Introduction to Strategy in Practice

*It is important to remember that no one has ever seen a strategy or touched one; every strategy is an invention, a figment of someone’s imagination.*

—Henry Mintzberg

**IN THIS INTRODUCTORY CHAPTER, WE:**

- define and explore fundamental notions related to strategy and the practice of strategy;
- review and frame key problems and issues contributing to the ongoing dilemma managers face with strategy;
- reflect on the centrality of value creation, delivery, and capture to strategy;
- introduce strategic thinking and the strategic thinking process in the context of strategy in the practice field;
• reflect critically on the differences between strategic thinking and strategic planning; particularly from the perspective of their relevance to strategy practice;
• introduce the strategy roadmap, and use it to briefly introduce and outline the subsequent chapters of this book;
• close with some caveats and useful pointers on strategy in practice.

Strategy: A Persistent Dilemma

Strategy – is it really a figment of someone’s imagination? One would hardly come to that conclusion judging by the popularity of the word in the business media. Scarcely any business word is invoked more frequently and with greater fervor. Business leaders take great pride in referring to “their strategy.” A simple search for the word “strategy” in the Financial Times online (FT.com) for the 12-month period of 2014 results in 6,506 hits. The term is being used; in fact, it is being used a lot.

Yet many business leaders have difficulty articulating their strategy. Ask a business leader to explain their organization’s strategy in simple terms and how it sets them apart from their competitors. More often than not, this simple question elicits an evasive response. Ignorance of the firm’s strategy extends down through the ranks; recent research reports that only 55% of middle managers surveyed can name even one of their firm’s top five strategic priorities.1 Simply put, this means that when managers are given the task of explaining strategy to their subordinates, almost half fail to get it right. It doesn’t end there; not only are strategic objectives poorly understood, they often appear disconnected from the firm’s overall business strategy. The sobering reality is that most business leaders cannot articulate their organization’s strategy in a simple, compelling way.
Many boards fail as well in providing appropriate strategic guidance to their companies. A recent survey of non-executive directors indicated that merely 34% of those polled believed that boards on which they served fully understood their companies’ strategies. Just 22% were of the opinion that their boards really understood how their firms created value and only 16% affirmed that the boards on which they served had a good understanding of the dynamics of their firms’ industries.\(^2\)

This is worrisome when considering that these are the people who are responsible for the strategic course of their company. Although business leaders often see themselves as the architects of their organization’s strategy, many rather quickly lose sight of the wood for the trees when it comes to strategy. Many are quickly baffled, if not by the jargon then by not knowing how to approach strategy in the first place. Surely, this cannot be for lack of “cutting edge” management thinking. Time and again, authors of best-selling business books, their publishers, and the media would have us believe that the holy grail of strategy – the strategy theory to put all previous ones to rest – has finally been found. And indeed, a number of useful advances in strategic thinking have been made over the years. The fundamental problems facing managers today, however, are related to putting that strategy to work in the field of practice.

Yet, even strategy scholars are still grappling with the notion of strategy. As a concept, strategy still suffers from a lack of precision in its definition. A number of significant gaps in the strategic management literature have left the discipline with a high degree of ambiguity, despite its popularity as a scholarly field of study. Rondo-Pupo and Guerras-Martin\(^3\) in their recent study note the following reasons for this:

1. A paucity of knowledge regarding the evolution of the definition of the evolution of the strategy concept in the field of strategic management;
2. A lack of consensus among scholars leading to significant diversity and ambiguity in definitions of the strategy concept;
3. Ambiguity in terms of the constituent elements of the strategy concept;
4. A lack of analysis and understanding regarding the structural evolution of the strategy concept; and
5. A lack of sufficient evidence supporting the understanding of the evolution of the strategy concept, and its influence on the field of strategic management.

Opposing views, on the other hand, have argued for the need to retain an element of conceptual diversity regarding the definition of the strategy concept. For example, Mintzberg⁴ has argued that “...the field of strategic management cannot afford to rely on a single definition of strategy...explicit recognition of multiple definitions can help practitioners and researchers alike to maneuver through this difficult field...”

And so, the debate continues.

What then is “Strategy”?

In view of the proliferation of management publishing on the topic, it would seem reasonable to assume that we might at least begin with a clear and consistent definition of the notion of strategy. As has been argued in the previous section, however, this is not the case. Strategy has been defined in many different ways and it is still evolving as a concept. Early definitions of business strategy strongly imply deliberate planning and action, such as Chandler’s (1962) classic definition:

*The determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.*⁵
A more recent definition of strategy proposed by Rondo-Pupo and Guerras-Martin\(^3\) introduces the notion of responsiveness on the part of the firm to developments in its environment:

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\ldots \text{the dynamics of the firm’s relation with its environment for which the necessary actions are taken to achieve its goals and/or to increase performance by means of the rational use of resources.}
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This definition, while an improvement on earlier definitions, still lacks clarity regarding purpose of the goals. The rational use of the firm’s resources in response to opportunities and/or threats in its environment is no doubt important, but no end in itself. Rather, the purpose of any activity on the part of the firm is to fulfill its obligations to its stakeholders through the creation, delivery, and capture of value. Indeed, we argue in this book that the firm’s very purpose for being revolves around its value obligations to its stakeholders. The form of that value created and delivered may range from explicit, readily measurable expressions of value to highly intangible, and difficult to measure forms of value. Indeed, the latter form of value is becoming increasingly important; many value offerings today encompass both tangible and intangible components. As a case in point, consider a typical purchase transaction across the counter at a Starbucks coffee shop: no doubt the actual cup of coffee served over the counter has attributes of “measurable” value, the least of which would be the price paid for the beverage. However, according to Starbucks’ CEO Howard Schultz the overall “experience” perceived by the customer in the course of the transaction is of primary importance. Attributes of that “experience” encompass a complex amalgamation of numerous tangible and intangible attributes of value delivery associated with the Starbucks visit. These might include the friendliness of the barista preparing and serving the coffee across the counter, the ambience of the store setting, and the impression of cleanliness of the tables and chairs. In Schultz’s view these intangible factors, more than the actual cup of coffee, reflect the real value delivered by Starbucks.
**Centrality of the “Value” Notion in Strategy**

The notion of *value* is indeed a central theme in strategy. In the broadest sense of the word, firms compete on the basis of value. This may relate to the value intrinsic to the firm’s basis of competitiveness (such as might be reflected in the uniqueness and superiority of their resource base) as much as it might relate to the value the firm succeeds in creating (for example, by virtue of its superior resource position) and delivering to their stakeholders. In fact, one might argue that the creation of value constitutes the very purpose of an organization’s *raison d’être*, regardless of whether the organization is driven by the profit motive or whether it is a non-profit organization.

However, in a competitive sense, the objective is not simply the creation of *any* value; rather, firms compete on the basis of the *differentiated* value they achieve in creating and capturing. Strategy is therefore ultimately about creating value that is *different* – ideally this difference relates to the *uniqueness* and *superiority* of the value offering at stake. The *value premium* is a measure of that differentiation; it reflects the degree to which a firm succeeds in achieving competitive advantage on the basis of the uniqueness and superiority of its (thereby differentiated) value offering.

However, firms do not create value simply for its own sake. Rather, firms create value in response to stakeholders’ needs and expectations. Stakeholders may vary and their needs and expectations might diverge considerably. Therefore, strategy is also about identifying and prioritizing needs and expectations and aligning the firm’s efforts on those to be fulfilled. Good strategy is focused; it is as much about where and on whom the firm will focus its value creating efforts as it is about where and on whom it will not.

While much of the focus is on value *creation*, value *capture* is, in fact, equally critical for firms’ competitiveness and sustainability. *Value capture* refers to the appropriation of the value *created*; the
difference between value created and value captured is referred to as value slippage. Organizations do not always capture the full benefit of the value they create. Other organizations or parties may benefit more from the value created than its creating organization. Numerous industries are currently struggling with the issue of value slippage. The music and creative industries sector is a case in point. Ease of accessibility and growing consumer demand for free online content is resulting in traditional revenues streams to its creators drying up. The so-called freemium pricing model is currently being deployed by some players in those industries to recapture some of the value created. Social media is another area facing the challenge: Facebook, even with its undisputed ability to create value for its 1.3 billion monthly active users, has yet to ultimately prove its capability for capturing sufficient value to justify its colossal market capitalization and price–earnings ratio – if its highly volatile share price is any indication.

While the notions of value creation and capture are in themselves relatively cogent, there is little consensus among scholars as to what, in fact, value is, how it is created and the mechanisms for its capture.

**Box 1.1 The Purpose of the Company: An Old Debate Rekindled**

Intrinsic to the notion of the firm’s strategy is the question probing its purpose for being. The hotly contested debate as to whether the firm’s reason for being is to maximize shareholder value or whether its purpose is to pursue the creation of broader social benefit has been going on for decades. Conservatives, primarily proponents of Anglo-Saxon capitalism and defenders of the shareholder value position, have been facing off against the progressive camp representing broader stakeholder interests. The socio-economic fallout
of the recent recession appeared to have played to the progressives’ favor. The collapse of Lehman Brothers that triggered a global economic crisis epitomized the failures of the shareholder model; prompting even one of its champions, Jack Welch, GE’s former CEO, to remark that pursuing shareholder value as a strategy was “the dumbest idea ever.”

