strategy by exploring new possibilities they create as they interact with their audience. Speedy response is more important than early perfection.

Traditional strategic planning and resource allocation works well in areas of high certainty. But in areas of uncertainty - when models are not yet clear, the competitive environment is

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changing, and disruptive events and technologies pose new challenges - project by project improvisation makes it possible to reinvent the organisation constantly, without the trauma of revolutionary upheaval. Leaders still need to establish themes, set goals, identify priorities, and assess results, seeding new projects and weeding others. But instead of relying on the script, they empower the actors to invent productive responses to changing circumstances.

Do the best strategies result from 'act-learn' sequences or 'analyse-plan-act' sequences?, asks Andrew Campbell, Director of Ashridge Strategic Management Centre in an echo of the Mintzberg/Ansoff debate and in response to Moss Kanter. The answer, he says, is both. Low-cost Ryanair clearly started out with a strategy different to that of British Airways. In fact, British Airways later launched its own unit (Go!) by adopting a similar strategy to that of the Irish-owned airline. So strategy can come first. Undoubtedly Ryanair has learnt and refined its strategy - it has engaged in 'act-learn' sequences as well.

The idea of ambiguity, meanwhile, is advanced by Ivor Kenny, a Dublin based director of several international companies. "Few things are black and white, clear-cut, either/or, so that we have to manage in a way that accepts the existence of contradictory phenomena without trying to resolve them," he writes. Kenny cites Michael Smurfit, head of the Irish Jefferson Smurfit Group as describing his strategy as: "logical opportunism." Logic (thought) and opportunism (action) are not opposites. We need the 'Let's go!' of leadership. We also need the 'Hold on a minute' of cool advice. Just as we need both patience and impatience. Ambiguity (ambi - both ways; agere - to drive) has two important things to offer managers. First, it is useful in thinking about how we communicate with others. Second, it provides a way of legitimising the loose rein that a manager permits in situations where agreement needs time, or where further insight is needed before decisive action can be taken.

Why the (European) context matters

Strategy - the longer-term decisions a company makes about what customer it needs to target, what value to offer, and what activities to perform - is a universal concept. But the decisions made to choose specific strategies are significantly shaped by the context they are made in, argues Christian Ketels, principal associate at the Institute for Strategy and Competitiveness, Harvard Business School.

The heterogeneous context European companies face has a very direct impact on industry structures. In many industries from retail to telecom, European industry structures vary more widely than those in the US for example. This is often seen as a disadvantage because it limits economies of scale and raises costs. But it actually can be a source of unique competitive strength. Where US companies fall into the trap of all imitating the 'winning' positioning in an industry, European companies are more likely to have different positionings adapted to their contextual background.

When markets globalise and the suppliers in Asia serve both European and US companies, the uniqueness of a local context is one of the few differentiators remaining to support a strategic positioning. Managers need to think about how to capitalise on this uniqueness and develop it further.

Why strategists matter

We need strategy but even more, argues Richard Whittington, University Reader in Strategy at the Said Business School, Oxford, we need good strategists. Strategies have to be reassessed all the time and built closer and closer to the roots of the organisation. Strategy isn't somebody else's business anymore.

More people are strategising, more often, but how do they learn? Early findings from the Skills, Knowledge and Organisational Performance (SKOPE) programme of the UK's Economic and Social Research Council show that directors sometimes formulate their strategy in unconventional settings and often emphasise 'gut instinct' and the semi-conscious learning acquired simply by going through the routine of a successful career (albeit acknowledging

formal learning as essential); that while strategising often looks intuitive and informal decisions often reflect the use of formal tools; that strategy is about persuasion, credibility and self confidence as well as simple technical analysis; and that boardroom colleagues are widely seen by some directors as a barrier to effective strategising.

Learning to strategise isn't easy. It involves personal growth on the part of individuals, collective learning on the part of management teams. But by combining the formal with the informal, the person with the group, businesses can grow their most fundamental competitive resource: the capability of their people to strategise.

Alistair Fulton, Head of Strategy for BT Cellnet, the UK business of mmO2 plc recently demerged from BT, agrees that everyone can be a strategist.

Many companies choose to ignore this fact, and 'outsource' the development of strategy to the 'strategy department', at least one of which you can find in most larger companies. Sometimes termed 'strategy', or 'planning' or even something more exotic like 'futuresology', the traditional role for these units is to 'develop the strategy', usually in close conjunction with the board or CEO, helping the organisation both make choices but also to create the all important shared vision.

This approach has been and continues to be very effective for many companies, allowing as it does a high level of focus on the definition of mid to long range planning. In faster moving and less predictable environments this approach can slow an organisation's speed of response and limit flexibility, denying as it does the need for often quite junior decision makers to make big choices about the future.

Why strategy matters in a recession

Companies are prone to make mistakes, and by doing so they unwittingly erode their competitive positions, in the process of addressing the slowdown, argues Harvard Professor and leading academic thinker Michael Porter. He outlines four things they should do:

- Create a positive agenda. Don't just deal with current problems. Downturns and uncertainty unfreeze market positions and create opportunities to acquire cheap assets.
- Refocus on strategy. Periods of robust economic growth, such as the one we experienced in the 1990s, tend to work against strategy. Companies lose focus and chase trends (for example, the internet), and become preoccupied with top-line revenue growth. This is the moment to rediscover strategy, and an opportunity to scrape off the barnacles acquired during the last expansion. Strategy is about aligning every activity to create an offering that cannot easily be emulated by competitors. Now is the time for companies to be honest about where they have, or could have, real competitive advantages, and reallocate resources accordingly.
- Do not over-react to current industry conditions. In a period of contraction and severe financial pressures, there is a tendency to misinterpret a cyclical change as a structural change. The challenge is to have the confidence to look to the next upturn and position the company accordingly.
- Restore the integrity of financial goals and reporting. Financial reporting considerations have come to drive strategy, while obscuring true profitability and the actual amount of capital invested in the business.

