HALL ADVISORY

"It's all about Strategy"

Tina Wesson, Winner of Survivor: The Australian Outback

WHAT IS STRATEGY?

The word 'strategy' is a term borrowed from the military and is bantered around organisations without much thought as to what it means. So, what is strategy and why is it important?

According to Business Dictionary.com, strategy is "a method or plan chosen to bring about a desired future, such as achievement of a goal or solution to a problem". The purpose of a strategy according to Quora is "to make explicit the choices made in a given context in the pursuit of certain outcome".

Whether it is competing in a reality TV show or running a large corporate, success is dependent on having a winning strategy.

FUNDAMENTAL CONSIDERATIONS

In determining their corporate strategy, a company, according to traditional strategy theory should be looking at three fundamental questions:

1. What should be the capabilities that distinguish the organisation?
2. What should be the organisation's comparative advantage in adding value to its individual businesses?
3. What businesses should the organisation be in?

We believe that a fourth question should be added to this list.

4. How much risk are we prepared to take to achieve our strategy?

The answers to these four questions should frame an organisation's corporate strategy and guide all decisions made by the board, executive team, business units and employees.

SO WHY DO STRATEGIES FAIL?

- The strategy has been developed without sufficient rigor in the research and analysis process, or is based on flawed assumptions.
- Nobody really understands what the strategy is.
- Poor execution of strategy during implementation.
- Following the strategy blindly rather than constantly reviewing its execution.

A WINNING STRATEGY IS UNDERPINNED BY:

1. Clear objectives - what is the end game?
2. Specified boundaries - what are the key milestones in working towards the end game and in what timeframe do these milestones need to be achieved?
3. Comparative advantage – what is the unique selling point of the organisation and how does this support achievement of the objective?

STRATEGY DEVELOPMENT

Once an organisation's ultimate strategy and risk appetite are set and defined, the process of strategy development can begin. The first three steps are:

1. Establishing the context in which your organisation operates.
2. Answering the "Who? What? How?" questions.
3. Validating proposals: what would need to be true for this to be a good idea?

Specifically:

- What is the current state of the industry and the markets in which you operate; what are the macro trends?
- What is the industry's value chain (main activities; types of players) and where might the company capture value? What is our competitive advantage? And what are our capabilities? Are we operating within a red ocean and how do we move to the blue?
- What and where are the growth trends? Who has the power in this market: suppliers or customers? Is the company easily disrupted by substitutes or new entrants?

These questions provide organisations with some facts-based analysis allowing them to step back from the day-to-day operations of the business. Once this work is done, an organisation can focus on developing strategies for working with the trends identified. It's important to keep the focus tight by narrowing all possible external factors down to a maximum of three or four main trends.

With a number of strategies identified, they need to be narrowed down to a few actionable items. This can be done by asking "What must be true for us to achieve our strategy?" For example, are the organisation's processes or technology investments aligned to deliver products to target customers? If no, what changes are required in the timing and sequencing of these initiatives? Do gaps exist across these initiatives or capabilities and how do we fill them? Should any existing initiatives or investments be deprioritised and/or rationalised because they don't directly contribute to achieving and executing the strategy?

Through this process the risk management and strategic business planning framework should remain closely aligned. In short, it is this framework that outlines how much risk you are willing to expose the company too. It is also the "what" and the "how" you will align your people, processes and technologies to execute your strategy.

Once the framework is agreed, a structured and systematic approach to prioritising investments across operational initiatives, partnerships and acquisitions is needed. Such an approach will isolate business model assumptions and identify operating model dependencies that will need to be addressed to ensure the successful delivery of the strategy.

A CONTINUOUS PROCESS

Strategy is a continuous process with four stages:

1. Strategy Development;
2. Strategy Design and Implementation;
3. Strategy Execution and Monitoring; and
4. Strategy Review – Alignment or Replacement.

Each of these stages involve different activities, tools and people and often need to happen simultaneously.

Further, the implementation of the risk management framework needs to be integrated throughout all stages of the strategy lifecycle, including risk identification, assessment, management within stated risk appetite, monitoring and review.

STRATEGY DESIGN AND IMPLEMENTATION

All the decisions and activities required to turn the strategy into reality are identified during the design and implementation process. It's unrealistic to think that a company will have everything it needs to implement its strategy which is why the strategy development stage runs simultaneously with this stage.

A word of caution: Actions do not equal strategy. Everybody needs to raise their thinking to the organisational level rather than looking only at individual functions. Each part of the organisation will be asked what they can contribute to the organisation's ultimate strategy and what their key stakeholders (customers, shareholders) want from them. A major cause of strategy failure is working in silos rather than looking at how each function fits into the delivery of the organisation's strategy. This is also why the operating dependencies identified as part of the strategy development stage need to be well understood by those who are responsible for strategy implementation.

By working with all functions, it is possible to make sure the strategy design works across the entire organisation. It is also the time in which risk management plans can be worked into the strategy's design.

As well as making clear and logical recommendations on what needs to be done, the strategy's design should also set out how these recommendations would be implemented and how they link back to the overarching strategy of the organisation. It is at this stage that the strategy is bought to life and can form the basis of a more detailed program plan.

STRATEGY EXECUTION AND MONITORING

With strategic foundations in place, a detailed program of implementation plans can be constructed to execute your strategy. If you're a for-profit organisation, this includes commercial success and among other things should include an assessment of your competitor's reaction to determine if adjustments are required to maintain the desired strategic position. The questions that relate to execution and monitoring include:

1. Does the organisation have the capability and capacity to deliver on the strategy? While we considered this question as part of the design and implementation phase it needs to be asked continuously during the process. If the answer is no to any of the detailed plans then ask how can the organisation address the gaps, and more importantly, should the organisation address the gaps or change the strategy?
2. Have all the risks of the strategy been appropriately addressed? Are growth targets too ambitious? Could expanding too quickly or into the wrong markets be detrimental to business? Are there any cultural or regulatory risks that need to be considered?
3. How will we monitor attainment of the strategy? Are progressive targets suitable?
4. If organisational change is needed, do we have an appropriate process in place? Are we communicating our strategy both internally and externally in the most effective way?

STRATEGY REVIEW – ALIGNMENT OR REPLACEMENT

"Is it a bad strategy or bad execution?" When strategies fail to deliver results there is a tendency to blame the execution.

"Leaders then pull the wrong levers in their attempts to turn around performance – pressing for better execution when they actually need a better strategy, or opting to change direction when they really should focus the organisation on execution. The result: wasted energy, lost time, and continued underperformance". (MC Mankins and R Steele, 2005, "Turning Great Strategy into Great Performance", Harvard Business Review, July – August, pp 65 – 72.

If you want your organisation's strategy to be dynamic then you need to commit to frequent strategy reviews. In the age of disruption and constant regulatory change a set and forget approach doesn't work. Strategies need to evolve. As the old saying goes, "It's a journey, not a destination."

THE STRATEGY LIFECYCLE

www.halladvisory.com

Melbourne: +61 3 9653 6493 | Level 27, 101 Collins Street, Melbourne

Sydney: +61 2 8035 4400 | Level 36, Gateway, 1 Macquarie Place, Sydney

Singapore: +65 6679 6146 | Level 24, Capita Green, 148 Market Street, Singapore