Indeed, the shareholder value model appears to have conceptual as well as practical shortcomings. Despite its proponents’ claims that companies are owned by shareholders, this is, strictly speaking, not true. Publicly traded companies are in fact “legal persons” that own themselves; shareholders simply own entitlements such as the right to dividends and to vote on certain occasions. This is a protective measure that provides shareholders with benefit of limited liability. Claims by creditors can be made only against the firm’s assets rather than against individual shareholders’ assets. Companies thereby also enjoy the freedom of capital “lock-in,” enabling them to pursue long-term projects. Shareholders, however, are typically not a homogeneous group sharing collective goals and objectives; they may include speculative investors interested only in short-term gain to those seeking long-term investment opportunity.

Regulatory measures introduced by governments in the aftermath of the recent recession have resulted in a return to more stakeholder oriented constraints on business. For many progressives, this is not enough. Recently, pundits from the progressive camp have called for legislation that would require firms to declare upon incorporation their intention “to deliver particular goods and services that serve a societal or economic need.” Other calls have been for companies to “articulate their purposes” and for directors to be held accountable for delivery of these. Firms such as Bosch, Carlsberg, Tata, and Bertelsmann owned by foundations have been held up as notable examples. However, all of
these have been experiencing performance issues of one sort or another of late.

Mediating views seeking to reconcile the opposing camps suggest that at the core of a modern company’s success is in fact its ability to achieve the best of both worlds. They point to the fact that most companies, far from being enslaved to their share price, in fact continually engage in a process of negotiation over their strategy and time horizons between investors and themselves. Moreover, it appears that both mature companies such as Shell and Nestlé as well as new-economy companies such as Google, Facebook, and Amazon succeed at this. Neither appears to have difficulty in steering shareholders’ demands for short-term returns in favor of long-term gain. Notably, this appears to be happening in the absence of any lofty declaration of purpose.

This conciliatory reasoning notwithstanding, it does not appear, however, that either of the two camps will concede their stance significantly anytime soon. Recently reported figures indicate the size of the average Wall Street bonus in 2014 to have been $172,860. This is a 2% increase over 2013 and the highest average payout since 2007. Anglo-Saxon capitalism, it would appear, will not be ceding any ground anytime soon.


Deliberate versus Emergent Strategy

Consensus today appears to be forming around definitions of strategy that allow for the fact that strategy has both deliberate as well as unintended elements; that it is often only recognizable as such in retrospect. On the basis of this frame of reference,
Mintzberg suggests thinking of strategy as a stream of actions, the meaning of which often becomes apparent only after their occurrence. Mintzberg also argues for thinking about strategy as a pretext for action positioned somewhere along a continuum that runs from purely deliberate to purely emergent, though in practice neither extreme is ever really encountered despite claims in the management literature suggesting otherwise.

So, rather than trying to nail down an exact definition of what strategy is, it is perhaps more evocative to reflect on what strategy is about.

From its earliest military origins, strategy has always been about gaining the competitive edge. We look back on several thousands of years of military history in which strategy has, in essence, always been about winning.

**Box 1.2 Lord Horatio Nelson: Strategy Lessons from Trafalgar**

In the face of increasing complexity and ambiguity in their business environments companies are finding less space than ever for experimentation with their strategy. Competitive advantage, when gained, is often transient at best. However, while competitive contexts may be complex, the firm’s approach to strategy needn’t be. “Good” strategy needn’t be the exception it mostly is; but it does demand both creativity and courage. We can derive lessons on what constitutes “good” strategy from Lord Horatio Nelson’s winning naval engagement at Trafalgar in the autumn of 1805. At the time, England’s sovereignty was under threat. Napoleon had conquered large parts of Europe and the invasion of England was next on his agenda. Napoleon’s great hurdle was wresting control of the sea away from England in order to cross the Channel. Both sides met in a stand-off near the southwest coast of Spain.
The French/Spanish combined fleet had 33 ships and the English 27. Lord Horatio Nelson commanded the outnumbered English fleet in that fateful naval face-off off the southwest coast of Spain at a point called Cape Trafalgar. Conventional battle strategy of the day dictated that opposing fleets stay in line firing broadsides at each other but Lord Horatio Nelson had another idea. Instead of lining up ships broadside, he broke the English fleet into two columns and drove these perpendicularly into the French/Spanish fleet. The accompanying element of surprise and the superior ability of the English were asymmetries Nelson was banking on.

Nelson’s gamble was that the less-trained French/Spanish gunners would not be able to compensate for the heavy swell that day. The outcome of the Battle of Trafalgar is well known: the French/Spanish lost 22 ships; the English lost none though Nelson himself was mortally wounded. Nelson’s courageous strategy was that, although outnumbered, he risked his lead ships in an unexpected maneuver in order to break the coherence of the enemy ships. As this case nicely illustrates, good strategy is often deceptively simple; it revolves around the three key elements:

1. Grasping a few critical issues in the situation; this demands astute sense making, analysis, and, thereby, identification of potential asymmetries to be exploited.
2. Identifying appropriate pivot points by which the asymmetries identified can multiply the effectiveness of effort.
3. Focusing and concentrating coherent and cohesive action and resources to exploit the advantage offered through the asymmetries.