Porter's remarks are echoed in the contribution of Baron Paul Buysse, Chairman of the Board of Belgian-based Bekaert. In tough times the strategy gives a clear vision on how to deal with the on-going businesses but also the unique and unforeseen opportunities that always emerge in a recessionary environment, he writes. "Psychologically business leaders are intellectually more flexible for joint-ventures, divestments or any other operational decisions that could temporarily weaken the impact of recession and reshape an industry for future growth."

Why strategy matters to shareholders

Strategy matters because it matters to the owners of the company, says Brett Savill, a PricewaterhouseCoopers' Partner based in the Netherlands. From a valuation perspective, share prices reflect first, the present value of future cash flows from assets in place and secondly, growth prospects. Strategy may be seen as another definition of growth prospects; a well-articulated strategy implies a well prepared management who, by implication, ought to be able to cope better with changing circumstances. Companies compete in two markets, one for their goods and services and one for capital. The over-riding objective is to maximise value (the second market), notwithstanding that the vast majority of resources are spent on the first. Top performing companies therefore look to the capital markets as a valuable source of information on progress and long-term direction. They do not see it as a distraction from daily concerns. Companies such as BP, AOL and Vodafone have all demonstrated this.

Why strategy matters after the 'dot com' rush

Was it the industry per se, or a poor understanding of competitive advantage within that industry, that was responsible for the ills of internet businesses? According to Gabriel Hawawini, dean of Insead, and Professor Paul Verdin and Venkat Subramanian of Solvay Business managers should heed the following lessons from recent experience:

- An industry can fast become unattractive if entry barriers are low. The belief that some industries are 'good' and others 'bad' lay at the root of many troubles. Traditional industry analysis predicts that an industry with low entry and exit barriers would normally be considered unattractive, contrary to the assumptions held by many 'new' economy managers.
- Even if barriers to entry are low, new entrants may have to overcome high barriers to survival. The advantage held by 'old' economy incumbents over their 'new' counterparts can be attributed to the years they had spent accumulating the strategic assets: brands, distribution skills, product development, working capital management etc which have become the bases of competition. By comparison, innovation and first mover advantage were relatively superficial qualities.
- Do not blame the industry. Investigation by the authors of profit distribution across more than 50 industries in the US over ten years reveals that industry factors only accounted for about 5 per cent of the value creation differentials found across firms. The same phenomenon can be found in most major European countries.
- Value leaders exist in all types of industries. The authors' research indicates that to create shareholder value one does not need to operate in an 'attractive' industry such as the internet or 'high-tech' category. 'New' economy managers, in their enthusiasm for a new technology, their product or their industry, often forgot that they were creating value for customers (and shareholders, of course).

Do companies with formal strategies perform better?

Do managers who use desire-based planning under-perform those who don't? The evidence, so far as Ashridge's Andrew Campbell is aware, is not wholly convincing in favour of strategy. "My personal experience has thrown up many cases of managers with all the strategic tools but poor strategies and others with no strategic awareness and brilliant success. Some academic research has been done on whether companies with formal planning processes outperform those without. It shows some favourable correlation, but does not tell us whether successful companies engage in formal planning because they can afford to or whether formal planning leads to success."

Strategy and crisis

"We should not be surprised to hear that corporate strategies are often wrong or misaligned, at odds with the very missions they are meant to execute", says Philip Blake, Executive Vice President and General Manager, Healthcare Division, Bayer Inc in a fascinating personal reflection on the recent Baycol saga (when the company voluntarily withdrew its cholesterol-

lowering medicine Baycol/Lipobay from world markets). "However, the reason for this is not managerial incompetence, but rather constantly changing circumstances."

Strategies are like balance sheets, he says, meant to capture the image and intentions of a corporation at a precise moment in time. When the strategic landscape changes, which it does ceaselessly, strategies have to change in tandem to meet a new set of often radically different market realities, whether they're brought on by a new tax ruling, a new marketing opportunity, or the events of September 11th. So the issue is not: 'How can we get the right strategy?' because that is, by definition, an impossible task, given that all strategies are ephemeral. Rather, we should be asking: 'How do we evolve our strategies to suit our new state of affairs?' Or more usefully: 'How do we maintain momentum when our strategies change - or fail?'

Strategy, he concludes, has been called many things, including 'knowing where you're going', with tactics assuming the role of 'getting there.' This common assumption is a mistake, and one that many organisations and their strategists consistently make at their peril. Knowing where you're going, knowing what business you're in and what values you hold are the important things - all of these surely speak to a company's vision with strategy being the means of getting there. The risks and potholes involved in any journey these days - something we know more about than we did before - means it is more important than ever that strategies be free to change but that the vision remains the same.

The above summary provides an insight into EBF issue 8's debate; 'Does strategy really matter anymore?' To read the debate in full visit www.ebfonline.com.

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