In practice, contexts and situations, of course, vary considerably. Nonetheless, the learning derived from Nelson’s victory at Trafalgar applies aptly to strategy in a modern business context.
In a modern business context winning involves setting the right direction for an organization through periods of change and securing its competitive well-being over time. By extension, a central research question that has emerged alongside the notion of strategy as winning is focused on why some organizations persistently outperform others. Strategic performance is assessed in terms of the value created and captured by relevant stakeholders. An organization’s competitive well-being rests on its ability to differentiate itself – that is, being different – from its competitors in how it does this. This was the basis of Nelson’s victory. It is equally valid in a modern business context: firms win on the basis of their ability to both differentiate themselves and create and capture superior value.

Indeed, we may extend the lessons learnt from the Nelson example even further to develop a perspective of the strategy process that underpins the series of steps taken to create and deliver value. In reconstructing Nelson’s strategy, we recognize three distinct stages comprising sense making, strategizing, and executing. Viewed in a more generic way, a three-stage iterative strategy process consisting of strategic analysis, strategic option formation, and strategy execution can be derived from these, as suggested in Figure 1.1. In this book, each of the three stages of the strategy process is explored in greater detail.
Strategy is inherently complex. We can nonetheless single out simple components of a good strategy as we have seen earlier in this chapter. The essence of a sound strategy is captured by the following few and deceptively simple questions; these comprise the basic building blocks of strategy:

1. Given our understanding of the external context, our internal basis of competitiveness, and ability to create and deliver a uniquely superior value offering in response to stakeholders’ needs, what is our window of opportunity for creating unique differentiated value – our *unique competing space*? Where will we compete, where not? How is our window of opportunity changing?

2. Who are our stakeholders, recipients of that unique and differentiated value we seek to create, today? Who will they be tomorrow? What do they/will they “need” and demand?

3. What is the competitive economic environment in which we are competing? What are the key drivers of change? How are these changing?

4. What is our internal basis of competitiveness? On the basis of which resources, capabilities, and practices are we competing? How do these provide us with an advantage relative to competitors? How is our competitive basis changing?

5. How do we align and orchestrate our organization’s resources and capabilities to deliver uniquely superior value in response to our customers’ needs; in other words, how do we “get our organizational act together”?

When considered individually, the five building blocks appear to be relatively straightforward. In practice, the
complex nature of strategy is reflected by the fact that the notions intrinsic to the questions are changing at variable rates at any point in time; moreover, they are often inextricably linked in real business contexts.

**Aspirations are Important, but they are not “Strategy”**

When discussing their strategy, business executives often allude to their vision and mission – and erroneously take these to be their strategy. No doubt a firm’s aspirations and guiding principles, often expressed as the firm’s vision and mission, are important. However, neither should be mistaken for a strategy. They are part of a strategy; as we will see in Chapter 5, they address the “why?” question of a firm’s purpose, but not more than that. Aspirations and guiding principles serve to energize and inspire the firm; they may provide a means to mobilize and challenge a firm during critical periods. However, they do not provide the firm with a strategy; they do not address the much more fundamental, and difficult, questions prompted, for example, by the five building blocks of strategy. These, rather than the firm’s aspirations, encompass the real substance of the firm’s strategy – that of making deliberate and decisive choices about where to play and how.

**Why, then, is Strategy so Difficult?**

On the basis of the foregoing, we might be forgiven for thinking that strategy is rather straightforward: simply find responses to the five basic questions outlined in Box 1.2 and the firm’s strategy falls neatly into place. Why, then, do managers struggle with strategy? There appear to be several plausible reasons for this. And, as is often the case in complex contexts, these are not entirely unrelated.

First, strategy is not only about rational analysis. Recent decades that have seen strategy evolve through a number of schools of
thinking have ultimately put to rest the perception that strategy is simply an analytical problem to be solved with left-brain dexterity. Many of the approaches to “strategy” in the past have been shown not to have had much to do with strategy at all. In their place we find a growing number of diametrically opposed perspectives that underscore the paradoxical nature of strategy. Moreover, in messy, real-time strategy making there is no single “right” response. This insight has encouraged thinking and the search for insight “beyond the numbers” in strategy making. It has also given rise to a much more comprehensive understanding of the roles and importance of knowledge, intuition, and the human condition and involvement in strategy. If nothing else, we have come to realize that strategic responses, no matter how seemingly appropriate, always remain shrouded in uncertainty introduced through complex environmental factors and the irrationality of human behavior.

Second, strategy is ultimately a practice discipline – as much as management is intrinsically a practice discipline. Many strategy scholars appear to neglect this. Strategy may start out as a paper exercise, but its ultimate test of validity occurs in the practice field. Practice fields are beset by complexity and ambiguity. In the practice field, we find an additional factor that often stands in the way of good strategy: many managers prefer acting (indeed, this is often a criterion for promotion) over thinking. In many corporate environments it is better to be seen doing something – anything, really – rather than to fall under the suspicion of inactivity (see Box 1.4 “A Bias for Action?”). Mintzberg\(^7\) argues that managers often simply do not have or take the time to think. He points to studies showing that managers dislike reflective activities, and are strongly oriented to action. One particular study of British middle and top managers indicates that they worked without interruption for a half hour or more only about once every two days. Levy\(^8\) points out, though, that deep reflection cannot be hurried and that insights cannot be forced; that both generally require substantial investments of time and sustained attention.
Topping the list of their “eight basic principles to stay on top of the heap” in the bestselling book entitled *In Search of Excellence* by authors Peters and Waterman, we find “A bias for action: a preference for doing something – anything – rather than sending a question through cycles and cycles of analysis. . . .” That advice appears to have resonated well with Percy Barnevik, former CEO of ABB. Barnevik believed in taking decisive action. He is said to have argued that: “1. To take action (and stick one’s neck out) and do the right things is obviously the best behaviour; 2. To take action and do the wrong things is next best (within reason and a limited number of times); 3. Not to take action (and lose opportunities) is the only unacceptable behaviour.” Barnevik elaborated in an interview with the *Financial Times*, asserting that “. . . if you do 50 things, it is enough if 35 go in the right direction; . . . the only thing we cannot accept is people who do nothing.”

This ethos involving action, initiative, and risk-taking characterized ABB’s culture and was often cited as a prime reason for its mercurial ascent in the 1990s. However, it was also at the root of a near-fatal business decision made in that same period. One of the companies acquired by ABB on its global acquisition spree was Combustion Engineering, a Stamford, Connecticut-based, reactor vessel manufacturer. ABB acquired the firm in 1989; unfortunately, though, its due diligence failed to flag Combustion Engineering’s history of using asbestos in its reactor linings. The resulting messy asbestos litigation almost nudged ABB over the brink of bankruptcy in the early 2000s. ABB was able to resolve the asbestos claims in a $1.43 billion settlement agreement only in 2006.
Third, many managers are deeply uncomfortable with having to make strategic decisions under circumstances of incomplete information. There is still a persistent attitude in management circles that decisions need to be backed up with numbers – any numbers, even if these are often largely meaningless and effectively irrelevant to the issue in question. Business environments are complex and ambiguous, invariably non-quantifiable and continually changing. Therefore, only in a relatively few cases are numbers of even marginal significance available. Causality is all too often not apparent and the available information is therefore incomplete and asymmetric. Seldom does the “bigger picture” present itself in a cohesive manner. Yet, despite the lack of factual data, important strategic decisions often cannot wait. Business leaders must make decisions even in the face of inherent uncertainty and risk. That, after all, is their managerial task.

The list of circumstances and factors contributing to the strategy dilemma faced by managers today is long. Hence, we will only mention a final one for the sake of this argument: increasingly dynamic business environments are forcing managers to make decisions ever more quickly and on the run. This throws up a number of dilemmas: how can high-quality decisions be made quickly when critical information is incomplete or missing entirely, analysis is limited to a minimum, and debate and discourse – both necessary elements of good decision making – are suppressed in view of time constraints?

Given these circumstances, how should managers approach strategy in practice? This is the question we seek to address in this book. We propose approaching strategy from the strategic thinking angle. The strategic thinking approach developed in this book is theoretically and conceptually rigorous while allowing for a contribution of intuition to decision making. It is about strategy in practice; it is about strategizing under circumstances of uncertainty and unpredictability.
Ultimately, strategy in practice is about achieving the right balance between relevance and rigor. Relevance, insofar as strategic thinking generates insights of strategic relevance and potential impact; rigor through proper grounding in current strategy theory. The approach to strategy taken in this book is largely consistent with the “strategy as process perspective” – yet without any presumption that strategy can or should be approached in a mechanistic way.

Indeed, the strategy process needs to capture and take into consideration all that is available to the manager – the “soft” insights coupled with collective experience that informs intuition from throughout the organization as well as any relevant “hard” data from analysis of the organization’s external competitive context. Strategy making then involves synthesizing the collective learning through appropriate techniques of sense making and deriving from these insights suitable strategic options. To that end, strategic thinking is a complex process that, in Mintzberg’s words, “. . . involves the most sophisticated, subtle, and at times, subconscious elements of human thinking.”

**STRATEGY IN PRACTICE: POINTS FOR REFLECTION**

- What are the tensions and dilemmas that typically surface when your organization engages in strategy?
- How are uncertainty, ambiguity, and complexity dealt with in your organization?
- How much of the strategic insight in your organization is based on rational analysis (i.e. how much of it is largely numbers driven); how much is based on intuition and “soft” information?
- What role does strategic thinking play in your organization’s strategy process?
Where Does this Leave “Strategic Planning”?

There is general agreement among strategy scholars that *strategic planning* had little if anything to do with strategy at all. When it arrived on the scene in the 1960s, it was embraced by business leaders as *the* way to “make strategy.” At the height of its popularity in the 1970s, corporations employed legions of strategic planners. Since then the realization has hit home that strategic planning really was little more than a controlling exercise that served the purpose of streamlining the rollout of strategies that were already in place. In essence it was about strategy programming and often stood in the way of strategic thinking.

More than that, though, strategic planning represented a managerial mindset that sought the “one right answer” through purely rational analysis based on hard data. Managers seeking comfort in numbers recognized in it a way to mechanistically break a strategic objective down into manageable steps. The probability of the predictable was thought to be thereby maximized, the realization of desirable objectives assured.

Understandably, few business leaders today would be prepared to admit to traditional strategic planning. This doesn’t mean, however, that strategic thinking has taken its place. Strategic thinking is still not a core managerial capability in most companies. In many firms the strategic planning function has been replaced by *corporate development and planning*. These functions, however, do not substitute good strategic thinking.

**Box 1.5 Robert McNamara: The “Enlightened Rationalist”**

Few senior managers have epitomized strategic planning more than the late Robert McNamara (1916–2009), one of the 10 “Whiz Kids” Ford Motor Company hired in 1946 to shake up its business. McNamara was later plucked from
Ford by John F. Kennedy to be US Secretary of Defense. A former Harvard economics professor, he loved numbers. Things that could be counted, McNamara maintained, ought to be counted. He was an iconic planning manager who could use facts, numbers, and analyses to solve any problem, even to wage wars in far-off Vietnam. There were the four McNamara steps to running an organization: first, stating an objective; second, working out how to get there; third, costing out everything; and lastly, systematically monitoring progress against plan. The Vietnam War became widely known as “McNamara’s War.” McNamara didn’t know anything about Vietnam – nor did those around him. But then, the American attitude in that era was that one didn’t have to know the culture or history of a place in order to engage in successful warfare in the respective theater. What was needed was the right data, a proper analysis of the information, and an application of military superiority to win the war. McNamara spearheaded the Pentagon’s effort in Vietnam until 1968. McNamara applied all the right metrics – bombing missions flown, targets hit, captives taken, weapons seized, the enemy’s body-count. Another metric, the American troops’ own body-count, at some point began informing him with equal certainty that America was losing the war. Initially this baffled McNamara. Things began unraveling seriously in 1965. Ordered to win the war, McNamara stepped up his statistical war of attrition by approving ever more troop increases. On the home front, resistance to the war grew. At the height of the conflict he was denounced as a baby-burner; his own son joined in the protest marches against him. As he later admitted in his penitent memoirs, he had learned the hard way that he had not understood the variables of war itself – the most important of which was that numbers capture neither the human condition nor human activity. As McNamara came to realize, hard quantitative data can have a decidedly soft and qualitative underbelly. In the case of the Vietnam War, human factors played a decisive role – the enemy Vietcong
Insight plays a key role in the strategic thinking process. While we explore the notion of insight in greater detail in Chapter 3, suffice it to say here that insight formation involves a complex combination of analysis, intuition, and heuristics. That is not to suggest that all insight is equally relevant or useful to strategic thinking. The key to good strategic thinking lies in knowing what insight to seek and use. Collis and Montgomery\textsuperscript{14} argue that two potentially powerful insights relate to the organization’s capabilities and the competition it faces. Insight on stakeholder needs and how these evolve is also critical. Together, insights such as these help determine where opportunities exist for creating and positioning new differentiated value offerings.

Strategic insight is an outcome of the strategic thinking process; hence, the emphasis in this book on an insight-driven approach to strategy. Strategic thinking is the vehicle for delivering insight. It provides the systematic and structured approach that draws on sense making to bring into balance rational analysis and intuition, experienced-derived judgment and knowledge. Leonard and Swap\textsuperscript{15} refer to the collective outcome of these components as “deep smarts.” Strategic insights serve a number of purposes. They are outcomes of sense making at individual stages of the strategic thinking process. However, they also help to guide and align the thinking process through its various stages.

Ultimately, individual strategic insights, when collated like pieces of a puzzle, contribute to the emergence of a reconstructed “bigger picture” of the firm’s competitive landscape. Inevitably, this picture is never complete. However, if properly executed, the strategic thinking process ensures that the pattern that emerges is sufficient to identify potentially suitable options for strategic action. To that end, strategic insights collectively contribute to and enable the formation of potentially suitable strategic options in the emerging competitive context. Strategy formation is a dynamic process that presents the strategist with a range of options, of which one represents the most suitable option. Seldom, however, does a single “right” strategic response emerge as an outcome of this activity. In practice, the selection of a strategic option involves some degree of compromise. Insight supports the process whereby options are evaluated and ultimately selected.

Real competitive environments are highly complex and messy. This presents limits to the degree to which strategy making can be formalized. We need to allow for circumstances under which strategies emerge inadvertently, without deliberate intention on the part of the organization’s management. The premise of this book is that while real strategy is not programmable as such, it does not mean that our approach to strategy needs to be haphazard. The purpose of this book is to provide strategy practitioners with the strategic wherewithal to successfully navigate complex and ambiguous business contexts, whereby strategic thinking forms the basis of that capability.

STRATEGY IN PRACTICE: INSIGHT-DRIVEN STRATEGY VERSUS STRATEGIC PLANNING

- Today’s fast-paced, continually changing competitive environment leaves little room for the strategic planning approaches practiced in many companies throughout the 1970s and 1980s; few companies today enjoy environments
that allow any meaningful planning by numbers in time frames of five and more years into the future.

- Insight-driven strategy enables a very different approach; while offering a systematic and structured strategic thinking framework, it draws on multiple inputs and variable time frames; it balances the hard numbers (where available) with the “soft” indicators emerging from complex contexts.

- The key to implementing an insight-driven approach to strategy begins with a mindset that is prepared to challenge assumptions and that is comfortable with non-quantifiable measures and inputs.

- Paraphrasing Kevin Kelly, insight-driven strategy “seeks not so much to perfect the known, rather to imperfectly seize the unknown”; it is congruent with an organizational culture that embraces experimentation and learning.

- What is your organization’s mindset? One that is more in tune with strategic planning or one that is amenable to insight-driven strategy?

“Strategy in Practice” or “Strategy as Practice”? This book is about “strategy in practice.” It aims to provide guidance to the management practitioner engaging with strategy in the practice field. Hence, it is about how strategy should be approached by practitioners of strategy. How, then, is the focus on strategy practice pursued in this book different from the school of thought that has emerged in recent years known as “strategy as practice”? To the extent that the latter focuses on bringing the thinking element back into strategy the approach developed in this book is largely consistent with the underlying conceptual thrust of the “strategy as practice” school. However, this book neither purports nor aspires to contribute to the institutionalization of any particular school of strategy, including the “strategy as practice” approach (which has been critiqued for adopting an unclear and contradictory definition of “strategy practice”).
The purpose of this book is first and foremost to provide the strategy practitioner with appropriate guidance when engaging with strategy and strategizing in the practice field.

**Summary and Structuring of the Book**

This chapter began with a review of the current dilemma most business leaders face when confronted with strategy and strategy making, despite the proliferation of strategy theory in recent years. Given the ongoing discourse on what strategy *is*, it is probably more meaningful to focus on what strategy *is about*. It is about winning, about achieving superior performance relative to competitors in creating and delivering a superior value offering. Ultimately, however, strategy is a *practice discipline*. Indeed, many of the difficulties experienced by managers in dealing with strategy relate to the sheer complexity, ambiguity, and messiness of management practice in the competitive environments of organizations. This requires a strategic thinking process that draws on a balanced combination of systematic analysis and intuition leading to insights relevant to strategy making, hence the centrality of the theme *insight-driven* strategy.

The following chapters of this book (shown schematically in Figure 1.2) lead through the insight-driven strategic thinking process.

We begin with the process of *strategic thinking* in Chapter 2. Strategic thinking focuses particular attention on the “fuzzy front end” of the strategy process. A lot is at stake at this stage. The objective at this stage is to scope and articulate the relevant strategic challenge at stake. Strategic challenges (with might be either opportunity or threat-driven) are triggered by external changes to the competitive environment, internal factors, or combinations of the two. We begin by scoping the strategic problem (or challenge), ensuring that it is indeed a challenge
worthy of the effort to be spent on it. The scoping process is an iterative process; the first “draft” version of problem’s articulation may be vague. Through successive iterations involving framing of issues and the derivation of questions from these, the articulation of the strategic challenge is gradually sharpened. The objective is to end up with those relatively few strategic questions, which, if resolved, really will enable a resolution of the strategic challenge at stake. At any one point in time, there may be numerous seemingly important questions demanding to be addressed by a business leader – yet, arguably, only relatively few will really make a disproportionate difference to the company’s competitive positioning if appropriately resolved.

Failure to get those relatively few really critical strategic questions “right” inevitably leads to severe consequences for the business. Questions prompt responses; we refer to the responses to the strategic questions as strategic insights; these form the basis of the insight-driven approach to strategy.
The next stage consequently involves generating those insights prompted by the strategic questions through sense making of one sort or another. In Chapter 3 we therefore explore the notions of sense making and its role in generating strategic insight. We examine how sense making helps us to deconstruct the complexity of the current reality through selective and judicious generation of insights relevant to the strategic challenge at hand. Sense making might be supported by informed (i.e. challenged) intuition, appropriate heuristics, or rational analysis.

Chapters 4 through 6 are devoted to the subject of rational strategic analysis. In Chapter 4 we set the general context for strategic analysis. We examine how analysis is used to generate insights required for strategic sense making. This is followed by an introduction to high-level, “big-picture” strategic analysis in Chapter 5. In Chapter 6 we introduce the supporting level of strategic analysis and derive its purpose and application in the context of strategic sense making. A basic premise of this book is that relatively few apt frameworks applied appropriately to support strategic thinking can yield a disproportionate amount of insight. It is important to know which frameworks to use and how to use them. In this chapter we review some of the more useful frameworks, their application, and their limitations. In this chapter we also explore how the insights generated during the sense making stage are subsequently assembled – not unlike pieces of a puzzle in the reconstruction of a bigger picture that represents the competitive landscape of the organization in question, albeit an incomplete one. Intuition and heuristics again play an important complementary role during this stage. Research on intuition suggests that its usefulness at this stage derives from insight related to reflected experience\textsuperscript{20} – experience in knowing what to look for, where to look, and how to integrate the new insights into an existing pattern of understanding. Management reality is riddled with ambiguity and complexity. It is in this context that intuition and heuristics provide the basis for strategic decision making.
Sense making and analysis are not ends in themselves. Strategic thinking and sense making, properly executed, enable us to identify the strategic landscape or “big picture” relevant to that challenge that triggered the need to engage with strategy in the first place. However, strategizing is ultimately about decision making; it is about coming up with an appropriate response to that strategic challenge. In Chapter 7 we explore how we use the outcome of strategic thinking and sense making to form strategic options. This second stage of the strategy process thus focuses on the formation of strategic options, their evaluation, and, ultimately, the selection of one preferred option for implementation. The preferred option represents the most suitable response to the strategic challenge that triggered the strategy exercise. We emphasize “most suitable” because we recognize that there is no such thing as a perfect strategic option. Every option, even the most suitable one, has liabilities and trade-offs associated with it. We close Chapter 7 with a reflection on the implications of the imperfections of strategic option for the organization.

The third and final stage of the strategy process focuses on the execution of the selected strategic option. We examine strategy execution in Chapter 8. The execution of strategic options invariably demands changes to the organization, hence strategy execution is about changing the organization to align with the requirements of the strategic option selected for deployment. Successful execution furthermore requires metrics that provide a meaningful and actionable measure of the strategy’s performance at any point in time. Hence, we introduce some key thinking on strategic performance metrics in this chapter as well.

In Chapter 9, the final chapter of the book, we close with reflections on strategic thinking and insight-driven strategy from various practice field perspectives. We explore why organizational configurations show variations in their predisposition for strategy making. We derive implications for the organization by exploring
both the scope and limitations of strategic thinking set against constraints imposed by the reality of firms’ competitive context and dynamics. In this way, the book ends with a reality check and some recommendations for enhancing the impact of strategic thinking.

The Appendix section of this book presents some practical applications of the concepts and approaches introduced and discussed throughout the book. The templates suggest structured approaches for putting concepts introduced in the book into practice.

It is only appropriate that we review some final caveats and pointers before delving into the strategic thinking framework that is examined in the subsequent chapters – the final boxed insert below summarizes these.

**STRATEGY IN PRACTICE: SOME PRACTICAL POINTERS ON THE STRATEGY PROCESS**

- The strategy process mapped in Figure 1.2 is not intended to be used mechanistically. Management reality is intrinsically complex and riddled with ambiguity. Any approach to strategy making must reflect this reality. Therefore, the purpose of the strategic thinking process proposed in this book is to guide and challenge the strategy practitioner’s thinking and reasoning process from the articulation of compelling strategic questions through to their appropriate resolution.
- Although the structure of the framework would suggest a series of “top-down” activities, the strategic thinking process is, in fact, highly iterative and features multiple feedback loops throughout.
- There is neither a “silver bullet” nor a single “right” answer in strategy. Management contexts and situations are highly dependent on context. A response that addresses the circumstances of the complex contexts in question
typically demands a degree of compromise between possible solution approaches. Therefore, the outcome of the strategic thinking process should be viewed in terms of strategic options that range from “suitable” to those that are clearly “less than appropriate.” The framework enables the strategy practitioner to develop substantive arguments in support of the most suitable strategy option.

- The framework relegates strategic tools of analysis to where they belong – in a supportive role, to be drawn on very selectively to develop relevant insight where required. Managers often find themselves entangled in the dense undergrowth of strategy frameworks, thereby losing sight of the wood for the undergrowth. There is no end to the sophistication of strategy tools nowadays.

- Used appropriately, however, even simple frameworks can deliver useful pieces of the puzzle to be constructed. We will see in Chapters 4 through 6 how some relatively simple models can be integrated into more comprehensive, integrated frameworks that in turn can be used to generate powerful insights.

Notes